

GLOBAL CASINOS INC  
Form 10KSB  
October 10, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-KSB**

**[ X ] ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF  
1934**

For the fiscal year ended June 30, 2006

**[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15415

**GLOBAL CASINOS, INC.**  
(Name of Small Business Issuer in its Charter)

<u>Utah</u>	<u>87-0340206</u>
(State or other jurisdiction of incorporation or organization)	I.R.S. Employer Identification number

5455 Spine Road, Suite C, Boulder, Colorado 80301  
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (303) 527-2903

Securities registered under Section 12(b) of the Exchange Act: None

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Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$.05 par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. \*

*Note* Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes  No

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The Issuer's revenues for the fiscal year ended June 30, 2006 were \$3,957,477. As of September 30, 2006, the aggregate market value of the voting and non-voting common equity of the Issuer based upon the average bid and asked prices of such Common Stock, held by non-affiliates of the Issuer was approximately \$4,291,494. As of September 30, 2006, there were 5,152,907 shares of Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant incorporates by this reference the following:

**PART IV - EXHIBITS**

1. Incorporated by reference from the Company's Annual Report on Form 10-KSB as filed with the Commission on October 17, 2005.
2. Incorporated by reference from the Company's Registration Statement on Form SB-2, SEC File No. 333-123206 as declared effective by the Commission on April 8, 2005.

**FORWARD LOOKING STATEMENTS**

Certain statements made in this Annual Report are "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements made in this Report are based on current expectations that involve numerous risks and uncertainties. The Company's plans and objectives are based, in part, on assumptions involving the growth and expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements made in this Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements made in this Report, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS**

**Overview**

Global Casinos, Inc. ("the Company", "Global Casinos", or "Global") and its wholly owned subsidiaries operate in the domestic gaming industry. The Company is organized as a holding company for the purpose of acquiring and operating casinos, gaming properties, and other related interests. Global was organized under the laws of the State of Utah on June 8, 1978.

As of June 30, 2006, Global had one operating subsidiary, which owns and operates the Bull Durham Saloon & Casino ("Bull Durham") located in Black Hawk, Colorado.

**Description of Operations**

*Casinos U.S.A. - The Bull Durham Saloon and Casino*

Background. Casinos U.S.A. was acquired on November 19, 1993. Global Casinos acquired 100% of the outstanding common stock of Casinos U.S.A., a Colorado corporation, and Lincoln Corporation ("Lincoln") and Woodbine Corporation ("Woodbine"), both South Dakota corporations, in exchange for 253,500 shares of the Company's common stock. Lincoln and Woodbine operated the Last Chance Saloon and Lillie's, respectively; both located in Deadwood, South Dakota. The Company permanently closed the Last Chance Saloon on May 31, 1994 and Lillie's on June 30, 1995 due to unprofitable operations. Both Lincoln and Woodbine are now inactive corporations.

In October 1995, Casinos U.S.A. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code as it was in default under all of its secured obligations encumbering the Bull Durham Saloon and Casino. In January 1997, the Court approved the Debtor's Second Amended Plan of Reorganization (the "Plan"), and in February 1998 the bankruptcy was discharged upon being fully administered.

Operations. The Bull Durham is located approximately one hour from Denver, Colorado in the mountain town of Black Hawk. The Company has operated The Bull Durham since 1993, soon after limited stakes gambling was legalized in Black Hawk in 1992. The casino holds a retail liquor license issued by the State of Colorado and offers

limited food service in addition to beverages.

Presently, the casino occupies approximately 7,400 square feet of space located at 110 Main Street in Black Hawk, Colorado. Casinos U.S.A. owns the building in which the Bull Durham operates, subject to three tiers of deeds of trust securing a total of \$1,969,928 in debt.

As of June 30, 2006, we operated 188 slot machines. The Bull Durham does not operate any table games.

New slot machine designs are introduced every year by the equipment manufacturers. Certain games become more popular and older games tend to become less popular. During the past year, we replaced or upgraded 5 machines. The current popular trend is in the "penny" and "nickel" machines.

During the year ended June 30, 2005, we installed the Oasis Casino Management System ("Oasis System") produced by Aristocrat Technologies. The Oasis System connects our slot machines to a central computer that monitors all activity on each device. It includes a "Player Tracking System" that allows us to implement new features and benefits into our Frequent Player Club (known as the "Sharpshooter Club") and will enable us to properly recognize our VIP players. We believe that the new system will provide several operational efficiencies. It will eliminate certain labor costs associated with the player tracking system that we previously employed and it will reduce the labor effort required to record and analyze device meter readings. It will also allow us to target our marketing efforts towards the most active players. Our investment in the Oasis System totaled \$380,000 and is expected to yield increased revenues and reduced labor costs.

The Bull Durham's customer base consists primarily of day visitors from Denver. Many gamblers are transported to Black Hawk on charter buses provided by the casinos. A city bus stop is adjacent to the casino. During the past three years, we increased our utilization of charter bus services. We contract certain bus companies to transport guests to our casino from Denver and its surrounding communities.

As we do not have parking facilities available for our customers, we rely totally on "walk-in" traffic and charter bus traffic. This traffic declines during the winter months when the weather deteriorates. We do not have a full service restaurant. Some of our competitors provide extensive food service, including Las Vegas style buffets.

2002 Restructuring. Beginning in approximately April 2002, the Company engaged in a series of meetings and discussions with the Colorado Division of Gaming surrounding the then pending application to renew the gaming license covering the Bull Durham. The Division of Gaming expressed concern that the Company's directors and officers, Messrs. Jennings and Neuman, had other associations with the Company's former directors, Messrs. Calandrella and Thygesen, the latter of whom had been the subject of an Initial Decision by an Administrative Law Judge of the Securities and Exchange Commission finding violations of federal securities laws. Notwithstanding the fact that Messrs. Calandrella and Thygesen had previously resigned from the Company, the Division of Gaming requested that Messrs. Jennings and Neuman, neither of whom were subject to the SEC administrative action, nevertheless resign as control persons of Casinos, U.S.A., the company that owned the Bull Durham and to which the gaming license would be issued.

Concurrently with the discussions with the Division of Gaming, the Company entered into discussions with Astraea Investment Management, L.P. ("Astraea") to restructure the Company's financial and operational obligations. Effective September 17, 2002, the terms of the restructuring were finalized (the "2002 Restructuring"), resulting in the following:

- \* Astraea agreed to waive accrued and unpaid interest and fees under an unsecured \$500,000 note (the "Astraea Unsecured Note").
- \* Astraea agreed to extend the maturity date of the Astraea Unsecured Note to 2009, and to reduce the rate of interest thereon to four percent (4%) per annum.



- \* Astraea agreed that there would be a moratorium on payments on the Astraea Unsecured Note for 30 months.

- \* Global Casinos and Astraea agreed that the Astraea Unsecured Note would be assigned to and assumed by Casinos, U.S.A. and be secured by one hundred percent (100%) of the outstanding shares of common stock of Casinos, U.S.A. (which owns the Bull Durham) and a security interest in the tangible and intangible assets of Casinos, U.S.A.
- \* It was agreed that Global would continue to manage the Bull Durham for a management fee of \$10,000 per month. Global Casinos agreed to provide Astraea with certain financial reporting and inspection rights going forward.
- \* Astraea agreed to restructure its two mortgage notes against the Bull Durham to provide for interest at the rate of seven percent (7%) with a thirty-year amortization and an extended maturity date to 2009. Astraea also agreed to defer installment payments on its two secured promissory notes to the extent of one hundred percent (100%) of each such installments until an aggregate deferral totaling \$100,000 is reached, but in no event more than one (1) year. Deferred installment payments were set aside and used for working capital purposes and capital expenditures at the Bull Durham which are approved by Astraea. Any expenses incurred by Astraea in connection with the restructure of the indebtedness was added to the principal balances of its secured notes and will be repaid as part of the balloon payment at the maturity date of such note. Debt to third parties associated with the gaming equipment located at the Bull Durham was restructured with the agreement of the vendor.
- \* Junior secured mortgage notes encumbering the Bull Durham were restructured to bear interest at the rate of four percent (4%) per annum and amortized in a straight line over a term of thirty (30) years, with a seven-year balloon;
- \* All debt associated with gaming equipment located at the Bull Durham was restructured
- \* All shares of Casinos, U.S.A. preferred stock was cancelled as part of the restructuring of Global Casinos.
- \* Global Casinos granted to Astraea an option exercisable after March 17, 2005 to purchase all of the issued and outstanding shares of common stock of Casinos, U.S.A. for a purchase price of \$100. Global Casinos redeemed the option in 2005.
- \* The Board of Directors of Casinos, U.S.A. was reconstituted to consist of persons approved by Astraea and the Colorado Division of Gaming, and the voting shares of Casinos, U.S.A. have been made subject to a voting agreement to enforce this agreement.
- \* Arrangements have been made to restructure a note payable from the Bull Durham to Global Casinos to permit debt service by Global Casinos on a note held by a third party.
- \* The warrants to purchase shares of Casinos U.S.A. and the participation in net cash flow provided for under Casinos U.S.A.'s Chapter 11 Bankruptcy Plan of Reorganization were cancelled.

