SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

FOR ANNUAL AND TRANSITIONAL REPORTS UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

x ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

o TRANSITION REPORT PURSUANT TO SECTION 13 OR SECTION 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-30785

CAMELOT ENTERTAINMENT GROUP, INC.
(EXACT NAME OF SMALL BUSINESS REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of incorporation or organization)	52-2195605 (I.R.S. Employer Identification No.)

CAMELOT ENTERTAINMENT GROUP, INC.
2020 Main Street, Suite 990
Irvine, California 92614
(Address of principal executive offices) (Zip Code)

(949) 777-1080
Registrant's telephone number, including area code

SECURITIES REGISTERED UNDER SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED UNDER SECTION 12(G) OF THE EXCHANGE ACT:

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(TITLE OF CLASS)
COMMON STOCK, PAR VALUE $0.001

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 x No o

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. x

The approximate aggregate market value of 22,329,079 Common Stock shares held by non-affiliates of the Registrant, based on 106,655,743 total outstanding shares less 84,326,664 shares held by affiliates. Total non-affiliated shares at a market price of $.07 had a market value of $1,563,036 as of December 31, 2006. Total market value of all outstanding shares was $7,465,902 as of December 31, 2006.

On December 31, 2006, the Registrant had outstanding 106,655,743 shares of Common Stock, $0.001 par value.

The Registrant's revenues for the year ended December 31, 2006 were $0.

DOCUMENTS INCORPORATED BY REFERENCE: SEE ITEM 13

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FISCAL YEAR ENDED DECEMBER 31, 2006

CAMELOT ENTERTAINMENT GROUP, INC.

THIS REPORT ON FORM 10-KSB CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE SUBJECT TO THE "SAFE HARBOR" CREATED BY THOSE SECTIONS. THESE FORWARD-LOOKING STATEMENTS INCLUDE BUT ARE NOT LIMITED TO STATEMENTS CONCERNING OUR BUSINESS OUTLOOK OR FUTURE ECONOMIC PERFORMANCE; ANTICIPATED PROFITABILITY, REVENUES, EXPENSES OR OTHER FINANCIAL ITEMS; AND STATEMENTS CONCERNING ASSUMPTIONS MADE OR EXCEPTIONS AS TO ANY FUTURE EVENTS, CONDITIONS, PERFORMANCE OR OTHER MATTERS WHICH ARE "FORWARD-LOOKING STATEMENTS" AS THAT TERM IS DEFINED UNDER THE FEDERAL SECURITIES LAWS. ALL STATEMENTS, OTHER THAN HISTORICAL FINANCIAL INFORMATION, MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. THE WORDS "BELIEVES", "PLANS", "ANTICIPATES", "EXPECTS", AND SIMILAR EXPRESSIONS HEREIN ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS, UNCERTAINTIES, AND OTHER FACTORS, WHICH WOULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN SUCH STATEMENTS. FORWARD-LOOKING STATEMENTS INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN "FACTORS THAT MAY AFFECT FUTURE RESULTS," AND ELSEWHERE IN THIS REPORT, AND THE RISKS DISCUSSED IN THE COMPANY'S OTHER SEC FILINGS.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Background of the Company

We are a vertically integrated media enterprise that creatively conceptualizes, finances, produces, and distributes original entertainment content across various media, including motion pictures, television, interactive gaming, radio and a multitude of digital media channels. We were originally incorporated in Delaware on October 12, 1999 as Dstage.com, Inc. with the intention to provide support, organization and restructuring services to development stage companies. From then, until March 31, 2003, the Company's activities consisted of developing its business plan, raising capital, business plan implementation, recruiting a management team and entering into new ventures and alliances with affiliates. On March 31, 2003, we underwent a restructuring which resulted in a new management team and the adoption of a new business model to pursue the development, production, marketing and distribution of motion pictures. During May 2004, we changed our name to Camelot Entertainment Group, Inc. ("CMEG"), and incorporated its refined business model of developing, producing, marketing and distributing motion pictures, television and digital media. Since inception, we have been in the development stage and our activities have consisted of raising capital, recruiting a management team and entering into ventures and alliances with affiliates. The Company has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology.

During 2004 and 2005 we acquired three companies, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and Camelot Films, Inc., a Delaware corporation, all of which are our wholly-owned subsidiaries. None of the corporations have current operations, assets or liabilities. Each newly acquired subsidiary will handle a specific area of our business model, including, but not limited to, production services, marketing, distribution and our new family film division.

We also decided during 2004 to establish a family film division which would be dedicated to developing, producing, marketing and distributing specifically family films domestically and internationally. Craig Kitchens was named the new president of this division during the first quarter of 2005. This business named Ferris Wheel Films, Inc., and was incorporated in the state of Nevada in the second quarter of 2005, which is a wholly owned subsidiary of Camelot Entertainment Group, Inc.

Fiscal year 2004 also saw us explore the possibility of setting up European operations in order to better facilitate potential funding and production opportunities in Europe. The first step in this process was to be the retention of a business consultant to represent us at the Berlin Film Festival during the first quarter of 2005. In the second quarter of 2005, we formed Camelot Distribution Group, Inc. and hired Chris Davis International, Inc. to consult with us and help develop our international film distribution subsidiary. Camelot Distribution Group, Inc. was incorporated in Nevada in the second quarter of 2005 and is also a wholly owned subsidiary of Camelot Entertainment Group, Inc.

During fiscal year 2006, with the emergence of our studio group operations, we decided to implement a corporate structure that would feature the parent company, Camelot Entertainment Group, Inc., and three subsidiaries, Camelot Film and Media Group, Camelot Studio Group and Camelot Production Services Group. By establishing three top-level divisions, we will be able to streamline our management efforts in the future, concentrate cost centers and expand revenue potential.

Our Structure

We are comprised of the following three top-level divisions that can act in concert on our projects or autonomously as circumstances warrant.

- Camelot Film & Media Group
- Camelot Studio Group
- Camelot Production Services Group

Camelot Film & Media Group is responsible for all content production and distribution. It is organized into five operational units:

- Camelot Films
- Camelot Features
- Camelot Distribution
- Camelot Television
- Camelot Digital Media

Camelot Studio Group is solely focused on the development, financing, design, planning, building, completion and operation of the major West Coast production studio, which Camelot is currently proposing to locate in the Advanced Technology & Education Park ("ATEP") complex in Tustin, California, which would include the following entities:

- § Studio Development
- § Business Development
- § Master Development
- § Academic Program Development

Camelot Production Services Group is comprised of six divisions:

- § Technology
- § Radio and Music
- § Consulting
- § Financial Services
- § Event Management
- § Publishing

Our New Business Model

The new management team developed a new business model for implementation during 2004 and continued to enhance its model during 2005 and 2006. The plan attempts to combine the efficiencies realized by studios of the early 1900s, with the artistic focus and diversity of today's independent productions. Using this approach, the Company believes the risk-reward relationship facing the typical film project can be dramatically shifted. Three key ingredients of the business model are financial transparency, full-time annualized employment and employee revenue/stock ownership.

For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the Camelot model extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, Camelot intends to invest directly in top of the line technology, spreading the costs over a minimum 12 original motion pictures each year. The goal is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

We believe that only a fraction of the writers, directors, actors and other film production personnel actively seeking motion picture projects are successful in any given year. Similarly, we believe that only a small fraction of films in production in any given year will actually be released and an even smaller percentage will generate profits. As a result, it is our opinion that independent filmmakers are often willing to go to great lengths to get a picture made, sacrificing not only their current standard of living, but also their claim to potential profits made by the film. Despite these concessions, relatively few succeed. Our business model is intended to overcome these obstacles for writers, producers, directors, actors and other personnel that wish to actively participate in original motion picture projects and are willing to accept incentive and stock based compensation for a portion of their efforts, while still receiving full compensation and benefits.

We believe that our plan to create our motion pictures should succeed because our management team has worked extensively in all phases of motion picture production. In addition, we are actively seeking to bolster our management team with executives who have extensive experience in not only motion picture production, distribution and marketing, but also in television and other related fields. This combined experience led our management team to a number of beliefs upon which our business model for creating our product is founded. These key views are:

- The manner in which development and pre-production activities are managed can have the largest impact on the quality, creative content and the cost of creating a motion picture.

- There are a number of factors that make it difficult for most production companies to invest large amounts of time and a proportionally large share of a motion picture's overall budget into development and pre-production activities.

- The factors that make it difficult for many motion picture projects to invest a major share of a film's time and financial resources into development and pre-production activities may have created a pervasive business culture that emphasizes moving projects towards principal photography too quickly.

- A very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition.

- A very small percentage of all directors will participate in principal photography in any given year.

- The percentage of qualified actors that never have the opportunity to participate in a completed original motion picture that is released commercially is substantial.

- There are large periods of unemployment for many individuals involved in motion picture production.

We believe that these observations suggest that the capacity to create motions pictures, in terms of employable professionals, is far higher than the current demand of existing film production companies for these services. However, we also believe that growth in motion picture consumption worldwide has created increased demand for original motion pictures in general. As a result, we anticipate that the underemployed, or unemployed, directors, writers and other film professionals could help fill a void for low cost, quality original motion picture production, given the right mix of incentives and business structure.

Successfully creating such low cost, but relatively high quality pictures might result in a higher per picture financial return and a lower breakeven point for each film produced. Also, by distributing these pictures primarily through in-house distribution professionals, the per picture return might be increased even further, enabling more motion pictures to be produced by us annually and thereby diversifying the risk associated with any single film project. These beliefs form the foundation for our planned business model and strategy.

Mission Statement

The Company's mission is to establish a presence in the motion picture industry by developing, producing, marketing and distributing high quality, low budget motion pictures utilizing new technologies while combining the efficiencies realized by studios of the early and mid 1900s with the artistic focus and diversity of today's independent productions.

The Business Model for Camelot Entertainment Group, Inc.

The new management team developed a new business model for implementation during 2004 and continued to enhance its model during 2005. The plan attempts to combine the efficiencies realized by studios of the early 1900s, with the artistic focus and diversity of today's independent productions. Using this approach, the Company believes the risk-reward relationship facing the typical film project can be dramatically shifted. Three key ingredients of the business model are financial transparency, full-time annualized employment and employee revenue/stock ownership.

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Recent Developments

During 2006, we continued the process of implementing our business plan, including beginning the critical process of taking the initial steps which hopefully will result in us securing funding for the Company and our projects. Upon completion of our initial formal business plan, we began the process of preparing our funding documents, including the private placement memorandum and registration statement. Once these documents are finalized, they will be filed with the Securities and Exchange Commission ("SEC") and various state regulatory agencies. We plan to commence the formal funding process during 2007. Prior to this year we have purchased scripts at a cost of $18,800 and continued to pursue other business development projects. In addition, we have expanded our scope of operations that will hopefully result in significant progress during 2007.

In order to successfully implement our business model, we will need to secure the necessary financing. If we are unable to do so, we may not be able to sustain operations. The specific amount and types of funding we will be seeking will be finalized by the time we commence the filing of our documents with the SEC and the state agencies.

In addition, we will be exploring funding options with various international resources currently being developed by our management team. There can be no assurance that any of these potential resources will ever be realized, or that any of them will participate in any funding of our Company and our projects. The international regions currently being explored include Europe, specifically Germany and the United Kingdom, and the Far East, specifically China.

Our corporate operating structure continued to evolve during 2006, with shareholders approving the acquisition of three new subsidiaries, Camelot Films, Inc., a Nevada corporation, Camelot Films, Inc., a California corporation, and Camelot Films, Inc., a Delaware corporation. Each of these corporations did become wholly owned subsidiaries of our Company during 2005. None of the corporations have current operations, assets or liabilities. Each newly acquired subsidiary will handle a specific area of our business model, including, but not limited to, production services, marketing, distribution and our new family film division.

We decided during 2004 to establish a family film division which would be dedicated to developing, producing, marketing and distributing specifically family films domestically and internationally. Named Ferris Wheel Films, Inc. the business was incorporated in the state of Nevada in the second quarter of 2005, as a wholly owned subsidiary of Camelot Entertainment Group, Inc. The business model for this new division is similar to our base business model.

Fiscal year 2004 also saw us explore the possibility of setting up European operations in order to better facilitate potential funding and production opportunities in Europe. The first step in this process was to be the retention of a business consultant to represent us at the Berlin Film Festival during the first quarter of 2005. In the second quarter of 2005, we formed Camelot Distribution Group, Inc. and hired Chris Davis International, Inc. to consult with us and help develop our international film distribution subsidiary. Camelot Distribution Group, Inc. was incorporated in Nevada in the second quarter of 2005 and is also a wholly owned subsidiary of Camelot Entertainment Group, Inc.

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We also continued to interview potential entertainment law firms to represent us specifically on entertainment legal issues that will arise as we continue to implement our business model. In the first quarter of 2005 we retained Manatt, Phelps and Phillips, a well established and respected entertainment law firm to represent Camelot Entertainment Group, Inc. and all of our subsidiaries.

In addition, we continued to interview potential public relation firms during 2004. In the first quarter of 2005, Insignia Public Relations and Media Strategies was hired to spearhead our marketing campaign for the Cannes Film Festival. Insignia has also done other marketing and public relations work for the company during this year.

As part of our plan to enhance our management team, industry veteran Michael Ellis was hired during the first quarter of 2006 as the Chief Operating Officer of Camelot Entertainment Group, Inc. He was also appointed to our Board of Directors. In August 2006, Mr. Ellis was named President of our Camelot Studio Group subsidiary.

Business of Issuer

Principal Products or Services and Their Markets

We intend to engage in the development, production, marketing and distribution of original motion pictures. Our objective is to develop, produce, market and distribute 12 pictures annually. Our initial plans call for a slate of 36 pictures, with a total cash investment of $15,000,000 for the slate. We plan to operate on an annual budget basis, allocating expenses over the planned 12 pictures we expect to produce annually. By utilizing production teams that will be hired on an annual basis, our cost allocation per film project is reduced significantly, in some cases by 30 to 40 per cent. The elements of our annual budget will include cash, deferments, corporate contributions and utilization of our common stock. Each picture is expected to have a 12 month production cycle, including 6 months of pre-production, 2 months of physical production and 4 months of post-production. Our plan is to market and distribute all of our pictures ourselves through our Camelot Distribution subsidiary, thereby keeping as much control as possible over the revenues generated by our productions.

Cash Component

Our plan is to raise sufficient capital to finance our first sixteen months of operations, production and distribution activities, the time period management feels it will take for us to realize ongoing revenues substantial enough to maintain monthly operating, production and distribution expenses. We plan to file a SB-2 registration statement during the second or third quarter of 2006. We will not be able to commence our plan to develop, produce, market and distribute 12 pictures annually until we have raised the necessary capital. In the event we are unable to secure this funding on a timely basis, our ability to implement our plan would be jeopardized. See “Risk Factors”.

Deferment Component

A majority of line items in the budgets will have a deferment component. In addition to cash payments, each individual and vendor would receive a deferment, or delayed payment, which we anticipate to pay out of revenues generated by our films. By fully disclosing all financial elements connection with the pictures, which we call financial transparency, we believe that the deferment component can become a trusted and reliable source of payment for our employees and vendors.

Corporate Contribution Component

We anticipate providing each film produced by us certain items in the budget that normally would have to be either rented or purchased from a third party vendor. These “in-kind” contributions may include cameras, lights, grip and electrical equipment, vehicles, legal and accounting services, certain executive producer and producer services, production and location offices and other goods and services to be determined on a film by film basis.

Common Stock Component

We plan to issue every individual working on our films shares of our common stock as part of their compensation package or vendor contract. We anticipate that this common stock component will enhance each individual or vendor’s consideration to such an extent that these individuals and entities will continue to work with us within the parameters of our budget model.

Key Components of the Production Process

The key components of motion picture production are generally viewed as consisting of development, pre-production, production or principal photography, post-production, marketing and distribution. While these terms are used in similar ways by many major studios and independent productions, the relative resources of the parties involved in producing an original motion picture have a meaningful impact on both the scale and scope of the specific activities these components are comprised of. For example, in a major studio production, the post-production phase may include use of numerous special effects professionals and companies, composers and music editors, in addition to other personnel. This is in contrast to many independent productions that might be able to fit a music editor into their budget, but may not be able to afford hiring a composer to create an original score, much less an orchestra to perform and record the score. Similarly, many independent productions might not be able to afford hiring a leading special effects company for months at a time, but may be able to fit some stock special effects footage into a production or hire an editor that also has some experience with editing special effects. As our business model depends to a large extent on our ability to efficiently mitigate some of these differences, our description of the motion picture production process includes certain references to our perception of differences between major studio productions and independent productions.

Development

In general, the development phase of motion picture production begins with converting a concept or literary work into a script. In certain cases, a completed script, or screenplay, may already exist, and require a studio or independent producer to acquire rights to the script. Such rights could be an outright purchase of a literary work or an option to purchase the literary work or script. In the case of a major studio, the next steps in the development phase of a motion picture could often involve developing a budget, getting contingent commitments from talent such as directors and cast members, and assessing the overall creative potential of the project. Independent productions generally conduct similar activities; the key difference is often that an independent producer has substantially less financial and human resources with which to execute these activities. As a result, certain independent productions must seek external financing from private investment sources to enable shaping the motion picture concept into an attractive package that could hopefully result in raising additional funds needed to actually produce the motion picture.

In the case of studios and independent production companies, their staffs actively seek and participate on the acquisition of completed scripts or developing scripts into motion picture projects, usually with either in-house producers or non-affiliated producers who specific projects they desire to produce. Once the screenplay or story rights have been secured, talent is lined up, a budget and production schedule has been created, the package is presented to decision-makers at the studio or independent production company that either approves the project, or “greenlights” the project, or declines the project. If the project is approved, it moves into the pre-production phase.

The decision whether to “greenlight,” or proceed with production of, a film is a diligent process that typically involves numerous key executives of a major studio, in contrast to an independent company where possibly the entire process might be handled by just one person. Generally, the production division presents projects to a committee comprised of the heads of a studio’s production, distribution, home entertainment, international, legal and finance departments. In this process, scripts are discussed for both artistic merit and commercial viability. The committee considers the entire package, including the script, the talent that may be attached or pursued and the production division’s initial budget. They also discuss talent and story elements that could make the product more successful. Next, the heads of domestic and international distribution prepare estimates of projected revenues and the costs of marketing and distributing the film. The studio’s finance and legal professionals review all of the projections, and the committee decides whether the picture is worth pursuing by balancing the risk of a production against its potential for financial success. The studio may seek to mitigate the financial risk associated with film production by negotiating co-production agreements, pre-selling international distribution rights and capitalizing on government subsidies and tax credits. In addition, a studio might attempt to minimize its production exposure by structuring deals with talent that provide for them to participate in the financial success of the motion picture in exchange for reducing up-front payments.

Pre-Production

In general, the pre-production phase of motion picture production involves executing binding engagements of creative personnel, scouting and securing locations for principal photography, firming up the filming schedule and budget, and taking all other steps necessary to facilitate actual filming during the production, or principal photography, phase.

Production/Principal Photography

Principal photography, or production, is the phase where actual filming of the motion picture takes place. The actors, producers, directors, staff, locations and equipment that were engaged and planned for in the pre-production phase must be brought together to create the primary film footage that should enable a meaningful creative work to be edited into a quality finished product. While the planning that took place during the pre-production phase is a critical success factor, a large amount of uncertainties exist that can positively, or negatively, impact outcomes of the production phase. For example, weather may cause delays in the shooting schedule, talent may become injured or sick and the director may not be able to extract the quality of performances desired from actors. In the case of a major studio production, access to capital may enable more resources to be deployed to mitigate these risks. In the case of an independent production, these uncontrollable factors may be more likely to result in the failure to complete a motion picture of the quality envisioned during the pre-production phase.

Post-Production

Following the last date of principal photography, the film footage produced during that phase enters the post-production phase. Post-production is the phase where the film footage captured in the production phase is enhanced and edited into a form that should, hopefully, strike a cord with the target audience upon release of the completed motion picture. This phase includes activities such as adding voices as needed, opticals, music, special effects, soundtracks, and even additional film footage. These elements must be brought together symbiotically, to create a completed negative ready to be converted into release prints. This phase has a substantial impact on how an audience perceives the work that was performed during the principal photography phase. For instance, although the performances of actors and directors may have been excellent during the principal photography phase, if the sound, sequence of visuals and events are not brought together in the proper manner, the end result may not be artistically or commercially viable. For major studios, hiring the best available consultants, editors or other parties to remedy, at least partially, such an outcome can often mitigate such an event. Few independent productions can access such resources without exceeding the projected revenues required to deliver a potential return to their investors.

The Motion Picture Industry

The motion picture industry consists of two principal activities: production and distribution. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures throughout the world in a variety of media, including theatrical exhibition, home entertainment, television and other ancillary markets.

General. According to the Motion Picture Association's *U.S. Theatrical Market: 2006 Statistics*, overall domestic box office revenue was approximately $9.49 billion in 2006. This represents a 5.5% increase in total domestic box office. Global box office reached an all-time high with $25.82 billion in 2006, an 11% increase. Although it fluctuates from year to year (including a moderate decline from 2004 to 2005), the domestic motion picture industry has grown in revenues and attendance over the past 10 years, with box office receipts up 63.7% and admissions up 11.1% from 1995 to 2005. U.S. theater admissions grew 3.3% to 1.45 billion tickets, ending a 3 year downward trend. (However, revenues and attendance numbers remained fairly flat from 2002 to 2005.)

Competition. Major studios have historically dominated the motion picture industry. The term major studios is generally regarded in the entertainment industry to mean: Universal Pictures ("Universal"); Warner Bros.; Twentieth Century Fox; Sony Pictures Entertainment ("Sony"); Paramount Pictures; and The Walt Disney Company ("Disney"). Competitors less diversified than the major studios include Dreamworks SKG, The Weinstein Company, Jerry Bruckheimer Films, Miramax Films, Lions Gate Entertainment Corp., New Line Cinema, Newmarket Films, Motion Picture Distribution LP and IFC Entertainment.

Despite the limited resources generally available to independent studios, independent films have gained wider market approval and increased share of overall box office receipts in recent years. Past successful independent films such as *My Big Fat Greek Wedding, Bend It Like Beckham, Saw II* and *Crash* highlight moviegoers' willingness to support high quality motion pictures despite limited pre-marketing and production budgets.

Product Life Cycle. Successful motion pictures may continue to play in theaters for more than three months following their initial release. Concurrent with their release in the United States, motion pictures are generally released in Canada and may also be released in one or more other foreign markets. After the initial theatrical release, distributors seek to maximize revenues by releasing movies in sequential release date windows, which are generally exclusive against other non-theatrical distribution channels:

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Typical Film Release Windows*

Release Period	Months After Initial Release	Approximate Release Period
Theatrical	—	0-3 months
Home video/ DVD (1st cycle)	3-6 months	1-3 months
Pay-per-transaction (pay per-view and video-on-demand)	4-8 months	3-4 months
Pay television	9-12 months**	18 months
Network or basic cable	21-28 months	18-60 months
Syndication	48-70 months	12-36 months
Licensing and merchandising	Concurrent	Ongoing
All international releases	Concurrent	Ongoing

* These patterns may not be applicable to every film, and may change with the emergence of new technologies

** First pay television window.

Production. The production of a motion picture begins with the screenplay adaptation of a popular novel or other literary work acquired by the producer of the motion picture or the development of an original screenplay based upon a story line or scenario conceived or acquired by the producer. In the development phase, the producer may seek production financing and tentative commitments from a director, the principal cast members and other creative personnel. A proposed production schedule and budget are prepared. At the end of this phase, the decision is made whether or not to “greenlight,” or approve for production, the motion picture.

After greenlighting, pre-production of the motion picture begins. In this phase, the producer engages creative personnel to the extent not previously committed, finalizes the filming schedule and production budget, obtains insurance or self insures and secures completion guaranties, if necessary. Moreover, the producer establishes filming locations, secures any necessary studio facilities and stages and prepares for the start of actual filming.

Principal photography, or the actual physical principal production and filming of the screenplay, generally extends on the average from 4 to 16 weeks, with some schedules extending out as much as 52 weeks, depending upon such factors as budget, location, weather and complications inherent in the screenplay. Following completion of principal photography, the motion picture enters what is typically referred to as post-production. In this phase, the motion picture is edited, opticals, dialogue, music and any special effects are added, and voice, effects and music soundtracks and pictures are synchronized. This results in the production of the negative from which release prints of the motion picture are made. Major studios and independent film companies hire editors, composers and special effects technicians on the basis of their suitability for a particular picture.

The production and marketing of theatrical motion pictures at the studio level requires substantial capital. The costs of producing and marketing motion pictures have increased substantially in recent years. These costs may continue to increase in the future at rates greater than normal inflation, thereby increasing the costs to us of our motion pictures. Production costs and marketing costs are generally rising at a faster rate than increases in either domestic admissions to movie theaters or admission ticket prices, leaving all producers of motion pictures more dependent on other media, such as home entertainment, television, and foreign markets.

Distribution. The distribution of a motion picture involves the licensing of the picture for distribution or exploitation in various markets, both domestically and internationally, pursuant to a release pattern. These markets include theatrical exhibition, non-theatrical exhibition (which includes airlines, hotels and armed forces facilities), home entertainment (including rental and sell-through of video and DVD), presentation on television (including pay-per-view, pay, network, syndication and basic cable) and marketing of the other rights in the picture and underlying literary property, which may include publishing, merchandising and soundtracks. The domestic and international markets generally follow the same release pattern, with the starting date of the release in the international market varying from being concurrent with the domestic theatrical release to being as long as nine months afterwards. A motion picture typically is distributed by a major studio or one or more distributors that acquire rights from a studio or other producer in one or more markets or media or a combination of the foregoing.

Both major studios and independent film companies often acquire pictures for distribution through a customary industry arrangement known as a "negative pickup," under which the studio or independent film company agrees before commencement of or during production to acquire from a production company all domestic rights, and in some cases some or all of the foreign rights, to a film upon completion of production, and also acquire completed films, as well as all associated obligations.

The Motion Picture Industry: A More Detailed Overview

The motion picture industry consists of two principal activities: production and distribution. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures throughout the world in a variety of media, including theatrical exhibition, home entertainment, television and other ancillary markets.

The U.S. motion picture industry can be divided into major studios and independent companies, with the major studios accounting for a large majority of the number of theatrical releases. The major studios are The Walt Disney Company (including Buena Vista, Touchstone and Miramax Films), Paramount Pictures Corporation (including Dreamworks), Sony Pictures Entertainment, Inc. (including Columbia Pictures and MGM), Twentieth Century Fox Film Corp., NBC Universal (including Universal Studios and Universal Focus) and Warner Bros. (including Turner, New Line Cinema and Castle Rock Entertainment). The major studios are typically large diversified corporations that have strong relationships with creative talent, exhibitors and others involved in the entertainment industry, and have global film production and distribution capabilities.

Historically, the major studios have produced and distributed the majority of high grossing theatrical motion pictures released annually in the United States. In addition, most of the studios have created or accumulated substantial and valuable motion picture libraries that generate significant revenues. These revenues can provide the major studios with a stable source of earnings that partially offsets the variations in the financial performance of their current motion picture releases and other aspects of their motion picture operations.

