GLOBAL CASINOS INC
Form 10-Q
May 16, 2011

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

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

OR

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

For the transition period from ____ to ____

Commission file number 0-15415

GLOBAL CASINOS, INC.

(Exact Name of Small Business Issuer as Specified in its Charter)

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

1507 Pine Street, Boulder, CO 80302
(Address of Principal Executive Offices)

Issuer's telephone number: (303) 449-2100

Former name, former address, and former fiscal year, if changed since last report

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the last 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ]

Non-accelerated filer [ ] Smaller Reporting Company [X]

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

As of April 28, 2011, the Registrant had 6,798,488 shares of its Common Stock outstanding.

INDEX

PART I -- FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART 1. FINANCIAL INFORMATION

Item 1.

Financial Statements

The consolidated financial statements included herein have been prepared by Global Casinos, Inc. (the Company), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such SEC rules and regulations. In the opinion of management of the Company the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of March 31, 2011 and June 30, 2010, and its results of operations for the three and nine month periods ended March 31, 2011 and 2010, its statements of stockholders equity for the period July 1, 2009 through March 31, 2011, and its cash flows for the nine month periods ended March 31, 2011 and 2010. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-K.

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (unaudited)	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 583,994	$ 578,584
Accrued gaming income	188,959	294,061
Inventory	22,373	22,636
Prepaid expenses and other current assets	57,885	90,027
Total current assets	853,211	985,308
Land, building and improvements, and equipment:		
Land	517,950	517,950
Building and improvements	4,138,220	4,137,271
Equipment	3,128,268	3,186,475
Total land, building and improvements, and equipment	7,784,438	7,841,696
Accumulated depreciation	(5,042,807)	(4,795,894)
Land, building and improvements, and equipment, net	2,741,631	3,045,802
Goodwill	1,008,496	1,008,496
Investment in ImageDoc	120,000	
Total assets	$ 4,723,338	$ 5,039,606

CONTINUED ON FOLLOWING PAGE

See accompanying notes to these consolidated financial statements

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GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		March 31, 2011		June 30, 2010
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable, trade	$	150,973	$	89,745
Accounts payable, related parties		3,528		11,410
Accrued expenses		260,060		334,859
Accrued interest		14,742		11,121
Other current liabilities		97,272		99,298
Joint venture obligation		25,750		25,750
Current portion of long-term debt		754,388		913,479
Current portion of loan participation obligations		32,552		27,335
Total current liabilities		1,339,265		1,512,997
Long-term debt, less current portion		157,505		165,002
Loan participation obligations, less current portion		199,878		225,287
Convertible debt		120,000		-
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		401,000
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		-		-
Series D - 8% cumulative, convertible, $1.00 stated value, non-voting				
1,000,000 shares authorized, 700,000 shares issued and outstanding		700,000		700,000
Series E - convertible, $0.25 stated value, non-voting				
600,000 shares authorized, no shares issued and outstanding		-		-
Common stock - $0.05 par value; 50,000,000 shares authorized;				
6,798,488 and 6,420,488 shares issued and outstanding		339,925		321,025
Additional paid-in capital		14,203,225		14,183,355
Accumulated deficit		(12,737,460)		(12,469,060)
Total equity		2,906,690		3,136,320
Total liabilities and stockholders' equity	$	4,723,338	$	5,039,606

See accompanying notes to these consolidated financial statements

5

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended March 31, 2011 and 2010

(unaudited)

		2011		2010
Revenues:				
Casino	$	1,378,214	$	1,535,909
Promotional allowances		(48,692)		(42,861)
Net Revenues		1,329,522		1,493,048
Expenses:				
Casino operations		1,337,361		1,395,044
Operating, general, and administrative		57,838		31,914
Loss on asset disposals		2,186		-
Impairment		-		890,000
		1,397,385		2,316,958
Income (loss) from operations		(67,863)		(823,910)
Other income (expense):				
Interest		(26,252)		(28,498)
Income (loss) before provision for income taxes		(94,115)		(852,408)
Provision for income taxes		-		-
Net income (loss)		(94,115)		(852,408)
Series D Preferred dividends		(14,000)		(14,000)
Net income (loss) attributable to common shareholders	$	(108,115)	$	(866,408)

Earnings (loss) per common share:				
Basic	$	(0.02)	$	(0.14)
Diluted	$	(0.02)	$	(0.14)
Weighted average shares outstanding:				
Basic		6,498,055		6,344,655
Diluted		6,498,055		6,344,655

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the nine months ended March 31, 2011 and 2010

(unaudited)

		2011		2010
Revenues:				
Casino	$	4,243,490	$	4,625,980
Promotional allowances		(130,900)		(119,071)
Net Revenues		4,112,590		4,506,909
Expenses:				
Casino operations		4,106,731		4,291,959
Operating, general, and administrative		145,846		264,704
Loss on asset disposals		2,418		-
Impairment		-		890,000
		4,254,995		5,446,663
Income (loss) from operations		(142,405)		(939,754)
Other income (expense):				
Interest		(83,373)		(125,041)
Income (loss) before provision for income taxes		(225,778)		(1,064,795)
Provision for income taxes		-		-
Net income (loss)		(225,778)		(1,064,795)
Series D Preferred dividends		(42,622)		(42,622)
Net income (loss) attributable to common shareholders	$	(268,400)	$	(1,107,417)
Earnings (loss) per common share:				

Basic	$	(0.04)	$	(0.18)
Diluted	$	(0.04)	$	(0.18)
Weighted average shares outstanding:				
Basic		6,445,966		6,131,041
Diluted		6,445,966		6,131,041

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
July 1, 2009 through March 31, 2011

