

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended January 31, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1-15517



Nevada Gold & Casinos, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of Incorporation or organization)

88-0142032
(I.R.S. Employer Identification No.)

133 E. Warm Springs Road
Suite 102
Las Vegas, Nevada
(Address of principal executive offices)

89119
(Zip Code)

Registrant's telephone number including area code: (702) 685-1000

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for any shorter period that the registrant was required to file the reports), and (2) has been subject to those filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 twelve months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

The number of common shares, \$0.12 par value per share, issued and outstanding, was 17,584,354 as of March 1, 2017.

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FORWARD-LOOKING STATEMENTS

Factors that May Affect Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Certain information included in this Form 10-Q and other materials filed or to be filed by us with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by us or our representatives) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Statements that include the words “may,” “could,” “should,” “would,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” or other words or expressions of similar meaning, may identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. Forward-looking statements include statements that reflect management’s beliefs, plans, objectives, goals, expectations, anticipations, intentions with respect to the financial condition, results of operations, future performance and the business of us, including statements relating to our business strategy and our current and future development plans. These statements may also involve other factors which are detailed in the “Risk Factors” and other sections of our Annual Report on Form 10-K for the year ended April 30, 2016 and other filings with the Securities and Exchange Commission.

Although we believe that the assumptions underlying these forward-looking statements are reasonable, any or all of the forward-looking statements in this report and in any other public statements that are made may prove to be incorrect. This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this report will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this report or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Any further disclosures made on related subjects in our subsequent reports filed with the Securities and Exchange Commission should be consulted.

Part I. Financial Information
Item 1. Financial Statements

Nevada Gold & Casinos, Inc.
Condensed Consolidated Balance Sheets

| | <u>January 31,</u> 2017 (unaudited) | <u>April 30,</u> 2016 |
|--|---|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,583,671 | \$ 11,583,107 |
| Restricted cash | 1,722,247 | 1,433,728 |
| Accounts receivable, net of allowances | 362,644 | 665,549 |
| Prepaid expenses | 1,338,878 | 1,206,825 |
| Notes receivable, current portion | 499,361 | 208,294 |
| Inventory and other current assets | 415,773 | 416,022 |
| Total current assets | <u>13,922,574</u> | <u>15,513,525</u> |
| Real estate held for sale | 750,000 | 750,000 |
| Notes receivable, net of current portion | 4,650 | 900,775 |
| Goodwill | 16,923,588 | 18,025,059 |
| Intangible assets, net of accumulated amortization | 4,320,863 | 5,003,981 |
| Property and equipment, net of accumulated depreciation | 14,384,547 | 15,147,061 |
| Deferred tax asset | 2,135,707 | 2,348,299 |
| Other assets | 70,000 | 70,000 |
| Total assets | <u>\$ 52,511,929</u> | <u>\$ 57,758,700</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 1,361,973 | \$ 1,702,366 |
| Accrued payroll and related | 1,250,576 | 2,094,250 |
| Accrued player's club points and progressive jackpots | 2,085,896 | 1,872,566 |
| Total current liabilities | <u>4,698,445</u> | <u>5,669,182</u> |
| Long-term debt | 13,735,976 | 16,839,148 |
| Other long-term liabilities | 685,807 | 881,426 |
| Total liabilities | <u>19,120,228</u> | <u>23,389,756</u> |
| Stockholders' equity: | | |
| Common stock, \$0.12 par value per share; 50,000,000 shares authorized; 18,625,167 and 18,571,693 shares issued and 17,584,354 and 17,788,856 shares outstanding at January 31, 2017, and April 30, 2016, respectively | 2,235,028 | 2,228,612 |
| Additional paid-in capital | 27,441,270 | 27,315,517 |
| Retained earnings | 11,124,254 | 11,756,850 |
| Treasury stock, 1,040,813 and 782,837 shares at January 31, 2017 and April 30, 2016, respectively, at cost | (7,408,851) | (6,932,035) |
| Total stockholders' equity | <u>33,391,701</u> | <u>34,368,944</u> |
| Total liabilities and stockholders' equity | <u>\$ 52,511,929</u> | <u>\$ 57,758,700</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevada Gold & Casinos, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | January 31, 2017 | January 31, 2016 | January 31, 2017 | January 31, 2016 |
| Revenues: | | | | |
| Casino | \$ 15,791,598 | \$ 16,217,164 | \$ 48,441,682 | \$ 44,578,057 |
| Food and beverage | 3,383,641 | 3,294,142 | 10,014,949 | 8,216,330 |
| Other | 534,011 | 529,568 | 1,622,271 | 1,437,452 |
| Gross revenues | 19,709,250 | 20,040,874 | 60,078,902 | 54,231,839 |
| Less promotional allowances | (1,722,078) | (1,680,127) | (5,251,980) | (3,794,103) |
| Net revenues | 17,987,172 | 18,360,747 | 54,826,922 | 50,437,736 |
| Expenses: | | | | |
| Casino | 8,612,371 | 8,323,508 | 27,327,792 | 24,128,321 |
| Food and beverage | 1,573,445 | 1,508,918 | 4,588,565 | 4,117,607 |
| Other | 61,112 | 76,050 | 215,515 | 179,965 |
| Marketing and administrative | 5,149,807 | 4,886,618 | 15,583,962 | 13,335,935 |
| Facility | 547,123 | 524,892 | 1,627,828 | 1,510,113 |
| Corporate | 627,553 | 1,121,138 | 2,148,422 | 2,612,247 |
| Depreciation and amortization | 756,606 | 739,699 | 2,306,628 | 1,739,202 |
| Loss (gain) on disposal of assets | 42,574 | (2,271) | 56,490 | (163,702) |
| Impairment of goodwill | 1,101,471 | - | 1,101,471 | - |
| Total operating expenses | <u>18,472,062</u> | <u>17,178,552</u> | <u>54,956,673</u> | <u>47,459,688</u> |
| Operating (loss) income | (484,890) | 1,182,195 | (129,751) | 2,978,048 |
| Non-operating income (expenses): | | | | |
| Interest income | 19,149 | 22,794 | 65,241 | 73,424 |
| Interest expense and amortization of loan issue costs | (178,100) | (187,894) | (482,432) | (401,514) |
| Interest rate swap expense | (29,526) | (21,006) | (99,582) | (51,332) |
| Change in swap fair value | 180,059 | (246,146) | 226,520 | (244,062) |
| (Loss) income before income tax expense | (493,308) | 749,943 | (420,004) | 2,354,564 |
| Income tax expense | (189,738) | (283,592) | (212,592) | (812,226) |
| Net (loss) income | \$ (683,046) | \$ 466,351 | \$ (632,596) | \$ 1,542,338 |
| Per share information: | | | | |
| Net (loss) income per common share - basic and diluted | <u>\$ (0.04)</u> | <u>\$ 0.03</u> | <u>\$ (0.04)</u> | <u>\$ 0.09</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevada Gold & Casinos, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

