

GLOBAL CASINOS INC
Form 10-Q/A
February 19, 2013

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

FORM 10-Q/A-1

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 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
(State or other jurisdiction
of incorporation or organization)

I.R.S. Employer

87-0340206
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 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

As of February 14, 2012, the Registrant had 6,851,488 shares of its Common Stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarter ended December 31, 2011 of Global Casinos, Inc., is being filed for the purpose of amending and restating the Company's financial statements and disclosures regarding certain stock purchase warrants due to GVC Capital LLC who acted as the Company's placement agent for the sale of certain convertible debt securities during the quarter ended December 31, 2011.

Management has determined that the placement agent was due additional common stock purchase warrants as a result of the sales of 8% Convertible Debt completed October 31, 2011 in which the placement agent was the primary sales agent. As a result, an additional \$32,200 of non-cash financing costs have been recorded for the quarter, and are reflected in the amended and restated financial statements and disclosures included in this amended report.

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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 December 31, 2011 and June 30, 2011, and its results of operations for the three month periods ended December 31, 2011 and 2010, and its results of operations for the six month periods ended December 31, 2011 and 2010, its statements of stockholders' equity for the period June 30, 2010 through December 31, 2011, and its cash flows for the six month periods ended December 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

| | <i>December 31, 2011</i> <i>(restated)</i> <i>(unaudited)</i> | <i>June 30, 2011</i> |
|---|---|----------------------|
| <u>ASSETS</u> | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 890,801 | \$ 531,208 |
| Accrued gaming income | 283,844 | 275,425 |
| Inventory | 25,060 | 23,101 |
| Prepaid expenses and other current assets | 125,287 | 31,165 |
| Total current assets | 1,324,992 | 860,899 |
| Land, building and improvements, and equipment: | | |
| Land | 517,950 | 517,950 |
| Building and improvements | 4,138,220 | 4,138,220 |
| Equipment | 3,159,631 | 3,156,685 |
| Total land, building and improvements, and equipment | 7,815,801 | 7,812,855 |
| Accumulated depreciation | (5,297,463) | (5,132,526) |
| Land, building and improvements, and equipment, net | 2,518,338 | 2,680,329 |
| Goodwill | - | - |
| Total assets | \$ 3,843,330 | \$ 3,541,228 |

CONTINUED ON FOLLOWING PAGE

See accompanying notes to these consolidated financial statements

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GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | <u>December 31,</u> <u>2011 (restated)</u> | <u>June 30, 2011</u> |
|--|---|----------------------|
| | <u>LIABILITIES AND STOCKHOLDERS'</u> <u>EQUITY</u> | |
| | (unaudited) | |
| Current liabilities: | | |
| Accounts payable, trade | \$ 93,318 | \$ 108,717 |
| Accounts payable, related parties | 8,865 | 14,073 |
| Accrued expenses | 384,808 | 304,186 |
| Accrued interest | 27,903 | 15,370 |
| Other current liabilities | 108,497 | 62,451 |
| Joint venture obligation | 23,605 | 25,750 |
| Current portion of long-term debt | 673,560 | 771,607 |
| Current portion of loan participation obligations | 210,346 | 30,802 |
| Total current liabilities | 1,530,902 | 1,332,956 |
| Long-term debt, less current portion | 149,546 | 154,906 |
| Loan participation obligations, less current portion | - | 194,485 |
| Convertible debt, 2013 5% | 120,000 | 120,000 |
| Convertible debt, 2013 8%, net of discount of \$644,875 | 58,625 | - |
| Total liabilities | 1,859,073 | 1,802,347 |
| 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 |

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| | | |
|---|--------------|--------------|
| 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 shares issued and outstanding | 339,925 | 339,925 |
| Additional paid-in capital | 15,003,925 | 14,203,225 |
| Accumulated deficit | (14,460,593) | (13,905,269) |
| Total equity | 1,984,257 | 1,738,881 |
| Total liabilities and stockholders' equity | \$ 3,843,330 | \$ 3,541,228 |

See accompanying notes to these consolidated financial statements

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

| | <i>2011 (restated)</i> | <i>2010</i> |
|---|------------------------|--------------|
| Revenues: | | |
| Casino | \$ 1,267,712 | \$ 1,372,962 |
| Promotional allowances | (45,625) | (41,993) |
| Net Revenues | 1,222,087 | 1,330,969 |
| Expenses: | | |
| Casino operations | 1,339,173 | 1,335,140 |
| Operating, general, and administrative | 242,711 | 36,328 |
| Loss on asset disposals | - | - |
| | 1,581,884 | 1,371,468 |
| Loss from operations | (359,797) | (40,499) |
| Other income (expense): | | |
| Interest | (92,474) | (28,109) |
| Loss before provision for income taxes | (452,271) | (68,608) |
| Provision for income taxes | - | - |
| Net loss | (452,271) | (68,608) |
| Series D Preferred dividends | (14,311) | (14,311) |
| Net loss attributable to common shareholders | \$ (466,582) | \$ (82,919) |
| Loss per common share: | | |
| Basic | \$ (0.07) | \$ (0.01) |
| Diluted | \$ (0.07) | \$ (0.01) |
| Weighted average shares outstanding: | | |
| Basic | 6,798,488 | 6,420,488 |
| Diluted | 6,798,488 | 6,420,488 |

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the six months ended December 31, 2011 and 2010
(unaudited)

| | 2011 (restated) | 2010 |
|--|-----------------|--------------|
| Revenues: | | |
| Casino | \$ 2,633,587 | \$ 2,865,276 |
| Promotional allowances | (87,145) | (82,208) |
| Net Revenues | 2,546,442 | 2,783,068 |
| Expenses: | | |
| Casino operations | 2,641,383 | 2,769,370 |
| Operating, general, and administrative | 307,499 | 88,008 |
| Loss on asset disposals | 5,679 | 232 |
| | 2,954,561 | 2,857,610 |
| Loss from operations | (408,119) | (74,542) |
| Other income (expense): | | |
| Interest | (118,583) | (57,121) |
| Loss before provision for income taxes | (526,702) | (131,663) |
| Provision for income taxes | - | - |
| Net loss | (526,702) | (131,663) |
| Series D Preferred dividends | (28,622) | (28,622) |
| Net loss attributable to common shareholders | \$ (555,324) | \$ (160,285) |
| Loss per common share: | | |
| Basic | \$ (0.08) | \$ (0.02) |
| Diluted | \$ (0.08) | \$ (0.02) |
| Weighted average shares outstanding: | | |
| Basic | 6,798,488 | 6,420,488 |
| Diluted | 6,798,488 | 6,420,488 |

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
July 1, 2010 through December 31, 2011 (restated)

| | SERIES A PREFERRED STOCK | | SERIES D PREFERRED STOCK | | COMMON STOCK | | Additional Paid In Capital | Accumulated (Deficit) | Total |
|---|--------------------------------|------------|--------------------------------|------------|---------------------|------------|----------------------------------|--------------------------|--------------|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | | | |
| Balance as of June 30, 2010 | 200,500 | \$ 401,000 | 700,000 | \$ 700,000 | 6,420,488 | \$ 321,025 | \$ 14,183,355 | \$ (12,469,060) | \$ 3,136,323 |
| Common stock issued to officers and directors | | | | | 325,000 | 16,250 | 16,250 | | 32,500 |
| Common stock issued under loan participation agreement | | | | | 50,000 | 2,500 | 3,500 | | 6,000 |
| Common stock issued to director under loan participation agreement | | | | | 3,000 | 150 | 120 | | 270 |
| Series D Preferred dividends | | | | | | | | (56,778) | (56,778) |
| Net loss | | | | | | | | (1,379,431) | (1,379,431) |
| Balance as of June 30, 2011 | 200,500 | \$ 401,000 | 700,000 | \$ 700,000 | 6,798,488 | \$ 339,925 | \$ 14,203,225 | \$ (13,905,269) | \$ 1,738,881 |
| Allocation of beneficial conversion feature, 8% convertible debt | | | | | | | 381,500 | | 381,500 |
| Allocation of common stock purchase warrants issued in | | | | | | | 419,200 | | 419,200 |

| | | | | | | | | | |
|---|---------|---------|---------|---------|-----------|---------|---------------|----------------|--------------|
| private placement of 8% convertible debt Series D Preferred dividends | | | | | | | | (28,622) | (28,622) |
| Net loss | | | | | | | | (526,702) | (526,702) |
| Balance as of December 31, 2011 (unaudited) | 200,500 | 401,000 | 700,000 | 700,000 | 6,798,488 | 339,925 | \$ 15,003,925 | \$(14,460,593) | \$ 1,984,250 |

