

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

DUNES HOTELS & CASINOS INC
Form 10KSB
April 13, 2001

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

Mark One)

X
--- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2000 or Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission File No. 1-4385

DUNES HOTELS AND CASINOS INC.

(Exact name of registrant as specified in its charter)

NEW YORK 11-1687244

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

46735 County Rd. 32B, P.O. Box 130, Davis, California 95617

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (530) 753-4890

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
NONE	NONE

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.50 par value	Series B, \$7.50 Cumulative Preferred Stock, \$.50 par value
(Title of class)	(Title of class)

Check 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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. (___)

State issuer's revenues for its most recent fiscal year: \$2,929,000

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at March 30, 2001 (\$1.03 share) was approximately \$680,179. See "Item 5. Market for Registrant's Common Equity and Related Matters".

REAL ESTATE SEGMENT:

The Fairways

The Company, through SHF, developed approximately 50 acres of real property as a residential planned unit development known as "The Fairways" in Rancho Murieta, California. Rancho Murieta is a 3,500- acre master planned unit development located approximately 25 miles from Sacramento, California. Rancho Murieta consists primarily of single-family homes, town houses, commercial property and two 18-hole championship golf courses, including country club facilities. The Fairways, located within the boundaries of one of the golf courses at Rancho Murieta, was subdivided into 110 single-family estate lots. As of March 23, 2001, 2 lots remain unsold.

The Company does not expect to realize a gain on the sale of the remaining lots as the existing cost basis approximates net sale proceeds. To facilitate sales on certain lots, the Company planned to build a privacy wall on those lots, however, the wall was not approved by the architectural review committee.

In connection with its development of The Fairways, SHF was required to construct certain improvements that benefited not only The Fairways, but other properties that lay outside of the boundaries of The Fairways (the Benefited Properties). The net cost of the improvements to the Benefited Properties was \$1,140,900 and SHF expects to be reimbursed for these costs if the Benefited Properties are developed. SHF's right to reimbursement will expire in September 2015. The Company is unable to predict what amount, if any, will be received as reimbursement. The rights to reimbursement are personal to SHF and do not run with The Fairway's property unless assigned by SHF.

Sam Hamburg Farm

MRI owns approximately 150 acres of agricultural property called Sam Hamburg Farm (Hamburg Farm) in Merced County, California. MRI's 150 acres are operated by SHF. Of the 150 acres, 40 acres contain an airstrip and shop area, which is the focus of continuing attempts at chemical clean-up. The remaining 110 acres are leased to one tenant at an annual aggregate rental of approximately \$24,000. The current lease commenced January 2000 for a period of two years.

The Company was advised in 1991 of possible contamination of 40 acres at Sam Hamburg Farm of approximately 5,000 cubic yards of contaminated soil. The Company has disposed of 1,000 cubic yards of contaminated soil to date. The Company, through its chemical and toxic clean-up consultants, has been working with the California State Environmental Protection Agency, in seeking alternate means to the disposal in toxic dump sites of the chemical and toxic-laden soil.

Because of ongoing testing, the State has not imposed a disposal date upon the Company. Cost of disposal of the remaining soil is estimated at \$125 to \$200 per cubic yard or approximately \$500,000 to \$800,000. However, if on-site remediation can be achieved, it is estimated the cost should be no more

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

than \$170,000. The Company is unable to predict when the ongoing testing will be completed or what the outcome of these tests will be. Accordingly, it is reasonably possible the estimates will change materially in the near term.

AGRICULTURAL SEGMENT:

Rice Storage And Drying Facilities

Since 1990, SHF has owned a rice storage facility (the "Storage Facility") located in Yolo County, California. The Storage Facility generally stores rice, for a fee and can store approximately 700,000 cwt. of grain.

In 1997, the Company entered into a financing lease agreement for its drying facility which is adjacent to the Storage Facility. The lease is for five years commencing March 1998, the monthly rental is \$25,122 and the Company can buy the drying facility for \$1 at the end of the lease. The lease is collateralized by the drying facility, a deed of trust on certain parcels of property including the parcel on which the Storage Facility is located and the guarantees of MRI and the Company. Before the Guarantors are liable for any deficiency, the leasing company must first proceed against the drying facility and the additional collateral.

Prior to May 2000, the Company stored wheat principally for one customer, Adams Grain Co. ("Adams") under a contract which expires May 2002 ("Adams Contract"). In May 2000, the Company negotiated an end to the Adams Contract. The terms of ending the storage agreement, effective May 18, 2000 require the Company to only store rice at its storage facility and if the Company stores any grain other than rice, Adams, retains a first right of refusal to store commodities under the Adams Contract. These conditions will remain in effect until May 31, 2002 (the original expiration date of the Adams Contract).

On April 26, 2000, the Company entered into an agreement with Pacific International Rice Mills, Inc. (PIRMI) to store approximately 350,000 cwt. of dry paddy rice for the period commencing September 1, 2000, to August 31, 2001, in the east warehouse. The gross revenue is approximately \$140,000. As of July 26, 2000, the filling of the east warehouse was completed and during September 2000 the Company received payment for 50% of the storage revenue under the terms of the agreement.

In addition, on May 31, 2000, the Company entered into another agreement with PIRMI to dry and store wet paddy rice from the 2000 crop. The agreement provides for a minimum of 400,000 cwt. of wet paddy rice to be delivered. Gross drying revenue will be determined by the moisture content of the wet paddy rice delivered and the storage revenue will be calculated per dry cwt. During September 2000, the Company began drying operations and as of December 31, 2000, realized gross drying revenue of approximately \$214,000 net of freight rebate.

During 2000, the Company installed equipment and field related structures at the drying facility at a cost of approximately \$120,000. This equipment, which will allow the Company to clean the wet paddy rice prior to drying and elevator modifications, is projected to increase the Company's efficiency and flow rates.

If the Company were to lose its drying and storage customer, it would have a material adverse effect on the Company's agricultural segment.

COMPETITION

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Real Estate Segment:

The real estate investment and development business is highly competitive. The Company competes for real estate investments with investors of all types, including domestic and foreign corporations, financial institutions, other real estate investment companies and individuals, many of which have substantially greater resources than the Company. In addition, the Company's properties are subject to local competitors from the surrounding areas. The Company does not consider its real estate business to be seasonal in nature.

With respect to the residential real estate, the Company competes with numerous other developers and residential properties in the greater Sacramento area of California, ranging from regional and national firms to local companies, many of which have substantially greater resources than the Company. In the greater Sacramento area, the Company's residential lots compete on the basis of, among other things, location, price and quality of amenities, such as the golf course and country club facilities at Rancho Murieta.

With respect to the Company's agricultural real estate, the Company competes for tenants with other regional or local agricultural properties in the area of California where the Company's property is located. Leasing property to prospective tenants is generally determined on the basis of, among other things, lease rates and quality of soil. The Company's leases of agricultural property are generally for a period of 2 years.

Agricultural Segment:

With respect to the Company's rice drying and storage operations, the Company competes with other rice drying and storage companies in Northern California. The rice drying operation is seasonal and runs from approximately September 15 to November 15. The storage facility, depending on the demand and shipment of rice from storage, operates on a year around basis. The drying and storage operations are impacted by the number of acres grown, the yield per acre, weather conditions, trucking expense and government programs. The storage facility is located on the southern edge of the California rice growing region. If there is a significant change in any of the above factors, it could have a material adverse effect on the rice drying and storage revenues. Because the Company stores rice for principally one customer, the loss of that customer could have a material adverse effect on the rice drying and storage operation.