| | Nine Months Ended | |
|---|-----------------------------|-----------------------------|
| | January 31, 2017 | January 31, 2016 |
| Cash flows from operating activities: | | |
| Net (loss) income | \$ (632,596) | \$ 1,542,338 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,306,628 | 1,739,202 |
| Stock compensation | 117,393 | 140,669 |
| Amortization of deferred loan issuance costs | 69,608 | 104,329 |
| Change in deferred rent | 30,899 | 24,502 |
| Impairment of goodwill | 1,101,471 | - |
| Changes to restricted cash | (288,519) | 198,636 |
| Change in swap fair value | (226,520) | 244,062 |
| Write-off of licensing costs | - | 54,729 |
| Loss (gain) on disposal of assets | 56,490 | (163,702) |
| Changes in deferred income taxes | 212,592 | 812,226 |
| Other | - | 1,524 |
| Changes in operating assets and liabilities: | | |
| Receivables and other assets | 171,101 | (1,432,555) |
| Accounts payable and accrued liabilities | (969,001) | (656,293) |
| Net cash provided by operating activities | 1,949,546 | 2,609,667 |
| Cash flows from investing activities: | | |
| Club Fortune acquisition, net of cash acquired | - | (13,840,967) |
| Collections on notes receivable | 605,058 | 438,502 |
| Purchase of property and equipment | (942,933) | (400,742) |
| Capitalized licensing costs refunded (paid) | 24,946 | (96,935) |
| Proceeds from the sale of assets | 500 | 305,820 |
| Net cash used in investing activities | (312,429) | (13,594,322) |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (476,816) | - |
| Repayment of credit facilities | (3,172,777) | (4,110,000) |
| Employee stock plan purchases | - | 41,810 |
| Proceeds from credit facilities | - | 15,500,000 |
| Repayment of capital lease | - | (170,391) |
| Deferred loan issuance costs | - | (186,528) |
| Cash proceeds from exercise of stock options | 13,040 | 190,250 |
| Net cash (used in) provided by financing activities | (3,636,553) | 11,265,141 |
| Net (decrease) increase in cash and cash equivalents | (1,999,436) | 280,486 |
| Cash and cash equivalents at beginning of period | 11,583,107 | 8,541,670 |
| Cash and cash equivalents at end of period | \$ 9,583,671 | \$ 8,822,156 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 528,532 | \$ 310,786 |
| Non-cash investing and financing activities: | | |
| Issuance of stock to finance Club Fortune acquisition | \$ - | \$ 2,202,382 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

Nevada Gold & Casinos, Inc.

Notes to Condensed Consolidated Financial Statements

Note 1. Basis of Presentation

The interim financial information included herein is unaudited. However, the accompanying condensed consolidated financial statements include all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly our condensed consolidated balance sheets at January 31, 2017 and April 30, 2016, condensed consolidated statements of operations for the three and nine months ended January 31, 2017 and 2016, and condensed consolidated statements of cash flows for the nine months ended January 31, 2017 and 2016. Although we believe the disclosures in these financial statements are adequate to make the interim information presented not misleading, certain information relating to our organization and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted in this Form 10-Q pursuant to Securities and Exchange Commission (“SEC”) rules and regulations. These financial statements should be read in conjunction with the audited consolidated financial statements for the year ended April 30, 2016 and the notes thereto included in our Annual Report on Form 10-K. The results of operations for the three and nine months ended January 31, 2017 are not necessarily indicative of the results expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period and disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, investments, intangible assets and goodwill, property, plant and equipment, income taxes, employment benefits and contingent liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Certain reclassifications between the operating expenses of casino, food and beverage, other and marketing and administrative have been made to conform prior year financial information to the current period presentation. Those reclassifications did not impact operating or net income, working capital or stockholders’ equity.

Note 2. Critical Accounting Policies

Revenue Recognition

We record revenues from casino operations on the accrual basis as earned. The retail value of food and beverage and other services furnished to guests without charge is included in gross revenue and deducted as promotional allowances. Net revenues do not include the retail amount of food, beverage and other items provided gratuitously to customers. We record the redemption of coupons and points for cash as a reduction of revenue as they are earned. These amounts are included in promotional allowances in the accompanying condensed consolidated statements of operations. The estimated cost of providing such complimentary services included in casino expense in the accompanying condensed consolidated statements of operations was as follows:

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | January 31, 2017 | January 31, 2016 | January 31, 2017 | January 31, 2016 |
| Food and beverage | \$ 1,508,443 | \$ 1,170,089 | \$ 4,646,134 | \$ 2,750,283 |
| Other | 48,609 | 46,205 | 159,824 | 112,000 |
| Total cost of complimentary services | <u>\$ 1,557,052</u> | <u>\$ 1,216,294</u> | <u>\$ 4,805,958</u> | <u>\$ 2,862,283</u> |

Fair Value

U.S. generally accepted accounting principles defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are as follows:

Level 1 – Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for which there is little or no market data and which we make our own assumptions about how market participants would price the assets and liabilities.

The following describes the valuation methodologies used by us to measure fair value:

Real estate held for sale is recorded at fair value less selling costs.

Goodwill and indefinite lived intangible assets are recorded at carrying value and tested for impairment annually, or more frequently, using projections of discounted future cash flows.

Interest rate swaps are adjusted on a recurring basis pursuant to accounting standards for fair value measurements. We categorize our interest rate swap as Level 2 for fair value measurement.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily notes receivable, cash and cash equivalents, accounts receivable and payable, and long term debt. Management performs periodic evaluations of the collectability of these notes and accounts receivable. Our cash deposits are held with large, well-known financial institutions, and, at times, such deposits may be in excess of the federally insured limit. The recorded value of cash, accounts receivable and payable, approximate fair value based on their short term nature; the recorded value of long term debt approximates fair value as interest rates approximate current market rates.

New Accounting Pronouncements and Legislation Issued

In February 2016, the Financial Accounting Standards Board (“FASB”) issued amended accounting guidance that changes the accounting for leases and requires expanded disclosures about leasing activities. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Lessor accounting will remain largely unchanged, other than certain targeted improvements intended to align lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The amended guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2018, and early application is permitted. The Company is currently evaluating the impact this guidance will have on its financial position and results of operations.

In May 2014, the FASB issued a new accounting standard for revenue recognition which requires entities to recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard supersedes the existing accounting guidance for revenue recognition, including industry-specific guidance, and amends certain accounting guidance for recognition of gains and losses on the transfer of non-financial assets. For public companies, the new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017. Early application is permitted for annual reporting periods beginning after December 15, 2016 (including interim periods within those periods). Upon adoption, financial statement issuers may elect to apply the new standard either retrospectively to each prior reporting period presented, or using a modified retrospective approach by recognizing the cumulative effect of initial application and providing certain additional disclosures. The Company will adopt this guidance in the first quarter of 2019. The Company is currently evaluating the impact this guidance will have on its financial position and results of operations, and has not yet determined which adoption method it will elect.