The independent companies generally have more limited production and distribution capabilities than do the major studios. While certain independent companies may produce as many films as a major studio in any year, independent motion pictures typically have lower negative costs and are not as widely released as motion pictures produced and distributed by the major studios. Additionally, the independent companies may have limited or no internal distribution capability and may rely on the major studios for distribution and financing. The one exception to this has been Lions Gates Films, a major independent that continued to experience significant growth during 2005.

According to the Motion Picture Association of America, the motion picture industry continues to experience significant growth worldwide over the past decade, although certain aspects of the industry have flattened out in recent years.

Since 1991, box office has been steadily increasing and has grown by almost $6 billion over the past 20 years. After a record breaking year in 2002 which saw the box office numbers increase 13.2% over 2001 to $9.52 billion, the U.S. Box Office continued its momentum, grossing a record breaking $9.54 billion in 2004, a 5% increase over a solid $9.49 billion in 2003. In 2005, U.S. Box Office fell slightly to $8.99 billion, its lowest total since $8.41 billion in 2001 Global box office remained steady at over $23 billion, just shy of the all time high in 2004 of $25 billion and 46% higher than the 2000 mark of $16 billion.

The number of movies released remains on a growth trajectory, with total releases topping another all time high of 563 versus 528 in 2004, a growth rate of 7%. A major component of the annual box office was the performance of blockbusters, which remained comparable to prior years in total box office. A new all time high was set in 2005, with eight movies grossing over $200 million, three more than in 2004, and five more than 2000, a great milestone for the industry. 12 movies grossed between 100 and 199 million dollars each, while 36 films grossed between 50 and 99 million dollars each. In total, 56 films grossed in excess of $50 million dollars during 2005, compared to 64 films which grossed more than $50 million dollars in 2004.

However, U.S. theater admissions continued to decrease, with 1.4 billion tickets sold in 2005, down from 1.54 billion sold in 2004, which represents a 8.7% decline. Nonetheless, movies drew more people than theme parks and sporting events combined, with theme parks selling 334 million tickets and sporting events selling 134.5 million tickets.

U.S. Box Office continued its success with a strong slate of movies released in the summer of 2005, with summer box office receipts reaching $4.49 billion, up 21% compared to summer 2003. Close to half of 2005's box office gross can be attributed to summer releases.

Between 1953 and 2004, a span of 51 years, the U.S. Box Office has gone from $1.34 billion in gross receipts in 1953 to the all time high of $9.54 billion in 2004.

In 2004, 611 films were produced for theatrical release with only 483 films released during the year. In 2003, only 593 films were produced and only 473 films were released theatrically. The average new release earned $20 million at the U.S. Box Office in 2004, as compared to $20.7 million in 2003. Of the 483 films released in 2004, 475 were new releases, while 8 were reissued films. In 2003, of the 473 films released, 459 were new releases with 14 films being reissued.

Worldwide Box Office decreased 7.9% from last year, racking up $23.24 billion in gross receipts. The decrease follows an increase in 2004 which was attributed to box office growth in the international market, which was up 47% after reaching the $10 billion mark for the first time in 2003. International box office continued to benefit from a weak US dollar and strong box office showings from both local and US product.

All of the international regions saw double-digit growth in 2004. Europe, the Middle East and Africa saw an increase of 53%. Asia-Pacific saw an increase of 44%. Latin America's theatrical market increased 14%. Europe, the Middle East and Africa comprised more than half of the $15.7 billion international box office, accounting for 54% of the total with $8.53 billion in receipts. Asia-Pacific box office finished strong with $5.4 billion in 2004. These trends were expected to level off in 2005.

U.S. admissions decreased 8.7% to 1.4 billion in 2005 when compared to 1.54 billion in 2004, both years in the wake of 2002's record 1.64 billion admissions; however 2004 remains the third highest admissions figure of all time, and almost 49 million tickets ahead of 2001.

Worldwide admissions in 2004 increased 11% over 2003 to a record 9.6 billion, breaking the previous record of 9.1 billion admissions in 2002. The growth comes from the international market, which experienced a strong year at the box office with admissions increasing 13% over 2003. Worldwide admissions in 2005 are expected to level off when compared to 2004.

The number of theatrical screens in the U.S. increased 2.2% to 36,594 in 2004. This follows a 3.7% increase in screens between 2003 and 2002. Of the 36,594 screens in the U.S., 35,993 were indoor screens, while 601 were drive-in screens.

Digital screens continued their rapid growth in 2004 with the number of worldwide digital screens climbing 80% to 328 screens. To put this number of digital screens in a better perspective, in 1999 there were 12 digital screens worldwide.

- Between 1987 and 2004, gross domestic box office revenues more than doubled, to a record $9.54 billion in 2004 from $4.3 billion in 1987.

- The increase in gross domestic box office revenue from 2001 to 2002, an increase of 13.2%, was the largest such growth experienced in the industry in over 20 years. 2003 domestic gross held strong, dipping 3% from the record 2002 domestic gross of $9.52 billion, only to be outperformed in 2004 with the record $9.54 billion, a 5% increase over 2003.

- In the past decade, admissions have increased nearly 20%, up 244 million. In 2002, motion picture theatrical attendance in the United States grew at the fastest rate since 1957, increase from 1.487 billion admissions in 2001 to 1.639 billion admissions in 2002, a 10.2% increase. Admissions, like gross domestic box office, held strong in 2003, with 1.57 billion admissions, dipping slightly in 2004 with 1.54 billion admissions.

- Admissions have shown a steady growth over the past decade, with an average increase of 2% per year, despite the many choices in entertainment options.

- In 2004, the number of moviegoers reached its highest point in five years.

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For the past eight years, each U.S. resident attended an average of at least 5 movies per year. In 2004, the average was 5.2, up from 4.4 in 1985. In 2003, the average was 5.4. Admissions per capita reached an all time high of 5.7 in 2002.

· The average annual admission price for 2005 was $6.41, up 3.2% over the previous year.

· The average box office revenue for a new film release was $15.4 million in 2005, compared to $20 million in 2004 and $20.7 million in 2003.

· Of the 549 films released theatrically in 2005, 194 were released by the major studios. 355 were released by all others.

· Between 1968 and 2005, 58% of the top grossing films released theatrically were rated “R”, 21% were rated “PG”, 12% were rated “PG-13”, 7% were rated “G” and 2% were rated “NC-17/X”.

· In 2005, 60% of the top grossing films were rated PG-13, 10% were rated R, 25% were rated PG and 5% were rated G. In 2003, 60% of the top grossing films were rated PG-13, 20% were rated R, 15% were rated PG and 5% were rated G.

· The average budget of a major studio film in 2005 was $60 million. In 1983, the average was $11.9 million. The average marketing budget was $36.2 million in 2005, a 5.2% increase when compared to 2004. In 1983, the average was $5.2 million.

· The total average cost to produce and launch a studio film in 2005 was $96.2 million compared to $96.8 million in 2004. This represents a 0.6% decrease. In 1983, the total average cost to produce and launch a studio film was $17.1 million.

· Between 1993 and 1999, the average budget of a studio film increased 97.7%, from $29.9 million in 1993 to $51.5 million in 1999.

· The average budget of a major studio subsidiary/classic or specialty/independent type film (i.e. Fox Searchlight, New Line, Fine Line, Miramax, Sony Pictures Classics, Lions Gate etc.) in 2005 was $23.5 million, contributing to a 6.4% decrease in combined negative and marketing costs when compared to 2004. The average cost in 2003 was $46.9 million, a 154.9% increase over the 1999 average of $18.4 million and a 37.7% increase over 2002's average of $34 million. The average marketing budget was $15.2 million in 2005.The average marketing budget was $11.4 million in 2004. The average marketing budget was $14.7 million in 2003. In 1999, the average was $6.5 million.

· The total average cost to produce and launch a major studio subsidiary or specialty/independent type film in 2005 was $37.8 million, the lowest since 2000's average of $31.6 million. In 1999, the total average cost to produce and launch a major studio subsidiary or specialty/independent type film was $24.9 million.

· Between 1980 and 2004, there was a 108% increase in the total number of screens. There was a 157% increase in the number of indoor screens and an 83% decrease in the number of drive-in screens.

· Between 2000 and 2004, the total number of theaters in the U.S. decreased by 2.1%. Between 1994 and 2004 the total number of theaters in the U.S. increased by 38%.

· In 2004, there were 6,012 total theaters in the U.S. 5,620 were indoor theaters, 392 were drive-in theaters. In 1980, there were 17,590 total theaters, with 14,029 indoor and 3,561 drive-in theaters.

· In 2004, 39% of the screens were miniplexes (2 to 7 screens), 27% were single screen, 25% were multiplexes (8 to 15 screens) and 9% were megaplexes (16 or more screens).

· In 2004, preliminary estimates show a total of 367,900 employees in the U.S. motion picture industry and associated fields. Of that number, 198,300 are involved in production and services, with 141,000 in the theater and video/DVD rental sector and 28,600 employed in related fields.

· Between 1990 and 2004, the number of cable and satellite television channels increased 372% from 60 cable channels in 1990 to 324 cable and satellite channels in 2004.

· Total rental and sell-through of motion picture video DVDs to dealers in the United States increased from 729.9 million units in 2002 to 1,462.2 billion in 2004, an increase of 83.6%, reflecting the continued growth in DVD use by consumers. Since 2000, this sector has seen an increase of 677% in DVD sales to dealers.

· Total sales of motion picture video cassettes to dealers in the United States decreased from 293.6 million in 2003 to 148.7 million in 2004, a 49.4% decrease, also reflecting the continuing growth in DVD use by consumers. This follows a 39% decrease between 2003 and 2002.

· There are currently over 40,000 titles available on DVD. In 1999, there were 5,000.

· In 2004, 19,999,913 DVD players were purchased by retailers, a 9.1% decrease from 2003, when 21,994,389 were purchased.

· In 2004, 37,000,000 DVD players were sold to U.S. consumers, an increase of 9.8% over 2003, when 33,700,000 were sold.

· The average price of a DVD title in 2004 was $20.52. In 1999 the average was $25.53.

· Factory sales of digital TV sets and displays continue to rise, with 3.9 million units sold in 2003, compared to 2.5 million units sold in 2002. The average unit has dropped in price from $2,433 in 1999 to $1,441 in 2003. Total sales in 2003 reached $6.149 billion.

· In the U.S., of the 111.3 million homes accounted for in 2004, 109.6 million, or 98.4%, have television. Of the 109.6 million homes that have television, 65.4 million, or 59.7%, have DVD players. That represents an increase of 40.1% over 2003, and 403% increase since 2000. In comparison, 68.4 million homes have internet access. 29 million homes have broadband services.

· 73.9 million homes, or 67.5% of the 109.6 million homes with television, have basic cable. That represents an increase of .1% over 2003. 35.1 million have pay cable services, a decrease of 12.2% from 2003. According to the FCC, as of January 2004, the average subscriber paid $14.45 per month for basic cable and $45.32 per month for expanded basic, or pay, cable. 36.8 million of these homes have set-top boxes that can be tracked to an exact location in the home.

· Preliminary reports show that at the end of 2004, 27.7 million homes subscribed to digital cable, a 14.5% increase over 2003. 22.2 million homes have satellite service, a 14.6% increase.

· Video on Demand ("VOD"), an advanced pay-per-view programming service which enables viewers to order and watch movies on demand and to pause, rewind or fast-forward them, according to 2004 preliminary numbers, is available in 16.9 million households, or approximately 15.4% of homes with televisions. VOD consumer spending is projected at $337.2 million for 2004, compared to $202.4 million in 2003. According to Adams Media Research, the average VOD price was $3.87.

Despite the attractiveness this growth suggests, the motion picture business remains a very risky industry. Studios and independent producer's must be able to finance a project, complete production, execute a successful distribution strategy, obtain favorable press and compete with an unknown quantity of competing releases. These are just some of the factors that impact the commercial success or failure of a film project.

The Industry Process

Motion Picture Production

The production of a motion picture begins with the screenplay adaptation of a popular novel or other literary work acquired by the producer of the motion picture or the development of an original screenplay based upon a story line or scenario conceived or acquired by the producer. In the development phase, the producer may seek production financing and tentative commitments from a director, the principal cast members and other creative personnel. A proposed production schedule and budget are prepared. At the end of this phase, the decision is made whether or not to "greenlight," or approve for production, the motion picture.

After greenlighting, pre-production of the motion picture begins. In this phase, the producer engages creative personnel to the extent not previously committed, finalizes the filming schedule and production budget, obtains insurance or self insures and secures completion guaranties, if necessary. Moreover, the producer establishes filming locations, secures any necessary studio facilities and stages and prepares for the start of actual filming.

Principal photography, or the actual physical principal production and filming of the screenplay, generally extends on the average from 4 to 16 weeks, with some schedules extending out as much as 52 weeks, depending upon such factors as budget, location, weather and complications inherent in the screenplay. Following completion of principal photography, the motion picture enters what is typically referred to as post-production. In this phase, the motion picture is edited, opticals, dialogue, music and any special effects are added, and voice, effects and music soundtracks and pictures are synchronized. This results in the production of the negative from which release prints of the motion picture are made. Major studios and independent film companies hire editors, composers and special effects technicians on the basis of their suitability for a particular picture.

The production and marketing of theatrical motion pictures at the studio level requires substantial capital. The costs of producing and marketing motion pictures have increased substantially in recent years. These costs may continue to increase in the future at rates greater than normal inflation, thereby increasing the costs to us of our motion pictures. Production costs and marketing costs are generally rising at a faster rate than increases in either domestic admissions to movie theaters or admission ticket prices, leaving all producers of motion pictures more dependent on other media, such as home entertainment, television, and foreign markets.

Motion Picture Distribution

The distribution of a motion picture involves the licensing of the picture for distribution or exploitation in various markets, both domestically and internationally, pursuant to a release pattern. These markets include theatrical exhibition, non-theatrical exhibition (which includes airlines, hotels and armed forces facilities), home entertainment (including rental and sell-through of video and DVD), presentation on television (including pay-per-view, pay, network, syndication and basic cable) and marketing of the other rights in the picture and underlying literary property, which may include publishing, merchandising and soundtracks. The domestic and international markets generally follow the same release pattern, with the starting date of the release in the international market varying from being concurrent with the domestic theatrical release to being as long as nine months afterwards. A motion picture typically is distributed by a major studio or one or more distributors that acquire rights from a studio or other producer in one or more markets or media or a combination of the foregoing.

Both major studios and independent film companies often acquire pictures for distribution through a customary industry arrangement known as a "negative pickup," under which the studio or independent film company agrees before commencement of or during production to acquire from a production company all domestic rights, and in some cases some or all of the foreign rights, to a film upon completion of production, and also acquire completed films, as well as all associated obligations.

Cost Structure

General

In the motion picture industry, the largest component of the cost of producing a motion picture generally is the negative cost, which includes the *"above-the-line"* and *"below-the-line"* costs of producing the film. Above-the-line costs are costs related to the acquisition of picture rights and the costs associated with the producer, the director, the writer and the principal cast. Below-the-line costs are the remaining costs involved in producing the picture, such as film studio rental, principal photography, sound and editing.

Distribution expenses consist primarily of the costs of advertising and preparing release prints. The costs of advertising associated with a major domestic theatrical motion picture release are significant and typically involve national and target market media campaigns, as well as public appearances of a film's stars. These advertising costs are separate from the advertising costs associated with other domestic distribution channels and the international market.

The major studios generally fund production costs from cash flow generated by motion picture and related distribution activities or bank and other financing methods. The independent production companies typically use a plethora of creative financing techniques to fund production. Over the past decade, expenses in the motion picture industry have increased rapidly as a result of increased production costs and distribution expenses. Additionally, each of the major studios must fund substantial overhead costs, consisting primarily of salaries and related costs of the production, distribution and administrative staffs, as well as facilities costs and other recurring overhead. Independent production companies, while usually not faced with major overhead costs, nevertheless have to function outside the studio system and as a result in many cases they do not have access to the studio structure, which can make the process of getting a specific film made more difficult and, in some isolated instances, more expensive.

Collective Bargaining Agreements

Feature films produced by the major studios and independent production companies in the United States generally employ actors, writers and directors who are members of the Screen Actors Guild, Writers Guild of America and Directors Guild of America, respectively, pursuant to industry-wide collective bargaining agreements. The collective bargaining agreement with the Writers Guild of America was set to expire on May 1, 2004 and the collective bargaining agreement with the Screen Actors Guild was set to expire on June 30, 2004. Negotiations for new agreements with the Screen Actors Guild and with the Writers Guild of America are expected to be fully completed in 2005. The Directors Guild of America collective bargaining agreement expires on June 30, 2005. Many productions also employ members of a number of other labor organizations including, without limitation, the International Alliance of Theatrical and Stage Employees and the International Brotherhood of Teamsters. The collective bargaining agreement with Teamsters Local 399, which represents significant numbers of persons within the motion picture industry, expires on July 31, 2004 and the collective bargaining agreement with the International Alliance of Theatrical and Stage Employees expires on July 31, 2006. A strike by one or more of the unions that provide personnel essential to the production of motion pictures could delay or halt our ongoing production activities. Such a halt or delay, depending on the length of time involved, could cause delay or interruption in our release of new motion pictures and thereby could adversely affect our potential future cash flow and revenues.

Industry Compensation Arrangements

Most of the creative and production personnel that work on a movie are short-term employees or *"for hire"* contractors who are compensated for their services at a predetermined rate. It is also customary in the motion picture industry to pay contingent compensation over and above these fees to certain key employees and contractors.

Three customary contingent compensation arrangements in the industry include:

1. Fixed Deferrals

Key creative personnel, including the director, producer, writer and actors, often negotiate fixed deferral payments of flat fees tied to a film's financial returns. This is a major component of our business model.

2. Residual Payments

The principal collective bargaining organizations for personnel within the movie industry are: the Directors Guild of America, or DGA; the Writer's Guild of America, or WGA; the Screen Actors Guild, or SAG; the American Federation of Musicians, or AFM; and the International Alliance of Theatrical Stage Employees, or IATSE. When a movie producer involves members of these organizations in a film, they are required to comply with certain residual payment obligations. These obligations are set forth in agreements between these organizations and the AMPTP (which represents the major studios) and provide that a percentage of a film's gross revenues in certain markets must be paid to these organizations for the benefit of their members. As an example, SAG currently requires payment of between 4.5% and 5.4% of the gross revenue attributable to videocassette exploitation and 3.6% of television exploitation, with no residuals due for theatrical exploitation. We may be required to accrue and pay standard residual payments based on the collective bargaining agreements associated with one of our creative teams. These residual payments are based upon gross revenues in certain markets and may therefore, depending upon our distribution arrangements, reduce our revenues in various markets and release windows.

3. Profit Participations

The last form of contingent compensation is a *"profit participation"* , which entitles the recipient to additional compensation based on the financial performance of a particular motion picture. Granting profit participation to certain key creative personnel is common for both larger studio films as well as smaller independent films. For independent movies, this form of contingent compensation is critical to attract quality creative personnel who work for less upfront compensation than they otherwise might receive on a larger, more costly movie. By paying this contingent compensation, producers are able to attract these high quality creative personnel while simultaneously reducing the upfront costs.

Profit Participations Are Typically "Gross" or "Net"

Gross profit participation, granted in extremely rare cases where the importance of the actor or director is critical, is calculated based on gross revenues before any costs (such as, distribution fees, financing costs and other corporate costs) are deducted.

Net profit participation is far more common, and is the arrangement we plan to use in order to pay a portion of the contingent compensation. Net profit participation is calculated based on net revenues after deducting certain costs of a film, including distribution fees, financing costs and general corporate expenses.

Thus, a gross profit participation receives a percentage of the first dollar received by a film before any costs are deducted, while a net profit participation receives a percentage of revenue remaining after certain costs are deducted. It is the industry standard that the producers retain any remaining percentages in the net participation pool.

Our planned contingent compensation arrangements require performance of duties under applicable contracts and can be forfeited in the event of non-performance or other circumstances. In the instance of forfeiture, this compensation could be granted to other persons who make up the production or management team.

Distribution Methods of the Products or Services

Marketing and Distribution

The key components of motion picture distribution include licensing the film for exploitation in the United States and internationally, marketing the film to and working with exhibitors, promoting the film to and working with members of the entertainment press and marketing the film to the general public. The distribution process involves additional complexities and uncertainties beyond those incurred in producing the motion picture, along with the related capital requirements. As a result, most independent productions rely on agreements with the distribution arms of major studios, sales agents engaged to market the film to a distributor, independent distributors, or a similar partnership arrangement that essentially engages the distribution expertise of a third party to get their production to market.

One of the major roles of a distributor, in addition to their relationships with theatrical and non-theatrical outlets, is the ability of these parties to measure the expected demand for a given motion picture. This is a critical function, because ideally such assessment should help determine an effective advertising and print budget for the project. A motion picture release print is the media that in most cases is used by exhibitors and theaters to present the motion picture to their patrons. The projected demand for a film project can directly influence the number of prints made, which is important because each print is rather costly. Similarly, the number and types of geographic locations, or markets, the film could be released in normally influences the mix and cost of advertising expenditures. According to the MPAA, the average print and advertising costs per release per member, as reported by the MPAA, totaled $36.2 million. Combining this total with the $60 million reported average MPAA member costs to produce film, or motion picture negative, results in an average production and distribution cost of $96.2 million. When one considers that the average box office revenue per release for these members was only $37.3 million, and for all new releases the average was $15.4 million, the financial risks of distributing and producing a motion picture should become clearer. Very few independent productions have direct access to such capital, making their reliance on distributors and distribution partners essential.

In general, an independent production attempts to enter into an agreement with a sales agent, or distributor, by which the distributor plans to market the film to outlets and consumers. The amount of the distributor's fee, and therefore the amount of remaining profits, if any, is largely dependent on the films anticipated gross receipts, and how contract terms define the gross receipts. As a result, such fees can vary greatly depending on the nature of the distribution contract as well as the scale and timing of gross receipts. Under some arrangements fees can be as low as 12.5%, in others 35%, or even higher.

In most cases, the distributor offers to pay for prints and advertising, sparing the independent production these up front, fixed costs and the associated risk. However, as the film generates gross receipts, the distributor has the ability to offset the percentage of such receipts otherwise payable to the independent production by the amount expended for prints and advertisements until the distributor has recouped such amount. Such arrangements are sometimes referred to as a net agreement, or net deal. In other cases, an independent production may negotiate to receive its share of the proceeds as gross receipts materialize. Under this type of arrangement, the distributor might still pay for prints and advertising, but might take a higher share of the gross receipts than otherwise payable under a net agreement.

Foreign Distribution

Foreign distribution is generally taken care of by a distributor which coordinates worldwide sales in all territories and media. Overseas film sales companies rely on local subdistributors to physically deliver the motion picture and related marketing materials and to collect revenues from local exhibitors and other local distributors of the film. Typically, the territorial rights for a specific medium such as television exhibition are sold for a *"cycle"* of approximately seven years to fifteen years, and in some cases even longer, after which the rights become available for additional cycles.

Foreign distribution is normally handled in one of the following ways:

1. Sales Agency Representation. A Sales Agent undertakes to represent and license a motion picture in all markets and media on a best-efforts basis, with no guarantees or advances, for a fee ranging from 12.5% to 25%, and typically for a term ranging from seven to fifteen years.

2. Distribution. A distributor may provide the producer of the film a guarantee of a portion of the budget of the project. This guarantee may be in the form of a bank commitment to the producer, secured by license agreements with foreign licensees, which is used by the producer to finance the production.

Typically, a distributor would receive a distribution fee ranging from 12.5% to 35% over a term ranging from 15 years to perpetuity. In addition, the distributor may negotiate, or otherwise acquire, a profit participation in the film project.

Once the rights to a picture are obtained (either as sales agent or distributor with minimum guarantee), the distributor then seeks to license its rights to subdistributors in the territories for which it has acquired distribution rights. In general, the grant of rights to the subdistributors includes all media in their respective territories other than satellite, although satellite is included in some subdistributors' territories.

The subdistributor in each territory generally pays for its distribution rights with a down payment at the time the contract is executed with the balance due upon delivery of the picture to the subdistributor. In some cases, payments may be extended over a longer period of time, especially when the production does not live up to the expectations of the subdistributor. Delivery normally occurs upon the distributor's acceptance of the master negative and its obtaining access to certain items necessary for the distribution of the film. In some instances, the subdistributors' obligations for the payment due on delivery can be secured by a letter of credit.

Most films are sold either directly to a buyer that has a pre-existing relationship with the distributor, or at one of the several film markets that take place throughout the world. Although there are a number of film markets each quarter, historically, major sales take place primarily at the MIF in Cannes, France each May and at the American Film Market in Los Angeles, each November.

In general, after cash advances to a subdistributor, if any, are recouped, the distributor applies the distribution receipts from its subdistributors first to the payment of commissions due to the distributor, then second to the recovery of certain distribution expenses, then to the reimbursement of the distributor for its minimum guarantee or advance, if any, and then finally any remaining distribution receipts are shared by the distributor and the producer according to the percentages negotiated in the agreement between the distributor and the producer.

Status of any Publicly Announced New Product or Service

On April 12, 2004, we announced plans for our new business model, including the procedure through which we changed our name and officially became Camelot Entertainment Group, Inc.

Competitive Business Conditions and the Small Business Issuer's Competitive Position in the Industry and Methods of Competition

Competitive Strengths

To achieve our goals of being a leading independent producer and distributor of feature films, we plan to exploit our competitive advantages, which we believe includes our experience in developing, preparing, producing, finishing, marketing and distributing low budget, independent films utilizing a unique and efficient business model that attempts to minimize costs while maximizing quality and ultimately attracting the broadest possible consumer base for our productions. We believe that once our initial slate of pictures begins to reach market, our reputation and ability to produce and distribute quality films at the lowest possible price while at the same time maximizing economic potential for all those working with us should make us an attractive place for independent filmmakers, whether new or experienced, whether young or old.

Our disciplined approach to the development, preparation, production, post-production, marketing and distribution of feature film content should hopefully enable us to establish and maintain a distinct competitive advantage. By seeking to minimize the financial risks often associated with film production, marketing and distribution by negotiating co-production agreements, pre-selling international distribution rights, capitalizing on government subsidies and tax credits, structuring efficient production schedules and crafting agreements with key talent attracted to the films we develop and produce, we plan to provide a unique environment where independent film can flourish, albeit in a fiscally responsible manner. In each production, we plan to attempt to minimize our financial exposure by structuring deals with talent that provide for their participation in the financial success of the motion picture in exchange for reduced up-front payments. Although the steps that we take to manage these risks may, in some cases, limit the potential revenues of a particular project, we believe that our approach to the motion picture business creates operating and financial stability for us.

Competition

We face competition from companies within the entertainment business and from alternative forms of leisure entertainment, such as travel, sporting events, outdoor recreation and other cultural activities. We compete with the major studios, numerous independent motion picture and television production companies, television networks and pay television systems for the acquisition of literary and film properties, the services of performing artists, directors, producers and other creative and technical personnel and production financing. In addition, our motion pictures compete for audience acceptance and exhibition outlets with motion pictures produced and distributed by other companies. As mentioned above, we compete with major domestic film studios which are conglomerate corporations with assets and resources substantially greater than ours, including several specialty or classic divisions.

We compete with major film studios and their classic divisions including:

· The Walt Disney Company, including Miramax;

· Paramount Pictures Corporation, including Dreamworks;

· Universal Pictures, including Universal Focus;

· Sony Pictures Entertainment, including MGM and Sony Pictures Classics;

· Twentieth Century Fox, including Fox Searchlight; and

· Warner Brothers Inc., including New Line Cinema.

