

GAMING & ENTERTAINMENT GROUP INC  
Form 10QSB  
May 15, 2007

**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: March 31, 2007

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.

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(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.)

4501 Hayvenhurst Ave., 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**

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 May 15, 2007

**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**  
**March 31, 2007 and December 31, 2006**  
**(Unaudited)**

**ASSETS**

	March 31, 2007	December 31, 2006
<b>Current Assets</b>		
Cash	\$ 42,817	\$ 73,367
Total current assets	42,817	73,367
<b>Equipment and Furnishings</b> , net of accumulated depreciation of \$45,711 and \$39,732	26,330	30,827
Total assets	69,147	104,194

**LIABILITIES AND STOCKHOLDERS' DEFICIENCY****Current Liabilities**

Accounts payable	\$ 95,960	\$ 103,230
Accrued expenses	464,427	413,452
Accrued compensation - officers	629,019	540,365
Total current liabilities	1,189,406	1,057,047

**Long-Term Liabilities**

Senior secured note payable, net of unamortized debt discount of \$591,822 and \$647,340	1,408,178	1,352,660
Total liabilities	2,597,584	2,409,707

**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
Additional paid-in capital	6,791,778	6,791,778
Accumulated deficit	(9,657,727)	(9,434,618)
Accumulated other comprehensive income - foreign currency translation gains	139,206	139,021
Total stockholders' deficiency	(2,528,437)	(2,305,513)

Total liabilities and stockholders' deficiency	\$	69,147	\$	104,194
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See accompanying notes to condensed consolidated financial statements

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**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
**For the Three Months ended**  
**March 31, 2007 and 2006**  
**(Unaudited)**

	2007	2006
<b>Revenues:</b>		
Services	\$ -	\$ 138,247
Product	-	-
Total revenues	-	138,247
<b>Cost of revenues:</b>		
Services	-	73,935
Product	-	-
Total cost of revenues	-	73,935
Gross profit	-	64,312
<b>Operating expenses:</b>		
Research and development	-	66,894
Selling, general and administrative	116,918	225,558
Total operating expenses	116,918	292,452
Operating loss	(116,918)	(228,140)
<b>Other income (expense):</b>		
Interest expense and amortization of debt discount	(110,380)	(105,917)
Other income	4,189	7,893
Gain on sale of assets	-	208,153
Total other income (expense)	(106,191)	110,129
Net loss	\$ (223,109)	\$ (118,011)
<b>Weighted average number of shares outstanding</b>	<b>19,830,602</b>	<b>19,830,602</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

See accompanying notes to condensed consolidated financial statements

**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statement of Stockholders' Deficiency**  
**For the Three Months ended March 31, 2007**  
**(Unaudited)**

	Common Stock		Additional		Accumulated	Other	Total
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income		
<b>Balance at January 1, 2007</b>	19,830,602	\$ 198,306	\$ 6,791,778	\$ (9,434,618)	\$ 139,021		\$ (2,305,513)
Foreign currency translation loss (A)	-	-	-	-	185		185
<b>Net loss</b>	-	-	-	(223,109)	-		(223,109)
<b>Balance at March 31, 2007</b>	19,830,602	\$ 198,306	\$ 6,791,778	\$ (9,657,727)	\$ 139,206		\$ (2,528,437)

(A) Comprehensive loss (net loss plus or minus foreign currency translation loss or gain) for the three months ended March 31, 2007 and 2006 totaled \$222,924 and \$118,656, respectively.

See accompanying notes to condensed consolidated financial statements



**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**For the Three Months ended March 31, 2007 and 2006**  
**(Unaudited)**

	2007	2006
<b>Cash flows from operating activities</b>		
Net loss	\$ (223,109)	\$ (118,011)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of assets	-	(208,153)
Amortization of debt discount	55,517	55,517
Amortization of intellectual property	-	7,730
Amortization of deferred rent	-	(2,204)
Depreciation expense	5,015	16,691
Changes in operating assets and liabilities:		
Accounts receivable	-	90,605
Accounts payable	(7,522)	(119,432)
Accrued expenses	50,986	40,620
Accrued compensation - officers	88,655	62,917
Net cash used in operating activities	(30,458)	(173,720)
<b>Cash flows from investing activities</b>		
Proceed from sale of intangible assets	-	500,000
Proceeds from sale of equipment and furnishings	-	6,000
Net cash provided by investing activities	-	506,000
<b>Cash flows from financing activities</b>		
Payment of note payables	-	(55,548)
Net cash used in financing activities	-	(55,548)
Effect of exchange rate changes on cash	(92)	(820)
Net increase/(decrease) in cash	(30,550)	275,912
<b>Cash, beginning of period</b>	<b>73,367</b>	<b>122,318</b>
<b>Cash, end of period</b>	<b>\$ 42,817</b>	<b>\$ 398,230</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ -	\$ 21,285