	SERIES A PREFERRED STOCK		SERIES D PREFERRED STOCK		COMMON STOCK			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid In Capital	Accumulated (Deficit)
Balance as of June 30, 2009	200,500	$ 401,000	700,000	$ 700,000	5,955,215	$ 297,761	$ 14,085,449	$ (11,301,615)
Cashless exercise of stock options by officer	-	-	-	-	77,273	3,864	(3,864)	-
Common stock issued for retainer under consulting agreement	-	-	-	-	10,000	500	3,000	-
Common stock issued under loan participation agreement	-	-	-	-	50,000	2,500	16,500	-
Common stock issued to director under loan participation agreement	-	-	-	-	3,000	150	1,020	-
Common stock issued to officers and directors	-	-	-	-	325,000	16,250	81,250	-
Series D Preferred dividends	-	-	-	-	-	-	-	(56,778)
Net loss	-	-	-	-	-	-	-	(1,110,667)
	200,500		700,000		6,420,488		$ 14,183,355	

Balance as of June 30, 2010		$ 401,000		$ 700,000		$ 321,025		$ (12,469,060)
Common stock issued to officers and directors					325,000	16,250	16,250	-
Common stock issued under loan participation agreement					50,000	2,500	3,500	-
Common stock issued to director under loan participation agreement					3,000	150	120	-
Series D Preferred dividends	-	-	-	-	-	-	-	(42,622)
Net loss	-	-	-	-	-	-	-	(225,778)
Balance as of March 31, 2011 (unaudited)	200,500	$ 401,000	700,000	$ 700,000	6,798,488	$ 339,925	$ 14,203,225	$ (12,737,460)

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended March 31, 2011 and 2010

(unaudited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (225,778)	$ (1,064,795)
Adjustments to reconcile net income (loss) to net cash		
provided by operating activities		
Depreciation and amortization	342,821	428,404
Impairment	-	890,000
Loan participation fees paid with common stock	6,270	20,170
Professional fees paid with common stock	-	3,500
Stock based compensation	32,500	97,500
Loss on disposals of fixed assets	2,418	-
Changes in operating assets and liabilities		
Accrued gaming income	105,102	22,764
Inventories	263	(2,155)
Other current assets	32,142	(11,640)
Accounts payable and accrued expenses	(21,297)	(125,184)
Accrued interest	3,621	(2,411)
Other current liabilities	(2,026)	14,535
Net cash provided by operating activities	276,036	270,688
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of trading securities	(120,000)	-
Purchases of building improvements and equipment	(41,068)	(94,391)
Proceeds from sale of assets	-	200
Investment in Global Gaming Technologies	-	(100)
Net cash used in investing activities	(161,068)	(94,291)
CASH FLOWS FROM FINANCING ACTIVITIES		

Proceeds upon issuance of convertible debt		120,000		-
Purchase of casino mortgage		-		(721,021)
Proceeds from loan participation obligations		-		265,000
Principal payments on long-term debt		(166,588)		(213,739)
Payments on loan participation obligations		(20,192)		(6,039)
Payment of Series D preferred stock dividends		(42,778)		(42,778)
Net cash used in financing activities		(109,558)		(718,577)
Net increase (decrease) in cash		5,410		(542,180)
Cash at beginning of period		578,584		1,205,880
Cash at end of period	$	583,994	$	663,700
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	79,816	$	124,667
Cash paid for income taxes	$	-	$	-
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND				
FINANCING ACTIVITIES				
Equipment financing obligations	$	-	$	30,663
Accrued and unpaid dividends on Series D preferred stock	$	14,000	$	14,000
Cashless exercise of stock options by officer	$	-	$	3,864

See accompanying notes to these consolidated financial statements

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

March 31, 2011 (unaudited)

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 two gaming casinos.

As of March 31, 2011, the Company s operating subsidiaries were 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 of Black Hawk, Colorado, and Doc Holliday Casino II, LLC (a Colorado limited liability company), which operates the Doc Holliday Casino (Doc Holliday), located in the limited stakes gaming district of Central City, Colorado.

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.

Presentation and Comparability

Certain amounts from previously reported periods have been reclassified to conform to the current period presentations.

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 and liabilities, the value of share based compensation transactions, the future obligations resulting from promotional activities, 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 licenses are subject to annual renewal by the Colorado Division of Gaming. Changes to existing statutes and regulations could have a negative effect on our operations. The Colorado Gaming Commission requires that any beneficial owner of five percent or more of the Company s securities, including holders of common stock, file an application for a finding of suitability. The gaming authority has the power to investigate an owner's suitability and the owner must pay all costs of the investigation. If the owner is found unsuitable, then the owner may be required by law to dispose of the securities. The Colorado Division of Gaming is currently requiring certain of the Company s shareholders to file an application for finding of suitability. If they are found by the division to be unsuitable, they could be required to divest their share positions. A contingency exists with respect this matter, the ultimate resolution of which cannot presently be determined.

In addition, since the Company s two gaming facilities are both located in the Central City and Black Hawk, Colorado geographic area, 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 March 31, 2011, the Company had approximately $68,000 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 obligations. Except for long-term debt obligations, the carrying value of financial instruments approximated fair value due to their short maturities.

The carrying value of all long-term debt obligations approximated fair value because 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.

Accrued Gaming Income

Gaming income represents the difference between the cash played by customers, and the cash paid out by the casino machines. On a regular basis, the cash representing the casino s revenue is pulled from the machines and deposited. However, this process does not always occur at the end of the last business day of the month. Accrued gaming income represents the amount of revenue (cash) in the machines that has not yet been pulled and deposited at the end of the reporting period. At March 31, and June 30, 2010, $188,959 and $294,061 of income, respectively, was accrued and recorded as a current asset.

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 nine months ended March 31, 2011 and 2010 was $342,821 and $428,404, respectively.

Impairment 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.

