

GLOBAL CASINOS INC
Form 10QSB
February 13, 2004

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

FORM 10-QSB

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2003

OR

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

For the transition period from to

Commission file number 0-15415

GLOBAL CASINOS, INC.

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

Utah

87-0340206

(State or other jurisdiction
of incorporation or organization)

I.R.S. Employer
Identification number

5455 Spine Road, Suite C, Boulder, Colorado 80301

(Address of Principal Executive Offices)

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

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 ☐

As of February 11, 2004, the Registrant had 2,431,360 shares of its Common Stock outstanding.

Transitional Small Business Disclosure Format (check one) Yes ☐ No ☒

INDEX

PART I -- FINANCIAL INFORMATION

Item 1.	Financial Statements	Page
	Consolidated Balance Sheet as of December 31, 2003 (unaudited)	4
	Consolidated Statements of Operations for the three months ended December 31, 2003 and December 31, 2002 (unaudited)	5
	Consolidated Statements of Operations for the six months ended December 31, 2003 and December 31, 2002 (unaudited)	6
	Consolidated Statements of Cash Flows for the six months ended December 31, 2003 and December 31, 2002 (unaudited)	7
	Notes to Consolidated Financial Statements (unaudited)	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	
	Overview	10
	Results of Operations	10
	Liquidity and Capital Resources	12
Item 3.	Controls & Procedures	14

PART II -- OTHER INFORMATION

Item 1.	Legal Proceedings	15
Item 2.	Changes in Securities	15
Item 3.	Defaults Upon Senior Securities	15
Item 4.	Submission of Matters to a Vote of Security Holders	15
Item 5.	Other Information	15
Item 6.	Exhibits and Reports on Form 8-K	15

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements included herein have been prepared by Global Casinos, Inc. (the Company) without audit, 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, 2003, and its results of operations for the three month and six month periods ended December 31, 2003 and 2002 and its cash flows for the six month periods ended December 31, 2003 and 2002. 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-KSB, as amended.

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

as of December 31, 2003
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 475,891
Accrued gaming income	112,983
Inventory	19,096
Other	<u>5,549</u>
Total current assets	<u>613,519</u>

Land, building and improvements, and equipment:

Land	517,950
Building and improvements	4,076,438
Equipment	<u>1,375,554</u>
	5,969,942
Accumulated depreciation	<u>(2,307,356)</u>
	<u>3,662,586</u>
	<u>\$ 4,276,105</u>

LIABILITIES AND STOCKHOLDERS'
(DEFICIT)

Current liabilities:

Accounts payable, trade	\$ 32,313
Accounts payable, related parties	279,642
Accrued expenses	122,055
Accrued interest	498,271
Current portion of long-term debt	187,538
Debt in default	417,973
Mandatory redeemable preferred stock, in default	401,000
Other	<u>120,000</u>
Total current liabilities	<u>2,058,792</u>

Long-term debt, less current portion	<u>2,513,589</u>
--------------------------------------	------------------

Edgar Filing: GLOBAL CASINOS INC - Form 10QSB

Commitments and contingencies

Stockholders' (deficit):

Preferred stock: 10,000,000 shares authorized

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, stated value \$1.20
per share, voting,

600,000 shares authorized, 39,101 shares
issued and outstanding, in arrears

46,921

Common stock - \$0.05 par value; 50,000,000 shares authorized;
2,431,360 shares issued and outstanding

121,568

Additional paid-in capital

12,250,105

Accumulated (deficit)

(12,714,870)

(296,276)

\$ 4,276,105

See accompanying notes.

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

for the three months ended December 31, 2003 and 2002
(Unaudited)

	<u>2003</u>	<u>2002</u>
Revenues:		
Casino	<u>\$ 685,683</u>	<u>\$ 646,911</u>
Expenses:		
Casino operations	600,271	584,726
Operating, general, and administrative	<u>37,855</u>	<u>9,269</u>
	<u>638,126</u>	<u>593,995</u>
Income from operations	47,557	52,916
Other income (expense):		
Interest expense	(51,890)	(52,717)
Gain from debt restructuring	<u>-</u>	<u>473,941</u>
Net income (loss)	(4,333)	474,140

Edgar Filing: GLOBAL CASINOS INC - Form 10QSB

Preferred dividends	<u>(821)</u>	<u>(880)</u>
Net income (loss) attributable to common stockholders	<u>\$ (5,154)</u>	<u>\$ 473,260</u>
Earnings (loss) per common share:		
Basic	<u>\$ (0.00)</u>	<u>\$ 0.19</u>
Diluted	<u>\$ (0.00)</u>	<u>\$ 0.19</u>
Weighted average shares outstanding:		
Basic	<u>2,431,360</u>	<u>2,431,360</u>
Diluted	<u>2,431,360</u>	<u>2,470,527</u>
See accompanying notes.		