Predicting the success of a motion picture is difficult and highly subjective, as it is not possible to accurately predict audience acceptance of a particular motion picture. Our strategy is to assemble a creative team, screenplay and cast that we believe has the potential for commercial success. In order to evaluate our potential to obtain distribution and appeal to an audience, we will attempt to use the following criteria: an exceptional story, compelling character roles, recognizable actors and actresses, an established and respected director, experienced producer, and a relatively low production budget.

The success of any of our motion pictures is dependent not only on the quality and acceptance of a particular picture, but also on the quality and acceptance of other competing motion pictures released into the marketplace at or near the same time. The number of films released by our competitors, particularly the other major film studios, in any given period may create an oversupply of product in the market, thereby potentially reducing our share of gross box office admissions and making it more difficult for our films to succeed.

With respect to our domestic theatrical releasing operations, a substantial majority of the motion picture screens in the United States typically are committed at any one time to films distributed nationally by the major film studios, which generally buy large amounts of advertising on television and radio and in newspapers and can command greater access to available screens. Although some movie theaters specialize in the exhibition of independent, specialized motion pictures and art-house films, there is intense competition for screen availability for these films as well. Given the substantial number of motion pictures released theatrically in the United States each year, competition for exhibition outlets and audiences is intense.

Competition is also intense in supplying motion pictures and other programming for the pay television, syndicated television and home video markets. Numerous organizations with which we expect to compete with that also distribute to the pay television, syndicated television and home video markets have significantly greater financial and other resources than us.

In addition, there also have been rapid technological changes over the past fifteen years. Although technological developments have resulted in the creation of additional revenue sources from the licensing of rights with respect to new media, these developments also have resulted in increased popularity and availability of alternative and competing forms of leisure time entertainment including pay/cable television programming and home entertainment equipment such as DVD’s, videocassettes, interactive games and computer/Internet use.

The entertainment industry in general, and the motion picture industry in particular, are continuing to undergo significant changes, primarily due to these technological developments. For example, as motion pictures begin to be distributed using emerging technologies such as digital delivery, the Internet and online services, the ability to protect intellectual property rights in motion pictures could be threatened by advances in technology that enable digital piracy. This is because digital formats currently do not contain mechanisms for tracking the source or ownership of digital content. As a result, users may be able to download and distribute unauthorized or “pirated” copies of copyrighted motion pictures over the Internet. In addition, there could be increased proliferation of devices capable of making unauthorized copies of motion pictures. As long as pirated content is available to download digitally, many consumers may choose to digitally download such pirated motion pictures rather than paying for legitimate motion pictures. Digital piracy of our films may adversely impact the gross receipts received from the exploitation of such films. Due to this rapid growth of technology and with it, piracy, as well as shifting consumer tastes and the popularity and availability of other forms of entertainment, it is impossible to predict the overall effect these factors could have on the potential revenue and profitability of feature-length motion pictures.

Majors and the Independents

The major studios, which historically have produced and distributed the vast majority of high-grossing theatrical motion pictures released annually in the United States, are typically large, diversified corporations that have strong relationships with creative talent, television broadcasters and channels, Internet service providers, movie theater owners and others involved in the entertainment industry. The major studios also typically have extensive national or worldwide distribution organizations and own extensive motion picture libraries. Motion picture libraries, consisting of motion picture copyrights and distribution rights owned or controlled by a film company, can be valuable assets capable of generating revenues from worldwide commercial exploitation in existing media and markets, and potentially in future media and markets resulting from new technologies and applications.

The major studios also may own or be affiliated with companies that own other entertainment related assets such as music and merchandising operations and theme parks. The major studios' motion picture libraries and other entertainment assets may provide a stable source of earnings which can offset the variations in the financial performance of their new motion picture releases and other aspects of their motion picture operations.

During the past 15 years, independent production and distribution companies, many with financial and other ties to the major studios, have played an important role in the production and distribution of motion pictures for the worldwide feature film market.

These companies include:

- Miramax Films Corporation, now owned by The Walt Disney Company, which produced *Chicago* , *The Hours, Gangs of New York, Scary Movie* , the *Scream* film series, *Shakespeare in Love* and *Chocolat* ;

- New Line Cinema Corporation/Fine Line Features, now owned by AOL/Time Warner, which produced the *Lord of the Rings* series, the *Austin Powers* films, *The Mask, Teenage Mutant Ninja Turtles* and the *Nightmare on Elm Street* series;

- U.S.A Films (formerly October Films and now owned by Vivendi/Universal), which produced *Traffic, Secrets & Lies* and *Breaking the Waves* together with Gramercy Pictures, which produced *Dead Man Walking* and *Fargo* , is part of U.S.A Films and U.S.A Network;

As a result of consolidation in the domestic motion picture industry, a number of previously independent producers and distributors have been acquired or are otherwise affiliated with major studios. However, there are also a large number of other production and distribution companies that produce and distribute motion pictures that have not been acquired or become affiliated with the major studios.

These companies include:

- Lion's Gate Films, which produced and distributed *Narc, Frailty, Monster's Ball* and *American Psycho* ; and its newly acquired subsidiary, Artisan Entertainment Inc., which distributed *Boat Trip, National Lampoon's Van Wilder* and *The Blair Witch Project* .

- The Weinstein Company, recently formed by the Weinstein brothers, who formerly controlled and founded Mirimax.

In contrast to the major studios, independent production and distribution companies generally produce and distribute fewer motion pictures and do not own production studios, national or worldwide distribution organizations, associated businesses or extensive film libraries which can generate gross revenues sufficient to offset overhead, service debt or generate significant cash flow.

The motion picture industry is a world-wide industry. In addition to the production and distribution of motion pictures in the United States, motion picture distributors generate substantial revenues from the exploitation of motion pictures internationally. In recent years, there has been a substantial increase in the amount of filmed entertainment revenue generated by U.S. motion picture distributors from foreign sources.

International revenues of motion picture distributors from filmed entertainment grew from approximately $1.1 billion in 1990 to approximately $10.86 billion in 2003. This growth has been due to a number of factors, including the general worldwide acceptance of and demand for motion pictures produced in the United States, the privatization of many foreign television industries, growth in the number of foreign households with videocassette and DVD players and growth in the number of foreign theater screens.

Many countries and territories, such as Australia, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, Russia, Spain and the United Kingdom have substantial indigenous film industries. As in the United States, in a number of these countries the film industry, and in some cases, the entertainment industry, in general, is dominated by a small number of companies that maintain large and diversified production and distribution operations.

However, like in the United States, in most of these countries, there are also smaller, independent, motion picture production and distribution companies. Foreign distribution companies not only distribute motion pictures produced in their countries or regions but also films licensed or sub-licensed from United States production companies and distributors.

In addition, film companies in many foreign countries produce films not only for local distribution, but also for export to other countries, including the United States. While some foreign language films and foreign English-language films appeal to a wide U.S. audience, most foreign language films distributed in the United States are released on a limited basis because they draw a specialized audience.

The Smaller Independents

Independent production companies generally avoid incurring overhead costs as substantial as those incurred by the major studios by hiring creative and other production personnel and retaining the other elements required for pre-production, principal photography and post-production activities on a picture-by-picture basis.

As a result, these companies do not own sound stages and related production facilities, and, accordingly, do not have the fixed payroll, general administrative and other expenses resulting from ownership and operation of a studio.

Independent production companies also may finance their production activities on a picture-by-picture basis. Sources of funds for independent production companies include bank loans, pre-licensing of distribution rights, foreign government subsidies, equity offerings and joint ventures. Independent production companies generally attempt to obtain all or a substantial portion of their financing of a motion picture prior to commencement of principal photography, at which point substantial production costs begin to be incurred and require payment.

As part of obtaining financing for its films, an independent production company often is required by its lenders and distributors who advance production funds to obtain a completion bond or production completion insurance from an acceptable completion guarantor which names the lenders and applicable distributors as beneficiaries. The guarantor assures the completion of the particular motion picture on a certain date.

If the motion picture cannot be completed for the agreed upon budgeted cost, the completion guarantor is obligated to pay the additional costs necessary to complete the picture by the agreed upon delivery date. If the completion guarantor fails to timely complete and deliver the motion picture on or before the agreed upon delivery date, the completion guarantor is required to pay the lenders and distributor, if applicable, an amount equal to the aggregate amount the lenders and distributor have loaned or advanced to the independent producer.

In connection with the production and distribution of a motion picture, major studios and independent production companies generally grant contractual rights to actors, directors, screenwriters, owners of rights and other creative and financial contributors to share in net revenues from a particular motion picture. Except for the most sought-after talent, these third-party participations are generally payable after all distribution fees, marketing expenses, direct production costs and financing costs are recovered in full.

The Guilds

Major studios and independent film companies in the United States typically incur obligations to pay residuals to various guilds and unions including the Screen Actors Guild, the Directors Guild of America and the Writers Guild of America. Residuals are payments required to be made on a picture-by-picture basis by the motion picture producer to the various guilds and unions arising from the exploitation of a motion picture in markets other than the primary intended market. Residuals are calculated as a percentage of the gross revenues derived from the exploitation of the picture in these ancillary markets.

The guilds and unions typically obtain a security interest in all of the producer's rights in the motion picture being exploited to ensure satisfaction of the residuals obligation. This security interest usually is subordinate to the security interest of the lenders financing the production cost of the motion picture and the completion bond company guaranteeing completion of the motion picture.

Under a producer's agreement with the guilds and unions, the producer may transfer the obligation to pay the residuals to a distributor if the distributor assumes the obligation to make the residual payment. If the distributor does not assume those obligations, the producer is obligated to pay those residuals.

Intellectual Property

We regard trademarks as valuable assets and believe that trademarks are an important factor in marketing our products. To that extent, we have filed a trademark application for Camelot Films, our feature film production division. We expect to receive a permanent trademark for Camelot Films during early 2005.

Copyright protection is a serious problem in the videocassette and DVD distribution industry because of the ease with which cassettes and DVDs may be duplicated. In the past, certain countries permitted video pirating to such an extent that many companies did not consider these markets viable for distribution. Our management believes that with new technology, including anti-piracy technology we expect to license in the near future, the problem should be less critical in the future. In the event it is necessary, we could initiate legal action to enforce copyright protection.

The Completion Bond

In order to minimize the risk of budget overruns and to add an additional level of protection for us, a completion bond, also known as a completion guaranty, is expected to be required for each production. A completion bond is a form of insurance which provides that, should the producers of a film run into significant problems completing the film, the bond company would:

- advance any sums in excess of the budget required to complete and deliver the film;
- complete and deliver the film itself; or
- shut-down the production and repay the financier all monies spent thus far to produce the film.

In addition to ensuring that the film is completed within budget, the bond company should also be responsible for ensuring that the film is delivered within a pre-determined schedule, follows the script and is technically suitable for exhibition in theaters. The bond company usually places certain restrictions and limitations on us to ensure that the production is following a pre-determined schedule. For example, the completion bond agreement normally contains a cash flow schedule that sets forth the timing and amounts of cash advances required to finance production of the film. We expect to be required to deposit funds in a specific production account in accordance with this cash flow schedule.

Fees for the completion bond are normally paid out of a particular's film budget. These fees, or premiums, can range anywhere from 2.5% to 6% of a specific budget. When higher rates are charged, it usually reflects the level of risk involved with a film as determined by the bond company. In most cases, if a high fee is charged initially, the agreement with the bond company will normally contain a rebate provision that kicks in if the bond is not called. We plan to negotiate with a completion bond company to insure our entire slate of films, which will hopefully minimize the costs while standardizing the production requirements as deemed applicable by the bond company.

The completion bond company could have the right to take over a production if they determine that the film is significantly behind schedule or over budget, or that the production is otherwise not proceeding in a satisfactory manner. This could include the right to replace any member of the production team. The involvement of the completion bond company comes to an end when the film is delivered, or production monies are refunded, in accordance with the terms and conditions of the specific completion bond.

In order to receive a completion bond from a reputable company, we normally have to submit a budget, script, shooting schedule and other production elements for their analysis and approval. Typically, a completion bond cannot be issued until all material aspects of the production have been determined, such as final locations, cast and crew. These aspects are normally determined throughout the pre-production phase.

A completion bond is usually subject to a number of important limitations and normally does not reimburse us for losses that result from certain occurrences, including, but not limited to, distribution expenses; residual payments due to creative guilds, such as the Screen Actors Guild; gross or net profit participations granted as contingent compensation to actors or production personnel; elements of the film that are not included in the approved screenplay, budget or production schedule; insolvency; illegal or fraudulent acts; violation of any collective bargaining agreements; failure to obtain any necessary rights to use copyrighted works, such as music; failure to obtain required insurance coverage; failure to fulfill any conditions required by cast members that causes them to abandon their commitment to the film; currency fluctuations in the event the film is produced in another country, such as Canada; natural disasters; acts of war; or other force majeure events.

Sources and Availability of Raw Materials and the Names of Principal Suppliers

Once we begin production, we plan to utilize a number of raw materials contained in such items such as props, make-up, wardrobe, electrical supplies and equipment, construction supplies and equipment, as well as materials from almost every industry. These raw materials are readily available from a wide range of sources and suppliers throughout the world. We plan to identify principal suppliers once we begin the production process.

Dependence on One or a Few Major Customers

We do not depend on any one customer at this stage of our development. As we plan to market and distribute our films directly to the public, we should not be dependent on one or a few major customers, rather we should be entirely dependent on the willingness of the public to purchase our entertainment product.

Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts

The Company plans to copyright and own all motion pictures that it makes. This should result in the Company building a library of its own product over time.

Need for any Government Approval of Principal Products or Services

Distribution rights to motion pictures are granted legal protection under the copyright laws of the United States and most foreign countries. These laws provide substantial civil and criminal sanctions for unauthorized duplication and exhibition of motion pictures. Motion pictures, musical works, sound recordings, art work, still photography and motion picture properties are separate works subject to copyright under most copyright laws, including the United States Copyright Act of 1976, as amended. We are aware of reports of extensive unauthorized misappropriation of videocassette rights to motion pictures which may include motion pictures distributed by us. Motion picture piracy is an industry-wide problem. The Motion Picture Association of America, an industry trade association, operates a piracy hotline and investigates all reports of such piracy. Depending upon the results of investigations, appropriate legal action may be brought by the owner of the rights. Depending upon the extent of the piracy, the Federal Bureau of Investigation may assist in these investigations and related criminal prosecutions.

Motion picture piracy is also an international problem. Motion picture piracy is extensive in many parts of the world, including South America, Asia including Korea, China and Taiwan, the countries of the former Soviet Union and other former Eastern bloc countries. In addition to the Motion Picture Association, the Motion Picture Export Association, the American Film Marketing Association and the American Film Export Association monitor the progress and efforts made by various countries to limit or prevent piracy. In the past, these various trade associations have enacted voluntary embargoes of motion picture exports to certain countries in order to pressure the governments of those countries to become more aggressive in preventing motion picture piracy. In addition, the United States government has publicly considered trade sanctions against specific countries that do not prevent copyright infringement of United States produced motion pictures. We cannot assure you that voluntary industry embargoes or United States government trade sanctions will be enacted. If enacted, these actions could impact the amount of revenue that we realize from the international exploitation of motion pictures depending upon the countries subject to and the duration of such action. If not enacted or if other measures are not taken, the motion picture industry as a whole, and our business in particular, may continue to lose an indeterminate amount of revenues as a result of motion picture piracy.

The Code and Ratings Administration of the Motion Picture Association assigns ratings indicating age-group suitability for theatrical distribution of motion pictures. We plan to submit our motion pictures for these ratings. In certain circumstances, motion pictures that we plan to submit for rating might receive restrictive ratings, including, in some circumstances, the most restrictive rating which prohibits theatrical attendance by persons below the age of seventeen. Unrated motion pictures, or motion pictures receiving the most restrictive rating, may not be exhibited in certain movie theaters or in certain locales, thereby potentially reducing the total revenues generated by these films. United States television stations and networks, as well as foreign governments, impose additional restrictions on the content of motion pictures which may restrict in whole or in part theatrical or television exhibition in particular territories. In 1997, the major broadcast networks and the major television production companies implemented a system to rate television programs. This television rating system has not had a material adverse effect on the motion pictures distributed by us. However, the possibility exists that the sale of theatrical motion pictures for broadcast on domestic free television may become more difficult because of potential advertiser unwillingness to purchase advertising time on television programs that are rated for limited audiences. We cannot assure you that current and future restrictions on the content of motion pictures may not limit or adversely affect our ability to exploit certain motion pictures in particular territories and media.

United States television stations and networks as well as foreign governments impose content restrictions on motion pictures that may restrict in whole or in part exhibition on television or theaters in a particular territory. There can be no assurance that such restrictions will not limit or alter our ability to exhibit certain motion pictures in such media or markets or that the cost to edit a particular motion picture would be prohibitive, thereby eliminating a possible revenue source for the motion picture.

Effect of Existing or Probable Governmental Regulations on the Business

We expect to be subject to various federal, state and local laws, rules and regulations affecting our affiliates and operations. We and each of our potential partners may be subject to various licensing regulation and reporting requirements by numerous governmental authorities which may include Internet (domestic and worldwide) oversight regulations, production, manufacturing, OSHA, securities, banking, insurance, building, land use, industrial, environmental protection, health and safety and fire agencies in the state or municipality in which each business is located. Difficulties in obtaining or failures to obtain the necessary approvals, licenses or registrations, and unforeseen changes in government regulations directly affecting the Internet could delay or prevent the development or operation of a given business.

In 1994, the U.S. was unable to reach agreement with its major international trading partners to include audiovisual works, such as television programs and motion pictures, under the terms of the World Trade Organization. The failure to include audiovisual works under GATT allows many countries (including members of the European Union, which currently consists of Austria, Belgium, Denmark, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden and the United Kingdom) to continue enforcing quotas that restrict the amount of U.S. produced product which may be aired on television in such countries. The European Union Council of Ministers has adopted a directive requiring all member states of the European Union to enact laws specifying that broadcasters must reserve, where practicable, a majority of their transmission time (exclusive of news, sports, game shows and advertising) for European works. The directive must be implemented by appropriate legislation in each member country. Under the directive, member states remain free to require broadcasters under their jurisdiction to comply with stricter rules. Several countries (including France, Italy and Korea) also have quotas on the theatrical exhibition of motion pictures.

In addition, France requires that original French programming constitute a required portion of all programming aired on French television. These quotas generally apply only to television programming and not to theatrical exhibition of motion pictures, but quotas on the theatrical exhibition of motion pictures could also be enacted in the future. We cannot assure you that additional or more restrictive theatrical or television quotas will not be enacted or that countries with existing quotas will not more strictly enforce such quotas. Additional or more restrictive quotas or more stringent enforcement of existing quotas could materially and adversely affect our business by limiting our ability to fully exploit our rights in motion pictures internationally and, consequently, to assist or participate in the financing of these motion pictures.

Privacy Issues

Both Congress and the Federal Trade Commission are considering regulating the extent to which companies should be able to use and disclose information they obtain online from consumers. If any regulations are enacted, Internet companies may find some marketing activities restricted. Also, the European Union has directed its member nations to enact much more stringent privacy protection laws than are generally found in the United States and has threatened to prohibit the export of some personal data to United States companies if similar measures are not adopted. Such a prohibition could limit the growth of foreign markets for United States Internet companies. The Department of Commerce is negotiating with the Federal Trade Commission to provide exemptions from the European Union regulations, but the outcome of these negotiations is uncertain.

Effects of Government Regulations on Business Government Regulation and Legal Uncertainties

In the United States and most countries in which we plan to conduct our major operations, we are not currently subject to direct regulation other than pursuant to laws applicable to businesses generally. Adverse changes in the legal or regulatory environment relating to the interactive online services, venture formation and Internet industry in the United States, Europe, Japan or elsewhere could have a material adverse effect on our business, financial condition and operating results. A number of legislative and regulatory proposals from various international bodies and foreign and domestic governments in the areas of telecommunication regulation, access charges, encryption standards, content regulation, consumer protection, intellectual property, privacy, electronic commerce, and taxation, among others, are now under consideration. We are unable at this time to predict which, if any, of such proposals may be adopted and, if adopted, whether such proposals would have an adverse effect on our business, financial condition and operating results. As Internet commerce continues to grow, the risk that federal, state or foreign agencies could adopt regulations covering issues such as user privacy, pricing, content and quality of products and services, increases. It is possible that legislation could expose companies involved in electronic commerce to liability, which could limit the growth of electronic commerce generally. Legislation could dampen the growth in Internet usage and decrease its acceptance as a communications and commercial medium. If enacted, these laws, rules or regulations could limit the market for our services.

Research and Development Activities

Our research and development activities include preparing to implement our business model, acquisition of scripts, development of scripts, and all other aspects of the development process relating to the development, pre-production, production, post-production, marketing and distribution of feature films. We estimate that approximately forty per cent of management’s time has been spent conducting research and development activities during the past two years. In addition, we have been expanding our research and development activities to include initial preparations for our studio project.

Costs and Effects of Compliance with Environmental Laws

As a provider of incubation, research, vertical marketing and market index services for development stage businesses through December 31, 2004, we did not incur any compliance issues with environmental laws. As a producer and distributor of feature films, it is possible that during the physical production stage we may have to comply with certain environmental laws, depending in part on where the productions are filmed and what type of equipment, vehicles and props are utilized. The specific costs associated to compliance with environmental laws are unknown at this time. However, in the event we would be required to absorb additional costs on any given film that was not anticipated, these costs could have a material adverse effect on the budget of a film and the additional costs that might be incurred in order to comply with environmental laws and regulations could force us to alter or otherwise change the production schedule. This could cause a film to go over budget, cause delays and disrupt the entire production process, resulting in cost overruns that might be difficult to recoup once the film is distributed.

Intellectual Property

We regard intellectual property as valuable assets and believe that trademarks are an important factor in marketing our products. We have been in the process of trademarking the name “Camelot Films” as a service mark (Serial No. 78558249; Registration No. 19800501). We also plan to copyright and own all motion pictures that we make, which should result in the Company building a library of its own products over time.

Employees

As of December 31, 2006, we have approximately 8 employees. Two of our staff members, both of whom are officers of our company, spend 50% to 80% of their time on matters relating to our company. The other 6 staff members spend anywhere from 10% to 50% of their time on matters relating to our business. The Atwell Group, Inc. is the full time employer of these additional staff members.

Risk Factors

Going Concern

As reflected in Note 1 to the Financial Statements which accompany this annual report, our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business. In the near term, we expect operating costs to continue to exceed funds generated from operations. As a result, we expect to continue to incur operating losses and we may not have sufficient funds to grow our business in the future. We can give no assurance that we will achieve profitability or be capable of sustaining profitable operations. As a result, operations in the near future are expected to continue to use working capital.

To successfully grow the individual segments of the business, we must decrease our cash burn rate, improve our cash position and the revenue base of each segment, and succeed in our ability to raise additional capital through a combination of primarily public or private equity offering or strategic alliances. We also depend on certain contractors and our executives, and the loss of any of those contractors or executives, may harm our business.

We have no operating history as a motion picture company in which to evaluate our business.

We were incorporated in Delaware on October 12, 1999 as Dstage.com, a business development organization. On April 12, 2004, we announced our intention to change our name to Camelot Entertainment Group, Inc. and our business model to motion picture production, distribution and marketing. We have been unable to fully implement this new business model because of financing constraints. To date, we have no revenue and operating history as a motion picture company upon which an evaluation of our future success or failure can be made. Current company assets may not be suitable for development to the projected forecast for 2007-2008. No assurances of any nature can be made to investors that the company will be profitable. There can be no assurances that our management will be successful in managing the Company as a motion picture production, distribution and marketing company.

We have incurred significant and continuing losses and may not be able to generate revenues to sustain our operations.

We have experienced significant operating losses since our inception on October 12, 1999. We have incurred net losses of approximately $2,348,351 and 4,500,141 respectively in 2006 and 2005, and have an accumulated deficit of $14,173,211 at December 31, 2006, all of which related to our previous activities as a business development organization, Dstage.com, and none of which relate to our current activities as a motion picture production, marketing and distribution entity.

We will continue to have a high level of operating expenses and will be required to make significant up-front expenditures in connection with the commencement of income-generating activities (including, but not limited to, salaries of executive, marketing and other personnel). We expect to incur additional losses until such time as we are able to fully implement our new business model and generate sufficient revenues to finance our operations and the costs of expansion. There can be no assurance that the Company will be able to generate such revenues and operate profitably.

We will require additional funds to achieve our current business strategy and our inability to obtain additional financing could cause us to cease our business operations.

Even with the proceeds from this offering, we will need to raise additional funds through public or private debt or sale of equity to achieve our new business strategy. Such financing may not be available when needed. Even if such financing is available, it may be on terms that are materially adverse to your interests with respect to dilution of book value, dividend preferences, liquidation preferences, or other terms.

Our ability to grow our company through acquisitions, business combinations and joint ventures, to maintain and expand our development, production and distribution of motion pictures and to fund our operating expenses will depend upon our ability to obtain funds through equity financing, debt financing (including credit facilities) or the sale or syndication of some or all of our interests in certain projects or other assets. Our new business plan requires a substantial investment of capital. However, at this time, we can not determine the amount of additional funding necessary to implement such plan. We intend to assess such amount at the time we begin fully implementing our business plan. The production, acquisition and distribution of motion pictures require a significant amount of capital. A significant amount of time may elapse between our expenditure of funds and the receipt of commercial revenues from our motion pictures, if any. This time lapse requires us to fund a significant portion of our capital requirements from private parties, institutions, and other sources. Although we intend to reduce the risks of our production exposure through strict financial guidelines and financial contributions from broadcasters, sub-distributors, tax shelters, government and industry programs and studios, we cannot assure you that we will be able to implement successfully these arrangements or that we will not be subject to substantial financial risks relating to the production, acquisition, completion and release of future motion pictures. If we increase our production slate or our production budgets, we may be required to increase overhead, make larger up-front payments to talent and consequently bear greater financial risks. Any of the foregoing could have a material adverse effect on our business, results of operations or financial condition.

If we are unable to obtain financing on reasonable terms, we could be forced to delay, scale back or eliminate certain product and service development programs. In addition, such inability to obtain financing on reasonable terms could have a material negative effect on our business, operating results, or financial condition to such extent that we are forced to restructure, file for bankruptcy, sell assets or cease operations, any of which could put your investment dollars at significant risk.

We have been the subject of a going concern opinion for the fiscal years ended December 31, 2005 and 2004 from our independent auditors, which means that we may not be able to continue operations unless we can become profitable or obtain additional funding.

Our independent auditors have added an explanatory paragraph to their audit opinions issued in connection with our financial statements for the fiscal years ended December 31, 2005 and 2004, which states that the financial statements raise substantial doubt as to our ability to continue as a going concern. Our ability to make operations profitable or obtain additional funding will determine our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. We will have to raise additional funds to meet our current obligations and to cover operating expenses through the year ending December 31, 2007. If we are not successful in raising additional capital we may not be able to continue as a going concern.

We are subject to a working capital deficit, which means that our current assets at December 31, 2006, were not sufficient to satisfy our current liabilities.

As of December 31, 2006, we had a working capital deficit of $42,424, which means that our current liabilities of $576,625 exceeded our current assets of $534,201 by that amount on December 31, 2006 Current assets are assets that are expected to be converted to cash within one year and, therefore, may be used to pay current liabilities as they become due. Our working capital deficit means that our current assets on December 31, 2006, were not sufficient to satisfy all of our current liabilities on that date. We will have to raise additional capital or debt to fund the deficit or cease operations.