SALES AND MARKETING

The Company employs a sales consultant for the sale of its residential lots at the Fairways, although sales by independent real estate brokers are also encouraged. The residential lots are marketed primarily by means of media advertising, customer referrals and realtor contacts. Selling prices are set based on the local market conditions and competitive factors. The agricultural properties are marketed to farmers in the surrounding area where the agricultural property is located. The rice drying and storage operation is marketed to principally one customer but the Company is attempting to obtain additional customers.

REGULATION

The Company must comply with various federal, state and local zoning, building, pollution, environmental, health, and advertising ordinances, rules

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

and regulations, including regulations relating to specific building materials to be used, building design, minimum elevations of properties and emissions from the rice drying and storage facilities.

EMPLOYEES

At March 23, 2001, the Company had 4 employees. None of the Company's employees are covered by collective bargaining agreements. The Company believes its employee relations to be satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY

REAL ESTATE SEGMENT:

The Fairways

The Fairways is comprised of approximately 50 acres of land which has been developed into 110 single family estate lots of which 2 remain unsold as of March 23, 2001. It is located in Rancho Murieta, California, adjacent to Highway 16, approximately 25 miles southeast of Sacramento. The land is encumbered by bonds in the approximate amount of \$4,500, which is the pro rata share of a bonded indebtedness incurred that enabled the Rancho Murieta Community Services District to acquire the water and sewer facilities that serve the community of Rancho Murieta, which includes The Fairways. The bonded indebtedness will be assumed, pro rata, by the individual lot buyers.

Sam Hamburg Farm

Sam Hamburg Farm consists of approximately 150 acres remaining from an original 4,600 acres of agricultural land. The remaining land is located in the most southwesterly corner of Merced County, California approximately two miles east of Interstate Highway 5. It is approximately ten miles south of the city of Los Banos, California. The Company leases 110 acres to one tenant, who grows various crops. The terms of the leases are usually two crop years on a cash rent basis. See "Item 1. Business - Real Estate Segment - Sam Hamburg Farm".

AGRICULTURAL SEGMENT:

Rice Storage and Drying Facility

The storage and drying facilities are located in Yolo County, California, approximately 15 miles west of the city of Sacramento. The storage facility can store approximately 700,000 cwt. of rice. The drying facility can dry approximately 17,600 cwt. of rice in a 24 hour period. The drying facility dries enough rice to fill approximately one-half of the storage facility. See "Item 1. Business -- Agricultural Segment -- Rice Storage and Drying Facilities."

6

EXECUTIVE OFFICES:

The Company's executive office is located in a building in Davis, California adjacent to the rice drying and storage facility. The executive offices are approximately 1,000 square feet and the Company believes that the executive office is suitable for its needs.

ITEM 3. LEGAL PROCEEDINGS

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

See "Note 10.--Legal Proceedings" to the Company's consolidated financial statements included elsewhere in this report.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal United States market in which the Company's common stock is traded is the over-the-counter market. The Company's symbol for its common stock is "DUNE". There is no established public trading market for the Company's Series B preferred stock. Neither the Company's common stock nor the Company's preferred stock is listed for trading on an exchange.

The following table sets forth for the periods indicated the range of the high and low bid quotations for the Company's common stock as quoted on the OTC Bulletin Board. The reported bid quotations reflect inter-dealer prices, without retail markup, markdown or commissions, and may not necessarily represent actual transactions.

2000	HIGH	LOW
-----	----	---
1st Quarter	\$1.31	\$0.75
2nd Quarter	\$0.75	\$0.59
3rd Quarter	\$0.75	\$0.62
4th Quarter	\$0.88	\$0.50
1999	HIGH	LOW
-----	----	---
1st Quarter	\$0.25	\$0.19
2nd Quarter	\$0.83	\$0.21
3rd Quarter	\$0.89	\$0.50
4th Quarter	\$0.78	\$0.68

At March 30, 2001, the Company's transfer agent reported that there were approximately 1,466 holders of record of the Company's common stock, and approximately 511 holders of record of the Company's Series B \$7.50 cumulative, voting and non-convertible preferred stock.

Dividends on the Company's common stock have not been paid since the second quarter of 1979. Dividends on the Company's Series B preferred stock have not been paid since the first quarter of 1982.

The Company is in arrears on dividends on the preferred stock in the amount of approximately \$1,389,000 as of December 31, 2000. This number includes accrued dividends on the 1,075 shares of preferred stock acquired by the Company in its tender offer. The Company has no present intention to pay dividends on either its common or preferred shares in the near future.

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATION

The Consolidated Financial Statements and Notes thereto are an integral part of this report, including this Item 6, and are incorporated herein by this reference and should be read in conjunction herewith.

Certain information included herein contains statements that are forward-looking, such as anticipated liquidity requirements for the coming fiscal year, anticipated sources of liquidity for the coming fiscal year, the impact of anticipated asset sales, and potential changes in control of the Company. Such forward-looking information involves important risks and uncertainties that could significantly affect the Company's financial condition and future results of operations, and accordingly, such future financial condition and results of operations may differ from those expressed in any forward-looking statements made herein. These risks and uncertainties include, but are not limited to, those risks relating to actual costs necessary to clean-up certain real property chemical contamination, real estate market conditions and general economic conditions, the abilities of certain third parties to obtain financing and otherwise perform under real estate purchase agreements, and the outcome of certain litigation and other risks. The Company cautions readers not to place undue reliance on any such forward-looking statements, and, such statements speak only as of the date made.

OVERVIEW

Real Estate

The Fairways consist of the remaining portion of approximately 50 acres of developed residential land in Rancho Murieta, Sacramento County, California. Rancho Murieta is a 3,500-acre master planned unit development community located approximately 25 miles from Sacramento. The development consists primarily of single-family homes, town houses, commercial property and two 18-hole championship golf courses and country club facilities. The 50 acres are located within the boundaries of one of the golf courses. The property was subdivided into 110 single-family estate lots. As of March 23, 2001, 2 lots are in escrow pending closing which will complete the sale of all of the lots. The Company does not expect to realize a gain on the sale of the remaining lots as the existing cost basis approximates net sale proceeds.

Agricultural

The Company operates a rice drying and storage facility. The drying facility is financed by a 5-year lease which commenced in March 1998. At the end of the lease, the Company will have the option to obtain title to the drying facility for \$1.00.

OPERATING RESULTS

Net loss for the year ended December 31, 2000, increased by approximately \$1,045,000 when compared with the year ended December 31, 1999. The major items contributing to the loss increase were the following:

8

- (1) A decrease in profit from the sale of real estate. During 1999, 2.16 acres of industrial property in Las Vegas, NV was sold for \$846,800; and

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

(2) An increase in corporate expense.

These items were partially offset by a decrease in interest expense.

2000 vs. 1999

Real estate

Real estate revenues and profits decreased during 2000. In 1999, 2.16 acres of industrial property in Las Vegas, NV were sold for \$846,800. Sales at The Fairways increased during 2000 as there were 30 lot sales, compared to 6 lot sales in 1999, however, there was no gain on these sales as the existing cost basis approximates net sales proceeds.

Agricultural

Rice drying and storage losses in 2000 decreased by approximately \$61,000 when compared with 1999. For the year ended December 31, 2000, drying and storage revenue was \$342,000 compared to \$168,000 for the prior year. The increase is primarily due to rice drying during the current year. The storage revenue increase will be reflected during the next nine months of 2001, as the storage revenue will be realized as earned. During 1999, there was no storage revenue.

General

Selling, administrative and general expenses in total increased approximately \$342,000. The major contributors to the increase were legal fees (\$193,000); officers salary (\$76,000); fees relating to the tender offer (\$64,000); accounting fees (\$42,000); and officers travel (\$36,000). These increases were offset by decreases in directors consulting fees (\$48,000) and director fees (\$21,000).