See accompanying notes to these consolidated financial statements

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended December 31, 2011 and 2010
(unaudited)

| | <i>2011 (restated)</i> | <i>2010</i> |
|---|------------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (526,702) | \$ (131,663) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 228,028 | 230,955 |
| Loss on disposals of fixed assets | 5,679 | 232 |
| Warrants issued to convertible debt placement agent | 97,200 | - |
| Changes in operating assets and liabilities | | |
| Accrued gaming income | (8,419) | 196,726 |
| Inventories | (1,959) | 263 |
| Other current assets | (94,122) | 20,517 |
| Accounts payable and accrued expenses | 59,860 | (23,450) |
| Joint venture obligation | (2,145) | - |
| Accrued interest | 12,533 | (182) |
| Other current liabilities | <u>46,046</u> | <u>(1,727)</u> |
| Net cash provided by (used in) operating activities | (184,001) | 291,671 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of trading securities | - | (120,000) |
| Purchases of building improvements and equipment | (13,091) | (37,251) |
| Net cash used in investing activities | (13,091) | (157,251) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds upon issuance of convertible debt | 703,500 | 120,000 |
| Principal payments on long-term debt | (103,407) | (151,377) |
| Payments on loan participation obligations | (14,941) | (15,547) |
| Payment of Series D preferred stock dividends | (28,467) | (28,467) |
| Net cash provided by (used in) financing activities | 556,685 | (75,391) |
| Net increase in cash | 359,593 | 59,029 |
| Cash at beginning of period | 531,208 | 578,584 |
| Cash at end of period | \$ 890,801 | \$ 637,613 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 47,451 | \$ 57,368 |
| Cash paid for income taxes | \$ - | \$ - |
| SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Accrued and unpaid dividends on Series D preferred stock | \$ 14,311 | \$ 14,311 |
| | \$ 322,000 | \$ - |

Allocation of fair value of warrants to convertible
debt

| | | | | |
|---|----|---------|----|---|
| Allocation of beneficial conversion feature to convertible debt | \$ | 381,500 | \$ | - |
|---|----|---------|----|---|

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

December 31, 2011 (restated)

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.

Amended and Restated Financial Statements

This amended Quarterly Report on Form 10-Q as of and for the three and six month periods ended December 31, 2011 is prepared to reflect an understatement of non-cash financing fees resulting from incorrect calculations regarding the total number of Class A common stock purchase warrants due the placement agent for services associated with the Company's private offering of 8% Convertible Debt completed during the quarter ended December 31, 2011. The Class A warrants are exercisable to purchase shares of the Company's common stock for three years at an exercise price of \$0.50 per share. We had initially determined the agent was entitled to 140,700 common stock purchase warrants. However, we have now determined the agent was entitled to an additional 70,350 Class A warrants for the agent's placement services during the three months ended December 31, 2011. The non-cash charges against earnings for the value of the 70,350 additional Class A warrants increased the net loss for the three and six months ended December 31, 2011, as well as increased additional paid-in capital and accumulated deficit at December 31, 2011. The following table illustrates the effects to the financial statement line items as of and for December 31, 2011:

| Consolidated Balance Sheet December 31, 2011 (unaudited) | As Previously Reported | Adjustment | As Restated |
|---|------------------------|------------|----------------|
| Additional paid-in capital | \$ 14,971,725 | \$ 32,200 | \$ 15,003,925 |
| Accumulated deficit | \$(14,428,393) | \$(32,200) | \$(14,460,593) |

Consolidated Statement of Operations
Three months ended December 31, 2011 (unaudited)

| | As Previously Reported | Adjustment | As Restated |
|---|---------------------------|------------|-------------|
| General and administrative expenses | \$ 210,511 | \$ 32,200 | \$ 242,711 |
| Loss from operations | \$(327,597) | \$(32,200) | \$(359,797) |
| Net loss | \$(420,071) | \$(32,200) | \$(452,271) |
| Net loss attributable to common shareholders | \$(434,382) | \$(32,200) | \$(466,582) |
| Net loss per common share, basic and diluted | \$ (0.06) | \$ (0.01) | \$ (0.07) |

Consolidated Statement of Operations
Six months ended December 31, 2011 (unaudited)

| | As Previously Reported | Adjustment | As Restated |
|---|---------------------------|------------|-------------|
| General and administrative expenses | \$ 275,299 | \$ 32,200 | \$ 307,499 |
| Loss from operations | \$(375,919) | \$(32,200) | \$(408,119) |
| Net loss | \$(494,502) | \$(32,200) | \$(526,702) |
| Net loss attributable to common shareholders | \$(523,124) | \$(32,200) | \$(555,324) |

Consolidated Statement of Stockholders' Equity
December 31, 2011 (unaudited)

| | As Previously Reported | Adjustment | As Restated |
|--|---------------------------|-------------|----------------|
| Allocation of common stock purchase warrants issued in private placement of 8% convertible debt | \$ 387,000 | \$ 32,200 | \$ 419,200 |
| Net loss | \$ (494,502) | \$ (32,200) | \$ (526,702) |
| Additional paid-in capital | \$14,971,725 | \$ 32,200 | \$15,003,925 |
| Accumulated deficit | \$(14,428,393) | \$(32,200) | \$(14,460,593) |

Consolidated Statement of Cash Flows
December 31, 2011 (unaudited)

| | As Previously Reported | Adjustment | As Restated |
|--|---------------------------|------------|-------------|
| Net loss | \$(494,502) | \$(32,200) | \$(526,702) |
| Warrants issued to convertible debt placement agent | \$ 65,000 | \$32,200 | \$ 97,200 |

Organization and Consolidation

Global Casinos, Inc. (the "Company or "Global"), a Utah corporation, has two subsidiaries that operate two gaming casinos.

As of December 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 value of debt and equity instruments, 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 December 31, 2011, the Company had approximately \$295,000 of cash or cash equivalents in financial institutions in excess of FDIC deposit insurance coverage.

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 December 31 and June 30, 2011, \$283,844 and \$275,425 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 six months ended December 31, 2011 and 2010 was \$169,403 and \$230,955, 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 \$263 and \$117 for the six months ended December 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 4,340,050 were not included in the calculations of diluted earnings per share for the three and six months ended December 31, 2011, as their inclusion would have been anti-dilutive, and represent out of the money stock options and stock purchase warrants, and shares issuable upon conversion of preferred stock. Potentially dilutive shares of 1,315,000 were not included in the calculations of diluted earnings per share for the three and six months ended December 31, 2010, as their inclusion would have been anti-dilutive, and represent out of the money stock options and shares issuable upon conversion of preferred stock.

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.

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 six months ended December 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.

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

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 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 December 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.

During the quarter ended June 30, 2011, the Company determined that ImageDoc's expected and realized cash flows were significantly less than initial expectations, which has delayed the preparation and filing of its Registration Statement as discussed above. This raised substantial doubt regarding the current value of the investment. As such, the Company has recorded an impairment charge equal to the original investment at June 30, 2011.

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 | | (1,898,496) |
| Total Goodwill as of December 31, 2011 | \$ | - |

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. As of December 31, 2011 all the goodwill recorded upon the purchase of the Doc Holliday Casino reporting unit in March 2008, is fully impaired. Impairment charges of \$890,000 and \$1,008,496 were recorded during the quarters ended March 31, 2010 and June 30, 2011, respectively.

