
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 **June 28, 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

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

130 Cheshire Lane, Suite 101

Minnetonka, Minnesota

(Address of principal executive offices)

41-1913991

*(I.R.S. Employer
Identification No.)*

55305

(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

Smaller reporting company

(Do not check if a 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 July 27, 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)	
	June 28, 2015	December 28, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,459	\$ 35,416
Short-term investments	40,593	46,638
Income taxes receivable	2,093	-
Other	3,059	1,807
Total current assets	88,204	83,861
Property and equipment	35,421	41,433
Accumulated depreciation	(7,575)	(8,694)
Property and equipment, net	27,846	32,739
Other assets:		
Gaming license	1,805	1,875
Land held for development	960	960
Income taxes receivable	-	2,155
Other	411	439
Total other assets	3,176	5,429
Total assets	\$ 119,226	\$ 122,029
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt, net of discount	\$ 1,361	\$ 1,368
Accounts payable	535	482
Accrued taxes, other than income taxes	357	439
Accrued payroll and related	1,319	1,573
Deposits	326	131
Other accrued expenses	1,206	1,479
Total current liabilities	5,104	5,472
Long-term debt, net of current portion and discount	8,273	8,941
Total liabilities	13,377	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	205,750	205,615
Deficit	(100,149)	(98,245)
Accumulated other comprehensive loss	(20)	(22)
Total shareholders' equity	105,849	107,616
Total liabilities and shareholders' equity	\$ 119,226	\$ 122,029

See notes to consolidated financial statements.

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

	Three months ended		Six months ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Revenues:				
Gaming	\$ 11,810	\$ 11,068	\$ 22,410	\$ 21,388
Room	1,662	1,630	2,869	2,944
Food and beverage	1,742	1,566	3,090	2,825
Other operating	767	642	1,098	977
License fees and other	46	30	90	63
Gross revenues	16,027	14,936	29,557	28,197
Less promotional allowances	698	829	1,462	1,780
Net revenues	15,329	14,107	28,095	26,417
Costs and expenses:				
Gaming	6,558	6,413	12,623	12,367
Room	215	173	373	283
Food and beverage	1,254	1,190	2,319	2,223
Other operating	516	419	742	661
Selling, general and administrative	5,539	5,723	11,674	11,463
Gain on sale of cost method investments	-	(1,000)	(750)	(1,000)
Impairments and other losses	351	-	682	-
(Gain) loss on disposal of property and equipment	-	(1)	(2)	24
Depreciation and amortization	880	864	1,759	1,717
Total costs and expenses	15,313	13,781	29,420	27,738
Earnings (loss) from operations	16	326	(1,325)	(1,321)
Other income (expense):				
Interest income	48	38	93	71
Interest expense	(262)	(308)	(536)	(626)
Other	36	1	36	165
Total other income (expense), net	(178)	(269)	(407)	(390)
Earnings (loss) before income taxes	(162)	57	(1,732)	(1,711)
Income tax provision	17	-	172	-
Net earnings (loss)	(179)	57	(1,904)	(1,711)
Other comprehensive earnings	3	15	2	1
Comprehensive earnings (loss)	\$ (176)	\$ 72	\$ (1,902)	\$ (1,710)
Weighted-average common shares outstanding				
Basic	13,392	13,375	13,391	13,369
Dilutive impact of stock options	-	250	-	-
Diluted	13,392	13,625	13,391	13,369
Loss per share				
Basic	\$ (0.01)	\$ 0.00	\$ (0.14)	\$ (0.13)
Diluted	\$ (0.01)	\$ 0.00	\$ (0.14)	\$ (0.13)

See notes to consolidated financial statements.

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

	Six Months Ended	
	June 28, 2015	June 29, 2014
OPERATING ACTIVITIES:		
Net loss	\$ (1,904)	\$ (1,711)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,759	1,717
Amortization of debt issuance costs and accretion of debt discount	222	261
Accretion and amortization of discounts and premiums on short-term investments	204	162
Share-based compensation	119	143
(Gain) loss on disposal of property and equipment	(2)	24
Gain on sale of cost method investment	(750)	-
Impairments and other losses	357	-
Changes in operating assets and liabilities:		
Other current assets	(1,232)	(496)
Income taxes receivable	62	-
Accrued taxes, other than income taxes	(82)	114
Deposits	195	210
Accounts payable and accrued expenses	(474)	727
Net cash provided by (used in) operating activities	(1,526)	1,151
INVESTING ACTIVITIES:		
Purchase of short-term investments	(25,137)	(52,390)
Sales and maturities of short-term investments	30,960	55,729
Purchase of property and equipment	(1,552)	(3,536)
Proceeds from disposal of property and equipment	4,409	17
Proceeds from sale of cost method investment	750	-
Changes in other assets	20	23
Net cash provided by (used in) investing activities	9,450	(157)
FINANCING ACTIVITIES:		
Repayments of borrowings	(897)	(860)
Proceeds from issuance of common stock	16	133
Net cash used in financing activities	(881)	(727)
Net increase in cash and cash equivalents	7,043	267
Cash and cash equivalents - beginning of period	35,416	37,897
Cash and cash equivalents - end of period	\$ 42,459	\$ 38,164
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 315	\$ 361
Income taxes	110	-
Noncash investing activities:		
Capital expenditures in accounts payable and accrued expenses	\$ 25	\$ 1,216

See notes to consolidated financial statements.