If we are unable to retain the services of our executive officers, Robert P. Atwell, George Jackson, and Michael Ellis, or if we are unable to successfully recruit qualified managerial personnel and employees with experience in business and the motion picture industry, we may not be able to continue our operations.

Our success depends to a significant extent upon the continued service of our executive officers, Robert P. Atwell, President and Chief Executive Officer, George Jackson, Secretary and Chief Financial Officer, and Michael Ellis, Chief Operating Officer. Loss of the services of any of our executive officers could have a material adverse effect on our growth, revenues, and prospective business. We do not maintain key-man insurance on the lives of our executive officers.

In addition, in order to successfully implement and manage our business plan, we will be dependent upon, among other things, successfully recruiting highly skilled creative and production personnel, including producers, executives, cinematographers, editors, costume designers, set designers, sound technicians, lighting technicians, actors, sales and marketing experts, and legal and accounting experts. Although we expect to find qualified candidates to fill these positions, competition is intense and they may be unwilling to work for us under acceptable terms. This could delay production or reduce the quality of our film projects, which would impair our ability to successfully implement our business model.

Also, many of these positions could require us to hire members of unions or guilds. As a result, our ability to terminate unsatisfactory or non-performing workers could be adversely affected by existing union or guild contracts and regulations. This could cause delays in production of our film projects and significantly increase costs.

There can be no assurance that we will be able to find, attract and retain existing employees or that we will be able to find, attract and retain qualified personnel on acceptable terms.

Mr. Atwell, our President, Chief Executive Officer and Chairman owns a controlling interest in our voting stock and investors will not have any voice in our management.

Mr. Atwell, our President, Chief Executive Officer and Chairman, is the beneficial owner of 62.68% of our issued and outstanding common shares and 100% of each of our Class A Convertible Preferred Stock ("Class A") and Class B Convertible Preferred Stock ("Class B"). Each share of Class A entitles the holder to 50 votes and each share of Class B entitles the holder to 1,000 votes. In the aggregate, Mr. Atwell is entitled to cast 5,414,440,485 or 99.37% of the votes in any vote by our stockholders. Thus, Mr. Atwell, will have the ability to control substantially all matters submitted to our stockholders for approval, including:

§ election of our board of directors;
§ removal of any of our directors;
§ amendment of our certificate of incorporation or bylaws; and
§ adoption of measures that could delay or prevent a change in control or impede a merger, takeover or other business combination involving us.

As a result of his ownership and position as a director and executive officer, he is able to influence all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

It is likely that additional shares of our stock will be issued in the normal course of our business development, which will result in a dilutive affect on our existing shareholders.

We will issue additional stock as required to raise additional working capital in order to secure intellectual properties, undertake company acquisitions, recruit and retain an effective management team, compensate our officers and directors, engage industry consultants and for other business development activities.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

We expect our business and number of employees to grow over the next year. We expect that our growth will place significant stress on our operation, management, employee base and ability to meet capital requirements sufficient to support our growth over the next 12 months. Any failure to address the needs of our growing business successfully could have a negative impact on our chance of success.

If we acquire or invest in other businesses, we will face certain risks inherent in such transactions.

We may acquire, make investments in, or enter into strategic alliances or joint ventures with, companies engaged in businesses that are similar or complementary to ours. If we make such acquisitions or investments or enter into strategic alliances, we will face certain risks inherent in such transactions. For example, we could face difficulties in managing and integrating newly acquired operations. Additionally, such transactions would divert management resources and may result in the loss of artists or songwriters from our rosters. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures that they will be completed in a timely manner, that they will be structured or financed in a way that will enhance our creditworthiness or that they will meet our strategic objectives or otherwise be successful. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both.

“Penny Stock” rules may make buying or selling our common stock difficult.

Trading in our securities is subject to the “penny stock” rules. The SEC has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. These rules require that any broker-dealer who recommends our securities to persons other than prior customers and accredited investors, must, prior to the sale, make a special written suitability determination for the purchaser and receive the purchaser’s written agreement to execute the transaction. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated with trading in the penny stock market. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker- dealers by such requirements may discourage broker-dealers from effecting transactions in our securities, which could severely limit the market price and liquidity of our securities. Broker- dealers who sell penny stocks to certain types of investors are required to comply with the Commission’s regulations concerning the transfer of penny stocks. These regulations require broker-dealers to:

§ Make a suitability determination prior to selling a penny stock to the purchaser;
§ Receive the purchaser's written consent to the transaction; and
§ Provide certain written disclosures to the purchaser.

Risks Associated with the Motion Picture Production and Distribution Industry

Because the movie industry is intensely competitive and we lack the name recognition and resources of our competitors, we may never generate any revenues or become profitable.

The motion picture industry is highly competitive. We believe that a motion picture's theatrical success is dependent upon general public acceptance, marketing technology, advertising and the quality of the production. We intend to produce motion picture productions that normally should compete with numerous independent and foreign productions as well as productions produced and distributed by a number of major domestic companies, many of which are units of conglomerate corporations with assets and resources substantially greater than ours. Some of the production and distribution companies that we will compete with are The Weinstein Company, Jerry Bruckheimer Films, Miramax Films, Lions Gate Entertainment Corp., Sony Pictures Entertainment, Inc., New Line Cinema, a subsidiary of Time Warner, Universal Studios, 20th Century Fox Film Corporation, a subsidiary of News Corp., Buena Vista Motion Pictures Group, a collection of affiliated motion picture studios all subsidiaries of The Walt Disney Company, Paramount Pictures Corporation, a subsidiary of Viacom, and Troma Entertainment, Inc. Most of these competitors are significantly larger than us, have a long-standing business.

Our management believes that in recent years there has been an increase in competition in virtually all facets of the motion picture industry. With increased alternative distribution channels for many types of entertainment, the motion picture business competes more intensely than previously with all other types of entertainment activities as well as television. While increased use of pay per view television, pay television channels, and home video products are potentially beneficial, there is no guarantee that we will be able to successfully penetrate these markets. Failure to penetrate these potential distribution channels would have a material adverse impact on our results of operations.

Since our success depends on the commercial success of our motion pictures, which is unpredictable and highly speculative, we may never generate any revenue or become profitable.

The success of a single motion picture project is fraught with an unusually high degree of uncertainty and risk. Similarly, the probability of successfully completing a motion picture project is also laden with an unusually high degree of uncertainty and risks. A studio or independent producer's ability to finance a project, execute a successful distribution strategy, obtain favorable press and compete with an unknown quantity of competing releases are just some of the factors that impact the commercial success or failure of a film project. Our strategy involves producing a minimum of 12 motion pictures per year. While the intent is to reduce production risk through this strategy, our plan has the potential to compound risks germane to the industry.

Movie producers are often involved in several projects at the same time and an active film director is often presented with opportunities to direct many movies. In addition, independent contractors needed to produce the film often have commitments to more than one movie project. Because we may decide to replace key members of our production team if they are unable to perform their duties within our schedule, the marketing appeal of our film may be reduced.

If we do not complete the film on schedule or within budget, our ability to generate revenue may be diminished or delayed. Our success depends on our ability to complete the film on schedule and within budget.

Each film we produce and distribute should appeal to a given segment of society to achieve acceptance. Although our intent to target niche markets that should require less than broad market acceptance to achieve commercial success, there can be no assurance that this strategy will succeed.

Motion picture production and distribution is highly speculative and inherently risky. There can be no assurance of the economic success of any motion picture since the revenues derived from the production and distribution of a motion picture (which do not necessarily bear a direct correlation to the production or distribution costs incurred) depend primarily upon its acceptance by the public, which cannot be predicted. The commercial success of a motion picture also depends upon the acceptance of competing films released into the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions and other tangible and intangible factors, all of which can change and cannot be predicted with certainty. Further, the theatrical success of a motion picture is generally a key factor in generating revenues from other distribution channels. There is a substantial risk that some or all of our motion pictures will not be commercially successful, resulting in costs not being recouped or anticipated profits not being realized.

Theaters are more likely to exhibit feature films with substantial studio marketing budgets. Even if we are able to complete the films and obtain distribution, it is unclear how much should be spent on marketing to promote each film by our distributors.

All of these factors cannot be predicted with certainty. In addition, motion picture attendance is seasonal, with the greatest attendance typically occurring during the summer and holidays. The release of a film during a period of relatively low theater attendance is likely to affect the film's box office receipts adversely.

Relatively few motion pictures return a profit to investors. There can be no assurance that a motion picture will recoup its production costs. There is a very high degree of risk that any motion picture we may produce will not return all or any portion of our investment.

We intend to distribute our films in foreign countries which may be unpredictable and may have unstable and different governments and/or laws than the U.S.

We plan to license motion picture and television programming in foreign countries to sub-distributors. If we are at all successful in this regard, a portion of our revenues should be derived from foreign sources. Because of this, our business is subject to certain risks inherent in international trade, many of which are beyond our control. Such risks include, but are not limited to, changes in laws and policies affecting trade, investment and taxes (including laws and policies relating to the repatriation of funds and to withholding taxes), differing degrees of protection for intellectual property, the instability of foreign economies and governments and in some cases an adverse acceptance to a film may occur, resulting in a demand to renegotiate the license agreement's terms and conditions. In addition, fluctuations in foreign exchange rates may affect our results of operations.

Piracy of the original motion pictures that we plan to produce may reduce our revenues and potential earnings.

According to industry sources, piracy losses in the motion picture industry have increased substantially, from an estimated $2.2 billion in 1997 to an estimated $3.5 billion in 2002. In certain regions such Asia, the former Soviet Union and South America, motion picture piracy has been a major issue for some time. With the proliferation of DVD format around the globe, along with other digital recording and playback devices, losses from piracy have spread more rapidly in North America and Europe. Piracy of original motion pictures we produce and distribute may adversely impact the gross receipts received from the exploitation of these films, which could have a material adverse effect on our business, results of operations or financial condition.

Our operating results will fluctuate.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods.

In accordance with generally accepted accounting principles and industry practice, we intend to amortize film costs using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. To comply with this accounting principal, our management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to net realizable value. Results of operations in future years should be dependent upon our amortization of film costs and may be significantly affected by periodic adjustments in amortization rates. The likelihood of the Company's reporting of losses is increased because the industry's accounting method requires the immediate recognition of the entire loss in instances where it is expected that a motion picture should not recover the Company's investment.

Similarly, should any of our films be profitable in a given period, we should have to recognize that profit over the entire revenue stream expected to be generated by the individual film.

Our film production budgets may increase and film production spending may exceed such budgets.

Our future film budgets may increase due to factors including, but not limited to, (1) escalation in compensation rates of people required to work on our projects, (2) number of personnel required to work on our projects, (3) equipment needs, (4) the enhancement of existing or the development of new proprietary technology and (5) the addition of facilities to accommodate the growth of a studio. Due to production exigencies, which are often difficult to predict, it is not uncommon for film production spending to exceed film production budgets, and our projects may not be completed within the budgeted amounts. In addition, when production of each film is completed, we may incur significant carrying costs associated with transitioning personnel on creative and development teams from one project to another. These carrying costs increase overall production budgets and could have a material adverse effect on our results of operations and financial condition.

Our anticipated successive releases of films could place a significant strain on our limited resources.

We anticipate establishing parallel creative teams so that we can develop more than one film at a time. These teams are expected to work on future projects, as we move towards producing 12 films per year. Due to the anticipated strain on our personnel from the effort required for the release of an upcoming film and the time required for creative development of future films, it is possible that we would be unable to release twelve new films in the first year and in subsequent years. We may be required to expand our employee base, increase capital expenditures and procure additional resources and facilities in order to accomplish the scheduled releases of our films. This growth and expansion may place a significant strain on our resources. We cannot provide any assurances that any future film will be released as targeted or that this strain on resources will not have a material adverse effect on our business, financial condition or results of operations. As we move towards achieving 12 films a year, there will likely be additional demands placed on the availability of key people. A lack of availability of key people may adversely impact the success and timing of our future films.

We may implement a variety of new and upgraded operational and financial systems, procedures and controls, including improvement and maintenance of our accounting system, other internal management systems and backup systems. Our growth and these diversification activities, along with the corresponding increase in the number of our employees and our rapidly increasing costs, may result in increased responsibility for our management team. We may need to improve our operational, financial and management information systems, to hire, train, motivate and manage our employees, and to provide adequate facilities and other resources for them. We cannot provide any assurance we will be successful in accomplishing all of these activities on a timely and cost-effective basis. Any failure to accomplish one or more of these activities on a timely and cost-effective basis would have a material adverse effect on our business, financial condition and results of operations.

The decisions regarding the timing of theatrical releases and related products, the marketing and distribution strategy, and the extent of promotional support are important factors in determining the success of our motion pictures and related products. We may enter into agreements with third-parties to assist us in the marketing and distribution of our films, and we may require the marketers and distributors to consult with us with respect to all major marketing and distribution decisions. Said agreements may or may not include: (1) the manner in which distributors may distribute our films and related products; (2) the number of theaters to which our films are distributed; (3) the specific timing of release of our films and related products; or (4) the specific amount or quality of marketing and promotional support of the films and related products as well as the associated promotional and marketing budgets.

We are smaller and less diversified than most of our competitors.

Although we plan to be an independent distributor and producer, we expect to constantly compete with major U.S. and international studios. Most of the major U.S. studios are part of large diversified corporate groups with a variety of other operations, including television networks and cable channels that can provide both means of distributing their products and stable sources of earnings that may allow them better to offset fluctuations in the financial performance of their motion picture and television operations. In addition, the major studios have more resources with which to compete for ideas, storylines and scripts created by third parties as well as for actors, directors and other personnel required for production. The resources of the major studios may also give them an advantage in acquiring other businesses or assets, including film libraries, that we might also be interested in acquiring. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The motion picture industry is highly competitive and at times may create an oversupply of motion pictures in the market.

The number of motion pictures released by our competitors, particularly the major U.S. studios, may create an oversupply of product in the market, reduce our share of box office receipts and make it more difficult for our films to succeed commercially once we begin to produce, market and distribute our films. Oversupply may become most pronounced during peak release times, such as school holidays and national holidays, when theater attendance is expected to be highest. For this reason, and because of our more limited production and advertising budgets, we plan to not release our films during peak release times, which may also reduce our potential revenues for a particular release. Moreover, we cannot guarantee that we can release all of our films when they are otherwise scheduled. In addition to production or other delays that might cause us to alter our release schedule, a change in the schedule of a major studio may force us to alter the release date of a film because we cannot always compete with a major studio's larger promotion campaign. Any such change could adversely impact a film's financial performance. In addition, if we cannot change our schedule after such a change by a major studio because we are too close to the release date, the major studio's release and its typically larger promotion budget may adversely impact the financial performance of our film. The foregoing could have a material adverse effect on our business, results of operations and financial condition.

The limited supply of motion picture screens compounds this product oversupply problem. Currently, a substantial majority of the motion picture screens in the U.S. typically are committed at any one time to only ten to 15 films distributed nationally by major studio distributors. In addition, as a result of changes in the theatrical exhibition industry, including reorganizations and consolidations and the fact that major studio releases occupy more screens, the number of screens available to us when we want to release a picture may decrease. If the number of motion picture screens decreases, box office receipts, and the correlating future revenue streams, such as from home video and pay and free television, of our motion pictures may also decrease, which could have a material adverse effect on our business, results of operations or financial condition.

If we are alleged to have infringed on the intellectual property or other rights of third parties it could subject us to significant liability for damages and invalidation of our proprietary rights.

Our business is highly dependent upon intellectual property, a field that has encountered increasing litigation in recent years. If third parties allege that we have infringed on their intellectual property rights, privacy rights or publicity rights or have defamed them, we could become a party to litigation. These claims and any resulting lawsuits could subject us to significant liability for damages and invalidation of our proprietary rights and/or restrict our ability to publish and distribute the infringing or defaming content. There can be no assurance that we would prevail in any such litigation. If we were to lose a litigation relating to intellectual property, we could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect our business.

Risks Related to Our Common Stock and Its Market

If the ownership of our common stock continues to be somewhat concentrated in shares owned by our management, and mainly Mr. Atwell, it may prevent you and other stockholders from influencing significant corporate decisions and may result in conflicts of interest that could cause our stock price to decline.

As of December 15, 2006, Mr. Atwell, our President, Chief Executive Officer and Chairman, and his affiliates, beneficially own or control approximately 99.37% of the votes that may be cast in any stockholder vote. Accordingly, Mr. Atwell and his affiliates will have sole control over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transactions. This stockholder may also delay or prevent a change of control of us, even if such a change of control would benefit our other stockholders. The concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise.

We have not, and currently do not anticipate, paying dividends on our common stock.

We have never paid any dividend on our common stock and do not plan to pay dividends on our common stock for the foreseeable future. We currently intend to retain future earnings, if any, to finance operations, capital expenditures and to expand our business.

There is a limited market for our common stock which makes it difficult for investors to engage in transactions in our securities.

Our common stock is quoted on the OTCBB under the symbol "CMEG". If public trading of our common stock does not increase, a liquid market will not develop for our common stock. The potential effects of this include difficulties for the holders of our common shares to sell our common stock at prices they find attractive. If liquidity in the market for our common stock does not increase, investors in our company may never realize a profit on their investment.

Our stock is thinly traded, which can lead to price volatility and difficulty liquidating your investment.

The trading volume of our stock has been low, which can cause the trading price of our stock to change substantially in response to relatively small orders. In addition, during the last two fiscal years and subsequent interim period, our common stock has traded as low as $0.015 and as high as $0.16. Both volume and price could also be subject to wide fluctuations in response to various factors, many of which are beyond our control, including actual or anticipated variations in quarterly and annual operating results and general market perception. An absence of an active trading market could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. In addition, we believe that factors such as changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to enter the market from time to time in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our stock will be stable or appreciate over time.

A sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our shareholders sell substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options or warrants, the market price of our common stock could fall. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Our common stock is deemed to be "penny stock", which may make it more difficult for investors to sell their shares due to suitability requirements.

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These requirements may reduce the potential market for our common stock by reducing the number of potential investors. This may make it more difficult for investors in our common stock to sell shares to third parties or to otherwise dispose of them. This could cause our stock price to decline. Penny stocks are stock:

§ With a price of less than $5.00 per share;

§ That are not traded on a "recognized" national exchange;

§ Whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ listed stock must still have a price of not less than $5.00 per share); or

§ In issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $10.0 million (if in continuous operation for less than three years), or with average revenues of less than $6.0 million for the last three years.

Broker/dealers dealing in penny stocks are required to provide potential investors with a document disclosing the risks of penny stocks. Moreover, broker/dealers are required to determine whether an investment in a penny stock is a suitable investment for a prospective investor. Many brokers have decided not to trade "penny stocks" because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. In the event that we remain subject to the "penny stock rules" for any significant period, there may develop an adverse impact on the market, if any, for our securities. Because our securities are subject to the "penny stock rules," investors will find it more difficult to dispose of our securities.

The conversion of the promissory notes based on our recent financing is based on an average of our closing bid price of our intra day trading prices of our common stock over a certain period of time prior to conversion and the decrease of the intra day trading price will result in issuance of a significant increase of shares resulting in dilution to our shareholders.

The conversion of the promissory notes in our recent financing is based on the applicable percentage of the average of the lowest three (3) trading prices for the Common Stock during the twenty (20) trading day period prior to conversion. The "Applicable Percentage" means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 60% in the event that the Registration Statement becomes effective within one hundred and twenty days. The price of our common shares may fluctuate and the lower intra-day trading price in the future, will result in a conversion ratio resulting in issuance of a significant amount of our common shares to the promissory note holders. This will result in our present shareholders being diluted.

Future selling by stockholders may impact our stock value through the execution of short sales which may decrease the value of our common stock.

Short sales are transactions in which a selling shareholder sells a security it does not own. To complete the transaction, a selling shareholder must borrow the security to make delivery to the buyer. The selling shareholder is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The price at such time may be higher or lower than the price at which the security was sold by the selling shareholder. If the underlying security goes down in price between the time the selling shareholder sells our security and buys it back, the selling shareholder will realize a gain on the transaction. Conversely, if the underlying security goes up in price during the period, the selling shareholder will realize a loss on the transaction. The risk of such price increases is the principal risk of engaging in short sales. The selling shareholders in this registration statement could short the stock by borrowing and then selling our securities in the market, and then converting the stock through either the Note or Warrants at a discount to replace the security borrowed. Because the selling shareholders control a large portion of our common stock, the selling shareholders could have a large impact on the value of our stock if they were to engage in short selling of our stock. Such short selling could impact the value of our stock in an extreme and volatile manner to the detriment of other shareholders.

Shares eligible for public sale in the future could decrease the price of our shares of common stock and reduce our future ability to raise capital.

Sales of substantial amounts of shares of our common stock in the public market could decrease the prevailing market price of our common stock. If this is the case, investors in our shares of common stock may be forced to sell such shares at prices below the price they paid for their shares, or in the case of the Investors in the recent financing, prices below the price they converted their notes and warrants into shares. In addition, a decreased market price may result in potential future investors losing confidence in us and failing to provide needed funding. This will have a negative effect on our ability to raise equity capital in the future.

REPORTS TO SECURITY HOLDERS

The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. This information, once we complete our filing, should be available at http://www.sec.gov. Links to such information are expected to be available on our web site at www.camelotfilms.com.

ITEM 2. DESCRIPTION OF PROPERTY

Our corporate headquarters are located at 2020 Main Street, Suite 990, Irvine, California 92614. We occupy and share approximately 2,800 square feet of modern executive office space provided to us by The Atwell Group, Inc., a privately-held company owned by Robert P. Atwell, our Chief Executive Officer. The space is leased on an annual basis. The current lease expires on December 31, 2007. We can be reached by calling (949) 777-1090, faxing (949) 777-1091 or emailing info@camelotfilms.com. We invite you to visit our website at www.camelotfilms.com for information about our company, products and services.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this filing, management is not aware of any legal matters threatened or pending against the Company that have not been previously disclosed in one or more of the Company's filings with the Securities and Exchange Commission.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to stockholders for voting during fiscal year 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Although the Company's common stock is quoted on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "CMEG" of the National Association of Securities Dealers, Inc. (the "NASD"), there is currently no established market for such shares; and there can be no assurance that any such market will ever develop or be maintained.

Any market price for shares of common stock of the Company is likely to be very volatile, and numerous factors beyond the control of the Company may have a significant effect. In addition, the over-the-counter stock markets generally have experienced, and continue to experience, extreme price and volume fluctuations that have often been unrelated to the operating performance of companies listed on such exchanges.

These broad market fluctuations, as well as general economic and political conditions, may adversely affect the market price of the Company's common stock in any market that may develop.

Sales of "restricted securities" under Rule 144 may also have an adverse effect on any market that may develop. See the caption "Sales of Unregistered Securities"

Stock Performance

Our common stock is currently quoted on the OTCBB under the symbol “CMEG”. There is a limited trading market for our common stock. The following table sets forth the range of high and low bid quotations for each quarter within the last two fiscal years. These quotations as reported by the Pink Sheets reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions.

	Closing Bid	
YEAR 2005	**High Bid**	**Low Bid**
1st Quarter Ended March 31	$0.020	$0.015
2nd Quarter Ended June 30	$0.060	$0.015
3rd Quarter Ended September 30	$0.040	$0.030
4th Quarter Ended December 31	$0.050	$0.030
YEAR 2006	**High Bid**	**Low Bid**
1st Quarter Ended March 31	$0.130	$0.040
2nd Quarter Ended June 30	$0.140	$0.084
3rd Quarter Ended September 30	$0.160	$0.075
4th Quarter Ended December 31	$0.129	$0.060

As of December 31, 2006 the bid share price of our Common Stock was .07 and as of December 31, 2004 the bid share price of our Common Stock was $.19 on the OTCBB. OTCBB quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commissions and may not represent actual transactions.

Holders

As of December 31, 2006, there were 106,655,743 shares of Common Stock outstanding. On December 31, 2006, there were 115 holders of record of our Common Stock. On December 31, 2005, there were 115 holders of record of our Common Stock. However, we estimate there are approximately 2,300 beneficial owners of our Common Stock. As of December 31, 2005, there were 93,649,589 shares of Common Stock outstanding, and as of December 31, 2004, there were 74,951,209 shares of Common Stock outstanding.

Dividends

We have never declared or paid cash dividends on our Common Stock. We currently intend to retain cash earnings, if any, to support expansion, and do not anticipate paying any cash dividends for the foreseeable future. Should we ever produce sufficient earnings as a result of gains in securities of Concept Affiliates we develop, our Board of Directors, after taking into account our earnings, capital requirements, financial condition and other factors, has the discretion to distribute such securities to our shareholders as property dividends.

Sale of Unregistered Securities

All securities sold in the past three years have been reported in previous quarterly filings on Form 10-QSB and annual filings on Form 10-KSB.

During fiscal year 2006, the Company issued the following securities:

The Company issued a total of 5,191,538 shares for accrued officer compensation during fiscal year 2006. The Company issued a total of 1,741,717 restricted common shares at a market value of $117,500 for First Quarter 2006 services, a total of 1,131,746 restricted common shares at a market value of $117,500 for Second Quarter 2006 services, a total of 1,106,190 restricted common shares at a market value of $117,500 for Third Quarter 2006 services, and a total of 1,211,887 restricted common shares at a market value of $117,500 for Fourth Quarter 2006 services. As a result, a total of 5,191,538 shares were issued for officer compensation for the first, second, third and fourth quarters of 2006.

The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection with services rendered during the first quarter would be $.067, based upon the average closing bid price of the Company's shares during the first quarter of 2006.

The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection with services rendered during the second quarter would be $.103, based upon the average closing bid price of the Company's shares during the second quarter of 2006.

The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection with services rendered during the third quarter would be $.106, based upon the average closing bid price of the Company's shares during the third quarter of 2006.

The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection with services rendered during the fourth quarter would be $.096, based upon the average closing bid price of the Company's shares during the fourth quarter of 2006.

As a result of the above, the Company issued the following shares to the following officers:

The Company issued 926,445 shares of the Company's $.001 par value common stock to Robert P. Atwell for services during the first quarter of 2006;

The Company issued 601,993 Shares of the Company's $.001 par value common stock to Robert P. Atwell for services during the second quarter of 2006;

The Company issued 588,399 Shares of the Company's $.001 par value common stock to Robert P. Atwell for services during the third quarter of 2006;

The Company issued 644,621 Shares of the Company's $.001 par value common stock to Robert P. Atwell for services during the fourth quarter of 2006;

The Company issued 444,694 shares of the Company's $.001 par value common stock to Michael Ellis for services during the first quarter of 2006;

The Company issued 288,957 Shares of the Company's $.001 par value common stock to Michael Ellis for services during the second quarter of 2006;

The Company issued 282,432 Shares of the Company's $.001 par value common stock to Michael Ellis for services during the third quarter of 2006;

The Company issued 309,418 Shares of the Company's $.001 par value common stock to Michael Ellis for services during the fourth quarter of 2006;

The Company issued 370,578 shares of the Company's $.001 par value common stock to George Jackson for services during the first quarter of 2006;

The Company issued 240,797 Shares of the Company's $.001 par value common stock to George Jackson for services during the second quarter of 2006;

The Company issued 235,360 Shares of the Company's $.001 par value common stock to George Jackson for services during the third quarter of 2006;

The Company issued 257,848 Shares of the Company's $.001 par value common stock to George Jackson for services during the fourth quarter of 2006;

Additional Common Stock Issuances

The Company issued 500,000 Shares of the Company's common stock to H.K. Dyal in connection with an on-going agreement. The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection therewith would be $.093, based upon the weighted average stock price of the Company's shares during fiscal year 2006.