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.

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.

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. In December 2011, the Company exercised this option and made the \$50,000 pay down on the Note thereby extending 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 until the cash flows of the Doc Holliday Casino allow for additional principal reductions. 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 December 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, 2012.

\$ 353,542

Junior mortgage payable to private lender, collateralized by real estate, interest at 8%, monthly payments of \$1,911, maturing April 1, 2013.

160,053

Junior mortgages payable to private lenders, collateralized by real estate, interest at 4%, monthly payments of \$605. Notes matured September 19, 2009.

102,004

Installment note payable to equipment supplier, collateralized by equipment, requiring monthly payments of \$2,368, no interest, final payment due May 9, 2012.

11,840

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.

195,667

Total notes payable and long-term debt

823,106

Less current portion

(673,560)

Long-term debt, net

\$ 149,546

Scheduled maturities of notes payable and long-term debt for the periods ending June 30th is as follows:

| | |
|------|-------------------|
| 2012 | \$ 314,660 |
| 2013 | <u>508,446</u> |
| | <u>\$ 823,106</u> |

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. The obligation matures on December 31, 2012. 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. The second anniversary shares were issued in February 2012, at a value of \$0.45 per share, the closing price of the Company's common stock on November 30, 2011. Since as of December 31, 2011 the shares had not yet been issued, the Company accrued a liability of \$22,500 for this obligation and is included in accrued liabilities at December 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. The obligation matures on December 31, 2012. 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. The second anniversary shares were issued in February 2012, at a value of \$0.42 per share, the closing price of the Company's common stock on December 30, 2011. Since as of December 31, 2011 the shares had not yet been issued, the Company accrued a liability of \$1,260 for this obligation and is included in accrued liabilities at December 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 December 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, due December 31, 2012.

\$ 198,298

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, due December 31, 2012.

12,048

Total loan participation obligations, due December 31, 2012

\$ 210,346

6. CONVERTIBLE DEBT

5% Notes due 2013: 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"). The Debentures will mature and be due and payable in July and August 2013. The principal amount of the Debentures 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. At the time of issuance and based on the Company's common stock trading activity, the Company determined that no beneficial conversion feature was associated with the Debentures. The Debentures will automatically convert into shares of Series E Preferred Stock under certain circumstances.

8% Notes due 2013 and Stock Purchase Warrants: On September 26, 2011 the Company's Board of Directors approved a private offering of units of the Company's securities of up to \$720,000. On February 2, 2012, the Company's Board of Directors approved an increase of the private offering of up to \$850,000.

Each unit consists of an 8% Convertible Note and one Class A Warrant for each \$1.00 in Note purchased. The Class A Warrants will be exercisable into shares of the Company's common stock for a period of three years at an exercise price of \$0.50 per share. The price of the offering is the principal amount of the Note. The Convertible Notes accrue interest at 8% per year, mature two years from the date of issuance with all principal and interest due at maturity. At the option of the holder, the Note principal and accrued interest are convertible to shares of the Company's common stock at a conversion price of \$0.50 per share. In addition, for every \$1.00 in Note principal converted, the holder will receive one additional share of Common Stock and two Class B Warrants, each exercisable for a period of three years at an exercise price of \$0.75 per share. As of December 31, 2011 none of the Notes have been converted.

As of December 31, 2011 a total of \$703,500 of units had been sold and mature on October 31, 2013. We applied the provisions of ASC 470-20 "Debt With Conversions and Other Options" in which the fair value of the warrants are allocated to stockholders' equity and considered as a discount to the face amount of the Note principal. The resulting discount to the Notes is amortized to interest expense over the life of the Notes. Should a Note be converted or paid prior to the maturity date, the related discount would be charged off, pro-rata, to interest expense. The initial estimated fair value of the warrants of \$322,000 was determined using the following assumptions:

Expected volatility

139%

Contractual term

3 years

Risk free interest rate

0.48%

Expected dividend rate

0%

In addition, based on the trading price of the Company's common stock on the date of issue of the Notes, in accordance with ASC 470 the conversion terms were considered a beneficial conversion features. The beneficial conversion feature representing the intrinsic value of the difference between the fair value of underlying common stock on the issue date and the terms of the conversion was calculated to be approximately \$520,000. However, ASC 470-20-30-8 limits the amount of the beneficial conversion feature to be allocated to the proceeds of the debt, after the allocation of the fair value of the warrants, to the total proceeds of the debt. Therefore, \$381,500 relating to the beneficial conversion features has been allocated to stockholders' equity and is reflected as a discount to the amount of the notes and is being amortized to interest expense over the term of the notes. Should a Note be converted or paid prior to the maturity date, the related discount would be charged off, pro-rata, to interest expense.

For the three and six months ended December 31, 2011, interest expense relating to the amortization of the debt discount for the fair value of the warrants and the beneficial conversion feature was \$58,625.

The Company engaged the services of a broker-dealer as a selling agent to assist in this offering of securities. On sales involving the assistance of the selling agent, the Company will pay the selling agent a fee equal to 5% of the price of the securities, and 10% common stock and warrant coverage on all shares of common stock underlying the securities sold by the selling agent. As of December 31, 2011 the Company had paid to the agent a total of \$32,675, and accrued an additional \$2,500 for sales of units attributable to the agent.

In addition to the agent's cash fees, the agent was entitled to 211,050 Class A warrants for sales of units involving the agent's assistance. The estimated fair value of the warrants in the amount of \$97,200 has been allocated to stockholders' equity and charged to the Company's operations as financing costs for the three and six months ended December 31, 2011. The estimated fair value of the warrants was determined using the following assumptions:

Expected volatility

139%

Contractual term

3 years

Risk free interest rate

0.48%

Expected dividend rate

0%

In addition to the cash fees and warrant coverage for selling agent assisted sales, for each \$100 of Notes converted, the agent would be entitled to an additional 10 shares of the company's common stock and 20 Class B Warrants. Each Class B Warrant is exercisable for a period of three years at an exercise price of \$0.75 per share. A contingency exists for this feature, the outcome of which cannot be determined.

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 December 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 December 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 December 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 December 31, 2011, \$14,311 of dividends were declared and are included in accrued expenses at December 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 December 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. 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. The second anniversary shares were issued in February 2012, at a value of \$0.45 per share, the closing price of the Company's common stock on November 30, 2011. Since as of December 31, 2011 the shares had not yet been issued, the Company accrued a liability of \$22,500 for this obligation and is included in accrued liabilities at December 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. 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. The second anniversary shares were issued in February 2012, at a value of \$0.42 per share, the closing price of the Company's common stock on December 30, 2011. Since as of December 31, 2011 the shares had not yet been issued, the Company accrued a liability of \$1,260 for this obligation and is included in accrued liabilities at December 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 year ended June 30, 2011.

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 December 31, 2011 the total credit available to apply against future rent payments was approximately \$48,000. Rent expense for the six months ended December 31, 2011 and 2010, net of applied monthly expense credits was \$117,644 and \$140,972, 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 was adjusted to \$250,000, payable at a rate of \$20,833 per month. The amendment resulted 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 remained 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 December 31, 2011 the system had a net book value of approximately \$39,500.

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

| | | |
|-------|----|-----------|
| 2012 | \$ | 152,172 |
| 2013 | | 304,344 |
| 2014 | | 304,344 |
| 2015 | | 304,344 |
| 2016 | | 25,362 |
| Total | \$ | 1,090,566 |

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. The Company is current with all its federal and stated tax filings, and no periods have been subjected to IRS examination.