Goodwill

Goodwill, which resulted from the purchase price in excess of the fair value of the underlying assets purchased and liabilities assumed in the acquisition of the Doc Holliday Casino (reporting unit or casino) in March 2008, is evaluated for impairment annually at the reporting unit level as of June 30, and whenever the occurrence of a significant event or a change in circumstances would suggest that the carrying value of the reporting unit including goodwill might be in excess of its fair value. Such factors include, but are not limited to, adverse changes in the business climate, and significant and unexpected changes in the reporting unit s cash flows. Goodwill is evaluated for impairment in a two step process per ASC 350. Step 1 requires testing the recoverability of the reporting unit on a fair-value basis. If the fair value of the reporting unit is less than the carrying value of the reporting unit including goodwill, Step 2 is performed by assigning the reporting unit s fair value to its assets and liabilities in a manner similar to the allocation of purchase price in a business combination to determine the implied fair value of the goodwill. If the carrying value of the reporting unit s goodwill exceeds its implied fair value, goodwill is deemed impaired, and is written down to the extent of the difference. The fair value of the reporting unit has been determined from time-to-time using the discounted future cash flow method, the cost and market approach obtained by independent appraisal, or a combination thereof.

See Note 3 for further discussion regarding the Company s goodwill.

Casino Chips and Tokens

Gaming chips and tokens are accounted for from the time the casino receives them even though they may not yet be issued and are held in reserve. The chip and token float is determined by the difference between the total amounts of chips and tokens placed in service and the actual inventory of chips and tokens held by the casino at any point in time. The chip and token float is included in other current liabilities.

Revenue Recognition

In accordance with gaming industry practice, the Company recognizes casino revenues as the net win from gaming activities, which is the difference between gaming wins and losses. Anticipated payouts resulting from our customer loyalty program (Sharpshooter s Club), in which registered customers are awarded cash based on the frequency and amounts of their gaming activities are included in promotional allowances. In accordance with gaming industry practice, these promotional allowances are presented as a reduction of casino revenues.

Advertising Costs

The Company expenses all advertising costs as they are incurred. Advertising costs were $1,123 and $221 for the nine months ended March 31, 2011 and 2010, respectively.

Consulting Expenses

From time-to-time the Company engages consultants to perform various professional and administrative functions including public relations and corporate marketing. Expenses for consulting services are generally recognized when services are performed and billable by the consultant. In the event an agreement requires payments in which the timing of the payments is not consistent with the performance of services, expense is recognized as either service events occur, or recognized evenly over the period of the consulting agreement where specific services performed under the agreement are not readily identifiable. Consulting agreements in which compensation is contingent upon the successful occurrence of one or more events are only expensed when the contingency has been, or is reasonably assured, to be met. The Company currently has no active consulting arrangements.

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 Per Common Share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed based on the weighted average number of common shares and potentially dilutive common shares outstanding. The calculation of diluted net income (loss) per share excludes potential common shares if the effect would be anti-dilutive. Potential common shares consist of incremental common shares issuable upon the exercise of stock options and shares issuable upon the conversion of preferred stock.

Potentially dilutive shares of 135,000 were not included in the calculations of diluted earnings per share for the nine months ended March 31, 2011 and 2010, as their inclusion would have been anti-dilutive, and represent out of the money stock options.

Stock-Based Compensation

Financial Accounting Standards Board (FASB) Accounting Standards Codification (the ASC) Topic 718, *Stock Compensation*, establishes fair value as the measurement objective in accounting for share based payment arrangements, and requires all entities to apply a fair value based measurement method in accounting for share based payment transactions with employees. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the period during which the holder is required to provide services in exchange for the award, i.e., the vesting period.

On March 18, 2011, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.10 per share, and as such $32,500 of stock based compensation was recorded for the nine months ended March 31, 2011.

On January 18, 2010, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.30 per share, and as such $97,500 of stock based compensation is included in operating, general and administrative expenses for the nine months ended March 31, 2010.

Comprehensive Income

Financial Accounting Standards Board (FASB) Accounting Standards Codification (the ASC) Topic 220, *Comprehensive Income,* provides guidance for reporting and display of comprehensive income, its components and accumulated balances. For the nine months ended March 31, 2011 and 2010, there were no differences between reported net income and comprehensive income.

Derivative Instruments and Hedging Activities

Financial Accounting Standards Board (FASB) Accounting Standards Codification (the ASC) Topic 815, *Derivatives and Hedging,* provides guidance 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (the ASC) Topic 280, *Segment reporting.* 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

The FASB s Accounting Standards Codification is effective for all interim and annual financial statements issued after September 15, 2009. The ASC is now the single official source of authoritative, nongovernmental generally accepted accounting principles (GAAP) in the United States. The historical GAAP hierarchy was eliminated and the ASC became the only level of authoritative GAAP, other than guidance issued by the Securities and Exchange Commission. Our accounting policies were not affected by the conversion to ASC. However, we have conformed references to specific accounting standards in these notes to our consolidated financial statements to the appropriate section of ASC.

There were various accounting standards and interpretations issued during 2011 and 2010, none of which are expected to have a material impact on the Company s consolidated financial position, operations, or cash flows.

2. INVESTMENT IN IMAGEDOC USA, INC.

On July 19, 2010, the Company executed a Common Stock and Warrant Purchase Agreement (Purchase Agreement) with ImageDoc USA, Inc. (ImageDoc), a Colorado corporation wherein, the Company agreed to purchase, for an aggregate purchase price of up to $120,000, up to an aggregate of 2,566,000 shares of common stock and warrants exercisable to purchase an additional 400,000 shares of common stock of ImageDoc for a period of five years at an exercise price of $0.20

per share. The investment, represents less than 10% of all outstanding common stock and common stock equivalents of ImageDoc at the closing date.

Also effective July 19, 2010 the Company and ImageDoc entered into a Registration Rights Agreement establishing the terms by which ImageDoc shall prepare and file a Registration Statement covering the spin-off to Global equity holders of the ImageDoc shares, which are the subject of the aforementioned Purchase Agreement. The Company has completed the purchase of all 2,566,000 shares of common stock and warrants exercisable to purchase an additional 400,000 shares of common stock of ImageDoc. As of March 31, 2011 the warrants have not been exercised. No record date has been established for the spin-off of those shares and the distribution will not occur until such time a Registration Statement has been declared effective by the Securities Exchange Commission.