GLOBAL CASINOS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

for the six months ended December 31, 2003 and 2002
(Unaudited)

	<u>2003</u>	<u>2002</u>
Revenues:		
Casino	<u>\$ 1,439,728</u>	<u>\$ 1,380,035</u>
Expenses:		
Casino operations	1,200,270	1,164,404
Operating, general, and administrative	<u>85,022</u>	<u>93,748</u>
	<u>1,285,292</u>	<u>1,258,152</u>
Income from operations	154,436	121,883
Other income (expense):		
Interest expense	(104,139)	(122,194)
Gain from debt restructuring	<u>-</u>	<u>473,941</u>
Net income	50,297	473,630
Preferred dividends	<u>(1,642)</u>	<u>(1,880)</u>
Net income attributable to common stockholders	<u>\$ 48,655</u>	<u>\$ 471,750</u>
Earnings per common share:		
Basic	<u>\$ 0.02</u>	<u>\$ 0.19</u>

Edgar Filing: GLOBAL CASINOS INC - Form 10QSB

Diluted	\$	<u>0.02</u>	\$	<u>0.19</u>
---------	----	-------------	----	-------------

Weighted average shares outstanding:

Basic	<u>2,431,360</u>	<u>2,431,360</u>
Diluted	<u>2,470,461</u>	<u>2,470,527</u>

See accompanying notes.

GLOBAL CASINOS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six months ended December 31, 2003 and 2002

(Unaudited)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by operating activities	\$ 176,172	\$ 259,809
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	(37,744)	(96,059)
Collections on note receivable	<u>-</u>	<u>39,612</u>
Net cash (used) by investing activities	<u>(37,744)</u>	<u>(56,447)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	<u>(179,066)</u>	<u>(87,562)</u>
Net cash (used) by financing activities	<u>(179,066)</u>	<u>(87,562)</u>
Net increase in cash	(40,638)	115,800
Cash at beginning of period	<u>516,529</u>	<u>230,959</u>
Cash at end of period	\$ <u>475,891</u>	\$ <u>346,759</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ <u>44,648</u>	\$ <u>100,804</u>
Cash paid for income taxes	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes.

GLOBAL CASINOS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

(UNAUDITED)

1. Organization and Consolidation

The Consolidated Financial Statements for the three months and six months ended December 31, 2003 and 2002 have been prepared in accordance with the accounting policies described in the Company's annual report on Form 10-KSB. Management believes the statements include all adjustments of a normal recurring nature necessary to present fairly the results of operations for the interim periods.

Global Casinos, Inc. (the "Company" or "Global"), a Utah corporation, develops and operates gaming casinos. 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. As of December 31, 2003, the Company's only operating subsidiary was:

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.

2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has a history of substantial net losses. As of December 31, 2003, it had an accumulated deficit of \$12,714,870 and a working capital deficiency of \$1,445,273. The Company is in default on various loan agreements, is delinquent on payments to certain creditors and has ceased operating all but one of its casinos. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company continues its efforts to formulate plans and strategies to address its financial condition and increase profitability. Operating expenses have been reduced and management will continue to address debt currently in default by negotiating with creditors to convert debt to equity, extend maturity dates and reduce payment amounts. The Company continues to explore methods to increase profitability; however, there can be no assurances that management will be successful in their efforts.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts or classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

3. Earnings (Loss) per Common Share

Earnings (or loss) per share ("EPS") are calculated in accordance with the provisions of SFAS No. 128, *Earnings Per Share*. SFAS No. 128 requires the Company to report both basic earnings per share, which is based on the weighted-average number of common shares outstanding, and diluted earnings per share, which is based on the weighted-average number of common shares outstanding plus all dilutive potential common shares outstanding, except where the effect of their inclusion would be anti-dilutive (i.e., in a loss period). Potentially dilutive shares of 528,150 were not included in the calculation of diluted earnings per share for the quarter ended December 31, 2003, as their inclusion would have been anti-dilutive.

