ALLERGAN INC
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

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Allergan, Inc.

(Name of Registrant as Specified In Its Charter)

Pershing Square Capital Management, L.P.

PS Management GP, LLC

William A. Ackman

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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CALLING FOR A SPECIAL MEETING OF ALLERGAN SHAREHOLDERS

SPEAKERS: WILLIAM (BILL) ACKMAN, BILL DOYLE, ROY KATZOVICZ, JORDAN RUBIN

PRODUCER: JOE SUTTON

08:31:51:00 (OFF-MIC CONVERSATION)

WILLIAM ACKMAN:

08:31:52:00 Okay, welcome to our Calling for a Special Meeting for Allergan Shareholders. I am Bill Ackman, I m with Bill Doyle, I m with Jordan Rubin and Roy Katzovicz. But it s Bill, Bill, myself, and Jordan are part of the research team and Roy is leading the legal effort at Allergan.

08:32:14:00 We re going to cover a lot of material. There s a long disclaimer. I think it s the longest in the history of the firm. We re going to skip through that. But you ll be able to read that on the Web and we ll make these slides available for download or obviously we ll provide them and to the SEC.

08:32:29:00	So basically we are calling for a special meeting. We are doing this for two principal reasons. 1) To fix the special meeting provisions in Allergan s bylaws, which are extremely onerous. We think they are one of a kind and we think they are very dangerous because they ll likely proliferate if Allergan is successful in using them as a defensive measure. We ll go into quite a bit of detail there.
08:32:53:00	And number two, we would like to remove directors and propose new directors who have a more shareholder-friendly orientation. And encourage them to engage with Valeant and consider their proposed 50% premium transaction. So let s move forward. I m going to skip through the outline and we re going to just dig in. Okay.

PG.2

08:33:16:00	So what drives us here is Allergan s governance track record. And in particular how they ve responded to the Valeant transaction. So we respect the right of a board to adopt a negotiating strategy and in many cases it s appropriate not to respond to initial bid or to a revised bid. However, in this case we have not an all-cash transaction to acquire a company. We have a proposed merger between two similarly sized enterprises.
08:33:24:00	So we respect the right of a board to adopt a negotiating strategy and in many cases it s appropriate not to respond to an initial bid or to a revised bid. However, in this case we have not an all-cash transaction to acquire a company. We have a proposed merger between two similarly sized enterprises.

PG.3

08:33:46:00	Allergan shareholders will own 44% of the combined company. The combined company s estimated to have 2.7 billion of synergies by Valeant. The combined company will have a different strategy, business model, than Allergan. And there s complexity to Valeant s financial statements because of how the company has grown through acquisition over the years.
08:34:06:00	That, to understand the value of that transaction requires one to understand the value of Valeant. That requires engagement, questions, and Allergan s board has refused to engage to meet, to have its advisors approach Valeant s management team, their company, their advisors, their accountants. We ve attempted to engage with Allergan and we ve approached the lead director. And we were not permitted to have a executive session one on one with the lead director over the telephone or otherwise.

PG.4

08:34:40:00	David Pyott has been authorized as the only person allowed to engage with shareholders on behalf of the company. And we believe David Pyott, as chairman and CEO of the business, has a disabling conflict by virtue of the fact that he will lose his control over the business and his role as CEO of the company.
08:34:58:00	The third piece is we think the company has gone, as I say, beyond the pale in the way that they ve attacked Valeant s business model and their management, their accounting in ways that are not supported by facts. And when Valeant has corrected the facts, Allergan has not even acknowledged or corrected their misstatements that they ve made public. So what is the standard for a board of directors in a situation where there s a takeover bid? The standard is the board is required to inform themselves of all material information about transaction and they have to act with care in evaluating it.

PG.5

08:35:30:00	The board has not done that here. They have certainly not made any attempt to understand material facts that are critical to their analysis. And the best evidence to that is that they ve made public statements that are materially false about Valeant s business.
08:35:45:00	And they have had access to whatever amount of material information they want because Valeant s had an open door with respect to meeting with the management, the board, their advisors to address any concerns they ve had. As a result, the shareholders have not had an opportunity to consider this offer. That, of course, combined with the poison pill and these very onerous bylaws. And unfortunately this kind of behavior is consistent with the, you know, the company s past governance behavior. And I m going to go into a fair amount of detail on that.

PG.6

08:36:16:00 And we think, you know, ultimately the shareholders need to have a board of directors that understand their fiduciary duties, their duty of care, their duty of loyalty, you know, their last duty, Roy?

08:36:30:00 ROY KATZOVICZ:

Good faith.

WILLIAM ACKMAN:

08:36:32:00 Yeah, I m just testing you. (LAUGHTER) And the company, the shareholders have asked Allergan a couple years ago for a special meeting provision to improve the governance of the company. The company recommended against it. The shareholders voted in favor of it.

PG.7

08:36:46:00	And the company adopted one of the what we believe to be the most onerous special meeting provision of any public company in the United States. And so that we ll discuss in a fair amount of detail. We ve proposed a special meeting which is a right that was granted by the company when they made changes to their charter and bylaws.
08:37:05:00	And the company s attempting to stop us from calling a special meeting for shareholders. Again, what s the purpose of the meeting? Purpose of the meeting is to give shareholders a chance to voice their point of view on the board, on the Valeant transaction, it s to give shareholders a voice.

08:37:21:00	And what legitimate board would stop that kind of activity? Again, we can t eng the board won t speak to us. The lead director who s been, by the way, on the board for 16 years, on the comp committee for I believe sixteen, the same period, a close friend of David Pyott. Clearly, in my view, not an independent director in this transaction. And not even willing to speak with us without Mr. Pyott, you know, on the phone or at the meeting. So we look at ISS, what they say about special meetings.
08:37:54:00	ISS says, In terms of day to day governance shareholders may lose an important right, the ability to remove directors or initiate a shareholder resolution without having to wait for the next scheduled meeting if they are unable to call a timely special meeting. Shareholders could also be powerless to respond to a beneficial offer if a bidder cannot call a special meeting.

PG.9

08:38:09:00 Basically the poison pill has locked out the ability for a bidder to make an offer directly to shareholders. And the only protection, the balance against the poison pill is the ability for shareholders to go to the ballot box, replace the board and look at an offer. In light of the timing of this offer, the company would, the shareholders would have to wait a year to next year s annual meeting, which can be delayed by the company. Could be 15 months. And that s why the special meeting s important.

08:38:37:00 Again, ISS continues, Past few years companies have responded to shareholder resolutions, seeking the right to call special meetings by offering management proposals with stricter requirements. Such restrictions can be used as anti-takeover devices, impeding the removal of incumbent board members or delaying a takeover attempt to the company. And therefore run counter to the stated intention of allowing shareholders to call special meetings. And then written consent, same idea.

PG.10

08:39:01:00 ISS continues, But the value of shareholder meetings precisely provides a definitive, authentic and unassailable answer to the question of what shareholders want. Mr. Pyott has made public statements about what shareholders, he says, are telling him to do. We ve heard not one shareholder make arguments in favor of some of the things Mr. Pyott has talked about, running out and doing an acquisition. So we d rather people not take our word but let s hear the shareholders word.

PG.11

08:39:21:00	To continue, Not every shareholder is in agreement on every issue to be sure. But shareholders in general, institutional shareholders in particular, accept that the shareholder vote is the premier mechanism for the owners of the company to settle significant questions about the company s future. Engagement can be a very effective mechanism for providing the board with insight, for settling complex questions about the company s future. However, it lacks the definitive authority of the shareholder vote itself. And we ve been deprived of that by virtue of the special meeting provisions here.
08:39:50:00	Just looking at the way the company has responded to requests from shareholders. So 2012, shareholders have asked for a special meeting with a 10% threshold to call a meeting. Got 55.3% of the votes cast in favor, management recommended against. ISS and Glass Lewis both recommended for.

PG.12

08:40:08:00	The company was forced to put it on the ballot but put in substantial restrictions. Among them, a 25% vote versus a 10% vote. All kinds of timing restrictions we ll get into. A newly onerous disclosure requirements to make a request which we think are unique, restrictions on similar items which restricts your ability of what you can do at a special meeting. In particular, the company makes it difficult to you can fire a director but makes it difficult to hire a director.
08:40:32:00	And then they this new provision about, you know, if you sell a share of stock between now and the time you call the special meeting, that share doesn t count toward the vote. 2013 shareholders asked for the right to act by written consent. Management, again, recommended against, ISS, Glass Lewis for. 50 got a majority vote from shareholders.

PG.13

08:40:56:00 They put it in the ballot. But, again, put in very similar restrictions on the written consent provision. And just this past year, shareholders have asked for a separation of chairman and CEO. Got a majority vote. Management, again, voted against. ISS, Glass Lewis in favor.

08:41:09:00 (OFF-MIC CONVERSATION)

WILLIAM ACKMAN:

08:41:14:00 And we ve heard nothing from the company with respect to this request from shareholders. So how do they make the special meeting difficult to call? Among other things, they require shareholders to become record owners. Lots of people don t even know what a record owner is.

PG.14

08:41:30:00	In the old days you d actually get a stock certificate. It would have your name on it. That s what it means to be a record owner. It s a very old fashioned process. It s complicated. It takes, could take, a couple weeks for an institution to get their shares in record form.
08:41:44:00	And there s no legitimate business reason for the company to ask for this. By the way, other companies have special meeting provisions, you send out basically a proxy in the mail. You get 10% votes, you call a meeting. There s no obligation to put shares in record name.