LAKES ENTERTAINMENT, INC. AND SUBSIDIARIES

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 579 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 July 31, 2015 financial estimates and assumptions (as of June 28, 2015), the legacy Golden Gaming shareholder would be issued 7,772,736 shares of Lakes common stock and certain Golden Gaming warrant holders would be issued 457,172 shares of Lakes common stock under the Merger Agreement, which would represent a total of approximately 36.8% 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 63.2% of the total fully diluted post-merger shares of Lakes common stock.

Completion of the Merger is subject to various customary closing conditions (some of which have been completed as of June 28, 2015), including, but not limited to, (i) approval by Lakes' shareholders of the issuance of shares of Lakes common stock under the Merger Agreement (ii) certain gaming approvals having been obtained from the relevant gaming authorities, (iii) the absence of any order or injunction prohibiting the consummation of the Merger, (iv) no material adverse effect or other specified adverse events occurring with respect to Lakes or Golden Gaming, (v) the refinancing of certain indebtedness of Golden Gaming, (vi) subject to certain exceptions, the accuracy of the representations and warranties of the parties, and (vii) 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 \$96.3 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 July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). Under this new guidance, entities that measure inventory using any method other than last-in, first-out or the retail inventory method will be required to measure inventory at the lower of cost and net realizable value. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. ASU 2015-11 will be effective for the Company's first quarter of 2017. Lakes is evaluating the impact this amendment will have on its financial statements.

In April 2015, the FASB issued 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 is evaluating the impact this standard will have on its 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. On July 9, 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year and will be effective for the Company's first quarter of 2018. Lakes is evaluating the impact this 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 or six months ended June 28, 2015. All short-term investments held as of June 28, 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 June 28, 2015 and December 28, 2014 (in thousands):

	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
June 28, 2015			
Commercial paper	\$ 6,989	\$ 6,988	\$ (1)
Corporate bonds	33,624	33,605	(19)
Balances at June 28, 2015	<u>\$ 40,613</u>	<u>\$ 40,593</u>	<u>\$ (20)</u>
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	<u>\$ 46,660</u>	<u>\$ 46,638</u>	<u>\$ (22)</u>

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):

	June 28, 2015	December 28, 2014
Building and site improvements	\$ 21,473	\$ 27,905
Furniture and equipment	13,652	13,445
Construction in process	296	83
Property and equipment	35,421	41,433
Less accumulated depreciation	(7,575)	(8,694)
Property and equipment, net	<u>\$ 27,846</u>	<u>\$ 32,739</u>

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 \$4.8 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 \$0.4 million during the six months ended June 28, 2015. The sale of the corporate headquarters office building closed on May 20, 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 June 28, 2015 and June 29, 2014, and approximately \$0.1 million for each of the six months ended June 28, 2015 and June 29, 2014.

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

	June 28, 2015	December 28, 2014
Original cost	\$ 2,100	\$ 2,100
Accumulated amortization	(295)	(225)
	<u>\$ 1,805</u>	<u>\$ 1,875</u>

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 during the first quarter of 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 with Penn National Gaming, Inc. ("Penn National"), which was subsequently amended on May 15, 2014. The amended agreement grants Penn National the right to purchase this land for \$5.5 million and 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 June 28, 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 June 28, 2015 and December 28, 2014.

9. Debt

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. 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 June 28, 2015 and December 28, 2014, \$10.8 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 June 28, 2015 and June 29, 2014, and \$0.2 million for each of the six months ended June 28, 2015 and June 29, 2014.

