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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 29, 2015

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 0-24993

LAKES ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**41-1913991**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
130 Cheshire Lane, Suite 101 Minnetonka, Minnesota	**55305**
(Address of principal executive offices)	*(Zip Code)*

(952) 449-9092
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 website, 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No

As of May 4, 2015, there were 13,391,578 shares of Common Stock, $0.01 par value per share, outstanding.

LAKES ENTERTAINMENT, INC. AND SUBSIDIARIES

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Part I.
Financial Information

ITEM 1. ***FINANCIAL STATEMENTS***

LAKES ENTERTAINMENT, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

	(Unaudited) March 29, 2015	December 28, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 33,967	$ 35,416
Short-term investments	46,145	46,638
Other	2,301	1,807
Total current assets	82,413	83,861
Property and equipment	35,666	41,433
Accumulated depreciation	(7,374)	(8,694)
Property and equipment, net	28,292	32,739
Other assets:		
Property held for sale	4,407	-
Gaming license	1,840	1,875
Land held for development	960	960
Income taxes receivable	2,000	2,155
Other	437	439
Total other assets	9,644	5,429
Total assets	$ 120,349	$ 122,029
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, net of discount	$ 1,350	$ 1,368
Accounts payable	457	482
Accrued taxes, other than income taxes	607	439
Accrued payroll and related	1,437	1,573
Other accrued expenses	1,903	1,610
Total current liabilities	5,754	5,472
Long-term debt, net of current portion and discount	8,630	8,941
Total liabilities	14,384	14,413
Commitments and contingencies		
Shareholders' equity:		
Common stock, $.01 par value; authorized 100,000 shares; 13,392 and 13,389 common shares issued and outstanding	268	268
Additional paid-in capital	205,690	205,615
Deficit	(99,970)	(98,245)
Accumulated other comprehensive loss	(23)	(22)
Total shareholders' equity	105,965	107,616
Total liabilities and shareholders' equity	$ 120,349	$ 122,029

See notes to unaudited consolidated financial statements.

LAKES ENTERTAINMENT, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share data)

	Three months ended	
	March 29, 2015	March 30, 2014
Revenues:		
Gaming	$ 10,600	$ 10,320
Room	1,207	1,314
Food and beverage	1,348	1,259
Other operating	331	335
License fees and other	44	33
Gross revenues	13,530	13,261
Less promotional allowances	764	951
Net revenues	12,766	12,310
Costs and expenses:		
Gaming	6,065	5,954
Room	158	110
Food and beverage	1,065	1,033
Other operating	226	242
Selling, general and administrative	6,135	5,740
Gain on sale of cost method investment	(750)	-
Impairments and other losses	331	-
(Gain) loss on disposal of property and equipment	(2)	25
Depreciation and amortization	879	853
Total costs and expenses	14,107	13,957
Loss from operations	(1,341)	(1,647)
Other income (expense):		
Interest income	45	33
Interest expense	(274)	(318)
Other	-	164
Total other income (expense), net	(229)	(121)
Loss before income taxes	(1,570)	(1,768)
Income tax provision	155	-
Net loss	$ (1,725)	$ (1,768)
Other comprehensive loss	(1)	(14)
Comprehensive loss	$ (1,726)	$ (1,782)
Weighted-average common shares outstanding		
Basic and diluted	13,391	13,364
Loss per share		
Basic and diluted	$ (0.13)	$ (0.13)

See notes to unaudited consolidated financial statements.

LAKES ENTERTAINMENT, INC. AND SUBSIDIARIES
Unaudited Consolidated Statements of Cash Flows
(In thousands)

	Three Months Ended	
	March 29, 2015	**March 30, 2014**
OPERATING ACTIVITIES:		
Net loss	$ (1,725)	$ (1,768)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	879	853
Amortization of debt issuance costs, accretion of debt discount	113	132
Accretion and amortization of discounts and premiums on short-term investments	105	93
Share-based compensation	59	72
(Gain) loss on disposal of property and equipment	(2)	25
Gain on sale of cost method investment	(750)	-
Impairments and other losses	331	-
Changes in operating assets and liabilities:		
Other current assets	(446)	(155)
Income taxes receivable	155	-
Accrued taxes, other than income taxes	168	108
Accounts payable and accrued expenses	132	51
Net cash used in operating activities	(981)	(589)
INVESTING ACTIVITIES:		
Purchase of short-term investments	(24,141)	(41,875)
Sales and maturities of short-term investments	24,480	42,325
Purchase of property and equipment	(1,130)	(717)
Proceeds from disposal of property and equipment	2	16
Proceeds from sale of cost method investment	750	-
Changes in other assets	(3)	21
Net cash used in investing activities	(42)	(230)
FINANCING ACTIVITIES:		
Repayments of borrowings	(442)	(429)
Proceeds from issuance of common stock	16	13
Net cash used in financing activities	(426)	(416)
Net decrease in cash and cash equivalents	(1,449)	(1,235)
Cash and cash equivalents - beginning of period	35,416	37,897
Cash and cash equivalents - end of period	$ 33,967	$ 36,662
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 159	$ 181
Noncash investing activities:		
Capital expenditures in accounts payable and accrued expenses	$ 110	$ 266

See notes to unaudited consolidated financial statements.

Notes to Unaudited Consolidated Financial Statements

1. Nature of Business and Basis of Presentation

Basis of Presentation
The unaudited consolidated financial statements of Lakes Entertainment, Inc., a Minnesota corporation, and subsidiaries (individually and collectively "Lakes" or the "Company"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. Accordingly, certain information normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed and/or omitted. For further information, please refer to the annual audited consolidated financial statements of the Company, and the related notes included within the Company's Annual Report on Form 10-K, for the year ended December 28, 2014, previously filed with the SEC, from which the balance sheet information as of that date is derived. In the opinion of management, all adjustments considered necessary for a fair presentation have been included (consisting of normal recurring adjustments). The results for the current interim period are not necessarily indicative of the results to be expected for the full year.

All material intercompany accounts and transactions have been eliminated in consolidation.

Investments in unconsolidated investees, which were 20% or less owned and the Company did not have the ability to significantly influence the operating or financial decisions of the entity, were accounted for under the cost method. See note 6, *Investment in Rock Ohio Ventures, LLC*and note 7, *Investment in Dania Entertainment Holdings, LLC.*

Effective September 10, 2014, the Company implemented a 1-for-2 reverse split of its common stock where each two shares of issued and outstanding common stock were converted into one share of common stock. The reverse split reduced the number of shares of the Company's common stock outstanding from approximately 26.8 million to 13.4 million. The par value of the common stock remains at $0.01 per share and the number of authorized shares of common stock decreased from 200 million to 100 million. Proportional adjustments were also made to the company's outstanding stock options. All share information presented in this Quarterly Report on Form 10-Q gives effect to the reverse stock split.

Rocky Gap Casino Resort
Lakes owns and operates the Rocky Gap Casino Resort in Allegany County, Maryland ("Rocky Gap") which it acquired on August 3, 2012. In connection with the acquisition of Rocky Gap, Lakes entered into a 40-year operating ground lease with the Maryland Department of Natural Resources for approximately 268 acres in the Rocky Gap State Park on which Rocky Gap is situated (see note 15, *Commitments and Contingencies*). After acquiring Rocky Gap, which included a hotel, convention center, spa, two restaurants and the only Jack Nicklaus signature golf course in Maryland, the Company converted the then-existing convention center into a gaming facility which opened to the public on May 22, 2013. The gaming facility features 577 video lottery terminals ("VLTs"), 16 table games, two poker tables, a casino bar and a lobby food and beverage outlet. The AAA Four Diamond Award® winning resort also includes an event and conference center that opened during the fourth quarter of 2013, which is able to accommodate large groups and features flexible use meeting rooms. The total cost of the Rocky Gap project was approximately $35.0 million, which included the initial acquisition cost.

