

POKER MAGIC INC  
Form 10-Q  
May 15, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2009

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-16686

POKER MAGIC, INC.

(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction of incorporation or  
organization)

20-4709758  
(I.R.S. Employer Identification No.)

130 West Lake Street, Suite 300, Wayzata, MN  
(Address of Principal Executive Offices)

(952) 473-3442  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

As of May 7, 2009 there were 8,900,274 shares of the issuer's common stock, \$0.001 par value, outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

Poker Magic, Inc.  
(A Development Stage Company)  
Balance Sheets

|  | March 31,<br>2009<br>(unaudited) | December 31,<br>2008<br>(audited) |
|--|----------------------------------|-----------------------------------|
| <b>ASSETS</b>  |                                  |                                   |
| Current Assets   |                                  |                                   |
| Cash   | \$ 22,221                        | \$ 145,117                        |
| Accounts Receivable  | 200                              | -                                 |
| Inventory  | 300                              | 750                               |
| Prepaid Expense  | 1,667                            | 2,916                             |
| <b>Total Current Assets</b>                                    | <b>24,388</b>                    | <b>148,783</b>                    |
| Intangible Assets, Net of Amortization                         | 16,543                           | 18,611                            |
| <b>Total Assets</b>  | <b>\$ 40,931</b>                 | <b>\$ 167,394</b>                 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    |                                  |                                   |
| Current Liabilities  |                                  |                                   |
| Accounts Payable   | \$ 14,733                        | 2,016                             |
| Accrued Royalty  | 81                               | 166                               |
| <b>Total Current Liabilities</b>                               | <b>14,814</b>                    | <b>2,182</b>                      |
| <b>Total Liabilities</b>                                       | <b>14,814</b>                    | <b>2,182</b>                      |
| Shareholders' Equity   |                                  |                                   |
| Common Stock, \$.001 par value: Authorized 250,000,000 shares: |                                  |                                   |
| Issued and outstanding 8,900,724 and 9,267,391 shares.         | 8,900                            | 9,267                             |
| Additional Paid-in Capital                                     | 602,065                          | 681,365                           |
| Deficit Accumulated During the Development Stage               | (584,848)                        | (525,420)                         |
| <b>Total Shareholders' Equity</b>                              | <b>26,117</b>                    | <b>165,212</b>                    |
| <b>Total Liabilities and Shareholders' Equity</b>              | <b>\$ 40,931</b>                 | <b>\$ 167,394</b>                 |

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.  
(A Development Stage Company)  
Statements of Operations  
(unaudited)

|   | Three Months Ended<br>March 31, 2009 | Three Months<br>Ended<br>March 31,<br>2008 | Period from<br>January<br>10, 2006<br>(inception)<br>to March 31,<br>2009 |
|---|--------------------------------------|--|---|
| Revenues  | \$ 1,625                             | \$ -                                       | \$ 4,950  |
| Cost of Revenues  | 4,448                                | -  | 41,221  |
| Gross Loss  | (2,823)                              | -  | (36,271)  |
| Operating Expenses:<br>Selling, General and<br>Administrative | 56,786                               | 56,244                                     | 550,769   |
| Operating Loss:   | (59,609)                             | (56,244)                                   | (587,040)   |
| Other Income  |                                      |  |   |
| Interest Income   | 181                                  | -  | 2,192   |
| Net Loss  | \$ (59,428)                          | \$ (56,244)                                | \$ (584,848)  |
| Basic and diluted net loss per<br>common share                | \$ (0.01)                            | \$ (0.01)                                  | \$ (0.08)   |
| Weighted-average number of<br>common shares outstanding       | 9,128,872                            | 7,755,101                                  | 7,219,411   |

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.  
(A Development Stage Company)  
Statements of Cash Flows  
(unaudited)