Interest income increased due to additional notes receivable from lot sales at The Fairways. Interest expense decreased as a result of payments made during the year on the rice dryer.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2000, cash, cash equivalents and marketable securities increased by \$1,062,000 from \$3,601,000 at December 31, 1999 to \$4,663,000 at December 31, 2000. The most significant source of cash in 2000 was \$1,392,000 provided by operations. The most significant uses of cash in 2000 consisted of payments of \$226,000 on long-term debt, purchase of property and equipment of \$148,000 and investment in marketable securities of \$100,000.

As discussed in Item 1.--Description of Business--Recent Developments", on March 16, 2001, the Company completed its tender offer for shares of the Common Stock and Preferred Stock. As a result of the tender offer, the Company paid \$459,813 to the former holders of the Common Stock and Preferred Stock, which amount was paid from the Company's cash and cash equivalents.

The Company believes that its primary requirements for liquidity in the coming fiscal year will be to fund the final expenses on the remaining two lots at The Fairways, which include, among other

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

things, association dues, water and sewer fees and property taxes; to fund the required payments due on the grain dryer financing; to fund costs that may be incurred relating to the toxic clean-up at Sam Hamburg Farm; and to fund general and administrative expenses.

The Company believes that sources of required liquidity will be cash generated from the rice drying and storage facilities and the collection of notes receivable resulting from sales at The Fairways. Based on known commitments, the Company believes that the sources of cash described and the cash available at December 31, 2000, will be adequate to fund known liquidity requirements in 2001. However, if the sources of required liquidity and the cash available at December 31, 2000 prove to be insufficient to cover the Company's primary liquidity requirements, it will be necessary to sell some of the Company's non-income producing assets.

ITEM 7. FINANCIAL STATEMENTS

The Consolidated Financial Statements of Dunes Hotels and Casinos Inc. are located at pages F-1 to F-21 attached to the end of this annual report.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

10

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The By-laws of the Company provide that the number of directors constituting the entire board shall be five. Directors are elected at each annual meeting of shareholders to hold office until the next annual meeting and until a successor has been elected and qualified. On April 14, 2000, the Company held its annual meeting of shareholders. At the annual meeting, GFS and GFS Acquisition nominated four persons to fill the board seats that were up for election at the annual meeting. The shareholders of the Company elected the nominees proposed by GFS. Immediately following the annual meeting, the board of directors met and, in accordance with the provisions of the Company's bylaws, elected three additional directors to fill the three vacancies on the board of directors. Two of the directors have subsequently resigned.

Pursuant to a Securities and Exchange Commission consent decree, the Company has maintained an Audit Committee of the Board of Directors (Audit Committee) since 1978, a majority of which are independent directors.

Identified herein are all directors and executive officers of the Company. The information set forth as to each Director and Executive Officer has been furnished by such person.

Steve K. Miller, 51, was elected a director and President of the

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Company in April 2000. Mr. Miller has been employed by General Financial Services, Inc. since 1988 and as President since 1995. He earlier served as president and has continually served as Chairman of the Board of Directors since its founding. General Financial Services is primarily engaged in the investment and redevelopment of distressed real estate assets. He also owns several companies operated in conjunction with General Financial engaged in real estate investment, agriculture, hotel ownership and aviation. Prior to founding General Financial, Mr. Miller owned and operated John Deere agricultural equipment dealerships. Mr. Miller received his B.A. in Accounting and Finance from Southwest Oklahoma State University.

D. Cary Peaden, 45, was elected a Director, Secretary and Treasurer of the Company in April 2000. Mr. Peaden has been employed by General Financial Services, Inc. since 1989 and as Vice President for the last five years. Mr. Peaden is currently employed as assistant to the President of Rich-Mix Products, Inc., which is unaffiliated with General Financial Services. Mr. Peaden attended and studied business administration at Wichita State University.

James R. Herfurth, 58, was elected a Director of the Company in April 2000. Mr. Herfurth has practiced law in California since 1977. He is a member of the Board of Directors of Valley Solar Systems, Inc., a corporation doing business in energy conservation, and is the president and a director of FCW, Inc., a corporation engaged in the purchase of consumer loans. Mr. Herfurth owns and operates commercial, industrial and residential properties. He is a graduate of the College of the Sequoias and Humphreys College of Law.

James G. Steckart, 51, was elected a Director of the Company in April 2000. Since January 1999, Mr. Steckart has been the President of PXC, LLC, a Washington State based financial services company. Prior to joining PXC, Mr. Steckart served as Chief Executive Officer and President of Home Choice, Inc., Dallas, Texas, a publicly traded home furnishings and electronics leasing company from May 1998 to January 1999 and Chief Operating Officer from February 1998 to January 1999. From

11

1996 to October 1997, he was the President of Alameda Management Company, a business engaged in the development, management and ownership of inn-type motels. Mr. Steckart was employed by Advantage Companies, Inc., a publicly traded franchisee of Rent-A-Center, first as Vice President of Operations from 1991 to 1993 and then as President from 1993 to 1996.

Paul H. Viets, 67, was elected a Director of the Company in April 2000. Mr. Viets is Chairman of the Board of Directors of Commerce Bank of Independence, Kansas. Prior to that he served as Chairman, President and Director of Citizens National Bank which he and his partners sold to Commerce Bankshares, Inc., St. Louis, Missouri. Mr. Viets is also a partner in Vico Rentals, L.C., a real estate development company unrelated to General Financial. Mr. Viets is a business graduate of the University of Kansas.

There is no family relationship between any directors or executive officers of the Company. No director holds a directorship in any other company with a class of securities registered pursuant to Section 12 of the Exchange Act or subject to the requirements of Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, as amended.

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Compliance with Section 16(a) of the Exchange Act. Based solely upon a review of the Commission's Forms 3, 4 and 5 received by the Company during the last fiscal year and written representations solicited by the Company, no Officer, Director, beneficial owner of more than 10% of any class of the Company's equity securities or any other person subject to Section 16 of the Exchange Act failed to file on a timely basis as disclosed in the above forms, reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2000, except as follows: (1) the initial Form 3's for Paul Viets, James Steckart and James Herfurth were each filed one day late and the initial Form 3's for Fadi Mashnouk, Thomas Steele and Cary Peaden were each filed two days late (each of these forms reported that the reporting person did not own any shares of common or preferred stock in the Company) and (2) the Form 5 for General Financial Services, Inc. and Mr. Steve Miller for the year ended December 31, 2000, reporting the acquisition of 120 shares of preferred stock was filed one day late. On April 6, 2001, General Financial Services, Inc., GFS Acquisition Company, Inc. and Mr. Miller amended their Form 5 to report the acquisition of 18,000 shares that had not previously been reported on Form 4.

12

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the annual compensation paid to the Company's President for each of the last three fiscal years. No executive officer of the Company received compensation in excess of \$100,000 for the 3 years ended December 31, 2000.

SUMMARY COMPENSATION TABLE					
ANNUAL COMPENSATION					
(a)	(b)	(c)	(d)	(e)	(i)
Name and principal position	Year	Salary (\$)	Bonus (\$)	Other annual compensation (\$)	All other compensation (\$)(1)
-----	----	-----	-----	---	-----
Steve K. Miller, President	2000 (2)	\$71,381	--	--	\$11,067
Edward Pasquale, President	2000 (3)	--	--	--	\$22,267
	1999	--	--	--	\$62,568
	1998	--	--	--	\$36,862

(1) All other compensation for Mr. Miller consists of the following:

Directors fees	\$10,667
Consulting fees	400

	\$11,067
	=====

All other compensation for Mr. Pasquale consists of the following:

Year Ended December 31,

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

	1998	1999	2000
	-----	----	----
Directors fees	\$15,000	\$15,000	\$4,333
Audit Committee fees	12,000	12,000	3,467
Consulting fees	9,862	35,568	14,467
	-----	-----	-----
	\$36,862	\$62,568	\$22,267
	=====	=====	=====

- (2) Mr. Miller was elected president of the Company on April 14, 2000.
 (3) Mr. Pasquale was president of the Company from December 1997 to April 14, 2000.