Pending Merger with Sartini Gaming, Inc.
On January 25, 2015, Lakes entered into an agreement and plan of merger (the "Merger Agreement") with Sartini Gaming, Inc. ("Golden Gaming"), which owns and operates Golden Gaming, LLC. Golden Gaming is a leading owner and operator of distributed gaming, taverns and casinos, all of which are focused on the Nevada local gaming market. At closing, Golden Gaming will combine with a wholly-owned subsidiary of Lakes with Golden Gaming surviving as a wholly-owned subsidiary of Lakes (the "Merger"). Lakes will remain publicly traded and be renamed Golden Entertainment, Inc. upon closing. The legacy Golden Gaming shareholder will be issued shares of Lakes common stock under the Merger Agreement. Lakes' shareholders at the time of the Merger closing will retain the existing Lakes common stock.

Under the terms of the Merger Agreement, Lakes is valued at $9.57 per share, subject to working capital and various other adjustments under the Merger Agreement. The value of Golden Gaming under the Merger Agreement will be determined by multiplying 7.5 times Golden Gaming's trailing twelve-month consolidated earnings before interest, taxes, depreciation and amortization (adjusted for non-cash or non-recurring expenses, losses and charges and certain other expenses), less the aggregate principal amount of Golden Gaming's indebtedness, subject to working capital and various other adjustments under the Merger Agreement. Based on September 30, 2015 financial estimates and assumptions (as of the date of the Merger Agreement), the legacy Golden Gaming shareholder would be issued 7,858,145 shares of Lakes common stock under the Merger Agreement, which would represent approximately 35.7% of the total fully diluted post-merger shares of common stock. The Company's current shareholders (assuming the exercise of all outstanding options to acquire Lakes common stock) would retain approximately 64.3% of the total post-merger shares of Lakes common stock.

Completion of the Merger is subject to various customary closing conditions, including, but not limited to, (i) approval by Lakes' shareholders of the issuance of shares of Lakes common stock under the Merger Agreement, (ii) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (if applicable), (iii) certain gaming approvals having been obtained from the relevant gaming authorities, (iv) the absence of any order or injunction prohibiting the consummation of the Merger, (v) no material adverse effect or other specified adverse events occurring with respect to Lakes or Golden Gaming, (vi) the refinancing of certain indebtedness of Golden Gaming, (vii) subject to certain exceptions, the accuracy of the representations and warranties of the parties, and (viii) performance and compliance in all material respects with agreements and covenants contained in the Merger Agreement.

The Merger Agreement also contains certain termination rights for each of Lakes and Golden Gaming, including if the Merger is not consummated by November 3, 2015 (subject to automatic extension to February 1, 2016 if all conditions to closing other than specified gaming approvals have been satisfied or waived). The Merger Agreement further provides that, upon termination of the Merger Agreement, under specified circumstances, Lakes is required to pay Golden Gaming a cash termination fee of $5.0 million or reimburse Golden Gaming's transaction expenses up to $0.5 million. In addition, the Merger Agreement provides that, upon termination of the Merger Agreement, under specified circumstances, Golden Gaming will be required to reimburse Lakes' transaction expenses up to $0.5 million.

Contemporaneous with entering into the Merger Agreement, Lakes has also amended and restated its Rights Agreement dated as of December 12, 2013, to preserve its ability to utilize approximately $89.0 million of federal net operating tax loss carryforwards by, among other things, lowering the voting securities ownership threshold of an acquiring person from 15% to 4.99%, and making such other changes which Lakes deemed necessary to effectuate the purposes of the Rights Agreement in light of the transactions contemplated by the Merger Agreement.

2. New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying value of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in this ASU are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-03 will be effective for the Company's first quarter of 2016. Lakes does not expect the adoption of ASU 2015-03 to have an impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. ASU 2014-09 will be effective for the Company's first quarter of 2017. Lakes is evaluating the impact this new standard will have on its financial statements.

3. Short-Term Investments

Short-term investments consist of commercial paper, corporate bonds and certificates of deposit which are classified as available-for-sale securities and are carried at current fair market value, with the resulting unrealized gains and losses, if any, excluded from earnings and reported, net of tax, as a separate component of shareholders' equity until realized. If the carrying value of an investment is in excess of its fair market value, an impairment charge to adjust the carrying value to the fair market value is recorded if the impairment is considered other-than-temporary. There were no other-than-temporary impairments related to declines in fair market value of short-term investments during the three months ended March 29, 2015. All short-term investments held as of March 29, 2015 have original maturity dates of twelve months or less and are classified as current assets. Short-term investments consisted of the following as of March 29, 2015 and December 28, 2014 (in thousands):

	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
March 29, 2015			
Commercial paper	$ 11,984	$ 11,984	$ —
Corporate bonds	33,704	33,681	(23)
Certificates of deposit	480	480	—
Balances at March 29, 2015	$ 46,168	$ 46,145	$ (23)
December 28, 2014			
Commercial paper	$ 23,982	$ 23,984	$ 2
Corporate bonds	21,717	21,693	(24)
Certificates of deposit	961	961	—
Balances at December 28, 2014	$ 46,660	$ 46,638	$ (22)

See note 14, *Financial Instruments and Fair Value Measurements*, for further discussion of the fair value of these investments.

4. Property and Equipment, net

The following table summarizes the components of property and equipment, at cost (in thousands):

	March 29, 2015	December 28, 2014
Building and site improvements	$ 21,421	$ 27,905
Furniture and equipment	13,667	13,445
Construction in process	578	83
Property and equipment	35,666	41,433
Less accumulated depreciation	(7,374)	(8,694)
Property and equipment, net	$ 28,292	$ 32,739

In connection with entering into the Merger Agreement with Golden Gaming, Lakes implemented a plan to sell its corporate headquarters office building in Minnetonka, Minnesota during January 2015. As a result, this asset is classified as held for sale as of March 29, 2015.

On March 26, 2015, Lakes entered into an agreement to sell its corporate headquarters office building at a price of approximately $4.7 million, less approximate fees and closing costs of $0.3 million. Lakes currently expects the sale of the corporate headquarters office building to close during the second quarter of 2015. The corporate headquarters office building was carried at $4.7 million, net of accumulated depreciation, on Lakes' consolidated balance sheet as of the date of the sale agreement, resulting in the recognition of an impairment charge of $0.3 million during the first quarter of 2015.

5. Gaming License

In April 2012, the State of Maryland Video Lottery Facility Location Commission awarded a video lottery operation license ("Gaming License") to the Company for Rocky Gap. Amortization of the Gaming License began on May 22, 2013, the date the gaming facility opened for public play. The Gaming License is being amortized over its 15 year term. Amortization expense related to the Gaming License was less than $0.1 million for each of the three months ended March 29, 2015 and March 30, 2014.

Information with respect to the Gaming License is as follows (in thousands):

	March 29, 2015	December 28, 2014
Original cost	$ 2,100	$ 2,100
Accumulated amortization	(260)	(225)
	$ 1,840	$ 1,875

6. Investment in Rock Ohio Ventures, LLC

As of December 28, 2014, Lakes had a 10% ownership interest in Rock Ohio Ventures, LLC ("Rock Ohio Ventures"), a privately-held company, that owned 80% of the Horseshoe Casino Cleveland in Cleveland, Ohio; the Horseshoe Casino Cincinnati in Cincinnati, Ohio; the Thistledown Racino in North Randall, Ohio; and Turfway Park, a thoroughbred horseracing track located in Florence, Kentucky. This investment was accounted for using the cost method since Lakes owned less than 20% of Rock Ohio Ventures and did not have the ability to significantly influence the operating and financial decisions of the entity. Lakes invested a total of $21.0 million in Rock Ohio Ventures. This investment was determined to have experienced an other-than-temporary impairment and was reduced to its estimated fair value of zero during the third quarter of 2014. As a result, Lakes recognized an impairment loss of $21.0 million during the third quarter of 2014. Effective January 25, 2015, Lakes sold all of its interest in Rock Ohio Ventures to DG Ohio Ventures, LLC for approximately $0.8 million. Because this investment had been written down to zero, Lakes recognized a gain on sale of cost method investment of approximately $0.8 million in the consolidated statement of operations for the three months ended March 29, 2015.