4. Related Party Transactions

An officer and director operates a professional services firm that provides certain management, accounting, and administrative services to the Company and to other clients. During the periods ended December 31, 2003 and 2002, his firm was paid for services performed in the amounts of \$16,535 and \$29,420 respectively.

A director operates a law firm that provides legal services to the Company and other clients. During the periods ended December 31, 2003 and 2002, his firm was paid for services performed in the amounts of \$10,500 and \$25,766 respectively.

5. Commitments and Contingencies

Option to Purchase Casinos USA

- Among other terms and conditions, the Company agreed to grant an option to the senior creditor to purchase 100% of the common stock of Casinos USA for \$100. The option can be exercised any time after March 17, 2005. Global can redeem the option by paying in full the principal and interest balance on the \$500,582 promissory note. Global does not currently have the capital resources to retire the promissory note payable. It will attempt to generate the funds internally or through a capital infusion. Should it fail to retire the debt before March 17, 2005, the creditor will be able to purchase Casinos USA, including the assets and operations of the Bull Durham for \$100. As the Bull Durham constitutes all of the Company's operations, such an event would have a material adverse effect on the Company and its ability to retire its obligations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We operate in the domestic gaming industry. We were organized as a holding company for the purpose of acquiring and operating casinos, gaming properties and other related interests. At December 31, 2003, our operations consisted solely of the Bull Durham Saloon & Casino in Black Hawk, Colorado.

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

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

Edgar Filing: GLOBAL CASINOS INC - Form 10QSB

Results of Operations - Three Months Ended December 31, 2003 Compared to the Three Months ended December 31, 2002

We recognized a net loss of \$(4,333) for the three months ended December 31, 2003 compared to net income of \$474,140 for the same period in 2002. The 2002 period included a gain from debt restructuring of \$473,941. There were no similar gains in 2003.

Revenues

Casino revenues for the three months ended December 31, 2003 were \$685,683 compared to \$646,911 for the 2002 period, an increase of \$38,722 or 6%. The increased revenues are primarily attributed to the increased number of slot machines on the gaming floor. We eliminated table games and use the floor space for new slot machines. Furthermore, we increased our marketing activities to promote the new machines.

Expenses

Casino operating expenses increased to \$600,271 for the three months ended December 31, 2003 compared to \$584,726 for the three months ended December 31, 2002, an increase of \$15,545, or 3%. Expenses increased because we increased the number of slot machines in the casino. Device fees increased by \$5,609. The device fee is a tax paid to the local government that is based on the number of gaming devices in service. In addition, slot machine depreciation increased by \$6,793.

General and administrative expenses increased from \$9,269 for the three months ended December 31, 2002 to \$37,855 for the three months ended December 31, 2003, an increase of \$28,586 or 308%. The 2002 period benefited from the favorable settlement of claims whereby the Company was able to reduce previously accrued expenses by \$40,000. Those benefits were not repeated in 2003.

Other

Interest expense was \$51,890 for the three months ended December 31, 2003 compared to \$52,717 for the similar period in 2002. Both periods reflect the reduction in interest expense negotiated by the Company during 2002 in connection with the Bull Durham restructuring.

For federal income tax purposes, Global has a net operating loss of carryover (NOL) approximating \$7,790,000, 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. Thus, there is no guarantee that Global will be able to utilize its NOL before it expires and no potential benefit has been recorded in the financial statements.

Inflation did not have a material impact on 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, 2003 Compared to the Six Months ended December 31, 2002

We recognized net income of \$50,297 for the six months ended December 31, 2003 compared to net income of \$473,630 for the same period in 2002. The 2002 period included a gain from debt restructuring of \$473,941. There were no similar gains in 2003.

Revenues

Casino revenues for the six months ended December 31, 2003 were \$1,439,728 compared to \$1,380,035 for the 2002 period, an increase of \$59,693 or 4%. The increased revenues are primarily attributed to the increased number of slot machines on the gaming floor. We eliminated table games and use the floor space for new slot machines. Furthermore, we increased our marketing activities to promote the new machines.