Summary of Outstanding Debt

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

	June 28, 2015	December 28, 2014
Financing Facility	\$ 10,844	\$ 11,691
Capital lease obligations	—	50
Total debt	10,844	11,741
Less: current maturities, net of discount	(1,361)	(1,368)
Less: unamortized debt discount	(1,210)	(1,432)
Long-term debt, net of current maturities and discount	\$ 8,273	\$ 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		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Food and beverage	\$ 153	\$ 139	\$ 312	\$ 246
Rooms	509	677	1,061	1,485
Other	36	13	89	49
Total promotional allowances	\$ 698	\$ 829	\$ 1,462	\$ 1,780

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

	Three Months Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Food and beverage	\$ 61	\$ 72	\$ 138	\$ 125
Rooms	140	163	309	357
Other	40	35	75	77
Total promotional allowances	\$ 241	\$ 270	\$ 522	\$ 559

11. Share-Based Compensation

Share-based compensation expense related to stock options for the three and six months ended June 28, 2015 and June 29, 2014 were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 28, 2015	June 29, 2014	June 28, 2015	June 29, 2014
Total cost of share-based payment plans	\$ 59	\$ 72	\$ 119	\$ 143

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 options granted during the three and six months ended June 28, 2015. There were 3,000 and 8,000 options granted during the three and six months ended June 29, 2014, respectively. The weighted-average grant-date fair value of the stock options issued during the three and six months ended June 29, 2014 was \$4.81 and \$4.91, respectively.

The following table summarizes Lakes' stock option activity during the six months ended June 28, 2015 and June 29, 2014:

	Number of Common Shares			Weighted-Average Exercise Price
	Options Outstanding	Exercisable	Available for Grant	
2015				
Balance at December 28, 2014	755,617	616,792	276,635	\$ 6.09
Exercised	(2,500)		—	6.14
Balance at June 28, 2015	753,117	678,870	276,635	6.09
2014				
Balance at December 29, 2013	798,171	585,769	263,424	\$ 5.97
Forfeited/cancelled/expired	(20,211)		19,211	4.95
Exercised	(27,843)		—	4.75
Granted	8,000		(8,000)	9.44
Balance at June 29, 2014	758,117	605,141	274,635	6.08

As of June 28, 2015, the options outstanding had a weighted average remaining contractual life of 5.3 years, weighted average exercise price of \$6.09 and aggregate intrinsic value of \$2.3 million. The options exercisable have a weighted average exercise price of \$6.03, a weighted average remaining contractual life of 5.1 years and aggregate intrinsic value of \$2.1 million as of June 28, 2015.

There were zero and 2,500 options exercised during the three and six months ended June 28, 2015, respectively. The total intrinsic value of options exercised during the six months ended June 28, 2015 was less than \$0.1 million. There were 24,343 and 27,843 options exercised during the three and six months ended June 29, 2014. The total intrinsic value of options exercised during each of the three and six months ended June 29, 2014 was \$0.1 million. Lakes' unrecognized share-based compensation expense related to stock options was approximately \$0.2 million as of June 28, 2015, which is expected to be recognized over a weighted-average period of 0.9 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 for each of the three and six months ended June 28, 2015 and 508,721 and 758,119 for the three and six months ended June 29, 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 six months ended June 28, 2015, which was attributed entirely to alternative minimum tax. There was no income tax benefit for the six months ended June 29, 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 six months ended June 28, 2015 and June 29, 2014, respectively. For the six months ended June 28, 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 six months ended June 29, 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 \$2.1 million and \$2.2 million as of June 28, 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 June 28, 2015.

The Company is currently under IRS audit for the 2009-2013 tax years and the IRS has proposed certain adjustments to the tax filings for those years. 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.

During the second quarter of 2015, the Company was notified by the State of California that their audit of Lakes for the 2010 tax year had been completed and resulted in no adjustments.

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 June 28, 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:

	June 28, 2015	December 28, 2014
Short-Term Investments		
Commercial paper	\$ 6,988	\$ 23,984
Corporate bonds	33,605	21,693
Certificates of deposit	—	961

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 June 28, 2015 and June 29, 2014, and \$0.2 million, net of surcharge revenues, for each of the six months ended June 28, 2015 and June 29, 2014.

Future minimum lease payments under the Lease Agreement at June 28, 2015 are as follows (in thousands):

	2016	2017	2018	2019	2020	Thereafter
Minimum lease payment	\$ 425	\$ 425	\$ 425	\$ 425	\$ 425	\$ 13,175

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 related 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 were 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.

On June 17, 2015, Lakes settled the lawsuit by paying Quest \$325,000. No further claims can be made by Quest related to this 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 \$1.8 million of the expected \$10.0 million total transaction related costs as of June 28, 2015, of which approximately \$1.3 million was incurred during the six months ended June 28, 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. On April 20, 2015, the plaintiffs filed an Amended Consolidated Class Action Complaint consolidating all pending actions arising out of the Merger.

In response to the lawsuits, Lakes' Board of Directors appointed a special litigation committee (the "SLC") pursuant to Minnesota law to investigate the claims alleged by the plaintiffs. On June 8, 2015, the judge in the matter denied the plaintiffs' request for expedited proceedings and stayed the lawsuit until the conclusion of the SLC investigation and the issuance of its determinations.

An unfavorable outcome in this lawsuit could result in substantial costs to Lakes. 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.