The Company issued 103,319 Shares of the Company's common stock to Doug Warner in connection with a consulting agreement. The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection therewith would be $.07, based upon the closing stock price of the Company's shares at the end of fiscal year 2006. The total valuation of the Shares issued is $7,219.73.

The Company issued 150,000 Shares of the Company's common stock to Kenneth Simon in connection with a consulting agreement. The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection therewith would be $.07, based upon the closing stock price of the Company's shares at the end of fiscal year 2006. The total valuation of the Shares issued is $10,500.

The Company issued 1,500,000 Shares of the Company's common stock to Scorpion Bay LLC. in connection with the financing arrangement between Scorpion and the Company. The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection herewith would be $.0901, based upon the closing stock price of the Company's shares on the date of the agreement.

The Company issued 1,256,648 Shares of the Company's common stock to Bastien and Associates in connection with the consulting arrangement between Bastien and the Company. The Company determined that the price per share to be utilized in calculating the total number of shares to be issued in connection herewith would be $.093, based upon the weighted average stock price of the Company's shares during fiscal year 2006.

The Company issued a total of 2,472,101 Shares of the Company's $.001 par value common stock to The Atwell Group, LLC in accordance with an agreement reached between Eagle Consulting Group, Inc. and its affiliates ("Eagle") and the Company, Eagle agreed to accept stock as payment for certain expenses and loans to the Company. Eagle has been in the process of consolidating its operations under The Atwell Group, LLC, and that all stock issued to Eagle in connection therewith should now be issued directly to The Atwell Group, LLC. During fiscal year 2006, Eagle paid a net of $114,321 in expenses on behalf of the Company, resulting in 1,201,329 shares due Eagle. The Company determined that the price per share in connection herewith would be $.093, based upon the average trading price of the stock during fiscal year 2006. In addition, Eagle had made stockholder loans to the Company totaling a net of $118,182, resulting in 1,270,772 shares due Eagle. The Company determined that the price per share in connection herewith would be $.093, based upon the average trading price of the stock during 2006.

The Company issued 1,855,374 additional Shares of the Company's $.001 par value common stock to The Atwell Group, LLC in accordance with the agreement between Eagle and the Company. The Company determined that the price per Share in connection herewith would be $.093, based upon the average trading price of the stock during 2006.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to statements concerning our business outlook or future economic performance; anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or exceptions as to any future events, conditions, performance or other matters which are "forward-looking statements" as that term is defined under the Federal Securities Laws. All statements, other than historical financial information, may be deemed to be forward-looking statements. The words "believes", "plans", "anticipates", "expects", and similar expressions herein are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties, and other factors, which would cause actual results to differ materially from those stated in such statements. Forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this report, and the risks discussed in the Company's other SEC filings.

Plan of Operation

Overview

We were incorporated in Delaware on October 12, 1999. On April 15, 2004 we changed our name to Camelot Entertainment Group, Inc. and changed our business model from pursuing a new approach to venture formation (the Dstage.com Model) to the "Camelot Studio Model" (or "CSM"), which provides for the development, production, marketing and distribution of motion pictures. The CSM attempts to combine the efficiencies realized by studios of the early 1900's, with the artistic focus and diversity of today's independent productions. Using this approach, we believe the risk-reward relationship facing the typical film project can be dramatically shifted. For example, whereas a typical film pushes artists and directors to rush development and production in hopes of conserving cash, the CSM extends the pre-production cycle substantially to reduce costs while simultaneously increasing quality. Similarly, whereas a low-budget picture is severely limited by the types of postproduction technology used, due to budget constraints, we intend to invest directly in top of the line technology, spreading the costs over a targeted minimum of 12 original motion pictures each year. The goal of the CSM is to develop the ability to consistently produce films with the look, feel and artistic content of multi-million dollar pictures, for a fraction of the cost.

We have a limited history of operations as a film production and distribution company. Our historical operations, as Dstage.com, Inc., consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. We believe that due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you review the audited financial statements, the unaudited interim financial statements and the related notes in addition to thoroughly reading our current plan of operations.

Our Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and liabilities and commitments in the normal course of business. In the near term, we expect operating costs to continue to exceed funds generated from operations. As a result, we expect to continue to incur operating losses and we may not have sufficient funds to grow our business in the future. We can give no assurance that we will achieve profitability or be capable of sustaining profitable operations. As a result, operations in the near future are expected to continue to use working capital.

Our current cash requirements are provided principally through our financing agreement with Eagle Consulting Group, Inc. (“Eagle”). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company’s outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company’s annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. For the first three quarters of 2006 alone, Eagle advanced the Company a total, including interest, of $401,982, which covered most of our operating expenses for 2006.

To successfully grow the individual segments of our business, we must decrease our cash burn rate, improve our cash position and the revenue base of each segment, and succeed in our ability to raise additional capital through a combination of primarily public or private equity offering or strategic alliances.

As more fully discussed below, we recently secured additional financing from 4 investors for the purpose of funding our initial slate of pictures. It is our goal to use this funding to have between 10 and 12 motion pictures in various stages of development or production within the next 12 months. In the event we are unable to receive the entire funding, we may have to delay our slate until such time as the necessary funding is acquired.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

2007

During fiscal year 2007, we plan to continue the on-going implementation of our business plan and business model, and as a result thereof concentrate on achieving the following major goals in the upcoming year:

- Completion of our expanded detailed business plan
- Corporate Funding Package
- Acquisition of several key acquisition targets in both film production and distribution
- Complete first round of Camelot Film Group financing
- Formal Announcement of first Camelot Studio Group studio location
- Establishment of Bridge Financing Program

Our Structure

We are comprised of the following three top-level divisions that can act in concert on its projects or autonomously as circumstances warrant.

§ Camelot Film & Media Group
§ Camelot Studio Group
§ Camelot Production Services Group

Camelot Film & Media Group is responsible for all content production and distribution. It is organized into five operational units:

§ Camelot Films

- § Camelot Features
- § Camelot Distribution
- § Camelot Television
- § Camelot Digital Media

Camelot Studio Group is solely focused on the development, financing, design, planning, building, completion and operation of the major West Coast production studio, which Camelot is currently proposing to locate in the Advanced Technology & Education Park ("ATEP") complex in Tustin, California, which would include the following entities:

- § Studio Development
- § Business Development
- § Master Developer
- § Academic Program Development

Camelot Production Services Group is comprised of five divisions:

§ Technology
§ Radio and Music
§ Consulting
§ Financial Services
§ Event Management

Our View of the Steps Required for Motion Picture Commercialization

We view the motion picture commercialization process as involving three major steps, each of which bears a symbiotic relationship to the costs, creative value and profitability of any planned film to be released by us. These three steps are development, production and distribution. Under our planned model, development should include not only screenplay acquisition and development, but also a carefully constructed and unusually elongated pre-production phase. This process was developed as a result of the direct experience and observations of our management.

By viewing the development phase as a distinct and major component of the motion picture creation process, we hope that we can create a culture that encourages producers, writers and directors associated with our projects to focus their efforts and expertise on creating world-class pictures before the first day of shooting begins. We believe that creating such a culture could potentially result in a substantial reduction of the cost of our film projects, as compared to the film projects of our competitors. When combined with what we believe is a unique method of attracting, compensating and retaining talent that would otherwise not be involved in an active motion picture project, it is expected that the opportunity for a cost advantage could emerge.

Our President and Chief Executive Officer, Robert P. Atwell, has worked extensively in financing, producing and directing original motion pictures and television programs. This experience led our management to a number of beliefs upon which our planned business model is founded. These key views are:

· The manner in which development and pre-production activities are managed can have the largest impact on both the quality, or creative content, and the cost of creating a motion picture.

· There are a number of factors that make it difficult for most motion pictures to invest large amounts of time and a proportionally large share of a motion picture’s overall budget into development and pre-production activities.

· The factors that make it difficult for many motion picture projects to invest a major share of a film’s time and financial resources into development and pre-production activities may have created a pervasive business culture that emphasizes moving projects towards principal photography too quickly.

· A very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition.

· A very small percentage of all directors will participate in principal photography in any given year.

· The percentage of qualified actors that never have the opportunity to participate in a completed original motion picture that is released commercially is substantial.

- There are large periods of unemployment for many individuals involved in motion picture production.

We believe that these observations suggest that the capacity to create motions pictures, in terms of employable professionals, is far higher than the current demand of existing film production companies for these services. However, we also believe that growth in motion picture consumption worldwide has created increased demand for original motion pictures in general. As a result, we anticipate that the underemployed, or unemployed, directors, writers and other film professionals could help fill a void for low cost, quality original motion picture production, given the right mix of incentives and business structure. There can be no assurance that such benefits, advantages or capacity will ever materialize.

Successfully creating such low cost, but relatively high quality pictures should result in a higher per picture financial return and a lower breakeven point for each film produced. Also, by distributing these pictures primarily through in-house distribution professionals, the per picture return might be increased even further, enabling more motion pictures to be produced by us annually and thereby diversifying the risk associated with any single film project. These beliefs form the foundation for our planned business model and expected strategy.

Our Strategy of Emphasizing the Pre-Production Phase of Motion Picture Commercialization

As noted previously, we believe that a very small percentage of all writers that want to have their screenplays become completed motion picture projects will ever realize this ambition. We believe that this assertion speaks to the opportunity we envision to cost effectively acquire writing, directing producing and other motion picture production talent that would otherwise exceed demand for these services.

This perceived opportunity is critical to our strategy, because without a great script, we believe it is either incredibly expensive or simply impossible to produce a great motion picture. However, we also believe that few great scripts begin as great scripts, but most evolve from a great idea to a substandard script and so forth. Matching great script ideas with tried and true expertise of professionals that know character development, genre formulas and how to convert words into pictures that create passion are expected to allow us to realize our vision.

We believe that many small and medium sized production companies can rarely afford to invest their time into unproven writers, much less even consider going with unproven directing talent. Moreover, we believe that the investors and distributors they are aligned with often play a major role in which projects get approved for production, or “green-lighted”.

Similarly, we believe that major studios have even more reasons for steering clear from these unproven sources of product. If these assertions are correct, then a large pool of untapped creative talent available for use in motion picture production exists. It is our intention to engage this pool to commercialize motion pictures in accordance with our strategy. To accomplish this objective, we intend to do the following:

- ***Obtain Complete And Outright Ownership Of Scripts And Other Literary Works*****:** We anticipate that by offering the proper incentives to screenwriters and other authors of compelling literary works well suited for a film project, we should be able to acquire complete and outright ownership of these copyrights for a fraction of what many producers would pay simply to get an option on a script. As mentioned, such writers have an incentive that fewer than 10% of Screenwriters Guild members expect to experience in a given year the true opportunity to have their vision become a theatrically released motion picture. In addition, our plan calls for participating writers to share in the success of their script, through profit participation and indirectly in the success of other film projects we complete, through restricted shares of or common stock. This same formula is expected to allow us to attract directors, producers and other creative personnel with a passion for making pictures that the public wants to see.

- ***A Recurring 6-Month Cycle Of Pre-Production Activities*****:** Our plans for the pre-production phase for each motion picture project we initiate is to utilize a recurring 6-month cycle that starts every month for a new film, enabling us to create a rolling pipeline of product. Unlike our perception of pure independents and small production companies, we don’t anticipate that our pre-production phase could consume creative resources by having producers, writers and directors hunt for additional film financing. Instead, we anticipate that each film should have a set and fixed budget. We expect the additional time that should emerge, if we are successful, to allow the production designer, producers, director of photography and other personnel adequate time to find ways to increase quality and reduce costs through skillful planning.

- ***Relatively Firm Scheduling Of Film Projects*****:** Another feature we expect to emerge as a result of our planned approach is that it should allow relatively firm scheduling of the cast at a very early stage, something that we believe is rare in the world of pure independent productions. During this same time, we expect the production team to benefit from a mentoring environment that insures the creative spark sought in each of our productions does not become an increasing collection of unrealistic ambitions, leading to missed production schedules. With these elements firmly in place, we would typically expect principal photography to begin in the fifth month of each project.

Our Strategy of Achieving Higher Quality and Lower Costs During the Production Phase of Motion Picture Commercialization

Four key elements following development and pre-production are expected to enable us to create quality pictures for a fraction of the cost experienced by our competitors. These four elements are:

1. *Digital Photography*

Like the model we plan to pursue, we believe that purely independent productions can realize costs savings by using digital film technology due to the lower cost of processing, stock, dailies and certain editing costs. We also believe that major studios benefit from using digital technology in certain genres, but not so much from a cost standpoint.

Instead, we think that the heavy special effects used by major studios' high-budget action and science-fiction pictures are increasingly enhanced as a result of using digital photography. While, if true, this would negate some of the cost benefits of using digital photography, the overall value in terms of entertainment quality would still be enhanced, in general. One party that we believe has found the benefits of digital photography rather elusive is the small and mid-sized production company.

We believe that this is generally because when such companies convince a director to use digital photography, the director and director of photography (or "DP") are likely to specify additional camera setups. We also believe that the increased, low-cost coverage available, along with real-time video monitoring, often results in issues between directors and directors of photography on projects of these companies, as they analyze and debate each shot during precious shooting time. As a result, the mixed use of digital photography by small and medium sized production companies generally has a neutral impact on overall value, in our opinion.

2. *Profit Participation*

We believe that it is very common for purely independent productions to offer profit participation, or points, as a means of getting parties they could otherwise not afford to hire (for cash) to work on the production. If this is in fact a standard method of simply getting a picture made for these types of productions, we believe the effects on value are neutral. That is, if every competitive production is offering this same type of compensation, the potential impact of the incentive is reduced.

Similarly, in the case of major studios, we believe that all of the parties involved in such productions have access to sophisticated negotiators and advocates that can reasonably weigh the potential market value of such incentives. If so, we believe that such incentives rarely offer a competitive advantage to the production. However, for small and medium sized independents, our model assumes that the added incentive of points can be the extra incentive needed to attract certain parties that would otherwise not participate on a given project.

We intend to use profit participation in a manner that we think is precedent setting in the industry. Firstly, under our model, every member of the production stands to participate in the financial success of our film projects, thereby reversing a industry tradition whereby the phrase "net" has had little or no meaning or substance. Similarly, since the same types of writers and directors that would be otherwise willing to work on a picture with little or no compensation are being pursued under our model, albeit at very low cash rates, the added incentive of profit participation is expected to be a meaningful bonus in the eyes of these parties.

3. *Production Management*

We believe that the largest full-time employers of motion picture production management, and also the entities with the most developed production management infrastructures, are major studios. However, we believe that these large bureaucracies, while essential to the management of a relatively large volume of high budget pictures, also create an environment that often pits creative talent against management. If true, then to a certain degree, this may offset some of the potential advantages of their production management systems. The production management systems of one-picture only, pure independent productions tend to be ad hoc systems that find their way into the process through the producer, director and other personnel that are assembled to create a one-time organization, in our opinion. This leaves the small and medium sized production companies, who benefit from their ambitions of creating multiple motion pictures. Unfortunately, as their staffs of full-time production and development personnel grow, we believe their budgets grow accordingly, in general, creating little competitive value over time.

4. *Common Stock Incentives*

To the best of our knowledge, no other publicly traded film company has ever utilized common stock to incentive all of its creative, production and management resources. There are two specific reasons why this option is not generally available to competitors. Firstly, most of the companies making lower budget pictures do not have business models that justify becoming a publicly traded company. Secondly, for companies that do have the scale to offer publicly traded stock as a form of production compensation, we believe that doing so would be at odds with their fundamental business cultures and, in many cases, at odds with the wishes of their stockholders.

With the exception of using common stock, we believe that each of these value enhancement tools is used to varying degrees, with varying success, by other motion picture productions. However, we are not aware of any other Company that uses the systematic and flawless integration of these elements into each of their productions the way that we intend to. If this is correct, we believe it may explain why few if any motion picture companies can consistently realize the reduction in cash production expenditures combined with the increase of quality that we expect to be a key element of our business model.

Our Strategy of Developing and Utilizing In-house Distribution Expertise

A number of new distribution channels have increased the means by which motion picture product can be consumed and, therefore, the potential channels for revenue. These channels include theatrical or box office, video cassette, DVD, pay-per-view television, cable television, network television, television syndication, non-theatrical outlets, such as in-flight movies, and international channels. With so many new distribution channels available, it my seem surprising that pictures with smaller budgets still find it so difficult to get their films in front of audiences. Our management believes this pervasive problem is primarily due to two difficult obstacles to overcome.

Firstly, we believe that the very reliance on a distributor places a small independent production at the mercy of a party they have limited bargaining power with and virtually no control over: the distributor. Under such a scenario, we believe that even if revenues and expenses are fairly and properly accounted for by the distributor, cash must flow through many hands before revenue makes it way back to investors and other profit participants.

Secondly, and perhaps equally important, we believe that without a large volume of product in the pipeline, the alternatives to using an outside distributor are few, and rarely result in large, predictable inflows of cash. For instance, if an independent producer has a single picture budgeted at $5 million; it is generally economically impractical to establish an in-house distribution department with the limited mission of directly marketing that one film. At the same time, we believe that volume purchasers of motion picture product, including studios, cable outlets, home video companies and other buyers with large needs for product, require a dependable source of multiple pictures. The one-picture or two-picture production company simply can't meet these needs, making it more efficient for buyers to deal with an agent or sub-distributor, in our opinion. Our planned combination of high-volume and high-quality motion pictures stands to change these economics, making in-house distribution an essential element of our strategy.

Motion Picture Library

A potential benefit of our business model is the planned ownership of an expansive library of feature films that should be, for the most part, unencumbered. If we are successful in implementing our business plan, we could have 12 films or more going into our library annually that could have an extended shelf life in ancillary markets, including, but not limited to, cable, satellite and television syndication, both domestically and internationally, extended DVD's, special edition DVD's and other areas of repurposing.

Sources of Revenue

Upon completion of each film, assuming that any are successfully completed, we intend to engage international and domestic channels of distribution using a variety of methods. These methods include, but are not limited to:

- Licensing of videocassettes and digital video discs (DVDs)
- Pay-per-view cable and satellite licensing
- Pay television and Internet licensing
- Broadcast television, cable and satellite licensing
- Hotels, airlines and other non-theatrical exhibitions
- Theatrical exhibition
- Syndicated television licensing
- Internet Protocol TV (IPTV)

Our strategy of developing in-house distribution and marketing expertise, while intended to increase the proportion of a given original motion picture's revenue we can retain, may actually have the effect of reducing the speed with which we can obtain cash from any motion pictures we complete. This is due in part to the way that many independent productions distribute their motion pictures.

We believe that many independent productions plan to engage sales agents to distribute their motion pictures. These sales agents often license the distribution rights to distributors on behalf of the production company, or another party that owns the rights to the motion picture negative. In exchange for these services, the agent normally receives a percentage of any licensing fees generated by licensing the film to a distributor.

The distributor's licensing a film's rights often has a fee set as a percentage of gross revenue from the film. While a preset rate is used, the amount of this fee is generally unknown at the time that the distribution agreement is entered into, as there is no way to know with any degree of certainty how much revenue, if any, will be generated by the film. However, in some cases the distributor might pay a certain minimum amount to the production company, or rights owner, upon delivery of a completed motion picture. This is sometimes referred to as a minimum guarantee or simply as an advance. Such guarantees, when available, reduce the perceived risks of parties financing original motion picture productions. As a result, these advances can make it easier for producers to obtain financing for a project.

Our strategy does not involve working through sales agents, although were we unable to successfully market our films directly to distributors, we may have no alternative but to pursue such channels. Under our strategy of marketing directly to buyers and other distributors, we would still have the ability to pursue and negotiate minimum guarantees and advances. However, in general we believe that this would likely negatively impact the potential return we seek to realize on our original motion picture productions. The result of this strategy may be that the speed with which we convert film projects into cash inflows could also be negatively impacted.

Liquidity and Capital Resources

We have no history of operations as a film production and distribution company. We believe that, due to the complete and drastic change in our business focus, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance.

Our current liquidity and capital resources are provided principally through our financing agreement with Eagle Consulting Group, Inc.("Eagle"). We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. In 2005 Eagle advanced $125,287 to the company and in 2004 Eagle advanced $127,341. In addition Robert Atwell advanced $259,941 to the Company during 2005. The funding commitment from Eagle should cover all of our operating expenses for the next twelve months.

We entered into an agreement with The Corporate Solution, Inc., owned by our President, Robert P. Atwell, whereby The Corporate Solution has agreed to provide a minimum of $262,500 toward the budget of an initial film we planned to develop in-house. The filming was expected to commence during the third or fourth quarter of 2005 but did not. In exchange for providing the funds, The Corporate Solution, Inc. was to receive 3,500,000 shares of our $.001 par value common stock. We decided to postpone this initial in-house project in favor of developing our studio project and entering into transactions to acquire additional projects. During 2005 and the first quarter of 2006, we began negotiations on securing land for our studio project, retained architects, cost estimators and related consultants. We also acquired the rights to two motion picture projects, which we are currently developing through our Camelot Production Services Group division.

In addition, during 2004 we entered into an agreement with Corporate Awareness Professionals, Inc.("CAP"), which in part provided for the initial purchase of 1,675,000 shares of our $.001 par value common stock through options priced at $0.15 per share for $251,250. In addition, CAP had the option to purchase an additional 1,000,000 shares at $.50 per share for $500,000. Upon purchasing those shares, CAP had the right to purchase up to a maximum of 10% more shares, or 100,000 shares, at $.50 per share. If CAP had exercised all its options, it should have purchased 2,775,000 total shares for $801,250. As of the date of this annual report, CAP has not exercised any of its options. There can be no guarantee that they will exercise any of their options, and in the event they do exercise some of their options, there can be no guarantee that they will exercise all of their options. As a result, the failure of CAP to exercise some or all of their options necessitated additional funds be provided from other sources. As of December 31, 2005, CAP had not exercised any of its options, which expired in March, 2005.

Further, we are in the process of preparing a private placement memorandum and an SB-2 registration statement for the purpose of funding our initial slate of pictures. If the anticipated funding is successful, it is our goal to have between 10 and 12 motion pictures in various stages of development or production within 12 months. In the event we are unable to complete the funding, we could have to delay our slate until such time as the necessary funding is acquired.

Like all motion picture production companies, our revenues and results of operations could be significantly dependent upon the timing of releases and the commercial success of the motion pictures we distribute, none of which can be predicted with certainty. Accordingly, our revenues and results of operations may fluctuate significantly from period to period, and the results of any one period may not be indicative of the results for any future periods. Similarly, the efficiencies we aim to realize through our model may not materialize. Failure of the efficiencies to materialize, along with other risks germane to the picture production, may cause us to produce fewer films than our plan calls for.

Sources of Revenue

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- Licensing of videocassettes and digital video discs (DVDs)
- Pay-per-view cable and satellite licensing
- Pay television and Internet licensing
- Broadcast television, cable and satellite licensing
- Hotels, airlines and other non-theatrical exhibitions
- Theatrical exhibition
- Syndicated television licensing
- Internet Protocol TV (IPTV)

Our strategy of developing in-house distribution and marketing expertise, while intended to increase the proportion of a given original motion picture's revenue we can retain, may actually have the effect of reducing the speed with which we can obtain cash from any motion pictures we complete. This is due in part to the way that many independent productions distribute their motion pictures.

We believe that many independent productions plan to engage sales agents to distribute their motion pictures. These sales agents often license the distribution rights to distributors on behalf of the production company, or another party that owns the rights to the motion picture negative. In exchange for these services, the agent normally receives a percentage of any licensing fees generated by licensing the film to a distributor.

The distributor's licensing a film's rights often has a fee set as a percentage of gross revenue from the film. While a preset rate is used, the amount of this fee is generally unknown at the time that the distribution agreement is entered into, as there is no way to know with any degree of certainty how much revenue, if any, will be generated by the film. However, in some cases the distributor might pay a certain minimum amount to the production company, or rights owner, upon delivery of a completed motion picture. This is sometimes referred to as a minimum guarantee or simply as an advance. Such guarantees, when available, reduce the perceived risks of parties financing original motion picture productions. As a result, these advances can make it easier for producers to obtain financing for a project.

Our strategy does not involve working through sales agents, although were we unable to successfully market our films directly to distributors, we may have no alternative but to pursue such channels. Under our strategy of marketing directly to buyers and other distributors, we would still have the ability to pursue and negotiate minimum guarantees and advances. However, in general we believe that this would likely negatively impact the potential return we seek to realize on our original motion picture productions. The result of this strategy may be that the speed with which we convert film projects into cash inflows could also be negatively impacted.

Expected Significant Changes in the Number of Employees

According to the Bureau of Labor Statistics, in 2004, the United States had about 367,900 wage and salary jobs in the motion picture production and distribution industry. The majority of these jobs were in motion picture production and services, including casting, acting, directing, editing, film processing, motion picture and videotape reproduction, and equipment and wardrobe rental. Most motion picture and distribution establishments employ fewer than 10 workers.

Many additional individuals work in the motion picture production and distribution industry on a freelance, contract, or part-time basis, but accurate statistics on their numbers are not available. Many people in the film industry are self-employed. They sell their services to anyone who needs them, often working on productions for many different companies during the year. Competition for these jobs is intense, and many people are unable to earn a living solely from freelance work.

While these factors appear to reinforce our belief that there is a large pool of available resources to engage in the production of our original motion pictures, there can be no guarantee that the resources will accept our terms or business strategy. According to our planned business model, those that do are expected to be engaged primarily as independent contractors. However, our plans also call for substantially increasing the number of individuals we hire as salaried and hourly employees.

Prior to the date of this annual report, none of our executive officers or other personnel were paid cash compensation for their services. As a result, we would typically monitor the amount of time devoted by each executive officer and other personnel engaged as independent contractors. Subsequent to this annual report, and subject to our ability to properly capitalize the Company, we anticipate that at least 3 of our current officers could be receiving cash compensation as salaried employees. We also plan to hire a minimum of 4 additional personnel engaged in marketing and distribution, operations and general and administrative capacities. These planned changes in personnel alone are significant. However, should we be required to engage a higher number of production professionals as employees, instead of our current plans to engage many production personnel as independent contractors, the increase in employees would be even more significant.

Recent Financing

On December 27, 2006, we entered into a Securities Purchase Agreement with AJW Capital Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLC. Under the terms of the Securities Purchase Agreement, the Investors purchased an aggregate of (i) $1,000,000 in Callable Secured Convertible Notes (the “Notes”) and (ii) warrants to purchase 10,000,000 shares of our common stock (the “Warrants”).