PG.15

08:42:00:00 They have a provision that says special meetings may not consider similar items, the most significant similar item, you know, what s covered at a board meeting, annual meeting every year is the election of directors. So they re basically saying you can t elect new directors at a special meeting. They have incredibly onerous disclosure requirements that you have an ongoing duty to update. You have to give two-year trading data in Allergan. You have to talk about relationships with Allergan and their competitors among your employees.

08:42:26:00 Imagine an organization with 25,000 employees. Think about that kind of requirement. What we understand from our proxy solicitor is a highly unusual requirement for Cede & Co., the depository, to itself submit the individual signed meeting requests. You know, this is expensive and time-consuming resource. Takes a lot of resources.

PG.16

08:42:46:00 And then the board determines at its sole discretion whether the meeting requests are compliant. If they re not, they kick them out and magically you could fall below the threshold. 25% vote meeting request must be quote, unquote in proper form. Shareholders have to represent that they intend to hold their shares through the date of the special meeting. And, by the way, a lot of people have been confused by this.

08:43:06:00 A lot of the meetings we ve had so far people say, Well, am I locked out from trading in order to vote in favor of this special meeting? The answer is shareholders are not locked out from trading. They do have to have an intent to hold the shares. Obviously intent can, you know, your actions can change. But if you do sell, those shares don t count.

PG.17

08:43:28:00 And then you have to acknowledge that a sale of their shares prior to the meeting day will constitute a reduction in the shares supporting the special meeting. And you got to update, you know, to the company at various points in time on the record date I think ten days before the meeting how many shares you still own or the company can cancel it at the very last minute.

WILLIAM ACKMAN:

08:43:49:00 They also have a very unusual provision that says, has a couple constraints on when a meeting can be held. And they say you can t have a meeting 90 days prior to the anniversary of the previous meeting. So if the meeting was May 7th, that means that, between February 7th and May 7th, you can t have a special meeting.

PG.18

08:44:06:00 Now the company has the ability to delay the request for 120 days. So that knocks out 210 days of the year in which you can hold a meeting. So if you decided the day after the annual meeting which, of course, you never would, to call a special meeting why would you want to call a special meeting the day after the annual meeting? But let s say you did. There s a very narrow window, between mid-October and early-February, in which you can actually call a meeting.

08:44:36:00 And if you get started a little bit late, you know, let s say that the bid from Valeant came in instead of in late April, but it came in in August or September, you re locked out. And so at best you can have one meeting. But you ve got to get a lot of stuff done. And a lot of the procedural requirements, the requirement that you actually have you know, a lot of companies, by the way, you can call a special meeting with a 10% vote. That means a shareholder who owns 10% can call a meeting.

PG.19

08:45:02:00	In Allergan s case there s a pill so you can t own 10%. You re not allowed to talk to other shareholders by virtue of the pill other than by using the proxy solicitation process. And you ve got to reach out to all of the shareholders to get the required 25% vote. And that process requires SEC clearance, proxy solicitation, printing, mailing. It s a very fairly extraordinary thing.
08:45:22:00	The bylaws, by the way, were not shown to the shareholders when they approved this special meeting. The shareholders asked for a 10% provision. The company came back and said, Fine. We ll give you 25%. And I think shareholders, you know, 25% is better than nothing. And then the board put in place these onerous bylaws without showing them to shareholders.

PG.20

ROY KATZOVICZ:

08:45:42:00 So without a vote of the shareholders.

WILLIAM ACKMAN:

08:45:43:00 Without a vote of the shareholders. And, you know, people are stuck with bylaws that are until either the next annual meeting or special meeting for them to be fixed. Provisions, as I mentioned, is intent to hold shares sold get kicked out. You know, these are very unusual, we believe unique, provisions.

08:46:05:00 We ve covered a lot of this. And why don t we keep moving? Okay. So next thing the board did is it designed a poison pill that was highly restrictive in terms of the ability of shareholders to speak to each other. And when you combine that with the incredibly onerous disclosure requirements and mechanics to call a special meeting, a lot of explanations are required; It became practically impossible for us to say to shareholders that they could participate in a solicitation without being in violation of the pill.

PG.21

08:46:38:00	We thought that would threaten conservative counsels of investors to not participate in the calling of the special meeting. So what we did was we went to Allergan and we said, Look, please clarify that the pill does not apply. And they wouldn t do so. So we had to go to court and we had to sue the company which, again, is a waste of time and resources.

PG.22

08:46:55:00 And hearing what the judge had to say at an expedited hearing the company capitulated. And the pill does not prohibit us from calling a meeting. But that cost us time. And that affects, again, that narrows the window, that delays the deal. So when you look at what s required to call a special meeting, there are actually four very extensive steps that will take weeks for the bigger institutions to comply with.

08:47:23:00 Now interestingly Allergan s done something I also haven t seen which is a revocation campaign. They re actually seeking to encourage shareholders not to call a special meeting. Now what does it require to not call a special meeting? Well, here they send you a proxy in the mail and you just say, Check a box you can do it on the internet, you can do it over the telephone, you can do it by mail. It s the easiest thing in the world. You check a box and you re no longer you ve just revoked all that complicated stuff that took you several weeks to do.

PG.23

08:47:52:00 So it s unbelievably burdensome. It could take weeks. Very, very difficult for organizations. Although fortunately we ll get to that we re making good progress there. But the company makes it incredibly easy. You know, what if this was reversed? What if calling a special meeting was one step and you send someone something in the mail and they check a box, they do it on the internet and the phone. But in order to revoke the meeting you actually had to put shares in record form and you had to go through these logistics? I mean, think about that in terms of how fair this provision is designed. I think it is shocking.

PG.24

08:48:36:00	Now what is Allergan s response in their proxy solicitation to ask people not to call the meeting? And they give two reasons. I encourage you to read their whole document. But let me just tell you what the two reasons are. They talk about significant risks and costs associated with calling and holding a special meeting that shareholders need to be aware of. And here are those risks and costs.
08:48:57:00	Quote, A special meeting, the related solicitation risks diverting significant time and resources when it is critical that Allergan s board and management be fully focused on operations and executing the company s strategies. Rather than hold a special meeting our board and management strongly believe the more prudent course of actions for Allergan to focus on extending its track record of substantial growth. The board and management are confident we ll create significantly more value for stockholders than Pershing Square s and Valeant s proposal.

08:49:23:00	So it s a distraction this special meeting and a lot of risk associated with it. It might company might veer off its growth path. Guess what I would say is the distraction here is called by Allergan. A very attractive proposal has been made to shareholders. If the board were to engage immediately, determine whether this offer is attractive, negotiate and Valeant has offered to negotiate the terms of this deal, you know, as an Allergan shareholder, shareholders would like to see what s in Valeant s pocket that would take a relatively short period of time. There would be very little distraction.

08:49:57:00	What s distracting is that Allergan is dragging this out and, by the way, I would not want to be an Allergan employee right now with this going on. And I feel bad for the Allergan employees with all the uncertainty about the future of the company which is going to continue for as long as this gets delayed by Allergan. So I think this is actually quite false which is the distraction is not being caused by a special meeting that will take an hour to be held. The distraction s being caused by Allergan, by delaying the potential for the the board and the company to consider a transaction.
08:50:31:00	The second point they make I find also fascinating success of solicitations would also require Allergan to incur additional financial costs including with respect to internal allocations, third-party advisory fees, printing, mailing, solicitation expenses, other costs. Now Allergan, as everyone knows, is not a company known for being particularly disciplined about costs so I find it interesting that they are now focused on cost.

PG.27

08:50:50:00 But the mailing and the printing,they say successive solicitation. So it sounds like they re going to send future mailings to people encouraging them to withdraw their consents for the special meeting. And they re concerned about those incremental mailing costs. There s a transaction on the table with a 50% premium, you know in the you know, $15 billion whatever the number is, you know multiple billions of dollars. And the company is now concerned about mailing costs. You know, I find this extraordinary.

PG.28

08:51:19:00 You look at the company s own corporate governance guidelines. And here I give a lot of credit to the proxy advisory firms who have pushed, I think in this case ISS, the description of the lead director s role was much more limited than the proxy advisory firms like to see. And the company revised supposedly Mr. Gallagher s purview as lead independent director.

08:51:43:00 And they put in language in the proxy this year that says he consults with the chairman of the board, other board members and corporate governance practices and policies and assuming the primary leadership role and addressing issues of this nature if under the circumstances it s inappropriate for the chairman of the board to assume such leadership. We have a transaction where Mr. Pyott has a direct conflict of interest.

PG.29

08:52:03:00	Mr. Gallagher is the appointed person under the company s proxy to meet with and speak to shareholders. We re the largest shareholder of Allergan. Mr. Gallagher would not we asked for a call with Mr. Gallagher, a meeting with Mr. Gallagher without Mr. Pyott present. He would not do so. He said and then our next opportunity to engage with the company with Mr. Pyott, he gave us 15 minutes and we asked him for the opportunity to address the full board and Mr. Pyott said that he is the only person authorized on behalf of the board to engage with shareholders. So, again, this is a major governance failure.
08:52:43:00	If you look at the board and I focus in particular on long-tenured directors. You look at Gallagher, Trevor Jones, Russell Ray, you know, these are substantial people. They are not meaningful shareholders in the company. And I don t think meaningful relative to their respective net-worths.

08:53:05:00	And frankly, the director s fees here are quite large. Directors make $300,000, $400,000 a year to serve on this board. They ve certainly not shown skin in the game. We have some, and particular I focus on Michael Gallagher, on the board 16 years with Mr. Pyott in the lead director seat.
08:53:26:00	You know, it s hard for in light of the personal relationships that develop over time of you know, he s on the compensation committee he s really not and he s not behaved like a independent lead director. Note that shareholders, 1/3, voted against him in the most recent annual meeting. And again, below the average 95% votes for Trevor Jones and Peter McDonald and these are two of them are members of the comp committee. And they ve gotten lower than average support from shareholders I think is notable.