	<u>Rocky Gap</u>	<u>Other</u>	<u>Eliminations</u>	<u>Consolidated</u>
Three months ended June 28, 2015				
Net revenue	\$ 15.3	\$ 0.5	\$ (0.5)	\$ 15.3
Management fee revenue – Rocky Gap	—	0.5	(0.5)	—
Management fee expense – Rocky Gap	(0.5)	—	0.5	—
Impairments and other losses	—	(0.4)	—	(0.4)
Depreciation and amortization expense	(0.9)	—	—	(0.9)
Earnings (loss) from operations	1.7	(1.7)	—	—
Interest expense	(0.3)	—	—	(0.3)
Three months ended June 29, 2014				
Net revenue	\$ 14.1	\$ 0.4	\$ (0.4)	\$ 14.1
Management fee revenue – Rocky Gap	—	0.4	(0.4)	—
Management fee expense – Rocky Gap	(0.4)	—	0.4	—
Gain on sale of cost method investment	—	1.0	—	1.0
Depreciation and amortization expense	(0.8)	(0.1)	—	(0.9)
Earnings (loss) from operations	0.9	(0.6)	—	0.3
Interest expense	(0.3)	—	—	(0.3)
Six months ended June 28, 2015				
Net revenue	\$ 28.0	0.9	(0.8)	28.1
Management fee revenue – Rocky Gap	—	0.8	(0.8)	—
Management fee expense – Rocky Gap	(0.8)	—	0.8	—
Gain on sale of cost method investment	—	0.8	—	0.8
Impairments and other losses	—	(0.7)	—	(0.7)
Depreciation and amortization expense	(1.7)	(0.1)	—	(1.8)
Earnings (loss) from operations	2.0	(3.3)	—	(1.3)
Interest expense	(0.5)	—	—	(0.5)
Six months ended June 29, 2014				
Net revenue	\$ 26.4	0.7	(0.7)	26.4
Management fee revenue – Rocky Gap	—	0.7	(0.7)	—
Management fee expense – Rocky Gap	(0.7)	—	0.7	—
Gain on sale of cost method investment	—	1.0	—	1.0
Depreciation and amortization expense	(1.6)	(0.1)	—	(1.7)
Earnings (loss) from operations	1.0	(2.3)	—	(1.3)
Interest expense	(0.6)	—	—	(0.6)
As of June 28, 2015				
Total assets	\$ 36.7	\$ 82.5	\$ —	\$ 119.2
Capital expenditures	1.4	0.2	—	1.6
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 AND RESULTS 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 579 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 July 31, 2015 financial estimates and assumptions (as of June 28, 2015), the legacy Golden Gaming shareholder would be issued 7,772,736 shares of Lakes common stock and certain Golden Gaming warrant holders would be issued 457,172 shares of Lakes common stock under the Merger Agreement, which would represent a total of approximately 36.8% 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 63.2% of the total fully diluted post-merger shares of Lakes common stock.

Completion of the Merger is subject to various customary closing conditions (some of which have been completed as of June 28, 2015), including, but not limited to, (i) approval by Lakes' shareholders of the issuance of shares of Lakes common stock under the Merger Agreement, (ii) certain gaming approvals having been obtained from the relevant gaming authorities, (iii) the absence of any order or injunction prohibiting the consummation of the Merger, (iv) no material adverse effect or other specified adverse events occurring with respect to Lakes or Golden Gaming, (v) the refinancing of certain indebtedness of Golden Gaming, (vi) subject to certain exceptions, the accuracy of the representations and warranties of the parties, and (vii) 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 \$96.3 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 June 28, 2015.

Three months ended June 28, 2015 compared to the three months ended June 29, 2014

Net Revenues

Net revenues were \$15.3 million for the second quarter of 2015 compared to \$14.1 million for the second quarter of 2014. The increase in net revenues for the three months ended June 28, 2015 compared to the three months ended June 29, 2014 was primarily related to an increase in gaming revenues which resulted primarily from increases in video lottery terminal volume and table games hold percentages.

Property Operating Expenses

Property operating expenses were \$8.5 million for the second quarter of 2015 compared to \$8.2 million for the second 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 \$5.5 million for the second quarter of 2015 compared to \$5.7 million for the second quarter of 2014. Included in these amounts were Lakes corporate selling, general and administrative expenses of \$1.8 million and \$1.9 million for the second quarters of 2015 and 2014, respectively, and Rocky Gap selling, general and administrative expenses of \$3.7 million and \$3.8 million for the second quarters of 2015 and 2014, respectively.

For the second quarter of 2015, 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 \$0.7 million, professional fees of \$0.5 million and business development expenses of \$0.4 million which are associated with the pending Merger with Golden Gaming. For the second 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 \$0.7 million, building and rent expenses of \$0.6 million, professional fees of \$0.5 million and business development expenses of \$0.4 million.

