

GAMING & ENTERTAINMENT GROUP INC
Form 10QSB
August 14, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2006

OR

TRANSITION REPORT PURSUANT SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: _____ to _____

Commission file number: 000-28399

Gaming & Entertainment Group, Inc.
(Exact name of small business issuer as specified in its charter)

Utah
(State or other jurisdiction of incorporation or organization)

59-1643698
(I.R.S. Employer Identification No.)

16821 Escalon Dr., Encino, CA 91436
(Address of principal executive offices)

(818) 400-5930
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES NO

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years

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Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. YES NO

Applicable Only to Corporate Issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

19,830,602 shares of common stock, \$0.01 par value, as of August 14, 2006

Transitional Small Business Disclosure Format (check one): YES NO

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS.**

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS JUNE 30, 2006 AND
DECEMBER 31, 2005
(UNAUDITED)

	June 30, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash	\$ 286,285	\$ 122,318
Accounts receivable	5,327	90,142
Total current assets	291,612	212,460
Equipment and Furnishings , net of accumulated depreciation of \$45,589 and \$317,858	64,642	132,625
Intangible Assets , net of accumulated amortization of \$0 and \$31,350	-	282,150
Other Assets	11,028	10,272
Total assets	367,282	637,507
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities		
Accounts payable	\$ 82,153	\$ 163,998
Accrued expenses	311,826	229,598
Accrued compensation - officers	361,311	220,539
Notes payable - officers	-	55,548
Total current liabilities	755,290	669,683
Long-Term Liabilities		
Senior secured note payable, net of unamortized debt discount of \$758,373 and \$869,407	1,241,627	1,130,593
Deferred rent	28,643	33,052
Total long-term liabilities	1,270,270	1,163,645
Total liabilities	2,025,560	1,833,328
Commitments		
Stockholders' Deficiency		
Preferred stock, par value \$10 per share; 10,000,000 shares authorized		
Class A convertible preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-	-
Class B preferred stock, par value \$10 per share; 1,000,000 shares designated; none issued	-	-
Common stock, par value \$.01 per share; 150,000,000 shares authorized; 19,830,602 and 19,830,602 shares issued and outstanding	198,306	198,306

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Additional paid-in capital	6,783,528	6,783,528
Accumulated deficit	(8,780,081)	(8,315,625)
Accumulated other comprehensive income - foreign currency translation gains	139,969	137,970
Total stockholders' deficiency	(1,658,278)	(1,195,821)
Total liabilities and stockholders' deficiency	\$ 367,282	\$ 637,507

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX AND
THREE MONTHS ENDED
JUNE 30, 2006 AND 2005
(UNAUDITED)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Revenues:				
Services	\$ 138,909	\$ 529,003	\$ -	\$ 299,223
Product	-	5,000	-	-
Total revenues	138,909	534,003	-	299,223
Cost of revenues:				
Services	73,935	186,475	-	87,433
Product	-	5,630	-	(66)
Total cost of revenues	73,935	192,105	-	87,367
Gross margin	64,974	341,898	-	211,856
Operating expenses:				
Research and development	94,017	297,877	27,124	139,667
Selling, general and administrative expenses	444,304	775,977	218,746	397,041
Total operating expenses	538,321	1,073,854	245,870	536,708
Operating loss	(473,347)	(731,956)	(245,870)	(324,852)
Other income (expense):				
Interest expense and amortization of debt discount	(216,913)	(187,675)	(110,996)	(101,643)
Other income	16,206	142,045	8,314	88,868
Gain on sale of assets	209,598	-	1,445	-
Gain on fair value of warrants	-	2,717	-	-
Fair value of penalty common stock	-	(79,982)	-	-
Total other income (expense)	8,891	(122,895)	(101,237)	(12,775)
Net loss	\$ (464,456)	\$ (854,851)	\$ (347,107)	\$ (337,627)
Weighted average number of shares outstanding				
	19,830,602	19,498,113	19,830,602	19,830,602
Net loss per share - basic and diluted				
	\$ (0.02)	\$ (0.04)	\$ (0.02)	\$ (0.02)

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
FOR THE SIX MONTHS ENDED JUNE 30, 2006
(UNAUDITED)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Share	Amount	Paid-in	Deficit	Other	
			Capital		Comprehensive	
					Income	
Balance at January 1, 2006	19,830,602	\$ 198,306	\$ 6,783,528	\$ (8,315,625)	\$ 137,970	\$ (1,195,821)
Foreign currency translation loss (A)	-	-	-	-	1,999	1,999
Net loss	-	-	-	(464,456)	-	(464,456)
Balance at June 30, 2006	19,830,602	\$ 198,306	\$ 6,783,528	\$ (8,780,081)	\$ 139,969	\$ (1,658,278)

(A) Comprehensive loss (net loss plus or minus foreign currency translation loss or gain) for the six and three months ended June 30, 2006 and 2005 totaled \$462,457, \$855,795, \$345,108 and \$338,571, respectively.

See accompanying notes to condensed consolidated financial statements

GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX
MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

	2006	2005
Cash flows from operating activities		
Net loss	\$ (464,456)	\$ (854,851)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of assets	(209,598)	-
Amortization of debt discount	111,034	111,034
Amortization of intellectual property		