3. GOODWILL

The Company s goodwill as recorded in our Doc Holliday Casino reporting unit is comprised of the following:

Total Goodwill	$	1,898,496
Impairment charges		(890,000)
Total Goodwill as of March 31, 2011	$	1,008,496

Goodwill is evaluated for impairment annually at the reporting unit level as of June 30, and whenever the occurrence of an event or a change in circumstances would suggest that the carrying value of the reporting unit including goodwill might be in excess of its fair value. Such factors include, but are not limited to, adverse changes in the business climate, and significant and unexpected changes in the reporting unit s cash flows. Due to various factors, the Company evaluated the goodwill recorded in our Doc Holliday Casino reporting unit during the quarter ended March 31, 2010, and year ended June 30, 2010, which is discussed below.

The Company s evaluation for goodwill impairment at June 30, 2010 essentially mirrored the interim analysis performed as of March 31, 2010, with minor adjustments made to the reporting unit s cash flow forecasts. As no significant changes in either the operating or economic environment had occurred since the March 31, 2010 interim evaluation which is discussed in detail below, management determined all other pertinent assumptions and estimates remained unchanged from the that evaluation, including the 12% rate used to discount future cash flows, revenue and expense growth assumptions, asset investment assumptions, and utilization of the ten year horizon with no terminal value assigned. Based on the June 30, 2010 evaluation, the fair value of the reporting unit including the goodwill exceeded its carrying value by approximately 20%. As such, step two of the evaluation was not performed at June 30, 2010.

No interim analysis was performed at March 31, 2011 as no significant changes in the reporting unit s operations occurred during the nine months ended March 31, 2011.

16

During the quarter ended March 31, 2010, and based on a combination of factors, including the continuing poor local and regional economic environment, the sustained period of decline in the Company s market capitalization, and poor operating results of the Doc Holliday Casino, the Company concluded there were sufficient indicators to perform an interim impairment test of the reporting unit s recorded goodwill.

The Company s estimate of the reporting unit s fair value at March 31, 2010 was determined by discounting estimating future cash flows based on internally developed revenue, operating cost, and cash flow forecasts considering historical results, local and regional current and expected economic conditions, as well as the potential impact of business and operational strategies in light of capital constraints based on current financial market conditions. No significant additional investment in operating assets was assumed other than to maintain the quality of the gaming equipment. For purposes of discounting future cash flows, we used 12%, which is management s best estimate of our cost of capital based on historical values, recent borrowings, current market conditions both in terms of borrowing rates and availability of credit, and considerations for risks associated with the reporting unit. Operating estimates for the next ten years were used to determine estimated future cash flows. No terminal value was assigned to the fair value as the property is leased and management determined that estimates beyond ten years were dependent upon significant upgrades to the property, which could not be appropriately evaluated. The Company believes the assumptions used in the impairment analysis are consistent with the factors and risks inherent within the industry.

The analysis incorporated four discounted cash flow models: zero to slow growth, slow to moderate growth; moderate growth; and, moderate to aggressive growth. Revenue growth assumptions used in the models varied from 1% per year in the zero to slow growth model to 5% per year in the aggressive growth model. Operating expense growth was dependent upon the revenue growth and reflected increases in personnel and other operating costs necessary to support the associated revenue growth assumption. Operating expense growth assumptions used in the models varied from 0.25% per year in the zero to slow growth model to 2.5% per year in the aggressive growth model. In all models, fiscal year 2011 does not include the full growth assumptions as we anticipate fiscal year 2011 growth will continue to be sluggish due to the local and regional economic conditions.

Because of the significant uncertainties regarding the local and regional economic recoveries, the results from the aggressive growth model were discarded. The fair value calculated in the zero to slow growth model was also discarded as overly conservative and not indicative of historical performances nor does it appropriately reflect expected improvements over time in the local and regional economies. Therefore, the best estimate of fair value based on the discounted cash flow model was determined to be between the slow to moderate growth and moderate growth models which utilized revenue growth assumptions of 3% to 4%, and expense growth assumptions of 1% to 2%. The average fair value of these two models was approximately $700,000, and was assigned to the Step 1 analysis. The result of the Step 1 analysis resulted in a fair value less than the recorded value of the reporting unit. As such, Step 2 analysis was performed. This analysis included a hypothetical valuation of the reporting unit s long term assets including its gaming and other fixed assets as if it had been acquired in a business combination. For all other assets and liabilities the fair value and recorded values were considered equal. After the allocation of the fair value to the reporting unit s operating assets, the recorded value of the goodwill was in excess of its implied fair

17

value, and as such an impairment adjustment to the carrying value of the goodwill in the amount of $890,000 was recorded for the three months ended March 31, 2010.

The estimates of future operations of the reporting unit represent management s best estimates given data known at the time the analysis was prepared. To the extent actual future results vary from estimated future results, additional impairment of goodwill may be recognized. For example, should actual future operations be indicative of our zero to slow growth model, the impairment charge would have exceeded $1.5 million.

4. NOTES PAYABLE AND LONG-TERM DEBT

Effective September 19, 2009, all of the secured obligations of Casinos, USA, Inc., a wholly-owned subsidiary of Global Casinos, Inc. matured and became due and payable. The secured obligations are secured by deeds of trust encumbering the Bull Durham casino property located in Blackhawk, Colorado. Until their maturity, all payments required under the notes had been made in a timely fashion. We have since purchased the senior loan and deed of trust and negotiated extensions of the second priority loan and deed of trust and a portion of the junior loans and deed of trust. We intend to continue to make payments under the notes pending our efforts to renegotiate their maturity dates.

On March 22, 2010 the Company consummated an Allonge and Modification Agreement with the holder of a junior deed of trust note on the Bull Durham Casino. Immediately prior to the modification the Note had a principal balance of $176,540. The agreement extended the maturity date to April 1, 2013, established an interest rate of 8% per annum, and requires monthly principal and interest payments of $1,911 beginning on April 1, 2010.