|   | Three Months<br>Ended<br>March 31,<br>2009 | Three Months<br>Ended<br>March 31,<br>2008 | Period from<br>January<br>10, 2006<br>(inception)<br>to March 31, 2009 |
|---|--|--|--|
| <b>Cash flows from operating activities:</b>                                    |  |  |  |
| Net loss  | \$ (59,428)                                | \$ (56,244)                                | \$ (584,848)   |
| Adjustments to reconcile net loss to net cash provided by operating activities: |  |  |  |
| Amortization of intangible asset  | 2,068                                      | 2,068                                      | 24,814   |
| Common stock issued for services  | -  | -  | 6,500  |
| Consulting service expense paid in stock  | 1,249                                      | 8,534                                      | 120,299  |
| Officers compensation expense paid in stock                                     | -  | 2,000                                      | 56,000   |
| Officers compensation expense as contributed capital                            | 12,000                                     | 10,000                                     | 50,000   |
| Changes in operating assets and liabilities:                                    |  |  |  |
| Accounts receivable   | (200)                                      | -  | (200)  |
| Inventory   | 450  | -  | 450  |
| Prepaid expense   | -  | -  | 5,434  |
| Accounts payable  | 12,717                                     | (15,783)                                   | 14,733   |
| Accrued royalty   | (85)                                       | -  | 81   |
| <b>Net cash used in operating activities</b>                                    | <b>(31,229)</b>                            | <b>(49,425)</b>                            | <b>(306,737)</b>   |
| <b>Cash flows from investing activities:</b>                                    |  |  |  |
| Acquisition of Select Video assets  | -  | -  | (17,000)   |
| <b>Net cash used in investing activities</b>                                    | <b>-</b>                                   | <b>-</b>                                   | <b>(17,000)</b>  |
| <b>Cash flows from financing activities:</b>                                    |  |  |  |
| Proceeds from subscription receivable   | -  | -  | 14,000   |
| Proceeds from issuance of common stock  | -  | 25,000                                     | 426,000  |
| Redemption of common stock  | (91,667)                                   | -  | (91,667)   |
| Payment of short-term debt  | -  | -  | (2,375)  |
| <b>Net cash provided by (used in) financial activities</b>                      | <b>(91,667)</b>                            | <b>25,000</b>                              | <b>345,958</b>   |
| <b>Net increase (decrease) in cash</b>  | <b>(122,896)</b>                           | <b>(24,425)</b>                            | <b>22,221</b>  |
| Cash, beginning of the period   | 145,117                                    | 37,003                                     | -  |
| <b>Cash, end of the period</b>  | <b>\$ 22,221</b>                           | <b>\$ 12,578</b>                           | <b>\$ 22,221</b>   |
| <b>Non-cash investing and financing activities:</b>                             |  |  |  |

| Acquisition of certain assets and liabilities of<br>Select Video in exchange for common stock |    |   |          |
|---|----|---|----------|
| Inventory   | \$ | - | \$ 750   |
| Intangible Asset  |    | - | 24,357   |
| Accounts Payable  |    | - | (32,000) |
| Note Payable  |    |   | (7,084)  |
| Stock issued in lieu of cash for note payable   |    | - | 19,709   |
| Stock issued in lieu of cash for prepaid services   |    | - | 175,400  |
| Stock subscriptions received for common stock   |    | - | 14,000   |

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.  
 (A Development Stage Company)  
 Notes to Financial Statements  
 March 31, 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations and basis of presentation

Poker Magic, Inc. (the “Company”) is a development stage company that was incorporated in the State of Minnesota on January 10, 2006. Our business consists primarily of marketing and licensing a new form of poker-based table game to casinos and on-line gaming facilities in the United States.

Interim financial information

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or any other period. The accompanying financial statements and related notes should be read in conjunction with the audited Financial Statements of the Company, and notes thereto, contained in this filing for the year ended December 31, 2008.

Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the period from January 10, 2006 (inception) to March 31, 2009, the Company incurred a net loss of \$584,848. The Company’s ability to continue as a going concern is dependent on it ultimately achieving profitability, producing additional revenues and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and to support the revenue generating process; however, there can be no assurance that the sources will be available on terms favorable to the Company, if at all.

Intangible assets

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video, Inc. (Select Video). Three patents were acquired as a part of the March 10, 2006 purchase. The patents are stated at cost and are amortized on a straight-line basis over 60 months. Amortization expense was \$2,068 for both of the three months ended March 31, 2009 and 2008 and \$24,814 for the period from January 10, 2006 (inception) to March 31, 2009. Estimated amortization expense for the next three years of patents issued as of March 31, 2009 is as follows:

|                   |           |
|-------------------|-----------|
| Remainder of 2009 | \$ 6,203  |
| 2010              | 8,271     |
| 2011              | 2,069     |
| Total             | \$ 16,543 |

Impairment of long-lived assets

Management reviews the Company's long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the asset's value will be adjusted appropriately. No impairment indicators were present as of March 31, 2009 or December 31, 2008.