This cost method investment was evaluated, on at least a quarterly basis, for potential other-than-temporary impairment, or when an event or change in circumstances occurred that may have had a significant adverse effect on the fair value of the investment. Lakes monitored this investment for impairment by considering all information available to the Company including the economic environment of the markets served by the properties Rock Ohio Ventures owns; market conditions including existing and potential future competition; recent or expected changes in the regulatory environment; operational performance and financial results; known changes in the objectives of Rock Ohio Venture's management; known or expected changes in ownership of Rock Ohio Ventures; and any other known significant factors relating to the business underlying the investment.

As part of the review of operational performance and financial results for considering if there were indications of impairment, the Company utilized financial statements of Rock Ohio Ventures and its owned gaming properties to assess the investee's ability to operate from a financial standpoint. The Company also analyzed Rock Ohio Ventures' cash flows and working capital to determine if the Company's investment in this entity had experienced an other-than-temporary impairment. As part of this process, the Company analyzed actual historical results compared to forecast and had periodic discussions with management of Rock Ohio Ventures to obtain additional information related to the Company's investment in Rock Ohio Ventures to determine whether any events have occurred that would necessitate further analysis of the Company's recorded investment in Rock Ohio Ventures for impairment. Based on these procedures, Lakes determined that the Company's investment in Rock Ohio Ventures experienced an other-than-temporary impairment during the third quarter of 2014. Based on information provided by Rock Ohio Ventures, Lakes determined that there was significant uncertainty surrounding the recovery of Lakes' investment in Rock Ohio Ventures. The Ohio gaming properties had not performed as expected which led to forecasted potential working capital requirement issues that did not exist prior to the third quarter of 2014, based on information previously available to Lakes. As a result, Lakes determined that an other-than-temporary impairment had occurred and reduced the carrying value of the investment in Rock Ohio Ventures to its estimated fair value of zero during the third quarter of 2014.

The fair value of the Company's cost method investment in Rock Ohio Ventures was estimated to be approximately $0.8 million as of December 28, 2014 based on the January 2015 selling price of this investment. See note 14, *Financial Instruments and Fair Value Measurements*, for further discussion of the calculation of the fair value of the investment in Rock Ohio Ventures as of December 28, 2014.

7. Investment in Dania Entertainment Holdings, LLC

On May 22, 2013, Dania Entertainment Center, LLC ("DEC") purchased the Dania Jai Alai property located in Dania Beach, Florida, from Boyd Gaming Corporation, for $65.5 million.

As part of a previous plan to purchase the property, during 2011 Lakes loaned $4.0 million to DEC (the "Loan") which was written down to zero during the third quarter of 2011 when the acquisition did not close. During 2013, the Loan was exchanged for a 20% ownership interest in Dania Entertainment Holdings, LLC ("DEH").

The Company accounted for its investment in DEH as a cost method investment. At the time the Loan was exchanged for an equity investment in DEH, Lakes determined its value remained at zero due to the negative cash flows of the existing operations of the Dania Jai Alai property as well as uncertainty surrounding completion of the project. Therefore, there was no value recorded for this investment at the time the Loan was exchanged for an equity investment in DEH. On April 21, 2014, Lakes entered into a redemption agreement with DEH that resulted in DEH redeeming Lakes' 20% ownership in DEH in exchange for DEH granting to Lakes 5% ownership in DEC. Concurrently, Lakes entered into an agreement with ONDISS Corp. ("ONDISS") to sell its ownership in DEC for approximately $2.6 million. Lakes received $1.0 million on April 21, 2014 in exchange for 40% of its ownership. On October 17, 2014, ONDISS paid the entire remaining amount due to Lakes at a discounted amount of approximately $1.4 million. Upon receipt of such payment, Lakes transferred its remaining ownership in DEC to ONDISS. As a result, Lakes recognized a gain on sale of cost method investment of $2.4 million during the year ended December 28, 2014.

8. Land

Lakes owns parcels of undeveloped land related to its previous involvement in a potential casino project with the Jamul Indian Village (the "Jamul Tribe") near San Diego, California. During the third quarter of 2012, Lakes entered into a ten-year option agreement ("Original Option Agreement") with Penn National Gaming, Inc. ("Penn National") that granted Penn National the right to purchase this land for $7.0 million, increasing 1% each year, but Penn National had no obligation to purchase the land. The Original Option Agreement was amended on May 15, 2014 to reduce the purchase price of the land to $5.5 million but requires Penn National to purchase the land within ten days after the Jamul Tribe opens a casino on its reservation. Annual option payments of less than $0.1 million are required to be made by Penn National to Lakes. As of March 29, 2015 and December 28, 2014, this land is carried at approximately $1.0 million on the accompanying consolidated balance sheets.

The Company performs an impairment analysis on the land it owns at least quarterly and determined that no impairment had occurred as of March 29, 2015 and December 28, 2014.

9. Debt

Loan Agreement
Lakes had a two-year interest-only $8.0 million revolving line of credit loan agreement (the "Loan Agreement") with Centennial Bank that expired on October, 28 2014. The Loan Agreement was collateralized by primarily all of Lakes' interest in the real property it owns in Minnetonka, Minnesota. Lakes' Chief Executive Officer, Lyle Berman, personally guaranteed the Loan Agreement on behalf of Lakes. The Loan Agreement allowed for an interest rate of 8.95% on any amounts borrowed. No amounts were ever borrowed under the Loan Agreement.

Financing Facility
In December 2012, Lakes closed on a $17.5 million financing facility with Centennial Bank (the "Financing Facility") to finance a portion of Rocky Gap project costs. Approximately $13.4 million has been drawn on the Financing Facility, which is collateralized by the leasehold estate and the furniture, fixtures and equipment of Rocky Gap. In addition, Lakes guaranteed repayment of the loan and granted a second mortgage on its real property located in Minnetonka, Minnesota. Effective November 1, 2013, Lakes amended the Financing Facility with Centennial Bank to reduce the interest rate from 10.5% to 5.5%. Monthly payments of principal and interest began on December 1, 2013 and continue for 84 months. Although Lakes does not currently plan to make further draws on the Financing Facility, Lakes has the ability to draw the remaining $4.1 million on the Financing Facility through December 31, 2018. As of March 29, 2015 and December 28, 2014, $11.3 million and $11.7 million of principal was outstanding under the Financing Facility, respectively.

As a result of the amendment of the Financing Facility with Centennial Bank effective November 1, 2013, Lakes recorded a $1.7 million gain on modification of debt during the fourth quarter of 2013. This amount included $2.0 million recorded as a discount to the principal amount of the Financing Facility, which is being accreted to interest expense over the term of the Financing Facility using the effective interest method, and $0.3 million of original debt issuance costs expensed at the time of the amendment. Accretion of the discount to interest expense was approximately $0.1 million for each of the three months ended March 29, 2015 and March 30, 2014.

Summary of Outstanding Debt
Long-term debt, net of current maturities and discount, is comprised of the following (in thousands):

	March 29, 2015	December 28, 2014
Financing Facility	$ 11,269	$ 11,691
Capital lease obligations	30	50
Total debt	11,299	11,741
Less: current maturities, net of discount	(1,350)	(1,368)
Less: unamortized debt discount	(1,319)	(1,432)
Long-term debt, net of current maturities and discount	$ 8,630	$ 8,941

10. Promotional Allowances

The retail value of rooms, food and beverage, and other services furnished to guests without charge, including coupons for discounts when redeemed, is included in gross revenues and then deducted as promotional allowances. The estimated retail value of the promotional allowances is as follows (in thousands):

	Three Months Ended	
	March 29, 2015	March 30, 2014
Food and beverage	$ 159	$ 107
Rooms	552	808
Other	53	36
Total promotional allowances	$ 764	$ 951

The estimated cost of providing these promotional allowances, which are included in gaming costs and expenses, is as follows (in thousands):

	Three Months Ended	
	March 29, 2015	March 30, 2014
Food and beverage	$ 78	$ 53
Rooms	169	194
Other	34	42
Total promotional allowances	$ 281	$ 289

11. Share-Based Compensation

Share-based compensation expense related to stock options was $0.1 million for each of the three months ended March 29, 2015 and March 30, 2014.