On December 30, 2009 the Company consummated an Allonge and Modification Agreement with the holder of a second deed of trust note on the Bull Durham Casino. Immediately prior to the modification the Note had a principal balance of $616,988. The agreement required a principal pay down of $100,000, monthly principal and interest payments of $5,596 beginning on January 1, 2010, and extended the maturity date of the Note to December 31, 2010. In addition, the Company paid to the note holder a loan extension fee of $2,585, and $8,000 to reimburse the note holder for legal and other costs associated with the modification. Subject to the Note not being in default at the maturity date, and together with an additional $50,000 pay down of the Note principal, the Company would have the option to extend the maturity date of the Note to December 31, 2011. In December 2010, the Company exercised this option and made the $50,000 pay down on the Note thereby extending the maturity date to December 31, 2011. In addition, subject to the Note not being in default at December 31, 2011, together with an additional $50,000 pay down on the Note, the Company will have an additional option to extend the maturity date to December 31, 2012. After December 31, 2012 the maturity date will only be further extended by written mutual agreement upon terms acceptable to both parties.

On November 30, 2009 the Company consummated a Loan Document Purchase and Assignment Agreement with the holder of the senior mortgage of the Bull Durham Casino in which the Company obtained all of the rights, title and interest in and to the Note and Loan Agreement. The total amount of consideration paid to the holder was $730,710 which included principal of $721,021, interest accrued to the purchase date of $5,689, and a fee of $4,000 to cover legal and administrative costs of the holder. Also on November 30, 2009 the Company executed a Loan Participation Agreement whereby the Company assigned to an unaffiliated third party an undivided 34.7% interest in the Note for total consideration of $250,000 and a loan participation fee of 50,000 shares of the Company s common stock valued at $0.38 per share. And on December 30, 2009 the Company executed a Loan Participation Agreement whereby the Company assigned to a director an undivided 2.08% interest in the Note for total consideration of $15,000 and a loan participation fee of 3,000 shares of the Company s common stock valued at $0.39 per share. The remaining undivided 63.22% interest in the Note is owned by the Company and is eliminated in consolidation as the debtor is a wholly owned operating subsidiary. The Note has not been modified and continues to be in technical default. The resulting participation obligations are discussed further in the footnote Loan Participation Obligations.

In addition, a note payable to the seller of Doc Holliday Casino acquired in March 2008, matured on March 31, 2009. The note did not bear interest, however upon its maturity a default interest rate of 8% with interest payments due monthly became effective. Since default, we have made all required interest payments under the default terms of the note. At the request of the note holder and beginning in January 2010, we had been making interest and additional monthly principal reduction payments of $12,500. Beginning in January 2011, we notified the noteholder that we would not be able to continue making the monthly principal reduction payments on the note during the slower winter months. With the noteholder s acquiescence, but not express agreement, we have been making interest only payments and smaller principal reduction payments. The note holder has not executed any modification agreement, and as such all principal is considered in technical default and is classified as a current obligation.

At March 31, 2011, notes payable and long-term debt, exclusive of the Loan Participations discussed in Note 4, consisted of the following:

Junior mortgage payable to private lender, collateralized by real estate, interest at 8%, monthly payments of $5,596, maturing December 31, 2011.	$	429,474
Junior mortgage payable to private lender, collateralized by real estate, interest at 8%, monthly payments of $1,911, maturing April 1, 2013.		167,402
Junior mortgages payable to private lenders, collateralized by real estate, interest at 4%, monthly payments of $605. Notes matured September 19, 2009.		

	104,350
Note payable to seller of Doc Holliday Casino, uncollateralized, no interest. Note matured March 31, 2009. Default interest rate of 8% applies until note paid in full.	
	210,667
Total notes payable and long-term debt	911,893
Less current portion	(754,388)
Long-term debt, net	$ 157,505

19

Scheduled maturities of notes payable and long-term debt for the one year periods ending March 31st is as follows:

2011	$ 754,388
2012	10,719
2013	146,786
	$ 911,893

5. LOAN PARTICIPATION OBLIGATIONS

As discussed in Note 2: Notes Payable and Long Term Debt, on November 30, 2009 the Company consummated a Loan Document Purchase and Assignment Agreement with the holder of the senior mortgage of the Bull Durham Casino in which the Company obtained all of the rights, title and interest in and to the Note and Loan Agreement. Then, and also on November 30, 2009 the Company executed a Loan Participation Agreement (Agreement) whereby the Company assigned to an unaffiliated third party an undivided 34.7% interest in the Note for total consideration of $250,000 and a loan participation fee of 50,000 shares of the Company s common stock valued at $0.38 per share. The Company is considered the Loan Servicing Agent under the Agreement. Monthly principal and interest payments began on January 1, 2010, and are based on a seven year amortization at 12% annual interest. In addition, the participant is entitled to an additional 1% per year in year one, 2% per year in year 2, and 3% in year 3, as well as additional loan participation fees on the first and second annual anniversaries of 50,000 shares of the Company s common stock, provided that on each issue date there remains outstanding and unpaid any amount due and owing under the participant interest. The first anniversary shares were issued in February 2011, at a value of $0.12 per share, the closing price of the Company s common stock on November 30, 2010. As such, $6,000 of financing fees were charged for the nine months ended March 31, 2011.

On December 30, 2009 the Company executed an additional Loan Participation Agreement whereby the Company assigned to a director an undivided 2.08% interest in the Note for total consideration of $15,000 and a loan participation fee of 3,000 shares of the Company s common stock valued at $0.39 per share. The Company is considered the Loan Servicing Agent under the Agreement. Monthly principal and interest payments began on January 1, 2010, and are based on a seven year amortization at 12% annual interest. In addition, the participant is entitled to an additional 1% per year in year one, 2% per year in year 2, and 3% in year 3, as well as additional loan participation fees on the first and second annual anniversaries of 3,000 shares of the Company s common stock, provided that on each issue date there remains outstanding and unpaid any amount due and owing under the participant interest. The first anniversary shares were issued in February 2011, at a value of $0.09 per share, the closing price of the Company s common stock on December 30, 2010. As such, $270 of financing fees were charged for the nine months ended March 31, 2011.