## NOTE 2—NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows:

|   | Three Months<br>Ended<br>March 31,<br>2009 | Three Months<br>Ended<br>March 31,<br>2008 | Period from<br>January 10,<br>2006<br>(inception) to<br>March 31,<br>2009 |
|---|--|--|---|
| Numerator: Net Loss   | \$ (59,428)                                | \$ (56,244)                                | \$ (584,848)  |
| Denominator: Weighted-average number of common shares outstanding | 9,128,872                                  | 7,755,101                                  | 7,219,411   |
| Basic and diluted net loss per common share                       | \$ (.01)                                   | \$ (.01)                                   | \$ (.08)  |

The outstanding warrants issued during the three months ended March 31, 2009 and the period from January 10, 2006 (inception) to March 31, 2009 were excluded from the calculation of diluted loss per share as their effects were anti-dilutive due to the Company's net losses for the periods.

## NOTE 3—COMMITMENTS AND CONTINGENCIES

The asset purchase agreement with Select Video dated March 10, 2006, states that when the Company receives any revenue generated by Winners Pot Poker and other similar games, Select Video shall receive an amount equal to five percent (5%) of all gross proceeds generated by these games.

As of March 31, 2009 and December 31, 2008, \$81 and \$166 were owed to Select Video under this agreement.

## NOTE 4—SHAREHOLDERS' EQUITY

## Common stock

On January 10, 2006, the founders of the Company purchased 2,500,000 shares of common stock for \$2,500.

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video in exchange for 3,022,991 shares of common stock issued at the deemed fair market value of \$.001 per share or \$3,023.

On May 23, 2006, the Company issued 60,000 shares of common stock at \$0.25 per share in lieu of cash for liabilities assumed.

During 2006, the Company raised additional cash of \$87,500 at \$0.25 per share through the issuance of 350,000 shares of common stock.

During 2006, the Company issued 22,000 shares to various consultants at \$0.25 per share for services rendered.

During 2006, the Company issued 100,000 shares valued at \$4,000 (value of the services to be provided) for services rendered and to be rendered.

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On January 15, 2007, the Company issued 600,000 shares of common stock to two consultants for services to be provided over a 12 month period commencing on January 15, 2007. These services were valued at \$50,000.

On January 15, 2007, the Company issued 500,000 shares of common stock to the two founders for their services to be provided over a 12 month period commencing January 15, 2007. These services were valued at \$48,000.

On July 26, 2007, the Company settled the note payable of \$7,084 for a cash payment of \$2,375 and the issuance of 20,000 shares of common stock valued at \$4,709 for payment in full on the note.

In July 2007, the Company raised cash of \$20,000 at \$0.25 per share through the issuance of 80,000 shares of common stock.

On August 1, 2007, the Company issued 65,000 shares of common stock for services to be provided over a twelve month period commencing retroactively on June 1, 2007. These services were valued at \$5,000.

On August 1, 2007, the Company issued 100,000 shares of common stock to a consultant for services to be provided over a twelve month period commencing on August 1, 2007. These services were valued at \$8,300.

On August 1, 2007, the Company issued 25,000 shares of common stock for services. These services were valued at \$1,000.

On November 26, 2007, the Company issued 50,000 shares of common stock to a consultant for services to be provided over a twelve month period commencing on November 26, 2007. These services were valued at \$12,500.

In December 2007, the Company raised cash of \$30,000 at \$0.25 per share through the issuance of 120,000 shares of common stock.

In January 2008, the Company raised cash of \$25,000 at \$0.25 per share through the issuance of 100,000 shares of common stock.

On May 28, 2008, the Company raised cash of \$250,000 at \$0.25 per share through the issuance of 1,000,000 shares of common stock together with a warrant to purchase up to 1,000,000 shares of common stock, which was immediately exercisable. The exercise price was \$0.25 per share if purchased within six months of issuance. The exercise price increased to \$0.425 for months seven through twelve (after the date of issuance) and increases to \$0.50 after twelve months. The warrant expires on May 27, 2010.

In May 2008, the Company raised cash of \$12,500 at \$0.25 per share through the issuance of 50,000 shares of common stock.

On August 26, 2008, the Company issued 200,000 shares of common stock to a consultant for services to be provided over a five month period commencing on August 1, 2008. These services were valued at \$20,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a five month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a twelve month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 10,000 shares of common stock for services. These services were valued at \$2,500.

On August 26, 2008, the Company issued 50,000 shares of common stock for services. These services were valued at \$5,000.