A variety of proposed or otherwise potential accounting guidance is currently under study by standard-setting organizations and certain regulatory agencies. Due to the tentative and preliminary nature of such proposed accounting guidance, the Company has not yet determined the effect, if any, that the implementation of such proposed accounting guidance would have on its condensed consolidated financial statements.

Note 3. Restricted Cash

As of January 31, 2017 and April 30, 2016, we maintained \$1,722,247 and \$1,433,728, respectively, in restricted cash, which consists of player-supported jackpot funds for our Washington operations.

Note 4. Notes Receivable

As of January 31, 2017, and April 30, 2016, we had net notes receivable of \$504,011 and \$1,109,069, respectively. The dates on which payments are collected may vary depending upon the term of the contracts or note receivable agreements. Interest income related to notes receivable is recorded when earned and its collectability is reasonably certain.

G Investments, LLC

Upon completion of the sale of the Colorado Grande Casino on May 25, 2012, we recorded a \$2,325,000 note receivable. This note bears interest at 6% per annum through the maturity date of June 1, 2017 and is secured with all of the assets of the Colorado Grande Casino, pledge of membership interest in G Investments, LLC ("GI"), and a personal guaranty by GI's principal.

As of January 31, 2017, the remaining principal and interest payments are scheduled to be made as follows:

- Beginning February 1, 2017, four monthly installments of principal and accrued interest of \$40,000; and
- A final installment of \$347,120 which is due on the maturity date of June 1, 2017.

Note 5. Goodwill and Intangible Assets

In connection with our acquisitions of the Washington mini-casinos on May 12, 2009, July 23, 2010 and July 18, 2011, the South Dakota slot route on January 27, 2012, and the Club Fortune Casino in Nevada on December 1, 2015, we have goodwill and intangible assets of \$21,244,451, net of amortization for intangible assets with finite lives.

The change in the carrying amount of goodwill and other intangible assets for the nine months ended January 31, 2017, is as follows:

| | <u>Total</u> | <u>Goodwill</u> | <u>Other Intangibles, net</u> |
|----------------------------------|----------------------|----------------------|-------------------------------|
| Balance as of April 30, 2016 | \$ 23,029,040 | \$ 18,025,059 | \$ 5,003,981 |
| Current year amortization | (658,172) | - | (658,172) |
| State gaming registration refund | (24,946) | - | (24,946) |
| Impairment of South Dakota | (1,101,471) | (1,101,471) | - |
| Balance as of January 31, 2017 | <u>\$ 21,244,451</u> | <u>\$ 16,923,588</u> | <u>\$ 4,320,863</u> |

Goodwill and net intangibles assets by segment as of January 31, 2017, are as follows:

| | <u>Total</u> | <u>Goodwill</u> | <u>Other Intangibles, net</u> |
|--------------|----------------------|----------------------|-------------------------------|
| Washington | \$ 16,285,672 | \$ 14,092,154 | \$ 2,193,518 |
| South Dakota | 314,286 | - | 314,286 |
| Nevada | 4,231,989 | 2,831,434 | 1,400,555 |
| Corporate | 412,504 | - | 412,504 |
| Total | <u>\$ 21,244,451</u> | <u>\$ 16,923,588</u> | <u>\$ 4,320,863</u> |

Intangible assets are generally amortized on a straight line basis over the useful lives of the assets. State gaming registration and trade names are not amortizable. A summary of intangible assets and accumulated amortization as of January 31, 2017, are as follows:

| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net</u> |
|---------------------------|------------------------------|---------------------------------|---------------------|
| Customer relationships | \$ 8,673,321 | \$ (7,344,184) | \$ 1,329,137 |
| Non-compete agreements | 1,379,000 | (1,311,778) | 67,222 |
| State gaming registration | 412,504 | - | 412,504 |
| Trade names | 2,512,000 | - | 2,512,000 |
| Total | <u>\$ 12,976,825</u> | <u>\$ (8,655,962)</u> | <u>\$ 4,320,863</u> |

The weighted average useful life of acquired intangibles is 7.0 years for customer relationships and 3.0 years for non-compete agreements. The estimated future annual amortization of intangible assets, which excludes trade names and state gaming registration, is as follows:

| Period | Amount |
|----------------------------|---------------------|
| February 2017-January 2018 | \$ 612,509 |
| February 2018-January 2019 | 334,803 |
| February 2019-January 2020 | 117,143 |
| February 2020-January 2021 | 117,143 |
| February 2021-January 2022 | 117,143 |
| Thereafter | 97,618 |
| Total | \$ 1,396,359 |

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired. Goodwill for our South Dakota operations was \$1.1 million as of April 30, 2016. In the third quarter of fiscal 2017, we experienced a third consecutive quarterly decline in the Deadwood, South Dakota market that is not expected to reverse in the near future without a significant catalyst. In view of the downturn, and along with our budgeting process which commences in the third quarter, we determined sufficient indication existed to require performance of an interim goodwill impairment analysis for the South Dakota reporting unit. The Company performed a preliminary impairment assessment of goodwill associated with the South Dakota operations as of January 31, 2017. As a result, we recognized a non-cash \$1.1 million impairment of goodwill using both income and market approaches, which include certain unobservable inputs, primarily a 14% discount rate and long-term revenue and EBITDA growth rates of 0% to 2%. The calculations and key assumptions, which represent our best estimate based on the work that has been performed as of the date of this filing, contemplate changes for both current year and future year estimates in earnings and the impact of these changes to the fair value of the reporting unit. We expect to complete the preliminary impairment assessment of goodwill during the fourth quarter of fiscal 2017. Following completion of the analysis, we will adjust our preliminary estimate, if necessary, and record any required adjustment in our Consolidated Financial Statements for the year ended April 30, 2017.