See accompanying notes to condensed consolidated financial statements

## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

### **Note 1 - Business and Organization**

On January 12, 2004, Gaming & Entertainment Group, Inc., a Nevada corporation ("G&EG Nevada") consummated a transaction with NorStar Group, Inc., a publicly-held company incorporated in Utah that was not conducting or developing any commercial operations ("NorStar"). Subsequently, NorStar changed its name to Gaming & Entertainment Group, Inc. ("G&EG" or the "Company"). As a result of the exchange, G&EG Nevada became a subsidiary of G&EG. In May 2005, G&EG Nevada was dissolved.

The Company is a developer of software for amusement with prizes ("AWP") and Section 16 gaming machines for the United Kingdom and European gaming markets. Historically, the Company has primarily been involved in the development of Internet gaming system and games for third parties.

### **Note 2 - Basis of Presentation and Significant Accounting Policies**

#### ***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from this report, as is permitted by such rules and regulations; however, in the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to make the presentation of the Company's financial position as of March 31, 2007 and its results of operations and cash flows for the interim periods presented not misleading. Results of operations for interim periods are not necessarily indicative of results for the full years of which they are a part.

#### ***Business Condition***

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred losses of \$223,109 for the three months ended March 31, 2007, and recurring losses in prior years. As of March 31, 2007, the Company had an accumulated deficit of \$9,657,727 and a stockholders' deficiency of \$2,528,437. These conditions raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time. The Company's ability to continue as a going concern for a reasonable period of time is dependent upon its ability to generate sufficient cash flows from its operations or obtain sufficient liquid resources from other sources to meet its obligations as they become due. The Company had a working capital deficiency of \$1,146,589 at March 31, 2007, and used \$30,458 of net cash in operating activities in the three months ended March 31, 2007.

The Company has undertaken an assessment as to whether its long-lived assets have been impaired during the three months ended March 31, 2007. Impairment losses on long-lived assets, such as equipment, are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses are then measured by comparing the fair value of assets to their carrying amounts. Based on its assessment, the Company does not believe its long-lived assets have been impaired.

Through March 31, 2007, the Company has funded its operations primarily through the issuance of common stock, promissory notes, warrants and options to outside investors for cash and consultants and others for services. The Company anticipates that it will require additional funding through the issuance of equity or debt securities later this

year. Management anticipates that additional funding of not less than \$250,000 will be necessary to fund the Company's operations through December 31, 2007. Management believes, but cannot assure, that the Company will be able to obtain such financing and continue its operations through at least December 31, 2007. If the Company is not able to obtain adequate financing, it may have to curtail or terminate some, or all, of its operations. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the Company cannot continue as a going concern.

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## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

### ***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### ***Revenue Recognition***

Revenues from online gaming software license fees, in relation to the utilization of the G&EG proprietary gaming platform, will be recognized as earned over the term of the agreement based upon a percentage of the gross win. When the Company receives a percentage of the gaming revenues generated by its client's Internet gaming sites, it will recognize such revenues when earned.

Revenue from software license fees for gaming machines that are sold will be recognized upon completion of installation and acceptance by the gaming establishment, provided collectibility is reasonably assured.

### ***Net Loss per Share***

The Company presents "basic" earnings (loss) per share and, if applicable, "diluted" earnings per share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings (loss) per share is calculated by dividing net income or loss by the weighted average number of common shares outstanding during each period. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of options and warrants, were issued during the period and the treasury stock method had been applied. Since the Company had net losses for the three months ended March 31, 2007 and 2006, the effects of the assumed exercise of outstanding options and warrants would have been anti-dilutive and, accordingly, basic and diluted net loss per share in each period were the same. As of March 31, 2007 and 2006, the Company had options and warrants outstanding for the purchase of 9,354,075 and 9,789,918 shares of common stock, respectively, that were not included in the computation of diluted loss per share.