PG.31

08:54:01:00	And again, I m not attacking the character of the people on the board. Let me be really clear. I think these are high-quality individuals. I think they ve gotten too close to Mr. Pyott. And I think that has affected their judgment in this transaction. These are, for the most part, certainly the long-standing directors, these are long-standing friends of Mr. Pyott. And those kind of relationships unfortunately can affect a director s judgment.

PG.32

08:54:21:00 Let s look at our third parties view of the board. So on board structure, ISS ranked Allergan they gave it the worst ranking which is a ten. And I ll suggest to ISS they change ten s usually a good thing. But in this case ten is a bad thing. This is the worst ISS ranking. And in fact, ISS recommended against the reelection of Mr. Gallagher at the 2014 AGM for failing as corporate governance, compliance committee chair to implement the shareholder proposal that was proposed by written consent. And he received 1/3 withhold votes.

08:54:57:00 Eight of the nine directors received approval ratings below the average level. Three below 90%. And we ve got some long-standing I don t really object to a few long-standing directors. But after ten years I think a director loses a bit of objectivity in his particular role and you have to really carefully analyze that director to decide whether he should stay.

PG.33

08:55:15:00 No separation of Chairman and CEO. You know, these are the principle factors that gave the company a ten out of ten. Ten being the worst ISS ranking. On shareholder rights the company s a nine out of ten. But my advice is that should be reassessed based on how the company has responded this year. And then you have the poison pill. Poison pills you know, restricting the ability of shareholders to communicate other than through the proxy process is a unnecessary restriction, in my opinion, without a business justification.

08:55:48:00 And so the only way we can speak to each other is to call a special meeting and we re given a very narrow window. By the way, the window they ve chosen happens to be Thanksgiving and Christmas, if you note that. So just think about how difficult it is to call a meeting at this company.

PG.34

08:56:02:00 Company of course has the flexibility to delay the annual meeting. Companies typically can delay a meeting for several months past the meeting date. So even if, you know, just, again, another reason here. Think about a bidder who s made a bid at this period of time. If you had to wait until the last period of time when shareholders could communicate if there was no special meeting, a bidder would have to wait let s say, you look at, in the case of Valeant the bid came in April 21st, you d have to wait till September [of 2015] in order to have shareholders consider their transaction without a special meeting provision.

PG.35

08:56:32:00	I would say no bidder there ll be no hostile bids. There ll be no actually I m going to change the term hostile bid. I call them happy bids. They re happy bids because everyone is happy except for the only that s hostile to is the management the senior management of the target company. And I think we there are a lot of happy Allergan shareholders versus the stock at $116 a share a few months ago.
08:57:03:00	In the meantime, there s risk. You know, we re in a very bullish credit environment right now. As we ve seen that can change effectively overnight. The financing, you know, Valeant has committed financing. But commitments don t last forever. Banks fail. Things happen. You know, we ve been through a crisis recently. Markets change. Opportunities change.

PG.36

08:57:21:00	Valeant has a business to run. Now they re very committed to the transaction. They re going to see it through. It s important to them. They ve said so publicly. But they re going to see it through in the context of a special meeting that we re going hold at the end of the year.
08:57:33:00	I can t speak for Valeant if, you know, if we re if it s a year from now and they re still hanging around the hoop waiting to hear what shareholders have to say. In the meantime, there s a real risk that Allergan s board and management could take value destructive actions to thwart the offer. And among them and our fear here is not just a made up fear. Mr. Pyott has made very clear in recent speeches and statements that the company and he are considering doing a major acquisition which could be $10 billion or more.

PG.37

08:58:00:00	Now notice the acquisition he s considering is one that does not require shareholder vote. It s one that would use debt resources and the company s cash flow. And the shareholders have no ability to vote on that transaction. And you ve got a CEO quote, unquote defending the company who has zero track record on large transactions and a poor transaction [record] which we ll take you through on small transactions where every seller in the world knows you ve got a desperate guy willing to buy.
08:58:22:00	And then we have a very, very heated market for pharma assets. That is not a market in which this company should be running out to do a major transaction. That could be enormously value destructive. And, by the way, if they finance it by issuing debt with various onerous prepayment provisions, I mean, today if you do you know, interest rates as low as they are and you ve got yield maintenance prepayment, you know, you could put in enormous friction that could take away a lot of value from shareholders.

PG.38

08:58:52:00	And the company is also talking about a buyback. Now I find it remarkable. This is a company that for years shareholders have been saying, Please buy back stock. You ve got a unlevered balance sheet. You generate a lot of free cash flow. The board has the company s basically bought back almost enough shares to cover the options they ve granted to management and that s basically it.
08:59:15:00	Now they re thinking about doing a buyback. A year ago the stock was $82. Today the stock s doubled. And they re e talking about a $10 billion buyback. $10 billion buyback would have to be done at a premium. This would not be

PG.39

this would be an incredibly damaging transaction for shareholders plus the restrictions associated with the debt. So what does the special meeting do? Gives us a path to completion for the offer and I would say very importantly it fixes Allergan s bylaws.

08:59:41:00 And more significantly it makes the threat of these kind of bylaws being spread to every other company in corporate America much lower. Path to the deal. Special meeting, we can remove Allergan directors. We can propose a number of directors which hopefully with seeing what the shareholders want, the existing board will appoint to the board. If they choose to just immediately reappoint the directors that we got rid of which they claim they have the ability to do we ll run into court under Delaware 223C and ask the court to put through shareholders interests.

PG.40

09:00:21:00	Now what do we think is a more sensible path? What do we think is a more likely path assuming the board comes to its senses? So we re taking the steps to get to the special meeting. It will be a significant event for this board when we get 25% support and I can t know for certainty that will happen.
09:00:44:00	But we think it s likely based on conversations so far. And I remind you that we have 9.7% already. So this is really not 25%, it s 15.3% of the 85% of the shares that are outstanding. To me another 15% now we re going to need a big cushion to the 15% because of the risk of Allergan kicking out some of the shares.

PG.41

09:01:11:00 So this is not really a 25% special meeting provision because of the way they ve designed it. It s probably a 35% or 40% special meeting provision if you think about it. We want a big margin of safety. So this is, because your shares don t count if you sell, and we re not asking people to lock up their shares between now and the meeting we want a very big cushion for shareholders who may choose to sell during the period. Now good news here is we ve named six terrific directors. I ll get to them.

09:01:41:00 We ve identified six members of the board that we re going to replace. And that is a threat to those directors. These directors are at a stage in their career, for the most of them, where being on boards is what they want to spend the rest of their career doing. When we were putting together a slate for this meeting, you know, frankly we didn t want directors that have been thrown off by their shareholders.

PG.42

09:01:56:00	It becomes much more difficult to get on a board particularly a high-profile board if you ve been thrown off the Allergan board. And I think that might cause a director to come to his senses and say, Hey, maybe we should think about this. And so we think the company s negotiating leverage deteriorates the moment we can deliver consents for 25% of our special meeting. We expect that will be sometime hopefully in the middle of August. And the clock begins ticking at 120 days if the company wants to delay as much as possible.
09:02:24:00	And as that day approaches when this sword of Damocles is going to come down again, it tends to motivate directors to come to their senses. As a shareholder activist I can tell you most activist engagements settle before the board meeting. And a settlement here would be Allergan immediately engaging with Valeant. And when boards see the writing on the wall and when they see shareholders saying, Guys, it s time hopefully we can accelerate this process. And that s why this is important.

PG.43

09:02:52:00 Now why is near-term engagement important? Allergan will say, Hey, we got an annual meeting. It can wait. You know, they ll be interested. Don t worry. Well, a couple reasons, number one, part of the transaction consideration is cash. So getting that cash sooner is obviously a positive. You can reinvest it otherwise. Part of the transaction consideration is stock.

PG.44

09:03:11:00	But even here if the transaction happens sooner, the synergies are achieved sooner, the value is created sooner. The stock price of the combined company goes up sooner and that creates value for shareholders. So obviously there s a big positive to getting a transaction done sooner.
09:03:25:00	Number two, in the meantime we re exposed to what s going on at Allergan. If Allergan has big lawsuit comes in or makes progress on one of Allergan s key drugs, and we saw LATISSE recently have a loss in the courts that can have a very material impact on the value of Allergan. And that will have an impact on the price that Valeant is likely to be willing to pay for the company.

PG.45

09:03:52:00	And shareholders are exposed to those kinds of risks in the meantime. Or as I mentioned before if a company makes a done deal and destroys shareholder value. We were exposed to those kind of risks the more time that goes by. And then you have the risk of financing markets and equity markets, moving.
09:04:11:00	And you know, I would say the financing markets cannot get better than where they are. We re pretty close, you know, with junk, you know, so-called non-investment grade debt trading being newly issued in the fours. You can t ask for a better market than this. But that can change overnight.
09:04:31:00	The other thing I would mention here is the moment a merger agreement is signed that binds Valeant, and I would encourage the board to make it as incredibly tight as possible so that Valeant has few alternatives, and can t get out of the deal basically. We want an absolutely, you know, tight transaction here. Now what s

PG.46

typical in merger agreements however is you see that companies retain a fiduciary out which means that if, indeed, there is someone who can offer more value than Valeant, they re free to come in and typically in those kind of cases, you know, Valeant would get a meaningful breakup fee that was appropriate but within the Delaware kind of levels of appropriateness.

