DUNES HOTELS & CASINOS INC
Form 10QSB
August 27, 2001

U.S. Securities and Exchange Commission
Washington, D.C. 20549
Form 10-QSB

(Mark One)
X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2001
____ Transition report pursuant to 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 business issuer as specified in its charter)

NEW YORK	11-1687244
(State or other jurisdiction or incorporation or organization)	I.R.S. Employer Identification No.

46735 County Road 32B, P.O. Box 130, Davis, California 95617
(Address of principal executive offices)

(530) 753-4890
(Issuer's telephone number)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the exchange Act during the 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 or the past 90 days.
Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 4,470,615 shares of common stock, $.50 par value as of August 1, 2001.

Transitional Small Business Disclosure Format (check one): Yes No X

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DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2001 AND DECEMBER 31, 2000
(Dollars in thousands)

ASSETS

	June 30, 2001	December 31, 2000
	(Unaudited)	
Cash and cash equivalents	$ 3,705	$ 4,241
Marketable securities	450	422
Receivables		
Trade		37
Real estate sales	769	526
Inventory of real estate held for sale	187	1,126
Prepaid expenses	28	56
Property and equipment, less accumulated depreciation and amortization of $917 and $862 in 2001 and 2000	3,082	3,134
Other assets	27	4
	$ 8,248	$ 9,546

See notes to condensed consolidated financial statements

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30, 2001 AND DECEMBER 31, 2000
(Dollars in thousands)

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2001	December 31, 2000
	(Unaudited)	
Accounts payable	$ 154	$ 143
Accrued expenses	477	478
Deferred income	68	159
Long-term debt and capital lease obligation	468	589
Accrued preferred stock dividends in arrears	875	1,389

	2,042	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 5,898 shares and 9,610 shares at June 30, 2001 and December 31, 2000, respectively, aggregate liquidation value $1,612, including dividends in arrears	5	5
Common stock - authorized 25,000,000 shares ($.50 par); issued 7,799,780 shares, outstanding 4,496,444 shares and 5,094,340 shares at June 30, 2001 and December 31, 2000, respectively	3,900	3,900
Capital in excess of par	25,881	25,881
Deficit	(20,833)	(20,960)
	8,953	8,826
Treasury stock at cost; Preferred - Series B, 4,614 shares Common 3,303,336 shares	(2,747)	(2,038)
Total shareholders' equity	6,206	6,788
	$ 8,248	$ 9,546

See notes to condensed consolidated financial statements

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DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF LOSS
THREE MONTHS ENDED JUNE 30, 2001 AND 2000
(Dollars in thousands, except per share)

UNAUDITED

	2001	2000
Revenues		
Sales of real estate	$ 224	$ 683
Rental income, agricultural properties	13	15
Drying and storage revenues	81	22
	318	720
Cost and expenses		
Cost of real estate sold	228	705
Cost and expenses of rental income	1	1
Cost of drying and storage revenues	53	71
Selling, administrative and general		
Corporate	246	106

Real estate operations	5	43
Depreciation	33	33
	566	959
Loss before other credits (charges) and income taxes	(248)	(239)
Other credits (charges)		
Interest and dividend income	38	57
Interest expense	(14)	(21)
Other income	3	
Gain / (loss) on marketable securities, net	30	9
	57	45
Loss before income taxes	(191)	(194)
Income taxes	(4)	(5)
Net loss	$ (195)	$ (199)
Weighted average number of shares outstanding	4,612,495	5,966,973
Basic and diluted loss per common share	$ (0.05)	$ (0.04)

See notes to condensed consolidated financial statements

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF LOSS
SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(Dollars in thousands, except per share)

UNAUDITED

	2001	2000
Revenues		
Sales of real estate	$ 949	$ 1,078
Rental income, agricultural properties	27	29
Drying and storage revenues	162	35
	1,138	1,142
Cost and expenses		
Cost of real estate sold	983	1,164
Cost and expenses of rental income	2	2
Cost of drying and storage revenues	135	139
Selling, administrative and general		
Corporate	451	467
Real estate operations	27	85
Depreciation	67	65
	1,665	1,922