Gain on Sale of Cost Method Investment

During the second quarter of 2014, Lakes entered into an agreement to sell its interest in Dania Casino & Jai Alai in Dania Beach, Florida. Upon the receipt of a portion of the selling price of the investment, Lakes recognized a \$1.0 million gain on sale of cost method investment during the second quarter of 2014 since this asset had previously been written off.

Impairments and Other Losses

On June 17, 2015, Lakes entered into a settlement agreement with Quest Media Group, LLC (“Quest”) for approximately \$0.3 million related to a lawsuit filed by Quest. As a result, Lakes recognized an expense of approximately \$0.3 million during the second quarter of 2015.

Depreciation and Amortization

Depreciation and amortization was \$0.9 million for each of the second quarters of 2015 and 2014.

Other Income (Expense), net

Other income (expense), net was \$(0.2) million for the second quarter of 2015 compared to \$(0.3) million for the second quarter of 2014, which relates primarily to interest expense associated with the financing facility with Centennial Bank.

Income Taxes

Income tax expense was less than \$0.1 million for the second quarter of 2015, which was attributed entirely to alternative minimum tax. There was no income tax benefit for the second 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 (10.5)% and 0% for the second quarters of 2015 and 2014, respectively. For the three months ended June 28, 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 June 29, 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.

Six months ended June 28, 2015 compared to the six months ended June 29, 2014

Net Revenues

Net revenues were \$28.1 million for the six months ended June 28, 2015 compared to \$26.4 million for the six months ended June 29, 2014. The increase in net revenues for the six months ended June 28, 2015 compared to the six months ended June 29, 2014 was primarily related to an increase in gaming revenues which resulted primarily from increases in video lottery terminal volume and table games hold percentages.

Property Operating Expenses

Property operating expenses were \$16.1 million for the six months ended June 28, 2015 compared to \$15.5 million for the six months ended June 29, 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 period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$11.7 million for the six months ended June 28, 2015 compared to \$11.5 million for the six months ended June 29, 2014. Included in these amounts were Lakes corporate selling, general and administrative expenses of \$4.2 million and \$4.0 million for the six months ended June 28, 2015 and June 29, 2014, respectively, and Rocky Gap selling, general and administrative expenses of \$7.5 million for each of the six months ended June 28, 2015 and June 29, 2014.

For the six months ended June 28, 2015, selling, general and administrative expenses consisted primarily of payroll and related expenses of \$5.7 million (including share-based compensation), marketing and advertising expenses of \$1.2 million, building and rent expenses of \$1.2 million, professional fees of \$1.1 million and business development expenses of \$1.3 million which are associated with the pending Merger with Golden Gaming. For the six months ended June 29, 2014, selling, general and administrative expenses consisted primarily of payroll and related expenses of \$5.6 million (including share-based compensation), marketing and advertising expenses of \$1.3 million, building and rent expenses of \$1.4 million, professional fees of \$1.1 million and business development expenses of \$0.8 million.

Gain on Sale of Cost Method Investments

During the six months ended June 28, 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. During the six months ended June 29, 2014, Lakes entered into an agreement to sell its interest in Dania Casino & Jai Alai in Dania Beach, Florida. Upon the receipt of a portion of the selling price of the investment, Lakes recognized a \$1.0 million gain on sale of cost method investment during the second quarter of 2014 since 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 \$4.8 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 \$0.4 million during the six months ended June 29, 2015. The sale of the corporate headquarters office building closed on May 20, 2015. On June 17, 2015, Lakes entered into a settlement agreement with Quest for approximately \$0.3 million related to a lawsuit filed by Quest. As a result, Lakes recognized an expense of approximately \$0.3 million during the second quarter of 2015.

Depreciation and Amortization

Depreciation and amortization was \$1.8 million for the six months ended June 28, 2015 and \$1.7 million for the six months ended June 29, 2014.

Other Income (Expense), net

Other income (expense), net was \$(0.4) million for each of the six months ended June 28, 2015 and June 29, 2014, which relates primarily to interest expense associated with the financing facility with Centennial Bank.

Income Taxes

Income tax expense was \$0.2 million for the six months ended June 28, 2015, which was attributed entirely to alternative minimum tax. There was no income tax benefit for the six months ended June 29, 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 six months ended June 28, 2015 and June 29, 2014, respectively. For the six months ended June 28, 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 six months ended June 29, 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 June 28, 2015, we had \$42.5 million in cash and cash equivalents and \$40.6 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 \$10.8 million remains outstanding as of June 28, 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 \$1.8 million of the total \$10.0 million in transaction related costs as of June 28, 2015, of which approximately \$1.3 million was incurred during the six months ended June 28, 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.