09:05:13:00 So shareholders are not locking out some other great alternative if it were to come along. So I just think the notion of negotiating a deal soon before the company loses its leverage you know, letting the directors on this board preserve their dignity by being the group that acts, behaves like fiduciaries on behalf of shareholders and negotiating again, and Valeant s offered to negotiate. And I would focus frankly on the terms of the merger agreement I think are critically important and I d make them as tight as possible.

PG.47

09:05:39:00	All of that can be accomplished if that discussion starts now. If that discussion starts a couple of days before the, you know, when it s a certainty which way the vote is coming down and, you know, that information will be known as you start to approach and get pretty close to the special meeting vote the company will lose negotiating leverage and really it will be the new board that responsible for negotiating deal. And frankly, I have enormous confidence in these directors to negotiate a fabulous deal and we ll talk about that.

PG.48

09:06:17:00	Let s talk about them. So what were we looking for here? Now what s interesting about this situation is this is not your normal proxy contest where you re putting in directors who are going to govern a company going forward. You know, Canadian Pacific, we ran a proxy contest, we put on seven directors. And we were looking for people who wanted to be part of, you know, changing the leadership and the board of the company. But they knew stepping on they were stepping into a situation where they could be a director for four, five, six, eight years. And so it would be an interesting experience and rewarding for them.
09:06:48:00	What s interesting about this situation is the directors who have signed up understand that this may be a relatively short-term board assignment. If, in fact, they join this board and, in fact, the Valeant transaction or another transaction s the best transaction and the company is sold well, you know, one or two or some of these directors may end up on the combined company s board. There s certainly no assurance of that.

PG.49

09:07:04:00 So it may be a very short-term engagement. So there s not a lot of economics in terms of director s fees that one can glean obtain from being a member this late. So but we wanted incredibly high-quality people with very high shareholder orientation track record. And we got that because there was nothing economic in this for these directors. But what they re interested in is continuing their reputation for being stellar representatives of shareholders on boards. And they studied the situation. They found it compelling. And they wanted to represent the interests of a $50 billion company in deciding its future.

PG.50

09:07:38:00	Why don t I turn it over? I ll turn it over to Bill Doyle. I ll just mention Betsy who I spent a little more time with than Bill did. First of all, in terms of what we re looking for, we wanted directors who had no previous affiliation with Valeant or with Pershing Square.
09:07:53:00	Only one of these directors had I met before John Zillmer. I flipped the page to John. John we considered as a potential director for Air Products when we were considering proxy contests about a year ago. We ended up not running a proxy contest there. As I mentioned, things tend to settle. In this case, we didn t go anywhere near a proxy contest. We found a board of directors that was very focused on what were the best interests of their shareholders.

PG.51

09:08:26:00	But we actually covered a few thousand dollars of John s travel expenses when he flew to meet us. But other than that no economic or other relationship and we did not have a relationship with John since that time. But let me go through the other candidates.
09:08:38:00	Betsy Atkins. Betsy is an entrepreneur. Helped build a company called Ascend Communications as a founder up to I think $5 billion revenue companies sold to Lucent) for $24 billion. And she has built, founded, sold a number of companies over her career. In the venture capital space as we speak and a very, very experienced director. And based on my I ve not met her yet I m going to meet her soon, you know, a dynamo. And she sounds terrific. Cathie Black has tremendous board experience, you know, let s start with that and then we ll talk about her career experience on some of the most important boards in the country.

PG.52

09:09:16:00	On IBM for about 16 years, on Coca-Cola for almost 20. I would love to have been on a board with Warren Buffett during that period. And I d love to learn more from Cathie about some of those experiences. You know, she s a media senior executive over the course of her career at Hearst. And she was president of *U.S.A. Today,* you know, building one of the most successful media publications in the country.
09:09:50:00	I guess she got a little bit of a notoriety when Bloomberg asked her to be kind of run New York City s education system. This was not her expertise. But when the mayor taps you on the shoulder and says, Cathie, I need you she gave it a shot. And, you know, this is quite a political and difficult job. And 96 days in she stepped aside. But what we love about Cathie from her reputation is she is among the most straight-talking, tough, but says what she thinks kind of people. And with that, let me turn it over to Bill on Fred Eshelman.

PG.53

BILL DOYLE:

09:10:18:00 Yeah, so in addition to selecting directors that were independent and experienced and focused on creating shareholder value there are also a couple of specific issues that this board is going to have to consider. And we wanted to be sure that the board was capable of forming an independent judgment.

09:10:34:00 One of them is R&D. There s quite a bit of discussion about R&D models, the validity of R&D models. R&D can be a black box to people who are not familiar. And Fred Eshelman is an expert in pharmaceutical R&D. A long time senior executive of Glaxo. Founded his own company, Furiex

PG.54

Pharmaceuticals which he sold successfully to Forest. And also was a founder of a CRO. And one of the important considerations here is the difference between a high-fix cost R&D structure and the ability to variabilize that cost. And Fred is an expert in considering those issues.

09:11:07:00 In addition, when we re looking out at the future value products, we have to consider not only the R&D and the pharmaceutical company side, but the payer side. What will people pay for these products? And this is a big issue that we ll get to in a minute with respect to Allergan s pipeline. But in crowded markets where there are generic entrants when you re projecting into the future you need to understand the payer perspective. And Steve Shulman is an expert in representing that perspective. Additionally, accounting has been thrown up as one of the

WILLIAM ACKMAN:

09:11:45:00 Do you mind if I jump in on Steve?

BILL DOYLE:

09:11:48:00 sure.

WILLIAM ACKMAN:

09:11:49:00 Steve has also been stepped into situations not dissimilar to this one. He stepped in as chairman of Health Management Associates, relatively short-term role. There was a shareholder activist in that case. It was Larry Robbins. But he s got a lot of experience as a turnaround executive, as a restructuring executive. A guy who understands cost control and efficient operations of businesses.

BILL DOYLE:

09:12:13:00 Absolutely. And then the final issue that I ll mention is that Allergan has attacked Valeant s accounting. It is true that for acquisitive companies the accounting is complicated. And it s also true that acquisitive companies historically have misused accounting to their advantage. We ve done significant due diligence

PG.56

WILLIAM ACKMAN:

09:12:33:00 I would say some acquisitive companies

BILL DOYLE:

09:12:35:00 some, some. Absolutely. And I was going to say that, we ve done significant due diligence of Valeant. We don t believe that s the case. But we wanted an independent director on the board who was capable of making that assessment for the board. David Wilson s a Ph.D. accountant, long-time partner at Ernst and Young and is absolutely capable of digging through all the smoke screens around the accounting issues.

PG.57

WILLIAM ACKMAN:

09:13:05:00	And then John Zillmer who I mentioned before. John is a true operating executive. Spent a meaningful part of his career at Aramark. Stepped in as chairman/CEO of Allied Waste which was a turnaround KKR and Apollo were on the board as a public company, not a successful investment. And he made it one for them and for their shareholders ultimately selling the company, merging with Republic Services.
09:13:31:00	I think Republic, my recollection, was smaller than Allied Waste. But in order to get the deal done, you know, Republic wanted to run the CEO wanted to run the company, John stepped aside. And we respected his decision to step aside because that was the right thing to do for shareholders in that case.

PG.58

09:13:44:00	And then Univar, you know, most recently. And, you know, super-talented, operating executive. And a person of impeccable character. I encourage people to check on John Zillmer. He s probably not well-known in the pharma space. And again our goal here wasn t to put on a bunch of people from pharmaceuticals. You know, the issues here we wanted people with some domain expertise. But we wanted broad business expertise, relevant accounting expertise, people who are, the most important issue is character, independence and reputation for shareholder orientation.
09:14:14:00	So two things fix the special meeting provisions we re going to get accomplished at the special meeting. And I think most significantly if we don t, we re unsuccessful and Allergan s allowed to basically get away with this, the Wachtell Lipton Firm which is representing Allergan right now will be promoting these bylaws. I m surprised they haven t started promoting them already. Maybe they re going to wait for the outcome of the special meeting.

PG.59

09:14:33:00 But every company in America will have bylaws like this for their special meeting if this is allowed to stand in this particular case. So if you want to support this special meeting you should contact Ed McCarthy or just call the D.F. King number. There s an 800 number for those focused on cost control in the proxy materials that we ve sent you. And they can help you through the mechanics.

09:14:54:00 So let s get to the deal. We believe the deal now has reached a level where a board acting in the interest of their shareholders needs to engage. Valeant has materially increased its offer. Pershing Square has agreed to take materially less consideration than others to get to kind of a $180 nominal number that was the number given to us by the biggest shareholders of the company as, you know, a today value of $180. Obviously we think the future value if the transaction closes is materially larger.

PG.60

09:15:34:00	And of course as I mentioned before I ll get to this sorry, one second is that this is not a all-cash deal and it does require substantial due diligence on the part of Allergan to determine whether this is an attractive deal for shareholders.
09:15:43:00	So it s time to engage. And that s why one of the important reasons for the special meeting. We look at, we ve done an analysis here that is done by many of the kind of the proxy advisory, a number of the proxy advisory firms on is this compelling transaction? Is it enough of a premium to consider?