**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES*****Reclassifications***

Certain reclassifications of previously reported amounts have been made to conform to the current period presentation.

**Note 3 - Commitments*****Consulting Agreements***

The Company has employment contracts for two key executives. The agreement are 4 years in length, expire in August 2007 and automatically renew for additional one-year terms unless terminated by either the Company or the employee.

**Note 4 - Stock Options and Warrants*****Stock Options***

A summary of the changes in outstanding stock options during the three months ended March 31, 2007 follows:

	Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2007	1,562,325	\$ 0.72
Granted	-	\$ -
Forfeited	-	\$ -
Expired	(75,000)	\$ 0.89
Outstanding, March 31, 2007	1,487,325	\$ 0.71
Exercisable, March 31, 2007	1,487,325	\$ 0.71

***Stock Warrants***

A summary of the changes in outstanding warrants during the three months ended March 31, 2007 follows:

	Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2007	7,866,750	\$ 0.50
Expired	-	\$ -
Outstanding, March 31, 2007	7,866,750	\$ 0.50

**Note 5 - Preferred Stock**

The Company is authorized to issue up to 10,000,000 shares of preferred stock, having a \$10 par value. The Company has designated 1,000,000 shares as Class A convertible and 1,000,000 shares as Class B convertible. At the time of issuance, the Board of Directors has the right to designate the rights, preferences and privileges of each class. As of March 31, 2007, the Company did not have any shares of preferred stock outstanding.

**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES****Note 6 - Transactions With Cantor G&W (Nevada), L.P.**

Pursuant to the Loan Facility and Investment Agreement dated December 8, 2004, between the Company and Cantor, the Company received \$2,000,000, evidenced by a secured promissory note (the "Note"). The Note matures on December 9, 2009 and bears interest at the Federal Funds Rate, as in effect and subject to change from time to time, plus six percent (11.25% as at March 31, 2007). The Company received total proceeds of \$500,000 and \$1,500,000 from the Note in 2005 and 2004, respectively, and recorded an aggregate discount of \$1,110,340 for the fair value of the 13,000,000 warrants issued in connection with the Note. This discount is amortized over the period of the related debt using the straight-line method, which approximates the effective interest method. Amortization of the discount, which is included in interest expense, amounted to \$55,517 for the three months ended March 31, 2007 and 2006, respectively. As of March 31, 2007, the unamortized debt discount on the Note was \$591,822.

**Note 7 - Information About Geographical areas**

The Company presently operates in one reportable segment - software licensing. Revenue information and long lived assets by geographical area is set forth below for the three months ended March 31, 2007 and 2006:

**March 31, 2007**

<b>Geographical area</b>	<b>Revenues from external customers</b>	<b>Long-lived assets</b>
United States	- \$	1,327
United Kingdom	- \$	1,907
Australia	- \$	23,096
		\$ 26,330

**March 31, 2006**

<b>Geographical area</b>	<b>Revenues from external customers</b>	<b>Long-lived assets</b>
United States	- \$	53,831
United Kingdom	- \$	3,782
Australia	\$ 138,237	\$ 34,088
	\$ 138,237	\$ 91,701

## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

### **Item 2. Management’s Discussion and Analysis or Plan of Operation.**

#### **Statement on Forward-Looking Information**

Certain information included herein contains statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, such as statements relating to plans for product development, product placement, capital spending and financing sources. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those relating to our liquidity requirements, our ability to locate necessary sources of capital to sustain our operations, the continued growth of the gaming industry, the success of our product development activities, the acceptance of our products in the marketplace, vigorous competition in the gaming industry, our dependence on existing management, changes in gaming laws and regulations (including actions affecting licensing), our leverage and debt service (including sensitivity to fluctuations in interest rates) and domestic or global economic conditions.

#### **Overview**

On January 12, 2004, Gaming & Entertainment Group, Inc., a Nevada corporation (“G&EG Nevada”) consummated a transaction with NorStar Group, Inc., a publicly-held company incorporated in Utah that was not conducting or developing any commercial operations (“NorStar”). In the transaction, NorStar issued 14,600,000 shares of common stock in exchange for all of the outstanding shares of common stock of G&EG Nevada. Additionally, NorStar changed its name to Gaming & Entertainment Group, Inc. (“G&EG” or the “Company”). As a result of the exchange, G&EG Nevada became a subsidiary of G&EG. In May 2005, G&EG Nevada was dissolved.