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On December 16, 2008, the Company issued 40,400 shares of common stock for services. These services were valued at \$10,100.

On December 31, 2008, the Company issued 32,000 shares of common stock for officer compensation. These services were valued at \$8,000.

On February 25, 2009, the Company redeemed 366,667 shares of common stock held by a single shareholder, for a price of \$.25 per share, for a total amount of \$91,667.

At March 31, 2009, a total of 8,900,724 shares of common stock were issued and outstanding. 1,000,000 warrants to purchase additional common stock at \$0.425 per share are also outstanding as of March 31, 2009.

NOTE 5—INCOME TAXES

The Company applies the provisions of FIN 48, “Accounting for Uncertainty in Income Taxes” (FIN 48) which clarifies the accounting for uncertainty in income tax positions. This interpretation requires the Company to recognize in the financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Interest and penalties are expensed as incurred as operating expenses.

At March 31, 2009, the Company had federal and state net operating loss carryforward of approximately \$570,000 available to offset future taxable income. The Company’s federal and state net operating loss carryforwards will begin to expire in 2026 if not used before such time to offset future taxable income or tax liabilities. Current and future changes in the stock ownership of the Company may place limitations on the use of these net operating loss carryforwards.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, contained in our Annual Report on Form 10-K filed with the SEC on March 27, 2009 and related to our year ended December 31, 2008, and the period from January 10, 2006 (inception) to December 31, 2008.

Forward-Looking Statements

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual actions or future results may be materially different from the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this report. Examples of specific factors that might cause our actual results to differ from our current expectations include but are not limited to:

- Our lack of a significant prior operating history to provide our management with a basis to better evaluate certain likelihoods
  - Our need for additional financing
- The significant risk that our game may not be accepted by casinos or gaming establishments or, ultimately, by gaming consumers and enthusiasts
- Our inability to obtain required registrations, licenses and approvals with or from appropriate state gaming authorities
  - Changes in legal and regulatory regimes applicable to our business or our games
  - Our inability to effectively protect our intellectual property, or
  - Our inability, for any reason, to retain our executive management personnel.

The foregoing list is not exhaustive. In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Poker Magic, Inc. or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever.

General Overview

Poker Magic Inc. is a Minnesota corporation formed in January 2006. In this report, we refer to Poker Magic, Inc. as “we,” “us,” “Poker Magic” or the “Company.” We are a development-stage company focused on promoting and placing our Winner's Pot Poker game into casinos and entertainment facilities country-wide, including those located in Native American tribal lands. We believe that the long-term success of our operations will be determined by our ability to bring new and innovative products, game play and services to the market.



Our current gaming product is “Winner’s Pot Poker,” which is a table game form of five-card stud poker. In the Winner’s Pot Poker game, the dealer deals each player, and the dealer himself, two cards face down and three cards face up. Each player “antes” before the deal to be eligible to receive cards in the game. After each player has received his or her first three cards from the dealer, each player may either fold or place a first bet equal to the ante. The first bet may not be any more or less than the ante. After the next card is dealt, each of the remaining players has a choice between folding or placing a second bet that must be equal to twice the ante. The dealer may not fold. After the last card is dealt, the hands are compared and the winning hand (determined by using standard poker rankings) takes a predetermined percentage of the total bets and antes made in the course of the game. In addition, players are entitled to make certain optional “bonus bets.”

We had no revenues from January 10, 2006 (inception) through December 31, 2007, or from January 1, 2008 through August 27, 2008. We began generating revenues August 28, 2008 under our license agreement with Bally’s Park Place, Inc. discussed further in the “Trends and Uncertainties” section below, under the caption “Revenues.”

For the three months ended March 31, 2009, we incurred \$4,448 in revenue-related costs and \$56,786 in operating expenses. Our expenses related primarily to our efforts to market our Winner’s Pot Poker game to casinos and gaming establishments, generate revenues and expand our revenue base, as well as other selling, general and administrative expenses. The most significant components of these other selling, general and administrative expenses were (i) compensation expense attributable to share issuances to third-party consultants and executive management for services rendered, and (ii) expenses for professional services such as legal and accounting services.

As of March 31, 2009, we had \$22,221 in cash on hand and current liabilities of \$14,814. As of the date of this filing, we had \$9,383 in cash on hand, and our management presently believes this cash will be sufficient to continue operations through June 2009. Thereafter, we expect we will require additional capital. If our present expectations relating to our expenses prove inaccurate and we incur more expenses than anticipated, we will be required to seek additional financing prior to June 2009.