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, 2011 and 2010, the reconciliation between the statutory tax rate and the effective tax rate as a percentage is as follows:

| | | |
|--|-------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Statutory federal income tax rate | 34% | 34% |
| Statutory state income tax rate | 4% | 4% |
| Effect of net operating loss carry-forward | <u>(38)</u> | <u>(38)</u> |
| | <u>-%</u> | <u>-%</u> |

At June 30, 2011, the Company had net operating loss carry forwards of approximately \$6,128,000 available to reduce future taxable income. The net operating loss carry forwards expire in the years ending June 30 as follows:

| | |
|------|--------------------|
| 2016 | \$ 897,000 |
| 2017 | 518,000 |
| 2018 | 790,000 |
| 2019 | 1,985,000 |
| 2020 | 316,000 |
| 2021 | 985,000 |
| 2022 | 82,000 |
| 2029 | 30,000 |
| 2030 | 198,000 |
| 2031 | <u>327,000</u> |
| | <u>\$6,128,000</u> |

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 June 30, 2011, 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 \$2,084,000 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 \$83,000 from June 30, 2010 to June 30, 2011, and primarily results from the operating loss for the year ended June 30, 2011.

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, 2010 | 135,000 | \$ 1.00 |
| Granted | - | |
| Exercised | - | |
| Surrendered | - | |
| Balance at June 30, 2011 | 135,000 | \$ 1.00 |
| Granted | - | |
| Exercised | - | |
| Surrendered | - | |
| Balance at December 31, 2011 | 135,000 | \$ 1.00 |

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

| Exercise Price | Weighted Average Number <u>Outstanding</u> | <u>Outstanding</u> Weighted Average Contractual <u>Life</u> | Weighted- Average Exercise <u>Price</u> | <u>Exercisable</u> | |
|-------------------|---|---|--|------------------------------|--------------------------|
| | | | | Number <u>Exercisable</u> | Exercise <u>Price</u> |
| \$ 1.00 | 135,000 | 1.0 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 six months ended December 31, 2011, and the year ended June 30, 2011, 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 AGREEMENT

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 six months ended December 31, 2011 and 2010, no amounts were charged to operating, general and administrative expenses associated with this agreement. The agreement has since been terminated.

12. RELATED PARTIES

An officer and director operates a law firm that provides legal services to the Company. During the six months ended December 31, 2011 and 2010, his billings to the Company totaled \$54,923 and \$48,047, respectively. At December 31 and June 30, 2011, amounts due to him were \$6,365 and \$12,198, 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 six months ended December 31, 2011 and 2010, his billings to the company for services were \$14,750 and \$17,125, respectively. At December 31 and June 30, 2011, amounts due him were \$2,500 and \$1,875, 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 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. The second anniversary shares were issued in February 2012, at a value of \$0.42 per share, the closing price of the Company's common stock on December 30, 2011. Since as of December 31, 2011 the shares had not yet been issued, the Company accrued a liability of \$1,260 for this obligation and is included in accrued liabilities at December 31, 2011. This transaction is further discussed in footnote titled "Loan Participation Obligations."

13. JOINT VENTURE OBLIGATION

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. 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.

At the present time, both games are still under development and neither has been approved for use in any gaming jurisdiction. As of December 31, 2011, the Company has made cash payments directly to or on behalf of GGT of \$76,395 as part of the initial \$100,000 cash capital payments required under the Agreement. The remaining \$23,605 obligation is recorded as a current liability. As of December 31, 2011, GGT had no revenues.

14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the time of issuance of the financial statements.

On February 2, 2012 the Company's Board of Directors approved a supplement to the offering of securities as discussed above in Note 6, to increase the size of the offering to \$850,000 in units, including the over-allotment. Subsequent to December 31, 2011 the Company has issued an additional \$146,500 of debt securities and warrants in this offering.

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (restated)**

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.

As of December 31, 2011, our 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.

Our operations are seasonal. Our casinos typically experience 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 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.

Results of Operations Three Months Ended December 31, 2011 Compared to the Three Months Ended December 31, 2010

We recognized a net loss attributable to common shareholders after \$14,311 of dividends on our Series D preferred stock of \$(466,582) (\$0.07 per share) for the three months ended December 31, 2011, compared to a net loss attributable to common shareholders after dividends of \$14,311, of \$(82,919) (\$0.01 per share) for the three months ended December 31, 2010. The net losses attributable to common shareholders for the three months ended December 31, 2011 and 2010

are primarily attributable to declines in gaming revenues at our casinos due to the generally poor consumer spending environment resulting from the continuing poor local and regional economic environment, as well as certain charges to operating, general and administrative expenses as discussed further below.

Revenues

Casino revenues for the three months ended December 31, 2011 were \$1,267,712 compared to \$1,372,962 for the three months ended December 31, 2010, a decrease of \$(105,250) or 7.7%. Total casino revenues for the Bull Durham were \$811,981 and \$876,443 for the three months ended December 31, 2011 and 2010, respectively, a decrease of \$(64,462) or 7.4%. Total casino revenues for Doc Holliday were \$455,731 and \$496,519 for the three months ended December 31, 2011 and 2010, respectively, a decrease of \$(40,788) or 8.2%. Total casino coin-in was down 3.6% for the three months ended December 31, 2011 compared to the three months ended December 31, 2010. We also experienced a decrease of 0.26% in our hold percentage for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

Promotional allowances primarily include anticipated redemptions associated with the Bull Durham Casino's Sharpshooter's Club which awards customers with cash payouts dependent upon the frequency and amount of their gaming activities on our slot machines. The total allowances increased by \$3,632 from \$41,993 to \$45,625 for the three months ended December 31, 2010 and 2011, respectively.

Operating Expenses

Casino operations: Includes all expenses associated with the operations of the Bull Durham Casino and the Doc Holliday Casino for the three months ended December 31, 2011 and 2010. The following table summarizes such expenses for comparison and discussion purposes:

| | For the three months ended | | | |
|--------------------------------|-----------------------------------|---------------------|------------------|---------------|
| | December 31, | December 31, | | % |
| | 2011 | 2010 | \$ Change | Change |
| Labor & Benefits | \$498,009 | \$496,909 | \$1,100 | 0.2% |
| Marketing & Advertising | 296,264 | 290,620 | 5,644 | 1.9% |
| Depreciation & Amortization | 83,480 | 115,155 | (31,675) | -27.5% |
| Food & Beverage | 71,920 | 81,819 | (9,899) | -12.1% |
| Repair, Maintenance & Supplies | 58,888 | 54,569 | 4,319 | 7.9% |
| Device fees | 105,104 | 106,172 | (1,068) | -1.0% |

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| | | | | |
|-----------------------------|--------|--------|----------|--------|
| Professional fees | 61,700 | 15,600 | 46,100 | 295.5% |
| Insurance, Taxes & Licenses | 40,884 | 41,520 | (636) | -1.5% |
| Utilities & Telephone | 39,230 | 41,002 | (1,772) | -4.3% |
| Occupancy | 58,892 | 75,586 | (16,694) | -22.1% |

| | | | | |
|-----------------------|-------------|-------------|---------|-------|
| Other casino expenses | 24,802 | 16,188 | 8,614 | 53.2% |
| | \$1,339,173 | \$1,335,140 | \$4,033 | 0.3% |

Labor & Benefits: Includes all salary and contract labor costs associated with the operations of the casinos, payroll taxes, as well as costs associated with the casinos' employee benefit and health insurance plans. No significant change was realized for the three months ended December 31, 2011 compared to the three months ended December 31, 2010.

Total labor and benefits costs as a percentage of casino revenues increased from 36.2% to 39.3% for the three months ended December 31, 2010 and 2011, respectively.

Marketing & Advertising: Includes all costs associated with our advertising and marketing efforts including promotional activities designed to drive customers to our casinos, and programs designed to foster customer loyalty.

The slight 1.9% increase is primarily attributed to an increase in periodic purchases of marketing supplies.

Depreciation & Amortization: Primarily includes depreciation on our gaming equipment, casino building improvements, furniture and fixtures, as well as amortization on our customer tracking software. The decrease of \$(31,675) is attributable to decreases in the casino depreciable asset bases resulting from our efforts to upgrade existing slot machines versus purchasing of new machines due to capital constraints and efforts to reduce operating expenses. Dependent upon the availability of capital, we are continuing our efforts to upgrade and maintain the quality and appearance of the machines in both casinos as part of our strategy to provide the best customer experience possible to enhance customer loyalty.