Compensation of Directors

The Company pays each director an annual fee of \$15,000 payable monthly. In addition to their regular directors fees, board members and audit committee members are paid \$200 per half-day and \$400 per full day for special projects considered to be outside the scope of their duties as board and audit committee members. In addition, they receive a travel fee of \$300 for each meeting attended.

13

Messrs. Herfurth, Steckart, and Viets are all member of the Company's Audit Committee. For services rendered as Audit Committee members and consultants during the fiscal year 2000, Messrs. Herfurth, Steckart, and Viets were paid \$17,500, \$400, and \$400 respectively.

The Company does not have a plan, pursuant to which cash or non-cash compensation is paid or distributed, or is proposed to be paid or distributed in the future. The Company does not have any pension or other benefit plans.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table shown below contains certain information as of March 30, 2001 with respect to (1) any person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act), who is known to the Company to be beneficial owner (as that term is defined in rules and regulations of the Commission under the federal securities laws) of more than 5% of the Company's common stock, (2) each director and each executive officer named in the summary compensation table and (3) certain information with respect to the Company's common stock beneficially owned (as that term is defined in rules and regulations of the Commission under the federal security laws) by all directors, and executive officers of the Company as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (1)	Percent of Common Stock Outstanding
-----	-----	-----
GFS Financial Services, Inc.(2) 8441 E. 32nd Street N Wichita, KS 67226	4,003,309	85.8%
Steve K. Miller(3)	4,003,309	85.8%

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

James R. Herfurth	--	--
James G. Steckart	--	--
Paul H. Viets	--	--
D. Cary Peaden	3,100	*
All Directors and Officers as a Group (5 Persons)	4,006,409	85.8%

* less than 1%

- (1) In furnishing this information, the Company is relying upon the contents of statements filed with the Commission pursuant to Section 13(d) and Section 13(g) of the Exchange Act.
- (2) Consists of 3,000,000 shares owned directly by General Financial Services, Inc. and 1,003,309 shares owned indirectly through its wholly owned subsidiary GFS Acquisition Company, Inc. Mr. Miller is the sole stockholder, sole director and the president of

14

General Financial Services, Inc. and as a result may be deemed to be the beneficial owner of the shares owned directly and indirectly by General Financial Services, Inc.

The following table sets forth, as of March 30, 2001, the number and percentage of shares of the Company's Series B preferred stock which are beneficially owned, directly or indirectly, by (1) any person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act), who is known to the Company to be beneficial owner (as that term is defined in rules and regulations of the Commission under the federal securities laws) of more than 5% of the Company's Preferred Stock, (2) each director and each executive officer named in the summary compensation table and (3) certain information with respect to the Company's Preferred Stock beneficially owned (as that term is defined in rules and regulations of the Commission under the federal security laws) by all directors, and executive officers of the Company as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (1)	Percent of Common Stock Outstanding
USI Corp(2) 1040 Lawrence Court Wichita, KS 67206	2,399	28.1%
Empire & Company c/o Transpacific Corp. 328A Exchange Place Station Jersey City, NJ 07303	1,973	23.1%
Steve K. Miller(3)	120	1.4%
James R. Herfurth	--	--

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

James G. Steckart	--	--
Paul H. Viets	--	--
D. Cary Peaden	--	--
All Directors and Officers as a Group (5 Persons)	120	1.4%

-
- (1) In furnishing this information, the Company is relying upon the contents of statements filed with the Commission pursuant to Section 13(d) and Section 13(g) of the Exchange Act.
 - (2) USI Corp claims that it owns or has rights to approximately 3,000 shares of preferred stock. Pursuant to an order by the United States District Court for Kansas, USI Corp has agreed not to transfer these shares. See Note 10 to the Consolidated Financial Statements of the Company included elsewhere in this report.
 - (3) Consists of 120 shares owned by General Financial Services, Inc. Mr. Miller is the sole stockholder, sole director and the president of General Financial Services, Inc. and as a result may be deemed to be the beneficial owner of the shares owned by General Financial Services, Inc.

15

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

The following documents are filed as part of this report

a. Financial Statements	PAGE

Dunes Hotels and Casinos Inc. and Subsidiaries Consolidated Financial Statements:	
Independent Accountants' Report of Baird, Kurtz & Dobson	F-1
Independent Auditors' Report of Piercy, Bowler, Taylor and Kern	F-2
Balance Sheet as December 31, 2000	F-3
Statements of Operations, two years ended December 31, 2000	F-5
Statements of Changes in Shareholders' Equity, two years ended	

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

December 31, 2000	F-6
Statements of Cash Flows, two years ended December 31, 2000	F-7
Notes to Financial Statements, two years ended December 31, 2000	F-9

b. Exhibits

- 3.1 Restated Certificate of Incorporation of Dunes Hotels and Casinos Inc. dated June 17, 1982 (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1994, Part IV, Item 14(a)(3), Exhibit 3.01).
 - 3.2 Certificate of Amendment of Restated Certificate of Incorporation of Dunes Hotels and Casinos Inc. dated December 19, 1984 (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1994, Part IV, Item 14(a)(3), Exhibit 3.02).
 - 3.3 Revised By-laws of Dunes Hotels and Casinos Inc. dated February 3, 2000 (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1999, Part IV, Item 14(a)(3), Exhibit 3.03).
 - 3.4 Amendent to By-laws adopted June 18, 1997.
- 16
- 4.1 Specimen Certificate for the Common Stock of Dunes Hotels and Casinos Inc. (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1994, Part IV, Item 14(a)(3), Exhibit 4.01).
 - 4.2 Specimen Certificate for the Preferred Stock of Dunes Hotels and Casinos Inc. (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1994, Part IV, Item 14(a)(3), Exhibit 4.02).
- 10.1 Reimbursement Agreement dated September 20, 1995, by and between Rancho Murieta Community Services District and SHF Acquisition Corporation regarding the amount of the reimbursement due SHF for excess work done at The Fairways at Rancho Murieta that will benefit other properties within the boundaries of Rancho Murieta (incorporated by reference to Dunes Hotels and Casinos Inc. Annual Report on Form 10-K (file no. 1-4385) for the year ended December 31, 1995, Part IV, Item 14(a)(3), Exhibit 10.24).
 - 10.2 Master Equipment Lease dated April 3, 1997, between ICON Financial Corp. and SHF Acquisition Corporation (incorporated by

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

reference to Dunes Hotels and Casinos Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, Part II, Item 6, Exhibit 10.02).

10.3 Letter Agreement dated May 31, 2000 and signed May 31, 2000 between SHF Acquisition, a wholly-owned subsidiary of the Dunes Hotels & Casinos Inc. and Pacific International Rice Mills (incorporated herein by reference to Dunes Hotels and Casinos Inc. Quarterly Report on Form 10-QSB (file no. 1-4385) for the period ended June 30, 2000, Part II, Item 6(a), Exhibit 10.1)

10.4 Letter Agreement dated April 26, 2000 and signed April 26, 2000 between SHF Acquisition, a wholly-owned subsidiary of the Dunes Hotels & Casinos Inc. and Pacific International Rice Mills (incorporated herein by reference to Dunes Hotels and Casinos Inc. Quarterly Report on Form 10-QSB (file no. 1-4385) for the period ended June 30, 2000, Part II, Item 6(a), Exhibit 10.2)

21.1 Subsidiaries of Registrant.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DUNES HOTELS AND CASINOS INC.

DUNES HOTELS AND CASINOS INC.