The Company uses the Black Scholes option pricing model to estimate the fair value and compensation cost associated with employee incentive stock options which requires the consideration of historical employee exercise behavior data and the use of a number of assumptions including volatility of the Company's stock price, the weighted average risk-free interest rate and the weighted average expected life of the options. There were zero and 5,000 options granted during the three months ended March 29, 2015 and March 30, 2014, respectively. The weighted-average grant-date fair value of the stock options issued during the three months ended March 30, 2014 was $4.96.

The following table summarizes Lakes' stock option activity during the three months ended March 29, 2015 and March 30, 2014:

	Number of Common Shares			
	Options Outstanding	Exercisable	Available for Grant	Weighted-Average Exercise Price
2015				
Balance at December 28, 2014	755,617	616,792	276,635	$ 6.09
Exercised	(2,500)		—	6.14
Balance at March 29, 2015	753,117	677,870	276,635	6.09
2014				
Balance at December 29, 2013	798,171	585,769	263,424	$ 5.97
Forfeited/cancelled/expired	(18,211)		17,211	4.85
Exercised	(3,500)		—	3.78
Granted	5,000		(5,000)	9.16
Balance at March 30, 2014	781,460	629,483	275,635	5.88

As of March 29, 2015, the options outstanding had a weighted average remaining contractual life of 5.6 years, weighted average exercise price of $6.09 and aggregate intrinsic value of $2.0 million. The options exercisable have a weighted average exercise price of $6.03, a weighted average remaining contractual life of 5.3 years and aggregate intrinsic value of $1.9 million as of March 29, 2015.

There were 2,500 and 3,500 options exercised during the three months ended March 29, 2015 and March 30, 2014, respectively. The total intrinsic value of options exercised during each of the three months ended March 29, 2015 and March 30, 2014 was less than $0.1 million. Lakes' unrecognized share-based compensation expense related to stock options was approximately $0.2 million as of March 29, 2015, which is expected to be recognized over a weighted-average period of 1.1 years.

Lakes issues new shares of common stock upon the exercise of options.

12. Earnings (Loss) per Share

For all periods, basic earnings (loss) per share ("EPS") is calculated by dividing net earnings (loss) by the weighted-average common shares outstanding. Diluted EPS in profitable periods reflects the effect of all potentially dilutive common shares outstanding by dividing net earnings by the weighted-average of all common and potentially dilutive shares outstanding. Potentially dilutive stock options of 753,117 and 781,460 for the three months ended March 29, 2015 and March 30, 2014, respectively, were not used to compute diluted earnings (loss) per share because the effects would have been anti-dilutive.

13. Income Taxes

Income tax expense was $0.2 million for the three months ended March 29, 2015, which was attributed entirely to alternative minimum tax. There was no income tax benefit for the first quarter of 2014 because there is no remaining potential to carry back losses to prior years and future realization of the benefit is uncertain. The Company's effective tax rate was (9.9)% and 0% for the three months ended March 29, 2015 and March 30, 2014, respectively. For the three months ended March 29, 2015, the effective tax rate differs from the federal tax rate of 35% due to the alternative minimum tax, permanent differences and the limitation of the income tax benefit due to the uncertainty of its future realization. For the three months ended March 30, 2014, the effective tax rate differs from the federal tax rate of 35% primarily due to the limitation of the income tax benefit due to the uncertainty of its future realization.

Lakes has recorded income taxes receivable of $2.0 million and $2.2 million as of March 29, 2015 and December 28, 2014, respectively, related to the Company's ability to carry back 2012 taxable losses to a prior year and receive a refund of taxes previously paid.

Deferred tax assets are evaluated by considering historical levels of income, estimates of future taxable income and the impact of tax planning strategies. Management has evaluated all available evidence and has determined that negative evidence continues to outweigh positive evidence for the realization of deferred tax assets and as a result continues to provide a full valuation allowance against its deferred tax assets as of March 29, 2015.

The Company is currently under IRS audit for the 2009-2013 tax years and the IRS has proposed certain adjustments to the 2009-2011 tax filings. However, Lakes believes it is more likely than not that it will prevail in challenging the proposed adjustments and maintains that the positions taken were proper and supported by applicable laws and regulations. Lakes does not believe, when resolved, that this dispute will have a material effect on its consolidated financial statements. However, an unexpected adverse resolution could have a material effect on the consolidated financial statements in a particular quarter or fiscal year.

The Company is currently under audit by the State of California for the 2010 tax year. No adjustments have been made as a result of the State of California audit. However, there is no assurance that the taxing authority will not propose adjustments that are different from the Company's expected outcome and that may impact the provision for income taxes.

14. Financial Instruments and Fair Value Measurements

Overview

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value, and requires certain disclosures. The framework discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The framework utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's financial instruments consist of cash and cash equivalents, short-term investments, cost method investments, accounts payable and debt.

For the Company's cash and cash equivalents, accounts payable and current portion of debt, the carrying amounts approximate fair value because of the short duration of these financial instruments. As of March 29, 2015 and December 28, 2014, the fair value of the Company's long-term debt approximates the carrying value based upon the Company's expected borrowing rate for debt with similar remaining maturities and comparable risk.

Balances Measured at Fair Value on a Recurring Basis

The following table (in thousands) shows certain of the Company's financial instruments measured at fair value on a recurring basis using Level 2 inputs, as they are priced principally by independent pricing services using observable inputs:

	March 29, 2015	December 28, 2014
Short-Term Investments		
Commercial paper	$ 11,984	$ 23,984
Corporate bonds	33,681	21,693
Certificates of deposit	480	961

Balances Measured at Fair Value on a Nonrecurring Basis

Corporate Headquarters Office Building - On March 26, 2015, Lakes entered into an agreement to sell its corporate headquarters office building at a price of approximately $4.7 million, less fees and closing costs of $0.3 million. As a result, using Level 3 inputs, this asset is recorded at its fair value less costs to sell of $4.4 million in the consolidated balance sheet as of March 29, 2015.

Balances Disclosed at Fair Value

Cost Method Investment – Investment in Rock Ohio Ventures, LLC - The fair value of the Company's cost method investment in Rock Ohio Ventures was estimated to be approximately $0.8 million as of December 28, 2014 based on the negotiated selling price of this investment. Effective January 25, 2015, Lakes sold its investment in Rock Ohio Ventures for approximately $0.8 million (see note 6, *Investment in Rock Ohio Ventures, LLC*).

15. Commitments and Contingencies

Operating Lease with the Maryland Department of Natural Resources Related to Rocky Gap
In connection with the closing of the acquisition of Rocky Gap, Lakes entered into a 40-year operating ground lease (the “Lease Agreement”) with the Maryland Department of Natural Resources for approximately 268 acres in the Rocky Gap State Park on which Rocky Gap is situated. The Lease Agreement contains an option to renew for 20 years after the initial 40-year term.

From August 3, 2012 and until the casino opened for public play on May 22, 2013, rent in the form of surcharges was due and payable with a minimum annual payment of $150,000. From May 22, 2013 through the remaining term of the Lease Agreement, rent payments are due and payable annually in the amount of $275,000 plus 0.9% of any gross operator share of gaming revenue (as defined in the Lease Agreement) in excess of $275,000, and $150,000 plus any surcharge revenue in excess of $150,000. Surcharge revenue consists of amounts billed to and collected from guests and are $3.00 per room per night and $1.00 per round of golf. Rent expense associated with the Lease Agreement was $0.1 million, net of surcharge revenues, for each of the three months ended March 29, 2015 and March 30, 2014.

Future minimum lease payments under the Lease Agreement at March 29, 2015 are as follows (in thousands):

	2015	2016	2017	2018	2019	Thereafter
Minimum lease payment	$ 425	$ 425	$ 425	$ 425	$ 425	$ 13,600

Jerry Argovitz Litigation
On March 12, 2014, Lakes received a demand for arbitration from Jerry Argovitz (“Argovitz”) relating to a Consent and Agreement to Buyout and Release by and between Argovitz and Lakes KAR Shingle Springs, LLC (“LKAR”), Lakes Entertainment, Inc., and Lakes Shingle Springs, Inc. dated January 30, 2003 (“Buyout Agreement”). The Buyout Agreement provided that LKAR was to make certain payments to Argovitz for so long as LKAR was managing the Red Hawk Casino for the Shingle Springs Tribe. Lakes made the payments required under the Buyout Agreement while it was managing the Red Hawk Casino, and discontinued the payments after its management contract to manage the Red Hawk Casino was terminated. Argovitz asserted claims for breach of the Buyout Agreement and the implied covenant of good faith and fair dealing relating to the payments he alleged he was entitled to receive after the management agreement was terminated. He sought damages of approximately $2.7 million, plus interest, costs, and attorney fees.