In this report, the references to “we,” “us” or “our” relate to G&EG Nevada prior to January 12, 2004 and to G&EG and its subsidiaries from that date forward.

#### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and disclosures, some of which may require revision in future periods. The most sensitive estimates affecting our financial statements include, or will include in subsequent periods, future volatility used in valuing equity instruments, allowances for bad debts, depreciable lives of gaming equipment in service and other equipment, amortization periods of intellectual property, deferred revenues, accrued liabilities and deferred tax valuation allowances. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, our observance of industry trends, information provided by or gathered from our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. The most critical policies relate to revenue recognition. The following is a description of our revenues and our revenue recognition policies. The application of these policies, in some cases, requires our management to make subjective judgments regarding the effect of matters that are inherently uncertain.

## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

### **Description of Revenues**

On December 8, 2004, we entered into definitive agreements with Cantor G&W (Nevada), L.P., or Cantor, which included, among other things, the exclusive license of our Internet gaming software to them. We are entitled to receive royalty payments from Cantor based upon a portion of the net win realized by the Cantor Casino following repayment of certain expenses associated therewith. Pursuant to the series of agreements with Cantor dated February 15, 2006, which includes an amendment to the senior secured note issued in favor of Cantor, the royalty payments will be applied on an annual basis against the outstanding principal and accrued interest under the senior secured note.

At this time, we are principally focused on the licensing of our proprietary gaming platform and suite of amusement with prizes, or AWP, and Section 16 games in the United Kingdom and other countries in the European Union where applicable. Our AWP and Section 16 suite consists of roulette games.

Historically, we have experienced substantial fluctuations in revenues from period-to-period as a result of our revenues being derived solely from software development contracts consisting of upfront licensing and periodic payments as opposed to steady recurring revenues. Moreover, our revenues have been limited over the last two years as we have been primarily focused on the development of products for Cantor, and the development of our gaming platform and accompanying AWP and Section 16 games for licensing in the United Kingdom and other European Union countries where applicable.

We anticipate that our future revenues will be derived from the licensing of AWP and Section 16 games in the above mentioned jurisdictions. At this time, it is extremely difficult to predict with accuracy, the breakdown, and amount, of anticipated future revenues from the foregoing initiative.

### **Revenue Recognition**

Royalty payments received from Cantor, will be applied against the outstanding principal and accrued interest under the senior secured note issued in favor of Cantor, with respect to the Cantor Casino and all “white-label” Internet gaming sites developed by Cantor utilizing the Internet gaming software sold by us to Cantor.

Revenues from the licensing of our AWP and Section 16 games in the United Kingdom and other European Union countries, as applicable, will be recognized upon completion of installation and acceptance by the gaming operators, provided collectibility is reasonably assured.

### **Results of Operations**

#### **Comparison of Three Months Ended March 31, 2007 and 2006**

##### ***Revenues***

During the three months ended March 31, 2007, we generated no revenues, as compared to revenues from the development of the Cantor Internet gaming site (“Cantor Casino”), totaling \$138,247, respectively, during the three months ended March 31, 2006. The \$138,247, or 100%, decrease in revenues related to the sale of our Internet gaming platform to Cantor on February 15, 2006.



## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

### ***Cost of Revenues***

During the three months ended March 31, 2007, we had no cost of revenues, compared to \$73,935 during the three months ended March 31, 2006. The \$73,935 or 100% decrease in the cost of revenues was directly attributable to the sale of our Internet gaming platform to Cantor on February 15, 2006. We anticipate that our revenues in future periods may vary upon the future licensing of AWP and Section 16 games in the United Kingdom initially, and in other European Union countries where such games are offered thereafter. We anticipate having no cost of revenues and our margins are anticipated to improve with future licensing of AWP and Section 16 games. We will not be engaged in the manufacture, distribution or maintenance of AWP and Section 16 games, but rather we will simply provide our software to be loaded on each of the gaming devices.

We realized no gross profit during the three months ended March 31, 2007, compared to gross profit of \$64,312 during the three months ended March 31, 2006. The \$64,312 or 100% decrease in gross profit related primarily to the cessation of Internet gaming development due to the sale of our Internet gaming system and other assets to Cantor.