The remaining undivided 63.22% interest in the Note is owned by the Company and is eliminated in consolidation as the debtor is a wholly owned operating subsidiary. The Note has not been modified and continues to be in technical default.

At March 31, 2011, loan participation obligations consisted of the following:

Participation obligation payable to unaffiliated third party with an undivided 34.7% interest in senior mortgage secured by real estate, monthly principal and interest payments of $4,417, plus additional interest of 1% in 2010, 2% in 2011, and 3% in 2012.	$ 219,146
Participation obligation payable to director with and undivided 2.08% interest in senior mortgage secured by real estate, monthly principal and interest payments of $265 plus additional interest of 1% in 2010, 2% in 2011, and 3% in 2012.	13,284
Total loan participation obligations	232,430
Less current portion	(32,552)
Loan participation obligations, less current portion	$ 199,878

6. CONVERTIBLE DEBT

On July 16, 2010, the Company s board of directors approved a private offering of its securities consisting of up to $120,000 in 5% Unsecured Convertible Debentures (Debentures) on a $10,000 minimum, all-or-none, $120,000 maximum, best efforts basis. The Debentures will mature and be due and payable in July and August 2013. The principal amount of the Debentures will accrue interest at the rate of 5% per annum and will be payable at the maturity date. The Debentures are convertible, at the option of the investor, at any time, into shares of the Company s Series E Convertible Preferred Stock at a conversion price equal to $0.25 per share of Series E Preferred. The Debentures will automatically convert into shares of Series E Preferred Stock under certain circumstances. All debentures approved by the board of directors in the private offering were sold in July and August 2010.

7. 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 and remain outstanding at March 31, 2011. 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 March 31, 2011 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%. As of March 31, 2011 there were no shares outstanding.

Series D Convertible Preferred Stock

In February 2008, the Board of Directors of the Company established a series of the class of preferred stock designated Series D Convertible Preferred Stock (Series D preferred stock) and authorized an aggregate of 1,000,000 non-voting shares with a stated value of $1.00 per share. Holders of the Series D preferred stock are entitled to receive dividends at the annual rate of eight percent (8%) based on the stated value per share computed on the basis of a 360 day year and twelve 30 day months. Dividends are cumulative, shall be declared quarterly, and are calculated from the date of issue and payable on the fifteenth day of April, July, October and January. The dividends may be paid, at the option of the holder either in cash or by the issuance of shares of the Company s common stock valued at the market price on the dividend record date. Shares of the Series D preferred stock are redeemable at the Company s option. At the option of the holder shares of the Series D preferred stock plus any declared and unpaid dividends are convertible to shares of the Company s common stock at a conversion rate of $1.00 per share.

In March 2008, the Company completed a private offering of 700,000 shares of Series D Preferred stock. The $700,000 proceeds from the private offering were used as partial payment to the seller of Doc Holliday at the acquisition closing on March 18, 2008. On March 31, 2011, $14,000 of dividends were declared and are included in accrued expenses at March 31, 2011. All other quarterly dividends declared have been paid.

Series E Convertible Preferred Stock

On July 12, 2010, the Company s Board of Directors approved an Amendment to the Articles of Incorporation of the Company to authorize a new series of preferred stock designated Series E Convertible Preferred Stock (Preferred Stock). The Amended and Restated Certificate of Designations, Preferences and Rights of Series E Convertible Preferred Stock authorized six hundred thousand (600,000) shares of the Company s authorized Preferred Stock to be designated as Series E Convertible Preferred Stock, having a stated value of $0.25 per share. Holders of the Preferred Stock shall have no voting rights, but shall be entitled to receive dividends when, as and if declared by the Board of Directors, in its sole discretion. In addition, the holders of the Preferred Stock shall be entitled to participate, *pro rata*, in dividends paid on outstanding shares of common stock. The Preferred Stock is redeemable by the Company at its sole option and discretion at any time after six months from the initial issue date, at the Preferred Stock s stated value plus any accrued and unpaid dividends, if any, and may be paid in cash or in shares of common stock valued at 75% of the volume weighted-average price of the common stock for the ten trading days immediately prior to the date of the redemption notice. In addition, at any time prior to redemption, but after the earlier of ninety days from the date of issuance, or the effective date of a Registration Statement registering for sale the shares of the common stock issuable upon such conversion, holders of the Preferred Stock shall have the right to convert their shares into common stock, at a conversion rate of $0.25 per share plus any accrued or unpaid dividends. As of March 31, 2011, no shares of Series E Convertible Preferred Stock have been issued.

Common Stock

The Company has authorized 50,000,000 shares of $0.05 par value common stock.

As discussed in Loan Participation Obligations, in November 2009 the Company issued 50,000 shares of the Company s common stock valued at $0.38 per share determined by market trading activity on and around the settlement date, as a participation fee to an unaffiliated third party. As discussed above, the participant is also entitled to 50,000 shares of the Company s common stock on the first and second annual anniversaries, provided that on each issue date there remains outstanding and unpaid any amount due and owing under the participant interest. The first anniversary shares were issued in February 2011, at a value of $0.12 per share, the closing price of the Company s common stock on November 30, 2010. As such, $6,000 of financing fees were charged for the nine months ended March 31, 2011.

Also as discussed in Loan Participation Obligations, in December 2009 the Company issued 3,000 shares of the Company s common stock valued at $0.39 per share determined by market trading activity on and around the settlement date, as a participation fee to a director. As discussed above, the participant is also entitled to 3,000 shares of the Company s common stock on the first and second annual anniversaries, provided that on each issue date there remains outstanding and unpaid any amount due and owing under the participant interest. The first anniversary shares were issued in February 2011, at a value of $0.09 per share, the closing price of the Company s common stock on December 30, 2010. As such, $270 of financing fees were charged for the nine months ended March 31, 2011.

