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LATIN AMERICAN CASINOS INC  
Form 10QSB  
May 21, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

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 33-43423

LATIN AMERICAN CASINOS, INC.  
-----

(Exact name of small business issuer as  
specified in its charter)

DELAWARE  
-----

(State or other jurisdiction  
of incorporation or organization)

65-0159115  
-----

(IRS Employer  
Identification No.)

2000 N.E. 164 Street  
North Miami Beach, Fl 33162  
-----

(Address of principal executive offices)

(305) 945-9300  
-----

(Issuer's telephone number)

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

Yes

No

Number of shares outstanding of each of the issuer's classes of common equity, as of March 31, 2001: 4,221,600 shares of common stock, \$0.00067 par value per share.

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Accountant's Review Report

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## Edgar Filing: LATIN AMERICAN CASINOS INC - Form 10QSB

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### Accountants' Review Report

To the Board of Directors of:  
Latin American Casinos, Inc. and Subsidiaries

We have reviewed the accompanying consolidated balance sheet of Latin American Casinos, Inc. and Subsidiaries as of March 31, 2001, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for the three months ended March 31, 2001, in accordance with the Statements for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Latin American Casinos, Inc.

A review consists principally of inquires of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The balance sheet for the year ended December 31, 2000 was audited by us and we expressed an unqualified opinion on it in our report dated March 15, 2001, but we have not performed any auditing procedures since that date.

Shubitz Rosenbloom & Co., P.A.

Miami, Florida  
May 18, 2001

LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES

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## CONSOLIDATED BALANCE SHEETS MARCH 31, 2001 AND DECEMBER 31, 2000

| ASSETS<br>-----   |                            |                               |
|---|----------------------------|-------------------------------|
|   | March 31,<br>2001<br>----- | December 31,<br>2000<br>----- |
| <b>CURRENT ASSETS</b>   |                            |                               |
| Cash and Cash Equivalents   | \$ 4,381,785               | \$ 4,422,715                  |
| Accounts Receivable, Less \$150,000 of<br>Allowance for Doubtful Accounts<br>in 2001 and 2000 | 1,282,858                  | 1,382,382                     |
| Inventory   | 554,764                    | 539,560                       |
| Prepaid Expenses and Other Current Assets   | 142,262                    | 136,717                       |
|   | -----                      | -----                         |
| Total Current Assets  | 6,361,669                  | 6,481,374                     |
|   | -----                      | -----                         |
| <b>PROPERTY AND EQUIPMENT - NET</b>   | 3,277,362                  | 3,772,795                     |
|   | -----                      | -----                         |
| <b>OTHER ASSETS</b>   |                            |                               |
| Deposits  | 11,609                     | 11,609                        |
| Other Assets  |                            |                               |
| Total Other Assets  | 50,504                     | 46,208                        |
|   | -----                      | -----                         |
|   | 62,113                     | 57,817                        |
|   | -----                      | -----                         |
| <b>TOTAL ASSETS</b>   | <b>\$ 9,701,144</b>        | <b>\$ 10,311,986</b>          |
|   | =====                      | =====                         |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b><br>-----                                      |                            |                               |
| <b>CURRENT LIABILITIES</b>  |                            |                               |
| Accounts Payable and Accrued Expenses   | 139,576                    | \$ 190,703                    |
| Debentures Payable  | 3,500,000                  | 3,500,000                     |
|   | -----                      | -----                         |
| Total Current Liabilities   | 3,639,576                  | 3,690,703                     |
|   | -----                      | -----                         |
| <b>COMMITMENTS AND CONTINGENCIES</b>  | --                         | --                            |
|   | -----                      | -----                         |
| Total Liabilities   | 3,639,576                  | 3,690,703                     |
|   | -----                      | -----                         |
| <b>STOCKHOLDERS' EQUITY</b>   |                            |                               |
| Common Stock, \$.00067 Par Value 15,000,000   |                            |                               |
| Shares Authorized, 4,225,000 Shares Issued  |                            |                               |
| 4,221,600 Shares Outstanding and 3,400 Shares<br>held as Treasury Stock                       | 2,831                      | 2,831                         |
| Additional Paid-In Capital  | 10,929,437                 | 10,929,437                    |