### ***Operating Expenses***

During the three months ended March 31, 2007, we incurred total operating expenses of \$116,918, as compared to \$292,452 during the three months ended March 31, 2006, a decrease of \$175,534, or 60.0%. We anticipate that our operating expenses, particularly as relates to selling, general and administrative expenses, will decrease in terms of percentage of revenues in 2007 as we focus on the licensing of AWP and Section 16 games through a third party manufacturer and distributor.

During the three months ended March 31, 2007, we incurred no research and development expenses, as compared to \$66,894 during the three months ended March 31, 2006, a decrease of \$66,894, or 100%. The decrease in our research and development expenses was due primarily to the sale of our Internet gaming platform to Cantor on February 15, 2006. We anticipate licensing our AWP and Section 16 games into the United Kingdom market in 2007. Thereafter, we anticipate licensing such games in other European Union jurisdictions where such games are offered. While this is our initial deployment of licensing our games for land-based gaming operations, we anticipate minimizing the risk by partnering with a third party manufacturer and distributor. Moreover, by doing so, we have eliminated the traditional capital costs associated with the deployment of gaming machines through avoidance of manufacturing and the establishment of a sales and distribution team.

During the three months ended March 31, 2007, we incurred selling, general and administrative expenses of \$116,918, as compared to \$225,558 during the three months ended March 31, 2006, a decrease of \$108,640, or 48.2%. The decrease in our selling, general and administrative expenses was due primarily to focusing on the development of AWP and Section 16 games and substantially decreasing many expenses incurred in the prior fiscal year. We anticipate that our selling, general and administrative expenses will be significantly lower in 2007 as we reduced the number of employees from six to two, as well as our new focus on the licensing of AWP and Section 16 games through a third party manufacturer and distributor in the United Kingdom.

### ***Other Income (Expense)***

For the three months ended March 31, 2007, other expense was \$106,191, compared to other income of \$110,129 for the three months ended March 31, 2006, an increase of other expense of \$216,320. The increase is related primarily to \$54,863 of interest expense incurred in connection with the issuance of the senior secured note payable and \$55,517 amortization of associated debt discount, offset in part, by \$4,189 of other income.



## GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES

### *Net Loss*

For the three months ended March 31, 2007, we experienced a net loss of \$223,109, compared to a net loss of \$118,011 for the three months ended March 31, 2006, an increase of \$105,098, or 89.1%. The increase in the net loss is directly attributable to a \$216,320 increase in other expense, a \$64,312 decrease in gross profit, offset, in part, by a \$175,534 reduction in operating expenses.

### **Liquidity and Capital Resources**

#### *Overview*

As of March 31, 2007, we had cash of \$42,817 and total liabilities of \$2,597,584, of which \$1,189,406 are current liabilities. Accordingly, as of March 31, 2007, we had a working capital deficiency of \$1,146,589 and a stockholders' deficiency of \$2,528,437. During the three months ended March 31, 2007, cash on hand decreased by \$30,550, from \$73,367 to \$42,817. The decrease in cash reflected \$30,458 of net cash used in operating activities and the \$92 effect of exchange rate changes on cash.

Operating activities used net cash of \$30,458 during the three months ended March 31, 2007, whereas operating activities used net cash of \$173,720 during the three months ended March 31, 2006. The net cash used in operating activities during the three months ended March 31, 2007 related primarily to our net loss of \$223,109, a decrease in accounts payable in the amount of \$7,522, offset, in part, by an increase in accrued expenses of \$50,986, an increase in accrued compensation - officers of \$88,655 and amortization of debt discount of \$55,517. During the three months ended March 31, 2006, our operating activities used net cash of \$173,720, reflecting our net loss \$118,011, a gain on sale of assets of \$208,153, a decrease in accounts payable of \$119,432, offset, in part, by a decrease in accounts receivable of \$90,605, amortization of debt discount of \$55,517, an increase in accrued expenses of \$40,620, and an increase in accrued compensation - officers of \$62,917.

We had no investing activities during the three months ended March 31, 2007, compared to \$506,000 used during the three months ended March 31, 2006. The increase in cash provided by investing activities during the three months ended March 31, 2006 reflects the sale of certain intangible assets consisting of source code and graphics relating to our Internet gaming software.

We had no financing activities during the three months ended March 31, 2007, compared to \$55,548 of net cash used in financing activities during the three months ended March 31, 2006. The net cash used in our financing activities during the three months ended March 31, 2006 relates to the payment of all outstanding principal and accrued interest under the promissory notes in favor of Tibor N. Vertes and Gregory L. Hrcir, our Chief Executive Officer and President, respectively.