Each of the foregoing points of agreement were memorialized in definitive agreements executed by Global Casinos, Casinos U.S.A., Astraea and third parties and previously filed as exhibits with the Securities and Exchange Commission. Those definitive agreements were executed by and on behalf of Global Casinos, Casinos U.S.A., Astraea and the holders of all subordinated mortgage notes against the Bull Durham except for the holders of approximately \$200,000 in subordinated mortgage notes. With respect to those junior lienholders, the Company nevertheless began making revised payments based upon the restructured interest rate and maturity date in the fourth quarter of 2002, without objection or protest on the part of the holders of those subordinated mortgage notes. The

Company takes the position that by their acquiescence, those subordinated note holders are deemed to be bound by the terms of the 2002 Restructuring.

Regulation. The Bull Durham began gaming operations in 1993 as a Class B Gaming Casino, which limits the casino to four (4) gaming tables and fewer than two hundred fifty (250) slot machines. Under limited stakes gaming regulations in Colorado, maximum wagers are limited to \$5.00 per bet.

Ownership and operation of gaming establishments are extensively regulated by states in which such activities are permitted. Colorado has adopted numerous statutes and regulations covering limited stakes gaming operations. Existing regulation includes various aspects of the gaming industry, including ownership, operation and employment in all limited stakes gaming operations, taxation of revenues and regulation of equipment utilized in connection with such activities. Virtually all aspects of ownership and operation of gaming facilities require licensing by the state. Operators, machine manufacturers and distributors, employees and retailers are all subject to extensive investigation and regulation prior to licensing to engage in gaming activities. The procedure for obtaining these licenses is time consuming and costly. Prior to November 1, 2002, Global held a gaming license to operate the Bull Durham. Effective November 1, 2002, the gaming license was transferred to Casinos, U.S.A., Inc., our subsidiary that owns the Bull Durham, as part of an overall restructuring of our business operations under the Astraea Term Sheet. This restructuring was undertaken, in part, at the behest of the Division of Gaming.

Because the Company is a publicly traded corporation, each of the officers, directors and shareholders owning 5% or more of the equity interest prior to November 1, 2002, had to be approved by the Colorado Division of Gaming. With the transfer of the gaming license to Casinos, U.S.A., the officers and directors of that subsidiary must be approved by the Division of Gaming. The criteria established in determining the suitability to conduct such operations include financial history, criminal record and character, in addition to satisfaction of application procedures set forth in the existing regulations.

Under current regulations promulgated by the Colorado Limited Gaming Commission (the "Gaming Commission"), no gaming licensee may issue shares except in accordance with Colorado gaming laws and regulations; and any such issuance will be ineffective and such stock shall not be deemed issued until compliance is obtained; no shares of the licensee may be transferred except in accordance with Colorado Gaming Laws and regulations; and if the Gaming Commission determines that a holder of a licensee's securities is unsuitable, the licensee or a suitable person must, within sixty days, purchase such securities at the lesser of the unsuitable person's investment or the current market price of such securities. Any person who becomes a beneficial owner of five percent or more of the Company's common stock must notify the Division of Gaming within ten days after such person acquires such securities and must provide such additional information and be subject to a finding of suitability as required by the Division of Gaming Commission. The Company must notify each person who is subject to this regulation of its requirements as soon as it becomes aware of the acquisition. The same regulations apply to any person who becomes a beneficial owner of more than ten percent of any other class of voting securities of the Company.

Existing federal and state regulations may also impose civil and criminal sanctions for various activities prohibited in connection with gaming operations. State statutes and regulations also prohibit various acts in connection with gaming operations, including false statements on applications and failure or refusal to obtain necessary licenses described in such regulations.

Violation of any of these existing or newly adopted regulations may have a substantial adverse effect on the operations of the Company and its subsidiaries.

The Company has been granted a casino tavern license issued under the Colorado Liquor Code for the Bull Durham. As revised in 1993, the Colorado Liquor Code now includes a casino tavern license issuable to duly licensed and operating limited stakes gaming casinos.

The beverage license is revocable and non-transferable. Licensing authorities may limit, condition, suspend or revoke the license. Violation of beverage laws or regulations can result in loss of license and may constitute a criminal offense punishable by fines, incarceration, or both.

Net profits derived from the operations of the Company and its subsidiaries are subject to taxation at the federal, state and local levels. The State of Colorado imposes a variable gaming tax on "adjusted gross proceeds" ("AGP"), which includes the total amount of all wagers made by players less all payments received by such players. As revised in July 1999 the progressive tax rate ranges from 0.25% on the first \$2,000,000 of AGP to 20% on AGP in excess of \$15,000,000. Local governmental units assess real and personal property taxes on the value of many assets, including land, building and gaming equipment. In addition, the city of Black Hawk assesses "device fees" on each gaming device utilized in a casino.

Competition. Competition in the gaming industry in the United States is intense. There are numerous competitors engaged in the same business as the Company, and the Company's operations also compete with other forms of gaming activities, such as Bingo, Lotto, table games, sports betting and pari-mutuel wagering. Competition in Black Hawk, Colorado is particularly intense as competitors are in very close proximity to the Company's operations. There are now 21 casinos operating in the Black Hawk market. Additionally, there are 6 casinos located approximately one mile west in Central City. The Bull Durham Casino is relatively small in comparison to the other casinos in the market. There are currently 10,199 slot machines in the Black Hawk market and 1,955 in the Central City market. Based upon the number of slot machines in Black Hawk, The Bull Durham represents less than 2.0% of the market. The average win per device for the Bull Durham is less than the average for all casinos in Black Hawk. As a result the Bull Durham net win represents less than 1% of the market. The Bull Durham attempts to stay competitive by providing personal customer service and state-of-the-art gaming devices. We developed a direct mail marketing campaign that targets repeat customers as part of our efforts to maintain market share.

The 1991 referendum that authorized gaming in Colorado limited casinos to three mountain towns, Black Hawk, Central City, and Cripple Creek. There are two Native American casinos in Colorado, both in the southwest region of the state. However, future referendums could expand gaming to other locations. Other forms of legal gaming in Colorado include lottery games, dog and horse racing, and bingo.

It is possible that additional forms of gaming could be authorized. Colorado does not currently allow video lottery terminals ("VLT"). VLT's are games of chance similar to slot machines that generate a random set of numbers

to be displayed on a video screen. Winning bets are rewarded with a ticket that can be exchanged for cash. An initiative to legalize VLT's that was on the ballot for the November 2003 general election was defeated.

Seasonality. Because the Bull Durham Casino is located in a small mountain community west of Denver, it experiences its peak business during the summer months when weather conditions are

more favorable. The winter months tend to be substantially slower when weather conditions reduce the amount of traffic through the town.

Global Alaska's operations were conducted through its wholly owned subsidiary, Alaska Bingo Supply, Inc. ("ABS"), an Alaska corporation. ABS is primarily engaged in the distribution of a full line of products, supplies and equipment utilized by licensed gaming organizations in the State of Alaska. Gaming in Alaska is limited to qualified organizations (primarily non-profit groups and municipalities) that operate bingo and pull-tabs games for fund raising purposes.

## **Employees**

The Company's President is Clifford L. Neuman, its Secretary is Pete Bloomquist and its Chief Financial Officer is Todd Huss.