Food & Beverage: Includes all costs associated with our bar and limited menu food services. Total food and beverage costs as a percentage of casino revenues were 5.7% and 6.0% for the three months ended December 31, 2011 and 2010, respectively.

Repair, Maintenance & Supplies: Includes costs associated with the general upkeep of the facility, as well as parts and repair efforts to maintain the quality of our slot machines. Total repair, maintenance and supplies costs as a percentage of casino revenues were 4.6% and 4.0% for the three months ended December 31, 2011 and 2010, respectively.

Device Fees: Includes fees paid to the local jurisdictions of the casinos based on the number of slot machines in operation.

Professional Fees: Includes all costs and fees associated with the casinos' legal services, accounting and auditing services, and the Board of Directors of Casinos USA (d/b/a The Bull Durham Saloon & Casino). The increase is primarily attributable to the settlement of a sexual harassment claim brought by certain former employees of the Doc Holliday Casino.

Insurance, Taxes & Licenses: Includes all non-payroll taxes, liability and property insurance, and licenses associated with the operation of the casinos. No significant change was realized for the three months ended December 31, 2011 compared to the three months ended December 31, 2010. Total insurance, taxes and licenses as a percentage of casino revenues were 3.2% and 3.0% for the

three months ended December 31, 2011 and 2010, respectively.

Utilities & Telephone: Includes all costs associated with the casinos' telephone systems, cell phone usage, and utility costs. Total utilities and telephone expenses as a percentage of revenues were 3.1% and 3.0% for the three months ended December 31, 2011 and 2010, respectively.

Occupancy: Includes lease costs of the Doc Holliday Casino, which leases approximately 13,000 square feet of space used for its gaming activities, supporting offices and storage space under an operating lease that terminates in July 2015. The lease requires the Casino to pay for a portion of the building expenses until the landlord secures additional tenants to occupy the remaining building space. To the extent the Casino pays total building expenses in excess of the Casino's portion as defined by the lease, any excess amounts paid are credited to the following lease year's rent payments. As of December 31, 2011, prepaid rent credits available to offset future rent payments was approximately \$48,000 and are recorded as prepaid expenses and other current assets. The difference between the amount recorded as occupancy expense and the scheduled rent payments is due to the amortization of available prepaid rent credits resulting from certain prior payments of building expenses as discussed above.

On January 29, 2010 the landlord of the Doc Holliday Casino property agreed to 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 continued 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 landlord of the Doc Holliday Casino property agreed to further amend the lease agreement. As a result, for the period commencing January 1, 2011 and ending December 31, 2011 the base rent was \$250,000, payable at a rate of \$20,833 per month. The amendment resulted 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 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 December 31, 2011 the system had a net book value of approximately \$39,500.

Other Casino Expenses: Includes all other costs of the casino operations not included in the above categories, including travel, armored car services, postage, casino entertainment, employee education programs, bank and other financing fees, and lease costs associated with off-site storage units. Total other casino expenses as a percentage of

revenues were 2.0% and 1.2% for the three months ended December 31, 2011 and 2010, respectively.

Operating, general, and administrative expenses: Generally includes all expenses associated with the operations of the parent entity, Global Casinos, Inc., including legal and executive services provided

by the company's principal executive officer, accounting services provided by the company's principal accounting officer, as well as clerical and bookkeeping services, corporate marketing and financing, and stock-based compensation costs relating to the company's executive officers, directors, and subsidiary management.

Total operating, general, and administrative costs were \$242,711, as compared to \$36,328 for the three months ended December 31, 2011 and 2010, respectively, an increase of \$206,383, or 568%. The increase is primarily attributable to four items.

First, we have incurred legal expenses associated with the Company's current offering of securities which is discussed in detail below, as well as legal costs associated with the Company's defense of claims of sexual harassment brought by two former employees of the Doc Holliday Casino. These costs account for approximately \$34,000 of the year over year increase.

Second, we engaged the services of a broker-dealer as a selling agent to assist in our offering of the 8% Convertible debt during the second quarter. On sales involving the assistance of the selling agent, the selling agent is entitled to a fee equal to 5% of the price of the securities, and 10% common stock and warrant coverage on all shares of common stock underlying the securities sold by the selling agent. As of December 31, 2011 the Company had paid to the agent a total of \$32,675, and accrued an additional \$2,500 for sales of units attributable to the agent.

In addition to the agent's cash fees, the agent was entitled to 211,050 Class A warrants for sales of units involving the agent's assistance. The estimated fair value of the warrants in the amount of \$97,200 has been allocated to stockholders' equity and a non-cash charge to operations as financing costs for the three months ended December 31, 2011.

Third, the participants of our loan participation obligations were entitled to loan participation fees on the second annual anniversary of the transaction of 53,000 shares of the Company's common stock. The first anniversary shares were issued in February 2011, at a total value of \$6,270, reflecting the closing price of the Company's common stock on the anniversary dates. The second anniversary shares were issued in February 2012, at a total value of \$23,670, reflecting the closing price of the Company's common stock on the second anniversary dates. Since as of December 31, 2011 and 2010 the shares had not yet been issued, the Company accrued a liability of \$23,670 and \$6,270, respectively, for these obligations at December 31, 2011 and 2010.

Finally, during the quarter ended December 31, 2011 we incurred approximately \$16,000 of costs associated with the renewal of our Colorado gaming license.

Interest Expense

Net interest expense was \$94,474 for the three months ended December 31, 2011 compared to \$28,109 for the three months ended December 31, 2010, and primarily represents regularly scheduled payments on various mortgages collateralized by the Bull Durham Saloon and Casino real estate, certain debt incurred to facilitate the acquisition of the Doc Holliday Casino in March 2008, and interest on our loan participation obligations and convertible debt.

In addition to regular interest associated with the instruments above, the 8% Convertible debt sold during the second quarter included detachable warrants. The estimated fair value of the warrants was \$322,000, which was allocated to stockholders' equity and recorded as a discount to the face value of the convertible notes. This amount is being amortized over the two-year life of the debt to interest expense. During the quarter ended December 31, 2011, \$26,833 of the discount was amortized representing a non-cash charge to interest expense. Furthermore, the conversion terms of the 8% Convertible debt also included a beneficial conversion feature totaling \$381,500. This amount is also being amortized over the two-year life of the debt to interest expense. During the quarter ended December 31, 2011, \$31,792 of the discount was amortized representing a non-cash charge to interest expense.

Interest expense is partially offset by interest income earned on certain cash balances maintained at financial institutions.

Other

Series D Preferred Stock: Holders of our Series D Preferred Stock are entitled to receive dividends at the rate of 8% per year, declared quarterly and payable the 15th day of April, July, October and January of each year. For the three months ended December 31, 2011 and 2010, dividends of \$14,311 were declared on the Series D Preferred Stock. Dividends declared on December 31, 2011 and 2010 were subsequently paid in January 2012 and 2011, respectively.

Net Operating Loss Carryover: For federal income tax purposes, Global has a net operating loss carryover (NOL) approximating \$6,128,000, which can be used to offset future taxable income, if any. 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. There is no guarantee that Global will be able to utilize its NOL before it expires and accordingly, no potential benefit has been recorded in the financial statements.

Inflation did not have a material impact on the Company's 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.

Results of Operations Six Months Ended December 31, 2011 Compared to the Six Months Ended December 31, 2010

We recognized a net loss attributable to common shareholders after \$28,622 of dividends on our Series D preferred stock of \$(555,324) (\$0.08 per share) for the six months ended December 31, 2011, compared to a net loss attributable to common shareholders after dividends of \$28,622, of \$(160,285) (\$0.02 per share) for the six months ended December 31, 2010. The net losses attributable to common shareholders for the six months ended December 31, 2011 and 2010 are primarily attributable to declines in gaming revenues at our casinos due to the generally poor consumer spending environment resulting from the continuing poor local and regional economic

environment, as well as certain charges to operating, general and administrative expenses as discussed further below.