Loss before other credits (charges) and income taxes	(527)	(780)
Other credits (charges)		
Interest and dividend income	75	104
Interest expense	(30)	(43)
Other income	3	3
Gain / (loss) on marketable securities, net	96	30
	144	94
Loss before income taxes	(383)	(686)
Income taxes	(4)	(5)
Net loss	$ (387)	$ (691)
Weighted average number of shares outstanding	4,612,495	5,966,973
Basic and diluted loss per common share	$ (0.09)	$ (0.12)

See notes to condensed consolidated financial statements

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DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2001 AND 2000
(Dollars in thousands)

UNAUDITED

	2001	2000
Cash flows from operating activities:		
Net cash provided by operating activities	$ 322	$ 487
Cash flows from investing activities:		
Investment in marketable securities	(28)	(131)
	(28)	(131)
Cash flows from financing activities		
Payments on long-term debt	(121)	(71)
Purchase of treasury stock	(709)	
	(830)	(71)
Increase in cash and cash equivalents	(536)	285

Cash and cash equivalents, beginning of period	4,241	3,323
Cash and cash equivalents, end of period	$ 3,705	$ 3,608

See notes to condensed consolidated financial statements

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DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. Basis of presentation:

The condensed consolidated financial information included herein is unaudited, except that the balance sheet at December 31, 2000, was derived from the audited financial statements included in the Company's 2000 Form 10-KSB. The June 30, 2001 information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows of the Company.

The results of operations for the six months ended June 30, 2001, are not necessarily indicative of the results to be expected for the full year. Further, certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-KSB annual report for 2000 filed with the Securities and Exchange Commission.

2. 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 inter-company balances and transactions.

3. Legal proceedings:

FDIC Litigation/Change of Control

On January 19, 2001, General Financial Services, Inc. completed the foreclosure of 3,000,000 shares of the Company's common stock pursuant to the order of the court in the proceeding 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. The Company has no further involvement in these legal proceedings. For additional information regarding these legal proceedings, see Note 10 to the financial statements included in the Company's Form 10-KSB for the fiscal year ended December 31, 2000.

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 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 non-convertible 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 Series B preferred stock. 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 stockholders 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, recission of the Series B preferred stock purchases by the USI Group and damages. On August 3, 2000, the Company was joined as a plaintiff.

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

On March 9, 2001, the USI Group filed an answer and several counter-claims against the plaintiffs, including the Company. USI subsequently withdrew its answer and counter-claims and filed an amended answer denying plaintiffs' claims without the previously stated counter-claims against the plaintiffs and the Company.

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 stock.

4. Contingencies:

(a) At June 30, 2001, 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 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 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 the chemical and toxics-laden soil.

Because of the ongoing testing, the State of California has not imposed a disposal date upon the Company. The Company has disposed of 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 that 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.

5. Loss per common share:

Loss per common share has been computed using the weighted average number of shares outstanding during the quarter: 4,612,495 and 5,966,973 for the quarters ended June 30, 2001 and 2000, respectively. Dividends on the Series B preferred stock have been deducted from income or added to the loss applicable to common shares. 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 in the amount of approximately $874,505 as of June 30, 2001.