The Bull Durham operates with an on-site general manager. It currently employs 31 persons, including 29 that are considered full-time and 2 that are considered part-time. The Company is not part of any collective bargaining agreement. There have been no work stoppages and the company believes its employee relations are good.

## **Intellectual Property**

The Company does not claim any intellectual property protection to any of its assets and does not believe that intellectual property protection is material to its operations.

## **Consultants**

Gunpark Management LLC, previously provided us with certain management, clerical and administrative services. Our former Chief Executive Officer and Chief Financial Officer, Frank Jennings, was a member of Gunpark Management LLC. Effective December 31, 2005, Mr. Jennings resigned as an Executive Officer and Director of the Company. Mr. Jennings served as a consultant to the Company following his resignation through May, 2006. For those consulting services, we paid Mr. Jennings a fee of \$5,000 per month for each of those five months.



**ITEM 2. DESCRIPTION OF PROPERTY**

**Corporate Offices**

The Company subleases an office in Boulder, Colorado for use as its corporate offices. The lease requires monthly payments of approximately \$3,000 and is month-to-month. The rent payment also includes clerical services of an administrative assistant.

**Operating Subsidiaries**

The facilities and properties of the Company's sole operating subsidiary are more fully described in Item 1 of this Report and are incorporated herein by this reference.

The Company believes that each of its facilities is adequate for its intended purpose and does not plan any significant investment in additional facilities during the next year.

**ITEM 3. LEGAL PROCEEDINGS**

The Company and its officers and directors are involved in the following material legal proceedings:

**Civil Litigation**

*Harry Schmidt vs. Global Casinos, Inc.* On February 28, 2005, Harry Schmidt filed a civil suit against Global Casinos, Inc. demanding payment in excess of \$59,000 related to two promissory notes that originated in 1996. That matter was settled in 2005 with the payment of \$32,000 and the issuance of 22,250 shares of common stock.

*Michael Jacobs vs. Global Casinos, Inc.* This matter was filed as a civil action, which has been stayed since 1998, pending mandatory arbitration. There has been no action to prosecute the arbitration whatsoever and the matter has been dormant since 1998. Mr. Jacobs was a former employee of the Company in Dallas, Texas and is asserting claims for compensation for services rendered while under the supervision of William P. Martindale at the Company's then existing Dallas, Texas office. The Company believes that the likelihood of a material adverse outcome in this matter is remote.

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

No matters were submitted to a vote of the Company's shareholders during the quarter ended June 30, 2006.

**PART II****ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

The outstanding shares of Common Stock are traded over-the-counter and quoted on the OTC Bulletin Board ("OTCBB") under the symbol "GBCS". The reported high and low bid and ask prices for the common stock are shown below for the period from July 1, 2004 through June 30, 2006

	<u>Bid</u>		<u>Ask</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
2005 Fiscal Year				
July - Sept 2004	\$0.35	\$0.05	\$0.50	\$0.07
Oct - Dec 2004	1.05	0.28	1.14	0.28
Jan - Mar 2005	1.26	0.86	1.29	0.90
Apr - June 2005	1.13	1.02	1.20	1.02
2006 Fiscal Year				
July - Sept 2005	\$1.15	\$0.85	\$1.20	\$0.95
Oct Dec 2005	1.05	0.90	1.09	0.99
Jan Mar 2006	1.74	0.98	1.75	1.00
Apr June 2006	1.04	0.86	1.09	0.93

The bid and ask prices of the Company's common stock as of September 14, 2006 were \$0.89 and \$0.93, respectively, as reported on the OTCBB. The OTCBB prices are bid and ask prices which represent prices between broker-dealers and do not include retail mark-ups and mark-downs or any commissions to the broker-dealer. The prices do not reflect prices in actual transactions. As of September 14, 2006, there were approximately 736 record owners of the Company's common stock.

The OTC Bulletin Board is a registered quotation service that displays real-time quotes, last sale prices and volume information in over-the-counter (OTC) securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The OTCBB is not an issuer listing service, market or exchange. Although the OTCBB does not have any listing requirements, per se, to be eligible for quotation on the OTCBB, issuers must remain current in their filings with the SEC or applicable regulatory authority.

The Company's Board of Directors may declare and pay dividends on outstanding shares of common stock out of funds legally available therefor in its sole discretion; however, to date other than the OnSource spin-off dividend no

dividends have been paid on common stock and the Company does not anticipate the payment of dividends in the foreseeable future. Further, under the terms of the convertible preferred stock issued by the Company, the Company is restricted from paying cash dividends on common stock during the period that the convertible preferred stock is outstanding.

### **Recent Sales of Unregistered Securities**

1. In August 2004, two directors and an affiliate of a director converted an aggregate of \$60,000 in outstanding accrued and unpaid fees into 300,000 shares of common stock at a conversion price of \$.20 per share. The shares were taken for investment purposes and were subject to

restrictions on transfer. The shares were issued without registration under the Securities Act of 1933, as amended, in reliance upon the exemption from the registration requirements thereof contained in Section 4(2) thereunder.

2. In September 2004, we sold to three investors an aggregate of 250,000 units at a price of \$.10 per unit. Each unit consisted of one share of common stock and one warrant exercisable for a period of 15 months to purchase one additional share of common stock at an exercise price of \$.15. The securities were taken for investment purposes and were subject to restrictions on transfer. Proceeds of the offering were used for working capital. The units were sold to three investors, each of whom qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act. The securities were issued without registration under the Securities Act of 1933, as amended (the "Securities Act") in reliance upon Section 4(2) and Regulation D, Rule 504 thereunder.

3. In January 2005, we completed the private placement of units, each unit consisting of a 12% convertible debenture and a warrant exercisable to purchase one share of our common stock for each dollar in principal amount of debenture at an exercise price of \$0.15. In total, up to 1,500,000 shares of our common stock could be issued if all of the debentures were converted and all of the warrants exercised. Gross proceeds of the offering were \$500,000, which proceeds were used to retire a secured note and an option held by Astraea Investment Management, L.P. The units were sold to a total of six investors, each of whom qualifies as an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act. The securities were taken for investment purposes and were subject to restrictions on transfer. The securities were issued in reliance on Rule 506, Regulation D promulgated under the Securities Act of 1933, as amended.

#### 4. Warrant Exercise

a.

From October to December, 2005, the Company completed the sale of an aggregate of 650,000 shares of common stock, \$.05 par value ( Common Stock ) at a price of \$.15 per share pursuant to the exercise of issued and outstanding warrants. The Company received gross proceeds of \$97,500 from the exercise of the warrants. The warrants had been sold in private placements that were completed in January, 2005.

b.

The Securities were sold exclusively to persons who qualified as "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933 as amended (the "Securities Act"). There were an aggregate of seven accredited investors who participated in the offering. The shares issued upon exercise of the warrants were restricted securities under the Securities Act. The Company has agreed to register for resale under the Securities Act, the shares of Common Stock underlying the Warrants.

c.

The Company paid no fees or commissions in connection with the warrant exercise.

d.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereunder. Each of the investors in the offering qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided each investor in the

offering with disclosure of all aspects of our business, including providing each investor with our reports filed with the Securities and Exchange Commission and other financial, business and corporate information. Based on our investigation, we believed that each accredited investor obtained all information regarding the Company that they requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

e.

The exercise terms of the Warrants are described in Item 3.02(a) above.

f.

The proceeds of the warrant exercises will be used to provide working capital to the Company.

#### 5. Debenture Conversion

a.

In January, 2005, the Company completed the sale of an aggregate of \$500,000 in 12% Convertible Debentures. Pursuant to the agreement of the investors who purchased the Debentures, all outstanding Debentures converted automatically into shares of Common Stock on December 31, 2005. The price at which the Debentures converted was \$.50 per share. An aggregate of 1.0 million shares of Common Stock became issuable as a result of the automatic conversion

b.

The shares issued upon conversion of the Debentures were issued exclusively to persons who qualified as "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933 as amended (the "Securities Act"). There were an aggregate of six accredited investors who participated in the transaction. The shares issued upon conversion of the Debentures were restricted securities under the Securities Act. The Company has agreed to register for resale under the Securities Act, the shares of Common Stock underlying the Debentures.

c.