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|  |              |               |
|--|--------------|---------------|
| Cumulative Other Comprehensive Income (Loss) | (559,444)    | (560,326)     |
| Retained Earnings (Deficit)                  | (4,306,021)  | (3,745,424)   |
| Treasury Stock, at cost                      | (5,235)      | (5,235)       |
|  | -----        | -----         |
| Total Stockholders' Equity                   | 6,061,568    | 6,621,283     |
|  | -----        | -----         |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 9,701,144 | \$ 10,311,986 |
|  | =====        | =====         |

Read accountants' review report and notes to financial statements.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND  
FOR THE YEAR ENDED DECEMBER 31, 2000

|   | Common Stock |           | Additional   | Cumulative    | Retained       |
|---|--------------|-----------|--------------|---------------|----------------|
|   | Number       | Par Value | Paid-In      | Comprehensive | Earnings       |
|   | of Shares    | \$.00067  | Capital      | Income (Loss) | (Deficit)      |
|   | -----        | -----     | -----        | -----         | -----          |
| BALANCE JANUARY 1, 2000                       | 3,300,000    | \$ 2,211  | \$ 9,919,557 | (\$ 415,193)  | (\$ 1,628,601) |
| ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATIONS  | --           | --        | --           | (145,133)     | --             |
| EXERCISE OF STOCK OPTIONS                     | 725,000      | 486       | 724,514      | --            | --             |
| STOCK ISSUED AS COMPENSATION                  | 200,000      | 134       | 349,866      | --            | --             |
| COST INCURRED IN REGARD TO PRIVATE PLACEMENT  | --           | --        | (64,500)     | --            | --             |
| NET LOSS FOR THE YEAR ENDED DECEMBER 31, 2000 | --           | --        | --           | --            | (2,116,823)    |
|   | -----        | -----     | -----        | -----         | -----          |
| BALANCE DECEMBER 31, 2000                     | 4,225,000    | 2,831     | 10,929,437   | (560,326)     | (3,745,424)    |
| ADJUSTMENT FOR FOREIGN CURRENCY TRANSLATIONS  | --           | --        | --           | 882           | --             |
| NET LOSS FOR THE THREE MONTH ENDED            |              |           |              |               |                |

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|                           |              |          |               |              |                |
|---------------------------|--------------|----------|---------------|--------------|----------------|
| MARCH 31, 2001            | --           | --       | --            | --           | (560,597)      |
|                           | -----        | -----    | -----         | -----        | -----          |
| BALANCE MARCH 31,<br>2001 | \$ 4,225,000 | \$ 2,831 | \$ 10,929,437 | (\$ 559,444) | (\$ 4,306,021) |
|                           | =====        | =====    | =====         | =====        | =====          |

Read accountants review report and notes to financial statements.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

|  | 2001       | 2000       |
|--|------------|------------|
|  | -----      | -----      |
| Revenue                                |            |            |
| -----                                  |            |            |
| Rental Income                          | \$ 148,335 | \$ 240,146 |
| Sales of Cigars                        | 33,916     | 24,301     |
|  | -----      | -----      |
| Total Revenues                         | \$ 182,251 | \$ 264,447 |
|  | -----      | -----      |
| Cost and Expenses                      |            |            |
| -----                                  |            |            |
| Selling, General & Administration      | 501,211    | 527,852    |
| Depreciation                           | 16,630     | 32,847     |
| Cost of Cigar Sales                    | 21,384     | 19,783     |
|  | -----      | -----      |
| Total Cost and Expenses                | 539,225    | 580,482    |
|  | -----      | -----      |
| Operating Income (Loss)                | (356,974)  | (316,035)  |
|  | -----      | -----      |
| Other Income (Expenses)                |            |            |
| -----                                  |            |            |
| Interest Income                        | 54,796     | 10,839     |
| Restructuring And Non Recurring Losses | (258,419)  | --         |
|  | -----      | -----      |
| Net Other Income (Expenses)            | (203,623)  | (10,839)   |
|  | -----      | -----      |
| Income (Loss) Before Income Taxes      | (560,597)  | (305,196)  |
| Income Taxes (Provision) Benefit       | --         | --         |
|  | -----      | -----      |