PG.61

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. 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 that our audits provide 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 Poker Magic, Inc. as of December 31, 2010 and 2009 and the results of their operations and cash flows for the years then ended and the period from January 10, 2006 (inception) to December 31, 2010, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the company will continue as a going concern. As discussed in Note 8 to the financial statements, the company has incurred net loss during the development stage and required additional working capital, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are described in Note 8 as well. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 4, 2011

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

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash	$ 3,081	$ 5,464
Inventory	-	1,621
Total Current Assets	3,081	7,085
Intangible Assets, Net of Amortization	-	10,340
Total Assets	$ 3,081	$ 17,425
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current Liabilities		
Accounts Payable	$ 8,823	$ 13,446
Accrued Royalty	270	120
Notes Payable Related Party – short-term	94,800	40,000
Interest Payable	4,027	873
Deferred Revenue	-	975
Total Current Liabilities	107,920	55,414
Long-Term Liabilities		
Notes Payable Related Party – long-term	11,200	-
Total Long-Term Liabilities	11,200	-
Total Liabilities	119,120	55,414
Shareholders' Deficit		
Common Stock, $.001 par value: Authorized 250,000,000 shares: Issued and outstanding 11,008,224 and 9,963,224 shares.	11,008	9,963
Additional Paid-in Capital	714,332	644,877
Deficit Accumulated During the Development Stage	(841,379)	(692,829)
Total Shareholders' Deficit	(116,039)	(37,989)
Total Liabilities and Shareholders' Deficit	$ 3,081	$ 17,425

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

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

	Year Ended December 31, 2010	Year Ended December 31, 2009	Period from January 10, 2006 (inception) to December 31, 2010
Revenues	$ 3,000	$ 6,050	$ 12,375
Cost of Revenue	12,111	12,916	61,800
Gross Loss	(9,111)	(6,866)	(49,425)
Operating Expenses: Selling, General and Administrative	130,285	159,862	784,130
Operating Loss:	(139,396)	(166,728)	(833,555)
Other Income (Expense)			
Interest Income	-	192	2,203
Interest Expense	(9,154)	(873)	(10,027)
Total Other Income (Expense)	(9,154)	(681)	(7,824)
Net Loss	$ (148,550)	$ (167,409)	$ (841,379)
Basic and diluted net loss per common share	$ (0.01)	$ (0.02)	$ (0.10)
Weighted-average number of common shares outstanding	10,179,662	9,342,722	8,145,437

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

Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Balance at inception January 10, 2006	-	$-	$-	$ -	$ -	$ -
Issuance of restricted common stock to a founder and a member of the Board of Directors on January 10, 2006 for cash and a subscription receivable for $0.001 per share, net cash to the company $1,000 and a subscription receivable for $1,500	2,500,000	2,500	-	(1,500)	-	1,000
Issuance of common stock for purchase of Select Video intangible assets valued at $0.001 per share on March 10, 2006	3,022,991	3,023	-	-	-	3,023
Issuance of common stock for cash of $0.25 per share on May 9, 2006	100,000	100	24,900	-	-	25,000
Issuance of common stock for liabilities assumed at $0.25 per share on May 23, 2006	60,000	60	14,940	-	-	15,000
Issuance of common stock for cash of $0.25 per share on May 23, 2006	100,000	100	24,900	-	-	25,000
Issuance of common stock for consulting services at $0.25 per share on May 23, 2006	22,000	22	5,478	-	-	5,500
Issuance of common stock for cash of $0.25 per share on May 24, 2006	100,000	100	24,900	-	-	25,000

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Issuance of common stock for cash of $0.25 per share on August 21, 2006	50,000	$ 50	$ 12,450	$ -	$ -	$ 12,500
Issuance of common stock for consulting services at $0.04 per share on December 15, 2006 based on value of services rendered and to be rendered	100,000	100	3,900	-	-	4,000
Issuance of common stock on May 23, 2006 for a sub-scription receivable at $0.25 per share	50,000	50	12,450	(12,500)	-	-
Net Loss	-	-	-	-	(43,127)	(43,127)
Balance as of December 31, 2006	6,104,991	6,105	123,918	(14,000)	(43,127)	72,896
Issuance of common stock for consulting services at $0.083 per share on January 15, 2007 based on value of services rendered and to be rendered	600,000	600	49,400	-	-	50,000
Issuance of common stock for officers compensation at $0.096 per share on January 15, 2007 based on value of services rendered and to be rendered	500,000	500	47,500	-	-	48,000
Issuance of common stock for cash of $0.25 per share on July 10, 2007	40,000	40	9,960	-	-	10,000

Issuance of common stock for cash of $0.25 per share on July 23, 2007	40,000	40	9,960	-	-	10,000

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Issuance of common stock for payment of note at $0.2354 per share on July 26, 2007	20,000	$ 20	$ 4,689	$ -	$ -	$ 4,709
Payment of subscription receivable on July 27, 2007	-	-	-	1,500	-	1,500
Issuance of common stock for consulting services at $0.083 per share on August 1,2007 based on value of services rendered and to be rendered	100,000	100	8,200	-	-	8,300
Issuance of common stock for consulting services at $0.077 per share on August 1, 2007 based on value of services rendered	65,000	65	4,935	-	-	5,000
Issuance of common stock for consulting services at $0.04 per share on August 1, 2007 based on value of services rendered	25,000	25	975	-	-	1,000
Payment of subscription receivable on October 17, 2007	-	-	-	12,500	-	12,500
Issuance of common stock for consulting services at $0.25 per	50,000	50	12,450	-	-	12,500

share on November 26, 2007						
Issuance of common stock for cash of $0.25 per share on December 21, 2007	40,000	40	9,960	-	-	10,000
Issuance of common stock for cash of $0.25 per share on December 22, 2007	80,000	80	19,920	-	-	20,000

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Net Loss	-	$-	$-	$ -	$ (199,574)	$ (199,574)
Balance as of December 31, 2007	7,664,991	7,665	301,867	-	(242,701)	66,831
Issuance of common stock for cash of $0.25 per share on January 10, 2008	100,000	100	24,900	-	-	25,000
Issuance of common stock for cash of $0.25 per share on May 20, 2008	50,000	50	12,450	-	-	12,500
Issuance of common stock for cash of $0.25 per share on May 28, 2008	1,000,000	1,000	249,000	-	-	250,000
Issuance of common stock for consulting services at $0.10 per share on August 26, 2008 based on value of services rendered and to be rendered	200,000	200	19,800	-	-	20,000
Issuance of common stock for consulting services at $0.25 per share on August 26, 2008 based on value of services rendered	10,000	10	2,490	-	-	2,500
Issuance of common stock for consulting services at $0.083 per share on August 26, 2008 based on value of services rendered and to be rendered	120,000	120	9,880	-	-	10,000
Issuance of common stock for consulting services at $0.25	50,000	50	4,950	-	-	5,000

per share on August 26, 2008
based on value of services
rendered

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Issuance of common stock for consulting services at $0.25 per share on December 16, 2008 based on value of services rendered	40,400	$40	$10,060	$ -	$ -	$ 10,100
Officers compensation expense as contributed capital	-	-	38,000	-	-	38,000
Issuance of common stock for officers compensation at $0.25 per share on December 31, 2008 based on value of services rendered	32,000	32	7,968	-	-	8,000
Net Loss	-	-	-	-	(282,719)	(282,719)
Balance as of December 31, 2008	9,267,391	9,267	681,365	-	(525,420)	165,212
Redemption of common stock from a non-affiliated shareholder at $0.25 per share on February 25, 2009 based on original issuance cost	(366,667)	(367)	(91,300)	-	-	(91,667)
Officers compensation expense as contributed capital on March 31, 2009	-	-	12,000	-	-	12,000
Issuance of common stock for officers compensation at $0.03 per share on June 30, 2009 based on value of services rendered	600,000	600	17,400	-	-	18,000
Issuance of common stock for consulting services at $0.03	62,500	63	1,812	-	-	1,875

per share on June 30, 2009
based on value of services
rendered

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Issuance of common stock for officers compensation at $0.06 per share on September 30, 2009 based on value of services rendered	200,000	$ 200	$ 11,800	$ -	$ -	$ 12,000
Issuance of common stock for officers compensation at $0.06 per share on December 31, 2009 based on value of services rendered	200,000	200	11,800	-	-	12,000
Net Loss	-	-	-	-	(167,409)	(167,409)
Balance as of December 31, 2009	9,963,224	9,963	644,877	-	(692,829)	(37,989)
Issuance of common stock for officers compensation at $0.10 per share on March 31, 2010 based on value of services rendered	120,000	120	11,880	-	-	12,000
Issuance of common stock for officers compensation at $0.08 per share on June 30, 2010 based on value of services rendered	150,000	150	11,850	-	-	12,000
Issuance of common stock for officers compensation at $0.06 per share on September 30, 2010 based on value of services rendered	200,000	200	11,800	-	-	12,000
Issuance of common stock for officers compensation at $0.06 per share on December 31,	400,000	400	23,600	-	-	24,000

2010 based on value of
services rendered

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Poker Magic, Inc.
(A Development Stage Company)
Statements of Shareholders' Equity (Deficit)
For the years ended December 31, 2010 and 2009 and for the
Period from January 10, 2006 (inception) to December 31, 2010

	Common Stock Shares	Amount	Additional Paid-In Capital	Subscription Receivable	Deficit Accumulated During the Development Stage	Total Shareholders' Equity (Deficit)
Issuance of common stock for consulting services at $0.06 per share on December 31, 2010 based on value of services rendered	175,000	$175	$10,325	$ -	$ -	$ 10,500
Net Loss	-	-	-	-	(148,550)	(148,550)
Balance as of December 31, 2010	11,008,224	$11,008	$714,332	$ -	$ (841,379)	$ (116,039)