The Company paid no fees or commissions in connection with the Debenture conversion.

d.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Sections 4(2) and 3(a)(9) thereunder. Each of the investors in the offering qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided each investor in the offering with disclosure of all aspects of our business, including providing each investor with our reports filed with the Securities and Exchange Commission and other financial, business and corporate information. Based on our investigation, we believed that each accredited investor obtained all information regarding the Company that they requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

e.

The conversion terms of the Debentures are described in Item 3.02(g) above.

f.

There were no proceeds received as a result of the conversion of the Debentures.



6. Schmidt Conversion

a.

In November, 1996, the Company completed the sale of two promissory notes in the aggregate principal amount of \$25,000. In December 2005, and pursuant to the agreement of the noteholder who held the notes, the Company agreed to issue to the investor an aggregate of 22,250 shares of Common Stock and \$33,000 in consideration of the investor's surrender of the notes and any further claims against the Company. Under the agreement with the noteholder, the shares were valued at \$1.00 per share.

b.

The shares issued upon conversion of the two notes were issued exclusively to one person who represented and warranted as to his financial sophistication. The shares issued upon conversion of the notes were restricted securities under the Securities Act.

c.

The Company paid no fees or commissions in connection with the note conversion.

d.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Sections 4(2) thereunder. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided each investor in the offering with disclosure of all aspects of our business, including providing each investor with our reports filed with the Securities and Exchange Commission and other financial, business and corporate information. Based on our investigation, we believed that the investor obtained all information regarding the Company that he requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

e.

Not applicable.

f.

There were no proceeds received as a result of the conversion of the notes.

7. Jennings Option Exercise

a.

In December, 2005, the Company completed the sale of an aggregate of 150,000 shares of common stock, \$.05 par value ( Common Stock ) at an average price of \$.12 per share pursuant to the exercise of issued and outstanding options. The Company received gross proceeds of \$17,500 from the exercise of the options. The options had been granted to our former President and Director for his services to the Company.

b.

The Securities were sold exclusively to one person who qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933 as amended (the "Securities Act"). The shares issued upon exercise of the warrants were restricted securities under the Securities Act.

c.

The Company paid no fees or commissions in connection with the option exercise.

d.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Section 4(2) thereunder. The investor qualified as an "accredited investor" within the meaning of Rule 501(a) of Regulation D, as he was an executive officer and director of the Company at the time of exercise. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided each investor in the offering with disclosure of all aspects of our business, including providing each investor with our reports filed with the Securities and Exchange Commission and other financial, business and corporate information. Based on our investigation, we believed that the accredited investor obtained all information regarding the Company that he requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

e.

The exercise terms of the options are described in Item 3.02(a) above.

f.

The proceeds of the option exercise will be used to provide working capital to the Company.

#### 8. Marketing Services Agreement

a.

Between July 2005 and January 2006, the Company issued an aggregate of 6,000 shares of common stock, (1,000 shares per month) for services under a marketing services agreement. The shares were valued at \$1.00 per share.

b.

The shares issued for marketing services were issued exclusively to one person who represented and warranted that she qualified as an accredited investor within the meaning of Rule 501(a) of Regulation D. The shares issued for services were restricted securities under the Securities Act.

c.

The Company paid no fees or commissions in connection with the share issuances.

d.

The sale of the Securities was undertaken without registration under the Securities Act in reliance upon an exemption from the registration requirements of the Securities Act set forth in Sections 4(2) thereunder. In addition, the Securities, which were taken for investment purposes and not for resale, were subject to restrictions on transfer. We did not engage in any public advertising or general solicitation in connection with this transaction, and we provided each investor in the offering with disclosure of all aspects of our business, including providing each investor with our reports filed with the Securities and Exchange Commission and other financial, business and corporate information. Based on our investigation, we believed that the investor obtained all information regarding the Company that he requested, received answers to all questions posed and otherwise understood the risks of accepting our Securities for investment purposes.

e.

Not applicable.

f.

There were no proceeds received as a result of the issuance of the shares.

**EQUITY COMPENSATION PLAN INFORMATION**

	Weighted	
Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	average price of outstanding for future issuances options, warrants and rights (b)	Number of securities remaining available under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	50,000	\$.13
Equity compensation plans not approved by security holders <sup>(1)</sup>	<u>235,000</u>	<u>\$.62</u>
Total	<u>285,000</u>	<u>-\$0-</u>

(1) Includes nonqualified options granted to directors.



**ITEM 6.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical facts are forward-looking statements such as statements relating to future operating results, existing and expected competition, financing and refinancing sources and availability and plans for future development or expansion activities and capital expenditures. Such forward-looking statements involve a number of risks and uncertainties that may significantly affect our liquidity and results in the future and, accordingly, actual results may differ materially from those expressed in any forward-looking statements. Such risks and uncertainties include, but are not limited to, those related to effects of competition, leverage and debt service financing and refinancing efforts, general economic conditions, changes in gaming laws or regulations (including the legalization of gaming in various jurisdictions) and risks related to development and construction activities. The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report.

**Overview**

We operate in the domestic gaming industry. We were organized as a holding company for the purpose of acquiring and operating casinos, gaming properties and other related interests. At June 30, 2006, our operations consisted solely of the Bull Durham Saloon & Casino in Black Hawk, Colorado.

Our operations are seasonal. The Bull Durham experiences a significant increase in business during the summer tourist season.

We operate in a highly regulated environment subject to the political process. Our retail gaming license is subject to annual renewal by the Colorado Division of Gaming. Changes to existing statutes and regulations could have a negative effect on our operations.

**Results of Operations Fiscal Year Ended June 30, 2006 Compared to the Fiscal Year Ended June 30, 2005**

We recognized net income of \$117,267 for the year ended June 30, 2006 compared to net income of \$941,603 for the same period in 2005. The primary difference between the periods is the result of gains on debt restructurings and the associated legal and accounting expenses during the year ended June 30, 2005, which is discussed below.

**Revenues**

Casino revenues for the year ended June 30, 2006 were \$3,957,477 compared to \$3,925,431 for 2005, a slight increase of \$32,046 or 0.8%. The slight increase is primarily attributed to increased promotional and marketing efforts including a direct mail campaign designed to target our repeat customers, and efforts to direct charter bus customers to our casino. Certain construction work in the town of Black Hawk had the effect of driving customer traffic into our casino during the comparable period in 2005. This construction work was completed in June 2005. As such, we have increased our marketing and promotional efforts to offset an anticipated decrease in customer traffic since the completion of the construction.



We operate a limited food and beverage service incidental to the operation of the casino. Food and beverage revenues approximate 1% of casino revenues.

### **Operating Expenses**

Casino operating expenses increased to \$3,254,304 for the year ended June 30, 2006 compared to \$2,979,263 for the year ended June 30, 2005, an increase of \$275,041. Our costs increased by 9.2% while our revenues increased by 0.8%. A significant portion of the cost increase came from the installation of the Oasis Casinos Management System. An increase in depreciation expense of \$68,840 was primarily depreciation on the new system. We also experienced a \$27,675 increase in repair and maintenance costs primarily resulting from installations of hardware on new slot machines associated with the Oasis Casinos Management System. Slot club and promotional expenses also increased by \$88,113 resulting from increased direct mail marketing efforts and the related customer redemptions of slot club promotions. We also realized additional charter bus expenses of \$24,860 resulting from our efforts to direct traffic to our casino. Food and beverage expenses also increased by \$23,174, as we continue to utilize it as an ongoing marketing tool to build our customer base. Salaries and wages increased modestly by \$29,307, or 3.4%, from \$869,963 for the year ended June 30, 2005, to \$899,270 for the year ended June 30, 2006, which is attributed to regular merit increases.

General and administrative expenses decreased from \$405,221 for the year ended June 30, 2005, to \$220,075 for the year ended June 30, 2006, a decrease of \$185,146 or 45.7%. The decrease is primarily related to decreases in legal and accounting fees of \$155,197 due to additional expenses incurred in 2005 relating to the restructuring of certain debt and efforts to obtain additional capital financing. In addition, we realized a reduction in management fees of \$18,000 for the year ended June 30, 2006 as compared to the year ended June 30, 2005, resulting from a change in executive management in December 2005. As a result of this change, we no longer employ the services of the prior executive officer's management company, for which we were billed at the rate of \$3,000 per month. Also, during the year ended June 30, 2006 the Company incurred non-cash stock compensation costs related to a marketing services agreement of \$6,000, for which there was no such expense in 2005.