Revenues

Casino revenues for the six months ended December 31, 2011 were \$2,633,587 compared to \$2,685,276 for the six months ended December 31, 2010, a decrease of \$(231,689) or 8.5%. Total casino revenues for the Bull Durham were \$1,636,029 and \$1,763,769 for the six months ended December 31, 2011 and 2010, respectively, a decrease of \$(127,740) or 7.2%. Total casino revenues for Doc Holliday were \$997,558 and \$1,101,507 for the six months ended December 31, 2011 and 2010, respectively, a decrease of \$(103,949) or 9.4%. Total casino coin-in was down 4.0% for the six months ended December 31, 2011 compared to the six months ended December 31, 2010. We also experienced a decrease of 0.25% in our hold percentage for the six months ended December 31, 2011 compared to the six months ended December 31, 2010.

Promotional allowances primarily include anticipated redemptions associated with the Bull Durham Casino's Sharpshooter's Club which awards customers with cash payouts dependent upon the frequency and amount of their gaming activities on our slot machines. The total allowances increased by \$4,937 from \$82,208 to \$87,145 for the six months ended December 31, 2010 and 2011, respectively.

Operating Expenses

Casino operations: Includes all expenses associated with the operations of the Bull Durham Casino and the Doc Holliday Casino for the six months ended December 31, 2011 and 2010. The following table summarizes such expenses for comparison and discussion purposes:

| | For the Six Months ended | | | |
|--------------------------------|---------------------------------|---------------------|------------------|---------------|
| | December 31, | December 31, | | % |
| | 2011 | 2010 | \$ Change | Change |
| Labor & Benefits | \$955,694 | \$1,027,093 | \$(71,399) | -7.0% |
| Marketing & Advertising | 629,994 | 624,838 | 5,156 | 0.8% |
| Depreciation & Amortization | 169,403 | 230,955 | (61,552) | -26.7% |
| Food & Beverage | 156,425 | 177,301 | (20,876) | -11.8% |
| Repair, Maintenance & Supplies | 116,392 | 126,831 | (10,439) | -8.2% |
| Device fees | 210,445 | 211,037 | (592) | -0.3% |
| Professional fees | 73,400 | 25,140 | 48,260 | 192.0% |
| Insurance, Taxes & Licenses | 92,324 | 88,481 | 3,843 | 4.3% |

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| | | | | |
|-----------------------|-------------|-------------|-------------|--------|
| Utilities & Telephone | 82,977 | 88,213 | (5,236) | -5.9% |
| Occupancy | 117,644 | 140,972 | (23,328) | -16.5% |
| Other casino expenses | 36,685 | 28,509 | 8,176 | 28.7% |
| | \$2,641,383 | \$2,769,370 | \$(127,987) | -4.6% |

Labor & Benefits: Includes all salary and contract labor costs associated with the operations of the casinos, payroll taxes, as well as costs associated with the casinos' employee benefit and health insurance plans. The 7.0% decrease is primarily attributable to adjustments to casino labor based on casino gaming activity. Total labor and benefits costs as a percentage of casino revenues increased from 35.8% to 36.3% for the six months ended December 31, 2010 and 2011, respectively.

Marketing & Advertising: Includes all costs associated with our advertising and marketing efforts including promotional activities designed to drive customers to our casinos, and programs designed to foster customer loyalty. The slight 0.8% increase is primarily attributed to an increase in periodic purchases of marketing supplies.

Depreciation & Amortization: Primarily includes depreciation on our gaming equipment, casino building improvements, furniture and fixtures, as well as amortization on our customer tracking software. The decrease of \$(61,552) is attributable to decreases in the casino depreciable asset bases resulting from our efforts to upgrade existing slot machines versus purchasing of new machines due to capital constraints and efforts to reduce operating expenses. Dependent upon the availability of capital, we are continuing our efforts to upgrade and maintain the quality and appearance of the machines in both casinos as part of our strategy to provide the best customer experience possible to enhance customer loyalty.

Food & Beverage: Includes all costs associated with our bar and limited menu food services. Total food and beverage costs as a percentage of casino revenues were 5.9% and 6.2% for the six months ended December 31, 2011 and 2010, respectively.

Repair, Maintenance & Supplies: Includes costs associated with the general upkeep of the facility, as well as parts and repair efforts to maintain the quality of our slot machines. Total repair, maintenance and supplies costs as a percentage of casino revenues were 4.4% for each of the six months ended December 31, 2011 and 2010, respectively.

Device Fees: Includes fees paid to the local jurisdictions of the casinos based on the number of slot machines in operation.

Professional Fees: Includes all costs and fees associated with the casinos' legal services, accounting and auditing services, and the Board of Directors of Casinos USA (d/b/a The Bull Durham Saloon & Casino). The increase is primarily attributable to the settlement of a sexual harassment claim brought by certain former employees of the Doc Holliday Casino.

Insurance, Taxes & Licenses: Includes all non-payroll taxes, liability and property insurance, and licenses associated with the operation of the casinos. The increase of \$3,843 is primarily attributed to increases in casino property and liability insurance. Total insurance, taxes and licenses as a percentage of casino revenues were 3.5% and 3.1% for the six months ended December 31, 2011 and 2010, respectively.

Utilities & Telephone: Includes all costs associated with the casinos' telephone systems, cell phone usage, and utility costs. Total utilities and telephone expenses as a percentage of revenues were 3.2% and 3.1% for the six months ended December 31, 2011 and 2010, respectively.

Occupancy: Includes lease costs of the Doc Holliday Casino, which leases approximately 13,000 square feet of space used for its gaming activities, supporting offices and storage space under an operating lease that terminates in July 2015. The lease requires the Casino to pay for a portion of the building expenses until the landlord secures additional tenants to occupy the remaining building space. To the extent the Casino pays total building expenses in excess of the Casino's portion as defined by the lease, any excess amounts paid are credited to the following lease year's rent payments. As of December 31, 2011, prepaid rent credits available to offset future rent payments was approximately \$48,000 and are recorded as prepaid expenses and other current assets. The difference between the amount recorded as occupancy expense and the scheduled rent payments is due to the amortization of available prepaid rent credits resulting from certain prior payments of building expenses as discussed above.

On January 29, 2010 the landlord of the Doc Holliday Casino property agreed to 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 continued 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 landlord of the Doc Holliday Casino property agreed to further amend the lease agreement. As a result, for the period commencing January 1, 2011 and ending December 31, 2011 the base rent was \$250,000, payable at a rate of \$20,833 per month. The amendment resulted 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 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 December 31, 2011 the system had a net book value of approximately \$39,500.

Other Casino Expenses: Includes all other costs of the casino operations not included in the above categories, including travel, armored car services, postage, casino entertainment, employee education programs, bank and other financing fees, and lease costs associated with off-site storage units. Total other casino expenses as a percentage of revenues were 1.4% and 1.0% for the six months ended December 31, 2011 and 2010, respectively.

Operating, general, and administrative expenses: Generally includes all expenses associated with the operations of the parent entity, Global Casinos, Inc., including legal and executive services provided by the company's principal executive officer, accounting services provided by the company's principal accounting officer, as well as clerical and bookkeeping services, corporate marketing and

financing, and stock-based compensation costs relating to the company's executive officers, directors, and subsidiary management.

Total operating, general, and administrative costs were \$307,499, as compared to \$88,008 for the six months ended December 31, 2011 and 2010, respectively, an increase of \$219,491, or 249%. The increase is primarily attributable to three items.

First, we have incurred legal expenses associated with the Company's current offering of securities which is discussed in detail below, as well as legal costs associated with the Company's defense of claims of sexual harassment brought by two former employees of the Doc Holliday Casino. These costs account for approximately \$50,000 of the year over year increase.

Second, we engaged the services of a broker-dealer as a selling agent to assist in our offering of the 8% Convertible debt during the second quarter. On sales involving the assistance of the selling agent, the selling agent is entitled to a fee equal to 5% of the price of the securities, and 10% common stock and warrant coverage on all shares of common stock underlying the securities sold by the selling agent. As of December 31, 2011 the Company had paid to the agent a total of \$32,675, and accrued an additional \$2,500 for sales of units attributable to the agent.