By /s/ Steve K. Miller

Steve K. Miller
President
(Principal Executive Officer)

By /s/ Marvin P. Johnson

Marvin P. Johnson
Principal Financial and Accounting
Officer

Dated April 2, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature Title Date
/s/ James R. Herfurth April 2, 2001

James R. Herfurth Director
/s/ Steve K. Miller April 2, 2001

Steve K. Miller Director
/s/ D. Cary Peaden April 2, 2001

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

D. Cary Peaden Director

/s/ James G. Steckart April 2, 2001

James G. Steckart Director

/s/ Paul H. Viets April 2, 2001

Paul H. Viets Director

18

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Shareholders
Dunes Hotels and Casinos Inc.
Davis, California

We have audited the accompanying consolidated balance sheet of Dunes Hotels and Casinos Inc. and Subsidiaries as of December 31, 2000, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dunes Hotels and Casinos Inc. and Subsidiaries as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

/s/ Baird, Kurtz and Dobson

Wichita, Kansas

February 20, 2001, except for notes 4, 9, 10 and 14 as to which the date is March 30, 2001.

F-1

INDEPENDENT AUDITORS' REPORT

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Board of Directors and Shareholders
Dunes Hotels and Casinos Inc.
Davis, California

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of Dunes Hotels and Casinos Inc. and Subsidiaries for the year ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows for the year ended December 31, 1999, of Dunes Hotels and Casinos Inc. and Subsidiaries in conformity with generally accepted accounting principles.

/s/ Piercy, Bowler, Taylor & Kern

Las Vegas, Nevada
January 28, 2000

F-2

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2000
(Dollars in thousands)

ASSETS

Cash and cash equivalents	\$	4,241
Marketable securities		422
Receivables		
Trade		37
Real estate sales		526
Inventory of real estate held for sale		1,126
Prepaid expenses		56
Property and equipmenless accumulated depreciation		

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

and amortization of \$862	3,134
Other assets	4

	\$ 9,546
	=====

(continued)
F-3

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (CONTINUED)

DECEMBER 31, 2000
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

Accounts payable	\$ 143
Accrued expenses	478
Deferred income	159
Long-term debt and capital lease obligation	589
Accrued preferred stock dividends in arrears	1,389

	2,758

Shareholders' equity	
Preferred stock - authorized 10,750,000 shares (\$.50 par); issued 10,512 shares Series B \$7.50 cumulative preferred stock, outstanding 9,610 shares, aggregate liquidation value \$2,589, including dividends in arrears	5
Common stock - authorized 25,000,000 shares (\$.50 par); issued 7,799,780 shares, outstanding 5,094,340 shares	3,900
Capital in excess of par	25,881
Deficit	(20,960)

	8,826
Treasury stock at cost; Preferred - Series B, 902 shares Common 2,705,440 shares	(2,038)

Total shareholders' equity	6,788

	\$ 9,546
	=====

See notes to consolidated financial statements

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

F-4

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2000 AND 1999
(Dollars in thousands, except per share)

	2000	1999
	-----	-----
Revenues		
Sales of real estate	\$ 2,474	\$ 2,108
Rental income, agricultural properties	57	51
Drying and storage revenues	342	168
Miscellaneous income, net	56	67
	-----	-----
	2,929	2,394
	-----	-----
Cost and expenses		
Cost of real estate sold	2,550	1,120
Cost and expenses of rental income	4	4
Cost of drying and storage revenues	405	292
Selling, administrative and general		
Corporate	1,027	685
Real estate operations	172	225
Depreciation	132	132
	-----	-----
	4,290	2,458
	-----	-----
Loss before other credits (charges) and income taxes	(1,361)	(64)
Other credits (charges)		
Interest and dividend income	266	248
Interest expense	(80)	(178)
Gain / (loss) on marketable securities, net	44	(90)
	-----	-----
	230	(20)
	-----	-----
Loss before income taxes	(1,131)	(84)
Income taxes	5	7
	-----	-----
Net loss	\$ (1,136)	\$ (91)
	=====	=====
Weighted average number of shares outstanding	5,311,893	6,375,096
Basic and diluted loss per common share	\$ (0.23)	\$ (0.03)
	=====	=====

See notes to consolidated financial statements

F-5

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2000 AND 1999

(Dollars in thousands)

	Preferred stock issued (1)		Common stock issued		Capital in excess of par	Deficit	Preferred treasury stock	
	Shares	Par Value	Shares	Par Value			Shares	Cost
Balance, January 1, 1999	10,512	\$5	7,799,780	\$3,900	\$25,881	(\$19,589)	902	(\$70)
Accrued dividends, preferred stock						(72)		
Net loss						(91)		
Balance, December 31, 1999	10,512	5	7,799,780	3,900	25,881	(19,752)	902	(70)
Accrued dividends, preferred stock						(72)		
Acquisition of treasury stock through foreclosure								
Net loss						(1,136)		
Balance, December 31, 2000	10,512	\$5	7,799,780	\$3,900	\$25,881	(\$20,960)	902	(\$70)

(1) Series B, \$7.50 dividend, voting and non-convertible
(liquidation value, \$125 per share)

See notes to consolidated financial statements

F-6

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000 AND 1999

(Dollars in thousands)

	2000	1999
Cash flows from operating activities:		
Net loss	\$ (1,136)	\$ (91)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	132	132
(Gain) loss on marketable securities	(44)	90

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

(Gain) loss on disposition of assets		11
(Increase) decrease in operating assets:		
Receivables	(198)	45
Inventory, real estate held for sale	2,334	490
Prepaid expenses	55	4
Other	(1)	
Increase (decrease) in operating liabilities:		
Accounts payable	91	27
Accrued expenses and income taxes		(14)
Deferred credits and other	159	
Former minority interest		(320)
	-----	-----
Net cash provided by operating activities	1,392	374
	-----	-----
Cash flows from investing activities		
Investment in marketable securities	(100)	
Proceeds from sale of marketable securities		460
Proceeds from disposition of assets		500
Purchase of property and equipment	(148)	(22)
	-----	-----
Net cash provided by (used in) investing activities	(248)	938
	-----	-----

(continued)

F-7

DUNES HOTELS AND CASINOS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2000 AND 1999

(Dollars in thousands)

	2000	1999
	-----	-----
Cash flows from financing activities:		
Payments on short-term debt	\$	\$ (49)
Payments on long-term debt	(226)	(1,060)
	-----	-----
Net cash used in financing activities	(226)	(1,109)
	-----	-----
Increase in cash and cash equivalents	918	203
Cash and cash equivalents, beginning of year	3,323	3,120
	-----	-----
Cash and cash equivalents, end of year	\$ 4,241	\$ 3,323
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 5	\$ 7
	=====	=====
Interest	\$ 80	\$ 189
	=====	=====

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Supplemental schedules of non-cash investing and financing activities:

Dividends accrued but unpaid	\$	72	\$	72
		=====		=====
Stock acquired from foreclosure	\$	38	\$	
		=====		=====

See notes to consolidated financial statements
F-8

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

1. Summary of significant accounting policies:

Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Continental California Corporation (Continental), M & R Corporation (MRC) and MRC's subsidiary, M & R Investment Company, Inc. (MRI) and MRI's subsidiaries SHF Acquisition Corporation (SHF) and South Lake Acquisition Corporation (South Lake), after elimination of all material intercompany balances and transactions.

Description of business:

The Company operates in two principal business segments: real estate (development and sale of residential lots and rental of agricultural land) and agricultural (rice drying and storage).

The Company's real estate segment sells completed residential lots primarily to builders of custom homes and to the general public in and around the greater Sacramento, California, area. The agricultural properties are leased to farmers in the area where the agricultural properties are located. Accordingly, the Company's operations in this segment could be affected by material adverse changes in economic conditions in the area.