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 June 28, 2015, our investment portfolio included \$40.6 million of commercial paper and corporate bonds classified as fixed income securities and cash and cash equivalents of \$42.6 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. The value of the investments may fluctuate in any given period, and if investments are sold prior to their maturity dates, we could 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 adopted the 2013 Framework during the second quarter of 2015.

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. On April 20, 2015, the plaintiffs filed an Amended Consolidated Class Action Complaint consolidating all pending actions arising out of the Merger.

In response to the lawsuits, Lakes’ Board of Directors appointed a special litigation committee (the “SLC”) pursuant to Minnesota law to investigate the claims alleged by the plaintiffs. On June 8, 2015, the judge in the matter denied the plaintiffs’ request for expedited proceedings and stayed the lawsuit until the conclusion of the SLC investigation and the issuance of its determinations.

An unfavorable outcome in this lawsuit could result in substantial costs to Lakes. 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 related 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 were 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.

On June 17, 2015, Lakes settled the lawsuit by paying Quest \$325,000. No further claims can be made by Quest related to this 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
3.01	Third Amended Bylaws of Lakes Entertainment, Inc.
3.02	Fourth Amended Bylaws of Lakes Entertainment, Inc.
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: July 30, 2015

THIRD AMENDED BYLAWS
OF
LAKES ENTERTAINMENT, INC.

ARTICLE 1

OFFICES

1.1 Registered Office. The registered office of the Corporation shall be located within the State of Minnesota as set forth in the Articles of Incorporation. The Board of Directors shall have authority to change the registered office of the Corporation and a statement evidencing any such change shall be filed with the Secretary of State of Minnesota as required by law.

1.2 Offices. The Corporation may have other offices, including its principal business office, either within or without the State of Minnesota.

ARTICLE 2

CORPORATE SEAL

2.1 Corporate Seal. The Board of Directors shall determine whether or not the Corporation will adopt a corporate seal. If a corporate seal is adopted, inscribed on the corporate seal shall be the name of the Corporation and the words "Corporate Seal," and when so directed by the Board of Directors, a duplicate of the seal may be kept and used by the Secretary of the Corporation.

ARTICLE 3

SHAREHOLDERS

3.1 Regular Meetings. Regular meetings of the shareholders shall be held at the Corporation's registered office or at such other place within or without the State of Minnesota as is designated by the Board of Directors. Regular meetings may be held annually or on a less frequent periodic basis, as established by a resolution of the Board of Directors, or may be held on call by the Board of Directors from time to time as and when the Board determines. At each regular meeting, the shareholders shall elect, as provided in the Articles of Incorporation and these By-laws, qualified successors for directors who serve for an indefinite term or whose terms have expired or are due to expire within six (6) months after the date of the meeting, and may transact such other business which properly comes before them. Notwithstanding the foregoing, if a regular meeting of the shareholders has not been held for a period of fifteen (15) months, a shareholder or group of shareholders holding three percent (3%) or more of the issued and outstanding voting shares of the Corporation may demand that a regular meeting of the shareholders be held by giving written notice to the President or Treasurer of the Corporation. Within thirty (30) days after receipt of the notice, the Board shall cause a regular meeting of the shareholders to be called and held within ninety (90) days after receipt of the notice. Any regular meeting held pursuant to such a demand by a shareholder or shareholders shall be held within the county where the principal executive office of the Corporation is located.

3.2 Special Meeting. Special meetings of the shareholders may be called by the Chief Executive Officer, by a Vice-President in the absence of the Chief Executive Officer, by the Chief Financial Officer, or by the Board of Directors or any two or more members thereof. Special meetings may also be called by one or more shareholders holding ten percent (10%) or more of the issued and outstanding voting shares of the Corporation by delivering to the Chief Executive Officer or Chief Financial Officer a written demand for a special meeting, which demand shall state the purposes of such meeting. Within thirty (30) days after receipt of the written demand, the Board of Directors shall call a special meeting of the shareholders to be held within ninety (90) days after receipt of the written demand. Any special meeting held pursuant to such written demand shall be held within the county where the principal executive office of the Corporation is located.

3.3 Quorum. Business may be transacted at any duly held meeting of the shareholders at which a quorum is present. The holders of a majority of the voting power of the shares entitled to vote at a meeting are a quorum. The shareholders present at the meeting may continue to transact business until adjournment, even though a number of shareholders withdraw leaving less than a quorum. If a quorum is not present at any meeting, those shareholders present have the power to adjourn the meeting from time to time until the requisite number of voting shares are present. The date, time and place of the reconvened meeting shall be announced at the time of adjournment and notice of the reconvened meeting shall be given to all shareholders who were not present at the time of adjournment. Any business which might have been transacted at the meeting which was adjourned may be transacted at the reconvened meeting.