In addition to the agent's cash fees, the agent was entitled to 211,050 Class A warrants for sales of units involving the agent's assistance. The estimated fair value of the warrants in the amount of \$97,200 has been allocated to stockholders' equity and a non-cash charge to operations as financing costs for the six months ended December 31, 2011.

Third, the participants of our loan participation obligations were entitled to loan participation fees on the second annual anniversary of the transaction of 53,000 shares of the Company's common stock. The first anniversary shares were issued in February 2011, at a total value of \$6,270, reflecting the closing price of the Company's common stock on the anniversary dates. The second anniversary shares were issued in February 2012, at a total value of \$23,670, reflecting the closing price of the Company's common stock on the second anniversary dates. Since as of December 31, 2011 and 2010 the shares had not yet been issued, the Company accrued a liability of \$23,670 and \$6,270, respectively, for these obligations at December 31, 2011 and 2010.

Finally, during the quarter ended December 31, 2011 we incurred approximately \$16,000 of costs associated with the renewal of our Colorado gaming license.

Loss on asset disposals

We disposed certain casino equipment with a remaining book value of \$5,679. There were no proceeds received regarding these disposals. The resulting \$5,679 loss was recorded as a loss on asset disposals during the six months ended December 31, 2011. During the six months ended December 31, 2010 we disposed certain casino equipment with a remaining book value of \$232. There were no proceeds received regarding these disposals. The resulting \$232 loss was recorded as a loss on asset disposals for the six months ended December 31, 2010.

Interest Expense

Net interest expense was \$118,583 for the six months ended December 31, 2011 compared to \$57,121 for the six months ended December 31, 2010, and primarily represents regularly scheduled payments on various mortgages collateralized by the Bull Durham Saloon and Casino real estate, certain debt incurred to facilitate the acquisition of the Doc Holliday Casino in March 2008, and interest on our loan participation obligations and convertible debt.

In addition to regular interest associated with the instruments above, the 8% Convertible debt sold during the second quarter included detachable warrants. The estimated fair value of the warrants was \$322,000, which was allocated to stockholders' equity and recorded as a discount to the face value of the convertible notes. This amount is being amortized over the two-year life of the debt to interest expense. During the quarter ended December 31, 2011, \$26,833 of the discount was amortized representing a non-cash charge to interest expense. Furthermore, the conversion terms of the 8% Convertible debt also included a beneficial conversion feature totaling \$381,500. This amount is also being amortized over the two-year life of the debt to interest expense. During the quarter ended December 31, 2011, \$31,792 of the discount was amortized representing a non-cash charge to interest expense.

Interest expense is partially offset by interest income earned on certain cash balances maintained at financial institutions.

Other

Series D Preferred Stock: Holders of our Series D Preferred Stock are entitled to receive dividends at the rate of 8% per year, declared quarterly and payable the 15th day of April, July, October and January of each year. For the six months ended December 31, 2011 and 2010, dividends of \$28,622 were declared on the Series D Preferred Stock. Dividends declared on December 31, 2011 and 2010 were subsequently paid in January 2012 and 2011, respectively.

Net Operating Loss Carryover: For federal income tax purposes, Global has a net operating loss carryover (NOL) approximating \$6,128,000, which can be used to offset future taxable income, if any. 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. There is no guarantee that Global will be able to utilize its NOL before it expires and accordingly, no potential benefit has been recorded in the financial statements.

Inflation did not have a material impact on the Company's 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 through operations. As of December 31, 2011, neither the Company nor its subsidiaries have commercial bank credit facilities. Consequently, we believe that cash necessary for future operations must be internally generated through our casino operations. Cash flow at one of the Company's operating subsidiaries, Bull Durham, has been sufficient to fund operations and we believe that cash flow will be sufficient during the next twelve months to continue our operations. Cash flows from our other operating subsidiary, Doc Holliday, have not been sufficient to fund its operations and necessary capital improvements, however operating changes we have implemented since its acquisition in March 2008, have stabilized its operating cash flows. From time to time, we have depended on funds received through debt and equity financing to address operating shortfalls and capital requirements. 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 if necessary, as there is no legal obligation on these parties to provide such loans.

Effective September 19, 2009, all of the secured obligations of Casinos, USA, Inc., a wholly-owned subsidiary of Global Casinos, Inc. had 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.

On November 30, 2009 we 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 we 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.

On December 30, 2009 we 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 December 2010, the Company exercised its option to extend the maturity date of this Note to December 31, 2011 by an additional \$50,000 principal pay down of the Note. In December 2011, the Company exercised its option to extend the maturity date of this Note to December 31, 2012 by an additional \$50,000 principal pay

down of the Note. After December 31, 2012 the maturity date will only be further extended by written mutual agreement upon terms acceptable to both parties.

On March 22, 2010, we 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 requires monthly principal and interest payments of \$1,911 beginning on April 1, 2010, and extended the maturity date of the Note to April 1, 2013.

While no additional agreements have been reached as of the date of this report, we have been in communication with the remaining junior mortgage note holders concerning the need to extend the maturity dates of the notes. Until their maturity, all payments required under the notes had been made in a timely fashion, and we intend to continue to make payments under the notes pending our efforts to renegotiate their maturity dates.

In addition, the 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 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 as cash flows allow, smaller principal reduction payments including a \$15,000 principal payment during the three months ended December 31, 2011. As of December 31, 2011, the note holder has not executed any modification agreement, and as such all the note principal in the amount of \$195,667 is considered in technical default and is classified as a current obligation.

At December 31, 2011, the Company had cash and cash equivalents of \$890,801, substantially all of which is utilized in our casino operations. Pursuant to state gaming regulations, the casinos are required to maintain cash balances sufficient to pay potential jackpot awards. Our cash balances at December 31, 2011 were in excess of funds required by gaming regulations.

Our working capital increased by \$266,147 to a working capital deficit of \$(205,910) at December 31, 2011 from a working capital deficit of \$(472,057) at June 30, 2011. The working capital deficit is primarily due to mortgage debt associated with the Bull Durham casino now due or maturing within one year as discussed above, debt associated with the acquisition of the Doc Holliday casino, and the loan participation obligations that are classified as short-term liabilities at December 31, 2011 and June 30, 2011. Cash flows generated from our operations have been sufficient to service the monthly installments on our mortgage debt.

Cash used in operating activities was \$(184,001) for the six months ended December 31, 2011. For the six months ended December 31, 2010, operating activities provided net cash of \$291,671. The year-over-year decrease in cash provided by operating activities was primarily the result of the operating loss for the six months ended December 31, 2011, changes in certain current assets and

liabilities, and in our accrued gaming income during the six months ended December 31, 2011, which represents the deposits of cash held in our gaming machines at December 31, 2011.

Cash used in investing activities was \$157,251 for the six months ended December 31, 2010, and primarily represents a \$120,000 investment in common stock and stock purchase warrants of ImageDoc.com, and purchases of gaming and security equipment totaling \$37,251. The investment in ImageDoc.com was considered impaired at June 30, 2011. For the six months ended December 31, 2011 we purchased \$13,091 of gaming and security equipment.

For the year ended June 30, 2012 and depending upon available capital resources, we expect to acquire up to approximately \$100,000 in gaming equipment and other capital items, primarily to continue our efforts to upgrade and purchase new slot machines and leasehold improvements at the Doc Holliday Casino designed to improve the customer experience. We are also contemplating installing a customer tracking system at the Doc Holliday casino similar to the system operating at the Bull Durham casino. Such a system would require the outlay of approximately \$500,000.

Cash flows provided by financing activities were \$556,685 for the six months ended December 31, 2011, compared to cash used of \$(75,391) during the six months ended December 31, 2010. Cash provided by financing activities for the six months ended December 31, 2011 represents funds received from the sale of 8% Convertible debt as discussed below, principal payments on our long-term debt and participation obligations, as well as dividend payments on our Series D Preferred Stock.