#### *Outlook*

We incurred losses of \$223,109 and \$118,011 and negative net cash flows from operating activities of \$30,458 and \$173,720, for the years ended December 31, 2007 and 2006, respectively. As of March 31, 2007, we had an accumulated deficit of \$9,657,727. The foregoing raises substantial doubt about our ability to continue as a going concern for a reasonable period of time.

## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

Our principal objectives at this time are to license our AWP and Section 16 games in the United Kingdom, and thereafter in other European Union countries where such gaming machines are utilized, through a third party manufacturer and distributor.

While we have significantly reduced our fixed monthly operating expenses, we anticipate that for the twelve month period ending March 31, 2008, we will require a cash infusion for further working capital. The amount of such cash infusion will be dependent upon the volume, and timing, of our anticipated licensing of AWP and Section 16 games. Further, until such time as we achieve a measurable amount of AWP and Section 16 gaming machine license revenues, our executive officers will continue to defer all salaries payable to them.

In summary, until we generate sufficient cash from the licensing of AWP and Section 16 games, we will need to rely upon private and institutional sources of debt and equity financing. Based on presently known plans, we believe that we will be able to fund our existing operations and required expenditures through the third quarter of 2007 with cash on hand. We will likely require additional cash from the issuance of equity or debt securities prior to September 30, 2007 to finance our ongoing operations and strategic objectives. No assurances can be given that we will successfully obtain liquidity sources necessary to fund our operations to profitability and beyond.

### **Risk Factors**

We are subject to a high degree of risk as we are considered to be in unsound financial condition. The following risks, if any one or more occurs, could materially harm our business, financial condition or future results of operations, and the trading price of our common stock could decline. These risks factors include, but are not limited to, our limited operating history, history of operating losses, the inability to obtain for additional capital, the failure to successfully expand our operations, the barriers of entry into new gaming markets, the competition in the gaming industry from competitors with substantially greater resources, the legal and regulatory requirements and uncertainties related to our industry, the inability to enter into strategic partnerships with manufacturers and distributors, the loss of key personnel, adverse economic conditions, adverse currency rate fluctuations, the inability to protect our proprietary information against unauthorized use by third parties, the control of our common stock by our management, the classification of our common stock as “penny stock,” the absence of any right to dividends, the costs associated with the issuance of and the rights granted to additional securities, the unpredictability of the trading of our common stock and the ability of our Board of Directors to issue up to collectively 10,000,000 shares, \$10 par value, of preferred stock.

For a more detailed discussion as to the risks related to Gaming & Entertainment Group, Inc., our industry and our common stock, please see the section entitled, “Management’s Discussion and Analysis or Plan of Operation - Risk Factors,” in our Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission on March 23, 2007.

### **Item 3. Controls and Procedures**

#### ***Evaluation of Disclosure Controls***

We evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2007, the end of the period covered by this Quarterly Report on Form 10-QSB. This evaluation was done with the participation of our chief executive officer and our president. Mr. Vertes serves as our principal executive officer and Mr. Hrncir serves as our principal financial and accounting officer.

## **GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

### ***Limitations on the Effectiveness of Controls***

Our management does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but not absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. The design of a control system is also based upon certain assumptions about the likelihood of future events, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Although unlikely, due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. However, at this time management has decided that considering the employees involved and the control procedures in place, the risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation.

### ***Conclusions***

Based on this evaluation, our chief executive officer and our president concluded that, subject to the limitations noted above and as of the evaluation date, our disclosure controls and procedures are effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported in such reports within the time periods specified in the Securities and Exchange Commission's rules and forms.

### ***Changes in Internal Controls***

There were no changes in our internal controls over financial reporting that occurred during the last fiscal quarter, *i.e.*, the three months ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Not applicable.



**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

**Item 5. Other Information.**

Not applicable.

**Item 6. Exhibits**

(a) Exhibits.

31.1 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

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**GAMING & ENTERTAINMENT GROUP, INC. AND SUBSIDIARIES**

**SIGNATURE**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Gaming & Entertainment Group, Inc.**  
(Registrant)

Date: May 15, 2007

By: /s/ Gregory L. Hrcir

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Gregory L. Hrcir  
Its: President and Secretary

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