Note 6. Property and Equipment

Property and equipment at January 31, 2017 and April 30, 2016, consist of the following:

| | January 31, 2017 | April 30, 2016 | Estimated Service Life in Years |
|------------------------------------|----------------------|----------------------|---------------------------------------|
| Leasehold improvements | \$ 1,556,824 | \$ 1,439,720 | 7-20 |
| Gaming equipment | 5,359,541 | 5,247,574 | 3-5 |
| Furniture and office equipment | 4,496,705 | 4,190,901 | 3-7 |
| Building and improvements | 7,762,201 | 7,440,577 | 15-30 |
| Land | 2,387,750 | 2,387,750 | |
| Construction in progress | - | 82,272 | |
| | <u>21,563,021</u> | <u>20,788,794</u> | |
| Less accumulated depreciation | (7,178,474) | (5,641,733) | |
| Property and equipment, net | \$ 14,384,547 | \$ 15,147,061 | |

Note 7. Long-Term Debt

Our long-term financing obligations are as follows:

| | January 31, 2017 | April 30, 2016 |
|--|----------------------|----------------------|
| \$23.0 million reducing revolving credit agreement, LIBOR plus an Applicable Margin, \$625,000 quarterly reductions beginning January 31, 2016 through November 30, 2020, and the remaining principal due on the maturity date of November 30, 2020. | \$ 13,735,976 | \$ 16,839,148 |
| Less: current portion | - | - |
| Total long-term financing obligations | \$ 13,735,976 | \$ 16,839,148 |

On November 30, 2015, the Company amended its existing credit agreement with Mutual of Omaha Bank to increase the lending commitment to \$23 million. The Amended and Restated Credit Agreement ("Credit Facility") matures on November 30, 2020, and is secured by liens on substantially all of the real and personal property of the Company and its subsidiaries. The interest rate on the borrowing is based on LIBOR plus an Applicable Margin, determined quarterly beginning April 1, 2016, based on the total leverage ratio for the trailing twelve months. The interest rate on the balance as of January 31, 2017, is 3.27%. In addition, the Company was required to fix the interest rate on at least 50% of the credit facility through a swap agreement.

As of January 31, 2017, principal reductions due on the Credit Facility are as follows:

| | |
|--------------------------------------|----------------------|
| February 1, 2017 – January 31, 2018 | \$ - |
| February 1, 2018 – January 31, 2019 | - |
| February 1, 2019 – January 31, 2020 | 1,692,223 |
| February 1, 2020 – November 30, 2020 | 12,307,777 |
| Total payments | 14,000,000 |
| Unamortized debt discount | (264,024) |
| Total long-term debt | \$ 13,735,976 |

The unamortized debt discount above consists of debt costs paid directly to the lender. The discount is amortized using the effective interest method over the

period of the Credit Facility through interest expense.

During the current quarter, we paid \$1.5 million to reduce the outstanding balance of the Credit Facility. As of January 31, 2017, we have \$5.8 million available to borrow per the Credit Agreement.

The Credit Facility contains customary covenants for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of the Company's assets and covenants restricting our ability to merge, transfer ownership, incur additional indebtedness, encumber assets and make certain investments. The Credit Facility also contains covenants requiring the Company to maintain certain financial ratios including a maximum total leverage ratio ranging from 3.00 to 1.00 through January 31, 2017, 2.75 to 1.00 from February 1, 2017 through January 31, 2018, and 2.50 to 1.00 from February 1, 2018 until maturity; and lease adjusted fixed charge coverage ratio of no less than 1.15 to 1.00. We are in compliance with the covenant requirements of the Credit Facility as of January 31, 2017.

Note 8. Interest Rate Swap

We are required by the Credit Facility to have a secured interest rate swap for at least 50% of the Credit Facility commitment. On December 28, 2015, the Company entered into a swap transaction with Mutual of Omaha Bank ("MOOB"), which has a calculation period as of the tenth day of each month through the maturity date of the Credit Facility. As of January 31, 2017, the Company had one outstanding interest rate swap with MOOB with a notional amount of \$9,937,500 at a swap rate of 1.76%, which as of January 31, 2017, effectively converts \$9,937,500 of our floating-rate debt to a synthetic fixed rate of 4.26%. Under the terms of the swap agreement, the Company pays a fixed rate of 1.76% and receives variable rate based on one-month LIBOR as of the first day of each floating-rate calculation period. Under the International Swap Dealers Association, Inc. ("ISDA") confirmation, the floating index as of January 31, 2017 is set at 0.763%.

The Company did not designate the interest rate swap as a cash flow hedge and the interest rate swap did not qualify for hedge accounting under ASC Topic 815. Changes in our interest rate swap fair value are recorded in our condensed consolidated statements of operations. Each quarter, the Company receives fair value statements from the counterparty, MOOB. The fair value of the interest rate swap is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including forward interest rate curves. To comply with the provisions of ASC Topic 820, Fair Value Measurements and Disclosures, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. As a result of our evaluation of our interest rate swap as of January 31, 2017, we recorded a \$180,059 and \$226,520 increase in our interest rate swap fair value for the three and nine months ended January 31, 2017, respectively. As of January 31, 2017 and April 30, 2016, our interest rate swap fair value is a \$60,211 and \$286,731 liability, respectively, which is included in other long-term liabilities on the condensed consolidated balance sheets.

Note 9. Equity Transactions and Stock Option Plans

We have obligations under two employee stock plans: (1) the 2009 Equity Incentive Plan (the "2009 Plan"), and (2) the 2010 Employee Stock Purchase Plan, as amended (the "2010 Plan").

The 2009 Plan

On April 14, 2009, our shareholders approved the 2009 Plan providing for the granting of awards to our directors, officers, employees and independent contractors. The number of common stock shares reserved for issuance under the 2009 Plan is 1,750,000 shares. The 2009 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors. The Committee has complete discretion under the plan regarding the vesting and service requirements, exercise price and other conditions. Under the 2009 Plan, the Committee is authorized to grant the following types of awards:

- Stock Options including Incentive Stock Options ("ISO"),
- Options not intended to qualify as ISOs,
- Stock Appreciation Rights, and
- Restricted Stock Grants.

Our practice has been to issue new or treasury shares upon the exercise of stock options. Stock option rights granted under the 2009 Plan generally have 5 or 10 year terms and vest in two or three equal annual installments, with some options grants providing for immediate vesting for a portion of the grant.

A summary of stock option activity under our share-based payment plans for the nine months ended January 31, 2017 is presented below:

| | <u>Options</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Contractual Term (Year)</u> | <u>Aggregate Intrinsic Value</u> |
|---|----------------|--|---|--|
| Outstanding at April 30, 2016 | 705,000 | \$ 1.10 | | |
| Granted | - | | | |
| Exercised | (9,500) | \$ 1.37 | | |
| Forfeited or expired | - | | | |
| Outstanding at January 31, 2017 | <u>695,500</u> | \$ 1.10 | <u>5.5</u> | <u>\$ 606,725</u> |
| Exercisable at January 31, 2017 | <u>695,500</u> | \$ 1.10 | <u>5.5</u> | <u>\$ 606,725</u> |
| Available for grant at January 31, 2017 | <u>672,400</u> | | | |

As of January 31, 2017, there was no unamortized compensation cost related to stock options. Also, as of January 31, 2017, there was \$12,026 of unamortized compensation cost related to stock grants, which is expected to be recognized over 1.8 years.