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

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

	Year Ended December 31, 2010	Year Ended December 31, 2009	Period from January 10, 2006 (inception) to December 31, 2010
Cash flows from operating activities:			
Net loss	$ (148,550)	$ (167,409)	$ (841,379)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of intangible assets	7,582	8,271	38,599
Impairment of inventory and intangible assets	4,379	-	4,379
Common stock issued for services	-	-	6,500
Consulting service expense paid in stock	10,500	4,791	134,341
Officers compensation expense paid in stock	60,000	42,000	158,000
Officers compensation expense as contributed capital	-	12,000	50,000
Changes in operating assets and liabilities:			
Inventory	-	(871)	(871)
Prepaid expense	-	-	5,434
Accounts payable	(4,623)	11,430	8,823
Accrued royalty	150	(46)	270
Interest payable	9,154	873	10,027
Deferred revenue	(975)	975	-
Net cash used in operating activities	(62,383)	(87,986)	(425,877)
Cash flows from investing activities:			
Acquisition of Select Video assets	-	-	(17,000)
Net cash used in investing activities	-	-	(17,000)
Cash flows from financing activities:			
Proceeds from subscription receivable	-	-	14,000
Proceeds from issuance of common stock	-	-	426,000
Redemption of common stock	-	(91,667)	(91,667)
Proceeds from note payable related party	60,000	40,000	100,000
Payment of short-term debt	-	-	(2,375)
Net cash provided by (used in) financing activities	60,000	(51,667)	445,958
Net increase (decrease) in cash	(2,383)	(139,653)	3,081
Cash, beginning of the period	5,464	145,117	-
Cash, end of the period	$ 3,081	$ 5,464	$ 3,081
Non-cash investing and financing activities:			

Acquisition of certain assets and liabilities of Select Video in exchange for common stock			
Inventory	$ -	$ -	$ 750
Intangible Asset	-	-	24,357
Accounts Payable	-	-	(32,000)
Note Payable	-		(7,084)
Accrued interest converted into note payable	6,000	-	6,000
Stock issued in lieu of cash for note payable	-	-	19,709
Stock issued in lieu of cash for prepaid services	-	-	175,400
Stock subscriptions received for common stock	-	-	14,000

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

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Poker Magic, Inc.
(A Development Stage Company)
Notes to Financial Statements
December 31, 2010 and 2009

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations and basis of presentation

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

Use of estimates

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

Cash deposits

The Company maintains its cash balances in financial institutions. Cash on deposit in excess of FDIC and similar coverage is subject to the usual banking risk of funds in excess of those limits.

Inventory

Poker table felt inventory is valued using the lower of cost (first-in, first-out method) or market. For the year ended December 31, 2010, the Company reported an impairment expense of $1,621 which is included in cost of revenues on the Statement of Operations. At December 31, 2010 and 2009, the inventory was valued at $0 and $1,621, respectively.

Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash, accounts payable and notes payable approximate fair value due to their relatively short maturities.

Intangible assets

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video, Inc. Three patents were acquired as a part of the March 10, 2006 purchase. The patents are stated at cost and are amortized on a straight-line basis over 60 months. Amortization expense was $7,582, $8,271 and $38,599 for the years ended December 31, 2010 and 2009 and the period from January 10, 2006 (inception) to December 31, 2010. In December 2010, the Company wrote-off the remaining intangible asset value of $2,758 due to the loss of the Company's only customer. The expense is included in cost of revenues on the Statement of Operations.

Impairment of long-lived assets

Management reviews the Company’s long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the asset’s value will be adjusted appropriately.

Income taxes

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

Revenue recognition

Revenue from sales under a license agreement is recognized when the following four criteria are met: 1) persuasive evidence of an arrangement exists (fully executed license agreement); 2) delivery of the Winner's Pot Poker game, felt and instructions have been rendered and for which the licensee is responsible to replace either through damage or normal wear and tear; 3) the price is fixed or determinable; and 4) collectability under the license agreement is reasonably assured. All revenue for the year ended December 31, 2010 and the period from January 10, 2006 (inception) to December 31, 2010 was generated from one customer. Revenues generated from the licensing of the Winner's Pot Poker game in New Jersey are not subject to sales and use tax although filing of an annual return is required and completed.

Advertising

Advertising costs are charged to expense when incurred. Advertising costs were $0, $3,517 and $14,964, respectively, for the years ended December 31, 2010 and 2009 and the period from January 10, 2006 (inception) to December 31, 2010.

NOTE 2—NET LOSS PER COMMON SHARE

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

	Year Ended December 31, 2010	Year Ended December 31, 2009	Period from January 10, 2006 (inception) to December 31, 2010
Numerator: Net Loss	$ (148,550)	$ (167,409)	$ (841,379)
Denominator: Weighted-average number of common shares outstanding	10,179,662	9,342,722	8,145,437
Basic and diluted net loss per common share	$ (0.01)	$ (0.02)	$ (0.10)

The 1,000,000 outstanding warrants at December 31, 2009 were excluded from the calculation of diluted loss per share as their effects were anti-dilutive due to the Company's net loss for the period.

NOTE 3—COMMITMENTS AND CONTINGENCIES

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

At December 31, 2010 and December 31, 2009, $270 and $120 were owed to Select Video under this agreement.

NOTE 4—SHAREHOLDERS' DEFICIT

Common stock

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

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

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

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

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

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

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

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

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

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

On August 1, 2007, the Company issued 65,000 shares of common stock for services to be provided over a 12 month period commencing retroactively on June 1, 2007. These services were valued at $5,000.

On August 1, 2007, the Company issued 100,000 shares of common stock to a consultant for services to be provided over a 12 month period commencing on August 1, 2007. These services were valued at $8,300.

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

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

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

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

On May 28, 2008, the Company raised cash of $250,000 at $0.25 per share through the issuance of 1,000,000 shares of common stock together with a warrant, classified as permanent equity, to purchase up to 1,000,000 shares of common stock, which was immediately exercisable. The warrants do not possess any embedded derivative features. The exercise price was $0.25 per share if purchased within six months of issuance. The exercise price increased to $0.425 for months seven through twelve (after the date of issuance) and to $0.50 after twelve months. The warrant expires on May 27, 2010.

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

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

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

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

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

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

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

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

On February 25, 2009, the Company redeemed, at the request of a non-affiliate shareholder, 366,667 shares of common stock held by a single shareholder at a price of $0.25 per share, for a total amount of $91,667, which was the price originally paid for the redeemed shares.

On June 30, 2009, the Company issued 400,000 shares of common stock for officer compensation with a fair value of $12,000.

On June 30, 2009, the Company issued 200,000 shares of common stock for officer bonus compensation with a fair value of $6,000.

On June 30, 2009, the Company issued 50,000 shares of common stock for consultant service bonus with a fair value of $1,500.

On June 30, 2009, the Company issued 5,000 shares of common stock for services with a fair value of $150.

On June 30, 2009, the Company issued 7,500 shares of common stock for services with a fair value of $225.

On September 30, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of $12,000.

On December 31, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of $12,000.

On March 31, 2010, the Company issued 120,000 shares of common stock for officer compensation with a fair value of $12,000.

On May 27, 2010, 1,000,000 warrants to purchase additional common stock at $0.50 per share expired.

On June 30, 2010, the Company issued 150,000 shares of common stock for officer compensation with a fair value of $12,000.

On September 30, 2010, the Company issued 200,000 shares of common stock for officer compensation with a fair value of $12,000.

On December 31, 2010, the Company issued 200,000 shares of common stock for officer compensation with a fair value of $12,000.

On December 31, 2010, the Company issued 200,000 shares of common stock for officer bonus compensation with a fair value of $12,000.

On December 31, 2010, the Company issued 125,000 shares of common stock as a bonus to a consultant for services with a fair value of $7,500.

On December 31, 2010, the Company issued 50,000 shares of common stock for consultant services with a fair value of $3,000.

At December 31, 2010, a total of 11,008,224 shares of common stock were issued and outstanding.

NOTE 5—INCOME TAXES

The Company is subject to the accounting standard for uncertainty in income tax provisions. As such, the Company is required to recognize in the financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Interest and penalties are expensed as incurred as operating expenses. The tax years that remain subject to examination by major tax jurisdictions currently are Federal 2008-2010 and State of Minnesota 2008-2010. The net operating loss carryforwards are subject to examination until they expire.

At December 31, 2010, the Company had federal and state net operating loss carryforward of approximately $670,000 available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2026 if not used before such time to offset future taxable income or tax liabilities. The Company's deferred tax asset is the net operating loss carryforward and the difference in patent amortization expense. The Company has established a valuation allowance of $328,000 and $277,000 at December 31, 2010 and 2009, respectively, against its deferred tax assets due to uncertainty surrounding the realization of such assets. The change in valuation allowance for the years ended December 31, 2010 and 2009 was $51,000 and $79,000, respectively, and for the period ended January 10, 2006 (inception) to December 31, 2010 was $328,000. Current and future changes in the stock ownership of the Company may place limitations on the use of these net operating loss carryforwards.

Reconciliation between the federal statutory rate and the effective tax rates is as follows:

	Year Ended December 31, 2010		Year Ended December 31, 2009		Period from January 10, 2006 (inception) to December 31, 2010	
Federal statutory tax rate	(34.0	)%	(34.0	)%	(34.0	)%
State taxes, net of federal benefit	(6.0	)	(6.0	)	(6.0	)
Valuation Allowance	40.0		40.0		40.0	
Effective tax rate	0.0	%	0.0	%	0.0	%

NOTE 6—NOTES PAYABLE RELATED PARTY – SHORT-TERM

On July 30, 2009, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company $10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12.0% per annum, and required that accrued interest be paid on a monthly basis until July 29, 2010, at which time the entire unpaid principal balance of $10,000 together with the unpaid accrued interest of $1,200 was due. Lantern Advisers, LLC agreed to renew the unsecured term promissory note and interest payable for a term of one year under the terms of the original promissory note which will become due on July 29, 2011.