The agricultural segment dries harvested rice over a two-month period (approximately September 15 to November 15) and stores, for a fee, the dried rice until it is removed, normally within the following year. The Company stores rice principally for one customer under a contract which expires in August 2001. This contract accounts for approximately 50% of the storage capacity and 50% of the storage revenue. If the Company were to lose this storage customer, fail to obtain drying contracts for the coming year, or crop yields are low, it would have a material adverse affect on the Company's agricultural segment.

Property and equipment and depreciation and amortization:

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Property and equipment are stated at cost. Depreciation and amortization are calculated using the straightline method over the estimated useful lives of the assets.

Loss per share:

Loss per common share has been computed using the weighted average number of shares outstanding during the year: 5,311,893 and 6,375,096 for the years ended December 31, 2000 and 1999, respectively. Dividends on nonconvertible preferred stock - Series B have been deducted from income or added to the loss applicable to common shares. (See Note 3).

F-9

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

Income Taxes:

Deferred tax liabilities and assets are recognized for the tax effects of differences between the financial statement and tax basis of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

Cash equivalents:

The Company considers all highly liquid cash investments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2000 and 1999, cash equivalents consisted of money market accounts and commercial paper.

Marketable securities:

The Company's investments in marketable securities are accounted for as trading securities. Accordingly, gains or losses related to the Company's investments in marketable securities, which have not been material, are included in operations. These investments consist of preferred stock of \$322,000 and a municipal bond of \$100,000.

Environmental expenditures:

Expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to future revenues are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

Inventory of real estate held for development and sale:

Real estate held for development and sale is stated at the lower of cost or net realizable value. Costs include primarily acquisition costs and improvements costs. Costs are allocated to individual properties using the method appropriate in the circumstances. For purposes of the statement of cash flows, sales and purchases of real estate held for development and sale are classified as operating activities, because the real estate is, in substance, inventory.

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain reclassifications have been made to the 1999 financial statements to conform to the 2000 presentation. The reclassifications had no effect on the results of operations.

F-10

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

2. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating its fair value and disclosures for financial instruments.

Cash, cash equivalents and marketable securities:

The carrying amount approximates fair value of cash, cash equivalents and marketable securities. For marketable securities, fair values are estimated based on quoted market prices as of December 31, 2000.

Notes receivable:

These notes are collateralized by the real property sold. Management believes the fair value of real estate notes receivable approximates their carrying value based on their outstanding balances, their respective interest rates and comparable sales in the area, of the real property.

In the event these notes were not collected, and the Company were unable to recover or sell the collateral property, the maximum losses sustained would be equal to the aggregate value of the notes.

Long-term debt and capital lease obligation:

The fair value of the capital lease obligation is based on current rates at which the Company could borrow funds.

The fair values of the Company's significant financial instruments at December 31, 2000 approximate their carrying amounts.

3. Loss per common share:

Loss per common share has been computed by dividing the income, net (loss), less the accrued dividends applicable to the cumulative Series B Preferred Shares, for each of the two years ended December 31, 2000, and 1999, by the weighted number of shares outstanding (5,311,893) as of December 31, 2000, and

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

(6,375,096) as of December 31, 1999. Dividends on the Company's Series B Preferred have not been paid since the first quarter of 1982. The Company is in arrears on such dividends in the amount of approximately \$1,389,000 as of December 31, 2000. The Company has no present intention to pay dividends on either its common or preferred shares.

The following data show the amounts used in computing loss per share and the effect on loss and the weighted average number of shares of dilutive potential common stock.

F-11

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

(Dollars in thousands, except per share)

	Year Ended December 31,	
	2000	1999
	----	----
Loss from operations	\$(1,136)	\$(91)
Less: preferred dividends	(72)	(72)
	----	----
Loss to common stockholders used in basic and diluted loss per common share	\$(1,208)	\$(163)
	=====	=====
Weighted average number of common shares used in basic and diluted loss per common share	5,311,893	6,375,096
	=====	=====
Basic and diluted loss per common share	\$(0.23)	\$(0.03)
	=====	=====

4. Inventory of real estate held for development and sale (Dollars in thousands):

The Fairways (a)	\$ 940
Sam Hamburg Farm (b)	146
Other	40

	\$ 1,126
	=====

- (a) The Company, through SHF, developed 50 acres of residential land located at Rancho Murieta, California as a residential planned unit development known as "The Fairways". Rancho Murieta is a 3,500-acre master planned unit development located approximately 25 miles from Sacramento, California. The land is encumbered by bonds in the approximate amount of \$4,500. Rancho Murieta consists primarily of single family homes, town houses, commercial property and two 18-hole championship golf courses, including country club facilities. The Fairways, located within the boundaries of one of the golf courses located at Rancho Murieta, was subdivided into 110 single-family estate lots. As of March 23, 2001, 2 lots remain unsold.

In connection with its development of The Fairways, SHF was required to

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

construct certain improvements that benefited not only The Fairways, but other properties that lay outside of the boundaries of The Fairways (the Benefited Properties). The net cost of the improvements to the Benefited Properties was \$1,140,900. SHF expects to be reimbursed for these costs as the Benefited Properties are developed. SHF's right to reimbursement will expire in September 2015 and the Company is unable to predict what amount, if any, will be received as reimbursement. The rights to reimbursement are personal to SHF and do not run with The Fairway's property unless assigned by SHF.

- (b) Sam Hamburg Farm consists of approximately 150 acres of agricultural property. Of the 150 acres, 40 acres contain an airstrip and shop areas which are the focus of continuing attempts at chemical clean-up. See Note 9(b) for a detailed discussion concerning the removal of the toxic waste. The remaining 110 acres are leased to one tenant at an annual aggregate rental of approximately \$24,000 expiring in 2001.

F-12

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

5. Property and equipment and accumulated depreciation and amortization (Dollars in thousands):

Land and land improvements	\$ 159
Building and improvements	3,731
Machinery and equipment	106

	3,996
Less accumulated depreciation and amortization	(862)

	\$3,134
	=====

6. Long-term notes receivable (Dollars in thousands):

Real estate

Various real estate notes, collateralized by deeds of trust with interest ranging from 8% to 10%	\$ 526
	=====

7. Long-term debt and capital lease obligations (Dollars in thousands):

Long-term debt and capital lease obligations at December 31, 2000, consists of the following:

Capital lease obligation (a)	\$ 578
Other (b)	11

	\$ 589
	=====

Maturities of long-term debt are as follows:

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

(Dollars in thousands)

	Long term debt	Capital Lease Obligation	Total
2001	\$ 3	\$250	\$253
2002	4	278	282
2003	4	50	54
	---	---	---
	\$11	\$578	\$589
	==	===	===

- (a) The Company has a financing lease agreement for its drying facility for five years commencing March 1998 with a monthly rental of \$25,121. The Company can buy the drying facility for \$1 at the end of the lease. The lease is collateralized by the drying facility, a deed of trust on certain parcels of property, including the parcel on which the storage facility is located and the guarantees of MRI and the Company. Before the guarantors are liable for any deficiency, the leasing company must first proceed against the drying facility and the additional collateral.

F-13

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

- (b) Other long-term debt consists of an unsecured note payable in annual installments of \$5,000, including interest.

8. Preferred Stock:

The Company is authorized to issue 10,750,000 share of \$0.50 par value preferred shares. The Company gave authority to its Board of Directors to issue such preferred shares in one or more series, and to fix the number of shares in each series, and all designations, relative rights preferences and limitations of the shares issued in each series. As of December 31, 2000, the Board of Directors has not exercised the authority granted, and no such preferred shares have been issued except for the 10,512 shares of Series B, \$7.50 cumulative preferred of which 902 shares are held as treasury stock. Dividends on the Company's Series B preferred stock have not been paid since the first quarter of 1982. The Company is in arrears on such dividends as of December 31, 2000, in the amount of approximately \$1,389,000.