Compensation cost for stock options granted is based on the fair value of each award, measured by applying the Black-Scholes model on the date of grant and using the weighted-average assumptions of (i) expected volatility, (ii) expected term, (iii) expected dividend yield, (iv) risk-free interest rate and (v) forfeiture rate. Expected volatility is based on historical volatility of our stock. The expected term considers the contractual term of the option as well as historical exercise and forfeiture behavior. The risk-free interest rate is based on the rates in effect on the grant date for U.S. Treasury instruments with maturities matching the relevant expected term of the award.

The 2010 Plan

On October 11, 2010, our shareholders approved the 2010 Plan which permitted all our eligible employees, including employees of certain of our subsidiaries, to purchase shares of our common stock through payroll deductions at a purchase price not to be less than 90% of the fair market value of the shares on each purchase date. There was a total of 500,000 shares available for issuance under the 2010 Plan. The 2010 Plan had a term of 5 years and expired on January 1, 2016. Therefore, no further stock will be issued under the plan.

Stock Repurchase Plan

In July 2016, our board of directors approved a \$2.0 million stock repurchase program to purchase our common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements, loan covenants and other factors. During the quarter ended January 31, 2017, the Company repurchased 68,188 shares at a weighted average price per share of \$1.94, costing \$135,171 (including commission which are expensed). For the nine months ended January 31, 2017, the Company repurchased 257,976 shares at a weighted average-price per share of \$1.85, costing \$487,136 (including commissions). The repurchase plan does not obligate the Company to acquire any specified number or value of common stock.

Note 10. Computation of Earnings Per Share

The following is presented as a reconciliation of the numerators and denominators of basic and diluted earnings per share computations:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | January 31, 2017 | January 31, 2016 | January 31, 2017 | January 31, 2016 |
| Numerator: | | | | |
| Basic and Diluted: | | | | |
| Net (loss) income available to common shareholders | \$ (683,046) | \$ 466,351 | \$ (632,596) | \$ 1,542,338 |
| Denominator: | | | | |
| Basic weighted average number of common shares outstanding | 17,648,165 | 17,349,217 | 17,723,382 | 16,751,944 |
| Dilutive effect of common stock options and warrants | 275,143 | 295,509 | 290,712 | 260,266 |
| Diluted weighted average number of common shares outstanding | 17,923,308 | 17,644,726 | 18,014,094 | 17,012,210 |
| Net (loss) income per common share - basic and diluted | \$ (0.04) | \$ 0.03 | \$ (0.04) | \$ 0.09 |

Note 11. Commitments and Contingencies

We are party to contracts in the ordinary course of business, including leases for real property and operating leases for equipment.

The expected remaining future annual minimum lease payments as of January 31, 2017, are as follows:

| Period | Total |
|----------------------------|----------------------|
| February 2017-January 2018 | \$ 3,098,328 |
| February 2018-January 2019 | 3,076,065 |
| February 2019-January 2020 | 2,548,847 |
| February 2020-January 2021 | 2,419,455 |
| February 2021-January 2022 | 1,799,350 |
| Thereafter | 279,982 |
| | <u>\$ 13,222,027</u> |

We continue to pursue additional development opportunities that may require, individually and in the aggregate, significant commitments of capital, extensions of credit, up-front payments to third parties and guarantees by us of third-party debt.

We indemnified our officers and directors for certain events or occurrences while the director or officer is or was serving at our request in such capacity. The maximum potential amount of future payments we could be required to make under these indemnification obligations is unlimited; however, we have a Directors and Officers Liability Insurance policy that limits our exposure and enables us to recover a portion of any future amounts paid, provided that such insurance policy provides coverage.

Note 12. Income Taxes

For the three months ended January 31, 2017 and 2016, our effective tax rates were -38% and 36%, respectively. For the nine months ended January 31, 2017 and 2016, our effective tax rates were -51% and 34%, respectively. The difference between the federal statutory rate of 34% and the 2017 fiscal year to date's effective tax rate is primarily due to the non-deductible goodwill impairment. Due to the distortive impact of the goodwill impairment on the Company's annual effective tax rate, the Company calculated its tax provision for the quarter ended January 31, 2017 as if the year to date operating results were the full year operating results.

At January 31, 2017, we have \$2.1 million in net deferred tax assets, which is primarily a result of the \$7.8 million in receivables that have been fully reserved for book purposes. We believe that it is more-likely-than-not that the deferred tax assets will be realized prior to any expiration and therefore we have not applied a valuation allowance on our deferred tax assets.

We filed income tax returns in the United States federal jurisdiction. No jurisdiction is currently examining our tax filings for any tax years. All of the Company's tax positions are considered more likely than not to be sustained upon an IRS examination.

Note 13. Segment Reporting

We have three business segments: (i) Washington, (ii) South Dakota and (iii) Nevada, as well as the Company's corporate location. For the three and nine months ended January 31, 2017, the Washington segment consists of the Washington mini-casinos, the South Dakota segment consists of our slot route operation in South Dakota, the Nevada segment consists of Club Fortune casino and the Corporate column includes the vacant land in Colorado and its taxes and maintenance expenses. The Corporate column also includes corporate-related items, results of insignificant operations, and income and expenses not allocated to other reportable segments.

Summarized financial information for our reportable segments is shown in the following table:

| | As of, and for the Three Months Ended, January 31, 2017 | | | | |
|---|--|---------------------|---------------|------------------|---------------|
| | Washington | South Dakota | Nevada | Corporate | Total |
| Net revenues | \$ 13,235,037 | \$ 1,159,964 | \$ 3,592,171 | \$ - | \$ 17,987,172 |
| Casino and food and beverage expense | 7,005,995 | 1,143,713 | 2,036,108 | - | 10,185,816 |
| Marketing, administrative and corporate expense | 4,158,224 | 99,131 | 892,452 | 627,553 | 5,777,360 |
| Facility and other expenses | 492,572 | 28,265 | 87,398 | - | 608,235 |
| Depreciation and amortization | 231,294 | 139,416 | 379,223 | 6,673 | 756,606 |
| Operating income (loss) | 1,344,849 | (1,352,047) | 156,533 | (634,225) | (484,890) |
| Assets | 27,181,165 | 1,927,133 | 17,314,523 | 6,089,108 | 52,511,929 |
| Purchase of property and equipment | 84,631 | 5,413 | 30,012 | - | 120,056 |

| | As of, and for the Three Months Ended, January 31, 2016 | | | | |
|---|--|---------------------|---------------|------------------|---------------|
| | Washington | South Dakota | Nevada | Corporate | Total |
| Net revenues | \$ 14,647,144 | \$ 1,334,391 | \$ 2,379,212 | \$ - | \$ 18,360,747 |
| Casino and food and beverage expense | 7,263,022 | 1,239,246 | 1,330,158 | - | 9,832,426 |
| Marketing, administrative and corporate expense | 4,093,537 | 126,829 | 666,252 | 1,121,138 | 6,007,756 |
| Facility and other expenses | 513,782 | 31,360 | 55,800 | - | 600,942 |
| Depreciation and amortization | 340,034 | 156,209 | 240,360 | 3,096 | 739,699 |
| Operating income (loss) | 2,434,944 | (220,456) | 91,941 | (1,124,234) | 1,182,195 |
| Assets | 28,436,653 | 4,295,587 | 18,054,786 | 7,953,483 | 58,740,509 |
| Purchase of property and equipment | 112,167 | 3,679 | 7,413 | - | 123,259 |