### **Interest Expense**

Interest expense was \$370,071 for the year ended June 30, 2006 compared to \$440,585 for the year ended June 30, 2005. During 2005, we issued 12% convertible debentures with detachable warrants which had a beneficial conversion feature. Included in interest expense for each of the years ended June 30, 2006 and 2005 is \$250,000 of amortization attributable to the debt discounting resulting from the valuation of the detachable warrants and beneficial conversion feature. This debt was automatically converted to common stock on December 31, 2005. As a result of the conversion, we realized a \$30,000 reduction in interest expense during the year ended June 30, 2006 over the year ended June 30, 2005. Monthly interest expense is expected to continue to decrease as the principal balances of our mortgage notes continue to decrease through normal debt service.

**Other**

The gain from settlement of debt in the amount of \$2,290 for the year ended June 30, 2006 represents the negotiated settlement of a junior mortgage note payable that was paid off prior to its scheduled maturity in 2009.

The gain from debt restructuring in the amount of \$841,241 for the year ended June 30, 2005 represents the accounting impact of several actions taken to improve our financial condition. We extinguished \$716,661 of principal and accrued interest that was no longer an enforceable obligation because the statute of limitations had expired. We agreed to convert \$213,390 of principal plus interest into 110,000 shares of common stock. The common stock had a market value of \$104,500, resulting in a gain of \$108,890. In connection with the early retirement of certain mortgage debts, the Company agreed to discounted cash payments of \$43,010 for mortgages with a remaining balance of \$68,700, resulting in a gain of \$25,690. We also incurred debt-restructuring costs of \$82,012 to redeem an option held by the senior creditors of Casinos USA, which is included in operating, general and administrative expenses for the year ended June 30, 2005.

The gain on asset disposals of \$1,950 for the year ended June 30, 2006 resulted from the retirement and sale of certain casino equipment and fixtures.

For federal income tax purposes, Global has a net operating loss carryover (NOL) approximating \$6,226,000, which can be used to offset future taxable income, if any. Taxable income reported for 2005 has been offset by these NOL carry forwards, and taxable income for 2006 is also expected to be offset. The NOL s are scheduled to expire in the years 2009 through 2016. Under the Tax Reform Act of 1986, the amounts of and the benefits from NOL s are subject to certain limitations including restrictions imposed when there is a loss of business continuity or when ownership changes in excess of 50% of outstanding shares, under certain circumstances. Thus, there is no guarantee that Global will be able to utilize its NOL before it expires and no potential benefit has been recorded in the financial statements.

Inflation did not have a material impact on our operations for the period.

Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company s results of operations.

### **Liquidity and Capital Resources**

Our primary source of cash is internally generated revenue from operations. Historically, cash generated from operations had not been sufficient to satisfy working capital requirements and capital expenditures. Consequently, we depended on funds received through debt and equity financing to address these shortfalls. We have also relied, from time to time, upon loans from affiliates to meet immediate cash demands. There can be no assurance that these affiliates or other related parties will continue to provide funds to us in the future, should the need arise, as there is no legal obligation on these parties to provide such loans.

As of June 30, 2006 and for the year then ended, neither the Company nor its subsidiaries have commercial bank credit facilities. Consequently, we believe that future cash needs must be internally generated through operations.

Cash flow at the Company's sole operating subsidiary has been sufficient to fund operations at that subsidiary and we believe that cash flow will be sufficient during the next twelve months to continue operation of the subsidiary.

At June 30, 2006, the Company had cash and cash equivalents of \$1,181,908, substantially all of which was utilized in or associated with our casino operations. Pursuant to state gaming regulations, the casino is required to maintain cash balances sufficient to pay potential jackpot awards. However, our cash balance at June 30, 2006 was in excess of funds required by gaming regulations.

Our working capital improved by \$603,723 to \$694,545 at June 30, 2006, from \$90,822 at June 30, 2005, primarily because of the conversion of the 12% debentures to common stock, the settlement of certain related party accounts payable, and proceeds received from the exercise of certain stock purchase warrants and options, all as discussed below and elsewhere in this report.

Cash provided by operating activities was \$644,748 for the year ended June 30, 2006. For the year ended June 30, 2005, operating activities provided net cash of \$761,805. The decline in cash provided by operating activities of \$117,057 was primarily the result of the reductions of accounts payable and increases in casino operations expenses during the year ended June 30, 2006.

Cash used by investing activities was \$27,225 for the year ended June 30, 2006. On February 28, 2006, we entered into an Organization Agreement with a certain individual to form a for-profit limited liability company under the name of Global Gaming Technologies, LLC ( GGT ). GGT was formed for the purpose of bringing to market two games of poker developed by the other party to the agreement, whose contribution included all of his intellectual property rights related to the two games which he developed. Under the terms of the agreement we agreed to make an initial cash contribution to GGT of \$100,000 in exchange for a 25% equity interest. As of June 30, 2006, we had made cash contributions totaling \$10,000. The balance due of \$90,000 under the terms of the agreement has been recorded as a current liability. The timing of the future cash payments required under the agreement is dependent upon the cash requirements of GGT to execute its business plan. Subsequent to June 30, 2006, we made an additional cash payment of \$10,000. Also under the terms of the agreement, we have the option to make additional cash contribution of \$100,000 in exchange for an additional 25% equity interest.

During the year ended June 30, 2006, we invested \$23,525 in building improvements and equipment. We also received proceeds of \$6,300 from the sale of certain retired fixtures and equipment. In addition, during the year ended June 30, 2006, we acquired \$271,940 of selected casino equipment utilizing vendor financing. The vendor agreements require us to make periodic payments, all of which have payment terms of one year or less. For the year ended June 30, 2006, we have made payments under these particular agreements totaling approximately \$157,500.

During the year ended June 30, 2005, we used net cash of \$282,263 in investing activities, also for capital expenditures.

Cash flows used in financing activities increased \$101,028 to \$352,823 for the year ended June 30, 2006, compared to cash used of \$251,795 for the year ended June 30, 2005. Debt payments of \$467,823 for the year ended June 30, 2006, included scheduled payments for our Oasis Casino Management System purchased during fiscal year 2005, regular scheduled payments on mortgage notes, and payments on vendor financed equipment purchases as discussed above.

Debt payments for the year ended June 30, 2005, included regular scheduled debt payments of \$334,909, and \$424,465 was paid to retire certain debt owed by Casinos USA to its senior creditor.

Certain stock purchase warrants and employee stock options were exercised in December 2005, resulting in cash proceeds of \$115,000. For the year ended June 30, 2005, we received cash proceeds of \$25,000 from the sale of

common stock units as further discussed below, and \$6,500 from the exercise of employee stock options.

Effective January 3, 2005 the Company finalized the private placement of convertible debentures that bear interest at 12% and mature on December 31, 2007. The debentures were sold at face value for gross proceeds of \$500,000 and were secured by a pledge of 100% of our shares of Casinos USA.

The debentures were convertible into common stock at a conversion rate of \$0.50 per share. On December 31, 2005, all the debentures automatically converted to 1,000,000 shares of common stock. Holders of the debentures also received warrants to purchase 500,000 shares of common stock at an exercise price of \$0.15 per share. In December 2005, all these warrants were exercised by the warrant holders as discussed above.

The warrants were valued using the Black Scholes option pricing model based on the market price of the common stock at the commitment date. The warrant valuation of \$237,000 has been allocated to additional paid in capital.

After allocating value to the warrants, we used the intrinsic value method to determine that all the remaining proceeds should be allocated to the embedded beneficial conversion feature. As such, \$263,000 was credited to additional paid in capital. The total allocation of \$500,000 was amortized over 12 months commencing January 3, 2005. During each of the years ended June 30, 2006 and 2005, \$250,000 was amortized and is included in interest expense, also as discussed above.