On October 13, 2009, Lantern Advisers, LLC loaned the Company $10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12.0% per annum, and required that accrued interest be paid on a monthly basis until October 12, 2010, at which time the entire unpaid principal balance of $10,000 together with the unpaid accrued interest of $1,200 was due. Lantern Advisers, LLC agreed to renew the unsecured term promissory note and interest payable for a term of one year under the terms of the original promissory note which will become due on October 11, 2011.

On December 14, 2009, Lantern Advisers, LLC loaned the Company $20,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and required that accrued interest be paid on a monthly basis until December 13, 2010, at which time the entire unpaid principal balance of $20,000 together with the unpaid accrued interest of $2,400 was due. Lantern Advisers, LLC agreed to renew the unsecured term promissory note and interest payable for a term of one year under the terms of the original promissory note which will become due on December 12, 2011.

On April 1, 2010, Lantern Advisers, LLC loaned the Company $10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until March 31, 2011, at which time the entire unpaid principal balance of the promissory note will become due.

On May 1, 2010, Lantern Advisers, LLC loaned the Company $20,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until April 30, 2011, at which time the entire unpaid principal balance of the promissory note will become due.

On August 1, 2010, Lantern Advisers, LLC loaned the Company $10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until July 31, 2011, at which time the entire unpaid principal balance of the promissory note will become due.

On October 19, 2010, Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), each loaned the Company $5,000 under terms and conditions set forth in related unsecured term promissory notes. The promissory notes provide for simple interest to accrue on the unpaid principal balance of the promissory notes at the rate of 12% per annum, and require that accrued interest be paid on a monthly basis until October 18, 2011, at which time the entire unpaid principal balance of the promissory note will become due.

Total short-term related party notes at December 31, 2010 and 2009 were $94,800 and $40,000, respectively, provided working capital for the Company.

NOTE 7—NOTES PAYABLE RELATED PARTY – LONG-TERM

On January 21, 2010, Lantern Advisers, LLC loaned the Company $10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provided for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12.0% per annum, and required that accrued interest be paid on a monthly basis until January 20, 2011, at which time the entire unpaid principal balance of $10,000 together with the unpaid accrued interest of $1,200 was due. Lantern Advisers, LLC agreed to renew the unsecured term promissory note and interest payable of $11,200 for a term of one year under the terms of the original promissory note which will become due on January 19, 2012.

For the year ended December 31, 2010, the Company has accrued interest and interest expense of $4,027 and $9,154, respectively, related to the short- and long-term notes payable with a related party.

NOTE 8— GOING CONCERN; MANAGEMENT'S PLAN TO FINANCE WORKING CAPITAL NEEDS

The Company incurred net losses of $148,550, $167,409, $841,379 for the years ended December 31, 2010 and 2009 and for the period from January 10, 2006 (inception) to December 31, 2010, respectively, along with negative cash flows from operating activities. The Company anticipates significant expenditures during 2011 relating to the marketing its Winner's Pot Poker game, seeking regulatory approval from Nevada, Minnesota and Oklahoma to license its game in their respective states, and legal and accounting expenses to comply with the requirements of a public reporting company. Since at December 31, 2010, the Company does not have any customers or sources of revenue, the Company's net loss in fiscal 2011 is expected to exceed the net loss in fiscal 2010. As of the date of filing of this report, the Company had $9,450 cash on hand and current liabilities of $132,000, the majority of which is short-term notes and interest payable. The Company estimates that it will need approximately $75,000 of cash over the next 12 months to continue operations, at their current level, through 2011.

NOTE 9—SUBSEQUENT EVENT

On January 11, 2011, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company $20,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until January 10, 2012, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9AT CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of December 31, 2010, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer recognized the additional risks to an effective internal control environment with a limited accounting staff and the inability to fully segregate all duties within our accounting and financial functions, including the financial reporting and quarterly close process. Management has concluded that, with certain oversight controls that are in place and the duties we have been able to successfully segregate, the remaining risks associated with the lack of segregation of duties are not sufficient to justify the costs of potential benefits to be gained by adding additional employees given our development stage, the limited scope of our operations, and the number of business transactions we currently process, nor do these remaining risks rise to the level of a material weakness. Management intends to periodically reevaluate this situation and continue to assess ways in which duties can be further segregated as our business evolves. Based on these evaluations, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures are effective as of December 31, 2010.

Report of Management on Internal Control Over Financial Reporting

Board of Directors and Shareholders
Poker Magic, Inc.

The management of Poker Magic, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities and Exchange Act of 1934. The Company’s internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including its principal executive officer and principal financial officer, the Company's management assessed the design and operating effectiveness of internal control over financial reporting as of December 31, 2010 based on the framework set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2010. Baker Tilly Virchow Krause, LLP, an independent registered public accounting firm, is not required to issue, and thus has not issued, an attestation report on the Company's internal control over financial reporting as of December 31, 2010.

/s/ Douglas M. Polinsky
Chairman, President and Chief Executive Officer

/s/ Joseph A. Geraci, II
Chief Financial Officer

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B OTHER INFORMATION

None.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors, Executive Officers, Promoters, and Control Persons

Name	Age	Positions
Douglas M. Polinsky	51	Chairman, Chief Executive Officer and President
Joseph A. Geraci, II	41	Director and Chief Financial Officer

Douglas M. Polinsky co-founded Poker Magic, Inc. in January 2006 and since that time has been the Chairman and Chief Executive Officer of the Company. Since 1994, Mr. Polinsky has been the Chief Executive Officer of Great North Capital Consultants, Inc., a financial advisory company which he founded. Great North Capital Consultants advises corporate clients on matters regarding corporate and governance structures, public company acquisitions of private companies and other transaction-related matters, and also make direct investments into public and private companies. Since 2007, Mr. Polinsky has been an independent Director of Wizzard Software Corporation, a Pennsylvania-based company specializing in speech recognition technology. Mr. Polinsky is a member of the Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Mr. Polinsky earned a Bachelor of Science degree in hotel administration at the University of Nevada at Las Vegas.

Joseph A. Geraci, II was a co-founder of Poker Magic, Inc. in January 2006 and has been a director and the Chief Financial Officer of the Company since that time. Since February 2002 through the present time, Mr. Geraci has been managing member of Isles Capital, LLC, an advisory and consulting firm that assists small businesses, both public and private, in business development. In March 2005, Mr. Geraci also became the managing member of Mill City Advisors, LLC, the general partner of Mill City Ventures, LP, a Minnesota limited partnership that invests directly into both private and public companies. From January 2005 until August 2005, Mr. Geraci served as the Director of Finance for Gelstat Corporation, a purveyor of homeopathic remedies, based in Bloomington, Minnesota. From 2000 until December 2004, Mr. Geraci was a broker with Oak Ridge Financial Services, Inc., a Minneapolis-based broker-dealer firm.

Under the Company’s bylaws, the directors serve for indefinite terms expiring upon the next annual meeting of the Company’s shareholders.

In August 2003, the National Association of Securities Dealers (NASD) found in an administrative hearing that Mr. Geraci had violated NASD Conduct Rule 2110 and SEC Rule 10b-5 in August 1999, when he had been affiliated with a NASD member, and barred him from associating with any NASD member.

Code of Ethics

On August 5, 2008, our Board of Directors adopted a Code of Ethics for Management and Non-Management Employees, which includes our Company’s principal executive officer and principal financial officer, or persons performing similar functions, as required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. Our Code of Ethics is available on our website, www.pokermagicinc.com, and we will provide a copy, without charge, to any shareholder upon written request made to Poker Magic, Inc., Attention: Chief Executive Officer, 130 West Lake Street, Suite 300, Wayzata, MN 55391.

Changes to Board of Director Nomination Procedures

The Company has not had any material changes to the procedures for shareholder nominations of candidates to serve on our Board of Directors during the fiscal year ended December 31, 2010.

Committees of the Board of Directors; Audit Committee Financial Expert

The Board of Directors of the Company does not have a standing audit, compensation or nominating committee. Instead, the entire Board of Directors fulfills the functions of such committees. The Board of Directors has determined that Mr. Joseph A. Geraci, II is an “audit committee financial expert” as such term is defined under Item 407(d)(5) of Regulation S-K. This determination was based primarily in part on Mr. Geraci’s experience as Director of Finance for Gelstat Corporation. Neither Mr. Geraci nor the only other member of the Board of Directors—Douglas M. Polinsky—are “independent” as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers’ listing standards. The Company is not subject to those listing standards because its common stock is not listed for trading on a Nasdaq market or exchange.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, requires the Company's directors, executive officers and beneficial owners of more than 10% of the common stock of the Company to file with the SEC certain reports regarding their ownership of common stock or any changes in such ownership. The foregoing reporting persons became subject to these filing requirements in April 2008. Based on its own review, the Company believes that Douglas M. Polinsky and Joseph A. Geraci, II, each made late filings with respect to transactions occurring during 2010, as follows: on May 19, 2010, Mr. Polinsky reported on Form 4 his acquisition from the Company of 60,000 shares on March 31, 2010, which report was originally due on July 2, 2009; on May 19, 2010, Mr. Geraci reported on Form 4 his acquisition from the Company of 60,000 shares on March 31, 2010, which report was originally due on July 2, 2009. On February 14, 2011, each of Messrs. Polinsky and Geraci reported their respective acquisitions of 75,000, 100,000 and 200,000 shares on each of June 30, September 30 and December 31, 2010, which reports were originally due on July 2, 2010, October 4, 2010 and January 4, 2011, respectively.