9. Contingencies:

- (a) At December 31, 2000, the Company has a net operating loss carry forward (NOL) of approximately \$53,298,000. The Board of Directors believes that this NOL is subject to severe limits under the Internal Revenue Code and as a result, the Board of Directors believes there is substantial doubt as to whether the NOL has any value to the Company. If there has been an

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

ownership change for purposes of Section 382 of the Internal Revenue Code of 1986, as amended (the Code), then there is a limitation on the amount of income that can be offset by NOL carryovers. In general, an ownership change occurs when a major shareholder of a loss corporation increases their ownership by more than 50%, which is tested over a three-year period. Depending on the interpretation of the IRS, an effective change in control may have occurred as early as January 4, 2000, upon the order vesting voting control with GFS.

- (b) SHF was advised in 1991 of the possible contamination of 40 acres at Sam Hamburg Farm of approximately 5,000 cubic yards of soil. The Company, through its chemical and toxic clean-up consultants, has been working with the California State Environmental Protection Agency, in seeking alternate means to the disposal in toxic dump sites of chemical and toxics-laden soil.

Because of ongoing testing, the State has not imposed a disposal date upon the Company. The Company has disposed of a 1,000 cubic yards of soil to date. Cost of disposal of the remaining soil is estimated at \$125 to \$200 per cubic yard or approximately \$500,000 to \$800,000, of which \$472,000 has been accrued. However, if on-site remediation can be achieved, it is estimated the cost will be no more than \$170,000. The Company is unable to predict when the ongoing testing will be complete or what the outcome of these tests will be. Accordingly, it is reasonably possible the estimates will change materially in the near term as the testing and remediation work continues.

F-14

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

- (c) The Company estimates the carrying value of the lots at the Fairways real estate development approximates their fair value. It is reasonably possible the amounts ultimately realized could differ materially in the near term from amounts recorded in the financial statements.
- (d) See Note 10 below regarding legal proceedings that may have a material adverse affect on the Company.
- (e) The Company had been notified that the California FTB is examining its 1995 tax return. The FTB is questioning the Company's reporting of approximately \$7,700,000 of income as being exempt from the 9.3% California tax. On September 13, 2000, the FTB requested, and the Company granted, a six month extension of the period in which the FTB could make an assessment related to the 1995 tax return. On March 13, 2001, the extension expired without any additional action being taken by the FTB.

10. Legal Proceedings.

FDIC Litigation/Change of Control

John B. Anderson (Anderson), the former Chairman of the Board of Directors of the Company, and through ownership of Cedar Development Co. ("Cedar"), was the

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

controlling shareholder and President of Baby Grand Corp. (BGC) and J.B.A. Investments, Inc. (Anderson Entities), which collectively owned approximately 4,280,756 shares or 67.2% of the Company's common stock. Of those shares (i) 3,000,000 shares (the FDIC Pledged Shares) were pledged as collateral to secure certain obligations owing to the FDIC described below, and (ii) 1,280,756 shares (the BGC Pledged Shares) were pledged as collateral in favor of a subsidiary of the Company.

The Federal Deposit Insurance Corporation ("FDIC") brought an action captioned, Federal Deposit Insurance Corporation, et al. v. John B. Anderson et al., United States District Court, District of Nevada, Case No. CV-S-95-00679-PMP (LRL), on July 14, 1995. Anderson, Edith Anderson (Anderson's wife), Cedar, J.A Inc. (JA), J.B.A. Investments Inc, (JBA) (collectively, the Anderson Parties) are defendants in this litigation (the Anderson Litigation). This matter is more fully described in the Company's Form 10-K for the year ended December 31, 1997, see "Item 3. Legal Proceedings - Federal Deposit Insurance Corporation, et al. v. John B. Anderson, et al." The FDIC reduced its claims to a Consent Judgment dated September 12, 1995 (the "Judgement").

In June 1999, the FDIC sold a portion of its Judgement, together with the underlying security owned by the Anderson Parties to General Financial Services, Inc. (GFS). Included in the sale were the FDIC Pledged Shares. GFS attempted to exercise its rights under the Judgement and transfer ownership of the FDIC Pledged Shares to it, but the Company intervened on behalf of Anderson, and seized the Pledged Shares. The Company in turn filed on July 6, 1999, a Complaint in Interpleader in Superior Court of California (the "California Action"). The jurisdiction of the action was removed and transferred on September 20, 1999 to the United States District Court for the District of Nevada as DUNES HOTELS AND CASINOS INC. v. J.B.A. INVESTMENTS, INC. et al. Case No. CV-S-99-1470-PMP (RJJ) (the "Nevada Action"). GFS and its subsidiary GFS

F-15

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

Acquisition Company, Inc. filed a counter-claim alleging among other things, damages from the previous Company management for filing the California Action, seizing the FDIC Pledged Shares, interfering with the lawful transfer of the FDIC Pledged Shares and refusing to grant shareholder demands for an immediate shareholder meeting to elect directors. A more detailed discussion is described in the Company's Form 10-KSB for the fiscal year ended December 31, 1999.

On January 5, 2000, the U.S. District Court in Nevada ordered that the Company hold a shareholders' meeting on or before April 14, 2000, and that GFS was entitled to vote the FDIC Pledged Shares at that meeting. In addition to its interest in the FDIC Pledged Shares, GFS has reported that through its subsidiary GFS Acquisition Company, Inc., it owned 883,922 shares of the Company's common stock acquired in the open market during 1999 and the first quarter of 2000, or approximately a total of 17.4% of the then outstanding stock.

Since 1998, the BGC Pledged Shares have been under the jurisdiction of the U.S. Bankruptcy Court in Las Vegas, Nevada, where BGC filed a petition under Chapter 7 of the Bankruptcy Code. On February 22, 2000, the Company's motion in Bankruptcy Court for relief from the automatic stay was granted to allow it to

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

foreclose on the BGC Pledged Shares. On March 3, 2000, the Company foreclosed on the BGC Pledged Shares and placed them in the treasury. Placing the BGC Pledged Shares into treasury had the effect of increasing GFS's voting percentage to 75.6% of the outstanding stock (GFS Shares).

On Friday, April 14, 2000, an Annual Meeting (the "Meeting") of the Shareholders of the Company was held at 10:00 a.m. in Sacramento, CA. The purpose of the Meeting was the election of the Board of Directors of the Company. Upon completion of the ballot counting, it was determined that the nominees of GFS and its subsidiary GFS Acquisition, Inc. received a plurality of the votes and were duly elected. See the Company's Current Report on Form 8-K dated April 14, 2000 and filed with the Securities and Exchange Commission on May 3, 2000.

Immediately following the annual Meeting, the board of directors met and, in accordance with the provisions of the Company's bylaws, elected three additional directors to fill the three vacancies on the board of directors. For more information regarding the names, ages and business experience for at least the past five years of the new directors, see the Company's Current Report on Form 8-K dated April 14, 2000 and filed with the Securities and Exchange Commission on May 3, 2000.

Pursuant to a Consent and Undertaking entered into with the Securities and Exchange Commission on October 13, 1977, the SEC asserts that the board of directors must have at least three directors satisfactory to the Commission (the "Independent Directors"). The Company has sought confirmation from the staff of the Commission that they do not object to Messrs. Herfurth, Steckart and Viets being designated the Independent Directors for purposes of the Consent and Undertaking. The staff has not responded to date. If the staff were to object to any of the above individuals being designated an Independent Director, then the board of directors will, without further shareholder approval elect another director, submit that director to the staff to replace any director that was objected to by the staff.

F-16

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

The new board of directors elected Mr. Miller president of the Company. Mr. Cary Peaden was elected secretary-treasurer of the Company. Mr. Marvin Johnson has been retained as the chief accounting officer of the Company.