During the year ended June 30, 2005, all outstanding shares of our Series C Preferred Stock were redeemed. Each share of Series C Preferred stock had a stated value of \$1.20 and was convertible into one share of common stock.

Holder of Series C Preferred Stock were entitled to vote and to receive dividends at the annual rate of 7% based on the stated value per share. The dividends were cumulative, with any outstanding unpaid dividends bearing interest at an annual rate of 10%. The outstanding shares of Series C Preferred Stock were redeemed for a total cash payment of \$73,474, which included accrued interest and dividends of \$26,553.

In September 2004, the Company sold to three investors an aggregate of 250,000 units at a price of \$0.10 per unit, resulting in gross proceeds of \$25,000. Each unit consisted of one share of common stock and one warrant exercisable for a period of 15 months to purchase one additional share of common stock at an exercise price of \$0.15.

The securities were taken for investment purposes and were subject to restrictions on transfer. The securities were issued without registration under the Securities Act of 1933, as amended, in reliance upon the exemption from registration requirements thereof contained in Section 4(2) and Regulation D, Rule 506 thereunder.

## **Other**

During the year ended June 30, 2005, we retired a promissory note held by Astraea in the principal amount of \$424,465 plus accrued interest of \$18,023. The note, which had been restructured in 2002, was secured by a pledge of 100% of the shares of Casinos USA. In addition, the 2002 Restructuring granted to Astraea an option to purchase all of the shares of Casinos USA for \$100. Global Casinos could repurchase and cancel the option by repaying the principal and interest plus an option fee of \$82,012. The option fee was paid during 2005 and the option has been cancelled.

Further as part of the 2002 Restructuring, Astraea as holder of the first two mortgages against the Bull Durham agreed to a 12-month moratorium on monthly payments and to an extension of the maturity date of those mortgages from 2004 to 2009. In addition, junior mortgage holders holding all of the subordinated debt against the Bull Durham

except for the holders of approximately \$200,000 in subordinated mortgages also agreed to reduce the interest rate of their mortgage notes to 4% per annum and agreed to extend the maturity date of those notes from 2004 to 2009. Since September 2002, the Company has been paying the holders of the junior mortgages who did not agree to accept the Astraea Term Sheet on the basis of the reduced interest rate and extended maturity date provided



for in that Term Sheet. Since that time, the holders of those junior mortgages have been acquiescing and accepting the modified payment without objection. The Company has taken the position that such acquiescence and acceptance without objection constitutes a legally enforceable modification by estoppel.

The Company's common stock is neither listed nor traded on NASDAQ or a national securities exchange. Information about the Company's stock can be found at the OTC Bulletin Board ("OTCBB"). The OTC Bulletin Board is a registered quotation service that displays real-time quotes, last sale prices and volume information in over-the-counter (OTC) securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. The OTCBB is not an issuer listing service, market or exchange.

Although the OTCBB does not have any listing requirements, per se, to be eligible for quotation on the OTCBB, issuers must remain current in their filings with the SEC or applicable regulatory authority.

Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company's liquidity and capital resources.

**ITEM 7. FINANCIAL STATEMENTS**

The following consolidated financial statements are filed as part of this report:

1. Report of Independent Registered Public Accounting Firm - Stark Winter Schenkein & Co., LLP
2. Report of Independent Registered Public Accounting Firm - Schumacher & Associates
3. Balance Sheet as of June 30, 2006
4. Statements of Earnings for the Years Ended June 30, 2006 and 2005
5. Statements of Stockholders' Equity for the Years Ended June 30, 2006 and 2005
6. Statements of Cash Flows for the Years Ended June 30, 2006 and 2005
7. Notes to Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
Global Casinos, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Global Casinos, Inc. and Subsidiaries as of June 30, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended June 30, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Global Casinos, Inc. and Subsidiaries as of June 30, 2005, and the consolidated results of its operations and cash flows for the years ended June 30, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Stark Winter Schenkein & Co., LLP

Denver, Colorado  
October 11, 2005



**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Global Casinos, Inc. and Subsidiaries

We have audited the accompanying balance sheet of Global Casinos, Inc. and Subsidiaries, as of June 30, 2006, and the related statements of earnings, stockholders' equity, and cash flows for the year ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). 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 audit included consideration of 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Global Casinos, Inc. and Subsidiaries as of June 30, 2006, and the results of its operations and cash flows for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

SCHUMACHER & ASSOCIATES, INC.

Denver, Colorado  
September 26, 2006



**GLOBAL CASINOS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET***as of June 30, 2006***ASSETS**

## Current assets:

Cash and cash equivalents	\$ 1,181,908
Accrued gaming income	94,928
Inventory	7,580
Other	<u>29,701</u>
Total current assets	<u>1,314,117</u>

Investment in Global Gaming Technologies 100,000

## Land, building and improvements, and equipment:

Land	517,950
Building and improvements	4,091,543
Equipment	<u>2,269,550</u>
	6,879,043
Accumulated depreciation	<u>(2,979,554)</u>
	<u>3,899,489</u>
	<u>\$ 5,313,606</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

## Current liabilities:

Accounts payable, trade	\$ 23,648
Accounts payable, related parties	4,727
Accrued expenses	200,163
Accrued interest	3,862
Joint venture obligation	90,000
Current portion of long-term debt	177,172
Other	<u>120,000</u>
Total current liabilities	<u>619,572</u>

Long-term debt, less current portion 1,935,682

Commitments and contingencies

## Stockholders' equity:

Preferred stock: 10,000,000 shares authorized	
Series A - no dividends, \$2.00 stated value, non-voting, 2,000,000 shares authorized, 200,500 shares issued and outstanding	401,000

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Series B - 8% cumulative, convertible, \$10.00 stated value, non-voting,	
400,000 shares authorized, no shares issued and outstanding	-
Series C - 7% cumulative, convertible, \$1.20 stated value, voting	
600,000 shares authorized, no shares issued and outstanding	-
Common stock - \$0.05 par value; 50,000,000 shares authorized;	
5,152,907 shares issued and outstanding	257,646
Additional paid-in capital	13,557,933
Accumulated (deficit)	<u>(11,458,227)</u>
	<u>2,758,352</u>
	<u>\$ 5,313,606</u>

See accompanying notes to the consolidated financial statements.



**GLOBAL CASINOS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

*for the years ended June 30, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
Revenues:		
Casino	\$ <u>3,957,477</u>	\$ <u>3,925,431</u>
Expenses:		
Casino operations	3,254,304	2,979,263
Operating, general, and administrative	<u>220,075</u>	<u>405,221</u>
	<u>3,474,3796</u>	<u>3,384,484</u>
Income from operations	483,098	540,947
Other income (expense):		
Interest expense	(370,071)	(440,585)
Gain on asset disposals	1,950	-
Gain from debt settlement	2,290	-
Gain on debt restructuring	<u>-</u>	<u>841,241</u>
Net income	117,267	941,603
Preferred dividends	<u>-</u>	<u>(2,463)</u>
Net income attributable to common stockholders	<u>\$ 117,267</u>	<u>\$ 939,140</u>
Earnings per common share:		
Basic	\$ .03	<u>\$ 0.31</u>
Diluted	\$ .02	<u>\$ 0.23</u>
Weighted average shares outstanding:		
Basic	4,246,627	<u>3,062,249</u>
Diluted	4,713,419	<u>4,158,046</u>

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See accompanying notes to the consolidated financial statements.

