

Entertainment Games Announces First Quarter Fiscal 2012 Financial Results

Langhorne, Pa., – January 05, 2012 – Entertainment Games, Inc. (OTC Markets: EGAM), a developer and publisher of casual games for leading social networks, the PC, game consoles and the Internet, today released financial results for the fiscal first quarter ended September 30, 2011.

COMMENTS:

“Our first quarter results continue to reflect the challenges in the traditional videogame segment of the market,” commented Jerry Klein, CEO of Entertainment Games. “Overall our revenues were down 37% this year compared to the same quarter last year, reflecting the continually shifting consumer behavior away from the traditional distribution channels for videogames to the digital distribution of videogames. This shift continues to underscore the importance of last year’s fourth quarter acquisition of Heyday Games and the dramatic change underway at our Company as a result. Our first quarter loss evidenced our commitment to spending to support this important acquisition,” added Klein.

“On November 8, 2011 we launched our new social gaming platform, *Retro World*, with the original episode of *The OWL Files* in beta test. *The OWL Files – Monkey Business*, was released on December 16, 2011 along with the *Retro Boulevard Game Arcade*, also in beta test mode,” stated Klein.

FINANCIAL DISCUSSION:

Fiscal First Quarter ended September 30, 2011:

Net revenues decreased by \$321,000, or 37%, to \$538,000 for the fiscal quarter ended September 30, 2011, compared to \$859,000 for the comparative fiscal quarter a year earlier. This decrease in net revenues was traceable to decreases in all of our distribution channels.

Net loss was \$1,385,000, or \$0.08 per diluted share, for the fiscal quarter ended September 30, 2011, compared to a net loss of \$350,000, or \$0.03 per diluted share, for the year ago quarter. This \$1,035,000 increase in the quarterly net loss resulted from:

- \$883,000 in increased operating expenses (traceable to increased product development expense relating to our new social network game – *Retro World*);
- \$128,000 decline in gross profit due to lower net revenues; and
- \$24,000 in increased interest expense.

Liquidity Condition Update:

At December 15, 2011, the Company had approximately \$85,000 in cash, compared to \$328,000 at June 30, 2011. Considering the Company’s net losses for fiscal years 2011, 2010, 2009, 2008, 2007 and 2006, and the fact that it does not currently have access to a credit facility, the Company is continuing to evaluate its options to fund future operations.

The following tables represent the Company’s net revenues by distribution channel for the fiscal quarters ended September 30, 2011 and 2010, respectively:

Net Revenues by Distribution Channel
(rounded to the nearest thousand)

Distribution Channel	Quarters Ended September 30,				Increase (Decrease)	% Change
	2011	%	2010	%		
Traditional product revenues	\$ 333,000	62%	\$ 503,000	59%	(\$ 170,000)	(34%)
Licensing revenues	66,000	12%	98,000	11%	(32,000)	(33%)
Internet revenues	137,000	26%	204,000	24%	(67,000)	(33%)
Product liquidation revenues	2,000	-0-%	54,000	6%	(52,000)	(96%)
Totals	<u>\$ 538,000</u>	<u>100%</u>	<u>\$ 859,000</u>	<u>100%</u>	<u>(\$ 321,000)</u>	<u>(37%)</u>