On March 18, 2011, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.10 per share as determined by market trading activity on and around the award date, and as such $32,500 of stock based compensation was recognized and included in operating, general and administrative expenses for the nine months ended March 31, 2011.

On January 18, 2010, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.30 per share as determined by market trading activity on and around the award date, and as such $97,500 of stock based compensation was recognized and included in operating, general and administrative expenses for the year ended June 30, 2010.

On August 24, 2009 the Company entered into a Consulting Agreement (Agreement) with a corporate marketing firm to assist us in our efforts to refinance our existing debt, and to assist us in developing other possible strategic alternatives. The agreement required the Company to pay a one time non-refundable retainer in the amount of 10,000 shares of the Company s common stock. The stock with a value of $3,500, or $0.35 per share determined by market trading activity on and around the settlement date, was issued in October 2009.

On August 15, 2009, the Company issued to Clifford L. Neuman, the Company s President and a Director, 77,273 shares of common stock, $.05 par value pursuant to his cashless exercise of options exercisable to purchase 100,000 shares of common Stock at an exercise price of $0.10 per share. For purposes of the cashless exercise, the shares were valued at $0.44 per share, which was equal to 100% of the public trading price of the Common Stock on August 15, 2009 as quoted on the OTC Electronic Bulletin Board. As a result, the Company received the surrender of 22,727 options in consideration of the cashless exercise.

On January 5, 2007, the stockholders approved a proposal to adopt and approve a reverse split of up to a ratio of one-for-five of the issued and outstanding shares of our common stock, and issued and outstanding options, warrants and other rights convertible into shares of our common stock, all at the discretion of our Board of Directors to be implemented in the future as and when determined by our Board of Directors. That reverse split has not been implemented.

8. COMMITMENTS AND CONTINGENCIES

Leases

The Doc Holliday Casino currently leases approximately 13,000 square feet of space used for its gaming activities, supporting offices and storage space for $25,362 per month under an operating lease that terminates in July 2015. The lease requires the Casino to pay for all building expenses until the landlord secures additional tenants to occupy the remaining building space. If the building is fully leased the Casino s proportionate share will be equal to 32% of the total building expense burden. The lease also provides for a credit against future monthly rent payments to the extent the total building expenses paid by the casino increase by more than 3% over a 2004 base year calculation (floor). The total amount of building expenses expected to be in excess of the floor is estimated and capitalized on a monthly basis and reconciled to the actual allowable excess annual expenses in April each year. The actual excess expenses are available for credit against rent payments beginning the following July each year under the lease. At March 31, 2011 the total credit available to apply against future rent payments was approximately $55,000. Rent expense for the nine months ended March 31, 2011 and 2010, net of monthly applied expense credits was $213,595 and $182,025, respectively.

On January 29, 2010 the landlord of the Doc Holliday Casino property agreed to a rent abatement in the total aggregate amount of $40,000 prorated over a six month term in the amount of $6,667 per month beginning in February, 2010 and continuing through July 2010. In consideration of the rent abatement the Company agreed to replace all carpeting on the first floor of the premises, which was completed in February 2010, at a cost of approximately $29,000. The amount of the rent abatement in excess of the cost of the carpet replacement, or approximately $11,000, was recorded as deferred rent and is being amortized to rent expense over the remaining life of the lease.

On December 31, 2010 the Company and the landlord of the Doc Holliday Casino property agreed to amend the lease agreement noted above. As a result, for the period commencing January 1, 2011 and ending December 31, 2011 the base rent shall be $250,000, payable at a rate of $20,833 per month. The amendment results in a monthly reduction of the base rent of approximately $4,500 per month during the abatement period. The total rent abatement under the agreement of approximately $54,000 was recorded as deferred rent and is being amortized to rent expense over the remaining life of the lease. All existing agreements with respect to triple net expenses and the cap on the Company s liability for annual increases in such expenses will remain in effect for the lease period. In consideration of the rent abatement, the Company agreed that the digital surveillance system installed on the premises would be deemed the sole and separate property of the landlord upon termination of the lease. At March 31, 2011 the system had a book value of approximately $50,000.

Future minimum lease payments considering the rent abatement but before application of rent credits for the fiscal years ending June 30 are as follows:

2011	$ 62,449
2012	277,170
2013	304,344
2014	304,344
2015	25,362
Total	$ 973,719

9. INCOME TAXES

The Company and its subsidiaries are subject to income taxes on income arising in, or derived from, the tax jurisdictions in which they operate.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are comprised entirely of net operating loss carry-forwards.

For the years ended June 30, 2010 and 2009, the reconciliation between the statutory federal tax rate and the effective tax rate as a percentage is as follows:

	2010	2009
Statutory federal income tax rate	34%	34%
Effect of net operating loss carry-forward	(34)	(34)
	-%	-%

At June 30, 2010, the Company had net operating loss carry forwards of approximately $5,800,000 available to reduce future taxable income. The net operating loss carry forwards expire in the years ending June 30 as follows:

2011	$ 897,000
2012	518,000
2018	789,000
2019	1,985,000
2020	316,000
2021	985,000
2022	82,000
2029	30,000
2030	198,000
	$5,800,000

When more than a 50% change in ownership occurs, over a three-year period, as defined, the Tax Reform Act of 1986 limits the utilization of net operating loss (NOL) carry forwards in the years following the change in ownership. Therefore, the Company's utilization of its NOL carry forwards may be partially reduced as a result of changes in stock ownership. No determination has been made as of December 31, 2010, as to what implications, if any, there will be in the net operating loss carry forwards of the Company. In addition, the Company has a limited history of earnings, and there is no guarantee of future earnings to offset the net operating loss carry forwards. The deferred tax asset resulting from the net operating loss carry forwards of approximately $1,970,000 is offset by a valuation allowance due to the uncertainty of the realization of the net operating loss carry forwards. The net increase in the valuation allowance was approximately $67,000 from June 30, 2009 to June 30, 2010, and primarily results from the operating loss for the year ended June 30, 2010.