| | As of, and for the Nine Months Ended, January 31, 2017 | | | | |
|---|---|---------------------|---------------|------------------|---------------|
| | Washington | South Dakota | Nevada | Corporate | Total |
| Net revenues | \$ 39,499,326 | \$ 5,339,712 | \$ 9,987,884 | \$ - | \$ 54,826,922 |
| Casino and food and beverage expense | 21,191,324 | 4,709,717 | 6,015,316 | - | 31,916,357 |
| Marketing, administrative and corporate expense | 12,319,376 | 335,111 | 2,929,475 | 2,148,422 | 17,732,384 |
| Facility and other expenses | 1,488,674 | 97,875 | 256,794 | - | 1,843,343 |
| Depreciation and amortization | 717,917 | 452,073 | 1,117,885 | 18,753 | 2,306,628 |
| Operating income (loss) | 3,779,722 | (1,365,215) | (377,083) | (2,167,175) | (129,751) |
| Assets | 27,181,165 | 1,927,133 | 17,314,523 | 6,089,108 | 52,511,929 |
| Purchase of property and equipment | 323,731 | 26,876 | 537,138 | 55,188 | 942,933 |

| | As of, and for the Nine Months Ended, January 31, 2016 | | | | |
|---|---|---------------------|---------------|------------------|---------------|
| | Washington | South Dakota | Nevada | Corporate | Total |
| Net revenues | \$ 42,138,437 | \$ 5,920,087 | \$ 2,379,212 | \$ - | \$ 50,437,736 |
| Casino and food and beverage expense | 21,829,124 | 5,086,646 | 1,330,158 | - | 28,245,928 |
| Marketing, administrative and corporate expense | 12,279,544 | 390,139 | 666,252 | 2,612,247 | 15,948,182 |
| Facility and other expenses | 1,537,727 | 96,551 | 55,800 | - | 1,690,078 |
| Depreciation and amortization | 1,028,465 | 461,090 | 240,360 | 9,287 | 1,739,202 |
| Operating income (loss) | 5,627,640 | (119,999) | 91,941 | (2,621,534) | 2,978,048 |
| Assets | 28,436,653 | 4,295,587 | 18,054,786 | 7,953,483 | 58,740,509 |
| Purchase of property and equipment | 311,096 | 82,233 | 7,413 | - | 400,742 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis ("MD&A") should be read in conjunction with our condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report for the year ended April 30, 2016, filed on Form 10-K with the SEC on July 29, 2016.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements. We prepare these financial statements in conformity with GAAP. As such, we are required to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments. On an on-going basis, we evaluate our estimates; however, actual results may differ from these estimates under different assumptions or conditions. There have been no material changes or developments in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies and Estimates as disclosed in our Annual Report for the year ended April 30, 2016, filed on Form 10-K with the SEC on July 29, 2016.

Executive Overview

We were formed in 1977 and, since 1994, have primarily been a gaming company involved in financing, developing, owning and operating gaming properties. Our gaming facility operations are located in the United States of America ("U.S."), specifically in the states of Nevada, Washington and South Dakota. Our business strategy will continue to focus on owning and operating gaming establishments. If we are successful, our future revenues, costs and profitability can be expected to increase. However, there is no guarantee that we will be successful in implementing our business strategy in the future and, as such, no guarantee that our future revenues, costs and profitability will increase.

Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those guests spend per visit. Additionally, our operating results may be affected by, among other things, overall economic conditions affecting the disposable income of our guests, weather conditions affecting our properties, achieving and maintaining cost efficiencies, competitive factors, gaming tax increases and other regulatory changes, the commencement of new gaming operations and construction at existing facilities. We may experience significant fluctuations in our quarterly operating results due to seasonality, variations in gaming hold percentages and other factors. Consequently, our operating results for any quarter or year are not necessarily comparable and may not be indicative of future periods' results.

COMPARISON OF THE THREE MONTHS ENDED JANUARY 31, 2017 AND JANUARY 31, 2016

Net revenues. Net revenues were \$18.0 million for the three months ended January 31, 2017, and \$18.4 million for the same period ended January 31, 2016. The decrease is primarily due to the \$1.4 million, or 10%, decrease at our Washington operations, partially offset by the \$1.2 million increase at Club Fortune (Club Fortune was acquired on December 1, 2015). Along with Washington's reduced table games and poker play, which was partially attributed to unusually harsh weather in December and January, Washington's revenue was impacted by a lower hold percentage, reducing revenue by \$0.6 million. South Dakota revenues were \$1.2 million this quarter compared to \$1.3 million in the prior year's quarter primarily due to lower handle as a result of 47 fewer units in operation and the South Dakota market's revenue being down approximately 13% for the quarter compared to prior year.

Total operating expenses. Total operating expenses were \$18.5 million for the three months ended January 31, 2017, compared to \$17.2 million in the same period ended January 31, 2016. The increase was due to Club Fortune's \$1.1 million increase and the South Dakota impairment expense of \$1.1 million, partially offset by decreases at corporate, Washington and South Dakota. Excluding Club Fortune's operating expenses, casino expenses decreased \$0.4 million when compared to the same period last year primarily due to lower revenue driven commissions and gaming taxes in Washington and South Dakota, and food and beverage expenses decreased \$0.1 million corresponding to lower food and beverage revenues in Washington. Marketing and administration increased \$0.3 million over the prior year period primarily due to an additional month of Club Fortune expense in 2017. Corporate expense decreased \$0.5 million as prior year included \$0.4 million of acquisition expenses and the current period has lower payroll expense primarily due to lower accrued bonus expense. Depreciation and amortization remained relatively unchanged as the \$0.1 million additional expense from Club Fortune was offset by the decrease because certain Washington customer relationship intangibles are now fully amortized. Facility and other expenses remained relatively steady when compared to the same period last year.

Non-operating income (expense). Total non-operating expense decreased \$0.4 million for the three months ended January 31, 2017, compared to the three months ended January 31, 2016, due to the \$0.4 million increase in the swap fair value.

Income taxes. For the three months ended January 31, 2017 and 2016, our effective tax rates were -38% and 36%, respectively. The difference between the federal statutory rate of 34% and the 2017 fiscal year to date's effective tax rate is primarily due to the non-deductible goodwill impairment.