3.4 Voting. At each shareholders' meeting, every shareholder having the right to vote is entitled to vote in person or by proxy. Shareholders have one (1) vote for each share having voting power standing in their name on the books of the Corporation, unless otherwise provided in the Articles of Incorporation, or these By-Laws, or in the terms of the shares. All elections and questions shall be decided by a majority vote of the number of shares entitled to vote and represented at any meeting at which there is a quorum, except as otherwise required by statute, the Articles of Incorporation, these By-Laws, or by agreement among the shareholders.

3.5 Notice of Meeting. Notice of regular or special meetings of the shareholders shall be given by an officer or agent of the Corporation to each shareholder shown on the books of the Corporation to be the holder of record of shares entitled to vote at the meeting. If the notice is to be mailed, then the notice must be mailed to each shareholder at the shareholder's address as shown on the books of the Corporation at least five (5) calendar days prior to the meeting. If the notice is not mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. The notice must contain the date, time and place of the meeting, and in the case of a special meeting, must also contain a statement of the purpose of the meeting. In no event shall notice be given more than sixty (60) days prior to the meeting. If a plan of merger, exchange, sale or other disposition of all or substantially all of the assets of the Corporation is to be considered at a meeting of shareholders, notice of such meeting shall be given to every shareholder, whether or not entitled to vote, not less than fourteen (14) days prior to the date of such meeting.

3.6 Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney-in-fact. Such proxies must be filed with an officer of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

3.7 Closing Transfer Books. The Board of Directors may close the stock transfer books for a period of time which does not exceed sixty (60) days preceding any of the following: the date of any meeting of shareholders; the payment of dividends; the allotment of rights; or the change, conversion, or exchange of shares.

3.8 Record Date. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date, not exceeding sixty (60) days preceding the date of any of the events described in Section 3.7, as a record date for the determination of which shareholders are entitled (i) to notice of and to vote at any meeting and any meeting subsequent to adjournment, (ii) to receive any dividend or allotment of rights, or (iii) to exercise the rights in respect to any change, conversion, or exchange of shares. If a record date is fixed by the Board of Directors, only those shareholders of record on the record date shall be entitled to receive notice of and to vote at the meeting and any meeting subsequent to adjournment or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date so fixed. If the share transfer books are not closed and no record date is fixed for determination of the shareholders of record, then the date on which notice of the meeting is mailed or the date of adoption of a resolution of the Board of Directors declaring a dividend, allotment of rights, change, conversion or exchange of shares, as the case may be, shall be the record date for such determination.

3.9 Presiding Officer. The Chief Executive Officer of the Corporation shall preside over all meetings of the shareholders. In the absence of the Chief Executive Officer, the shareholders may choose any person present to act as presiding officer.

3.10 Written Action by Shareholders. Any action which may be taken at a meeting of the shareholders may be taken without a meeting and notice if a consent in writing, setting forth the action so taken, is signed by all of the shareholders entitled to notice of a meeting for such purpose.

3.11 Advance Notice of Shareholder Proposals. At any regular meeting of shareholders, only such business (other than the nomination and election of directors, which shall be subject to Section 3.12) may be conducted as shall be appropriate for consideration at the meeting of shareholders and as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder entitled to vote at the meeting who complies with the notice procedures hereinafter set forth in this Section 3.11.

- (a) Timing of Notice. For such business to be properly brought before any regular meeting by a shareholder, the shareholder must be a beneficial owner both at the time of proposal and the time of the meeting and have given timely notice thereof in writing, not less than 90 days before the first anniversary of the date of the preceding year's annual meeting; provided, however, that (i) in the event the date of the annual meeting is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so received not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting, and (ii) with respect to the Corporation's 2009 annual meeting of shareholders, notice by a shareholder shall be timely only if so received within 10 days after the first public announcement of the date of such annual meeting. To be timely, a shareholder's notice of any such business to be conducted at a regular meeting other than an annual meeting must be delivered to the Secretary of the Corporation or mailed and received at the principal executive office of the Corporation within 10 days after the first public announcement of the date of such regular meeting. Except to the extent otherwise required by law, the adjournment of a regular meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as required above. For the purposes of this Section 3.11 and Section 3.12 below, "public announcement" means disclosure (i) when made in a press release reported by the Associated Press or comparable national news service, (ii) when filed in a document publicly filed by the Corporation with the Securities and Exchange Commission, or (iii) when mailed as notice of the meeting as provided in Section 3.5 above.
- (b) Content of Notice. A shareholder's notice to the corporation shall set forth as to each matter the shareholder proposes to bring before the regular meeting:
- (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting;
 - (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business;
 - (iii) the class or series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such shareholder the purpose or effect of which is to provide such shareholder with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the shareholder;
 - (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of the shareholder in such business; and
 - (v) a representation that the shareholder is a holder of record of shares entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to make the proposal.
- (c) Consequences of Failure to Satisfy Advance Notice Procedures. The officer of the Corporation chairing the meeting shall, if the facts warrant, determine that business was not properly brought before the meeting in accordance with the procedures described in this Section 3.11 and, if such officer should so determine, such officer shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted. Nothing in this Section 3.11 shall be deemed to preclude discussion by any shareholder of any business properly brought before the meeting in accordance with these By-Laws.