On September 9, 2014, Argovitz was awarded approximately $2.4 million related to the arbitration action brought by Argovitz against Lakes. As a result, Lakes recognized charges related to arbitration award in its consolidated statement of operations of approximately $2.5 million during the third quarter of 2014, which included the $2.4 million award and $0.1 million of legal fees. The action is now closed and no further claims can be made by Argovitz related to this matter.

Quest Media Group, LLC Litigation
On May 17, 2012, Lakes received service of a breach of contract lawsuit filed in the Franklin County Court of Common Pleas, Franklin County, Ohio by Quest Media Group, LLC (“Quest”) with respect to an agreement (the “Agreement”) entered into between Lakes Ohio Development, LLC (a wholly owned subsidiary of Lakes) (“Lakes Ohio Development”) and Quest on March 9, 2010. The Agreement relates to Quest assisting Lakes Ohio Development in partnering with Rock Ohio Ventures, LLC and Penn Ventures, LLC (“Penn Ventures”) with respect to funding the proposed citizen-initiated referendum in November 2009 to amend the Ohio constitution to permit one casino each in Cleveland, Cincinnati, Toledo and Columbus, Ohio. The lawsuit alleged, among other things, that Lakes breached the Agreement by selling Lakes Ohio Development’s interest in the Toledo and Columbus, Ohio casino projects to Penn Ventures, failing to pay the proper fee to Quest as a result of such sale, and incorrectly calculating the costs that are to be offset against Quest’s fee. The lawsuit sought unspecified compensatory damages in excess of $25,000, punitive damages, declaratory and injunctive relief. The lawsuit named as defendants Lakes Entertainment, Inc., Lakes Ohio Development, LLC and Lyle Berman, Chairman and CEO of Lakes. Lakes removed the case to federal court, answered the pleadings and filed a motion to dismiss the claims against all defendants. Prior to the judge’s ruling on the motion to dismiss, the parties settled all but one of Quest’s claims (including obtaining a dismissal of Lyle Berman from the lawsuit) at no out-of-pocket expense to Lakes. The judge granted Lakes’ motion to dismiss and dismissed the remaining claims against Lakes. Quest subsequently appealed the dismissal to the Sixth Circuit Court of Appeals. The matter has been fully briefed by both parties and oral arguments were held on March 3, 2015. A decision is expected in mid-2015. Lakes continues to believe that the suit is without merit and will continue to vigorously defend the matter.

Employment Agreements
Lakes has entered into employment agreements with certain key employees of the Company. The agreements provide for certain benefits to the employee as well as severance if the employee is terminated without cause or due to a “constructive termination” as defined in the agreements. The severance amounts depend upon the term of the agreement and can be up to two years of base salary and two years of bonus calculated as the average bonus earned in the previous two years. If such termination occurs within three years of a change of control as defined in the agreements by the Company without cause or due to a constructive termination, the employee will receive a lump sum payment equal to two times the annual base salary and bonus/incentive compensation along with insurance costs, 401(k) matching contributions and certain other benefits. In the event the employee’s employment terminates for any reason, including death, disability, expiration of an initial term, non-renewal by the Company with or without cause, by the employee with notice, or due to constructive termination, all unvested stock options vest at the date of termination and remain exercisable for three years. The Company is expected to perform on these agreements if the pending Merger with Golden Gaming closes. The agreements provide for a base salary, bonus, stock options and other customary benefits.

Retention Bonus and Severance Agreements
On March 30, 2015, Lakes provided Retention Bonus and Severance Agreements ("Severance Agreements") to 14 of its employees. These Severance Agreements are contingent upon closing of the Merger. Pursuant to these Severance Agreements, Lakes estimates that it will recognize an estimated charge of $2.8 million, representing cash payments and non-cash expenses related to stock vesting acceleration. All of the payments due under these agreements are anticipated to be paid within 30 days after closing of the Merger.

Merger Costs
Lakes expects to incur a total of approximately $10.0 million in costs associated with the proposed Merger, the majority of which are contingent upon the closing of the Merger. The $10.0 million includes the employment, retention bonus and severance agreements discussed above in addition to legal, financial advisor, accounting and consulting costs. Lakes has incurred approximately $1.3 million of the expected $10.0 million total transaction related costs as of March 29, 2015, of which approximately $0.8 million was incurred during the first quarter of 2015.

Shareholder Class Action Lawsuits
On February 6, 2015, Lakes, the members of the Lakes' Board of Directors, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust were named as defendants in three complaints filed in the District Court of the State of Minnesota, Fourth Judicial District in Hennepin County. The cases are captioned James Orr, individually and on behalf of all others similarly situated, as Plaintiff, vs. Lakes Entertainment, Inc., LG Acquisition Corporation, Sartini Gaming, Inc., Lyle A. Berman, Timothy J. Cope, Larry C. Barenbaum, Neil I. Sell, Ray M. Moberg, and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants; Anthony Dacquisito, on behalf of himself and all others similarly situated, as Plaintiff vs. Larry Barenbaum, Lyle Berman, Neil Sell, Ray Moberg, Timothy Cope, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants; and David Lehr and Pamela Lehr, as Plaintiffs, individually and on behalf of all others similarly situated vs. Larry Barenbaum, Lyle Berman, Neil Sell, Ray Moberg, Timothy Cope, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants. These are purported shareholder class action lawsuits brought by certain of Lakes' shareholders on behalf of themselves and others similarly situated, alleging that in entering into the proposed transaction with Golden Gaming, the Defendants have breached their fiduciary duties of good faith, loyalty and due care, and/or have aided and abetted such breaches. The Plaintiffs seek, among other things, to enjoin the transactions contemplated by the Merger Agreement and attorney's fees. An unfavorable outcome in these lawsuits could prevent or delay the consummation of the Merger, result in substantial costs to Lakes, or both. It is also possible that other lawsuits may yet be filed and Lakes cannot estimate any possible loss from this or future litigation at this time.

Miscellaneous Legal Matters
Lakes and its subsidiaries are involved in various other inquiries, administrative proceedings, and litigation relating to contracts and other matters arising in the normal course of business. While any proceeding or litigation has an element of uncertainty, and although unable to estimate the minimum costs, if any, to be incurred in connection with these matters, management currently believes that the likelihood of an unfavorable outcome is remote, and is not likely to have a material adverse effect upon Lakes' unaudited consolidated financial statements. Accordingly, no provision has been made with regard to these matters.

16. Segment Information

Lakes' segments reported below (in millions) are the segments of the Company for which separate financial information is available and for which operating results are evaluated by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Rocky Gap segment includes results of operations and assets related to the Rocky Gap Casino Resort near Cumberland, Maryland. The Other segment includes Lakes' cash and cash equivalents, short-term investments, Lakes corporate overhead and the investment in Rock Ohio Ventures. Costs in Other have not been allocated to the other segments because these costs are not easily allocable and to do so would not be practical. Amounts in Eliminations represent the intercompany management fee for Rocky Gap.

	Rocky Gap	Other	Eliminations	Consolidated
Three months ended March 29, 2015				
Net revenue	$ 12.7	$ 0.4	$ (0.3)	$ 12.8
Management fee revenue – Rocky Gap	—	0.3	(0.3)	—
Management fee expense – Rocky Gap	(0.3)	—	0.3	—
Gain on sale of cost method investment	—	0.8	—	0.8
Impairments and other losses	—	(0.3)	—	(0.3)
Depreciation and amortization expense	(0.9)	—	—	(0.9)
Earnings (loss) from operations	0.3	(1.6)	—	(1.3)
Interest expense	(0.3)	—	—	(0.3)
Three months ended March 30, 2014				
Net revenue	$ 12.3	$ 0.3	$ (0.3)	$ 12.3
Management fee revenue – Rocky Gap	—	0.3	(0.3)	—
Management fee expense – Rocky Gap	(0.3)	—	0.3	—
Depreciation and amortization expense	(0.8)	(0.1)	—	(0.9)
Earnings (loss) from operations	0.2	(1.8)	—	(1.6)
Interest expense	(0.3)	—	—	(0.3)
As of March 29, 2015				
Total assets	$ 36.8	$ 83.5	$ —	$ 120.3
Capital expenditures	1.0	0.1	—	1.1
As of December 28, 2014				
Total assets	$ 35.7	$ 86.3	$ —	$ 122.0
Capital expenditures	4.3	0.2	—	4.5

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

Overview

Lakes Entertainment, Inc. and subsidiaries ("Lakes", "we", or "our") develops, finances, manages and owns casino properties with a historical emphasis on Indian-owned properties.