COMPARISON OF THE NINE MONTHS ENDED JANUARY 31, 2017 AND JANUARY 31, 2016

Net revenues. Net revenues were \$54.8 million for the nine months ended January 31, 2017, and \$50.4 million for the same period ended January 31, 2016. The increase is due to Club Fortune's \$7.6 million increase (Club Fortune was acquired on December 1, 2015), partially offset by net revenue decreases of \$2.6 million for the properties in Washington and \$0.6 million in South Dakota. The decrease in Washington's revenue was due to a lower hold percentage impact of \$1.6 million and \$0.8 million of reduced poker play. South Dakota revenues were \$5.3 million compared to \$5.9 million in the prior year's period primarily due to lower handle as a result of 47 fewer units in operation.

Total operating expenses. Total operating expenses were \$55.0 million for the nine months ended January 31, 2017, compared to \$47.5 million in the same period ended January 31, 2016. The increase was primarily due to Club Fortune operating expenses, which increased \$8.1 million and the South Dakota impairment expense of \$1.1 million, partially offset by decreases at Washington, corporate and South Dakota. Excluding Club Fortune's operating expenses, casino expenses decreased \$1.0 million when compared to the same period last year primarily due to lower revenue driven commissions and gaming taxes, and food and beverage expenses decreased \$0.2 million corresponding to lower food and beverage revenues in Washington. Marketing and administration increased \$2.4 million over the prior year period primarily due to Club Fortune. Corporate expense decreased \$0.1 million after excluding \$0.6 million of Club Fortune acquisition expenses. Depreciation and amortization increased by \$0.6 million due to Club Fortune's \$0.9 million increase over prior year, partially offset by a \$0.3 million decrease in Washington because certain Washington customer relationship intangibles are now fully amortized. Facility and other expenses remained relatively steady when compared to the same period last year on a same property basis (excluding the impact of the addition of Club Fortune).

Non-operating income (expense). Total non-operating expense decreased \$0.3 million for the nine months ended January 31, 2017, compared to the nine months ended January 31, 2016. The decrease resulted primarily from the \$0.5 million increase in the swap fair value partially offset by \$0.1 million increase in interest expense and amortization of loan issue costs.

Income taxes. For the nine months ended January 31, 2017 and 2016, our effective tax rates were -51% and 34%, respectively. The difference between the federal statutory rate of 34% and the 2017 fiscal year to date's effective tax rate is primarily due to the non-deductible goodwill impairment.

Non-GAAP Financial Measures

The term "adjusted EBITDA" is used by us in presentations, quarterly earnings calls, and other instances as appropriate. Adjusted EBITDA is defined as net income before interest, income taxes, depreciation and amortization, change in swap fair value, goodwill and other long-lived asset impairment charges, write-offs of project development costs, acquisition costs, litigation charges, non-cash stock grants, non-cash employee stock purchase plan discounts, amortization of deferred rent, net income or loss from assets held for sale, and net losses/gains from asset dispositions. Adjusted EBITDA is presented because it is a required component of financial ratios reported by us to our lenders, and it is also frequently used by securities analysts, investors, and other interested parties, in addition to and not in lieu of GAAP results, to compare to the performance of other companies that also publicize this information.

Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with GAAP.

The following tables show adjusted EBITDA by operating unit:

| | <u>Adjusted EBITDA</u> | | | | |
|------------------------------------|------------------------|---------------------|---------------|------------------|--------------|
| For the three months ended: | <u>Washington</u> | <u>South Dakota</u> | <u>Nevada</u> | <u>Corporate</u> | <u>Total</u> |
| January 31, 2017 | \$ 1,588,979 | \$ (111,145) | \$ 576,213 | \$ (627,553) | \$ 1,426,494 |
| January 31, 2016 | \$ 2,788,444 | \$ (63,044) | \$ 327,001 | \$ (722,138) | \$ 2,330,263 |

| | <u>Adjusted EBITDA</u> | | | | |
|-----------------------------------|------------------------|---------------------|---------------|------------------|--------------|
| For the nine months ended: | <u>Washington</u> | <u>South Dakota</u> | <u>Nevada</u> | <u>Corporate</u> | <u>Total</u> |
| January 31, 2017 | \$ 4,536,212 | \$ 197,010 | \$ 786,299 | \$ (1,922,491) | \$ 3,597,030 |
| January 31, 2016 | \$ 6,516,547 | \$ 346,751 | \$ 327,001 | \$ (1,891,974) | \$ 5,298,325 |

Reconciliation of net (loss) income to Adjusted EBITDA:

| | <u>For the three months ended</u> | |
|--|-----------------------------------|-------------------------|
| | <u>January 31, 2017</u> | <u>January 31, 2016</u> |
| Net (loss) income | \$ (683,046) | \$ 466,351 |
| Adjustments: | | |
| Net interest expense and change in swap fair value | 8,418 | 432,252 |
| Income tax expense | 189,738 | 283,592 |
| Depreciation and amortization | 756,606 | 739,699 |
| Impairment of goodwill | 1,101,471 | - |
| Acquisition expenses | - | 368,824 |
| Stock compensation and employee stock purchases | 1,787 | 30,177 |
| Loss (gain) on disposal of assets | 42,574 | (2,271) |
| Amortization of deferred rent | 8,946 | 11,639 |
| Adjusted EBITDA | <u>\$ 1,426,494</u> | <u>\$ 2,330,263</u> |

| | For the nine months ended | |
|--|---------------------------|---------------------|
| | January 31, 2017 | January 31, 2016 |
| Net (loss) income | \$ (632,596) | \$ 1,542,338 |
| Adjustments: | | |
| Net interest expense and change in swap fair value | 290,253 | 623,484 |
| Income tax expense | 212,592 | 812,226 |
| Depreciation and amortization | 2,306,628 | 1,739,202 |
| Impairment of goodwill | 1,101,471 | - |
| Acquisition expenses | 113,900 | 629,603 |
| Stock compensation and employee stock purchases | 117,393 | 90,672 |
| Loss (gain) on disposal of assets | 56,490 | (163,702) |
| Amortization of deferred rent | 30,899 | 24,502 |
| Adjusted EBITDA | <u>\$ 3,597,030</u> | <u>\$ 5,298,325</u> |

Liquidity and Capital Resources

Historical Cash Flows

The following table sets forth our consolidated net cash provided by (used in) operating, investing and financing activities for the nine months ended January 31, 2017 and 2016:

| | Nine Months Ended | |
|--|---------------------|---------------------|
| | January 31, 2017 | January 31, 2016 |
| Net cash provided by (used in): | | |
| Operating activities | \$ 1,949,546 | \$ 2,609,667 |
| Investing activities | \$ (312,429) | \$ (13,594,322) |
| Financing activities | \$ (3,636,553) | \$ 11,265,141 |

Operating activities. Net cash provided by operating activities during the nine months ended January 31, 2017, decreased by \$0.7 million over the comparable period in the prior fiscal year. This lower operating cash flow primarily resulted from the decrease in operating income before depreciation and amortization and gain or loss on disposal of assets, offset by an increase in working capital.