10. STOCK INCENTIVE PLAN

The Company has a Stock Incentive Plan (the "Incentive Plan"), that allows the Company to grant incentive stock options and/or purchase rights (collectively "Rights") to officers, employees, former employees and consultants of the Company and its subsidiaries.

A summary of stock option activity is as follows:

	Number of Shares	Weighted average Exercise Price	
Balance at June 30, 2009	235,000	$	0.62
Granted	-		
Exercised	(77,273)	$	0.10
Surrendered	(22,727)	$	0.10
Balance at June 30, 2010	135,000	$	1.00
Granted	-		
Exercised	-		
Surrendered	-		
Balance at March 31, 2011	135,000	$	1.00

The following table summarizes information about fixed-price stock options at March 31, 2011**:**

	Outstanding			Exercisable	
	Weighted Average	Weighted Average	Weighted-Average		
Exercise Price	Number Outstanding	Contractual Life	Exercise Price	Number Exercisable	Exercise Price
$ 1.00	135,000	1.8 years	$ 1.00	135,000	$ 1.00

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on historical volatility as well as expected trends for any known or expected events that might affect the volatility of our future stock prices. Because of the lack of historical forfeiture data, no adjustments to the expected option life were made for expected forfeitures. The expected life represents an estimate of the time options are expected to remain outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. treasury yield in effect at the time of grant.

For the nine months ended March 31, 2011 and 2010 no options or warrants to purchase common stock were granted, and as such we recorded no compensation expense under the requirements as discussed above.

11. CONSULTING AGREEMENTS

On April 1, 2008 the Company entered into Consultation Agreement (Agreement) with an independent contractor to provide corporate development services. The Agreement was to terminate on September 1, 2008, but was extended by both parties on a month to month as needed basis by verbal agreement. The agreement required the Company pay the consultant a fee equal to $50,000. For the nine months ended March 31, 2011 and 2010, no amounts were charged to operating, general and administrative expenses associated with this agreement. The agreement was terminated in November 2010.

In August 2008, we entered into an agreement with a marketing firm to provide investor relations services. The agreement required a monthly fee of $2,000, had an original term of six months and had been extended on a month-to-month as-needed basis. For the nine months ended March 31, 2011 and 2010, $2,000 and $16,000, respectively, were charged to operating, general and administrative expenses associated with this agreement. The agreement has since been terminated.

On August 24, 2009 the Company entered into a Consulting Agreement (Agreement) with a corporate marketing firm to assist us in our efforts to refinance our existing debt, and to assist us in developing other possible strategic alternatives. Any amounts payable to the consultant are contingent upon various performance benchmarks, none of which were met. The agreement also required the Company to pay a one-time non-refundable retainer in the amount of 10,000 shares of the Company s common stock. The stock with a value of $3,500, or $0.35 per share, was issued in October 2009. The Agreement has since been terminated by mutual agreement of the parties.

12. RELATED PARTIES

An officer and director operates a law firm that provides legal services to the Company. During the nine months ended March 31, 2011 and 2010, his billings to the Company totaled $55,829 and $66,482 respectively. At June 30, 2010 and March 31, 2011, amounts due to him were $6,660 and $1,903, respectively, and are included in accounts payable, related parties.

The Company contracts with an officer to provide management and accounting services to the Company. During the nine months ended March 31, 2011 and 2010, his billings to the company for services were $23,625 and $21,200, respectively. At June 30, 2010 and March 31, 2011, amounts due him were $1,625 and $2,750, respectively, and are included in accounts payable, related parties.

On March 18, 2011, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.10 per share as determined by market trading activity on and around the award date.

On January 18, 2010, the Company s board of directors granted a total of 325,000 shares of the Company s common stock to members of senior management as consideration of services provided by the Company s directors and executive officers. The services were valued at $.30 per share as determined by market trading activity on and around the award date.

On December 30, 2009 the Company executed an Allonge and Loan Participation Agreement whereby the Company assigned to a director for an undivided 2.08% interest in a mortgage note receivable from the Bull Durham Casino for total consideration of $15,000 and a loan participation fee of 3,000 shares of the Company s common stock valued at $0.39 per share. As discussed above, the participant is also entitled to 3,000 shares of the Company s common stock on the first and second annual anniversaries, provided that on each issue date there remains outstanding and unpaid any amount due and owing under the participant interest. The first anniversary shares were issued in February 2011, at a value of $0.09 per share, the closing price of the Company s common stock on the anniversary date. This transaction is further discussed in footnote titled Loan Participation Obligations.

13. INVESTMENT IN GLOBAL GAMING TECHNOLOGIES

On February 28, 2006, the Company 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). Under the terms of the Agreement, the individual contributed to GGT all of his intellectual property rights related to two games of poker, which he individually developed. The Company agreed to make an initial cash capital contribution to GGT of $100,000, for which it received a 25% equity interest in GGT. At the Company s election, it may make an additional $100,000 cash capital contribution to GGT for which it will receive an additional 25% equity interest. The initial cash contribution will be used to further develop the two games and to investigate possible patent protection. At the present time, both games are still under development and neither has been approved for use in any gaming jurisdiction. As of March 31, 2011, GGT had no revenues.

The investment is being accounted for under the equity method. Its cash outlays have primarily been related to investigating patent protection for the products under development and for various product development, organizational start-up costs and limited marketing efforts. For the nine months ended March 31, 2011 and 2010 we have recorded no amounts for various GGT product development expenditures.

During the year ended June 30, 2009 we determined the investment in GGT was impaired due to GGT s inability to secure patents for the games in a reasonable amount of time, which has provided significant uncertainty regarding the outcome of the patent process. Should patent protections not be obtained, the exclusivity of the games could be severely impaired, thereby significantly reducing the potential value of