Rocky Gap Casino Resort

We own and operate the Rocky Gap Casino Resort in Allegany County, Maryland ("Rocky Gap") which we acquired on August 3, 2012. In connection with the acquisition of Rocky Gap, we entered into a 40-year operating ground lease with the Maryland Department of Natural Resources ("Maryland DNR") for approximately 268 acres in the Rocky Gap State Park on which Rocky Gap is situated. After acquiring Rocky Gap, which included a hotel, convention center, spa, two restaurants and the only Jack Nicklaus signature golf course in Maryland, we converted the then-existing convention center into a gaming facility which opened to the public on May 22, 2013. The gaming facility features 577 video lottery terminals ("VLTs"), 16 table games, two poker tables, a casino bar and a lobby food and beverage outlet. The AAA Four Diamond Award® winning resort also includes an event and conference center that opened in the fourth quarter of 2013, which is able to accommodate large groups and features flexible use meeting rooms. The total cost of the Rocky Gap project was approximately $35.0 million, which included the initial acquisition cost.

Pending Merger with Sartini Gaming, Inc.

On January 25, 2015, Lakes entered into an agreement and plan of merger (the "Merger Agreement") with Sartini Gaming, Inc. ("Golden Gaming"), which owns and operates Golden Gaming, LLC. Golden Gaming is a leading owner and operator of distributed gaming, taverns and casinos, all of which are focused on the Nevada local gaming market. At closing, Golden Gaming will combine with a wholly-owned subsidiary of Lakes with Golden Gaming surviving as a wholly-owned subsidiary of Lakes (the "Merger"). Lakes will remain publicly traded and be renamed Golden Entertainment, Inc. upon closing. The legacy Golden Gaming shareholder will be issued shares of Lakes common stock under the Merger Agreement. Lakes' shareholders at the time of the Merger closing will retain the existing Lakes common stock.

Under the terms of the Merger Agreement, Lakes is valued at $9.57 per share, subject to working capital and various other adjustments under the Merger Agreement. The value of Golden Gaming under the Merger Agreement will be determined by multiplying 7.5 times Golden Gaming's trailing twelve-month consolidated earnings before interest, taxes, depreciation and amortization (adjusted for non-cash or non-recurring expenses, losses and charges and certain other expenses), less the aggregate principal amount of Golden Gaming's indebtedness, subject to working capital and various other adjustments under the Merger Agreement. Based on September 30, 2015 financial estimates and assumptions (as of the date of the Merger Agreement), the legacy Golden Gaming shareholder would be issued 7,858,145 shares of Lakes common stock under the Merger Agreement, which would represent approximately 35.7% of the total fully diluted post-merger shares of common stock. The Company's current shareholders (assuming the exercise of all outstanding options to acquire Lakes common stock) would retain approximately 64.3% of the total post-merger shares of Lakes common stock.

Completion of the Merger is subject to various customary closing conditions, including, but not limited to, (i) approval by Lakes' shareholders of the issuance of shares of Lakes common stock under the Merger Agreement, (ii) the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (if applicable), (iii) certain gaming approvals having been obtained from the relevant gaming authorities, (iv) the absence of any order or injunction prohibiting the consummation of the Merger, (v) no material adverse effect or other specified adverse events occurring with respect to Lakes or Golden Gaming, (vi) the refinancing of certain indebtedness of Golden Gaming, (vii) subject to certain exceptions, the accuracy of the representations and warranties of the parties, and (viii) performance and compliance in all material respects with agreements and covenants contained in the Merger Agreement.

The Merger Agreement also contains certain termination rights for each of Lakes and Golden Gaming, including if the Merger is not consummated by November 3, 2015 (subject to automatic extension to February 1, 2016 if all conditions to closing other than specified gaming approvals have been satisfied or waived). The Merger Agreement further provides that, upon termination of the Merger Agreement, under specified circumstances, Lakes is required to pay Golden Gaming a cash termination fee of $5.0 million or reimburse Golden Gaming's transaction expenses up to $0.5 million. In addition, the Merger Agreement provides that, upon termination of the Merger Agreement, under specified circumstances, Golden Gaming will be required to reimburse Lakes' transaction expenses up to $0.5 million.

Contemporaneous with entering into the Merger Agreement, Lakes has also amended and restated its Rights Agreement dated as of December 12, 2013, to preserve its ability to utilize approximately $89.0 million of federal net operating tax loss carryforwards by, among other things, lowering the voting securities ownership threshold of an acquiring person from 15% to 4.99%, and making such other changes which Lakes deemed necessary to effectuate the purposes of the Rights Agreement in light of the transactions contemplated by the Merger Agreement.

Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the three months ended March 29, 2015.

Three months ended March 29, 2015 compared to the three months ended March 30, 2014

Net Revenues
Net revenues were $12.8 million for the first quarter of 2015 compared to $12.3 million for the first quarter of 2014. The increase in net revenues for the three months ended March 29, 2015 compared to the three months ended March 30, 2014 was primarily related to an increase in gaming revenues.

Property Operating Expenses
Property operating expenses were $7.5 million for the first quarter of 2015 compared to $7.3 million for the first quarter of 2014 which primarily related to gaming, rooms, food and beverage and golf operations of Rocky Gap. The increase in property operating expenses resulted primarily from an increase in gaming-related expenses, most notably gaming taxes, due to the increase in gaming-related revenue in the current year quarter.

Selling, General and Administrative Expenses
Selling, general and administrative expenses were $6.1 million for the first quarter of 2015 compared to $5.7 million for the first quarter of 2014. Included in these amounts were Lakes corporate selling, general and administrative expenses of $2.4 million and $2.0 million for the first quarters of 2015 and 2014, respectively, and Rocky Gap selling, general and administrative expenses of $3.7 million for each of the first quarters of 2015 and 2014.

For the first quarter of 2015, selling, general and administrative expenses consisted primarily of payroll and related expenses of $2.9 million (including share-based compensation), marketing and advertising expenses of $0.6 million, building and rent expenses of $0.6 million, professional fees of $0.6 million and business development expenses of $0.8 million which are associated with the pending Merger with Golden Gaming.For the first quarter of 2014, selling, general and administrative expenses consisted primarily of payroll and related expenses of $2.8 million (including share-based compensation), marketing and advertising expenses of $0.6 million, building and rent expenses of $0.8 million and professional fees of $1.0 million.

Gain on Sale of Cost Method Investment
During the first quarter of 2015, Lakes sold its interest in Rock Ohio Ventures and recognized a $0.8 million gain on sale of cost method investment because this asset had previously been written off.

Impairments and Other Losses
On March 26, 2015, Lakes entered into an agreement to sell its corporate headquarters office building at a price of approximately $4.7 million, less approximate fees and closing costs of $0.3 million. The corporate headquarters office building was carried at $4.7 million, net of accumulated depreciation, on Lakes' consolidated balance sheet as of the date of the sale agreement. As a result, Lakes recognized an impairment charge of $0.3 million during the first quarter of 2015.

Depreciation and Amortization
Depreciation and amortization was $0.9 million for each of the first quarters of 2015 and 2014.

Other Income (Expense), net
Other income (expense), net was $(0.2) million for the first quarter of 2015 compared to $(0.1) million for the first quarter of 2014. The current fiscal year amount relates primarily to interest expense associated with the financing facility with Centennial Bank.