Expenses

Casino operating expenses increased to \$1,200,270 for the six months ended December 31, 2003 compared to \$1,164,404 for the six months ended December 31, 2002, an increase of \$35,866, or 3%. Expenses increased because we increased our advertising activities by \$13,547. Local device fees increased by \$11,943. Device fees are a tax paid to the local government that is based on the number of gaming devices in service. The additional slot machines also increased depreciation expense by \$15,189. The increased spending in these areas was somewhat offset by expense reductions that we realized by eliminating table games.

General and administrative expenses decreased from \$93,748 for the six months ended December 31, 2002 to \$85,022 for the six months ended December 31, 2003, a decrease of \$8,726 or 9%. The 2002 period included costs associated with the restructuring of the Bull Durham debt. Those costs were not repeated in 2003.

Other

Interest expense was \$104,139 for the six months ended December 31, 2003 compared to \$122,194 for the similar period in 2002. The reduction in interest expense of \$18,055 (15%) reflects decreasing interest rates on certain variable rate indebtedness and a reduction in outstanding principal balances. It also reflects the restructuring of the Bull Durham debt which reduced certain principal balance and interest rates.

For federal income tax purposes, Global has a net operating loss of carryover (NOL) approximating \$7,790,000, 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. Thus, there is no guarantee that Global will be able to utilize its NOL before it expires and no potential benefit has been recorded in the financial statements.

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

At December 31, 2003, the Company had cash and cash equivalents of \$475,891, substantially all of which was utilized in our casino operations. Pursuant to state gaming regulations, the casino is required to maintain cash balances sufficient to pay potential jackpot awards.

Edgar Filing: GLOBAL CASINOS INC - Form 10QSB

While the Company believes that its capital resources are sufficient to allow the continued operation of its casino, it does not currently have sufficient resources to expand its operations or to satisfy overdue obligations of the parent company. The Company does not have access to any revolving credit facilities.

Our working capital deficiency decreased by \$75,206 to \$(1,445,273) at December 31, 2003, from \$(1,520,479) at June 30, 2003, primarily because of cash flow from operating activities.

At December 31, 2003, we owed debt in the amount of approximately \$417,973 to individuals and entities that, by the terms of these notes, was in default. Should any of these note holders make demand for payment, we would not have the financial resources to pay these notes.

Cash provided by operating activities was \$176,172 for the six months ended December 31, 2003. For the same period in 2002, operating activities provided net cash of \$259,809.

Cash used in investing activities was \$37,744 for the six months ended December 31, 2003, all of which was used for capital expenditures. We used net cash of \$56,447 in investing activities for the six months ended December 31, 2002. Capital expenditures for the period of \$96,059 were partially offset by collections of notes receivable.

Cash flows used in financing activities increased \$91,504 to \$179,066 for the six months ended December 31, 2003, compared to cash used of \$87,562 in 2002. These amounts represent scheduled payments on our indebtedness.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As of December 31, 2003, we had an accumulated deficit and a working capital deficiency. We were in default on various loan agreements, were delinquent on payments to certain creditors and had ceased operating all but one of our casinos. These conditions raise substantial doubt about our ability to continue as a going concern.

We continue our efforts to formulate plans and strategies to address our financial condition and increase profitability. We will continue to address debt currently in default by negotiating with creditors to convert debt to equity, extend maturity dates of debt, and accept reduced payment terms. We are evaluating methods to reduce costs and enhance our operating results. We cannot, however, provide any assurances that we will be successful in these endeavors.

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. CONTROLS AND PROCEDURES

Frank L. Jennings, Principal Executive and Financial Officer of Global Casinos, Inc., has established and is currently maintaining disclosure controls and procedures for the Company. The disclosure controls and procedures have been designed to ensure that material information relating to the Company is made known to him as soon as it is known by others within the Company.

Our Principal Executive and Financial Officer conducts an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures and has concluded, based on his evaluation within 90 days of the filing of this Report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None, except as previously disclosed.

Item 2. Changes in Securities

None, except as previously disclosed.

Item 3. Defaults Upon Senior Securities

None, except as previously disclosed.

Item 4. Submission of Matters to a Vote of Security Holders

None, except as previously disclosed.

Item 5. Other Information

None, except as previously disclosed.

Item 6. Exhibits and Reports on Form 8-K

Exhibits

31 Certification

32 Certification Pursuant to 18 U.S.C. Section 1350

Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 13, 2004

By: _____

Frank L. Jennings, Principal Executive and
Financial Officer