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|  |              |              |
|--|--------------|--------------|
| Net Income (Loss)  | (\$ 560,597) | (\$ 305,196) |
|  | =====        | =====        |
| Earnings (Loss) Per Common Share and<br>Common Share Equivalent Basic And<br>Fully Diluted |              |              |
| Common Share Equivalent Outstanding  | 4,221,600    | 3,296,600    |
|  | =====        | =====        |
| Net Income (Loss) per share  | (\$ .13)     | (\$ .09)     |
|  | =====        | =====        |

Read accountants' review report and notes to financial statements.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000

|  | 2001         | 2000         |
|--|--------------|--------------|
|  | -----        | -----        |
| CASH FLOWS FROM OPERATING ACTIVITIES   |              |              |
| Net Income (Loss)  | (\$ 560,597) | (\$ 305,196) |
| Adjustments to Reconcile Net Income<br>to Net Cash Provided by Operating Activities: |              |              |
| Depreciation   | 16,630       | 32,847       |
| Reconstructing and non recurring losses  | 258,419      | --           |
| Changes in Assets - (Increase) Decrease:   |              |              |
| Accounts Receivable  | 99,524       | 2,105        |
| Prepaid Expenses and Other Current Assets  | (5,545)      | 20,437       |
| Inventory of Cigars  | (15,204)     | 17,036       |
| Changes in Liabilities - Increase (Decrease):  |              |              |
| Accounts Payable and Accrued Expenses  | (51,127)     | (23,684)     |
|  | -----        | -----        |
| Net Cash Provided by (Used In) Operating<br>Activities                               | (257,900)    | (256,455)    |
|  | -----        | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |              |              |
| Change in Property and Equipment   | 220,384      | 207,070      |
| Other Assets   | (4,296)      | 8,961        |
|  | -----        | -----        |
| Net Cash Provided By (Used by) Investing<br>Activities                               | 216,088      | 216,031      |
|  | -----        | -----        |
| Effect of Exchange Rate Changes on Cash and<br>Cash Equivalents                      | 882          | (119,912)    |
|  | -----        | -----        |

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|  |              |            |
|--|--------------|------------|
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (40,930)     | (160,336)  |
| CASH AND CASH EQUIVALENTS - BEGINNING                | 4,422,715    | 800,223    |
| CASH AND CASH EQUIVALENTS - ENDING                   | \$ 4,381,785 | \$ 639,887 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:

Cash Paid During the Period for:

|                       |          |       |
|-----------------------|----------|-------|
| Interest              | \$ 1,715 | \$ -- |
| Income Taxes, Foreign | \$ --    | \$ -- |

Read accountants' review report and notes to financial statements.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

Note 1. Summary of Significant Accounting Policies

A Business and Organization

Latin American Casinos, Inc. (formerly Repossession Auction, Inc.) is a Delaware corporation incorporated on September 19, 1991. In 1994, the company entered in the gaming and casino business, primarily in Peru and other Latin American countries renting casino type slot machines.

In 1994, the company formed a Peruvian subsidiary; in 1995, the company formed a Colombian subsidiary and in 1997, the company formed a subsidiary in Nicaragua (which has subsequently been liquidated) that are in the gaming and casino business in Latin America (See Note 9C). The operations include the renting of casino slot machines to casino operators. As of March 31, 2001, the company had acquired approximately 8,000 slot machines, approximately 3,000 of which have been acquired for parts and other related equipment, at a total cost of \$3,944,111 including applicable costs for transportation, duty and refurbishing (See note 10).

B Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Latin American Casinos Del Peru S.A. (formally known as Latin American Casinos, Inc. S.A.) a Peruvian Corporation and Latin American Casinos of Colombia LTPA, a Colombian Corporation effective September 23, 1997. The company incorporated World's Best Rated Cigar Company (World) as a wholly-owned subsidiary of Latin American

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Casinos, Inc., to distribute quality cigars. It was originally intended that the company would market premium cigars at "off price", and will acquire quality cigars from six South American producers and market them through large retail chains, initially on a consignment basis. The cigar operations have been slower than originally anticipated and as of March 31, 2001, the company had expended approximately \$1,190,000 in regard to the cigar operations. Such expenditures have been included in the accompanying consolidated financial statements as follows:

|   |             |
|---|-------------|
| Cash  | \$ 7,000    |
| Accounts Receivable                           | 60,000      |
| Prepaid and Other Current Assets              | 16,000      |
| Inventory                                     | 555,000     |
| Fixed Assets, Net of Accumulated Depreciation | 73,000      |
| Other Assets                                  | 3,000       |
| Aggregate Accumulated Deficit                 | 476,000     |
|   | -----       |
| Total Investment                              | \$1,190,000 |
|   | =====       |

All material intercompany transactions, balance and profits have been eliminated.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 AS OF MARCH 31, 2001, AND DECEMBER 31, 2000

Note 1. Summary of Significant Accounting Policies (Continued)

C Property and Equipment

Property and Equipment are stated at cost. Depreciation is provided on accelerated and straight-line methods over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterment's are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

D Revenue Recognition

Revenue is recognized monthly on the rental of slot machines as the slot machines are placed in service.

E Statement of Cash Flows

For purposes of this statement, the company considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.



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F Income (Loss) Per Common Share  
-----

Basic earnings per common share and common share equivalent were computed by dividing net (loss) by the weighted average number of shares of common stock outstanding during the period. Fully diluted earnings per share was calculated based on the assumption that the increase in the number of common shares assumed outstanding on conversion are reduced by the number of common shares that are assumed to be purchased with the proceeds from the exercise of the incentive stock options. During 2001 and 2000 all warrants, stock options and underwriter's options (Note 4, 5, 6) were anti-dilutive.

G Significant Concentration of Credit Risk  
-----

The company has concentrated its credit risk for cash by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from risk totaled \$4,266,000 and \$4,320,000 as of March 31, 2001 and December 31, 2000 for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal deposit insurance.

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENT  
AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

Note 1. Summary of Significant Accounting Policies (Continued)  
-----

H Use of Estimates  
-----

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for uncollectable accounts receivable, obsolescence, equipment depreciation and amortization, taxes, among others.

I Foreign Currency Translation  
-----

For most international operations, assets and liabilities are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments, resulting from fluctuations in exchange rates are recorded as a separate component of shareholders' equity, as other comprehensive income (loss).

J Inventories  
-----

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Inventory of cigars and related material are stated at the lower of average cost or market.

Note 2. Property and Equipment  
-----

Property and equipment are summarized as follows:

|  | March 31<br>2001<br>----- | December 31,<br>1999<br>----- |
|--|---------------------------|-------------------------------|
| Land & Building (See Note 9)           | \$ 75,000                 | \$ 335,363                    |
| Rental Equipment (See Note 9)          | 3,944,111                 | 4,197,282                     |
| Leasehold Improvements                 | 19,894                    | 26,027                        |
| Furniture, Fixtures & Office Equipment | 143,899                   | 141,914                       |
| Transportation Equipment               | 25,823                    | 48,510                        |
|  | -----                     | -----                         |
| Total                                  | 4,208,727                 | 4,749,096                     |
| Less: Accumulated Depreciation         | 931,365                   | 976,301                       |
|  | -----                     | -----                         |
| Property and Equipment - Net           | \$ 3,277,362              | \$ 3,772,795                  |
|  | =====                     | =====                         |

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LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

Note 2. Property and Equipment (Continued)  
-----

Included in Rental Equipment is approximately \$3,000,000 of parts and supplies purchased or obtained from other machines previously disassembled for parts.

Rent expense for the three months ended March 31, 2000 and 2000 were \$20,000 and \$21,000, respectively.

The company had leased the land and building it owned in Miami for \$1,200 per month, on a month to month basis. The property was sold in 2001 (See Note 9).

Note 3. Warrants and Options  
-----

At March 31, 2001 the company has outstanding 1,750,000 five year publicly traded warrants to purchase one share of the company's common stock at an exercise price of \$3.00 by December 11, 2001. In December 2000 the board of directors authorized the issuance of an additional 3,275,000 five year stock warrants to acquire common stock at \$1.75 per share.