Income Taxes
Income tax expense was $0.2 million for the first quarter of 2015, which was attributed entirely to alternative minimum tax. There was no income tax benefit for the first quarter of 2014 because there is no remaining potential to carry back losses to prior years and future realization of the benefit is uncertain. Our effective tax rate was (9.9)% and 0% for the first quarters of 2015 and 2014, respectively. For the three months ended March 29, 2015, the effective tax rate differs from the federal tax rate of 35% due to the alternative minimum tax, permanent differences and the limitation of the income tax benefit due to the uncertainty of its future realization. For the three months ended March 30, 2014, the effective tax rate differs from the federal tax rate of 35% primarily due to the limitation of the income tax benefit due to the uncertainty of its future realization.

Outlook

Excluding any effect of the pending Merger with Golden Gaming, during the next twelve months, Lakes currently expects the majority of its revenue to come from the operation of Rocky Gap. However, due to the relatively short operating history of Rocky Gap, we do not plan to provide guidance on future results of operations.

Liquidity and Capital Resources

As of March 29, 2015, we had $34.0 million in cash and cash equivalents and $46.1 million in short-term investments. We currently believe that our cash and cash equivalents, short-term investments, and our cash flows from operations will be sufficient to meet our working capital requirements during the next 12 months.

Our operating results and performance depend significantly on economic conditions and their effect on consumer spending in the property we own. Declines in consumer spending would cause our revenues generated from the ownership of Rocky Gap to be adversely affected.

We have a $17.5 million financing facility that was used to finance a portion of the Rocky Gap gaming facility project and new event and conference center construction costs. We drew approximately $13.4 million on the financing facility, of which $11.3 million remains outstanding as of March 29, 2015. Although we do not currently plan to make additional draws on the financing facility, we have the ability to draw the remaining $4.1 million through December 31, 2018. Effective November 1, 2013, we amended this financing facility to reduce the interest rate from 10.5% to 5.5%. Monthly principal and interest payments on the outstanding amount of the financing facility began on December 1, 2013 and continue for 84 months.

We invested $21.0 million in Rock Ohio Ventures. During the third quarter of 2014, this cost method investment was determined to be impaired and was reduced to its estimated fair value of zero resulting in an impairment of $21.0 million. Effective January 25, 2015, we sold this investment for approximately $0.8 million. As a result, we received a cash payment of approximately $0.8 million and recognized a gain on sale of cost method investment of approximately $0.8 million during the first quarter of 2015.

We expect to incur a total of approximately $10.0 million in costs associated with the proposed Merger, the majority of which are contingent upon the closing of the Merger. The $10.0 million consists primarily of legal, financial advisor, severance and payments due under employment agreements, accounting and consulting costs. We have incurred approximately $1.3 million of the total $10.0 million in transaction related costs as of March 29, 2015, of which approximately $0.8 million was incurred during the first quarter of 2015.

Critical Accounting Policies and Estimates

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, short-term investments, investments in unconsolidated investees, litigation costs, income taxes and share-based compensation. We base our estimates and judgments on historical experience and on various other factors that are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The following represent our accounting policies that involve the more significant judgments and estimates used in the preparation of our consolidated financial statements. See note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 28, 2014, previously filed with the SEC, for a discussion of all of our significant accounting policies.

Revenue Recognition and Promotional Allowances

Gaming revenue, which is defined as the difference between gaming wins and losses, is recognized as wins and losses occur from gaming activities. The retail value of rooms, food and beverage, and other services furnished to guests without charge, including coupons for discounts when redeemed, is included in gross revenues and then deducted as a promotional allowance. The estimated cost of providing such promotional allowances is included in gaming expenses.

Food, beverage, and retail revenues are recorded at the time of sale. Room revenue is recorded at the time of occupancy. Sales taxes and surcharges collected from guests and remitted to governmental authorities are presented on a net basis. Accounts receivable deemed uncollectible are charged off through a provision for uncollectible accounts.

Revenue from the management, development, financing of and consulting with Indian-owned casino gaming facilities is recognized as it is earned pursuant to each respective agreement.

Short-Term Investments and Concentrations of Credit Risk

Short-term investments consist of commercial paper, corporate bonds and certificates of deposit which are classified as available-for-sale securities and are valued at current market value, with the resulting unrealized gains and losses, if any, excluded from earnings and reported, net of tax, as a separate component of shareholders' equity until realized. All of our investments in commercial paper and corporate bonds carry a rating by one or more of the nationally recognized statistical rating organizations. Any change in such rating agencies' approach to evaluating credit and assigning an opinion could negatively impact the fair value of our investments. Any impairment loss to reduce an investment's carrying amount to its fair market value is recognized in income when a decline in the fair market value of an individual security below its cost or carrying value is determined to be other-than-temporary.

Investments in Unconsolidated Investees

Investments in an entity where we own 20% or less of the voting stock of the entity and do not exercise significant influence over operating and financial policies of the entity are accounted for using the cost method.

We have a policy in place to review our investments at least annually, to evaluate the accounting method and carrying value of our investments in unconsolidated investees. Our cost method investments are evaluated, on at least a quarterly basis, for potential other-than-temporary impairment, or when an event or change in circumstances has occurred that may have a significant adverse effect on the fair value of the investments. We monitor the investments for impairment by considering all information available to us including the economic environment of the markets served by the properties; market conditions including existing and potential future competition; recent or expected changes in the regulatory environment; operational performance and financial results; known changes in the objectives of the properties' management; known or expected changes in ownership; and any other known significant factors relating to the businesses underlying the investments. If we believe that the carrying value of an investment is in excess of its estimated fair value, it is our policy to record an impairment charge to adjust the carrying value to the estimated fair value, if the impairment is considered other-than-temporary.

Income Taxes

The determination of our income tax-related account balances requires the exercise of significant judgment by management. Accordingly, we determine deferred tax assets and liabilities based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Management assesses the likelihood that deferred tax assets will be recovered from future taxable income and establishes a valuation allowance when management believes recovery is not likely.

We record estimated penalties and interest related to income tax matters, including uncertain tax positions, if any, as a component of income tax expense.

Share-Based Compensation Expense
We have various share-based compensation programs, which provide for equity awards including stock options and restricted stock. We use the straight-line method to recognize compensation expense associated with share-based awards based on the fair value on the date of grant, net of the estimated forfeiture rate, if any. Expense is recognized over the requisite service period related to each award, which is the period between the grant date and the award's stated vesting term. The fair value of stock options is estimated using the Black-Scholes option pricing model. All of our stock compensation expense is recorded in selling, general and administrative expenses in the consolidated statements of operations.

Seasonality

We believe that the operation of the casino and resort property owned and managed by us is affected by seasonal factors, including holidays, weather and travel conditions.

Regulation and Taxes

The casino we manage and own is subject to extensive regulation by state gaming authorities. Changes in applicable laws or regulations could have an adverse effect on us.

The gaming industry represents a significant source of tax revenues to regulators. From time to time, various federal legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. It is not possible to determine the likelihood of possible changes in tax law or in the administration of such law. Such changes, if adopted, could have a material adverse effect on our future financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors, except for the pending Merger Agreement previously discussed.

Private Securities Litigation Reform Act

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Quarterly Report on Form 10-Q and other materials filed or to be filed by Lakes with the United States Securities and Exchange Commission ("SEC") as well as information included in oral statements or other written statements made or to be made by Lakes contain statements that are forward-looking, such as plans for future expansion and other business development activities as well as other statements regarding capital spending, financing sources, the effects of regulation (including gaming and tax regulation) and competition.

Such forward looking information involves important risks and uncertainties that could significantly affect the anticipated results in the future and, accordingly, actual results may differ materially from those expressed in any forward-looking statements made by or on behalf of Lakes.

These risks and uncertainties include, but are not limited to, the need for potential future financing to meet Lakes' development needs and expansion goals; the highly competitive industry in which Lakes operates; possible changes in regulations; risks of entry into new businesses; reliance on Lakes' management; and litigation costs. For more information, review Lakes' filings with the Securities and Exchange Commission. For further information regarding the risks and uncertainties, see the "Risk Factors" section in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 28, 2014, previously filed with the SEC.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

At March 29, 2015, our investment portfolio included $46.1 million of commercial paper, corporate bonds and certificates of deposit classified as fixed income securities and cash and cash equivalents of $34.0 million. The fixed income securities, like all fixed income instruments, are subject to interest rate risks and will decline in value if market interest rates increase. However, while the value of the investment may fluctuate in any given period, we intend to hold our fixed income investments until maturity. Consequently, we would not expect to recognize an adverse impact on net income or cash flows during the holding period. We adjust the carrying value of our investments if impairment occurs that is other than temporary.