Entertainment Games, Inc.
Balance Sheets

ASSETS	As of September 30, 2011	As of September 30, 2010
Current assets:		
Cash	\$ 35,913	\$ 301,318
Accounts receivable, net	118,477	292,171
Financing receivable	878,750	- 0 -
Inventory, net	457,674	616,634
Prepaid and other current assets	121,383	94,031
Total current assets	<u>1,612,197</u>	<u>1,304,154</u>
Furniture and equipment, net	8,951	4,399
Intangibles	1,497,346	24,089
Goodwill	680,000	- 0 -
Total assets	<u>\$ 3,798,494</u>	<u>\$ 1,332,642</u>
 <u>LIABILITIES AND</u>		
<u>STOCKHOLDERS' EQUITY (DEFICIT)</u>		
Current liabilities:		
Note payable, current portion	\$ 138,549	\$ - 0 -
Accounts payable	892,814	737,579
Unearned revenues	398,228	550,474
Accrued expenses	492,920	312,118
Total current liabilities	<u>1,922,511</u>	<u>1,600,171</u>
Note payable, long-term portion	<u>230,915</u>	<u>- 0 -</u>
Total liabilities	2,153,426	1,600,171
Stockholders' equity (deficit)		
Preferred stock, no par value (10,000,000 authorized; 875,000 shares of Convertible Preferred issued and outstanding)	704,568	704,568
Common stock, no par value (40,000,000 shares authorized; 20,530,428 and 13,857,099 issued respectively and 20,252,528 and 13,579,199 outstanding respectively)	14,476,006	10,518,661
Additional paid-in capital	2,136,651	1,945,698
Accumulated deficit	(15,119,220)	(12,883,519)
Treasury stock, 277,900 shares, at cost	(552,937)	(552,937)
Total stockholders' equity (deficit)	<u>1,645,068</u>	<u>(267,529)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 3,798,494</u>	<u>\$ 1,332,642</u>

Entertainment Games, Inc.
Statements of Operations

	Quarters Ended September 30,	
	2011	2010
Net revenues	\$ 538,456	\$ 858,576
Cost of revenues	<u>302,146</u>	<u>494,244</u>
Gross profit	236,310	364,332
Operating expenses:		
Product development	566,209	330,664
Selling, general and administrative	<u>1,031,132</u>	<u>383,795</u>
Total operating expenses	<u>1,597,341</u>	<u>714,459</u>
Operating loss	(1,361,031)	(350,127)
Interest income (expense), net	<u>(23,613)</u>	<u>95</u>
Loss before income taxes	(1,384,644)	(350,032)
Income tax expense (benefit)	<u>- 0 -</u>	<u>- 0 -</u>
Net loss	<u>(\$ 1,384,644)</u>	<u>(\$ 350,032)</u>
Net loss per common share:		
- Basic	<u>(\$ 0.08)</u>	<u>(\$ 0.03)</u>
- Diluted	<u>(\$ 0.08)</u>	<u>(\$ 0.03)</u>
Weighted average common shares outstanding - Diluted	<u>18,400,326</u>	<u>13,575,025</u>

Entertainment Games, Inc.
Statements of Cash Flows

	Three Months Ended September 30,	
	2011	2010
<u>OPERATING ACTIVITIES:</u>		
Net loss	(\$ 1,384,644)	(\$ 350,032)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	140,240	25,098
Loss on retirement of accounts payable through issuance of common stock	170,174	- 0 -
Bad debt expense (recovery)	- 0 -	(23,270)
Provision for product returns and price markdowns	29,360	35,443
Provision for inventory obsolescence	85,068	95,479
Depreciation and amortization	40,190	1,467
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,440)	(16,683)
Inventory, net	(72,871)	(117,113)
Prepaid and other current assets	(2,692)	(1,083)
Accounts payable	308,753	145,711
Unearned revenues	(34,353)	(46,792)
Accrued expenses	115,441	(73,655)
Net cash used in operating activities	(609,774)	(325,430)
<u>INVESTING ACTIVITIES:</u>		
Purchase of internet domain	(10,757)	- 0 -
Purchase of furniture and equipment	(876)	- 0 -
Net cash used in investing activities	(11,633)	- 0 -
<u>FINANCING ACTIVITIES:</u>		
Net proceeds from common stock private placement	350,000	- 0 -
Repayments of note payable	(21,047)	- 0 -
Net cash provided by financing activities	328,953	- 0 -
Net decrease in cash and cash equivalents	(292,454)	(325,430)
Cash:		
Beginning of period	328,367	626,748
End of period	\$ 35,913	\$ 301,318
Supplemental cash flow information:		
Cash paid for interest	\$ 23,470	\$ - 0 -
Summary of Noncash Investing and Financing Activities:		
Preferred dividends paid through issuance of common stock shares	\$ 10,938	\$ 10,938
Retirement of accounts payable through issuance and utilization of common stock shares	\$ 257,576	\$ - 0 -
Financing receivable	\$ 878,750	\$ - 0 -