During June 2001, the Company completed abandoned property reports to the various states as required by state law. This resulted from the Company's efforts to locate the affected Series B preferred and common stockholders in connection with its tender offer completed during the first quarter of 2001. In general, state law requires the Company to abandon shares of stock or their value when shareholders are deceased, without adequate asset transfer arrangements, or change their mailing address without informing the Company or without the Company being able to locate them. The states accepted cash in lieu of the abandoned securities. The amounts paid per share were the same as those paid in the Company's tender offer ($1.00 per share of common stock share and $30.00 per share of Series B preferred stock). By June 30, 2001, the Company abandoned 2,637 shares of Series B preferred stock and 170,333 shares of common stock. These shares are currently being held as treasury shares. As of August 13, 2001, the Company had abandoned an additional 62 shares of Series B preferred stock and 3,253 shares of common stock. These additional abandoned shares are still included in the total number of outstanding shares outstanding as of June 30, 2001, and in the per share data for the three and six months ended June 30, 2001.

As a result of the purchase of Series B preferred shares in the tender offer and the abandonment of Series B preferred stock, the accumulated dividends on the Series B preferred stock were decreased by $536,400. The Company has no present intention to pay dividends on either its common or preferred shares.

On January 1, 2000, there were 6,375,096 common shares outstanding. On March 3, 2000, the Company foreclosed on the 1,280,756 common shares that had been pledged as collateral in favor of a subsidiary of the Company. On June 30, 2000, there were 5,094,340 common shares outstanding. See Note 10 to the Company's financial statements included in the Form 10-KSB for the year ended December 31, 2000.

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DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

On January 1, 2001, there were 5,094,340 common shares outstanding. On February 15, 2001, the Company acquired 427,563 common shares pursuant to its tender offer for common stock. By June 30, 2001, the Company had acquired an additional 17,534 shares of common stock as a result of shareholders who had submitted incomplete or defect letters of transmittal in connection with the tender offer having cured such defects. As discussed above, on June 1, 2001, the Company effectively abandoned to the various states, 173,586 common shares pursuant to the abandoned property laws of the states. On June 30, 2001, there were 4,496,444 common shares outstanding.

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:

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Loss from operations	$(387)	$(691)
Less: preferred dividends	(22)	(36)
Loss to common stockholders used in basic EPS	$(409)	$(727)
Weighted average number of common shares used in basic and diluted EPS	4,612,495	5,966,973

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000

Loss from Operations	$(195)	$(199)
Less: preferred dividends	(11)	(18)
Loss to common stockholders used in basic EPS	$(206)	$(217)
Weighted average number of common shares used in basic and diluted EPS	4,612,495	5,966,973

6. Segment Information:

The Company's operations are classified into three principal reporting segments that provide different services. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies. The following table shows external revenues, depreciation, loss and assets for the reportable segments.

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Reportable Segments (in thousands)

	Grain Drying And Storage	Real Estate	Farming	Total
	Six Months Ended June 30, 2001			
External revenue	$162	$949	$ 27	$1,138
Depreciation	67			67
(Loss)/income	(40)	(61)	25	(76)
Assets	3,083	809	146	4,038
	Six Months Ended June 30, 2000			
External revenue	$35	$1,078	$ 29	$1,142
Depreciation	65			65
(Loss)/income	(169)	(171)	27	(313)
Assets	3,858	2,592	146	5,796
	Three Months Ended June 30, 2001			
External revenue	$81	$224	$ 13	$318
Depreciation	33			33
(Loss)/income	(5)	(9)	12	(2)
Assets	3,083	809	146	4,038
	Three Months Ended June 30, 2000			
External revenue	$22	$683	$ 15	$720
Depreciation	33			33

(Loss)/income	(82)	(65)	14	(133)
Assets	3,058	2,592	146	5,796

DUNES HOTELS AND CASINOS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

	Six Months Ended June 30,2001	Six Months Ended June 30, 2000	Three Months Ended June 30,2001	Three Months Ended June 30, 2000
Revenues				
Total for reportable Segments	$1,138	$1,142	$318	$720
Total	$1,138	$1,142	$318	$720
Loss				
Total for reportable Segments	$ (76)	$(313)	$ (2)	$(133)
Corporate expenses	(451)	(467)	(246)	(106)
Interest income/ expense & other	144	94	57	45
Loss before income Taxes	$(383)	$(686)	$(191)	$(194)
Assets				
Total for reportable Segments	$4,038	$5,796	$4,038	$5,796
Cash, securities & Prepaids	4,210	4,068	4,210	4,068
Total	$8,248	$9,864	$8,248	$9,864

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

Certain information included herein contains statements that are forward-looking, such as anticipated liquidity requirements for the coming fiscal year and anticipated sources of liquidity for the coming fiscal year. 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 operation 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, California. 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 June 30, 2001, all of the lots have been sold.

FARMING

Sam Hamburg Farm consists of approximately 150 acres remaining from an original 4,600 acres of agricultural land. The Company leases 110 acres to one tenant, who grows various crops. The term of the lease is for two years on a cash rent basis. The year 2001 is the last year of the two-year lease. It is not known at this time if the Company will lease the property to the same tenant for the coming year.

GRAIN DRYING AND STORAGE

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 buy the drying facility for $1.

As of August 5, 2001, the Company entered into a contract with Pacific International Rice Mills, Inc. (PIRMI) to store approximately 350,000 cwt. of dry paddy rice in the west warehouse. This agreement covers the rice currently in storage,

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which is a carry-over of rice that was dried during the 2000 drying season. Payment for the storage charges on the paddy rice currently in storage was made during the 2000 drying season with the storage period ending August 30, 2001. The new contract period will be from September 1, 2001 to August 31, 2002. Under the new contract, payment for storage will be 50% upon completion of filling the warehouse and 50% within 30 days after the warehouse is emptied. As the rice is currently in storage, the Company expects to receive the first payment of approximately $70,000 during the month of September 2001.

Currently the Company does not have any signed agreements to store or dry paddy rice for the east warehouse during the 2001 season. Due to the large carry-over of inventory throughout the industry and the low market price, due to the increased inventory, it cannot be determined at this time if there will be any paddy rice available for drying. The Company is working with PIRMI and other rice producers in the area to obtain contracts to dry and store paddy rice for the 2001 season. The Company is also exploring other possibilities, such as storing other grain, such as corn, in the east warehouse.

If the Company were to lose its drying and storage customers or if it were unable to obtain any storage contracts for the east warehouse, it would have a material adverse effect on the Company's grain drying and storage segment.

OTHER

The Company has no present intentions to pay dividends on either its common or preferred stock.

Due to the success of the Company's tender offer for its common stock and Series B preferred stock which closed in March 2001 and the elimination of certain shareholders due to the application of state abandoned property laws, the Company anticipates that as of January 1, 2002, it will be able to terminate its registration of the Series B preferred stock under Section 12(g) of the Securities Exchange Act of 1934 (the "Exchange Act") and suspend its obligation to file periodic reports with the SEC with respect to the Series B preferred stock.

The board of directors of the Company is also currently exploring various options, including a second tender offer for the common stock, that might result in the Company being able to terminate its registration of the common stock under Section 12(g) of the Exchange Act and suspend its obligation to file periodic reports with the SEC with respect to the common stock as of January 1, 2002. However, the board of directors has not yet made a decision to pursue any such action and such action, if taken, may not be successful in achieving such result.

In the event that the Company is able to suspend its filing obligations with respect to both the Series B preferred stock and the common stock, the Company will then no longer be considered publicly traded and shareholders will not be able to trade their shares of common stock on the over-the-counter market. The Company anticipates that there will be minimal affect on the trading market for the Series B preferred stock as there in no present market or exchange for such shares. In addition, the obligation of certain significant shareholders to file reports under Section 13 of the Exchange Act and the related rules, the insider short-swing trading rules contained in Section 16 of the Exchange Act and the related rules, the proxy solicitation rules contained in Section 14 of the Exchange Act and the related rules and certain of the rules regulating tender offers for shares of the Company's stock contained in Section 14 of the

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Exchange Act and related rules would no longer be applicable to the Company. The Company expects some savings from discontinuing audited financial statements and legal expenses in preparing periodic reports to the SEC.

The Company is also currently subject to the provisions of the New York Business Corporation Law which restrict certain transactions between the Company and General Financial Services, Inc., GFS Acquisition Company, Inc. and Steve Miller. Those provisions would no longer apply to the Company if it terminates the registration of its common stock and Series B preferred stock under Section 12 of the Exchange Act. The board of directors anticipates that if those provisions are no longer applicable to the Company it would authorize a reverse stock split that would have the effect of cashing out and eliminating all of the remaining minority common stockholders. At that time, only General Financial Services, Inc. and GFS Acquisition Company, Inc. would remain as common stockholders.

OPERATING RESULTS

Three months ended June 30, 2001 vs. the three months ended June 30, 2000.

Real Estate

Revenue from the sale of real estate lots for the three months ended June 30, 2001, decreased by $456,300 over the same period ended June 30, 2000. There were three lots sold through June 30, 2001, with gross revenue of $226,600 compared with eight lots sold during the three months ended June 30, 2000, with gross revenue of $682,900. The three lot sales during the three months ended June 30, 2001 were the final lots to be sold and this project is now completed. The decrease in revenue was offset by a $477,000 decrease in the cost of real estate sold and a $38,000 decrease in related expenses due to the decreased sales activity.

Farming

Net rental income from agricultural properties for the three months ended June 30, 2001, remained constant compared to the same period in 2000. This is the second year of a two-year lease at Sam Hamburg Farm.

Grain Drying and Storage

The loss from the grain drying and storage facility for the three months ended June 30, 2001, decreased by approximately $74,000 when compared with the three months ended June 30, 2000. The loss decrease was primarily the result of an increase in storage revenue. During the fall 1999 season, there was virtually no drying revenue, which also reduced the storage revenue, as one of the warehouses remained empty. During the three month period ended June 30, 2000, there were grain shipments generating revenue in the amount of approximately $32,000 compared to revenue of approximately $88,000 for the three months ended June 30, 2001. The increased storage revenue during the period ended June 30, 2001 resulted from the paddy rice dried during the fall 2000 season.

General

When compared with the three months ended June 30, 2000, corporate operating expenses increased by approximately $140,000 for the period ended June 30, 2001. Major items contributing to the increase were administrative and general expenses consisting of legal fees ($89,000), officers salary ($25,000), expenses relating to the tender offer ($32,000), and accounting fees ($15,000). Offsetting this increase were decreases in officers and directors insurance ($15,000) and rent expense resulting from the office move in March 2001 ($6,000).

Interest expense decreased $7,000 for the three months ended June 30, 2001 compared with the three month period ended June 30, 2000, due to decreased debt on the grain drying and storage facility. For the three months ended June 30, 2001 compared with the three month period ended June 30, 2000, gain on marketable securities increased by $21,000 partially offset by a decrease in interest and dividend income of $19,000 due to the movement of short term assets from money market accounts to short term commercial paper.

Six months ended June 30, 2001 vs. six months ended June 30, 2000.

Real Estate

Revenues from the sale of real estate lots at "The Fairways" for the six months ended June 30, 2001, decreased by $129,000 compared to the six month period ended June 30, 2000. There were 12 lots sold in the first six months of 2001, with gross revenues of $949,000 compared with gross revenues of $1,078,000 for the first six months of 2000, which consisted of the sale of 13 lots. All lots in this development are sold as of June 30, 2001. The decrease in revenue was offset by a $181,000 decrease in the cost of real estate sold and a $58,000 decrease in related expenses due to the decreased sales activity.

Farming

Net rental income from the property at Sam Hamburg Farm for the six months ended June 30, 2001, remained constant compared to the same period in 2000. This is the second year of a two-year lease.

Grain Drying and Storage

Storage revenue at the grain drying and storage facility increased by $127,000 in the six months ended June 30, 2001, compared with the six months ended June 30, 2000. The 2001 increase resulted from the operation of the rice dryer during the 2000 fall harvest season and the resultant storage income. During 1999 there was no rice drying at the facility. In addition, contributing to the increase, was the storage income from approximately 350,000 cwt. of inventory carry-over of paddy rice placed into storage during the spring of 2000.

General

Compared with the six months ended June 30, 2000, corporate operating expenses decreased by $16,000 in the six month period ended June 30, 2001. The decrease is made up of accounting fees ($45,000), legal fees ($38,000), directors consulting fees ($30,000), officers/directors

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liability insurance ($29,000) and director fees and expenses ($15,000). This decrease is offset by increases in expenses associated with the tender offer ($77,000), officers salaries ($50,000) and officers travel ($14,000).

Interest expense decreased $13,000 for the six months ended June 30, 2001 compared with the six month period ended June 30, 2000, due to decreased debt on the grain drying and storage facility. For the six months ended June 30, 2001 compared with the six month period ended June 30, 2000, gain on marketable securities increased by $36,000 partially offset by a decrease in interest and dividend income of $29,000 due to the movement of short term assets from money market accounts to short term commercial paper.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 2001, cash, cash equivalents and marketable securities decreased by $508,000 from $4,663,000 at December 31, 2000, to $4,155,000 at June 30, 2001. The most significant uses of cash during the six months ended June 30, 2001 consisted of the purchase of shares of stock in the Company's tender offer and the payment on long-term debt.

On March 16, 2001, the Company completed its tender offer for shares of the common stock and Series B preferred stock. As a result of the tender offer, the Company paid $459,813 to the former holders of the common stock and Series B preferred stock, which amount was paid from the Company's cash and cash equivalents. In addition, during the period ended June 30, 2001, the Company abandoned to the various states pursuant to the state abandoned property laws common stock and Series B preferred stock in the amount of $249,443, which was also paid from the Company's cash and cash equivalents.

As a result of the tender offer and the abandonment of Series B preferred stock, the Company's accrued dividends on the Series B preferred stock decreased by $536,400.

The Company believes that its primary requirements for liquidity during the remainder of 2001 will be to fund the required payments due on the grain dryer financing, to fund equipment purchases and or modifications at the grain drying facility; 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 anticipates that sources of required liquidity will be cash generated from the grain drying and storage facilities, collection of notes receivable, and the cash available at June 30, 2001. Based on known commitments, the Company believes that the sources of cash described and the cash available at June 30, 2001, will be adequate to fund known liquidity requirements.

In addition, the Company currently intends to acquire undeveloped real estate for the purpose of developing and then selling the property. The Company is focusing on property that could be developed into single family residences, but may also consider developing commercial and/or multi-family properties. The Company does not have any current commitments to acquire any such property and there can be no assurance that the Company will be able to acquire such property on terms that are favorable to the Company. The Company would seek to fund the purchase of such property through a combination of debt and the use of the Company's short term liquid assets.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

None, except for the discussion contained in footnote 3 in Notes to Consolidated Condensed Financial Statements.

ITEM 2. Changes in Securities

Not applicable

ITEM 3. Default Upon Senior Securities

Dividends in arrears. See Note 5 of Notes to Condensed Consolidated Financial Statements for the quarter ended June 30, 2000.

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

None

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Letter Agreement dated June 5, 2001 and signed August 5, 2001 between SHF Acquisition, a wholly-owned subsidiary of the Dunes Hotels & Casinos Inc. and Pacific International Rice Mills

(b) Reports on Form 8-K

None

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSE THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

DUNES HOTELS AND CASINOS INC.
Registrant

Date: August 14, 2001

By: /s/ Steve K. Miller
Steve K. Miller, President

By: /s/ Marvin P. Johnson
Marvin P. Johnson
Chief Accounting Officer

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