Pursuant to the Securities Purchase Agreement, the Investors will purchase the Notes and Warrants in two tranches as set forth below:

1. At closing on December 27, 2006 (“Closing”), the Investors purchased Notes aggregating $600,000 and Warrants to purchase 10,000,000 shares of CMEG common stock;

2. Upon effectiveness of the Registration Statement, the Investors will purchase Notes aggregating $400,000.

The Notes carry an interest rate of 8% per annum and a maturity date of December 27, 2009. The notes are convertible into CMEG common shares at the applicable percentage of the average of the lowest three (3) trading prices for CMEG shares of common stock during the twenty (20) trading day period prior to conversion. The “Applicable Percentage” means 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty (30) days of the closing

At our option, we may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the Notes and the market price is at or below $.25 per share. In addition, in the event that the average daily price of the common stock, as reported by the reporting service, for each day of the month ending on any determination date is below $.25, we may prepay a portion of the outstanding principal amount of the Notes equal to 101% of the principal amount hereof divided by thirty-six (36) plus one month's interest. Exercise of this option will stay all conversions for the following month. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

We simultaneously issued to the Investors seven year warrants to purchase 10,000,000 shares of our common stock at an exercise price of $.15.

In connection with the recent financing and pursuant to a Structuring Agreement, we also issued to Lionheart Associates, LLC d/b/a Fairhills Capital (“Lionheart”) warrants representing the right to purchase up to 582,609 shares of our common under the same terms as the Warrants issued to the Investors.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of our common stock such that the number of shares of our common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of CMEG’s common stock.

In the event of full conversion of the aggregate principal amount of the Notes of $1,000,000, we would have to register a total of 23,809,524 shares of common stock. This amount is calculated as follows:

The aggregate principal amount of the Notes is $1,000,000. The estimated conversion price of the Notes is $0.042 based on the following: $0.06 was the average of the lowest three (3) trading prices for our shares of common stock during the twenty (20) trading days prior to the closing date of the transaction, less a 40% discount. Thus, at a discounted price-per-share of $0.042, 23,809,524 shares of the Company's common stock would be issuable upon conversion of $1,000,000 into common shares of the Company ("Conversion Shares") and would be registered.

The following table shows the effect on the number of shares issuable upon full conversion, in the event the common stock price declines by 25%, 50% and 75% from its the most recent trading price.

		Price Decreases By		
	12/27/2006	25%	50%	75%
Average Common Stock Price (as defined above)	$0.060	$0.045	$0.030	$0.015
Conversion Price	$0.036	$0.027	$0.018	$0.009
100% Conversion Shares	23,809,524	37,037,037	55,555,556	111,111,111

There is no limit to the number of shares that we may be required to issue upon conversion of the Notes as it is dependent upon our share price, which varies from day to day. This could cause significant downward pressure on the price of our common stock.

<u>Off-Balance Sheet Arrangements</u>

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities” (SPEs).

Critical Accounting Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management’s initial estimates as reported. A summary of our significant accounting policies are detailed in the notes to the financial statements which are an integral component of this filing.

Management evaluates the probability of the utilization of the deferred income tax asset related to the net operating loss carryforward. The Company has estimated a $3,187,402 deferred income tax asset related to net operating loss carryforward and other book/tax differences at December 31, 2005. Management determined that because the Company has yet to generate taxable income and that the generation of taxable income in the short term is uncertain, it was appropriate to provide a valuation allowance for the total deferred income tax asset, resulting in a net deferred income tax asset of $0.

The Company has acquired certain technology and licenses. Prior to December 31, 2004, the Company determined that the value of these acquired assets was impaired and has provided an impairment allowance for the full purchase price of these assets. The impairment amount of assets and investments in other companies charged to operations in prior years was $3,113,000.

Critical Accounting Policies

The Company has defined a critical accounting policy as one that is both important to the portrayal of the Company's financial condition and results of operations; and requires the management of the Company to make difficult, subjective or complex judgments. Estimates and assumptions about future events and their effects cannot be perceived with certainty. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes.

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, where such policies affect our reported and expected financial results. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Acquired Technology and Intangible Assets

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), establishes accounting and reporting standards for recording, valuing and impairing goodwill and other intangible assets. The adoption of SFAS 142 did not have an impact on the Company's financial condition or results of operations for fiscal year 2004. However, as the Company's business model is heavily dependent on acquiring intangible assets, this pronouncement is expected to have a material impact on the Company's financial condition and results of operations in future periods, should the Company survive as an ongoing concern.

Deferred Compensation

The Company had in the past negotiated contracts to grant common stock in exchange for future (prepaid) services with various other companies and individuals. Where the other companies are independent or have minimal common stock ownership in the Company, those prepaid expenses had been presented in the accompanying balance sheet as an asset. Where the other companies or individuals have significant stock ownership or are functioning as, or similar to, employees, officers or directors, such prepaid services were presented on the balance sheet as deferred compensation and a reduction to total equity.

It is Company policy to expense those items which have been unused after the contractual period or after one year, if not used. Other prepaid expenses where services are being used are amortized over the life of the contract. As of December 31, 2005, all deferred compensation had been expensed. As a result, there were no deferred compensation issues in 2004 or in 2005.

Going Concern Uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles accepted in the United States, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring operating losses and negative cash flows from operations.

The Company's continued existence is dependent upon its ability to increase operating revenues and/or obtain additional equity financing.

The Company reached an agreement with Eagle Consulting Group, Inc., a Nevada corporation ("Eagle"), to provide equity financing. Eagle has advanced the Company a limited amount of funds since 2003, and it appears likely that such funding should continue to be enough to meet all of the Company's cash requirements in 2005. However, the Company must find additional sources of financing in order to remain a going concern in the future. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Impairment of Long-Lived Assets

The Company adheres to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The Company reviews the carrying value of its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through undiscounted net cash flows. Impairment is calculated based on fair value of the asset, generally using net discounted cash flows. Any long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less estimated costs to sell.

Significant Accounting Practices

Beginning January 1, 2004 we adopted new accounting rules which were effective January 1, 2001, which require, among other changes, that exploitation costs, including advertising and marketing costs, be expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories. Under accounting rules in effect for periods prior to January 1, 2001, such costs were capitalized as a part of film costs and amortized over the life of the film using the individual-film-forecast method. The current practice dramatically increases the likelihood of reporting losses upon a film's theatrical release, but should provide for increased returns when a film is released in the ancillary markets of home video and television, when we incur a much lower proportion of advertising costs. Additional provisions under the new accounting rules include changes in revenue recognition and accounting for development costs and overhead, and reduced amortization periods for film costs.

Accounting for Motion Picture Costs

In accordance with accounting principles generally accepted in the United States and industry practice, we amortize the costs of production, including capitalized interest and overhead, as well as participations and talent residuals, for feature films using the individual-film-forecast method under which such costs are amortized for each film in the ratio that revenue earned in the current period for such title bears to management's estimate of the total revenues to be realized from all media and markets for such title. All exploitation costs, including advertising and marketing costs, are expensed as incurred. Theatrical print costs are amortized over the periods of theatrical release of the respective territories.

Management plans to regularly review, and revise when necessary, our total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film asset to estimated fair value. These revisions can result in significant quarter-to-quarter and year-to-year fluctuations in film write-downs and amortization. A typical film recognizes a substantial portion of its ultimate revenues within the first two years of release. By then, a film has been exploited in the domestic and international theatrical markets and the domestic and international home video markets, as well as the domestic and international pay television and pay-per-view markets. A similar portion of the film's capitalized costs should be expected to be amortized accordingly, assuming the film or television program is profitable.

The commercial potential of individual motion pictures varies dramatically, and is not directly correlated with production or acquisition costs. Therefore, it is difficult to predict or project a trend of our income or loss. However, the likelihood that we report losses, particularly in the year of a motion picture's release, is increased by the industry's method of accounting which requires the immediate recognition of the entire loss (through increased amortization) in instances where it is estimated the ultimate revenues of a motion picture could not recover our capitalized costs. On the other hand, the profit of a profitable motion picture must be deferred and recognized over the entire revenue stream generated by that motion picture. This method of accounting may also result in significant fluctuations in reported income or loss, particularly on a quarterly basis, depending on our release schedule, the timing of advertising campaigns and the relative performance of individual motion pictures.

Equity Investments

We are accounting for any potential investment in other related entities in the future in accordance with Accounting Principles Board Opinion No. 18, *"The Equity Method of Accounting for Investments in Common Stock."* In accordance with APB Opinion No. 18, management plans to continually review its equity investments to determine if any impairment has occurred. If, in management's judgment, an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Such determination is dependent on the specific facts and circumstances, including the financial condition of the investee, subscriber demand and growth, demand for advertising time and space, the intent and ability to retain the investment, and general economic conditions in the areas in which the investee operates.

Derivative Instruments

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of Financial Accounting Standards Board No. 133," and by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of Financial Accounting Standards Board Statement No. 133," which is effective for all quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. We adopted Statement of Financial Accounting Standards No. 133 beginning January 1, 2004. The adoption of Statement of Financial Accounting Standards No. 133 did materially impact our results of operations with our convertible notes payable entered into in December 2006.

New Accounting Pronouncements

The companies that were previously subject to the requirements of Statement of Financial Accounting Standards No. 53 are following the guidance in American Institute of Certified Public Accountants Statement of Position 00-2, *"Accounting by Producers or Distributors of Films,"* issued in June 2000.

Statement of Position 00-2 establishes new accounting and reporting standards for all producers and distributors that own or hold the rights to distribute or exploit films. Statement of Position 00-2 provides that the cumulative effect of changes in accounting principles caused by its adoption should be included in the determination of net income in conformity with Accounting Principles Board Opinion No. 20, *"Accounting Changes."*

We adopted the Statement of Position on January 1, 2004. The new rules also require that advertising costs be expensed as incurred as opposed to the old rules which generally allowed advertising costs to be capitalized as part of film costs and amortized using the individual-film-forecast method. Due to the significant advertising costs incurred in the early stages of a film's release, we anticipate that the new rules could significantly impact our results of operations for the foreseeable future.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended by Statement of Financial Accounting Standards No. 137, *"Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of Financial Accounting Standards Board No. 133,"* and by Statement of Financial Accounting Standards No. 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of Financial Accounting Standards Board Statement No. 133,"* which is effective for all quarters of fiscal years beginning after June 15, 2000. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. We adopted Statement of Financial Accounting Standards No. 133 beginning January 1, 2004. The adoption of Statement of Financial Accounting Standards No. 133 did not materially impact our results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets."* According to this statement, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment by applying a fair-value-based test. Under this statement, the carrying value of assets are calculated at the lowest level for which there are identifiable cash flows, which include feature film operations, television programming operations, cable channels and other businesses. We adopted this statement beginning January 1, 2002, and upon adoption we did not recognize any impairment of goodwill.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of Statement of Financial Accounting Standard No. 123."* This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This statement also amends the disclosure requirements of Statement of Financial Accounting Standard No. 123 and Accounting Principles Board Opinion No. 28, *"Interim Financial Reporting,"* to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We implemented Statement of Financial Accounting Standard No. 148 effective January 1, 2003 regarding disclosure requirements for condensed financial statements for interim periods. We have not yet determined whether we will voluntarily change to the fair value based method of accounting for stock-based employee compensation.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, *"Consolidation of Variable Interest Entities,"* which establishes criteria to identify variable interest entities and the primary beneficiary of such entities. An entity that qualifies as a variable interest entity must be consolidated by its primary beneficiary. All other holders of interests in a variable interest entity must disclose the nature, purpose, size and activity of the variable interest entity as well as their maximum exposure to losses as a result of involvement with the variable interest entity. Interpretation No. 46 was revised in December 2003 and is effective for financial statements of public entities that have special-purpose entities, as defined, for periods ending after December 15, 2003. For public entities without special-purpose entities, it is effective for financial statements for periods ending after March 15, 2004. We do not have any special-purpose entities, as defined, and are currently evaluating the provisions of this statement as it relates to its various forms of investments. We do not expect Interpretation No. 46 to have a material effect on our financial statements.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."* This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability or an asset in some circumstances. Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15 2003. We implemented this statement on July 1, 2003. The impact of such adoption did not have a material effect on our financial statements

In December 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132 (revised 2003), *"Employers' Disclosures about Pensions and Other Postretirement Benefits."* This statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by Statement of Financial Accounting Standards No. 87, *"Employers' Accounting for Pensions,"* Statement of Financial Accounting Standards No. 88, *"Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,"* and Statement of Financial Accounting Standards No. 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions."* This statement retains the disclosure requirements contained in Statement of Accounting Standards

No. 132, *"Employers' Disclosures about Pensions and Other Postretirement Benefits,"* which it replaces. It requires additional disclosures to those in the original Statement of Financial Accounting Standards No. 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. This statement is effective for financial statements with fiscal years ending after December 15, 2003. We implemented the Statement of Financial Accounting Standards No. 132 (revised 2003) on December 15, 2003. The impact of such adoption did not have a material effect on our financial statements.

Accounting for Films

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 00-2 "Accounting by Producers or Distributors of Films" ("SoP 00-2"). SoP 00-2 establishes new accounting standards for producers or distributors of films, including changes in revenue recognition, capitalization and amortization of costs of acquiring films and accounting for exploitation costs, including advertising and marketing expenses. We elected adoption of SoP 00-2 effective as of April 1, 2004.

The principal changes as a result of applying SoP 00-2 are as follows:

• Advertising and marketing costs, which were previously capitalized to investment in films on the balance sheet and amortized using the individual film forecast method, are now expensed the first time the advertising takes place.

We capitalize costs of production, including financing costs, to investment in motion pictures. These costs are amortized to direct operating expenses in accordance with SoP 00-2. These costs are stated at the lower of unamortized motion picture costs or fair value (net present value). These costs for an individual motion picture or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such motion picture over a period not to exceed ten years from the date of delivery.

Management plans to regularly review, and revise when necessary, its total revenue estimates, which may result in a change in the rate of amortization and/or write-down of all or a portion of the unamortized costs of the motion picture to its fair value. No assurance can be given that unfavorable changes to revenue estimates will not occur, which may result in significant write-downs affecting our results of operations and financial condition.

Revenue Recognition

Revenue from the sale or licensing of motion pictures is recognized upon meeting all recognition requirements of SoP 00-2. Revenue from the theatrical release of motion pictures is recognized at the time of exhibition based on the company's participation in box office receipts. Revenue from the sale of DVDs in the retail market, net of an allowance for estimated returns, is recognized on the latter of shipment to the customer or "street date" (when it is available for sale by the customer). Under revenue sharing arrangements, rental revenue is recognized when we are entitled to receipts and such receipts are determinable.

Revenues from television licensing are recognized when the motion picture is available to the licensee for telecast. For television licenses that include separate availability "windows" during the license period, revenue is allocated over the "windows." Revenue from sales of international territories are recognized when the feature film is available to the distributor for exploitation and no conditions for delivery exist, which under most sales contracts requires that full payment has been received from the distributor.

For contracts that provide for rights to exploit a program on multiple media (i.e. theatrical, video, television) with a fee for a single motion picture where the contract specifies the permissible timing of release to various media, the fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as the program is released to each media. For multiple-title contracts with a fee, the fee is allocated on a title-by-title basis, based on management's assessment of the relative fair value of each title. Cash payments received are recorded as deferred revenue until all the conditions of revenue recognition have been met.

Income Taxes

The Company recognizes future income tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or income tax returns. Future income taxes are provided for using the liability method. Under the liability method, future income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Capital Structure

The Company has adopted Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129"), which requires companies to disclose all relevant information regarding their capital structure. The Company issued no shares in 2002 due to conversion, exercises or contingent issuances. In 2003, the Company issued 20,000,000 shares due to the conversion of notes payable retiring principal and accrued interest totaling $224,296. The Company reached an agreement with Eagle Consulting Group, Inc. on March 28, 2003 to provide operational funding for the Company. In exchange for twenty percent (20%)of the Company's outstanding common stock on an anti-dilutive, continuing basis until the Company could secure additional financing from another source, Eagle agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. In 2004, Eagle advanced $127,341 and in 2005 Eagle advanced $125,288. In accordance with the anti-dilutive provision, the amount of stock due Eagle is calculated on a quarterly basis. This anti-dilution provision to the agreement could have a material adverse effect on our shareholders as it might continue for a substantial period of time and as a result the dilutive effect to the shareholders cannot be fully determined until the funding from Eagle ceases.

On January 5, 2005, the Company designated two classes of preferred stock, Class A Convertible Preferred Stock and Class B Convertible Preferred Stock. Both classes have a par value of $.001 and 10,000,000 shares authorized. The Series A is reserved for employees, consultants and other professionals retained by the Company and the Series B is reserved for the Board of Directors. On June 30, 2005, the Company issued 5,100,000 shares of each Class A Convertible and Class B Convertible Preferred Stock to Robert Atwell. The Company recorded expense of $3,366,000 in connection with the Preferred Stock issuances.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Our historical operations consisted primarily of attempting to provide support, organization and restructuring services to other development stage companies. Due to the complete and drastic change in our business focus, from seeking to aid development stage companies to our current focus of producing, distributing and marketing original motion pictures, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied on as an indication of future performance. However, it is still important that you read the discussion in connection with the audited financial statements, the unaudited interim financial and the related notes included elsewhere in this annual report.

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005
REVENUE

	Cumulative During Development Stage	Year Ended December 31, 2006	2005	% Change
Net Revenues	$58,568	$ 0	$0	(0%)

We did not generate any revenue for the year ended December 31, 2006. Historically, the original business model we were pursuing anticipated that most of our services would be paid for with stock and certain services would be paid for with cash. The ultimate balance we realized between sales settled with cash and sales settled with stock had a material impact on our results of operations, operating cash flow, and the degree to which our earnings, revenues and costs fluctuated from period to period. This was due in part to the complexities of transactions settled in equity. This complexity was increased by our focus on early stage companies, whose securities were privately held, thinly traded, or quoted on mediums that make valuation highly subjective.

To address these complexities, our accounting policies required us to record services issued in exchange for stock in early stage companies at a nominal value, or no value at all, since the stock issued generally has no readily determinable value. As a result, the extent to which we accepted stock in exchange for services we rendered to privately held, early stage clients directly impacted our future results. In the remaining quarter of 2003, we stopped pursuing opportunities to deliver services to such clients in exchange for cash, stock and a combination of stock and cash. Previously, we anticipated that these agreements would involve a variety of contracting methodologies, including, but not limited to, performance based compensation for services rendered, fixed sum, guaranteed maximum price, and time and materials. Similarly, it was expected that an hourly rate would be used to track contract progress. Professional services under all types of agreements except those involving contingent consideration were to be recognized as the services are performed.

Another important consideration regarding the balance between services paid for in cash and services settled in the client's stock was our ability to cover operating expenses we are required to settle in cash. Our primary business focus was not on generating immediate revenue. Instead, our focus was on acquiring equity interests in promising companies we believed would create capital appreciation for our shareholders. Despite this focus, operating activities that result in cash revenue were assumed to play an important role in our ability to meet cash requirements. This was especially true to the degree that we were unable to successfully secure external cash financing to satisfy expenses we could not satisfy using our common stock.

Our future operations as a film production and distribution company are also expected to be influenced by our ability to use equity compensation to cover certain types of expenses. However, accepting common stock in exchange for services we rendered to non-affiliated enterprises is no longer a component of our business strategy.

COST OF SERVICES

	Cumulative During Development Stage	Year Ended December 31, 2006	2005	% Change
Cost of Services	$95,700	$0	$0	(0%)

Our cost of services historically was comprised principally of consulting services provided by contract individuals on behalf of our customer's business model we were structuring at that time. We provided no services that generated revenue for the year ended December 31, 2006, and had no costs of services. To the degree that we generate consulting revenue in future periods, consulting services provided by officers during such periods are to be matched to revenue associated with such services and recorded as costs of services. In future periods, we do not expect to be providing consulting services in exchange for the common stock of early stage companies. However, we do expect to rely heavily on the ability to use exchanges of our equity to key production and other personnel and contractors as a means of reducing the cash required to complete original motion picture projects. Such reliance could likely result in a lack of predictability and a great deal of volatility with regard to our cost of sales and, therefore, our gross margin percentage.

SALES AND MARKETING EXPENSES

	Cumulative During Development Stage	Year Ended December 31, 2006	2005	% Change
Sales & Marketing Expenses	$53,959	$0	$0	(0%)

Since inception, sales and marketing expenses have consisted of advertising, promotional materials and public relations expenses. The percentage decrease in sales and marketing expenses, from the year ended December 31, 2005 compared to the year ended December 31, 2006, is insubstantial and reflects our ability to perform our marketing and sales efforts internally, which reduces costs and adds benefits to our customers. The total dollar amount of sales and marketing expenses were extremely low in 2002 and there were none in 2003, 2004 or 2005. Of our total sales and marketing expenses incurred in the year ended December 31, 2002, 100%, or $14,000, required payment in cash. In future periods, we expect that nearly all of our sales and marketing expenses should be related to the distribution and promotion of original motion pictures we intend to produce. Similarly, we anticipate that nearly all such expenses should require settlement in cash.

RESEARCH AND DEVELOPMENT

	Cumulative During Development Stage	Year Ended December 31, 2006	2005	% Change

Research & Development Expenses	$252,550	$0	$0	(0%)

Since inception, research and development expenses have consisted primarily of costs related to the acquisition, testing, design, development and enhancement of certain technologies we held rights to and which we intended to use in the future to meet our internal needs or the needs of ventures we might have invested these technologies with. While the total dollar amount of research and development expenses was zero during 2006 and there were none in 2005, the percentage change in research and development expenses, from the year ended December 31, 2004 compared to the year ended December 31, 2005, is explained by no research and development activity during 2005. Prior to 2004, 100% of our research and development expenses required settlement in cash. Since inception, the majority, $252,550 or 82.07% of our research and development expenses, has related to rights to technologies we acquired in exchange for our common stock. In future quarters, we do not anticipate entering into similar agreements to acquire technologies.

GENERAL AND ADMINISTRATIVE

	Cumulative During Developmentt Stage	Year Ended December 31, 2006	2005	% Change
General & Administrative Expenses	$10,147,473	$1,554,907	$4,500,141	(65%)

The company has incurred $10,147,473 of general and administrative expenses since its inception. General and Administrative expenses were $1,554,907 for the year ended, December 31, 2006, compared to $4,500,151 for the year ended, December 31, 2005.

The general and general administrative expenses for the year were comprised of $590,000 of officer's salaries, $646,235 of professional services and fees, $70,137 for legal and accounting fees, and $170,444 was paid to Eagle Consulting for fees in accordance with a funding agreement entered in March 2003. Additionally, $15,581 in expenses related to the Cannes Film Festival was incurred during the second quarter of 2006. Other costs, $29,708 for marketing, seminars and trades $5,980, telephone costs $9,250, rent $17,572 and other administrative costs. These expenses were related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

In summary, general and administrative expenses during 2006 consisted primarily of officer compensation, professional services and stock options. The decrease in general and administrative expenses for the year ended December 31, 2006, compared to the year ended December 31, 2005, was large and due preferred stock issued to Robert Atwell resulting in expense of over $3,300,000 in 2005. The primary expense during the year ended December 31, 2006 was for Officers salaries, Professional fees (legal and accounting), Professional services (film industry consultants) and Eagle consulting. These expenses amounted to $1,133,740 or 73% of all general and administrative expenses for the year the ended, December 31, 2006.

Details of expenses for calendar year ended, December 31, 2005: Professional Fees - legal & accounting $72,798, Professional Services - film industry consultants $213,371 and Eagle Consulting $127,713 (paid in stock). Under an agreement Eagle consulting (Robert Atwell) provided funds necessary to pay all operating expenses (except those paid in stock) during the year ended, December 31, 2005. Other general and administrative expenses included advertising and marketing costs of $172,116 (related primarily to Cannes Film Festival and other film industry trade shows) and the related travel costs of $42,636. Costs related to film industry shows, advertising, public relations, marketing and related travel costs were $214,752 or 20% of all general and administrative expenses for the year ended, December 31, 2005. Office rent and supplies, dues & subscriptions, stock transfer and maintenance fees, utilities, and other expenses were $57,765, representing the remaining operating expenses or 6% of all general and administrative expenses for the year ended, December 31, 2005.

IMPAIRMENT OF LONG-LIVED ASSETS AND IMPAIRMENT OF INVESTMENTS IN OTHER COMPANIES

	Cumulative During Development Stage	Year Ended December 31, 2006	2005	% Change
Impairment of Assets	$2,402,338	$0	$0	(0%)
Impairment of Investments in Other Companies	$ 710,868	$ 0	$ 0	(0%)

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Our impairment policy requires management to review assets and investments for impairment on an ongoing basis. In the case of investments in other companies, this analysis, combined with our other accounting policies, is expected to have a material impact on our results of operations in future periods. Our accounting policies generally may require us to record services performed in exchange for stock in early stage companies at a nominal value, since the stock issued generally has no readily determinable value. However, when we used our stock to effect investments in other companies, the bid price for our stock on the date of issuance is used to value the transaction initially. Subsequently, an impairment of this value may be required to reduce the carrying amount on our books to reflect an impairment in value.

Our financial results since inception are indicative of the extent to which impairment of investments and assets can impact our operating results. Since inception, impairment of investments in other companies accounts for $710,868, or approximately 6% of our $11,824,859 net loss, whereas impairment of long-lived assets has accounted for $2,402, 338, or approximately 20% of our net loss since inception. Together, these two expense categories account for 26% of our net loss from inception and through the year ended December 31, 2005.

An impairment loss is recorded in the period in which we determine that the carrying amount is not recoverable. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. These forecasts may require assumptions about demand for the Company's products and services, future market conditions and technological developments in order to support fair value and avoid impairment. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

INCOME TAXES

There is no current or deferred tax expense for the period from January 1, 2006 to December 31, 2006 due to net losses from operations by the Company. As of December 31, 2006 we had federal net operating loss carryforwards of $5,489,252, compared to operating loss carryforwards of $4,437,000 as of December 31, 2005. The operating loss carryforwards expire beginning in 2013 and may be subject to significant limitations attributable to change in control rules.

NET LOSS

	Cumulative During Development Stage	**Year Ended December 31,**		
		2006	**2005**	**% Change**
Net income (loss)	($14,173,211)	($2,348,351)	($4,500,141)	(48%)
Net income (loss) per share	($0.30)	($0.02)	($0.05)	
Weighted average shares outstanding	46,984,139	94,012,109	83,688,182	

The net loss for 2006 was less than 2005 due to cost of preferred stock issued to Robert Atwell, the companies CEO. Losses for 2006 included interest expenses of $822,925, due to the accounting of financing received at the end of 2006.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had minimal revenues, has experienced an accumulated deficit of $14,173,211 and has a stockholders' deficit. These conditions, the loss of financial support from affiliates, and the failure to secure a successful source of additional financial resources raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring its debt and seeking additional financial resources from its existing investors or others. However, instability in the stock price may make it difficult to find parties willing to accept restricted shares of common stock in exchange for services required to execute its business plan. There is no assurance that such resources would be made available to the Company, or that they would be on financially viable terms.

We have incurred net losses from operations in each fiscal year since our inception. The changes in components of our net loss are important. Impairment of assets accounted for 0% of our net loss in 2003, 2004 and 2005, whereas impairment of assets accounted for 40% of our net loss in 2002. We anticipate that impairments should no longer play a major role in our operating results for 2006 as well as in future periods. Although none of our impairment losses have consumed cash flow since inception, our ability to convert the assets, resources and technology we acquired into gains, and ultimately positive cash flow, had largely determined the viability or lack thereof of our business model. Similarly, to the degree that we had to issue more shares to acquire assets and resources that were later impaired and not readily recovered, such events were dilutive to our existing shareholders. With the anticipated change in 2004 and 2005 of our business model, impairments should hopefully no longer be an issue.