Management believes that the most significant uncertainties facing the Company relate to our ability to increase our revenues, the accuracy of our expense forecast, our ability to acquire necessary licenses, registrations and approvals, and our ability to obtain financing when and as needed and on terms acceptable to us. These uncertainties are discussed in greater detail under the caption “Trends and Uncertainties.”

Results of Operations for the Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008

| Item                              | Three Months Ended |         | % Change<br>(Year Over<br>Year) | % of 2009<br>Net Loss | % of 2008<br>Net Loss |
|-----------------------------------|--------------------|---------|---------------------------------|-----------------------|-----------------------|
|                                   | 3/31/09            | 3/31/08 |                                 |                       |                       |
| Revenue                           | \$ 1,625           | \$ -    | N/A                             | N/A                   | N/A                   |
| Other Income                      | 181                | -       | N/A                             | N/A                   | N/A                   |
| Cost of Revenue                   | 4,448              | -       | N/A                             | N/A                   | N/A                   |
| General Operating Expenses        | 6,189              | 5,832   | 6.1%                            | 10.41%                | 10.37%                |
| Legal and Accounting Expenses     | 38,597             | 21,878  | 76.4%                           | 64.95%                | 38.90%                |
| Consulting Expenses               | -                  | 8,534   | N/A                             | N/A                   | 15.17%                |
| Executive Management Compensation | 12,000             | 20,000  | (40)%                           | 20.19%                | 35.56%                |
| Net Loss                          | 59,428             | 56,244  | 5.7%                            | N/A                   | N/A                   |

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As the table above demonstrates, during the three months ended March 31, 2009 and 2008, we had revenues of \$1,625 and \$0 respectively, and incurred \$4,448 and \$0, respectively, in revenue-related costs. During both periods, we were focused primarily on efforts to (i) ensure temporary regulatory approval and compliance of the Winner's Pot Poker game, and (ii) obtain the agreement of casinos and gaming establishments to provide gaming table space to the Winner's Pot Poker game. During 2008, we were also focused on completing the process of filing and amending our Registration Statement on Form 10 (originally filed with the SEC on January 29, 2008) in response to comments received from the SEC. Amendments to our Registration Statement were completed and filed with the SEC on March 11 and August 6, 2008. We currently have one contract with one client.

Our selling, general and administrative expenses overall remained equivalent in the three months ended March 31, 2009 compared to the three months ended March 31, 2008 and are expected to remain stable throughout 2009.

Our legal and accounting expenses increased 76.4% for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. This significant increase was mainly due to one-time expenses related to amending our Registration Statement on Form 10 filed with the SEC, our initial compliance with the Sarbanes-Oxley Act of 2002, and working with broker-dealers to complete an application with FINRA and obtain our trading symbol. As we continue to seek gaming regulatory compliance and licenses, prepare and file periodic reports with the SEC under the Securities and Exchange Act of 1934, and generally seek to comply with the various legal, accounting and governance rules and regulations applicable to public reporting companies, we anticipate our professional fees expenses will remain high but less than the amounts reached during fiscal 2008.

We presently expect that compensation expense for our executive management will remain consistent with our fiscal 2008. We have recorded an expense for our estimated officer compensation as an addition to paid-in capital for the three months ended March 31, 2009, and will continue to do so each period in fiscal 2009 in the event we do not issue shares to our executive management as compensation. We expect that we will continue to issue shares to consultants to compensate them for services rendered, primarily as a means to conserve our cash resources. In this regard, we do not anticipate hiring employees in the near future and expect instead, where necessary or appropriate, to rely on services provided by consultants through at least fiscal 2009.

Finally, we anticipate that the portion of our selling, general and administrative expenses relating to the general operations and the marketing of our Winner's Pot Poker game to casinos and gaming establishments will increase during fiscal 2009.

#### Liquidity and Capital Resources

Summary cash flow data is as follows:

|  | Three Months Ended March |             |
|--|--------------------------|-------------|
|  | 31,                      |             |
|  | 2009                     | 2008        |
| <b>Cash flows provided (used) by :</b> |                          |             |
| Operating activities                   | \$ (31,229)              | \$ (49,425) |
| Investing activities                   | -                        | -           |
| Financing activities                   | (91,667)                 | 25,000      |
| Net increase in cash                   | (122,896)                | (24,425)    |
| Cash, beginning of period              | 145,117                  | 37,003      |
| Cash, end of period                    | \$ 22,221                | \$ 12,578   |

The decrease in cash used in operating activities was primarily the result of a reduction in consulting service expense paid in stock. The decrease in the most recent period relates to a stock redemption that occurred in February 2009.

As of March 31, 2009, we had \$22,221 cash on hand and current liabilities of \$14,814. As of the date of this filing, our management believes we have sufficient capital to continue operations through June 2009. Thereafter, we expect we will require additional capital.

Presently, we anticipate that additional financing could be sought from a number of sources, including but not limited to additional sales of equity or debt securities, or loans from banks, other financial institutions or affiliates of the Company. We cannot, however, be certain that any such financing will be available on terms favorable to us if at all. If additional funds are raised by the issuance of our equity securities, such as through the issuance of stock, convertible securities, or the issuance and exercise of warrants, then the ownership interest of our existing

shareholders will be diluted. If additional funds are raised by the issuance of debt or preferred equity instruments, we may become subject to certain operational limitations, and such securities would likely have material rights that are senior to the rights of our common shareholders. If we are unable to obtain additional financing when needed, we may be required to abandon our business or our status as a public reporting company.

Our primary non-cash asset at March 31, 2009 was intellectual property rights and trademarks, which are the foundation for our product offerings. We currently own the rights to United States Patent Number 5,839,732, issued on November 24, 1998, that relates to our current Winner's Pot Poker table game. This patent was acquired from Select Video, Inc., a Delaware corporation, pursuant to an Asset Purchase Agreement dated March 10, 2006. In addition, we own a federally registered trademark for "WINNER'S POT POKER," Registration Number 2,172,043, issued on July 7, 1998, which was acquired pursuant to that same agreement. Finally, we also own registered trademarks for "POKER MAGIC" and to "AC (ATLANTIC CITY) STUD POKER," which we similarly acquired pursuant to the Asset Purchase Agreement with Select Video. Other than the trademark "Poker Magic" which we have adopted as our corporate name, we do not have any current plans for the sale or license of such other trademarks. We do not have any currently pending applications for un-issued patents, trademarks or copyrights. The expiration dates of our patent rights vary based on their filing and issuance dates. We intend to continue to actively file for patent protection, where reasonable, within the United States. We expect also to seek protection for our future products by filing for copyrights and trademarks in the United States.

Currently, we do not have any employees. Mr. Douglas M. Polinsky, the Chief Executive Officer and Chairman of our Board of Directors, and Joseph A. Geraci, II, our Chief Financial Officer and a director of the Company, both serve as consultants to the Company in their officer capacities. We rely on sales and marketing agents and outside professional services on an as-needed basis. We believe that using consultants to perform necessary operational functions is currently more cost effective than hiring full-time employees, and such practice affords us flexibility in directing our resources during our development stage. We plan to develop new gaming products primarily by utilizing the services of outside developers, sales agents and regulatory and compliance service providers in an effort to minimize capital expenditures and corporate expenses. We presently do not expect to incur any material capital expenditures in the near future or during the next 12 months. At this time, we do not anticipate purchasing or selling any significant equipment or other assets in the near term.

#### Trends and Uncertainties

As a development-stage company involved in the gaming business, we believe we can identify certain broad trends in our revenues and expenses, and components thereof. We also believe that the most significant risks and uncertainties surrounding our business relate to revenues and expenses, and regulatory and financing matters. These trends and uncertainties are discussed below.

#### Revenues

From inception through March 31, 2009 (and presently), the Company has been focused sequentially on the acquisition of the intellectual property forming the basis for its Winner's Pot Poker table game and, thereafter, efforts to ensure at least temporary regulatory compliance of the game and obtain the agreement of casinos and gaming establishments to provide gaming table space to the Winner's Pot Poker game.

These efforts culminated in our license agreement with Bally's Park Place, Inc. d/b/a Bally's Atlantic City, permitting Bally's, on a non-exclusive basis, to use one unit of the Winner's Pot Poker game on a trial basis at no charge until such time that the New Jersey Casino Control Commission ended the test period for the game. We entered into that license agreement on December 26, 2007. We had earlier (on August 22, 2007) secured the issuance of temporary rules and amendments governing the implementation of Winner's Pot Poker in Atlantic City casinos. The amendments and rules added Winner's Pot Poker to the list of authorized table games in New Jersey, governed the physical characteristics of the Winner's Pot Poker game layout, defined the card deck for use with the Winner's Pot Poker game, specified the terms of the use of the cards during Winner's Pot Poker game play, and contained technical proposals governing the operation of Winner's Pot Poker. We had also earlier obtained a transactional waiver from the New Jersey Casino Control Commission for the licensure requirement applicable to casino service industry (CSI), which waiver permitted

us to legally license to Bally's Park Place, Inc. the play of our Winner's Pot Poker game in Bally's Atlantic City casinos.

After a successful trial period, we amended our license agreement with Bally's Park Place, Inc. on June 26, 2008. Under the amended license agreement, Bally's Park Place, Inc. pays the Company a license fee in the amount of (i) \$475 per month for the right to use our Winner's Pot Poker game in the Atlantic City casinos for up to seven days per week, and (ii) \$200 per month for the right to use of our Winner's Pot Poker game in the Atlantic City casinos on weekends only during that month. The amendment currently contemplates the licensure of only two Winner's Pot Poker game units—one for the seven days per week use and the other for the weekend-only use. This amendment was entered into after the adoption by the New Jersey Casino Control Commission of temporary regulations governing the rules of the Winner's Pot Poker game. The amended license agreement is a month-to-month agreement that may be cancelled by either party at any time. The month-to-month character of this licensing arrangement, which is currently our only revenue-generating license, presents a material uncertainty in our ability to accurately forecast revenues for 2009.

We continue our focus on securing Winner's Pot Poker licensing arrangements with various other casinos and gaming establishments. In particular, we have met with the management or representatives of numerous casinos or gaming establishments in an effort to secure additional licensing arrangements, focusing on expanding our licensing in New Jersey and breaking into the Minnesota and Nevada markets.

Based on our recent amendment of the license agreement with Bally's Park Place, Inc., we began to recognize revenue from operations during fiscal 2008. Given that the present terms of the license agreement, as amended, provide only that Bally's Park Place, Inc. will license the right to use two game units of our Winner's Pot Poker product, we do not expect that our initial revenues will be significant. Instead, we expect that we must continue to market our game to casinos and gaming establishments that present suitable opportunities for us, and that the most efficient way for us to begin generating more significant revenues will be to consummate a definitive license agreement with Harrah's Entertainment or some other enterprise that involves a wider group of gaming-related affiliates and establishments. For example, Harrah's Entertainment, indirectly (through subsidiaries and other affiliates) operates approximately 40 casinos across the United States. It is extremely difficult to anticipate, however, how much success we will have in our efforts to license our games to establishments other than Bally's Park Place, Inc., if any at all, and thereby generate additional revenues.

#### Expenses

As indicated above under the caption "Results of Operations for the Three Months Ended March 31, 2009 Compared to the Three Months Ended March 31, 2008," our selling, general and administrative expenses overall remained equivalent in the three months ended March 31, 2009 compared to the three months ended March 31, 2008 and are expected to remain stable throughout 2009. We expect to make applications and seek gaming regulatory compliance and licenses that will increase that component of our selling, general and administrative expenses for 2009. Because our business has a short operating history and our present revenues are limited, in general it is difficult to accurately forecast our expenses and impact of those expenses on our operating results.

#### Regulation

As part of our marketing efforts for the Winner's Pot Poker game, our management has met with the management or representatives of over ten different casinos or gaming establishments during the past year in an effort to secure additional licensing arrangements. To date, our efforts have been focused on entering into such agreements with casinos and gaming establishments in New Jersey, Nevada and Minnesota. On August 22, 2007, the New Jersey Casino Control Commission adopted temporary regulations governing the Winner's Pot Poker game. We have yet to obtain the final casino service industry (CSI) supplier license from the New Jersey Casino Control Commission, which is more broad and flexible than the current transactional waiver which we have thus far secured. On January 23, 2009, the New Jersey Casino Control Commission approved our petition to continue conducting business

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with Bally's while the issuance of the final license is underway, with the extended term set to expire on July 24, 2009. We also have yet to obtain the final licensure required in the states of Nevada and Minnesota. In sum, we expect that we will require at least the following licenses, registrations and approvals in the near future to permit us to license our gaming products to casinos and gaming establishments in the relevant jurisdictions:

- Casino service industry (CSI) supplier license issued by the New Jersey Casino Control Commission (described above)

- Distribution licenses permitting us to distribute Winner's Pot Poker game units (i.e., table layouts) to casinos and gaming establishments in Nevada, issued by the Nevada State Gaming Control Board
  - Registration with the Nevada Gaming Commission as a publicly traded company
- Distribution licenses permitting us to distribute Winner's Pot Poker game units to casinos and gaming establishments in Minnesota
- Approval from the applicable Tribal Councils permitting us to distribute Winner's Pot Poker game units to casinos and gaming establishments located in tribal lands in Minnesota.