Note 4. Investment Banker Warrants  
-----

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Effective June 5, 1998, the company contracted with an investment banker to provide on a non-exclusive basis to the company assistance in possible mergers, acquisitions and internal capital structuring. The duration of the contract is for five years. In consideration for these services, Latin American Casinos, Inc. granted warrants to purchase an aggregate of 225,000 shares of common stock at the closing bid price of \$1.875 as of June 5, 1998, which can be exercised through June 5, 2003. Effective February 8, 2000, the Board of Directors reduced the exercise price to \$1.06, which was the closing price of the stock at that date. These warrants vest and become irrevocable as follows: 75,000 warrants with signing of the agreement, 75,000 warrants 180 days after the signing of the agreement and an additional 75,000 warrants 365 days after the signing of the agreement.

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### LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

#### Note 5. Incentive Stock Option Plan

-----

On June 13, 1994, the Board of Directors adopted the 1994 Stock Option Plan in which the aggregate number of shares for which options may be granted under the Plan shall not exceed 1,000,000 shares. The term of each option shall not exceed ten years from the date of granting (five years of options granted to employees owning more than 10% of the outstanding shares of the voting stock of the company). The 1991 plan became effective on September 30, 1991 and was terminated in March, 1999. The 1994 plan became effective on June 13, 1994 and will terminate in June, 2004, unless terminated earlier by action of the Board of Directors. In December, 1995, the company authorized the issuance under the 1994 Stock Option Plan of 492,500 options at an exercise price of \$2.50 per share to various officers and employees. On March 6, 1997 the company authorized the issuance of an additional 415,000 options at an exercise price of \$2.50 to various officers and employees. In June, 1999, the company increased the shares allocated to the plan to 1,500,000. Effective December 31, 1998, the company ratified the repricing of the employee stock options to \$1.00 per share and simultaneously authorized the issuance of 85,000 options at an exercise price \$1.00 per share and canceled 10,000 options issued in 1995 at \$2.50 per share. Effective February 2000 the company issued 35,000 options at an exercise price of \$1.06 and in December 2000 the company issued 80,000 option at a 1.75 exercise price.

#### Incentive Stock Options Outstanding

-----

|  | Amount     | Price<br>Per Share |
|--|------------|--------------------|
|  | -----      | -----              |
| Options Outstanding at January 1, 2000 | \$ 932,500 | 1.00               |
| Additional Options Issued              | 35,000     | 1.06               |
| Additional Options Issued              | 80,000     | 1.75               |
| Options Lapsed                         | (85,000)   | 1.00               |
| Options Exercised                      | (725,000)  | 1.00               |
|  | -----      |                    |

Options Outstanding at December 31, 2000 and

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March 31, 2001

\$ 237,500

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## Note 6. Debentures

-----

In December 2000 the company, through a Private Placement issued \$3,500,000 principle amount of 6% Convertible Debentures. These Debentures are due June 13, 2001 and are Convertible into common stock at an exercise price of \$1.75 per share.

## Note 7. Provision of Income Taxes

-----

As of March 31, 2001 the company had available for income tax purposes unused net operating loss carryforwards which may provide future tax benefits of \$4,344,000 expiring in the year 2016. No valuation allowance has been provided for unremitted foreign profits.

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### LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

## Note 8. Commitments and Contingencies

-----

### A Litigation

-----

The company is a defendant from time to time on claims and lawsuits arising out of the normal course of its business, none of which are expected to have a material adverse effect on its business or operations.

### B Employment Agreements

-----

In January 1997, the company entered into a five year employment agreement with The Chief Executive Officer, Lloyd Lyons, which provided for an annual salary commencing January, 1997 of \$275,000. The agreement provided that in the event of either a merger, consolidation, sale or conveyance of substantially all the assets of the company which results in his discharge, he would be entitled to 200% of the balance of payments remaining under the contract. The contract provided for the salary continuation for a period of two years after the death of the officer. In January 2000, Mr. Lyons passed away and effective August 2, 2000 the company amended it's employment contract with his surviving widow and primary beneficiary of the Estate where-in the salary continuation clause included in his contract was replaced with a severance arrangement which requires the company to pay the spouse \$100,000 over a one year period commencing on the first month following her termination from her employment with the company and upon her termination she is to receive 100,000 shares of common stock pursuant to an amendment to her employment agreement. The amended employment agreement will obligate the company to register these shares and reimburse her for the difference in the gross proceeds upon the sale of such shares