General and administrative expenses accounted for a higher proportion of our net loss in 2004 and 2005 compared to 2002 and 2003. In 2003, general and administrative expenses represented 252% of our net loss, whereas this caption represented 58% of our net loss in 2002. In 2005, however, general and administrative expenses of $4,500,141 accounted for 38% of our cumulative net loss. We anticipate that these expenses could continue in 2006, as we engage more officers, directors and other key personnel. Similarly, we anticipate that the total dollar amount of general and administrative expenses requiring payment by cash could also increase in 2006. To the extent that we are unable to secure additional external financing, and or increase the cash revenue generated by our operations, our results and ability to continue as an ongoing concern may be materially adversely affected.

ITEM 7. FINANCIAL STATEMENTS

We are filing the following reports, financial statements and notes to financial statements with this Annual Report. These reports may be found following Part III of this Annual Report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLCOSURES

On January 29, 2007, the Company was informed in writing that Epstein, Weber & Conover, P.L.C. had been acquired by Moss/Adams, CPA's and would no longer be able to perform our audits as of January 12, 2007. On January 29, 2007, the company engaged Malone & Bailey, CPA's as its Certifying Accountant for 2006 year end audit. During 2006, quarterly reviews were performed by Epstein, Weber & Conover. The Company has no consulting arrangements or other services that are performed by Malone-Bailey, CPA's or by Epstein, Weber & Conover and/or Moss/Adams, CPA's.

On March 16, 2004, the Company engaged Epstein, Weber & Conover, P.L.C., Certified Public Accountants of Scottsdale, Arizona as its new Certifying Accountant. The Company did not have any consulting arrangements with Epstein, Weber & Conover, P.L.C., Certified Public Accountants prior to their appointment.

On March 15, 2004, we terminated the services of James C. Marshall, C.P.A., P.C., ("Marshall") and dismissed them as the Certifying Accountant of the Company upon the recommendation of the Company's audit committee.

Marshall was engaged by the Company on March 9, 2003 and subsequently reviewed the Company's quarterly filings through September 30, 2003. The Company had no disagreements with James C. Marshall, CPA, P.C. during 2003.

ITEM 8A. CONTROL AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report (the *"Evaluation Date"*), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective at the reasonable assurance level and in compliance with Section 404 of the Sarbanes-Oxley Act. While conducting the audit of the financial statements as of and for the period ended December 31, 2006, our independent auditors found numerous audit adjustments that indicated a material weakness in our controls over financial reporting. It is our plan with additional funding to devote more resources to this very critical function.

To the best of our knowledge and belief, there has been no change in our internal controls over financial reporting during the year ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reports.

Code of Ethics

We have adopted a Code of Business Conduct that applies to all our directors, officers (including our principal executive officer and principal financial officer) and employees. The Code of Business Conduct can be found on our website at www.camelotfilms.com. We plan to also post on this section of our website any amendment to the Code of Business Conduct, as well as any waivers that are required to be disclosed in accordance with Securities and Exchange Commission or market regulations.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following table sets forth the names and ages of the current directors and executive officers of the Company as of December 31, 2005, the principal offices and positions with the Company held by each person and the date such person became a director or executive officer of the Company. Each serves until the next annual meeting of stockholders.

Name	Age	Position	Date of Appointment
Robert P. Atwell	53	President, Chief Executive Officer, Chairman	March 19, 2003
George Jackson	46	Secretary, Chief Financial Officer, Director	April 1, 2005
Michael Ellis	56	Chief Operating Officer	March 2006
Jane Olmstead, CPA	52	Director	December 1, 2004
Rounsevelle Schaum	74	Director	October 2002

Robert P. Atwell, 53, Chairman, President and Chief Executive Officer, has been President of the Company since March 19, 2003. Mr. Atwell is also the President of The Corporate Solution, Inc. a position he has held since 1978. The Corporate Solution specializes in taking on and implementing assignments for a variety of agencies and corporations including general business consulting, corporate restructuring, mergers and acquisitions, corporate investigations and securities administration. Mr. Atwell also serves as Chairman and is on the board of Eagle Consulting Group, Inc., The Atwell Group, Inc. and Camelot Films, Inc.

Mr. Ellis, 56, has served as our Chief Operating Officer since March 2006, and had been a consultant to us since November 2005. Mr. Ellis offers over 25 years of senior executive management experience with an emphasis on technology-driven enterprises from NYSE and NASDAQ listed corporations to emerging-growth startups. He possesses broad expertise in finance, marketing, technology and operations with an emphasis on growing revenues, profits and market valuations for both publicly traded and private entities. Over the years, his highly-effective teams have consistently translated aggressive goals into efficiently executed and highly profitable programs. Successes encompass managing “Profit and Loss” at $450 million and “Capital Expenditures” at $500 million annually, overseeing centerpiece development for the most popular destination attraction in the United States, to rebuilding a NASDAQ global entertainment enterprise, producing record profits for all.

Before joining us, Mr. Ellis served as a management consultant bringing “leading-edge” operational methodologies and technologies, financial savvy plus worldwide contacts to entrepreneurial startup, turnaround and high-growth companies. Mr. Ellis typically functioned in senior executive roles to quickly diagnose, design and implement revenue and profit growth strategies for entities involved in entertainment, hospitality, Internet services, information technologies, telecom, electronics, retail, international trade, real estate services and construction management.

Prior to his consulting endeavors, Mr. Ellis served as the Senior Vice President for Showscan Entertainment, a NASDAQ traded global manufacturer, producer, distributor and licensor of state-of-the-art, location based entertainment attractions plus special venue film and digital media. He performed as both the COO and CTO, updating Showscan's strategic plan, creating new business/technology alliances and rebuilding the corporate infrastructure. Worldwide responsibilities included operations, engineering, construction, electronics manufacturing, supply chain management, customer services, product development plus film/digital media production and post, sales, marketing, licensing and distribution. In addition, Ellis managed Showscan's largest customer accounts including Gardaland, Imagine Japan, Universal Studios, Futuroscope, Tokyo Dome and Fox Studios.

Previously, Mr. Ellis was the Corporate Director of Engineering for Knott's Berry Farm and was responsible for overseeing design and construction of Mall of America, Knott's Camp Snoopy, a $100+ million, seven acre enclosed theme park in Minneapolis, MN. In this lead role, Mr. Ellis built a distinguished project team of international consultants and contractors while managing design, construction and operations planning activities. Today, Mall of America is the most visited destination attraction in the U.S. with over 43 million annual visitors.

Before joining Knott's Berry Farm, Mr. Ellis was a senior executive for divisions of PepsiCo including Frito-Lay and Taco Bell where he built and managed numerous engineering, technology and operations based organizations while overseeing major capital expansion programs.

Mr. Ellis is a graduate of North Carolina State University and holds a Bachelor of Science degree in Electrical Engineering.

George Jackson, 46, was appointed Chief Financial Officer and joined the Board of Directors on April 1, 2005. Mr. Jackson has been a Certified Public Accountant since 1984. He worked with the public accounting firm of KPMG. While at KPMG he worked as a consultant and auditor on many film companies including: Carolco Films, New World Pictures and others. He was the co-founder, CEO & CFO of several fitness center from 1985 to 1999. He was responsible for managing companies with over $20 million in revenue, 540 employees in the United States and Asia, raising over $10 million in capital and managing the accounting departments and preparing financial statements for shareholders in the U.S. and Asia. He sold all his fitness center assets to Bally Total Fitness in early 2000, netting a return to shareholders of over 45% on an annual basis. From 2000 to present he has developed more fitness centers in Asia and been a director to several fitness companies.

Mr. Jackson graduated from the University of Southern California with a B.S. in Accounting in 1982.

Jane Olmstead, CPA, 52, Director, has over 20 years experience in the financial and accounting fields, including serving as a Senior Management Consultant with Touche Ross & Co. (currently Deloitte & Touche) for nine years. Ms. Olmstead's expertise is in strategic business planning, financial systems design and implementation and tax preparation and planning. Her involvement with numerous Fortune 500 companies such as Ford Motor Co., Mobil Oil and Coors resulted in cost savings measures and increases in profitability through the implementation of improved financial and communication systems.

Ms. Olmstead has focused on improving corporate efficiency and effectiveness through a variety of means including: acting as CFO, implementing new procedures, creating reorganization plans, forecasting and planning for future growth. Some of her additional strengths are in asset management, systems integration, budgeting and cost control. Ms. Olmstead graduated Magna cum Laude from the University of Tennessee with a B.S. in Accounting and a Minor in Statistics. She is currently a member of the Colorado Society of CPAs and the Association of Professional Consultants.

Rounsevelle Schaum, 74, Director, is the Chairman of Newport Capital Partners, Inc., an investment banking firm specializing in providing financial advisory services to emerging growth companies. He is a graduate of Phillips Andover Academy and holds a Bachelor of Science degree in Mechanical Engineering from Stanford University and an MBA from the Harvard Business School. He was also a member of the faculty and Defense Research Staff of the Massachusetts Institute of Technology, where he participated in the development of the computer programs for the Ballistic Missile Early Warning System.

He is a director and chairman of the audit committee of the Quigley Corporation (NASDAQ "QGLY") and was a founder and director of Streaming Media Corporation. He was also the Chairman and CEO of BusinessNet Holdings Corporation and has served as a crisis manager for Heller Financial Corporation. He also served on the District Advisory Council of the U.S. Small Business Administration; as Chairman of the California Small Business Development Corporation, a private venture capital syndicate; and was the founder and Managing Director of the Center of Management Sciences, a consulting firm serving the aerospace industry.

He was the principal author of the "Weapon Systems Management Guide" under contract to the Office of the Secretary of Defense. Mr. Schaum resides in Newport, Rhode Island, where he has been active in civic affairs. He is a member of the Naval War College Foundation and a director of the Newport Historical Society.

Subsequent Events:

During the first quarter of 2006, H. Kaye Dyal resigned his position as director of Camelot Entertainment Group, Inc.

Mike Ellis was hired as Chief Operating Officer of Camelot Entertainment Group, Inc. during the first quarter of 2006.

Audit Committee

We have had an audit committee since inception. Our current audit committee has been reduced to two following the resignation on December 1, 2004 of our CFO, Albert Golusin. Of our two remaining audit committee members, Jane Olmstead, who was an independent director and our audit committee financial expert that met the definition of an *"audit committee financial expert,"* as that term is defined by SEC regulations, and further, one of two audit committee members who were independent, as defined by applicable regulations, she temporarily stepped in as interim CFO from December 1, 2004 until March 31, 2005. We named a permanent CFO during the first quarter of 2005, at which time Ms. Olmstead , resumed her duties as an independent director and audit committee financial expert. Our current CFO, George Jackson is the other audit committee member as of the beginning of the second quarter of 2005.

Significant Employees

We rely on our Board of Directors, Executive Officers, and all of our employees to further the development of our business.

Family Relationships

There are no family relationships.

Involvement in Certain Legal Procedures

None.

Code of Ethics

We have adopted a Code of Business Conduct that applies to all our directors, officers (including its principal executive officer and principal financial officer) and employees. The Code of Business Conduct can be found on our website at *“http://www.camelotfilms.com.”* We plan to also post on this section of our website any amendment to the Code of Business Conduct, as well as any waivers that are required to be disclosed in accordance with Securities and Exchange Commission or market regulations.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities (referred to as "reporting persons"), to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and other equity securities. Reporting persons are required by Commission regulations to furnish us with copies of all Section 16(a) forms they file. To the Company's knowledge, all Section 16(a) filing requirements applicable to its directors, executive officers and greater than ten percent beneficial owners during such period were satisfied.

ITEM 10. EXECUTIVE COMPENSATION

None of our executive officers or directors currently has a compensation package. Although we plan to enter into compensation packages during the second quarter of 2006, we have not entered into any written employment agreements with our executive officers as of the date of this filing. All members of management have elected to postpone negotiations with us regarding salaries, until such time as our revenue is adequate to pay salaries without causing financial damage to our plan for business development. As it becomes necessary, more detailed written employment contracts should be entered into between our key personnel and the Company.

Our Board of Directors has not granted any Stock Incentive Plans as of the date of this filing. We are considering granting such a plan in the future. Stock options may be granted to eligible participations in the form of Incentive Stock Options (ISOs) under the Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or options which do not qualify as ISOs (non-Qualify Stock Options or "NQSOs").

The following table summarizes all compensation paid to our President and Chief Financial Officer for services rendered in all capacities to the Company during each of the fiscal years ended December 31, 2005, 2004, and 2003.

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Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Totals ($)
Robert P. Atwell, (1) President, Chief Executive Officer	2006	$ 250,000	0	0	0	0	0	0	$ 250,000
	2005	$ 250,000	0	0	0	0	0	0	$ 250,000
George Jackson, (2) Secretary, Chief Financial Officer	2006	$ 100,000	0	0	0	0	0	0	$ 100,000
	2005	$ 60,705	0	0	0	0	0	0	$ 60,705
Michael Ellis, (3) Chief Operating Officer	2006	$ 200,000	0	0	0	0	0	0	$ 200,000
	2005	$ 0	0	0	0	0	0	0	$ 0
Jane Olmstead, (4) Chief Financial Officer (until 3/31/05)	2006	$ 0	0	0	0	0	0	0	$ 0
	2005	$ 31,510	0	0	0	0	0	0	$ 31,510

Stock Option Plan

The Company adopted during fiscal year 2004 a Statutory and Non-Statutory Incentive Stock Option Plan ("Plan") which authorizes the Company to grant incentive stock options within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended, and to grant nonstatutory stock options. Under the Plan, outstanding options must be exercised within 10 years from the date of grant and no later than three months after termination of employment or service as a director, except that any optionee who is unable to continue employment or service as a director due to total and permanent disability may exercise such options within one year of termination and the options of an optionee who is employed or disabled and who dies must be exercised within one year after the date of death.

The Plan should require that the exercise prices of options granted must be at least equal to the fair market value of a share of common stock on the date of grant, provided that for incentive options if an employee owns more than 10% of the Company's outstanding common stock then the exercise price of an incentive option must be at least 110% of the fair market value of a share of the Company's common stock on the date of grant, and the maximum term of such option may be no longer than five years. The aggregate fair market value of common stock, determined at the time the option is granted, for which incentive stock options become exercisable by an employee during any calendar year, is to be limited to an amount to be determined by our Board of Directors.

The Plan is to be administered by the Company's Board of Directors, or a committee thereof, which determines the terms of options granted, including the exercise price, the number of shares of common stock subject to the option, and the terms and conditions of exercise. No option granted under the Plan is transferable by the optionee other than by will or the laws of descent and distribution, and each option is exercisable during the lifetime of the optionee only by such optionee.

Compensation of Directors

It is our current policy not to pay cash compensation to directors for solely being a director.

During 2004 and 2005, independent directors were not compensated; however, officers that were also directors were compensated as described in the Summary Compensation Table. In addition, Jane Olmstead, one of our Directors, provided consulting services to us and received stock for those services and will continue to receive stock for her services.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth as of December 31, 2006, certain information, based on information obtained from the persons named below, with respect to the beneficial ownership of the common stock by each person known by us to own beneficially 5% or more of the common stock.

As of December 31, 2006, there were 106,655,743 outstanding shares held by 115 shareholders of record. For the purposes of this Item 11, any shareholder beneficially owning 5% or more of the Company's common stock are listed below.

Name of Beneficial Owner	**Shares Beneficially Owned**	**Percent**
The Atwell Group, Inc. (1) 100 E. San Marcos Blvd. #400 San Marcos CA 92069	66,529,415	62%
TOTAL 5% Shareholders as a Group	66,529,415	62%
(1) Includes all shares owned and or under the control of Beneficial Owner		

The number of shares of common stock owned are those "beneficially owned" as determined under the rules of the Securities and Exchange Commission, including any shares of common stock as to which a person has sole or shared voting or investment power and any shares of common stock which the person has the right to acquire within 60 days through the exercise of any option, warrant or right. All shares are held beneficially and of record and each record shareholder has sole voting and investment power.

Securities Ownership of Management

The following table sets forth as of December 31, 2006, certain information, based on information obtained from the persons named below, with respect to the securities ownership of the common stock by Management.

Name of Beneficial Owner	**Shares Beneficially Owned**	**Percent**
Robert P. Atwell 100 E. San Marcos Blvd. #400 San Marcos CA 92069	66,529,415	62.38%

Jane Olmstead 7474 East Arkansas #1204 Denver CO 80231	1,859,552	1.74%
George Jackson 2020 Main Street Suite 990 Irvine, CA 92614	3,559,955	3.34%
Rounsevelle Schaum 2020 Main St Suite 990 Irvine, Ca 92614	1.100,000	1.03%
Michael Ellis 2020 Main Street., Suite 990 Irvine, CA 92614	1,589,047	1.46%

Notes:

(1) The person listed is an officer and/or director of the Company and the address for each beneficial owner is 2020 Main Street, Suite 990, Irvine, CA 92614.

(2) Based on 106,655,743 shares outstanding as of December 31, 2006.

(3) Includes shares issued to The Atwell Group, Inc., Eagle Consulting Group, Inc., and The Corporate Solution, for which Mr. Atwell is the President, and shares issued to Mr. Atwell's wife.

The number of shares of common stock owned are those "beneficially owned" as determined under the rules of the Securities and Exchange Commission, including any shares of common stock as to which a person has sole or shared voting or investment power and any shares of common stock which the person has the right to acquire within 60 days through the exercise of any option, warrant or right.

No officer, director or security holder listed above owns any warrants, options or rights.

All shares are held beneficially and of record and each record shareholder has sole voting and investment power. The address at which each Executive Officer and Director can be reached is the Company's headquarters.

Involvement in Certain Legal Proceedings

None of our management is involved in any type of legal proceedings.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following transactions are for year ended, December 31, 2006. All transactions are incorporated by reference and can be found through our previous filings:

Except as indicated below, and for the periods indicated, there were no material transactions, or series of similar transactions, since the beginning of the Company's last fiscal year, January 1, 2006, or any currently proposed transactions, or series of similar transactions, to which we were or are a party, in which the amount involved exceeds $0.11, and in which any director or executive officer, or any security holder who is known by us to own of record or beneficially more than 5% of any class of our common stock, or any member of the immediate family of any of the foregoing persons, has an interest.

We entered into an agreement with Eagle on March 28, 2003, to provide operational funding for the Company, which expires on March 28, 2008. Mr. Atwell is the Chairman of Eagle. In exchange for twenty percent (20%)of the Company's outstanding common stock on a non-dilutive, continuing basis until the Company can secure additional financing from another source, Eagle has agreed to provide funding for the Company's annual audit, quarterly filings, accounts payable and other ongoing expenses including office, phones, business development, legal and accounting fees. In addition, Eagle received an option to receive 2,000,000 cashless options to purchase common shares at $0.03 per share. For each one dollar ($1) increase in the price of the Company's stock, Eagle shall be entitled to receive an additional two million options throughout the term of the agreement. In addition, the Company shall have the first right of refusal to purchase the options from Eagle for the current market value once Eagle notifies the Company that it intends to exercise the options. In the event the Company elects not to exercise this first right of refusal, and subject to applicable laws, Eagle shall be entitled to exercise the sale of shares or options immediately thereafter. As of December 31, 2006, Eagle has not exercised its right to receive the options and therefore no options have been granted.

For the 2006, Eagle has advanced to the Company a total, including interest, of $429,182, which covered all of our operating expenses for 2006, including general and administrative costs, costs for screenplays and prepaid exhibitor's space. We have issued to Eagle 2,427,101 shares of common stock for repayment of expenses advanced on behalf of the Company. The stock issued was valued at the weighted average price per share. Eagle received an additional 1,270,722 shares of common stock for continuing to finance our operations under the agreement described above.

We lease office space from The Atwell Group, Inc., a privately-held company owned by Mr. Atwell, our President, Chief Executive Officer and Chairman. The space is leased on an annual basis for $84,000 per year. The current lease expires on December 31, 2008.

The following transactions are for year ended, December 31, 2005:

On January 5, 2005, the Company established a Series A and Series B Preferred Class of stock, with the Series A Preferred Stock reserved for employees, consultants and other professionals retained by the Company, and with the Series B Preferred Stock reserved for the Board of Directors. In addition, the Company authorized the issuance of 5,100,000 shares of its Class A and 5,100,000 shares of its Class B Preferred Stock to its Chief Executive Officer.

The Company has entered into an agreement with an affiliate whereby the affiliate receives 20% of the Company's common stock on a non-dilutive basis in return for services and cash advances. The anti-dilutive provisions are in force through March 28, 2008. In addition, the affiliate will receive 2,000,000 options to purchase common shares.

During the year ended December 31, 2005, the Company recorded $125,288 in expenses paid by an affiliate on behalf of the Company, compared to $127,341 for year ended December 31, 2004. The affiliate received 2,046,177 shares of common stock for repayment of expense advances on behalf of the company. The stock issued was valued at the weighted average price per share. The affiliate received an additional 3,017,478 shares of common stock for continuing to finance the operations of the company under the agreement described above. In addition the Company issued 3,586,881 shares of common stock for repayment of advances made by an officer of the Company.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K LIST OF EXHIBITS ATTACHED OR INCORPORATED BY REFERENCE PURSUANT TO ITEM 601 OF REGULATION S-B.

Where so indicated by footnote, exhibits, which were previously filed, are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

Exhibit No.	Title of Document	Location
3.1.1	Certificate of Incorporation	Incorporated by reference as Exhibit 2.1 to Form 10-KSB filed April 17, 2001
3.1.2	Amended Certificate of Incorporation	Incorporated by reference to Form 8-K filed June 29, 2004
3.2	By-laws	Incorporated by reference as Exhibit 2.1 to Form 10-KSB filed April 17, 2001
4.1	Appointment of Director	Incorporated by reference as Exhibit 4.1 to Form 8-K filed on March 27, 2006
4.2	Securities Purchase Agreement dated December 27, 2006, by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	Incorporated by reference as Exhibit 4.1 to Form 8-K filed on February 1, 2007
4.3	Form of Callable Convertible Secured Note by and among New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	Incorporated by reference as Exhibit 4.2 to Form 8-K filed on February 1, 2007
4.4	Form of Stock Purchase Warrant issued to New Millennium Capital	Incorporated by reference as Exhibit 4.3 to Form 8-K filed on

	Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	January 4, 2007
4.5	Registration Rights Agreement dated December 27, 2006 by and among New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	Incorporated by reference as Exhibit 4.4 to Form 8-K filed on January 4, 2007
4.6	Security Agreement dated December 27, 2006 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	Incorporated by reference as Exhibit 4.5 to Form 8-K filed on January 4, 2007
4.7	Intellectual Property Security Agreement dated December 27, 2006 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC	Incorporated by reference as Exhibit 4.6 to Form 8-K filed on January 4, 2007
4.8	Structuring Agreement with Lionheart	Incorporated by reference as Exhibit 4.7 to Form 8-K filed on January 4, 2007
4.9	Stock Purchase Warrant issued to Lionheart Associates LLC d/b/a Fairhills Capital	Incorporated by reference as Exhibit 4.8 to Form 8-K filed on February 2, 2007
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2		

Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Our current auditors for 12/31/06 are Malone & Bailey, CPA's. During the first three quarters of 2006, Epstein, Weber & Conover, PLC were our auditors. That firm was acquired by Moss/Adams, CPA's at the end of 2006.

Epstein, Weber & Conover, PLC has been the Company's independent auditor since March of 2004 and were the auditors since 2003. James C. Marshall C.P.A., P.C., was the Company's independent auditor for the three quarters ended September 30, 2003.

The Principal Accountants performed the services listed below and were paid the fees listed below:

AUDIT FEES

To date Malone-Bailey has charged $15,000 for the year ended December 31, 2006 for our audit.

EWC charged $ 6,920 for review of the quarterly statements during fiscal year 2006.

EWC charged approximately $14,500 for the year ended December 31, 2005 for professional services rendered in connection with the Company's annual financial statements and review of the financial statements included in the Company's 2005 Quarterly Reports on Form 10-QSB.

EWC charged approximately $14,500 for the year ended December 31, 2004 for professional services rendered in connection with the Company's annual financial statements and review of the financial statements included in the Company's 2004 Quarterly Reports on Form 10-QSB.

Marshall billed aggregate fees of approximately $9,600 for the review of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for each of the three quarters ended September 30, 2003.

EKS&H charged approximately $15,600 for year ended December 31, 2002 for professional services rendered for the audit of the Company's annual financial statements and review of the financial statements included in the Company's Quarterly Reports on Form 10-QSB

CAMELOT ENTERTAINMENT GROUP, INC.

Financial Statements as of
December 31, 2004
And Independent Auditors' Report
(a development stage company)

CAMELOT ENTERTAINMENT GROUP, INC.
(a development stage company)

INDEX TO FINANCIAL STATEMENTS

To the Board of Directors
Camelot Entertainment Group, Inc.
(A Development Stage Company)
Irvine, CA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheet of Camelot Entertainment Group, Inc. as of December 31, 2006 and the related statements of operations, shareholders' deficit, and cash flows for the period from April 21, 1999 (Inception) through December 31, 2006. The financial statements for the period April 21, 1999 (inception) through December 31, 2005, were audited by other auditors whose reports expressed unqualified opinions on those statements.

The financial statements for the period April 21, 1999 (inception) through December 31, 2005, include total revenues and net loss of $58,568 and $11,824,859, respectively. Our opinion on the statements of operations, stockholders' equity (deficit), and cash flows for the period April 21, 1999 (inception) through December 31, 2005, insofar as it relates to amounts for prior periods through December 31, 2005, is based solely on the report of other auditors. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Camelot Entertainment Group, Inc. for the periods described in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Camelot Entertainment Group, Inc. will continue as a going concern. As discussed in Note 2 to the financial statements, Camelot Entertainment Group, Inc. suffered losses from operations and has a working capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management’s plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Malone& Bailey, P.C.

www.malone-bailey.com

Houston, TX

April 16, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board
of Directors of Camelot Entertainment Group, Inc.:

We have audited the accompanying balance sheet of Camelot Entertainment Group, Inc. (a Development Stage Company) as of December 31, 2005 and the related statements of operations, stockholders' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Camelot Entertainment Group, Inc. as of December 31, 2005, and the results of its operations and cash flows for the year then ended, , in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1, the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has yet to commence revenue generating activities and has experienced material operating losses and had little cash for operations at December 31, 2005. Management is seeking equity capital and is implementing a business plan that it believes will result in profitable operations. There can be no assurances that the Company will obtain sufficient capital or that operations will become profitable. These and other conditions raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

/s/ Epstein, Weber & Conover, PLC
Scottsdale, Arizona
March 31, 2006

Camelot Entertainment Group, Inc.
(A Development Stage Enterprise)
Balance Sheet

ASSETS

		December 31, 2006		December 31, 2005
Current Assets				
Cash	$	435,533	$	3,023
Prepaid Expenses		6,424		8,816
Loan Receivable	$	17,500		
Deferred Financing Costs		74,744		
Total Current Assets		534,201		11,839
Other Assets		10,000		
Capitalized Scripts Costs		75,800		18,800
Total Other Assets		85,800		18,800
Total Assets	$	620,001	$	30,639
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts Payable and accured liabilities	$	103,673		86,135
Accrued Expenses - other		36,952		
Stockholder advances		186,000		
Scorpion Bay, LLC Note Payable		250,000		
Total Current Liabilities		576,625		86,135
Long Term Liabilities				
Secured Note Payable - NIR Fairhill, net of unamortized discount of $598,479		1,521		
Derivative Liability Compound embedded derivatives		538,890		
Derivative Liability - Warrant		698,390		
Discount on Notes Payable		(598,479)		
Total Long Term Liablilities		1,238,801		0
Total Liabilities		1,815,426		86,135
Stockholders' Equity				
Common Stock; Par Value $.001 Per Share; Authorized 150,000,000 Shares; 106,655,743 Shares and 93,649,859 Issued and Outstanding respectively		106,656		93,649
Class A Convertible Preferred Stock; Par Value $.01 per share		5,100		5,100

Authorized, issued and outstanding 5,100,000 shares			
Class B Convertible Preferred Stock; Par Value $.01 per share		5,100	5,100
Authorized, issued and outstanding 5,100,000 shares			
Subscription Receivable		(258,072)	(258,072)
Capital in Excess of Par Value		13,119,002	11,923,586
Deficit Accumulated During the Development Stage		(14,173,211)	(11,824,859)
Total Stockholders' Equity		(1,195,425)	(55,496)
Total Liabilities and Stockholders' Equity	$	620,001	30,639

The accompanying notes are an integal part of theses financial statements.