**GLOBAL CASINOS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

**July 1, 2004 through June 30, 2006**

	SERIES A PREFERRED STOCK		SERIES C PREFERRED STOCK		COMMON STOCK		Additional Paid In Capital	Accumul (Defici
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount		
Balance as of June 30, 2004	-	\$ -	39,101	\$ 46,921	2,431,360	\$ 121,568	\$ 12,250,105	(12,514
Sale of common stock	-	-	-	-	250,000	12,500	12,500	
Convert accounts payable to common stock	-	-	-	-	300,000	15,000	45,000	
Convert debt to common stock	-	-	-	-	110,000	5,500	99,000	
Warrants and beneficial conversion on convertible debentures	-	-	-	-	-	-	500,000	
Exercise of options and warrants	-	-	-	-	230,000	11,500	18,000	
Reclassify Series A preferred stock	200,500	401,000	-	-	-	-	-	
Dividends on Series C preferred stock	-	-	-	-	-	-	-	(2
Redeem Series C preferred stock	-	-	(39,101)	(46,921)	-	-	-	

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Net Income	-	-	-	-	-	-	-	-	94
Balance as of June 30, 2005	200,500	401,000	-	-	3,321,360	166,068	12,924,605	(11,575)	
Convert accounts payable to common stock	-	-	-	-	3,297	165	2,835		
Settlement of account	-	-	-	-	-	-	78,655		
Convert debt to common stock	-	-	-	-	1,000,000	50,000	450,000		
Settlement of debt	-	-	-	-	22,250	1,113	21,138		
Exercise of options and warrants	-	-	-	-	800,000	40,000	75,000		
Common stock issued for services	-	-	-	-	6,000	300	5,700		
Net Income	-	-	-	-	-	-	-	-	117
Balance as of June 30, 2006	200,500	\$ 401,000	-	\$ -	5,152,907	\$ 257,646	\$ 13,557,933	(11,458)	

See accompanying notes to the consolidated financial statements.

**GLOBAL CASINOS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*for the years ended June 30, 2006 and 2005*

	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
	\$	
Net income	117,267	\$ 941,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	448,024	379,184
Amortization of debt discount	250,000	250,000
Gain on debt restructuring and settlement	(2,290)	(841,241)
Non-cash compensation	6,000	-
Gain on asset disposal	(1,950)	-
Changes in assets and liabilities:		
Accrued gaming income	(24,405)	(18,848)
Inventories	(1,465)	3,321
Accounts payable	(114,350)	(16,085)
Accrued expenses	36,319	16,311
Accrued interest	(45,941)	39,337
Other	<u>(22,461)</u>	<u>8,223</u>
Net cash provided by operating activities	<u>644,748</u>	<u>761,805</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in Global Gaming Technologies LLC	(10,000)	-
Purchases of building improvements and equipment	(23,525)	(282,263)
Proceeds from sales of assets	<u>6,300</u>	<u>-</u>
Net cash (used) by investing activities	<u>(27,225)</u>	<u>(282,263)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long term debt	-	500,000
Principal payments on long-term debt	(467,823)	(759,374)
Redemption of Series C preferred stock	-	(46,921)
Proceeds from sale of common stock	-	25,000
Proceeds from exercise of warrants and stock options	<u>115,000</u>	<u>29,500</u>
Net cash (used) by financing activities	<u>(352,823)</u>	<u>(251,795)</u>

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Net increase in cash	264,700	227,747
Cash at beginning of period	<u>917,208</u>	<u>689,461</u>
Cash at end of period	<u>\$ 1,181,908</u>	<u>\$ 917,208</u>

SUPPLEMENTAL CASH FLOW  
INFORMATION:

Cash paid for interest	<u>\$ 173,582</u>	<u>\$ 154,059</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

SUPPLEMENTAL SCHEDULE OF NONCASH  
INVESTING AND  
FINANCING ACTIVITIES:

Debt converted to common stock	<u>\$ 500,000</u>	<u>\$ -</u>
Accounts payable and accrued expenses converted to common stock	<u>\$ 25,250</u>	<u>\$ 60,000</u>
Equipment financing obligations	<u>\$ 271,940</u>	<u>\$ 378,107</u>
Extinguishment of debt	<u>\$ -</u>	<u>\$ 706,661</u>
Notes payable and accrued interest converted to common stock	<u>\$ -</u>	<u>\$ 213,390</u>

See accompanying notes to the consolidated financial statements.

**GLOBAL CASINOS, INC. AND SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Global Casinos, Inc. (Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Organization and Consolidation**

Global Casinos, Inc. (the "Company" or "Global"), a Utah corporation, operates a gaming casino. The consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Operations**

As of June 30, 2006, the Company had one operating subsidiary, as follows:

CASINOS USA, INC. ("Casinos USA"), a Colorado corporation, which owns and operates the Bull Durham Saloon and Casino ("Bull Durham"), located in the limited stakes gaming district in Black Hawk, Colorado.

**Use of Estimates and Assumptions**

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting periods. Significant estimates included herein relate to the recoverability of assets, the value of long-lived assets, the long-term viability of the business, the future impact of gaming regulations, and future obligations under various tax statutes. Actual results may differ from estimates.

### **Risk Considerations**

The Company operates in a highly regulated environment subject to the political process. Our retail gaming license is subject to annual renewal by the Colorado Division of Gaming. Changes to existing statutes and regulations could have a negative effect on our operations. In addition, since the Company has its only facility in Black Hawk, Colorado, the potential for severe financial impact can result from negative effects of economic conditions within the market or geographic area. This concentration results in an associated risk and uncertainty.



### **Concentrations of Credit Risk**

Financial instruments that potentially subject the company to concentrations of credit risk consist principally of cash and cash equivalents, and accounts receivables. At June 30, 2006, the Company had approximately \$445,000 of cash or cash equivalents in financial institutions in excess of amounts insured by agencies of the U.S. Government.

### **Fair Value of Financial Instruments**

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The Company's financial instruments include cash, accrued gaming income, accounts payable, accrued expenses, other current liabilities and long-term debt. Except for long-term debt, the carrying value of financial instruments approximated fair value due to their short maturities.

The carrying value of long-term debt approximated fair value because stated interest rates on these instruments are similar to quoted rates for instruments with similar risks.

### **Cash and Cash Equivalents**

Cash consists of demand deposits and vault cash used in casino operations. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### **Inventories**

Inventories primarily consist of food and beverage supplies and are stated at the lower of cost or market. Cost is determined by the specific-cost method.

### **Land, Building and Improvements, and Equipment**

Land, building and improvements, and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives. The building is depreciated over 31 years, and improvements and equipment are depreciated over five to seven years. Depreciation expense for the years ended June 30, 2006 and 2005 was \$448,024 and \$379,184, respectively.

### **Impairment of Long-Lived Assets**

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company evaluates its long-lived assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value to future undiscounted cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is determined as the amount by which the carrying value exceeds the fair value of the assets. Management believes that as of June 30, 2006, there is no impairment in the carrying value of its long-lived assets.

### **Debt with Detachable Warrants and/or Beneficial Conversion Feature**

The Company accounts for the issuance of detachable stock purchase warrants in accordance with Accounting Principles Board Opinion 14 ("APB 14"), whereby we separately measure the fair value of the debt and the detachable warrants and allocate the proceeds from the debt on a pro-rata basis to each. The resulting discount from the fair value of the debt allocated to the warrants, which is accounted for as paid-in capital, is amortized over the estimated life of the debt.

In accordance with the provisions of Emerging Issues Task Force Issue 98-5 and EITF 00-27, we allocate a portion of the proceeds received to any embedded beneficial conversion feature, based on the difference between the effective conversion price of the proceeds allocated to the convertible debt and the fair value of the underlying common stock on the date the debt is issued. In the event the convertible debt also had detachable stock purchase warrants, we first allocate proceeds to the stock purchase warrants and the debt and then allocate the resulting debt proceeds between the beneficial conversion feature, which is accounted for as paid-in capital, and the initial carrying amount of the debt. The discount resulting from the beneficial conversion feature is amortized over the estimated life of the debt.

### **Revenue Recognition**

In accordance with industry practice, the Company recognizes as casino revenues the net win from gaming activities, which is the difference between gaming wins and losses.

### **Advertising Costs**

The Company expenses all advertising costs as they are incurred. Advertising costs were \$170 and \$2,721 for the years ended June 30, 2006 and 2005, respectively.

### **Income Taxes**

The Company uses the liability method of accounting for income taxes. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates resulting from new legislation is recognized in income in the period of enactment. A valuation allowance is established against deferred tax assets when management concludes that the "more likely than not" realization criteria has not been met.

**Earnings (Loss) Per Common Share**

Earnings (or loss) per share ("EPS") are calculated in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all dilutive potential common shares outstanding, except where the effect of their inclusion would be anti-dilutive.

## **Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*. The provisions of SFAS No. 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* ("APB 25"), but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to measure compensation costs for stock-based compensation as prescribed by APB 25 in accounting for its stock option incentive plans.