As we seek to begin operations in other states and, where applicable, Native American tribal lands, we will be subject to additional state and Native American laws and regulations that affect both our general commercial relationships with our customers as well as the products and services provided to them.

#### Financing

As discussed above under the caption "Liquidity and Capital Resources," our management believes we have sufficient capital to continue operations through June 2009. Thereafter, we expect we will require additional capital. Our current forecast for financing needs is largely based on our understanding of the expenses we anticipate incurring in our efforts to comply with gaming regulatory and public reporting company disclosure requirements. In this regard, we note that our current forecasts are largely based on our past experience with other enterprises and proposed budgets proposed by our professional consultants. If our actual expenses significantly exceed our present expectations we will likely require additional financing prior to June 2009.

Once needed, we cannot be certain that any required additional financing will be available on terms favorable to us, if at all. This is especially true in light of the current poor state of the U.S. capital markets and the general economic downturn that has occurred. If adequate funds are not available on acceptable terms, we may be unable to expand, develop or enhance products or to respond to competitive pressures. If we are unable to obtain additional financing when needed, we may be required to abandon our business or our status as a public reporting company.

#### Going Concern

We have incurred operating losses, accumulated deficit and negative cash flows from operations since January 10, 2006 (inception). As of March 31, 2009, we had an accumulated deficit of \$584,848. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our financial statements included in this filing do not include any adjustments related to recoverability and classification of asset carrying amounts, or the amount and classification of liabilities that might result, should we be unable to continue as a going concern. Our ability to continue as a going concern ultimately depends on achieving profitability, producing revenues or raising additional capital to sustain operations. Although we intend to obtain additional financing to meet our cash needs and to support the revenue-generating process, we may be unable to secure any additional financing on terms that are favorable or acceptable to us, if at all.

#### Critical Accounting Policies

For detailed information on our critical accounting policies and estimates, please see our financial statements and notes thereto included in this report and in our report Form 10-K filed with the SEC in March 2009. There have been no material changes to our critical accounting policies and estimates from those disclosed in our report Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

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Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met.

As of March 31, 2009, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer recognized the additional risks to an effective internal control environment posed by a limited accounting staff and the inability to fully segregate all duties within our accounting and financial functions, including the financial reporting and quarterly close process. Nevertheless, management has concluded that, with certain oversight controls that are in place and the duties we have been able to successfully segregate, the remaining risks associated with the lack of segregation of duties are not sufficient to justify the costs of potential benefits to be gained by adding additional employees given our development stage, the limited scope of our operations, and the number of business transactions we currently process, nor do these remaining risks rise to the level of a material weakness. Management intends to periodically reevaluate this situation and continue to assess ways in which duties can be further segregated as our business evolves. Based on these evaluations, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures are effective as of March 31, 2009.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors.

There have been no material changes to our risk factors during or since the period covered by this report. For a discussion of risk factors applicable to us and our business, please refer to the "Risk Factors" section of our Annual Report on Form 10-K filed with the SEC on March 27, 2009.

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

We made no sales of unregistered equity securities during the period covered by this report. We did, however, redeem a total of 366,667 shares from our shareholder Alexander Gruye on February 25, 2009. Information respecting this transaction is set forth in the table below:



| Period        | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------|----------------------------------|------------------------------|--|--|
| January 2009  | 0                                | -                            | 0  | \$ 0   |
| February 2009 | 366,667                          | \$ .25                       | 0  | \$ 0   |
| March 2009    | 0                                | -                            | 0  | \$ 0   |

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit No. | Description  |
|-------------|--|
| 31.1        | Certification of Chief Executive Officer   |
| 31.2        | Certification of Chief Financial Officer   |
| 32          | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POKER MAGIC, INC.

/s/ Douglas Polinsky  
 Douglas Polinsky  
 Chief Executive Officer

Dated: May 15, 2009

/s/ Joseph A. Geraci, II

Joseph A. Geraci, II  
Chief Financial Officer

Dated: May 15, 2009

INDEX TO EXHIBITS FILED WITH THIS REPORT

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