ITEM 11 EXECUTIVE AND DIRECTOR COMPENSATION

Executive Compensation

Summary Compensation Table

The following table sets forth the total compensation paid by the Company during its two most recent fiscal years ended December 31, 2009 and 2010 to the persons who served as the Company's President or Chief Executive Officer and Chief Financial Officer during such periods (collectively, the "named executives").

Name and Principal Position	Year	Salary ($)		Stock Awards ($)		All Other Compensation ($)	Total ($)
Douglas M. Polinsky,	2010	$ 0	(1)	$ 30,000	(2)	-	$ 30,000
Chief Executive Officer	2009	$ 0	(1)	$ 21,000	(3)	-	$ 21,000
Joseph A. Geraci, II,	2010	$ 0	(1)	$ 30,000	(2)	-	$ 30,000
Chief Financial Officer	2009	$ 0	(1)	$ 21,000	(3)	-	$ 21,000

(1) The named executive did not receive a salary during the year ended December 31, 2010, primarily because the Company did not then have the resources to pay, or commit to pay, such individual a regular market-based salary for his services.

(2) The named executive received a stock award of $30,000 (aggregating to $60,000 for both named executives). This represents the dollar amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services for the current year.

(3) The named executive received a stock award of $21,000 for services rendered in 2009. This represents the dollar amount recognized for financial reporting purposes under ASC 505 with respect to stock grants to the named executive for his services for the year indicated.

Employment Agreements with Executives

The Company does not currently have employment agreements with Messrs. Polinsky and Geraci, and currently has no plans to enter into employment agreements with such individuals.

Outstanding Equity Awards at Fiscal Year End

The Company had no outstanding options, warrants, unvested stock awards or equity incentive plan awards as of December 31, 2010 held by any named executive. In addition, the Company has no options, warrants, unvested stock awards or equity incentive plan awards outstanding and held by any named executive as of the date of this filing.

Director Compensation

The Company did not pay director compensation in 2010; however the Company reimbursed its directors for their expenses incurred in attending or participating in meetings of the board of directors or other Company-related meetings.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The table below sets forth certain information with respect to beneficial ownership of our common stock as of December 31, 2010 (on which date there were an aggregate of 11,008,224 shares of common stock outstanding), by:

- each director of the Company
- each named executive (see Item 11 above)
- all current directors and executive officers of the Company as a group, and
- each person or entity known by the Company to beneficially own more than 5% of our common stock.

Unless otherwise indicated in the table or its footnotes, the address of each of the following persons or entities is 130 West Lake Street, Suite 300, Wayzata, Minnesota 55391, and each such person or entity has sole voting and investment power with respect to the shares of common stock set forth opposite their respective name.

Name	Number of Shares Beneficially Owned (1)	Percentage of Outstanding Shares (1)	
Douglas M. Polinsky (2)	2,428,500	22.1	%
Joseph A. Geraci, II (3)	2,200,000	19.9	%
All current directors and executive officers as a group (4) (two persons)	4,628,500	42.0	%
Marilyn Culotta (5)	559,500	5.1	%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and includes general voting power and/or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days of the applicable record date, are deemed outstanding for computing the beneficial ownership percentage of the person holding such options or warrants but are not deemed outstanding for computing the beneficial ownership percentage of any other person.

(2) Mr. Polinsky is the Company's Chairman and Chief Executive Officer. Includes 1,250,000 common shares held by Great North Capital Consultants, Inc. (f/k/a Great North Capital Corp.), a Minnesota corporation of which Mr. Polinsky is the sole shareholder, officer and director, 1,038,500 common shares held individually by Mr. Polinsky, and 140,000 common shares held in the name of two of Mr. Polinsky's minor children (beneficial ownership of which Mr. Polinsky disclaims).

(3) Mr. Geraci is a director and the Company's Chief Financial Officer. Includes 2,010,000 common shares held by Mr. Geraci and 190,000 common shares held individually by Mr. Geraci's spouse.

(4) Includes Messrs. Polinsky and Geraci.

(5) Based on the records of the Company, Ms. Culotta's address is 9101 W. Sahara Avenue #105 B11, Las Vegas, NV 89117.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

During 2010, the Company's officers and directors (Douglas Polinsky and Joseph A. Geraci, II) loaned the Company a total of $60,000 either directly or through Lantern Advisers, LLC, a Minnesota limited liability company co-owned by them. Loaned funds were advanced to the Company by the indicated persons on the following dates and in the following increments:

- On January 21, 2010, $10,000 was loaned by Lantern Advisers
- On April 1, 2010, $10,000 was loaned by Lantern Advisers
- On May 1, 2010, $20,000 was loaned Lantern Advisers
- On August 1, 2010, $10,000 was loaned by Lantern Advisers, and
- October 19, 2010, $5,000 was loaned by each of Douglas Polinsky and Joseph A. Geraci, II.

In each case, loans were made under terms and conditions set forth in an unsecured term promissory note providing for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, with accrued interest being paid on a monthly basis until the 12-month anniversary of the loan, at which time the entire unpaid principal balance of the promissory note will become due.

Effective January 21, 2011, Lantern Advisers agreed to extend the maturity date for the $10,000 loan made on January 21, 2010 (and related accrued but unpaid interest in the amount of $1,200) to January 19, 2012.

Director Independence

The Company currently has two directors, Messrs. Joseph A. Geraci, II and Douglas M. Polinsky, neither of whom are “independent” as that term is defined in Section 4200(a)(15) of National Association of Securities Dealers’ listing standards. The Company is not subject to those listing standards because its common stock is not listed for trading on a Nasdaq market. In addition, the Company does not have a standing audit, compensation or nominating committee. Instead, the entire board of directors fulfills the function of such committees.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees billed by our principal independent registered public accounting firm for the fiscal years indicated:

		2009		2010
Audit Fees	$	43,250	$	29,500
Audit-Related Fees		0		0
Tax Fees		400		0
All Other Fees		0		0
Total	$	43,650	$	29,500

Audit Fees. The fees identified under this caption were for professional services rendered by Baker Tilly Virchow Krause, LLP for years ended 2009 and 2010 in connection with the audit of our annual financial statements and review of the financial statements included in our quarterly reports on Form 10-Q. The amounts also include fees for services that are normally provided by the independent public registered accounting firm in connection with statutory and regulatory filings and engagements for the years identified.

Audit-Related Fees. The fees identified under this caption were for assurance and related services that were related to the performance of the audit or review of our financial statements and were not reported under the caption “Audit Fees.” This category may include fees related to the performance of audits and attestation services not required by statute or regulations, and accounting consultations about the application of generally accepted accounting principles to proposed transactions.

Tax Fees. The fees identified under this caption were for tax compliance and corporate tax services. Corporate tax services encompass a variety of permissible services, including technical tax advice related to tax matters; assistance with state and local taxes. Tax fees incurred in fiscal 2009 included preparation of the annual corporate tax returns, however, tax fees incurred in fiscal 2010 only related to tax filing extension as the actual preparation of the corporate tax returns was performed by a separate firm.

Approval Policy. Our entire Board of Directors approves in advance all services provided by our independent registered public accounting firm. All engagements of our independent registered public accounting firm in years ended 2009 and 2010 were pre-approved by the Board of Directors.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Financial Statements

Report of Independent Registered Public Accounting Firm on Financial Statements

Balance Sheets – December 31, 2010 and December 31, 2009

Statements of Operations – Years ended December 31, 2010, December 31, 2009 and Period from January 10, 2006 (inception) to December 31, 2010

Statement of Shareholders' Equity (Deficit) – Years ended December 31, 2010, December 31, 2009 and Period from January 10, 2006 (inception) to December 31, 2010

Statements of Cash Flows – Years ended December 31, 2010, December 31, 2009 and Period from January 10, 2006 (inception) to December 31, 2010

Notes to Financial Statements

Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of Poker Magic, Inc. (1)
3.2	Amended and Restated Bylaws of Poker Magic, Inc. (1)
4	Form of Common Stock Certificate (1)
10.1	Asset Purchase Agreement with Select Video, Inc., dated March 10, 2006 (1)
10.2	License Agreement with Bally's Park Place, Inc., dated December 26, 2007 (1)
10.3	Amendment to License Agreement with Bally's Park Place, Inc., dated June 26, 2008 (2)
14	Code of Ethics (3)
31.1*	Section 302 Certification of the Chief Executive Officer
31.2*	Section 302 Certification of the Chief Financial Officer
32.1*	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated herein by reference to the registrant's registration statement on Form 10-SB, filed on January 29, 2008.
(2) Incorporated by reference to Exhibit 10.2 to the registrant's current report on Form 8-K, filed on July 10, 2008.
(3) Available on registrant's website at www.pokermagicinc.com, as permitted under Item 406(c) of Regulation S-K.

*Filed electronically herewith.

SIGNATURES

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

POKER MAGIC, INC.

/s/ Douglas Polinsky
Douglas Polinsky
Chief Executive Officer

Dated: March 4, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature and Name	Position/Title	Date
/s/ Douglas M. Polinsky Douglas M. Polinsky	Chief Executive Officer, President and Director (principal executive officer)	March 4, 2011
/s/ Joseph A. Geraci, II Joseph A. Geraci, II	Chief Financial Officer and Director (principal accounting and financial officer)	March 4, 2011

EXHIBIT INDEX

Exhibit Number	Description
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002