ITEM 4. *CONTROLS AND PROCEDURES*

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the "1934 Act") as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports it files or submits under the 1934 Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer as appropriate to allow timely decisions regarding required disclosure.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated version of its Internal Control - Integrated Framework (the "2013 Framework") and related illustrative documents as an update to the Internal Control-Integrated Framework (1992) (the "1992 Framework"). While the 2013 Framework's internal control components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring activities) are the same as those in the 1992 Framework, the 2013 Framework, among other matters, requires companies to assess whether 17 principles are present and functioning in determining whether their system of internal control is effective. We expect to adopt the 2013 Framework during the current fiscal year ending January 3, 2016.

Part II.
Other Information

ITEM 1. *LEGAL PROCEEDINGS*

Shareholder Class Action Lawsuits

On February 6, 2015, Lakes, the members of the Lakes' Board of Directors, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust were named as defendants in three complaints filed in the District Court of the State of Minnesota, Fourth Judicial District in Hennepin County. The cases are captioned James Orr, individually and on behalf of all others similarly situated, as Plaintiff, vs. Lakes Entertainment, Inc., LG Acquisition Corporation, Sartini Gaming, Inc., Lyle A. Berman, Timothy J. Cope, Larry C. Barenbaum, Neil I. Sell, Ray M. Moberg, and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants; Anthony Dacquisito, on behalf of himself and all others similarly situated, as Plaintiff, vs. Larry Barenbaum, Lyle Berman, Neil Sell, Ray Moberg, Timothy Cope, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants; and David Lehr and Pamela Lehr, as Plaintiffs, individually and on behalf of all others similarly situated vs. Larry Barenbaum, Lyle Berman, Neil Sell, Ray Moberg, Timothy Cope, LG Acquisition Corporation, Sartini Gaming, Inc., and the Blake L. Sartini and Delise F. Sartini Family Trust, as Defendants. These are purported shareholder class action lawsuits brought by certain of Lakes' shareholders on behalf of themselves and others similarly situated, alleging that in entering into the proposed transaction with Golden Gaming, the Defendants have breached their fiduciary duties of good faith, loyalty and due care, and/or have aided and abetted such breaches. The Plaintiffs seek, among other things, to enjoin the transactions contemplated by the Merger Agreement and attorney's fees. An unfavorable outcome in these lawsuits could prevent or delay the consummation of the Merger, result in substantial costs to Lakes, or both. It is also possible that other lawsuits may yet be filed and Lakes cannot estimate any possible loss from this or future litigation at this time.

Jerry Argovitz Litigation

On March 12, 2014, Lakes received a demand for arbitration from Jerry Argovitz ("Argovitz") relating to a Consent and Agreement to Buyout and Release by and between Argovitz and Lakes KAR Shingle Springs, LLC ("LKAR"), Lakes Entertainment, Inc., and Lakes Shingle Springs, Inc. dated January 30, 2003 ("Buyout Agreement"). The Buyout Agreement provided that LKAR was to make certain payments to Argovitz for so long as LKAR was managing the Red Hawk Casino for the Shingle Springs Tribe. Lakes made the payments required under the Buyout Agreement while it was managing the Red Hawk Casino, and discontinued the payments after its management contract to manage the Red Hawk Casino was terminated. Argovitz asserted claims for breach of the Buyout Agreement and the implied covenant of good faith and fair dealing relating to the payments he alleged he was entitled to receive after the management agreement was terminated. He sought damages of approximately $2.7 million, plus interest, costs, and attorney fees.

On September 9, 2014, Argovitz was awarded approximately $2.4 million related to the arbitration action brought by Argovitz against Lakes. As a result, Lakes recognized charges related to arbitration award in its consolidated statement of operations of approximately $2.5 million during the third quarter of 2014, which included the $2.4 million award and $0.1 million of legal fees. The action is now closed and no further claims can be made by Argovitz related to this matter.

Quest Media Group, LLC Litigation
On May 17, 2012, Lakes received service of a breach of contract lawsuit filed in the Franklin County Court of Common Pleas, Franklin County, Ohio by Quest Media Group, LLC ("Quest") with respect to an agreement (the "Agreement") entered into between Lakes Ohio Development, LLC (a wholly owned subsidiary of Lakes) ("Lakes Ohio Development") and Quest on March 9, 2010. The Agreement relates to Quest assisting Lakes Ohio Development in partnering with Rock Ohio Ventures, LLC and Penn Ventures, LLC ("Penn Ventures") with respect to funding the proposed citizen-initiated referendum in November 2009 to amend the Ohio constitution to permit one casino each in Cleveland, Cincinnati, Toledo and Columbus, Ohio. The lawsuit alleged, among other things, that Lakes breached the Agreement by selling Lakes Ohio Development's interest in the Toledo and Columbus, Ohio casino projects to Penn Ventures, failing to pay the proper fee to Quest as a result of such sale, and incorrectly calculating the costs that are to be offset against Quest's fee. The lawsuit sought unspecified compensatory damages in excess of $25,000, punitive damages, declaratory and injunctive relief. The lawsuit named as defendants Lakes Entertainment, Inc., Lakes Ohio Development, LLC and Lyle Berman, Chairman and CEO of Lakes. Lakes removed the case to federal court, answered the pleadings and filed a motion to dismiss the claims against all defendants. Prior to the judge's ruling on the motion to dismiss, the parties settled all but one of Quest's claims (including obtaining a dismissal of Lyle Berman from the lawsuit) at no out-of-pocket expense to Lakes. The judge granted Lakes' motion to dismiss and dismissed the remaining claims against Lakes. Quest subsequently appealed the dismissal to the Sixth Circuit Court of Appeals. The matter has been fully briefed by both parties and oral arguments were held on March 3, 2015. A decision is expected in mid-2015. Lakes continues to believe that the suit is without merit and will continue to vigorously defend the matter.

Miscellaneous Legal Matters
We are involved in various other inquiries, administrative proceedings, and litigation relating to various contracts and other matters arising in the normal course of business. While any proceeding or litigation has an element of uncertainty, management currently believes that the likelihood of an unfavorable outcome is remote, and is not likely to have a material adverse effect upon our unaudited consolidated financial statements.

ITEM 1A. *RISK FACTORS*

There have been no material changes to our risk factors identified in the "Risk Factors" section in Item IA of our Annual Report on Form 10-K for the year ended December 28, 2014, previously filed with the SEC.

ITEM 6. *EXHIBITS*

Exhibits	Description
31.1	Certification of CEO pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Calculation Definition Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKES ENTERTAINMENT, INC.
Registrant

/s/ LYLE BERMAN
Lyle Berman
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

/s/ TIMOTHY J. COPE
Timothy J. Cope
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 7, 2015

Exhibit 31.1

CERTIFICATIONS

I, Lyle Berman, certify that:

1. I have reviewed this report on Form 10-Q of Lakes Entertainment, 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 quarterly 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 change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer 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.

/s/ Lyle Berman
Lyle Berman
Chief Executive Officer

Date: May 7, 2015

Exhibit 31.2

CERTIFICATIONS

I, Timothy J. Cope, certify that:

1. I have reviewed this report on Form 10-Q of Lakes Entertainment, 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 quarterly 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 change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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.

/s/ Timothy J. Cope
Timothy J. Cope
President and Chief Financial Officer

Date: May 7, 2015

Exhibit 32.1

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

In connection with the Quarterly Report of Lakes Entertainment, Inc. (the "Company") on Form 10-Q for the period ended March 29, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lyle Berman, Chief Executive Officer of the Company, and Timothy J. Cope, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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.

/s/ Lyle Berman
Lyle Berman
Chief Executive Officer

/s/ Timothy J. Cope
Timothy J. Cope
President and Chief Financial Officer

May 7, 2015