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and \$300,000, regardless of the time she holds such shares. The agreement further provides that the spouse remain in the employment of the company for at least 4 months following the amendment of the contract. The contract revisions further provided that the then officer loan of \$115,000 be off-set by the accrued compensation as required by the officer compensation agreement. The employment agreement with the spouse remains intact in all other regards and obligates the company to provide an annual compensation at the rate of \$46,800 per anum in the year 2000 and \$51,480 in the subsequent year.

In January 2000 the company entered into two additional employment contracts with President, Jeffrey Felder and President of Latin American Operations, Angel Garcia, both for the duration of two years and provides that company be obligated for an aggregate compensation of \$115,000 in year 2000 and \$126,500 in year 2001. Effective August 2, 2000 both of these employment contracts were amended to reflect upon termination from employment these individuals would also be entitled to nine months of compensation and will receive in the aggregate 35,000 shares of common stock which the company has agreed to reimburse the respective employees the difference between the gross proceeds they receive upon sale and \$105,000, regardless of the term the employees hold such shares.

The company entered into two additional one-year employment agreements with the Chief Operating Officer, William Bossung, and the Chief Executive Officer, Todd Sanders, requiring the company issue 100,000 shares of stock and 750,000 warrants to purchase additional common stock at \$1.75 per share, individually. The distribution of the stock was considered compensation in the year 2000 (See note 3).

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### LATIN AMERICAN CASINOS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2000 AND 1999

#### Note 8. Commitments and Contingencies (Continued)

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##### C Foreign Assets

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The accompanying consolidated balance sheets includes assets relating to the company's slot machine operations in Peru and Colombia of \$3,520,000 and \$1,264,000 respectively. Although these countries are considered politically and economically stable, it is possible that unanticipated events in foreign countries could disrupt the company's operations. In that regard, the company was informed that in Peru an excise tax has been instituted effective October 1, 1996, on the leases of gaming equipment. The company with others in the industry negotiated with the appropriate governmental agencies and have had the excise tax significantly curtailed. In addition, a significant portion of the company's inventory in cigars is being stored in South America awaiting instructions to deliver them to the Miami location.

##### D Lease Commitment

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The company's Miami office is obligated for a three year lease for its premises, which expires in September, 2001 and requires monthly rent of \$2,500. In addition, the company is obligated for a two year lease for it's warehouse space, at a monthly rent of \$1,400.

### Note 9 Restructuring Losses And Non-Recurring Losses

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In March 2001, the company sold it's Miami property for an aggregate consideration of \$139,000 and recorded a net loss on disposition of \$64,000. In addition the company recorded a reduction in value for certain slot machine parts of \$194,000.

### Note 10 Pending Merger

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In February, 2001 the company announced that it had entered into a non binding letter of intent to merge with Digital Convergence Corporation, a privately held California company. The company has deferred \$37,500 of cost incurred in connection with this merger. The Company terminated these negotiations on May 17, 2001.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### General

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The Company entered the gaming and casino industry in Peru in 1994. Since January 1995, the Company has been engaged in the renting of slot machines to licensed gaming establishments in various cities through its wholly owned subsidiaries in South America. In 1994, the Company formed its Peruvian subsidiary in late 1995 the Company formed its Colombian subsidiary.

As of March 31, 2001, the Company had approximately 900 machines under rental contracts in Peru and Colombia.

The Company concentrates its efforts on the rental of used five reel slot machines. These machines were purchased at a fraction of the cost of new machines and are refurbished for use in South America. Whereas a new slot machine would cost approximately \$10,000 plus additional charges for duty, the used slot machines cost approximately \$600 each including freight, duty, and refurbishing expenditures.

In March 1997, the Company expanded its slot machine operations in Colombia to include gaming slot route operations. In January 2000, the Company suspended these route operations due to increasing cost of maintaining these routes.