## **Comprehensive Income**

SFAS No. 130, *Reporting Comprehensive Income*, established standards for reporting and display of comprehensive income, its components and accumulated balances. For the years ended June 30, 2006 and 2005, there were no differences between reported net income and comprehensive income.

## **Derivative Instruments and Hedging Activities**

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, established requirements for disclosure of derivative instruments and hedging activities. During the periods covered by the financial statements the Company did not have any derivative financial instruments and did not participate in hedging activities.

## **Segment Information**

The Company currently operates in one business segment as determined in accordance with SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*. The determination of reportable segments is based on the way management organizes financial information for making operating decisions and assessing performance. All operations are located in the United States of America.

## **Recent Pronouncements**

In December 2004, the FASB issued SFAS 123(R), "Share-Based Payment." SFAS 123(R) amends SFAS 123, "Accounting for Stock-Based Compensation," and APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS 123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the entity's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of an entity's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic

entities, as of the first fiscal year beginning after December 15, 2005. Management is currently assessing the effect of SFAS No. 123(R) on the Company's financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3" SFAS No. 154 requires retrospective application to prior period financial statements of changes in accounting principle,

unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Management does not expect adoption of SFAS No. 154 to have a material impact on the Company's financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. FIN 48 provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more-likely-than-not of being sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely of being recognized upon ultimate settlement with the taxing authority, is recorded. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Management is currently evaluating the impact of adopting FIN 48 on our financial statements.

There were various other accounting standards and interpretations issued during 2006 and 2005, none of which are expected to have a material impact on the Company's consolidated financial position, operations, or cash flows.

## **2. GAIN FROM DEBT RESTRUCTURING**

During the year ended June 30, 2005 the Company continued efforts to resolve old outstanding obligations and extinguished principal of \$307,973 (plus accrued and unpaid interest of \$398,688) that became unenforceable obligations because the statute of limitations had expired. The Company also converted certain notes payable into equity by issuing 110,000 shares of common stock to creditors in exchange for outstanding principal of \$110,000 and accrued interest of \$103,390. The common stock had a market value of \$104,500, resulting in a gain of \$108,890. In connection with the early retirement of certain mortgage debts, the Company agreed to discounted cash payments of \$43,010 for mortgages with a remaining balance of \$68,700, resulting in a gain of \$25,690.

## **3. NOTES PAYABLE AND LONG-TERM DEBT**

At June 30, 2006, notes payable and long-term debt consisted of the following:

Senior mortgages payable to an investment company, collateralized by real estate, interest at 7%, monthly payments of \$6,768 through September 2009. Final payment of \$943,000. \$987,092



Junior mortgages payable to private lenders, collateralized by real estate, interest at 4%, monthly payments of \$5,054 through September 2009. Final payment of \$909,000. 982,836

Installment notes payable to equipment suppliers, collateralized by gaming equipment, no interest, due in monthly installments aggregating \$14,179, due at various times during 2007. 142,926

Total Notes payable and long-term debt 2,112,854  
Less current portion (177,172)

Long-term debt, net \$1,935,682

Scheduled maturities of notes payable and long-term debt for the years ending June 30 are as follows:

2007	\$ 177,172
2008	36,036
2009	37,928
2010	<u>1,861,718</u>
Total	<u>\$ 2,112,854</u>

Effective January 3, 2005 the Company finalized the private placement of convertible debentures that bear interest at 12% and mature on December 31, 2007. The debentures were sold at face value for gross proceeds of \$500,000 and collateralized by a pledge of 100% of our shares of Casinos USA. The debentures were convertible into common stock at a conversion rate of \$0.50 per share. On December 31, 2005 all the debentures automatically converted to 1,000,000 shares of common stock. Holders of the debentures also received warrants to purchase 500,000 shares of common stock at an exercise price of \$0.15 per share. In December 2005, all these warrants were exercised by the warrant holders.

The warrants were valued using the Black Scholes option pricing model based on the market price of the common stock at the commitment date. The warrant valuation of \$237,000 has been allocated to additional paid in capital. After allocating value to the warrants, we used the intrinsic value method to determine that all of the remaining

proceeds should be allocated to the embedded beneficial conversion feature. As such, \$263,000 was credited to additional paid in capital. The total allocation of \$500,000 was amortized over 12 months to coincide with the term of the conversion feature. Amortization expense during fiscal years 2006 and 2005 was \$250,000 each year and was included in interest expense.

During the year ended June 30, 2005, the proceeds from the debentures offering were used to retire certain debt owed to our senior creditor ("Astraea") and to redeem an option held by Astraea. The outstanding principal plus accrued interest under this portion of the Astraea debt aggregated \$442,488. The option allowed Astraea to purchase all of the common stock of Casinos USA (including the Bull Durham assets and operations) for a purchase price of \$100. The arrangement

with Astraea required the Company to retire the outstanding principal, plus accrued interest, plus pay an option redemption fee of \$82,012.

During the year ended June 30, 2006, the Company entered into installment note agreements with certain equipment suppliers for the acquisition of gaming equipment having an aggregate purchase price of \$271,940. The financing agreements bear no interest and have terms ranging from two months to twelve months. The equipment suppliers retain a security interest in the gaming equipment until the notes are paid in full. At June 30, 2006, these notes had an outstanding balance of \$142,926.

#### **4. STOCKHOLDERS' EQUITY**

##### **Preferred Stock**

The Company has authorized 10,000,000 shares of preferred stock. These shares may be issued in series with such rights and preferences as may be determined by the Board of Directors.

##### **Series A Convertible Redeemable Preferred Stock**

The Company's Board of Directors has authorized 2,000,000 shares of \$2.00 stated value, Series A Preferred Stock. The preferred stock has a senior liquidation preference value of \$2.00 per share. It does not bear dividends. The conversion privileges originally included with the stock have expired. The preferred stock originally contained a mandatory redemption feature that required the Company to redeem the outstanding stock on May 31, 1995 at a rate of \$2.00 per share. On May 31, 1995, a majority of the preferred stockholders agreed to waive the mandatory redemption in consideration for a lower conversion price into common shares at \$1.125 per share. Subsequently, holders of 1,205,750 shares of Series A preferred stock converted their holdings into common stock. The remaining 200,500 outstanding shares of Series A preferred stock are held by owners who chose not to participate in the revised offer. During the year ended June 30, 2005, the Company determined that the mandatory redemption feature expired due to the statute of limitations. Accordingly, the Series A preferred stock was reclassified from current liabilities to stockholders' equity.

##### **Series B Convertible Redeemable Preferred Stock**

The Company's Board of Directors has authorized 400,000 shares of \$10.00 stated value, Series B Convertible Preferred Stock. Each share of Series B preferred stock is convertible into one share of the Company's common stock or may be redeemed at an exercise price of \$10.00 per share. In addition, the Series B shares have a junior liquidation preference of \$10.00 per share. Holders of the Series B preferred stocks are entitled to receive an annual dividend payable at the rate of 8% per annum, which is cumulative, and unpaid dividends bear interest at an annual rate of 12%. As of June 30, 2006, there were no shares outstanding.

### **Series C Convertible Preferred Stock**

In January 1999, the Board of Directors of the Company ratified the issuance of Series C preferred stock. The Company has authorized 600,000 Series C shares with a stated value of \$1.20 per share. Series C shares are convertible into common stock at a rate of \$1.20 per share. Holders of Series C preferred stock are entitled to vote and to receive dividends at the annual rate of 7% based on the stated value per share. In addition, the holders of Series C preferred stock are entitled to participate, pro rata, in dividends paid on outstanding shares of common stock. The dividends are cumulative and unpaid dividends bear interest at an annual rate of 10%.

Effective April 30, 2005, the remaining 39,101 Series C preferred shares outstanding were redeemed by the Company for a cash payment of \$74,626, including accrued dividends and interest thereon.

### **Warrants to Purchase Common Stock**

In October 1996, in connection with a private placement of convertible debt, the Company issued 126,050 Class E Warrants, exercisable at \$6.00 per share; 126,050 Class F Warrants, exercisable at \$7.00 per share; and 126,050 Class G Warrants, exercisable at \$8.00 per share. These warrants expired during the year ended June 30, 2005.

A summary of warrants to purchase common stock is as follows: