

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 333-44315

**Rotate Black, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**75-3225181**  
(IRS Employer  
Identification No.)

**201 East Mitchell Street, Petoskey, Michigan 49770**  
(Address of principal executive offices)

**(231) 347-0777**  
(Registrant's telephone number, including area code)

Indicate by checkmark 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 126.2 of the Exchange Act). Yes  No

The number of shares of common stock outstanding as of April 21, 2014 is 49,499,783 .

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**ROTATE BLACK, INC. AND SUBSIDIARY**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

ITEM 1.	Financial Statements	3
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	28
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	33
ITEM 4.	Controls and Procedures	33

**PART II. OTHER INFORMATION**

ITEM 1.	Legal Proceedings	33
ITEM 1A.	Risk Factors	34
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
ITEM 3.	Defaults upon Senior Securities	34
ITEM 4.	Mine Safety Disclosures	34
ITEM 5.	Other Information	34
ITEM 6.	Exhibits	

**SIGNATURES**

ROTATE BLACK, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	December 31, 2013 (Unaudited)	June 30, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 169,807	\$ 46
Note receivable	105,000	-
Prepaid expenses	125,874	108,023
<b>Total current assets</b>	<b>400,681</b>	<b>108,069</b>
<b>Fixed assets - net</b>		
Deferred development costs - Gulfport Project	185	872
Land purchase deposit	3,844,961	3,831,327
Deferred casino ground lease rent	437,688	437,688
Stock as Loan collateral	2,451,591	1,902,156
Security deposit	400,000	400,000
	3,600	3,600
<b>TOTAL ASSETS</b>	<b>\$ 7,538,706</b>	<b>\$ 6,683,712</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 5,365,085	\$ 5,371,847
Accrued salaries	1,503,053	1,264,371
Accrued ground lease rent	2,451,591	1,902,156
Note payable	80,000	80,000
Loans payable - stockholders	332,971	320,250
Mortgage payable - Big Easy vessel	2,975,000	2,975,000
Note payable - Big Easy vessel	600,000	600,000
Accrued interest on mortgage and note payable	3,535,427	2,846,405
<b>Total current liabilities</b>	<b>16,843,127</b>	<b>15,360,029</b>
10% Convertible promissory notes payable	703,015	328,015
Discount on 10% convertible notes payable	(528,372)	(161,451)
Beneficial conversion feature	1,145,824	206,053
Warrant liability	1,138,431	98,814
<b>TOTAL LIABILITIES</b>	<b>19,302,025</b>	<b>15,831,460</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Common stock, \$0.001 par value, 75,000,000 shares authorized; 48,614,303 and 45,698,938 shares issued and outstanding as of December 31, 2013 and June 30, 2013, respectively	48,615	45,700
Class A Preferred Stock Units, \$0.001 par value, 45 Units authorized, issued and outstanding as of December 31, 2013 and June 30, 2013, respectively	1,750,000	1,750,000
Class B Preferred Stock Units, \$0.001 par value, 2,687 Units authorized, issued and outstanding as of December 31, 2013 and June 30, 2013, respectively	725,000	725,000
Additional paid-in-capital	23,329,022	22,906,551
Accumulated deficit	(34,251,255)	(31,514,166)
Noncontrolling Interest	(3,364,701)	(3,060,833)

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TOTAL STOCKHOLDERS' (DEFICIT) EQUITY	<u>(11,763,319)</u>	<u>(9,147,748)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY	<u>\$ 7,538,706</u>	<u>\$ 6,683,712</u>

See notes to financial statements

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ROTATE BLACK, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses				
Accrued salary expense	141,583	163,544	290,910	350,329
Stock based compensation	251,734	402,676	277,734	439,676
General and administrative expenses	35,458	358,546	136,437	603,782
Dividends on Redeemable Preferred Series A Stock	-	2,250	-	9,619
Change in fair value of conversion feature	411,160	(123,317)	676,932	(127,368)
Amortization of beneficial conversion feature and discount	763,874	28,351	935,534	110,877
Interest expense	378,388	315,695	723,410	600,494
Total expenses	<u>1,982,197</u>	<u>1,147,745</u>	<u>3,040,957</u>	<u>1,987,409</u>
Net Loss	\$ (1,982,197)	\$ (1,147,745)	\$ (3,040,957)	\$ (1,987,409)
Net Loss Attributable to Noncontrolling Interest	<u>121,811</u>	<u>\$ 347,765</u>	<u>303,868</u>	<u>\$ 550,123</u>
Net Loss Attributable to Stockholders	<u>\$ (1,860,386)</u>	<u>\$ (799,980)</u>	<u>\$ (2,737,089)</u>	<u>\$ (1,437,286)</u>
Basic and diluted net loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>
Basic and diluted average common shares outstanding	<u>46,701,997</u>	<u>37,672,075</u>	<u>46,357,621</u>	<u>36,406,112</u>

See notes to financial statements

ROTATE BLACK, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Six Months Ended December 31,	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (3,040,957)	\$ (1,987,409)
Adjustments to reconcile net loss to cash		
provided by operating activities:		
Stock-based compensation	277,734	439,676
Stock for interest	27,652	28,352
Dividends payable	-	10,068
Depreciation and amortization	687	193
Amortization and changes in beneficial conversion feature and warrant liability	1,979,388	22,789
Changes in assets and liabilities:		
Prepaid expenses	2,149	3,602
Notes receivable	(105,000)	-
Accounts payable and accrued expenses	781,355	2,272,053
Accrued interest on mortgage and notes payable	689,022	559,657
Net cash provided by operating activities	<u>612,030</u>	<u>1,348,981</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Casino construction in progress	-	(1,139,235)
Deferred development costs - Gulfport Project	(13,634)	(599,065)
Deferred casino ground lease rent	(549,435)	-
Land deposit	-	-
Net cash used in investing activities	<u>(563,069)</u>	<u>(1,738,300)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Stock sold for cash	-	30,000
Proceeds from convertible promissory notes payable	475,000	89,015
Proceeds from note payable	-	45,000
Discount on 10% convertible promissory notes payable	(366,921)	(33,279)
Increase in loans payable - stockholders	12,721	250,368
Payments of note payable - truck	-	(408)
Net cash provided by financing activities	<u>120,800</u>	<u>380,696</u>
Net increase (decrease) in cash	169,761	(8,623)
Cash, beginning of period	46	8,671
Cash, end of period	<u>\$ 169,807</u>	<u>\$ 48</u>
<b>Noncash Transactions:</b>		
Issuance of common stock for compensation, legal and consulting services	<u>\$ 181,067</u>	<u>\$ -</u>
Issuance of common stock in payment of notes payable	<u>\$ 100,000</u>	<u>\$ -</u>
Issuance of common stock in payment toward accounts payable	<u>\$ -</u>	<u>\$ 255,000</u>
Issuance of common stock for redemption of Preferred Series A Stock plus interest and dividends	<u>\$ -</u>	<u>\$ 191,655</u>
Issuance of common stock for loan consideration	<u>\$ 116,667</u>	<u>\$ -</u>
Issuance of common stock as interest	<u>\$ 27,652</u>	<u>\$ -</u>

See notes to financial statements

ROTATE BLACK, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. ORGANIZATION AND OPERATIONS**

Rotate Black, Inc. (Company) was incorporated in Nevada on August 2, 2006. The Company develops, operates and manages gaming and related properties. On April 1, 2010, the Company commenced operations under the Gulfport Project management agreement and was no longer a development stage company.

**Gulfport Project**

On May 28, 2010, the Company, Rotate Black, LLC (RBL), an entity under common control with the Company, and an officer of the Company formed Rotate Black MS, LLC (RBMS), a Mississippi limited liability company, to own, develop and manage the operations of a casino resort to be located on the property adjacent to the Gulfport, MS marina. RBMS's initial strategy was to secure an existing gaming vessel, move the vessel to the Gulfport site, and build land assets on that site to support the gaming vessel. Subsequently, RBMS changed its strategy to an entirely land-based casino.

In December 2013, RBMS entered into a term sheet and Summary of Proposed Terms and Conditions Senior Secured Credit Facility with debt and equity investors related to a proposed financing for the Gulfport Casino Hotel Project to be developed by RBMS (Borrower). The proposed financing is for up to \$125,000,000 for the development, design, construction, financing, ownership, operation and maintenance of an approximately 191,000 square foot land based, four star casino, including gaming, restaurant, bar and support space and an adjacent 205-room hotel in Gulfport, Mississippi.

On December 30, 2013, Rotate Black MS, LLC. ("RBMS"), an affiliate of Rotate Black, Inc. (the "Company") appeared before the Mississippi Gaming Commission (the "Commission") seeking Approval to Proceed with the construction of its Gulfport casino resort. At that meeting, the Commission approved the application, thus allowing RBMS to move forward with the closing of its financing and begin construction. Approval was granted on the condition that Rotate Black obtain the necessary project financing, complete its documentation of the financing and fund the local vendors by April 1, 2014.

The Company obtained the full financial commitment for the project, but its lender needed additional time to complete the proper documentation necessary to close the financing. To that end, the Company and its financing partner submitted an application for a 20-day extension of its Approval to Proceed. The Commission notified the Company that the extension request would not be considered as presented and that RBMS would need to expand its plans for the project.

On April 10, 2014, Rotate Black MS, LLC entered into a new exclusivity agreement with its lender for the full financing of the expanded Gulfport project as well as the possible acquisition of Rotate Black MS, LLC.

**Other Projects**

On December 14, 2011, the Company formed a wholly-owned subsidiary, Rotate Black OK, LLC (OKL) and through the subsidiary, the Company entered into an agreement to provide casino management services to an Oklahoma Native American Tribe Casino for a term of ninety days at \$30,000, per month, inclusive of all personnel needed to provide the consulting services. The Company plans to leverage this agreement to generate additional Native American gaming consulting agreements. As of June 30, 2013, this contract was completed and the subsidiary is currently inactive.

On December 13, 2011, the Company formed a wholly-owned subsidiary, SlotOne, Inc., to provide slot machines on a participation basis in certain casino locations where the replacement of old equipment can enhance earnings for the gaming location and the Company. To date, the Company has secured a contract for the placement of equipment in 2014 as well as an approval of a lender to facilitate the financings of this operation.

On January 11, 2011, the Company entered into a management agreement whereby a new to-be-formed wholly owned subsidiary of the Company would act as manager for a proposed casino and entertainment destination on the Louis Bull Indian Reserve near Edmonton, Canada. The project is awaiting final approval from Alberta Liquor and Gaming (Note 10).



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of Presentation**

The accompanying unaudited financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and with the rules and regulations under Regulation S-X of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position, results of operations and cash flows for interim financial statements have been included. These financial statements should be read in conjunction with the financial statements of the Company together with the Company's management discussion and analysis in Item 2 of this report and in the Company's Form 10-K for the year ended June 30, 2013. Interim results are not necessarily indicative of the results for a full year.

### **Consolidated Financial Statements**

The accompanying consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiary, Rotate Black, OK, LLC. (OKL). In addition, the Company has included the financial statements of RBMS in the accompanying consolidated financial statements. (Note 7).

Investments in 50% or less owned entities without controlling influence by the Company are accounted for using the equity method. Under the equity method, the Company recognizes its ownership share of the income and losses of the equity entity. Through June 30, 2011, the Company recognized an equity interest in RBMS. (Note 7).

All significant intercompany accounts and transactions have been eliminated.

### **Reclassifications**

Certain amounts for the prior year have been revised or reclassified to conform to 2013 financial statement presentation.

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### **Financial Instruments**

The Company considers the carrying amounts of financial instruments, including cash, accounts payable and accrued expenses to approximate their fair values because of their relatively short maturities.

### **Property and Equipment**

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method.

Maintenance and repairs are charged to operating expenses as they are incurred. Improvements and betterments, which extend the lives of the assets, are capitalized. The cost and accumulated depreciation of assets retired or otherwise disposed of are relieved from the appropriate accounts and any profit or loss on the sale or disposition of such assets is credited or charged to income.

## **Derivative Instruments**

The Company's derivative liabilities are related to embedded conversion features of the 10% Convertible Notes Payable. For derivative instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair market value and is then re-valued at each reporting date, with changes in fair value recognized in operations for each reporting period. The Company uses the Black-Scholes model to value the derivative instruments at inception and subsequent valuation dates and the value is re-assessed at the end of each reporting period in accordance with Accounting Standards Codification ("ASC") 815.

## **Beneficial Conversion Charge**

The intrinsic value of the beneficial conversion feature arising from the issuance of convertible notes payable with conversion rights that are in the money at the commitment date is recorded as debt discount and amortized to interest expense of the term of the note. The intrinsic value of a beneficial conversion feature is determined after initially allocating an appropriate portion of the proceeds received from the sale of the note to any detachable instruments, such as warrants, included in the sale based on relative fair values.

## **Revenue Recognition**

Revenue is recognized when evidence of an arrangement exists, pricing is fixed and determinable, collection is reasonably assured and delivery or performance of service has occurred. Management fees earned under a contract to operate and manage casino projects are recognized pursuant to terms of the agreement.

## **Share-Based Compensation**

The Company recognizes compensation expense for all share-based payment awards made to employees, directors and others based on the estimated fair values on the date of the grant. Common stock equivalents are valued using the Black-Scholes Option-Pricing Model using the market price of our common stock on the date of valuation, an expected dividend yield of zero, the remaining period or maturity date of the common stock equivalent and the expected volatility of our common stock.

The Company determines the fair value of the share-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measureable. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either the date at which a commitment for performance to earn the equity instrument is reached or the date the performance is complete.

The Company recognizes compensation expense for stock awards with service conditions on a straight-line basis over the requisite service period, which is included in operations.

## **Basic and Diluted Net Income (Loss) per Common Share**

Basic net income (loss) per share (EPS) is calculated by dividing net income (loss) available to common stockholders (numerator) by the weighted-average number of common shares outstanding during each period (denominator). Diluted loss per share gives effect to all dilutive common shares outstanding using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Although there were common stock equivalents outstanding as of December 31, 2013 and December 31, 2012, they were not included in the calculation of earnings per shares because their inclusion would have been considered anti-dilutive.

## Leases

Rent expense is recognized on the straight-line basis over the term of the lease.

## Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU 2013-11 provides guidance on the financial statement presentation of an unrecognized tax benefit and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The adoption of this pronouncement is not anticipated to have a material impact on the Company’s financial results or disclosures.

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, “Comprehensive Income (Topic 220) Reporting of Amounts reclassified Out of Accumulated Other Comprehensive Income”. The amendments in this update seek to obtain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross reference other disclosures required under U.S. GAAP that provide additional detail about these amounts. The amendment is effective prospectively for reporting periods beginning after December 15, 2012. For non-public entities, the amendments are effective prospectively for reporting periods beginning December 15, 2013. Early adoption is permitted. The adoption of this pronouncement is not anticipated to have a material impact on the Company’s financial results or disclosures.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

## 3. GOING CONCERN

The financial statements have been prepared assuming the Company will continue as a going concern. The pany has incurred losses since inception, resulting in an accumulated deficit of \$34,251,255 and negative working capital of \$16,442,446 as of December 31, 2013 and further losses are anticipated. These factors raise doubt about the Company’s ability to continue as a going concern. Its ability to continue as a going concern is dependent upon the ability of the Company to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations arising from normal business operations when they come due. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts of and classification of liabilities that might be necessary in the event the Company cannot continue.

The Company’s plan is to commence management fees from the Gulfport Project Management Agreement and other future sources of revenue. Until these occur in sufficient amounts, the Company plans to sell unregistered stock to accredited investors.

#### 4. PROPERTY AND EQUIPMENT

As of December 31, 2013 and June 30, 2013 property and equipment consisted of the following

	<u>Dec 31,</u> <u>2013</u>	<u>June 30,</u> <u>2013</u>
Furniture and fixtures	\$ 8,490	\$ 8,490
Office equipment	23,289	23,289
Total	31,779	31,779
Less accumulated depreciation	(31,594)	(30,907)
	<u>\$ 185</u>	<u>\$ 872</u>

Deferred development costs - Casino construction totaled \$3,844,961 and \$3,831,327 as of December 31, 2013 and June 30, 2013, respectively, and represents expenses related to the architectural design, environmental testing and legal expenses associated with financing and developing the casino.

For the six months ended December 31, 2013 and 2012, depreciation expense was \$687 and \$193, respectively.

#### 5. RBMS MANAGEMENT AGREEMENT

On October 27, 2010, RBMS and the Company, as manager, entered into a management agreement, effective as of April 1, 2010 for a period of 99 years. The Company, as manager, would manage all of the operations of the gaming facility. The management fee was payable; (1) \$200,000, per month, (2) then upon commencement of the gaming operations, \$250,000, per month, and (3) then achieving certain earnings, as defined, \$300,000, per month. The manager is entitled to appoint two directors of the five directors on the RBMS Board of Directors.

In December 2013, the Company agreed to amend its management agreement with RBMS to facilitate the equity financing for the Gulfport Project and is in the process of negotiating the final terms of this agreement.

As of June 30, 2013, and December 31, 2013, in accordance with ASC 810, "Consolidation", Management evaluated and determined that the variable interest holders of RBMS lacked the direct and indirect ability to make decisions about the entity's activities and determined that that the Company is the primary beneficiary of RBMS. As a result, the financial statements of RBMS have been included in the accompanying consolidated financial statements of the Company.

#### 6. GULFPORT CASINO HOTEL PROJECT

In December 2013, RBMS entered into a term sheet and Summary of Proposed Terms and Conditions, Senior Credit Facility with debt and equity investors related to a proposed financing for the Gulfport Casino Hotel Project to be developed by RBMS (Borrower). The proposed financing is for up to \$125,000,000 for the development, design, construction, financing, ownership, operation and maintenance of an approximately 191,000 square foot land based, four star casino, including gaming, restaurant, bar and support space and an adjacent 205-room hotel in Gulfport, Mississippi.

Terms of the proposed financing call for senior secured loans whereby the Company shall draw down one-half of the Facility at closing and the remaining one-half on the eighth month anniversary of the closing. Full repayment is expected six years after the closing, which is anticipated to occur in May 2014. Amounts outstanding under the Facility will bear an interest rate of 13% per annum, payable monthly in arrears. Any undrawn amounts under the Facility will bear an interest rate of 6.5% per annum, payable monthly in arrears. Definitive terms conditions and provisions will be stipulated in the final agreement for the credit facility.

## 7. INVESTMENT IN RBMS

Upon formation of RBMS and the commencement of the management agreement, the Company, RBL and an officer of the Company owned an aggregate 46.6% of the voting interests of RBMS and the remaining units were sold to outside investors. Through June 30, 2011, the Company accounted for its investment in RBMS on the equity method in accordance with ASC 810-10; as it did not meet all the requirements of a variable interest entity to consolidate; the outside equity investors were not protected from the losses of the entity nor were they guaranteed a return by the legal entity; the outside equity investors expected residual returns that were not capped by any arrangements or documents with other holders; and the percent of ownership will be diluted by future financing of RBMS.

As of June 30, 2013, and December 31, 2013, Management evaluated and determined that the variable interest holders lacked the direct and indirect ability to make decisions about the entity's activities and determined that that the Company is the primary beneficiary of RBMS. As a result, the financial statements of RBMS have been included in the accompanying consolidated financial statements of the Company. At June 30, 2012, the Company owned an aggregate of 24.81% of the voting interest of RBMS; therefore, a non-controlling interest representing 75.19% of the net loss of RBMS was reflected on the Statement of Operations as of June 30, 2012. In consolidation, the Company recorded an adjustment to retained earnings of \$651,478; the difference between the opening balance of retained earnings of RBMS of \$1,219,995 and the equity loss recorded prior to June 30, 2012 by the Company of \$568,517.

### Ground Lease

Effective October 20, 2010, RBMS entered into a ground lease for the nine and a half acre site for the Gulfport Project. The Preliminary Term, as defined, remains in effect until the earliest of the ninth month following the effective date or the date gaming operations begin on the leased property. During the Preliminary Term, rent would be equal to \$20,000, per month with no payment required until the earlier of the date the Lessee commences construction on the premises or February 1, 2011. Due to delays in gaining approval by the Mississippi Gaming Commission, the Company paid fees to amend and extend the lease.

On December 30, 2012 the RBMS received its Approval to Proceed from the Mississippi Gaming Commission.

Upon the closing of the anticipated financing in connection with the Gulfport Project, the Company will pay to the lessor an aggregate of approximately \$2,450,000 in preliminary rent, interest and taxes under the ground lease. After the commencement of gaming operations, RBMS will pay an annual minimum base rent of \$900,000 under the lease, as defined.

## 8. THE BIG EASY GAMING VESSEL

On June 10, 2010, the Company purchased The Big Easy, a gaming vessel for the Gulfport Project, for an aggregate purchase price of \$4,264,500, payable: (a) by issuance of a secured note payable to the seller of \$2,975,000 (the Secured Note), (b) issuance of an unsecured note payable to the seller of \$600,000 (Unsecured Note), fees of \$414,500 and cash of \$275,000. The Secured Notes were collateralized by the gaming vessel and both notes are guaranteed by an officer of the Company. The Secured Note was payable on June 11, 2011 and bears interest at 14.5%, per annum, payable \$35,000, per month, commencing June 11, 2010. The Unsecured Note bears interest at 14.5%, per annum, and is payable monthly, in an amount equal to 2% of the monthly gross gaming revenue generated from operations, as defined, until June 2012 when all principal and interest are due. Since September 17, 2010, both notes have been deferred and the interest rate was increased to 20%, per annum.

As of June 30, 2011, the due dates of both notes were extended in support of the Company's current project in Gulfport, MS and the Trustee of the Cruise Holdings bankruptcy estate, holding the mortgage and promissory note payable consented; (1) to require no payments through June 30, 2012; (2) that the collection fees and accrued interest be paid on or before October 1, 2012; (3) extend the due date of the balance of the obligation for the principal and accrued interest to July 1, 2013. As of April 25, 2014, the Company has not repaid the principal and accrued interest by the dates stipulated in the extension and is currently in default. As a result, the balances as of the mortgage payable, note payable and accrued interest have been reflected as current liabilities in the Company's balance sheet as of December 31, 2013 and June 30, 2013.

On December 20, 2012, the Company and an officer of the Company, as Guarantor, entered into a Settlement Agreement (Agreement) with the Trustee for the estate of the gaming vessel which set forth terms related to the consideration to be paid by the Company to the Trustee in exchange for the release of all claims against the Company and the Guarantor, including all promissory notes, penalties, fees and interest.

The Agreement is subject to the order of approval by the US Bankruptcy Court, Southern District of Florida, West Palm Division with regard to the Guarantor and will become effective upon the first business day of RBMS's closing on primary equity and debt financing for not less than \$100,000,000 for the design, construction and opening of a casino resort in Gulfport, MS. Pursuant to the terms of the Agreement, upon closing, the Company shall deliver to the Trustee 250,000 shares of Series B Subordinated Participating Preferred Stock in Rotate Black, to be designated These Series B Preferred shares will be fully redeemed through payments to the Trustee totaling \$5,000,000 and will be determined as a percentage of the Company's gross cash receipts each year, as defined. The payments will be due on a monthly basis. The Series B shares will be subordinated to a maximum of \$2,500,000 of Series A Preferred shares. The Series B are fully redeemable by the Company in part or in full based upon a schedule whereby the balance will be adjusted; (1) within the first three months of the closing to \$2,000,000; (2) within the first 15 months of closing to \$2,500,000; (3) within the first 27 months of closing to \$3,000,000; (4) within the first 39 months of closing to \$3,500,000; (5) within the first 51 months of closing to \$4,000,000; and (5) after 51 but before 59 months of closing the Company is obligated to pay \$5,000,000. If the Series B Preferred is not redeemed on an accelerated basis or in accordance with the terms of the Agreement, the Company shall pay the Trustee the sum of \$5,000,000, plus 12% interest, per annum, over the five years, with default provisions as defined.

## **9. LAND PURCHASE DEPOSIT**

On May 26, 2009, the Company entered into an agreement to acquire real property in Sullivan County, New York. The purchase price for the property was 1,409,828 shares of common stock of the Company, \$1,750,000 in cash on escrow and \$1,750,000 in cash upon closing. On May 11, 2009, the Company issued 630,735 shares of common stock and Rotate Black, LLC transferred, on behalf of the Company, 779,093 shares of the Company's common stock to the seller, both being held in escrow, as a deposit under the agreement. The shares were valued at \$7,049,142, \$5.00, per share. In October 2009, the Company issued 779,093 shares of common stock to Rotate Black, LLC as repayment of the advance.

On November 9, 2009, March 16, 2010 and May 21, 2010, the Company issued 70,000 (valued at \$350,000, \$5.00, per share), 208,613 (valued at \$521,532, \$2.5, per share) and 500,000 (valued at \$550,000 \$1.10, per share) shares of common stock in satisfaction of anti-dilution rights of the land purchase agreement.

The Company has evaluated the fair value of the land deposit and has determined that the acreage of land has a fair value in excess of the book value of the deposit recorded, however, the value of the 2,188,441 shares of the common stock of the Company provided as a deposit on the land is not in excess of its fair value and, therefore, has recorded a loss on impairment of the land purchase deposit of \$8,032,986 as of June 30, 2012.

As of December 31, 2013, the Company has evaluated the fair value of the land deposit and has determined that the fair value is in excess of the book value of the deposit recorded.

## **10. EDMONTON PROJECT MANAGEMENT AGREEMENT**

On January 11, 2011, the Company, through an officer of the Company, entered into a management agreement (“Management Agreement”), whereby a newly to-be-formed wholly-owned subsidiary of the Company would act as manager, with the Bear Hills Charitable Foundation, Bear Hills Casino Inc., the Louis Bull Tribe and 677626 Alberta Ltd. (Tribe Companies) for a proposed casino and entertainment destination on the Louis Bull Indian Reserve, near Edmonton, Canada. The term of the Management Agreement commences on the date the Tribe Companies receive a license for the proposed casino and all related necessary approvals from the Alberta Gaming and Liquor Commission and then shall continue for the greater of twenty years or until all monies advanced by the Company to the Tribe Companies relating directly or indirectly to the casino project are repaid or for such other term agreed.

The Company, as manager, will be entitled to receive thirty percent of the revenues distributed to the Tribe Companies from the operations of the slot revenue and live games. In addition, the Company is entitled to thirty percent of all profits from any other businesses or activities on the property provided by Tribe Companies and thirty percent of all profits on any amenities or services supporting or related directly or indirectly to the casino. The Company is currently awaiting approval from the Alberta Gaming and Liquor Commission.

## **11. LEASE**

On August 8, 2008, the Company entered into a lease for office space, commencing on September 1, 2008 through August 31, 2011. On July 21, 2013 the Landlord agreed to a final payment offer for all past and current rent due of approximately \$157,489, payable at the closing of the Gulfport project RBMS funding.

On January 15, 2014, the Company entered into a lease for office space for a term of two years, cancellable by the landlord with sixty days’ notice. Rent is payable at \$425 per month, in advance of the first day of each month.

## **12. LOANS PAYABLE – STOCKHOLDERS**

Loans payable – stockholders consists of advances made by the certain stockholders of the Company and an officer of the Company through a limited liability entity owned by him, and are payable on demand.

## **13. EMPLOYMENT AGREEMENT**

Commencing July 3, 2013, the Company entered into an agreement with its Chief Financial Officer for a term of twelve months subject to earlier termination or renewable upon mutually agreed terms. Compensation for the officer will be accrued at \$5,000, per month, and will not be paid until the earlier that the Company has successfully raised a minimum of \$500,000 in working capital for its own operations or the Company has sufficient excess cash reserves to enable payment. Upon signing the agreement, the officer was issued 100,000 shares of common stock as a signing bonus and is entitled to receive 10,000 additional shares of the Company’s common stock for each month of service provided, issued quarterly.

## 14. CONVERTIBLE AND PROMISSORY NOTES PAYABLE

### May 1, 2012 Convertible Promissory Note Payable

On May 1, 2012, the Company issued a two-year, 10% convertible promissory note in the amount of \$150,000. After 121 days from the issue date, the holder can convert any unpaid principal and accrued interest into common shares of the Company. Between 121 days and 150 days from the issue date, the conversion price per share shall be \$0.25; from 151 days to 180 days from the issue date, the conversion price shall be \$0.20; anytime thereafter the conversion price shall be \$0.15, subject to adjustment as defined.

The investor also was issued a five year common stock purchase warrant for the purchase of up to 480,000 shares of the Company's common stock, at a price per share of \$0.40, that permits a cashless exercise in the event that the underlying shares of common stock to be issued upon exercise are not registered pursuant to an effective registration statement at the time of the exercise.

In connection with this financing, the investment banker received 40,000 shares of the Company's common stock.

### *Convertible Promissory Note Payable Beneficial Conversion Feature*

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of May 1, 2012 at \$45,251, based upon the Black Scholes model, and has reflected this as a discount against the convertible promissory note, amortizable as interest expense over two years. The Company recorded \$8,170 and \$5,656 in amortization expense for the three months ended December 31, 2013 and 2012, respectively.

Pursuant to the terms of this convertible promissory note payable, since the note was not repaid by February 15, 2013, the conversion price of the note payable was reduced from \$0.15 to \$.10, per share.

In December 2013, \$50,000 of the principal of the promissory note, plus interest accrued on a default basis, of \$22,271 was converted to 722,711 shares of the Company's common stock.

The Company calculated the value of the conversion feature at December 31, 2013 of the remaining note totaling \$100,000 using a Black-Scholes Option Pricing Model with the stock price of, \$0.34, per share, the risk free interest rate of .384% and the expected volatility of 85.01% for the two year term, and recorded a loss on the change in fair market value of \$36,838. In addition, the discount of \$77,479 on the \$50,000 note which was converted was fully amortized as of December 31, 2013.

In February 2014, \$50,000 of the principal of the promissory note, plus interest accrued on a default basis, of \$25,548 was converted to 755,480 shares of the Company's common stock.



## ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance. Under the terms of the subsequent June 10, 2013 convertible promissory note, the warrant price was reduced to \$.15.

The warrant was valued as of May 1, 2012 at \$100,431, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.22, per share, the risk free interest rate of .84% and the expected volatility of 108.93%. This value has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years.

For the three months ended December 31, 2013 and 2012, the Company recorded \$12,554 and \$12,554 in interest expense, respectively.

The Company calculated the fair value of the warrant using a Black-Scholes Option Pricing Model with the stock price of, \$0.34, per share, the risk free interest rate of 1.75% and the expected volatility of 99.68% for the five year term, recording a loss on the change in fair market value of \$33,564 as of December 31, 2013.

## **July 17, 2012 Convertible Promissory Notes**

On July 17, 2012, the Company sold \$50,000 of 10% convertible promissory notes. Warrants to purchase an aggregate of 194,500 shares of the Company's common stock were issued in conjunction with these financings. In connection with these financings, the investment banker received a 10% promissory note for \$6,000 and a warrant to purchase 34,500 shares of the Company's common stock, under the same terms as the other notes sold, as payment for commissions on the financing. In addition, the investment banker received 22,253 shares of the Company's common stock as commission.

## ***Convertible Promissory Note Payable Beneficial Conversion Feature***

The Company calculated the value of the beneficial conversion feature as of July 17, 2012 at \$49,288, based upon the Black Scholes model. Since the fair value of the conversion feature exceeded the remaining proceeds to be allocated, the Company has reflected \$2,749, as a discount against the convertible promissory note, amortizable as interest expense over two years. The excess of the value of the conversion feature over the proceeds was \$46,539, which was recorded as interest expense on July 17, 2012. The Company recorded \$211 and \$344 in amortization expense for the three months ended December 31, 2013 and 2012.

Pursuant to the terms of one of the convertible promissory notes payable for \$15,000 the note was not repaid by February 15, 2013, and the conversion price of that note payable was reduced from \$0.15 to \$.10, per share.

In July 2013, \$15,000 of the principal of the promissory notes, and \$1,467 in interest were repaid as a result of converting the debt to 164,671 shares of the Company's common stock.

In September 2013, \$20,000 of the principal of the promissory notes, and \$2,259 in interest were repaid as a result of converting the debt to 222,574 shares of the Company's common stock.

In September 2013, \$6,000 of the principal of the promissory notes issued to the investment banker, and \$667 in interest were repaid as a result of converting the debt to 66,677 shares of the Company's common stock.

In October 2013, \$5,000 of the principal of the promissory notes, and \$564 in interest were repaid as a result of converting the debt to 55,643 shares of the Company's common stock.

The Company calculated the value of the conversion feature at December 31, 2013 using a Black-Scholes Option Pricing Model of the remaining note totaling \$10,000 and recorded loss on the change in fair market value of \$4,146. In addition, the discount of \$4,742 on the \$5,000 note which was converted was fully amortized as of December 31, 2013.

### ***Warrants***

The warrants were valued as of July 17, 2012 at \$53,251, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.30, per share, the risk free interest rate of .76% and the expected volatility of 148.12%. This value has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. The Company recorded \$6,656 and \$6,656 in interest expense for the three months ended December 31, 2013 and 2012.

In connection with the subsequent June 10, 2013 financing, the warrant price was reduced to \$0.15. The Company calculated the value of the warrants at December 31, 2013 using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$13,691 as of December 31, 2013.

### **October 15, 2012 Convertible Promissory Notes**

On October 15, 2012, the Company sold \$39,015, of the 10% convertible promissory notes. Warrants to purchase an aggregate of 78,030 shares of the Company's common stock were issued in conjunction with these financings. A \$4,000, 10% convertible promissory note, without warrants, was also issued to the investment banker for fees pursuant to this investment.

### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

The Company calculated the value of the beneficial conversion feature as of October 15, 2012 for the \$39,015 note at \$19,876, based upon the Black Scholes model. The Company recorded \$2,485 and \$1,745 in amortization expense of the discount for the three months ended December 31, 2013 and 2012.

The Company calculated the value of the conversion feature at December 31, 2013, recording a loss on the change in fair market value of \$32,766.

The Company calculated the value of the beneficial conversion feature as of October 15, 2012 for the \$4,000 note at \$2,038, based upon the Black Scholes model. The Company recorded \$1,061 in amortization expense of the discount for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature at December 31, 2013 using a Black-Scholes Option Pricing Model, recording a gain on the change in fair market value of \$3,467.

In November 2013, the \$4,000, 10% convertible promissory note and interest of \$423 were converted into 44,423 shares of the Company's common stock. In addition, Company recorded \$1,061 in amortization expense on the fully amortized note for the three months ended December 31, 2013.

### ***Warrants***

The warrants were valued as of October 15, 2012 at \$13,146, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.24, per share, the risk free interest rate of .71% and the expected volatility of 105.60%. This value has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. The Company recorded \$1,643 and \$1,396 in interest expense for the three months ended December 31, 2013 and 2012.

The Company calculated the value of the warrants at December 31, 2013 using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$5,633.

### **May 28, 2013 Convertible Promissory Note Payable**

On May 28, 2013, the Company sold an additional \$59,000 of the 10% convertible promissory notes. In connection with this note, the Company agreed to hold 2,000,000 of its common stock as collateral for the note payable.

The Company calculated the value of the beneficial conversion feature as of May 28, 2013 at \$29,817, based upon the Black Scholes model. The Company recorded \$3,727 in amortization expense for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature at December 31, 2013 using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$43,050.

No warrants were granted with this convertible promissory note payable.

### **June 10, 2013 Convertible Promissory Note Payable**

On June 10, 2013, under the Agreement, the Company issued a two-year, 10% convertible promissory note in the amount of \$20,000 to an investor. with the same conversion rights and terms. The investor also was issued a five year common stock purchase warrant for the purchase of up to 133,334 shares of the Company's common stock, at a price per share of \$0.15, that permits a cashless exercise in the event that the underlying shares of common stock to be issued upon exercise are not registered pursuant to an effective registration statement at the time of the exercise. In addition if, while the warrant is outstanding, the Company effects a merger or consolidation, sells all of its assets or enters into other specifically defined transactions, the warrant will be exercisable into shares of the surviving entity as defined

#### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of June 10, 2013 at \$9,108, however, the excess of the value of the conversion feature over the proceeds was \$3,318, which was recorded as interest expense on June 10, 2013 and \$5,790, based upon the Black Scholes model, and has been reflected as a discount against the convertible promissory note, amortizable as interest expense over two years. The Company recorded \$724 in amortization expense for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$14,593 as of December 31, 2013.

#### ***Warrants***

As part of the issuance of certain convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of June 10, 2013 at \$14,210, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.135, per share, the risk free interest rate of 1.20% and the expected volatility of 111.47%. This value has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$1,760 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model recording a loss on the change in fair market value of \$9,652 as of December 31, 2013.

### **July 2, 2013 Convertible Promissory Note Payable**

On July 2, 2013, the Company issued four two-year, 10% convertible promissory notes in the amount of \$10,000 each. The investors also were each issued a five year common stock purchase warrant for the purchase of up to 67,000 shares of the Company's common stock, at a price per share of \$0.15, that permits a cashless exercise in the event that the underlying shares of common stock to be issued upon exercise are not registered pursuant to an effective registration statement at the time of the exercise.

#### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of July 2, 2013 at \$23,243, however, the excess of the value of the conversion feature over the proceeds was \$19,630, which was recorded as interest expense on July 2, 2013, and \$3,613, based upon the Black Scholes model, and has been reflected as a discount against the convertible promissory note, amortizable as interest expense over two years. The Company recorded \$452 in amortization expense for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$17,730 as of December 31, 2013.

#### ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of July 2, 2013 at \$36,387, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.17, per share, the risk free interest rate of 1.38% and the expected volatility of 109.18%. This value has been reflected as a discount of the convertible promissory note payable and amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$4,548 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model recording a loss on the change in fair market value of \$19,456 as of December 31, 2013.

On July 2, 2013 the Company issued a five-year warrant to purchase of up to 100,000 shares of the Company's common stock, at a price per share of \$0.15, to the investment banker in payment for commissions due.

### **August 28, 2013 Convertible Promissory Note Payable**

On August 28, 2013, the Company agreed to sell up to an aggregate of \$250,000 in convertible promissory notes under a securities purchase agreement (Agreement) with an aggregate stated value equal to the purchaser's subscription amount and a warrant to purchase up to a number of shares of common stock equal to 100% of the purchaser's subscription amount divided by \$0.15 with an exercise price of \$0.15 exercisable immediately with a term of five years. The Company issued four 10% convertible promissory notes under this Agreement for an aggregate of \$70,000 and warrants to purchase 469,000 shares of the Company's common stock.

#### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of August 28, 2013 at \$75,175; however, the excess of the value of the conversion feature over the proceeds was \$75,175, which was recorded as interest expense on August 28, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$49,212 as of December 31, 2013.

#### ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of August 28, 2013 at \$102,553, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.26, per share, the risk free interest rate of 1.62% and the expected volatility of 109.18%. \$32,553 of this value has been recorded as interest expense and \$70,000 has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$8,750 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model recording a loss on the change in fair market value of \$34,658 as of December 31, 2013.

### **October 29, 2013 Convertible Promissory Note Payable**

On October 29, 2013, the Company issued a two-year, 10% convertible promissory note in the amount of \$15,000. After 121 days from the issue date, the holder can convert any unpaid principal and accrued interest into common shares of the Company at \$0.15, per share. After 210 days conversion price shall be \$0.10, subject to adjustment as defined. The investor also was issued a five year common stock purchase warrant for the purchase of up to 100,000 shares of the Company's common stock, at a price per share of \$0.15, that permits a cashless exercise in the event that the underlying shares of common stock to be issued upon exercise are not registered pursuant to an effective registration statement at the time of the exercise. The Company issued 25,000 shares of common stock to the investor as an incentive.

### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of October 29, 2013 using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.20, per share, the risk free interest rate of .32%, a term of two years and the expected volatility of 85.01% at \$10,647, however, the excess of the value of the conversion feature over the proceeds was \$10,647, which was recorded as interest expense on October 29, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$11,856 as of December 31, 2013.

### ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of October 29, 2013 at \$15,587, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.20, per share, the risk free interest rate of 1.31%, a term of five years and the expected volatility of 99.68%. \$587 of this value has been recorded as interest expense and \$15,000 has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$1,313 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model recording a loss on the change in fair market value of \$12,732 as of December 31, 2013.

### **December 12, 2013 Convertible Promissory Note Payable**

On December 12, 2013, the Company issued a two-year, 10% convertible promissory note in the amount of \$30,000. After 121 days from the issue date, the holder can convert any unpaid principal and accrued interest into common shares of the Company at \$ .15, per share. After 210 days, the conversion price shall be \$0.10, per share, subject to adjustment as defined. The investor also was issued a five year common stock purchase warrant for the purchase of up to 200,000 shares of the Company's common stock, at a price per share of \$0.15, that permits a cashless exercise in the event that the underlying shares of common stock to be issued upon exercise are not registered pursuant to an effective registration statement at the time of the exercise. In addition, the Company issued 50,000 shares of common stock to the investor as an incentive to the note.

### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of December 12, 2013 at \$15,847, however, the excess of the value of the conversion feature over the proceeds was \$10,834, which was recorded as interest expense on December 12, 2013, and \$5,013, based upon the Black Scholes model, and has been reflected as a discount against the convertible promissory note, amortizable as interest expense over two years. The Company recorded \$139 in amortization expense for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature, recording a loss on the change in fair market value of \$29,526 as of December 31, 2013.

### ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of December 12, 2013 at \$24,987, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.165 per share, the risk free interest rate of 1.55% and the expected volatility of 99.68%. \$24,987 has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$694 in interest expense.

The Company calculated the value of the warrants recording a loss on the change in fair market value of \$32,064 as of December 31, 2013.

### **December 17, 2013 Convertible Promissory Note Payable**

On December 17, 2013, the Company issued a two-year, 10% convertible promissory notes in the amount of \$50,000. Warrants to purchase an aggregate of 333,334 shares of the Company's common stock were issued in conjunction with these financings. If the Company has not redeemed the notes by the 120<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.15 a share. If the Company has not redeemed the notes by the 210<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.10 a share. In addition, the Company issued 83,333 shares of common stock to the investor as an incentive to the note. In addition, the investment banker received 245,333 shares of the Company's common stock and a five year common stock purchase warrant for the purchase of up to 77,300 shares of the Company's common stock, at a price per share of \$0.15 as commission.

### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of December 17, 2013, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.18, per share, the risk free interest rate of .34%, a term of two years and the expected volatility of 85.01%, at \$30,236, however, the excess of the value of the conversion feature over the proceeds was \$26,306, which was recorded as interest expense on December 17, 2013, and \$3,930, based upon the Black Scholes model, and has been reflected as a discount against the convertible promissory note, amortizable as interest expense over two years. The Company recorded \$109 in amortization expense for the three months ended December 31, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$45,385 as of December 31, 2013.

## ***Warrants***

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of December 17, 2013 at \$46,070, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.18 per share, the risk free interest rate of 1.52% a five year term and the expected volatility of 99.68%. \$46,070 has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$1,280 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model, recording a loss on the change in fair market value of \$49,015 as of December 31, 2013.

### **December 30, 2013 Convertible Promissory Note Payable**

On December 30, 2013, the Company sold \$270,000, of the two-year 10% convertible promissory notes. Warrants to purchase an aggregate of 1,800,000 shares of the Company's common stock were issued in conjunction with these financings. If the Company has not redeemed the notes by the 120<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.15 a share. If the Company has not redeemed the notes by the 210<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.10 a share. In addition, the Company issued 450,000 shares of common stock to the investors as an incentive to the note.

### ***Convertible Promissory Note Payable Beneficial Conversion Feature***

As part of the issuance of the convertible promissory note payable, the Company recorded a liability for the embedded beneficial conversion feature on the convertible debentures. Since the conversion feature of the note payable may be reset based upon subsequent financing, the derivative was reflected as a liability. The Company records changes in fair value at each reporting period in its consolidated statements of operations as a gain or loss associated with the change in fair market value.

The Company calculated the value of the conversion feature as of December 30, 2013 using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.34 per share, the risk free interest rate of .39% a two year term and the expected volatility of 85.01%, at \$408,384, however, the excess of the value of the conversion feature over the proceeds was \$408,384, which was recorded as interest expense on December 30, 2013.

The Company calculated the value of the conversion feature using a Black-Scholes Option Pricing Model, recording a gain on the change in fair market value of \$29 as of December 31, 2013.

Of the notes payable issued, \$105,000 of the proceeds was not received by the Company until January 2014, and has been recorded as a receivable on the consolidated financial statements.



## Warrants

As part of the issuance of the convertible debentures, the Company recorded a liability for the issuance of detachable warrants. Although such warrants are typically considered equity instruments, the warrant agreement allows for resets of the conversion price based upon subsequent financing, therefore the warrant issuance was deemed a liability for financial reporting purposes under the accounting guidance.

The warrant was valued as of December 30, 2013 at \$513,341, using a Black-Scholes Option Pricing Model with the stock price on day of grant, \$0.34, per share, the risk free interest rate of 1.71%, a term of five years and the expected volatility of 99.68%. \$243,341 of this value has been recorded as interest expense and \$270,000 has been reflected as discount of the convertible promissory note payable, amortizable as interest expense over two years. For the three months ended December 31, 2013, the Company recorded \$7,500 in interest expense.

The Company calculated the value of the warrants using a Black-Scholes Option Pricing Model recording a loss on the change in fair market value of \$117 as of December 31, 2013.

As of December 31, 2013 and June 30, 2013, the 10% Convertible Notes Payable were as follows:

	<u>Dec 31,</u> <u>2013</u>	<u>June 30,</u> <u>2013</u>
10% Convertible Promissory Note Payable	\$ 703,015	\$ 328,015
Less:		
Beneficial Conversion Feature Discount	(50,518)	(69,642)
Warrant Discount	(477,854)	(91,809)
10% Convertible Promissory Note Payable - Net	\$ 174,643	\$ 166,564

## Promissory Note Payable

On September 6, 2012, the Company received \$65,000 in loan proceeds. A promissory note was issued in the amount of \$80,000, which includes interest payments of \$15,000. In addition, 185,000 shares of common stock were issued as additional interest. Pursuant to the terms of the note, if the promissory note is not repaid by May 20, 2013 the Company is to use its best efforts to liquidate shares of its common stock to repay the loan. As of April 25, 2014, no payments have been made on the promissory note.

## 15. COMMON STOCK

### Common and Preferred Shares

In July 2012, the Company issued an aggregate of 1,200,000 shares of common stock at \$0.10, per share, for legal services.

In July and August 2012, the Company converted an aggregate of 40 shares of the Series A Preferred Stock to 526,253 shares of common stock at a conversion rate of \$.10, per share, including accrued dividends, penalty and interest.

In October 2012, the Company converted 100 shares of the Series A Preferred Stock to 2,780,602 shares of common stock at a conversion rate of \$0.05, per share, including accrued dividends, penalty and interest, pursuant to an agreement with the investor.

In October 2012, the Company sold an aggregate of 300,000 shares of the Company's common stock and a warrant to purchase 249 shares of Class B common stock of RBMS to three investors of the Company for \$30,000.

On October 15, 2012, the Company issued 300,000 shares of common stock at \$0.20, per share, for legal services pursuant to an agreement dated April 23, 2012.

In October 2012, the Company issued an aggregate of 62,253 shares of common stock at \$0.30, per share, to the investment banker in connection with financings.

On November 8, 2012, the Company issued 100,000 shares of common stock at \$0.15, per share, in settlement of accounts payable.

In December 2012, the Company issued an aggregate of 1,600,000 shares of common stock, at \$0.20, per share, for compensation to employees valued at \$320,000.

In December 2012, the Company issued 20,000 shares of common stock at \$0.20, per share for consulting services.

In January 2013, the Company issued 1,200,000 shares of common stock at \$0.10, per share for legal services.

In February 2013, the Company converted 50 shares of Series A Preferred Stock to 723,534 shares of common stock at a conversion rate of \$.10, per share, including accrued dividends, penalty and interest.

In March 2013, the Company issued 50,000 shares of common stock at \$0.20, per share, for repayment of loans on behalf of RBMS.

In June 2013, the Company issued 92,400 shares of common stock at \$0.20, per share, for fees to the investment banker.

In June 2013, the Company issued 50,000 shares of common stock at \$0.20, per share, for repayment of loan on behalf of RBMS.

In June 2013, the Company issued an aggregate of 1,280,000 shares of common stock and a warrant to purchase 1,280,000 shares of common stock as compensation to officers and affiliates of the Company. The warrant is exercisable at \$0.20, per share, for 5 years.

In July 2013, the Company issued 164,671 shares of common stock at \$0.10, per share for the conversion of \$15,000 of the 10% Convertible Promissory Notes and accrued interest.

In July 2013, the Company issued a warrant to purchase 100,000 shares of common stock exercisable at \$0.15, per share for 5 years and 100,000 shares of common stock at \$0.15, per shares, to the investment banker for fees totaling \$30,000.

In September 2013, the Company issued an aggregate of 30,000 shares of common stock, at \$0.20, per share, for compensation to an employee valued at \$6,000.

In September 2013, the Company issued 289,251 shares of common stock at \$.10, per share for the conversion of \$26,000 of the 10% Convertible Promissory Notes and accrued interest.

In October 2013, the Company issued 200,000 shares of common stock at \$.15, per share as fees to the investment banker totaling \$30,000.

In December 2013, the Company issued an aggregate of 30,000 shares of common stock, at \$0.20, per share, for compensation to an employee valued at \$6,000.

In October and December 2013, an aggregate of 822,777 shares of common stock were issued for the conversion of \$59,000 of the 10% Convertible Promissory Notes and accrued interest.

In November 2013, the Company issued 150,000 shares of common stock at \$0.20, per share, to a consultant for investor relations services.

In November 2013, the Company issued 100,000 shares of common stock at \$0.20, per share, to its chief financial officer pursuant to an employment agreement.

In December 2013, the Company issued 200,000 shares of common stock at \$0.10, per share, for legal fees.

### **RBMS Equity**

RBMS equity consists of 45 Series A Preferred Common Stock Units and 2,687 Series B Preferred Common Stock Units. \$1,925,000 in Units were sold for cash from 2010 through 2012 and \$550,000 in Units were issued for services rendered to the Company.

### **Stock Option Plan**

On July 6, 2011, the Company's stockholders approved the Rotate Black, Inc. Stock Option Plan (Plan) under which the Chief Executive Officer of the Company may grant incentive stock options to certain employees to purchase up to 25,000,000 shares of common stock of the Company. The option price shall be no less than the fair market value of the stock, as defined. The Plan shall terminate after ten years. As of December 31, 2013 and April 25, 2014 no options were granted under the Plan.

### **Class A 12% Preferred Stock**

On June 10, 2011, the Board of Directors designated 500 shares of Class A 12% Preferred stock (Series A), stated value of \$1,000, per share. Each share is convertible at any time from and after the issue date into shares of common stock determined by dividing the stated value of the shares of Series A by the conversion price of \$.10, as defined. Holders of the Series A are entitled to receive cumulative dividends at 12%, per annum, payable quarterly, subject to periodic increases, as defined, and a late fee of 18%, per annum. The Series A have certain anti-dilution rights, as defined. In addition, upon the occurrence of any triggering event, as defined, the holder of the Series A shall have the right to: (A) require the Company to redeem all of the Series A held by the holder for a redemption price, in cash, equal to the amount as defined, or (B) redeem all of the Series A held by the holder for a redemption price, in shares of common stock of the Company, equal to a number of shares equal to the redemption amount, as defined. Upon liquidation of the Company, the Series A holders are entitled to receive an amount equal to the stated value, plus accrued and unpaid dividends. The Series A have no voting rights.

On June 10, 2011, the Company entered into a Securities Purchase Agreement to sell up to an aggregate of 500 shares of Preferred Stock with an aggregate value of \$500,000.

As of June 30, 2011 the Company sold 190 Series A shares with 950,000 warrants to purchase common stock for an aggregate of \$190,000. Each warrant is exercisable at \$0.40, per share, for five years. As of June 30, 2013, none of the warrants have been exercised.

The fair value of the 950,000 detachable warrants sold with the Series A for an aggregate of \$190,000, was valued at \$91,500 and recorded as additional paid-in capital using a Black Scholes Option Pricing Model using the stock price on day of grant, \$0.19, per share, the risk free interest rate of 1.48% and the expected volatility of 81.13%.

Since the Series A embodies an obligation to repurchase the issuer's equity shares in response to a triggering event, as defined, the Company classified the Series A Preferred Stock as a liability in accordance with guidance under ASC 480-10-65.

As of June 30, 2013, all of the 190 shares of Series A Preferred Stock, including accrued interest, dividends and penalty, have been converted to an aggregate of 4,030,389 shares of the Company's common stock.

## 16. COMMITMENTS AND CONTINGENCIES

The Company has guaranteed certain notes payable of RBL in the amount to \$250,000. (Note 8)

On March 15, 2011, April 16, 2012 and January 14, 2013 the Company entered into non-exclusive agreements with an investment banker, financial advisor and consultant. The agreements each become exclusive for 14 days following execution and then non-exclusive for a term of six months. The Company agreed to pay to the investment banker a cash placement fee of 8% of the total purchase price of the Company's securities sold, adjusted by the exercise of any investor warrants, in connection with a placement resulting from the investment banker's introduction. In addition, the banker shall receive warrants to purchase common stock of the Company equal to 8% of the funds raised, as defined. If the investment banker introduces the Company during the term to a transaction which becomes a merger, acquisition, joint venture or similar transaction, the Company shall pay the banker a fee in combination of stock and cash that reflects the exact percentage of stock and or cash used for the transaction, as defined.

On February 19, 2013, as amended on June 3, 2013 and December 2, 2013, the Company agreed to engage a non-exclusive placement agent in connection with the possible private placement of equity, equity-linked or debt securities in connection with the financing of the Gulfport casino hotel project ("Agreement"). The Agreement is for an initial terms of five months and the scope of the engagement agreement calls for a nonrefundable transaction fee, as defined, equal to the sum of (i) 2.00% of the aggregate principal amount of all unsecured, non-senior, second lien or subordinated debt securities, senior notes, capital leases, operating leases and/or bank debt raised or committed from a financing partner introduced to the Company by the agent and (ii) 5.00% of the aggregate amount of all equity and equity-linked securities, as defined, placed or committed from a financing partner introduced to the Company by the agent. The transaction fee shall be subject to an aggregate minimum fee of \$1,350,000 provided that the Agreement is not terminated by the Company and shall be payable regardless of whether any financing partners introduced by the agent participate in the financing transaction.

### **Litigation**

On February 23, 2010, a Complaint was filed in the Third Judicial District Court of the State of Nevada in and For the County of Lyon against the Company, RBL, and others in the amount of \$5,000,000 pursuant to the termination of a development agreement for the Dayton Project. On July 16, 2010, the Company and Defendants filed an answer and counterclaim. A default Judgment was filed in the Third Judicial District Court of the State of Nevada In and For the County of Lyon on August 8, 2011 against the Company, Rotate Black, LLC, two officers of the Company, and others in the amount of \$9,674,057 for exemplary and punitive damages. In connection with this matter, a Request for Enrollment of Foreign Judgment was filed in the Circuit Court of Harrison County, Mississippi, First Judicial District on December 23, 2011. On June 6, 2012, the Company filed a Motion for Leave to Seek District Court's Correction of Clerical Error Appearing on the Face of the Judgment, Subject Matter of Current Appeal in the Supreme Court of the State of Nevada. On June 7, 2012 the Company was notified that its appeals to the default judgment will be heard by the Nevada Supreme Court. The Company will vigorously defend this action but can provide no assurance as to the likelihood of the outcome of the matter.

On January 18, 2012, an investment banker filed a civil lawsuit against the Company in the Circuit Court of Harrison County, Mississippi, First Judicial District, alleging breach of a fee letter agreement in the amount of \$150,000, plus attorney's fees and costs. The Plaintiff filed a motion for summary judgment on November 21, 2013 which was heard on January 9, 2014, whereupon the motion was granted with regard to the Company's liability for \$25,000. The Court has not entered an order confirming its ruling and has not reached a determination as to the Company's liability on the remaining \$125,000. The Company will vigorously defend this action but can provide no assurance as to the likelihood of the outcome of the matter. The Company accrued a liability of \$150,000 against the claim.

#### **Consulting Agreement**

On October 14, 2013, the Company entered into an agreement with a consultant for a period of three months to provide investor relations services in exchange for 150,000 shares of the Company's common stock, valued at \$30,000. The agreement was not renewed by the Company.

#### **17. INCOME TAXES**

The Company and its subsidiaries file separate tax returns and have not filed income tax returns for the years ended June 30, 2009 through 2013 but anticipate no significant income tax expenses as a result of these filings.

The Company's policy is to classify tax assessments, if any, for interest in interest expense and for penalties in general and administrative expenses.

As of December 31, 2013, management has evaluated and concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements

#### **18. SUBSEQUENT EVENTS**

##### **Common Stock**

In January, February and March 2014, the Company issued an aggregate of 30,000 shares of common stock, at \$0.20, per share, for compensation to an employee valued at \$6,000.

In February 2014, 755,480 shares of common stock were issued for the conversion of \$50,000 of the 10% Convertible Promissory Notes and accrued interest

##### **Convertible Notes and Warrant**

On January 1, 2014, the Company sold \$60,000, of the two-year 10% convertible promissory notes. Warrants to purchase an aggregate of 400,000 shares of the Company's common stock were issued in conjunction with these financings. If the Company has not redeemed the notes by the 120<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.15 a share. If the Company has not redeemed the notes by the 210<sup>th</sup> day after the issuance of the notes the note holders may convert at a price of \$0.10 a share. In addition, the Company issued 100,000 shares of common stock to the investors as an incentive to the note.

In connection with the financings, the investment banker received 200,000 shares of the Company's common stock as a fee totaling \$30,000.

On March 3 and March 31, 2014, a stockholder advanced the Company \$33,475 and \$30,000, respectively.

## ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as: “believes,” “expects,” “anticipates,” “estimates,” “plans,” “intends,” “objectives,” “goals,” “aims,” “projects,” “forecasts,” “possible,” “seeks,” “may,” “could,” “should,” “might,” “likely,” “enable,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “believes,” “estimates,” “projects” or similar words or expressions are used in this Form 10-Q, as well as statements containing phrases such as “in our view,” “there can be no assurance,” “although no assurance can be given,” or “there is no way to anticipate with certainty,” forward-looking statements are being made and these words or phrases or similar expressions should be interpreted as intended to identify these forward-looking statements.*

*In addition to the risks discussed in Item 1A “Risk Factors” of our Form 10-K, filed with the Securities and Exchange Commission on March 3, 2014, various other risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following factors:*

- our growth strategies;
- our development and potential acquisition of new facilities;
- risks related to development and construction activities;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions;
- access to capital and credit, including our ability to finance future business requirements;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license legislation and regulations;
- regulatory approvals;
- competitive environment; and
- risks, uncertainties and other factors described from time to time in this and our other SEC filings and reports.

*These statements are subject to risks and uncertainties beyond our reasonable control that could cause our actual business and results of operations to differ materially from those reflected in our forward-looking statements. Forward-looking statements are not guarantees of future performance. Our forward-looking statements are based on trends which we anticipate in our industry and our good faith estimate of the effect on these trends of such factors as industry capacity, product demand and product pricing. The inclusion of projections and other forward-looking statements should not be regarded a representation by us or any other person that we will realize our projections or that any of the forward-looking statements contained in this quarterly report will prove to be accurate.*

*We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.*

## **MANAGEMENT'S ANALYSIS OF BUSINESS**

As used herein the terms "we", "us", "our," the "Registrant," and the "Company" means, Rotate Black, Inc., a Nevada corporation.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included in this report. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, our actual results may differ materially from those anticipated in these forward-looking statements.

### **Overview**

#### **Gulfport Casino Hotel Project**

The Company's primary focus is the development of a casino resort in Gulfport, Mississippi ("the Gulfport Project") under the Gulfport Project Management Agreement with the Company's affiliate, Rotate Black MS, LLC (RBMS), a Mississippi limited liability company.

On May 28, 2010, the Company, Rotate Black, LLC ("RBL"), an entity under common control with the Company, and an officer of the Company formed RBMS to own, develop and manage the operations of a dockside vessel-based casino in Gulfport, Mississippi. The initial strategy was to secure an existing gaming vessel, move the vessel to the Company's Gulfport site, and build land assets on that site to support the gaming vessel. Subsequently, the strategy was changed to developing an entirely land-based casino.

The Gulfport Project is being developed on approximately nine-and-a-half acres of the last gaming-eligible sites in Gulfport, Mississippi. The Gulfport Project is adjacent to the \$625+ million redevelopment of the Marina, Port and downtown Gulfport areas.

Gulfport, the second largest city in Mississippi, is approximately 12 miles west of Biloxi. The Gulfport Project is expected to be a fourteen-month development project. Upon completion, the casino will feature 1,188 slot machines and 22 table games. The Gulfport Project's non-gaming amenities will include a four-star 205-room hotel, pool, spa, cabanas, steakhouse, buffet, snack bar and two feature bars.

The Company believes that various factors will drive the success of the Gulfport Project and its competitive position including favorable population demographics in the regional area, an established and stable existing gaming market, easy accessibility, and location as part of the renewed Gulfport Marina and Port areas.

The Gulfport Project will be located approximately 65 miles northeast from New Orleans, Louisiana; 70 miles south of Hattiesburg, Mississippi; 65 miles southwest from Mobile, Alabama; and, 105 miles from Pensacola, Florida. In total, the approximately five million people living within 150 miles generate approximately 17 million visits to the Gulf Coast market each year.

In addition, the project site is just south of downtown Gulfport, four miles from the Gulfport-Biloxi International Airport and adjacent to Mississippi's third busiest intersection with an estimated 34,000 cars passing by daily.

Effective October 20, 2010, RBMS entered into a ground lease for the nine and a half acre site for the Gulfport Project. The Preliminary Term, as defined, remains in effect until the earliest of the ninth month following the effective date or the date gaming operations begin on the leased property. During the Preliminary Term, rent would be equal to \$20,000, per month with no payment required until the earlier of the date the Lessee commences construction on the premises or February 1, 2011.

Due to delays in gaining approval by the Mississippi Gaming Commission, the Company paid fees to amend and extend the ground lease.

On December 30, 2012 the RBMS received its Approval to Proceed from the Mississippi Gaming Commission.

Upon the closing of the anticipated financing in connection with the Gulfport Project, the Company will pay to the lessor an aggregate of \$1,902,156 in preliminary rent, interest and taxes under the ground lease. After the commencement of gaming operations, RBMS will pay an annual minimum base rent of \$900,000 under the lease, as defined.

#### **Rotate Black OK, LLC**

On December 14, 2011, the Company formed a wholly-owned subsidiary, Rotate Black OK, LLC (OKL) and through the subsidiary, on December 12, 2011, the Company entered into an agreement to provide casino management services to an Oklahoma Native American Tribe Casino for a term of ninety days at \$30,000, per month, inclusive of all personnel needed to provide the consulting services. The Company plans to leverage this agreement to generate additional Native American gaming consulting agreements. As of June 30, 2013, this contract was completed, there was no revenue for the year ended June 30, 2013 and the subsidiary is inactive

#### **SlotOne, Inc.**

On December 13, 2011, the Company formed a wholly-owned subsidiary, SlotOne, Inc., to provide slot machines on a participation basis in certain casino locations where the replacement of old equipment can enhance earnings for the gaming location and the Company. To date, the Company has secured a contract for the placement of equipment in 2014 as well as an approval of a lender to facilitate the financings of this operation.

#### **Going Concern Status**

Our financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. The Company has incurred substantial losses from operations and it has negative operating cash flow, which raises doubt about its ability to continue as a going concern. The Company sustained a net loss attributable to common shareholders of (\$1,845,763) for the three months ended December 31, 2013 and has an accumulated deficit as of December 31, 2013 of \$34,251,255.

We intend to continue our planned capital expenditures to develop our gaming interests, as discussed, but we do not have sufficient realized revenues in order to finance these activities internally. As such, we intend to seek capital in order to fund our working capital and capital expenditure needs.

Although we recently obtained additional financing through convertible promissory notes and loans, we can provide no assurance that we will be able to obtain sufficient additional funds to develop our interests and alleviate doubt about our ability to continue as a going concern. We cannot be certain that additional funds, even if available, will be on acceptable terms. To the extent the Company raises additional funds by issuing equity or equity-linked securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that impact our ability to conduct business. Furthermore, certain of our current creditors may be required to approve any such transaction and may require the issuance of securities convertible into equity of the Company that can result in significant dilution.

The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



## Results of Operations

### Three months ended December 31, 2013 compared to the three months ended December 31, 2012

#### Revenue

For the three months periods ended December 30, 2013 and 2012, we had revenues of \$0 and \$0 respectively. The Company is anticipating development fees associated with the Gulfport project.

#### Expenses

Our total expenses for the three months ended December 31, 2013, were \$1,982,197 as compared to \$1,147,745 for the comparable prior year period. The increase of \$834,452, approximately 73%, can be attributed primarily to increases in interest expense and amortization of the beneficial conversion feature, and change in fair market value of the conversion feature of convertible debt offset by decreases in general and administrative expenses, accrued salary expense and stock-based compensation expense.

General and administrative expenses for the three months ended December 31, 2013, were \$35,458 as compared to \$358,546 for the prior year period. The decrease of \$323,088, approximately 90%, is mainly attributable to decreases in legal and financing fees.

Our net loss attributable to stockholders for the three months ended December 31, 2013, was \$1,860,386 as compared to \$799,980 for the prior year period. The increase in loss of \$1,060,406, approximately 133%, can be attributed primarily to increases in interest expense and amortization of the beneficial conversion feature, and change in fair market value of the conversion feature of convertible debt offset by decreases in general and administrative expenses, accrued salary expense and stock based compensation expense.

### Six months ended December 31, 2013 compared to the six months ended December 31, 2012

#### Revenue

For the six months periods ended December 30, 2013 and 2012, we had revenues of \$0 and \$0 respectively. The Company is anticipating commencing management fees associated with the Gulfport project.

#### Expenses

Our total expenses for the six months ended December 31, 2013, were \$3,040,957 as compared to \$1,987,409 for the comparable prior year period. The increase of \$1,053,548, approximately 53%, can be attributed primarily to increases in interest expense and amortization of the beneficial conversion feature, and change in fair market value of the conversion feature of convertible debt offset by decreases in general and administrative expenses, accrued salary expense and stock based compensation expense.

General and administrative expenses for the six months ended December 31, 2013, were \$136,437 as compared to \$603,782 for the prior year period. The decrease of \$467,345, approximately 77%, is mainly attributable to decreases in audit, consulting, legal and financing fees.

Our net loss attributable to stockholders for the six months ended December 31, 2013, was \$2,737,089 as compared to \$1,437,286 for the prior year period. The increase in loss of \$1,299,803, approximately 90%, can be attributed primarily to increases in interest expense and amortization of the beneficial conversion feature, and change in fair market value of the conversion feature of convertible debt offset by decreases in general and administrative expenses, accrued salary expense and stock based compensation expense.

## **Liquidity and Capital Resources**

As of December 31, 2013, we had negative working capital of \$16,442,446 compared to negative working capital of \$15,251,960 as of June 30, 2013, and an accumulated deficit of \$34,251,255 as of December 31, 2013, and further losses are anticipated.

We do not have sufficient funds to continue our operating activities. Future operating activities are expected to be funded by sales of common stock and to a limited extent, debt financing until such time that operations will generate sufficient funds.

These factors raise doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations arising from normal business operations when they come due. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts of and classification of liabilities that might be necessary in the event we cannot continue.

### **Cash Provided by Operating Activities**

Cash flows from operating activities for the six months ended December 31, 2013 was \$612,030, as compared to cash flows from operating activities of \$1,348,981 for the comparable six months ended December 31, 2012. The decrease in the Company's operating cash flows was \$736,951 from the six months ended December 31, 2013 as compared to the six months ended December 31, 2012. The Company had not generated revenues from operations for the six months ended December 31, 2013 or 2012. As a result, cash flows from operations are generated primarily by changes in amounts accrued for operating expenses, stock-based compensation, as well as amortization and changes in fair market value associated with the convertible debt and warrant liability.

### **Cash Used in Investing Activities**

Cash flows used in investing activities for the six months ended December 31, 2013 was \$563,069 as compared to \$1,738,300 used in investing activities for the six months ended December 31, 2012. This decrease in cash used in investing activities of \$1,175,231 consisted primarily of decreases in casino construction costs and deferred casino development costs offset by an increase in deferred casino ground lease rent.

### **Cash Provided by Financing Activities**

Cash flows provided by financing activities for the six months ended December 31, 2013 were \$120,800 as compared to \$380,696 provided by financing activities for the six months ended December 31, 2012. This decrease in cash provided by financing activities of \$259,896 consisted primarily of a decrease in loan payables from stockholders offset by increases in the sale of convertible promissory notes and discounts on notes payable.

### **Off-balance Sheet Arrangements**

The Company has no off-balance sheet arrangements other than the guarantees discussed in the Notes to the consolidated financial statements.

### **Impact of Inflation**

We believe that inflation has not had a material impact on our results of operations for the period ended December 31, 2013. We cannot be assured that future inflation will not have an adverse impact on our operating results and financial condition.

### **Climate Change**

Our opinion is that neither climate change, nor governmental regulations related to climate change, have had, or are expected to have, any material effect on our operations.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information to be reported under this item is not required of smaller reporting companies.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and the Chief Financial Officer, we have concluded that our disclosure controls and procedures were not effective as of September 30, 2013, based on their evaluation of these controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in reports it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have identified certain matters that constitute deficiencies (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 5) in our internal controls over financial reporting. The deficiencies that we have identified relate to the fact that that our overall financial reporting structure, internal accounting information systems and current staffing levels are not sufficient to support our financial reporting requirements. We are working to remedy our deficiencies.

#### **Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ending December 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On February 23, 2010, a Complaint was filed in the Third Judicial District Court of the State of Nevada in and For the County of Lyon against the Company, RBL, and others in the amount of \$5,000,000 pursuant to the termination of a development agreement for the Dayton Project. On July 16, 2010, the Company and Defendants filed an answer and counterclaim. A default Judgment was filed in the Third Judicial District Court of the State of Nevada In and For the County of Lyon on August 8, 2011 against the Company, Rotate Black, LLC, two officers of the Company, and others in the amount of \$9,674,057 for exemplary and punitive damages. In connection with this matter, a Request for Enrollment of Foreign Judgment was filed in the Circuit Court of Harrison County, Mississippi, First Judicial District on December 23, 2011. On June 6, 2012, the Company filed a Motion for Leave to Seek District Court's Correction of Clerical Error Appearing on the Face of the Judgment, Subject Matter of Current Appeal in the Supreme Court of the State of Nevada. On June 7, 2012 the Company was notified that its appeals to the default judgment will be heard by the Nevada Supreme Court. The Company will vigorously defend this action but can provide no assurance as to the likelihood of the outcome of the matter.

On January 18, 2012, an investment banker filed a civil lawsuit against the Company in the Circuit Court of Harrison County, Mississippi, First Judicial District, alleging breach of a fee letter agreement in the amount of \$150,000, plus attorney's fees and costs. The Plaintiff filed a motion for summary judgment on November 21, 2013, which was heard on January 9, 2014, whereupon the motion was granted with regard to the Company's liability for \$25,000. The Court has not entered an order confirming its ruling and has not reached a determination as to the Company's liability on the remaining \$125,000. The Company will vigorously defend this action but can provide no assurance as to the likelihood of the outcome of the matter.

**ITEM 1A. RISK FACTORS**

N/A.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John Paulsen, Chief Executive Officer of Rotate Black, Inc. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rotate Black, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated Subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**ROTATE BLACK INC.**

Date: May 23, 2014

By: /s/ John Paulsen

John Paulsen  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Alan Bailey, certify that:

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

**ROTATE BLACK INC.**

Date: May 23, 2014

By: /s/ Alan Bailey  
Alan Bailey  
Chief Financial Officer  
Principal Financial and Accounting Officer

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

In connection with the Quarterly Report of Rotate Black, Inc. (the "Company") on Form 10-Q for the quarter ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**ROTATE BLACK INC.**

Date: May 23, 2014

By: /s/ John Paulsen

John Paulsen  
Chief Executive Officer  
(Principal Executive Officer)

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

In connection with the Quarterly Report of Rotate Black, Inc. (the "Company") on Form 10-Q for the quarter ending December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**ROTATE BLACK INC.**

Date: May 23, 2014

By: /s/ Alan Bailey  
Alan Bailey  
Chief Financial Officer  
Principal Financial and Accounting Officer