In September 1997, the company incorporated World's Best Rated Cigar Company, as a wholly owned subsidiary, to distribute premium cigars. It was originally intended that the company would acquire quality cigars from six manufacturers and market them at "off price" through large retail chains. In February 2000, the marketing strategy was modified to include selling directly to consumers through our web site, [www.worldsbestrated.com](http://www.worldsbestrated.com), and our toll free number.

### Results of Operations

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### ----- First Quarter -----

Revenues from the rental of slot machines in Peru and Colombia for the three months ended March 31, 2001 decreased by \$91,800 or 38.2 %, to \$148,350 from \$240,150 for the comparable period in 2000. The Company's revenues from cigar sales were \$33,900 in the first quarter of 2001 as compared to sales of \$24,300, an increase of \$9,600 or 39.5% for the same period in 2000.

The decrease in revenues was the result of an overall weakness of the economy in South America and the continued concerns over government-mandated obsolescence, political changes, increased competition as well as the increasing need to replace the older machines on rental with more modern machines.

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Selling, general, and administrative expenses incurred in the quarter ended March 31, 2001 decreased \$26,600 or 5.0%, to \$501,200 from \$527,850 for the same period in 2000.

The decrease is due to a reduction in staffing in South America offset by severance payments in South America.

Net (loss) for the three months ended March 31, 2001 was (\$560,600) or (\$0.13) per share compared to (\$305,200) loss or (\$0.09) per share for the same period in 2000.

The net loss was attributable to the significant decline in revenues from slot machine operations, the write down of slot machine parts and the loss incurred on the sale, by the company, of it's real property in Miami.

Through March 31, 2001 the Company expended approximately \$1,190,000 on the establishment of a premium cigar operation; minor additional expenditures for marketing and personnel are expected throughout the year 2001. No significant cost associated with acquisitions of new cigars and related inventory are expected in year 2001. The Company anticipates that it will generate increased revenues from this business in year 2001, although the amount of such increased revenues is, at this time, impossible to forecast. The effect that this business will have on the overall profitability or loss of the Company is uncertain.

### Liquidity and Capital Resources -----

Cash and cash equivalents decreased approximately \$40,900 or less than 1%, to \$4,381,800 at March 31, 2001 from \$4,422,700 at December 31, 2000. The decrease is attributable to the poor results of the slot machine operations, partially offset by the sale of slot machines, and the continued slow growth of the cigar operations.

The Company anticipates that its cash flow from operations and interest earned on cash equivalents will be sufficient to meet its cash needs for the next twelve months. The Company does not have any commitments for material capital expenditures.

### Forward Looking Statements -----

From time to time, the Company may publish forward looking statements

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relating to such matters as anticipated financial performance, business prospects, new products and certain other matters. The words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify such forward looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safeharbor, the Company notes that a variety of factors could cause its actual results and experience to differ materially from anticipated results and other expectations that may effect the operations, performance, development and results of the Company's business, including the following:

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1. Changes in government regulations of gaming, such as the excise tax imposed by Peru, could have an effect on the Company's operations and business.
2. Political factors affecting South and Central America, particularly as they pertain to currency valuation, could affect the Company's business in ways, which are difficult to predict.
3. The agreements, which the Company has with five of its cigar manufacturers, are cancelable upon 60 days written notice. One or more such cancellations could have a material adverse effect on the Company's cigar operations.
4. The Company's cigar operations are subject to all the risks and uncertainties associated with the development of a new enterprise. There can be no assurances that the Company will be able to successfully penetrate the market, or that its cigar operations will become profitable.
5. The Company may be required to raise additional funds to expand its business operations, particularly the cigar business, if it proves successful. There can be no assurances that the Company will be able to raise such funds, either through the sale of equity or debt securities or through commercial sources. The inability to acquire needed capital could have a material adverse effect on the Company's ability to expand.
6. The Company has a recently terminated it's merger negotiations with Digital Convergence Corporation. The Company is exploring potential business opportunities, which if consummated, could dramatically change the operations of the Company.

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

Latin American Casinos, Inc.

Date: May 21, 2001  
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/s/ JEFFREY A. FELDER  
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Jeffrey A. Felder  
President



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Date: May 21, 2001  
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/s/ GERALDINE LYONS  
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Geraldine Lyons  
Acting Chief Financial Officer

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