On September 26, 2011 the Company's Board of Directors approved a private offering of units of the Company's securities of up to \$720,000. On February 2, 2012, the Company's Board of Directors approved an increase of the private offering of up to \$850,000. As of December 31, 2011 a total of \$703,500 of units had been sold and mature on October 31, 2013.

Each unit consists of an 8% Convertible Note and one Class A Warrant for each \$1.00 in Note purchased. The Class A Warrants are exercisable into shares of the Company's common stock for a period of three years at an exercise price of \$0.50 per share. The price of the offering is the principal amount of the Note. The Convertible Notes accrue interest at 8% per year, mature two years from the date of issuance with all principal and interest due at maturity. At the option of the holder, the Note principal and accrued interest are convertible to shares of the Company's common stock at a conversion price of \$0.50 per share. In addition, for every \$1.00 in Note principal converted, the holder will receive one additional share of Common Stock and two Class B Warrants, each exercisable for a period of three years at an exercise price of \$0.75 per share. As of December 31, 2011 none of the Notes have been converted.

As of December 31, 2011 a total of \$703,500 of units had been sold and mature on October 31, 2013. We applied the provisions of ASC 470-20 Debt With Conversions and Other Options in which the fair value of the warrants are allocated to stockholders' equity and considered as a discount to the face amount of the Note principal. The resulting discount to the Notes is amortized to interest expense on a straight-line basis over the life of the Notes. Should a Note be converted or paid prior to the maturity date, the related discount would be charged off, pro-rata, to interest expense. The

initial estimated fair value of the warrants of \$322,000 was determined using the following assumptions:

Expected volatility

139%

Contractual term

3 years

Risk free interest rate

0.48%

Expected dividend rate

0%

In addition, based on the trading price of the Company's common stock on the date of issue of the Notes, in accordance with ASC 470 the conversion terms were considered a beneficial conversion features, and as such \$381,500 representing the intrinsic value of the beneficial conversion features has been allocated to stockholders' equity and is reflected as a discount to the amount of the note amounts which is being amortized to interest expense over the term of the notes.

The Company engaged the services of a broker-dealer as a selling agent to assist in this offering of securities. On sales involving the assistance of the selling agent, the Company will pay the selling agent a fee equal to 5% of the price of the securities, and 10% common stock and warrant coverage on all shares of common stock underlying the securities sold by the selling agent. As of December 31, 2011 the Company had paid to the agent a total of \$32,675, and accrued an additional \$2,500 for sales of units attributable to the agent and were charged to operations for the six months ended December 31, 2011.

In addition to the agent's cash fees, the agent was entitled to 211,050 Class A warrants for sales of units involving the agent's assistance. The estimated fair value of the warrants in the amount of \$97,200 has been allocated to stockholders' equity and charged to the Company's operations as financing costs for the three and six months ended December 31, 2011. The estimated fair value of the warrants was determined using the following assumptions:

Expected volatility

139%

Contractual term

3 years

Risk free interest rate

0.48%

Expected dividend rate

0%

In addition to the cash fees and warrant coverage for selling agent assisted sales, for each \$100 of Notes converted, the agent would be entitled to an additional 10 shares of the company's common stock and 20 Class B Warrants. Each Class B Warrant is exercisable for a period of three years at an exercise price of \$0.75 per share. A contingency exists for this feature, the outcome of which cannot be determined.

As discussed above, on November 30, 2009 we 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. Also on November 30, 2009 we 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. During the six months ended December 31, 2011 and 2010 we made \$14,941 and \$15,547, respectively, in principal payments under the loan participation agreements.

In March 2008, we completed a private offering of 700,000 shares of Series D Preferred stock with a stated value of \$1.00 per share. The preferred stock is redeemable at any time only at the option of the Company. At the option of the holder, each preferred share is convertible to one share of the Company's common stock. Holders of our Series D Preferred Stock are entitled to receive dividends at the rate of 8% per year, declared quarterly and payable the 15th day of April, July, October and January of each year. During the six months ended December 31, 2011 and 2010, dividends declared on June 30 and September 30, totaling \$28,467 were paid to the holders of the Series D Preferred Stock.

Effective January 1, 2010, Casinos USA entered into a Credit Agreement with Doc Holliday Casino II, LLC pursuant to which Casinos USA agreed to make available to Doc Holliday a revolving line of credit with a maximum loan balance of \$500,000. The Credit Agreement is secured by a UCC security interest in all of the assets of Doc Holliday. The obligation under the Credit Agreement is eliminated in consolidation.

During the six months ended December 31, 2010 we completed a private offering of securities consisting of \$120,000 in 5% Unsecured Convertible Debentures. The Debentures will mature and be due and payable in July and August 2013. The principal amount of the Debentures accrue interest at the rate of 5% per annum and will be payable at the maturity date. The Debentures are convertible, at anytime at the option of the investor, 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission regulation S-K.

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, including estimates of liabilities incurred under customer rewards programs, the value of share based compensation transactions, the value of common stock purchase warrants, 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.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our primary exposure to market risk is interest rate risk associated with our short-term money market investments. The Company does not have any financial instruments held for trading or other speculative purposes and does not invest in derivative financial instruments, interest rate swaps or other investments that alter interest rate exposure. The Company does not have any credit facilities with variable interest rates.

ITEM 4.

CONTROLS AND PROCEDURES

a. Disclosure Controls and Procedures

The Company's Principal Executive Officer and Principal Financial Officer have established and are currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure.

The Principal Executive Officer and Principal Financial Officer conducted a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and have concluded, based on their evaluation as of the end of the period covered by this Report, that our disclosure controls and procedures are not effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and to ensure that the information required to be disclosed by the Company is accumulated and communicated to management, including our principal executive officer and our principal financial officer, to allow timely decisions regarding required disclosure.

b. Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Subsequent to December 31, 2011, a material adjustment was necessary to management's prepared financial statements, and the requirement for this adjustment was identified as a material weakness.

c. Limitations of any Internal Control Design

Our principal executive and financial officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives and our principal executive and financial officer have determined that our disclosure controls and procedures are effective at doing so, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented if there exists in an individual a desire to do so. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

PART II

OTHER INFORMATION

Item 1.

Legal Proceedings

None, except as previously disclosed.

Item 1A.

Risk Factors

The following is an additional risk factor concerning our business as a result of current economic conditions in the United States.

Current difficult conditions in the financial services markets may materially and adversely impact our business

Dramatic declines in the values of, among other things, various derivative instruments, credit default swaps and the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. Many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have also led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and possibly a general reduction of business activity. A continuation of these conditions could have, among other things, the following potential negative effects:

1)

A reduction in discretionary spending by consumers could significantly impact the customer traffic and revenues of our casino operations; and,

2)

While we do not depend on credit from the financial markets to finance our operations, all our long-term debt matured during 2009. The financial markets have experienced

disruptions that have had a dramatic impact on the availability and cost of capital and credit. Our ability to re-finance our matured long-term debt is affected by the current financial market conditions. If we are successful in obtaining financing of our long-term debt, there can be no assurance that we will be able to negotiate rates and terms similar to those we currently have, and such negotiated rates could be significantly higher than those currently existing on our matured long-term debt.

Item 2

Unregistered Sales of Equity Securities and Use of Proceeds

None, except as previously disclosed.

Item 3.

Defaults Upon Senior Securities

None, except as previously disclosed.

Item 4.

Removed and Reserved

Item 5.

Other Information

None, except as previously disclosed.

Item 6.

Exhibits

31.

Certification

32.

Certification pursuant to 18 U.S.C. Section 1350

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLOBAL CASINOS, INC.

Date: February 19, 2013

By: /s/ Clifford L. Neuman
Clifford L. Neuman

President

GLOBAL CASINOS, INC.

Date: February 19, 2013

By: /s/ Todd Huss --
Todd Huss,

Chief Financial Officer