Entertainment Games, Inc.
Statements of Stockholders' Equity (Deficit)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			Shares	Amount	
Balances at June 30, 2010	<u>875,000</u>	<u>\$ 704,568</u>	<u>13,841,573</u>	<u>\$ 10,507,723</u>	<u>\$ 1,926,885</u>	<u>(\$ 12,522,549)</u>	<u>(277,900)</u>	<u>(\$ 552,937)</u>	<u>\$ 63,690</u>
Net loss						(1,157,337)			(1,157,337)
Stock-based compensation for common stock options issued to employees and directors					75,252				75,252
Dividends declared on preferred stock			128,365	43,752		(43,752)			- 0 -
Common stock shares issued upon warrant exercise			35,321		- 0 -				- 0 -
Common stock warrant issued					88,746				88,746
Common stock shares issued to acquired company			3,706,387	2,180,000					2,180,000
Balances at June 30, 2011	<u>875,000</u>	<u>\$ 704,568</u>	<u>17,711,646</u>	<u>\$ 12,731,475</u>	<u>\$ 2,090,883</u>	<u>(\$ 13,723,638)</u>	<u>(277,900)</u>	<u>(\$ 552,937)</u>	<u>\$ 1,250,351</u>
Net loss						(1,384,644)			(1,384,644)
Stock-based compensation for common stock options issued to employees and directors					45,768				45,768
Dividends declared on preferred stock			28,597	10,938		(10,938)			- 0 -
Common stock shares issued in private placement			700,000	350,000					350,000
Common stock shares issued in retirement of accounts payable			1,950,000	1,306,500					1,306,500
Common stock shares issued in connection with consulting agreement			100,000	57,000					57,000
Common stock shares issued in connection with consulting agreement			40,185	20,093					20,093
Balances at September 30, 2011	<u>875,000</u>	<u>\$ 704,568</u>	<u>20,530,428</u>	<u>\$ 14,476,006</u>	<u>\$ 2,136,651</u>	<u>(\$ 15,119,220)</u>	<u>(277,900)</u>	<u>(\$ 552,937)</u>	<u>\$ 1,645,068</u>

About Entertainment Games, Inc.

Entertainment Games, Inc. (formerly eGames, Inc), headquartered in Langhorne, Pennsylvania, develops and publishes casual games for leading Social Networks, the PC, Nintendo DS and Wii, iPhone, and the Internet including The Dracula Files, Burger Island®, Burger Island 2: The Missing Ingredient, Satisfashion®, Purrfect Pet Shop®, and more. Additional information regarding eGames, Inc. can be found at <http://www.egames.com>.

Accessing Our Financial Information

Shareholders have three ways to access the Company's financial and other information: by going to the Investor Relations page of the Company's website at www.egames.com, where the Company's fiscal 2010 annual report, as well as fiscal 2011 press releases containing quarterly financial information, can be accessed; by going to the Pink Sheets website at www.pinksheets.com and typing in the Company's symbol "EGAM"; or by requesting a paper copy of financial information by contacting the Company by mail at Entertainment Games, Inc. 2000 Cabot Boulevard West, Suite 110, Langhorne, Pennsylvania 19047 to the attention of the Chief Financial Officer. Shareholders can also be placed on a list to receive press releases, as they are issued, via email by going to the following link on the eGames investor relations webpage: <http://www.egames.com/investors/contact-us/email-alerts/>.

Forward-Looking Statement Safe Harbor

This press release contains certain forward-looking statements, including without limitation, statements regarding: shifting consumer behavior away from the traditional distribution channels for videogames to the digital distribution of videogames; the importance of our acquisition of Heyday Games and the dramatic change underway as a result; and our goal to release at least two new interactive adventure stories, in addition to several new platform features, through February 2012, with monthly story and game features coming after that. The Company cautions readers that the risks and uncertainties that may affect the Company's future results and performance include, but are not limited to, delays in the development of future titles; inability to fund continued development of future titles; technical and other issues that may delay or halt development of future titles; competition in the social gaming market; the failure of new titles to sell well or be used by consumers on social networks; our inability to enter into and maintain commercially successful publishing, licensing and distribution relationships; and an increase in worldwide competition in the overall videogame market; as well as the risks and uncertainties discussed under the heading "Factors Affecting Future Performance" in the Company's Annual Report for the fiscal year ended June 30, 2010 as posted on the Company's website and on www.pinksheets.com.

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