Camelot Entertainment Group, Inc.
(A Development Stage Enterprise)
Statement of Operations

	For the Year Ended, December 31, 2006	December 31, 2005	From Inception on April 21, 1999 through December 31, 2006
REVENUE	$ -	$ -	$ 58,568
Total Revenue	$ -	$ -	$ 58,568
EXPENSES			
Costs of services			95,700
Sales and Marketing			53,959
Research & Development			252,550
General & Administrative	1,554,907	4,500,141	10,147,474
Impairment of assets			2,402,338
Impairment of investments in other companies			710,868
Total Expenses	1,554,907	4,500,141	13,662,889

NET OPERATING LOSS	(1,554,906)	(4,500,141)	(13,604,321)
OTHER INCOME (EXPENSES)			
Interest (Expense)	(822,925.00)	-	(832,219)
Other income (expense)	29,480.00	-	7,828
Gain/(loss) for change in derivative liability	-	-	255,500
Total Other Income (Expenses)	(793,445.00)	-	(568,891)
NET LOSS	(2,348,352)	(4,500,141)	$ (14,173,211)
BASIC LOSS PER COMMON SHARE	(0.02)	(0.05)	$ (0.30)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	94,012,109	83,688,182	46,984,139

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

Camelot Entertainment Group, Inc.
(A Development Stage Enterprise)
Statement of Cash Flows

	For the Year Ended,		Inception on April 21, 1999 through
	December 31, 2006	December 31, 2005	December 31, 2006
OPERATING ACTIVITIES			
Net (loss) income for the period	$(2,348,352)	$(4,500,141)	$(14,173,211)
Adjustments to reconcile net (loss) to cash provided (used) by operating activities:			
Amortization of deferred financing cost	256	-	256
Amortization of discount associated with notes payable	1,521	-	1,521
Imputed interest on shareholder loan	19,238	-	19,238
Stock issued for interest expense	135,150	-	135,150
Loss on derivative liability	666,761	-	666,761
Gain on derivative liability	(29,480)	-	(29,480)
Common stock issued per dilution agreement	170,444	198,064	368,508
Value of options expensed	-	-	351,000
Gain on extinguishment of debt	-	-	(255,500)
Depreciation			3,997

Amortization of deferred compensation	-	-	1,538,927
Common Stock issued for services	651,088	595,010	2,533,935
Common Stock issued for expense reimbursement	-		22,000
Common Stock issued for technology			19,167
Impairment of investments in other companies	-		710,868
Impairment of assets			2,628,360
Prepaid services expensed	-		530,000
Expenses paid through notes payable proceeds	-	-	66,489
Loss on disposal of property and equipment			5,854
Preferred Stock issued to shareholder	-	3,366,000	3,366,000
Change in assets and liabilities:			
(increase) decrease in other current assets	(15,108)	(9,250)	(24,358)
Increase (decrease) in accounts payable & other a/p	173,287	(14,000)	347,766
Increase (decrease) in due to officers	-		
Net Cash provided (used) by operating activities	(575,195)	(364,317)	(1,166,752)
Cash flows from investing activities:			
Purchase of fixed assets	-	-	(6,689)
Purchase of assets-Script Costs/business deposits	(67,000)	(18,800)	(85,800)
Cash provided (used) from investing activities	(67,000)	(18,800)	(92,489)
Cash flows from financing activities:			
Contributed capital	-	-	25,500
Borrowings on related party debt	429,182	385,000	1,016,613
Payments on related party debt	(125,000)	-	(125,000
-Borrowings on debt	850,000	-	855,998
-Deferred financing cost	(75,000)	-	(75,000
Principal payments on long term debt	(4,477)	-	(4,477
Cash provided (used) in financing activities	1,074,705	385,000	1,693,634
Increase (decrease) in cash	432,510	1,883	434,393

Cash at beginning of period	3,023	1,140	1,140
Cash at the end of the period	435,533	3,023	435,533
Supplemental cash flow information:			
Noncash investing and financial activities:			
Creation of debt discount	$ 600,000	-	$ 600,000
Stock issued for related party debt	$ 232,503	-	$ 232,503

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

Camelot Entertainment Group, Inc.
(A Development Stage Enterprise)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Preferred Stock Shares	Preferred Stock Amount	Additional Paid-In Capital	(Deficit) Accumulated During Development Stage	Subscription Receivable	Deferred Compensation	Total
Balance at January 1, 2004	33,856,433	33,857	0	0	5,464,539	-6,059,442	0	0	-561,046
Shares issued for services	100,000	100			2,900				3,000
Shares issued for financing	6,791,287	6,791			196,948				203,739
Subscriptions receivable for financing agreement	0	0					-116,069		-116,069
Net (loss) for the three months ended March 31, 2004	0	0				-103,522			-103,522,
Balance at March 31, 2004	40,747,720	$ 40,748	$ 0	$ 0	$ 5,664,387	(6,162,964)	($116,069)	$ 0	($573,898)
Share issued for services	24,009,000	24,009			1,085,500				1,109,509

Share issued for financing	7,604,562	7,605	0	0	221,460		(316,003)		(86,938)
Advances offset sub a/r							174,000		174,000
Shares issued for debt	1,000,000	1,000	0	0	39,000				40,000
Shares issued for amt due	1,589,927	1,590	0	0	47,000				48,590
Value of option exercised					351,000				351,000
Net (loss)						(1,161,756)			(1,161,756)
Balance as of December 31, 2004	74,951,209	74952	0	0	7408347	(7,324,720)	(258,072)		(99,493)
Net (loss) 1st quarter						(117,096)			-117096
Balance at March 31, 2005	**74,951,209**	**74,952**	**$ 0**	**$ 0**	**7,408,347**	**(7,441,816)**	**(258,072)**	**$ 0**	**(216,589)**
Shares issued for consulting services	4,000,000	4,000	0	0	216,000	0			220,000
Shares issued for officers salaries	2,276,033	2,276	0	0	187,568	0			189,844
Shares issued to Eagle for expenses paid	1,848,723	1,848	0	0	79,078	0			80,926
Net Loss						(486,174)			(486,174)
Subtotals for 2nd quarter	8,124,756	8,125	0	0	482,646	0			490,771
Balance at June 30, 2005	**83,075,965**	**83,076**	**0**	**0**	**7,890,993**	**(7,927,990)**	**(258,072)**		**(211,993)**
Net Loss						$ (127,024)			$ (127,024)
	83,075,965	83,076	0	0	7,890,993	$ (8,055,014)	($258,072)		(339,017)

Balance at Sept 30, 2005

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY - continued

Balance at Sept 30, 2005	83,075,965	83,076	0	0	7,890,993	$ (8,055,014)	($258,072)	(339,017)
Shares issued for consulting services	233,547	233	0	0	9,767			10,000
Shares issued for officers salaries	3,538,263	3,538	0	0	171,462			175,000
Shares issued to Eagle for expenses paid	1,452,662	1,453	0	0	118,219			119,672
Shares issued to Eagle 20% of shares issued	1,762,271	1,762			120,991			122,753
Shares issued for Shareholder loans 2005	3,586,881	3,587			256,354			259,941
Net Loss 4th Quarter						$ (3,769,844)		$ (3,769,845)
Class A Preferred Stock issued			5,100,000	5,100	555,900			561,000
Class B Preferred Stock issued			5,100,000	5,100	2,799,900			2,805,000
Balance at Dec 31, 2005	**93,649,589**	**93,649**	**10,200,000**	**10,200**	**11,923,586**	**(11,824,860)**	**-258,072**	-55,496
Shares issued for officers salaries	5,191,538	5,192	0	0	464,808			470,000
Shares issued to Consultants	2,009,787	2,010			179,078			181,088
Shares issued to Eagle	1,201,329	1,201	0	0	113,120			114,321

for expenses paid								
Shares issued to Eagle	1,270,772	1,271	0	0	116,911			118,182
Shareholder loans								
Shares issued to Eagle	1,832,728	1,833	0	0	168,611			170,444
per agreement 20%								
Net Loss 2006						(2,348,351)		(2,348,351)
Shares issued to	1,500,000	1,500	0	0	133,650			135,150
Scorpion Bay LLC					19,238			19,238
Balance at Dec 31, 2006	**106,655,743**	**106,656**	**10,200,000**	**10,200**	**13,119,002**	**(14,173,211)**	**-258,072**	-1,195,425

The accompanying notes are an integral part of these financial statements

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CAMELOT ENTERTAINMENT GROUP, INC.
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006 and 2005

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

<u>Organization:</u>
Camelot Entertainment Group, Inc., a Delaware Corporation, is a development-stage company which plans to develop, produce, market and distribute motion pictures, was originally incorporated with the intention of providing services and resources to entrepreneurs looking to launch novel products and ventures worldwide in exchange for an interest in the startup ventures. Camelot's activities since inception have consisted of raising capital, recruiting a management team and entering into ventures and alliances with affiliates. Camelot has substantially relied on issuing stock to officers, directors, professional service providers and other parties in exchange for services and technology.

<u>Basis of Presentation:</u>
Camelot is considered to be a development stage enterprise as defined in Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises." Consequently, Camelot has presented these financial statements in accordance with that Statement, including losses incurred from April 21, 1999 (Inception) to December 31, 2006.

Summary of Significant Accounting Policies

Cash and cash equivalents: Camelot considers all investment instruments purchased with maturities of three months or less to be cash equivalents

Script Costs: Camelot capitalizes costs it incurs to buy or develop scripts that will later be used in the production of films according to the guidelines in SOP 00-02. Camelot will begin amortization of capitalized film costs when a film is releasd and it egins to recognize revenue from the film.

Income taxes - The Camelot provides for income taxes based on the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes,* which, among other things, requires that recognition of deferred income taxes be measured by the provisions of enacted tax laws in effect at the date of financial statements.

Financial Instruments - Financial instruments consist primarily of obligations under accounts payable and accrued expenses, notes payable and capital lease obligations. The carrying amounts of accounts payable and accrued expenses approximate fair value because of the short maturity of those instruments. The carrying value of notes payable and capitalized lease obligations approximate fair value because they contain market value interest rates and have specified repayment terms. The Company has applied certain assumptions in estimating these fair values. The use of different assumptions or methodologies may have a material effect on the estimates of fair values.

1 .BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock Based Compensation - Prior to December 31, 2005, Camelot accounted for stock based compensation under Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (123). As permitted under this standard, compensation cost was recognized using the intrinsic value method described in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Effective December 15, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (FAS 123R) and applied the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 107 using the modified-prospective transition method. The Company had not issued any options to employees in the prior periods thus; there was no impact of adopting the new standard.

Recently Issued Accounting Standards - In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109” (“FIN 48”), which clarifies the accounting for uncertainty in income tax positions. This interpretation prescribes that the Company recognize in its financial statements the impact of a tax position that is more likely than not to be sustained upon examination based upon the technical merits of the position, including resolution of any appeals. The interpretation provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006.

In September 2006, the FASB issued FASB Statement 157 “Fair Value Measurements” (“SFAS No. 157”) which defines and measures fair value and expands disclosures about fair value measurements. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 applies to all entities and is effective for fiscal years beginning after November 15, 2007.

The Company does not expect the adoption of any other recently issued accounting pronouncements to have a significant impact on their consolidated financial position.

Impairment of long-lived assets - Impairment of long-lived assets is assessed by the Company whenever there is an indication that the carrying amount of the asset may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows generated by those assets to the assets’ net carrying value. The amount of impairment loss, if any, is measured as the difference between the net book value of the assets and the estimated fair value of the related assets.

Loss Per Common Share - The Company has adopted SFAS No. 128, *Earnings per Share,* which supercedes APB No. 15. Basic EPS differs from primary EPS calculation in that basic EPS does not include any potentially dilutive securities. Diluted EPS must be disclosed regardless of the dilutive impact to basic EPS. There were no potentially dilutive securities outstanding at December 31, 2005.

2. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had minimal revenues, has experienced an accumulated defict of $14,173,211 and has a stockholders' deficit. These conditions, the loss of financial support from affiliates, and the failure to secure a successful source of additional financial resources raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the classification of liabilities that may result from the outcome of this uncertainty.

Management's plans with respect to the current situation consist of restructuring its debt and seeking additional financial resources from its existing investors or others. However, instability in the stock price may make it difficult to find parties willing to accept restricted shares of common stock in exchange for services required to execute its business plan. There is no assurance that such resources would be made available to the Company, or that they would be on financially viable terms.

3 COMMITMENTS AND CONTINGENCIES

Accounts payable balances over 90 days past due as of December 31, 2006 and 2005 were $0 and $30,879 respectively. The Company believes it has identified and accrued all valid claims from creditors, consultants and vendors as of December 31, 2006. Although there have been no specific disputes over these matters and related amounts these third parties may assert additional claims as the Company attempts to settle all past due obligations. The company had carried payables for various vendors of $6,632 and note payable from issuance of $4,477, since 2003 and extinguished these debts in the first quarter of 2006. The company set up a reserve account for $36,952 in 2003, for any claims for past shareholders and other related costs. To date no claims have been made.

The Company is following a practice of paying all debts within 30 days of invoicing and will continue to do so for the coming year. Outstanding payables to its public relations firm will be paid.

4. ADVANCES FROM AFFILIATE

In 2003, the Company entered into a consulting agreement with an affiliated company that is owned by the CEO of Camelot whereby the affiliate receives 20% of the Company's common stock on a non-dilutive basis in return for services and cash advances. The anti-dilutive provisions are in force through March 28, 2008. The affiliate received 1,832,728 shares of common stock in the amount of $170,444 for providing services and for continuing to finance the operations of the company under the agreement.In addition, the affiliate will receive 2,000,000 options to purchase common shares in the future. As of December 31, 2006, the Company has not issued these options to the affiliate so no options are outstanding.

During the year ended December 31, 2006, the Company recorded $429,181. in advances by an affiliate owned by the CEO, on behalf of the Company, compared to $399,193for year ended December 31, 2005. Camelot paid $125,000 of these amount back in cash and issued 1,270,772 shares with a market value of $118,181, leaving a balance owing to this company of $186,000. The affiliate received another 1,201,329 shares of common stock for repayment of $114,321 in expense advances on behalf of the company. The stock issued was valued at the weighted average price per share for the year.

5. NOTES PAYABLE

On December 27, 2006, Camelot issued a callable secured convertible note payable for $600,000 to various holders. . The note payable provided for annual interest at 8%, was secured by all of the assets of the Company, and matured on April 27, 2009. The principle and accrued interest of the note is convertible into Camelot's common stock at a variable conversion price which is 50% of the average market price of the common stock of the lowest three trading days prior to the date of conversion. In addition, these notes have registration rights agreements which call for liquidated damages in the event an effective registration statement is not filed within a timely basis. In addition, the holders of these notes were issued 7-year warrants to purchase 10,582,609 common shares at an exercise price of $0.15 per share.

Of the proceeds of $600,000 Camelot recognized $75,000 in deferred financing costs related to cost of securing the debt. The deferred financing cost will be amortized over the life of the notes payable. $256 of the deferred financing cost was amortized as of December 31, 2006 and included in interest expense.

Camelot evaluated the convertible notes and warrants under Statement of Financial Accounting Starndards No. 133, "Accounting for Derviative Instruments" and Emerging Issues Task Force 00-19 and determined that the Convertible notes contained compound embedded derivative liabilities. The warrants were also determined to be liabilities under SFAS 133 and EITF 00-19. Camelot determined that the compound embedded conversion features required bi-furcation from the note instrument and required an estimate of its fair market value. Camelot hired an independent valuation expert to determine the fair market value of both the compound embedded derivative and the warrants. The fair market value of the compound embedded derivative was estimated using a lattice model incorporaing weighted average probability cash flow. The fair market value of the warrants was estimated using Black Scholes with the major assumptions of (1) calculated volatility of 150% ; (2) expected term of 7 years; (3) risk free rate of 4.64% and (4) expected dividends of zero.

On December 27, 2006, the fair market value of the compound embedded derivative was estimated to be $567,999. On the same date, the fair market value of the warrants was estimated to be $698,762. The face amount of the notes payable was discounted down to zero which will be amortized over the life of the notes using the effective interest method. The resulting derivative liabilities for the warrants and embedded conversion feature was recorded. Camelot recognized immeidate interest expense of $666,761.

At December 31, 2006, Camelot estimated the fair value of the derivative liabilites to be a total of $1,237,280 resulting in a gain on derivative liability presented in the statement of operations of $29,480. In addition, Camelot amortized $1,521 of the discount on the note payable and this amount is included in interest expense.

In November 2006, Camelot issued note payable to Scorpion Bay LLC for $250,000 which matured on March 22, 2007. This note is in default and is recorded at its full face value at December 31, 2006. In connection with this note, Camelot issued 1,500,000 of common with a market value of $135,150. As this note has matured, this total amount was considered to be interest expense .

6. DUE TO OFFICERS

In the year ended December 31, 2006, the Company had accrued $470,000 in compensation to its officers. The officers accepted their payment in 5,191,538 shares of common stock valued at $470,000, determined by prorating their annual salary on a monthly basis and issuing shares based on the average close price for each month as determined by the market price report generated by the Over The Counter Bulletin Board. On December 31, 2006, the Company issued stock to two officers, Robert Atwell and George Jackson in full payment for their accrued salaries.

Michael Ellis, COO, received $120,000 in cash and $120,000 in stock issued.

7. GENERAL AND ADMINISTRATIVE EXPENSES

The company has incurred $10,147,474 of general and administrative expenses since its inception. General and Administrative expenses were $1,554,907 for the year ended, December 31, 2006, compared to $4,500,151 for the year ended, December 31, 2005.

The general and general administrative expenses for the year were comprised of $590,000 of officers salaries, $646,235 of professional services and fees, $70,137 for legal and accounting fees, and $170,444 was paid to Eagle Consulting for fees in accordance with an funding agreement entered in March 2003. Additionally, $15,581 in expenses related to the Cannes Film Festival were incurred during the second quarter of 2006. Other costs, $29,708 for marketing, seminars and trades $5,980, telephone costs $9,250, rent $17,572 and other administrative costs These expenses were related to the pursuit of the Company's plan of operation to produce and distribute motion pictures.

8. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The deferred tax consequences of temporary differences in reporting items for financial statement and income tax purposes are recognized, if appropriate. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors. The Company has considered these factors in reaching its conclusion as to a valuation allowance for financial reporting purposes.

The components of the provision for income taxes for years ended December 31, are as follows:

	2006	2005
Current tax provision (benefit)	$ (621,196)	$ (420,901)
Deferred tax provision (benefit)	(621,196)	(420,291)
Total income tax provision (benefit)	$ -0-	$ -0-

The reconciliation of the effective income tax rate to the Federal statutory rate is as follows:

	2006		2005	
Federal statutory rates	$ (528,668)		$ (357,766	(34)%
State income taxes	(93,294)		(63,135)	(6)%
Valuation allowance for operating loss carryforwards	621,196		420,921	40%
Permanent difference on gain on debt extinguishment	-0-	-	-0-	-
Other	-0-		-0-	0%
Effective rate	$ -0-	(-0-)%	$ -0-	(-0)%

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8. INCOME TAXES - continued

At December 31, 2006 the Company had federal net operating loss carryforwards of approximately $5,510,000 that expire from 2013 to 2025 and stated net operating loss carryforwards of approximately $2,521 that expire from 2005 to 2009. Because of the current uncertainty of realizing the benefits of the tax net operating loss carryforwards, a valuation allowance has been established. The full realization of the tax benefit associated with the carryforward depends predominantly upon the Company's ability to generate taxable income during the carryforward period.

Deferred tax assets and liabilities reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, 2006 are as follows:

Differences in book/tax bases of intangible assets	$	832,000
Differences in book/tax bases of accrued compensation		140,000
Net operating loss carryforwards		1,775,000
Deferred income tax asset		2,747,000
Less: valuation allowance		(2,747,000)
Total deferred income tax asset		-0-
Deferred income tax liability		(-0-)
Net deferred income tax asset	$	- 0 -

9. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2006 and 2005, the Company entered into related party transactions with Board members, officers and affiliated entities owned by the CEO of the Company. The Company issued shares of common stock for services rendered, cash advances, and payment of expenses on behalf of the Company.

On January 5, 2005, the Company established a Series A and Series B Preferred Class of stock, with the Series A Preferred Stock reserved for employees, consultants and other professionals retained by the Company, and with the Series B Preferred Stock reserved for the Board of Directors. In addition, the Company authorized the issuance of 5,100,000 shares of its Class A and 5,100,000 shares of its Class B Preferred Stock to its Chief Executive Officer.

The company owed its officers $191,666 in accrued compensation. First quarter accrued compensation of $87,500 and second quarter accrued compensation of $104,166. The company issued a total of 911,459 restricted common shares at a market value of $87,500 for the first quarter of 2005 services and a total of 1,364,575 restricted common shares at a market value of $102,343 for second quarter 2005 services. The total shares issued for compensation of officers for the first and second quarter of 2005 was 2,276,034 shares.

On June 29, 2005, the Board authorized the company to issue 260,417 shares of the Company’s $.001 par value common stock to director and interim chief financial officer Jane Olmstead for services during the first quarter of 2005 and the company to issue 86,602 shares of the Company’s $.001 par value common stock to Jane Olmstead for services during the second quarter of 2005.

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9. RELATED PARTY TRANSACTIONS - continued

In the efforts to build a management team the company issued stock to the new management team.

George Jackson, H K Dyal, Chris Davis and Craig Kitchens each received 1,000,000 shares of the Company's $.001 par value common stock for consulting services provided during the second quarter of 2005.

On June 29, 2005, in accordance with the agreement with Eagle Consulting Group, Inc. and the Company, upon issuance of the above shares, there will be a total of 81,227,243 shares outstanding, resulting in 16,245,449 total shares due to Eagle Consulting Group, Inc. as of June 30, 2005. Eagle Consulting Group, Inc. had previously been issued 14,396,727 shares, leaving a balance of 1,848,722 shares to be issued. The Company determined that the price per share in connection herewith would be .03, based upon the original agreed upon price. With this issuance of shares to Eagle Consulting Group, Inc., there will be a total common stock of 83,075,964 shares, issued, and outstanding.

On December 30, 2005, the company owed its officers $175,000 in accrued compensation. Third quarter accrued compensation of $87,500 and fourth quarter accrued compensation of $87,500. The company issued a total of 3,538,263 restricted common shares at a market value of $175,000 for the third and fourth quarter services.

On December 30, 2005, in accordance with the agreement with Eagle Consulting Group, Inc. and the Company, issued the following shares: 1,452,662 for 3rd and 4th quarter expenses of $127,712 and 1,762,271 representing 20% of new shares issued during the year.

On December 30, 2005, the company issued 233,547 shares to consultant, Michael Ellis for services rendered during the 4th quarter.

On December 29, 2006, the company issued to it's officers for services rendered and to Eagle Consulting Group in accordance with the agreement to provide financing for the company.

Restricted shares issued 2,761,455 to Robert Atwell, CEO for salary, restricted shares issued 1,104,583 to George Jackson, CFO for salary and restricted shares issued 1,325,500 to Michael Ellis for additional salary. Robert Atwell was also issued 1,201,329 restricted shares as repayment for company expenses paid on personal credit cards, 1,270,772 shares for cash advanced to the company for general and administrative expenses. An additional, 1,832,728 shares were issued to Robert Atwell per agreement to continue to personally finance the company during this start up phase.

10. COMMON STOCK

As of December 31, 2006, there were 106,655,743 shares of common stock outstanding.

During the year ended December 31, 2006, there were 13,006,154 common shares were issued 9,496,369 (73%) were issued to officers and affiliates; 2,009,785 (15%) for professional services, 1,500,000 (12%) to Scorpion Bay, LLC for interest expense on Note Payable.

As of December 31, 2005, there were 93,649,589 shares of common stock outstanding. During the year ended, December 31, 2005 there were 18,698,380 common shares issued, the majority of which, 15,111,499 shares (81 %) were issued to officers, staff and affiliates. Shares were issued for officers salaries 5,814,296 (31%), shares were issued to Eagle Consulting for expenses and in accordance with funding agreement 4,997,656 (27%), and shares were issued to officers, staff and consultants 4,233,547 (23%). The remaining shares were issued for repayment of shareholders loans 3,586,881 (19%).

As of December 31, 2004, there were 74,951,209 shares of common stock outstanding. During the year ended December 31, 2004 there were 41,094,776 common shares issued, the majority of which, 38,794,776 shares (94%), were issued to officers, staff and affiliates. 24,298,049 shares (59%) were issued to officers and staff and 14,496,727 shares (35%) were issued to an affiliate. The remaining 2,300,000 shares (6%) were issued for legal services (550,000 shares), the VedaLabs, Inc. settlement (1,000,000 shares) and the agreement with Corporate Awareness Professionals, Inc. (750,000 shares).

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10. COMMON STOCK

2,300,000 shares (6%) were issued for legal services (550,000 shares), the VedaLabs, Inc. settlement (1,000,000 shares) and the agreement with Corporate Awareness Professionals, Inc. (750,000 shares).

As a result of our agreement with the affiliated company owned by the CEO of Camelot, the affiliate receives 20% of the Company's common stock on an anti-dilutive basis in return for services and cash advances. The anti-dilutive provisions are in force through March 28, 2008. In addition, the affiliate has the option to receive 2,000,000 cashless options to purchase common shares at $0.03 per share. For each one dollar ($1) increase in the price of the Company's stock, the affiliate shall be entitled to receive an additional two million options throughout the term of the agreement between the affiliate and the Company, which expires on March 28, 2008. In addition, the Company shall have the first right of refusal to purchase the options from the affiliate for the current market value once the affiliate notifies the Company that it intends to exercise the options. In the event the Company elects not to exercise this first right of refusal, and subject to applicable laws, the affiliate shall be entitled to exercise the sale of shares or options immediately thereafter. As of December 31, 2006, the affiliate has not exercised its right to receive the options and therefore no options have been granted. The affiliate's right to receive the options and to exercise those options expires on March 28, 2008.

11. SUBSEQUENT EVENTS

Camelot expects to close new financing of $3,000,000 to be received by April 30, 2007, to pay off notes payable as of December 2006 and provide working capital for continuing operations.

* * * * *

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has caused this report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMELOT ENTERTAINMENT GROUP, INC.
(Registrant)

/S/ ROBERT P. ATWELL
Robert P. Atwell
Chief Executive Officer

/S/ GEORGE JACKSON
George Jackson
Chief Financial Officer