Investing activities. Net cash used in investing activities during the nine months ended January 31, 2017, decreased by \$13.3 million compared to the prior fiscal year primarily due to the \$13.8 million used to acquire Club Fortune, partially offset by the current year's \$0.5 million increase in purchases of property and equipment.

Financing activities. Net cash used in financing activities during the nine months ended January 31, 2017, increased \$14.9 million over the comparable period in the prior fiscal year. The increase mainly resulted from the \$15.5 million bank loan to finance the Club Fortune acquisition in the prior fiscal year and the current year's \$0.5 million of treasury stock purchases, partially offset by \$0.9 million of decreased debt payments in the current year.

Future Sources and Uses of Cash

We expect that our future liquidity and capital requirements will be affected by:

- capital requirements related to future acquisitions;
- cash flow from operations;
- new management contracts
- working capital requirements;
- obtaining debt financing; and
- debt service requirements.

Also, in July 2016, our board of directors approved a \$2.0 million stock repurchase program to purchase our common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements, loan covenants and other factors. During the quarter ended January 31, 2017, the Company repurchased 68,188 shares at a weighted average price per share of \$1.94, costing \$135,171 (including commissions). Year to date, the Company repurchased 257,976 shares at a weighted average-price per share of \$1.85, costing \$487,136 (including commissions). The repurchase plan does not obligate the Company to acquire any specified number or value of common stock.

As of January 31, 2017, we have \$5.8 million available to borrow per the Credit Agreement. Principal reductions due on the Credit Facility are as follows:

| | | |
|--------------------------------------|----|-------------------|
| February 1, 2017 – January 31, 2018 | \$ | - |
| February 1, 2018 – January 31, 2019 | | - |
| February 1, 2019 – January 31, 2020 | | 1,692,223 |
| February 1, 2020 – November 30, 2020 | | 12,307,777 |
| Total payments | | 14,000,000 |
| Unamortized debt discount | | (264,024) |
| Total long-term debt | \$ | <u>13,735,976</u> |

On January 31, 2017, excluding restricted cash of \$1,722,247, we had cash and cash equivalents of \$9,583,671. The restricted cash consists of funds for player supported jackpots.

Washington state increased the state minimum wage to \$11.00 per hour effective January 1, 2017. The minimum wage is scheduled to increase to \$11.50 in 2018, \$12.00 in 2019, \$13.50 in 2020 and would thereafter be indexed to inflation. The company estimates the passage of this proposal increases its annualized payroll expense by approximately \$1.2 million in the first full year of the increase. We have begun implementing several changes to mitigate the overall financial impact of this potential change.

Our condensed consolidated financial statements have been prepared assuming that we will have adequate availability of cash resources to satisfy our liabilities in the normal course of business. We have made arrangements to ensure that we have sufficient working capital to fund our obligations as they come due. We believe that funds from operations will provide sufficient working capital for us to meet our obligations as they come due; however, there can be no assurance that we will be successful. Should cash resources not be sufficient to meet our current obligations as they come due, repay or refinance our long-term debt, and acquire operations that generate positive cash flow, we would be required to curtail our activities and maintain, or grow, at a pace that cash resources could support.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

Disclosure controls and procedures. We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms, and that information is accumulated and communicated to our management, including our President and Chief Financial Officer (“CFO”), as appropriate to allow timely decisions regarding required disclosure.

In accordance with Rules 13a-15 and 15d-15 of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our President and CFO, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. As a result of our evaluation, we concluded that our disclosure controls and procedures were effective as of January 31, 2017.

Changes in internal controls over financial reporting. There have not been any changes in our control over financial reporting during the three months ended January 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are not currently involved in any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2016, filed with the SEC on July 29, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Index to Exhibits following the signature page hereto for a list of the exhibits filed pursuant to Item 601 of Regulation S-K

INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|---------------------------|---|
| 10.1 | First Amendment to Asset Purchase Agreement between Colorado Grande Enterprises, Inc., as seller, and G Investments, LLC, as purchaser (filed previously as Exhibits 10.1 to the Company's Form 8-K filed May 29, 2012). |
| 10.2 | Credit Agreement dated December 10, 2013 by and among Mutual of Omaha Bank, as the Lender, Nevada Gold & Casinos, Inc., as parent, and Restricted Subsidiaries, as borrower (filed previously as Exhibits 10.9 to the Company's Form 10-Q filed December 23, 2013). |
| 10.3 | Amended and Restated Credit Agreement dated November 30, 2015 by and among Mutual of Omaha Bank, as the Lender, Nevada Gold & Casinos, Inc., as parent, and Restricted Subsidiaries, as borrower (filed previously as Exhibit 10.1 to the Company's Form 8-K filed December 3, 2015). |
| 10.4 | Asset Purchase Agreement between Gaming Ventures of Las Vegas, Inc., as seller, and Nevada Gold & Casinos LV, LLC, as buyer (filed previously as Exhibit 10.1 to the Company's Form 8-K filed May 22, 2015). |
| 10.5 | First Amendment to Option Agreement dated April 22, 2016 between the Company and Clear Creek Development Company (filed previously as Exhibit 10.2 to the Company's Form 8-K filed April 25, 2016). |
| 31.1(*) | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2(*) | Certification of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1(*) | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2(*) | Certification Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS(*) | XBRL Instance Document |
| 101.SCH(*) | XBRL Taxonomy Schema |
| 101.CAL(*) | XBRL Taxonomy Calculation Linkbase |
| 101.DEF(*) | XBRL Taxonomy Definition Linkbase |
| 101.LAB(*) | XBRL Taxonomy Label Linkbase |
| 101.PRE(*) | XBRL Taxonomy Presentation Linkbase |

* Filed herewith.

In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

SIGNATURES

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

Date: March 16, 2017

Nevada Gold & Casinos, Inc.

By: /s/ James D. Meier
James D. Meier
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael P Shaunnessy, certify that:

1. I have reviewed this Form 10-Q of Nevada Gold & Casinos, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

/s/ Michael P. Shaunnessy
Michael P. Shaunnessy
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James D. Meier, certify that:

1. I have reviewed this Form 10-Q of Nevada Gold & Casinos, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2017

/s/ James D. Meier
James D. Meier
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICERS
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Nevada Gold & Casinos, Inc. (the "Company") on Form 10-Q for the quarterly period ended January 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael P. Shaunnessy, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Michael P. Shaunnessy
Michael P. Shaunnessy
Chief Executive Officer
(Principal Executive Officer)
March 16, 2017

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Nevada Gold & Casinos, Inc. (the "Company") on Form 10-Q for the quarterly period ended January 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James D. Meier, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ James D. Meier
James D. Meier
Chief Financial Officer
(Principal Financial Officer)
March 16, 2017