The Nevada Action and the GFS counterclaim have been dismissed without prejudice. In January 2001, GFS foreclosed on the FDIC Pledged Shares and acquired direct ownership of the shares. The Dunes has no further involvement in the litigation involving the Anderson Entities.

Injunctive Action regarding Tender Offer

On April 3, 2000, JBA, GFS and GFS Acquisition filed an action against the USI Corp., Barney Kreutzer and Thomas Honton (collectively the "USI Group") in the U.S. District Court for the District of Kansas alleging, among other things, violations of the Williams Act, ss.ss.13(d), 14(d) and 14(e) of the Securities

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Exchange Act of 1934, 15 U.S.C. 78a et seq. ("Williams Act"). The case is captioned J.B.A. Investments, Inc., et al. v. USI Corp, et al., Case No 00127 WEB (D. Kan. 2000). The plaintiffs allege that the USI Group conducted a tender offer for the Company's Series B Preferred Stock in violation of the Williams Act. Upon information believed to be reliable, USI Group was able to purchase approximately 3000 shares of the Company's non-convertible preferred stock, Series B ("Series B Preferred"). The plaintiffs further allege that USI Group failed to file any of the necessary reports required under the Williams Act, failed to make material disclosures to the former Series B Preferred shareholders and engaged in fraudulent practices in conjunction with the alleged tender offer. The plaintiffs seek a preliminary and permanent injunction prohibiting the USI Group from completing the tender offer, rescission of the Series B Preferred purchases by the USI Group and damages.

The USI Group and the plaintiffs have consented to an order halting any further purchases of Series B Preferred by the USI Group, allowing the Company to instruct its transfer agent to stop the transfer of such shares to USI Group and precluding the USI Group from transferring or otherwise disposing the acquired Series B Preferred.

The USI Group filed a motion to dismiss the plaintiffs' action. Plaintiffs opposed that motion. By order dated February 21, 2001, the court denied the USI Group's motion to dismiss.

On August 3, 2000, the court entered an agreed order joining the Company as a plaintiff in the action.

On March 9, 2001, the USI Group filed several counterclaims against plaintiffs, including the Company. The claims being made against the Company include: (1) violations of Section 13e-3 and Section 13e-4 of the Securities Exchange Act of 1934 in conjunction with the Company's tender offer for all of the Common Stock and Series B Preferred; (2) breach of contract relating to the USI Group's Series B Preferred; and (3) injunctive relief relating to the foregoing. The counterclaim also includes separate derivative claims for relief asserted on behalf of the Company, and claims against plaintiffs other than the Company. The plaintiffs, including the Company, have not yet responded to the counterclaim. The Company intends to vigorously defend all of the claims made against it.

F-17

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

On March 9, 2001, the USI Group filed its answer to plaintiffs' claims. Discovery is ongoing with regard to the claims brought by plaintiffs and the counterclaims brought by the USI Group.

While management believes in the merits of the action against the USI Group, there can be no assurance as to the outcome of the action and ultimate ownership of the contested Series B Preferred or as to the outcome of the claims against the Company.

11. Income Taxes:

The Company and its subsidiaries file a consolidated federal income tax

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

return.

Deferred tax assets (liabilities) are comprised of the following at December 31, 2000
(Dollars in thousands):

Marketable securities valuation allowance	\$	11
Real estate allowances		53
Loss carryforwards		18,096
Other		2

Gross deferred tax assets		18,162
Deferred tax asset valuation allowance		(18,162)

Net deferred tax assets	\$	0
		=====

A reconciliation of the changes in deferred tax assets valuation allowance is as follows (Dollars in thousands):

Valuation allowance for unrealized loss on marketable securities	\$	(15)
Current year loss carryforwards		829
Valuation allowance on real estate		(427)
Expiration of NOL		(811)

Change in deferred tax asset valuation allowance		(424)
Deferred tax assets valuation allowance, beginning of year		18,586

Deferred tax assets valuation allowance, end of year	\$	18,162
		=====

A reconciliation of the federal statutory tax rate to the effective tax rate for 2000 and 1999, is as follows:

	Percentage of pre-tax income	
	2000	1999
	-----	-----
Federal statutory rate	(34%)	(34%)
Non-deductible items:		
Valuation adjustments	34%	26%

F-18

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

Other	0%	8%
	-----	-----
	0%	0%

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

The Company has the following net operating loss carryovers available for income tax reporting purposes:

Year of expiration -----	(Dollars in thousands)
2001	9,890
2003	20,156
2004	1,889
2005	1,891
2006	3,542
2007	803
2008	2,408
2009	595
2010	3,298
2011	1,791
2012	2,767
2018	1,241
2019	589
2020	2,438

	53,298
	=====

As more fully described in Note 9(a) and 10, a change in ownership of the Company may have or could have taken place as early as January 4, 2000. If such a change in ownership has taken place, it would materially reduce the amount of income that could be offset by net operating losses each year; and if there is no continuity of business after an ownership change, the net operating losses could be eliminated. Net operating losses, to the extent not used in any given taxable year, may be carried forward and added to the limitation of subsequent years.

12. Segment information:

As discussed in Note 1, the Company operates in two principal business segments: real estate investments (development and sale of residential lots and rental of agricultural land), and agricultural (drying and storing rice).

F-19

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

Following is a summary of segment information for 2000 and 1999:

	2000 ----	1999 ----
Net revenues from unaffiliated customers:		
Real estate:		
Sale of real estate	\$ 2,474	\$ 2,108
Land rent	57	51
Rice drying and storage revenue	342	168
	-----	-----
	\$ 2,873	\$ 2,327
	=====	=====

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

Rice drying and storage depreciation	\$132	\$132
	=====	=====
Income (loss) from operations:		
Real estate	\$ (139)	\$ 877
Rice drying and storage	(195)	(256)
	-----	-----
	(334)	621
Corporate operating expense	(1,027)	(685)
Other income / (loss)	230	(20)
Income taxes	(5)	(7)
	-----	-----
Net loss, as reported in the accompanying consolidated statements of operations	(\$ 1,136)	(\$ 91)
	=====	=====

	2000

Identifiable assets	
Real estate	\$ 1,652
Rice drying and storage	3,231
General corporate assets	4,663

Total assets, as reported in the accompanying consolidated balance sheet	\$ 9,546
	=====
Rice drying and storage fixed asset additions	\$148
	=====

13. Significant estimates and concentrations:

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Major customer:

The company derives substantially all of its storage income from one customer. The storage contract with this customer expires in 2001.

F-20

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

14. Subsequent events:

On October 31, 2000, the Company commenced a tender offer for all of its Common Stock at a purchase price of \$1.00 per share and for all of its Preferred Stock at a purchase price of \$30.00 per share. The tender offer for the Common Stock expired on February 15, 2001 and the tender offer for the Preferred Stock expired on March 16, 2001. As a result of the tender offer, the Dunes acquired

Edgar Filing: DUNES HOTELS & CASINOS INC - Form 10KSB

427,563 shares of Common Stock (representing 8.4% of the outstanding Common Stock) and 1,075 shares of Preferred Stock (representing 11.2% of the Preferred Stock). The tendered shares will be cancelled and as a result, Steve K. Miller, indirectly through General Financial Services, Inc. and GFS Acquisition Company, Inc., will own 85.8% of the Common Stock and 1.4% of the Preferred Stock.

As of March 30, 2001, shareholders who claim to have lost their stock certificates have submitted letters of transmittal for 82 shares of Preferred Stock and 18,100 shares of Common Stock. The Company has agreed to accept such tendered shares if the shareholders satisfy the transfer agent's requirement for delivery of a lost stock affidavit and the payment of a transfer service fee. These shares are not included in the above numbers or percentages

F-21