3.12 Nomination of Director Candidates. Only persons who are nominated in accordance with the procedures set forth in this Section 3.12 shall be eligible for election as directors. Nominations of persons for election of the Board of Directors may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors or a committee designated by the Board of Directors or (ii) by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.12.

- (a) Timing of Notice. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, the shareholder must be a beneficial owner both at the time of nomination and the time of the meeting and have given timely notice thereof in writing, not less than 90 days before the first anniversary of the date of the preceding year's annual meeting; provided, however, that (i) in the event the date of the annual meeting is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so received not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting, and (ii) with respect to the Corporation's 2009 annual meeting of shareholders, notice by a shareholder shall be timely only if so received within 10 days after the first public announcement of the date of such annual meeting. If a special meeting of shareholders is called in accordance with Section 3.2 for the purpose of electing one or more members to the Corporation's Board of Directors, for a shareholder's notice of nominations to be timely it must be delivered to the Secretary of the Corporation, or mailed and received at the principal executive office of the Corporation within 10 days after the first public announcement of the date of such special meeting. Except to the extent otherwise required by law, the adjournment of a regular meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as required above.
- (b) Content of Notice. A shareholder's notice to the Corporation of nominations for a regular or special meeting of shareholders shall set forth:
 - (i) as to each person whom the shareholder proposes to nominate for election or re-election as a director:
 - (A) such person's name, age, business address and residence address and principal occupation or employment;
 - (B) the class and series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such person the purpose or effect of which is to provide such person with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the person;

(C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or that is otherwise required, pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively the "Exchange Act");

(D) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and

(E) a representation from such person that such person is not and will not become a party to any agreement, arrangement, or understanding with, and has not given any commitment or assurance to, any person or entity (1) as to how such person, if elected as a director of the Corporation will act of vote on any issue or question or (2) that could limit or interfere with such person's ability to comply, if elected as a director of the Corporation, with such person's fiduciary duties under applicable law.

(ii) as to the shareholder giving the notice:

(A) the name and address, as they appear on the Corporation's books, or such shareholder;

(B) the class or series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such person the purpose or effect of which is to provide such person with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the shareholder;

(C) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder;

(D) all other information relating to such shareholder that is required to be disclosed in solicitations of proxies for election of directors, or that is otherwise required, pursuant to the Exchange Act; and

(E) a representation that the shareholder is a holder of record of shares of the Corporation entitled to vote for the election of directors and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation the information required to be set forth in a shareholder's notice of nomination that pertains to a nominee.

- (c) Consequences of Failure to Satisfy Nominating Procedures. The officer of the Corporation chairing the meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed in this Section 3.12 and, if such officer should so determine, such officer shall so declare to the meeting, and the defective nomination shall be disregarded.
- (d) Compliance with Law. Notwithstanding the foregoing provisions of Sections 3.11 and 3.12 above, a shareholder shall also comply with all applicable requirements of Minnesota law and the Exchange Act with respect to the matters set forth in such Sections. For purposes of clarity, the requirements of Sections 3.11 and 3.12 apply to proposals made or brought or sought to be made or brought at any regular meeting, whether or not such proposals are, or are required to be, included in the Corporation's proxy statement pursuant to the federal proxy rules set forth in the Exchange Act.

ARTICLE 4

DIRECTORS

4.1 General Powers. The property, affairs and business of the Corporation shall be managed by the Board of Directors. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Articles of Incorporation or these By-Laws directed or required to be exercised or done by the shareholders.

4.2 Number. The number of directors shall be fixed by or in the manner provided in the articles of incorporation or these bylaws. The number of directors may be increased or decreased by a resolution adopted by the affirmative vote of a majority of the Board of Directors; provided, however, that no decrease in the number of directors pursuant to this Section 4.2 shall effect the removal of any director then holding office except in compliance with applicable law and Section 4.11 below. Any newly created directorships established by the Board of Directors shall be filled by a majority vote of the directors serving at the time of the increase.

4.3 Qualifications and Term of Office. Directors need not be shareholders or residents of the State of Minnesota. The Board of Directors shall be elected by the shareholders at their regular meeting and at any special shareholders' meeting called for that purpose. A director shall hold office until the annual meeting for the year in which his or her term expires and until the director's successor is elected and qualifies, or until the earlier death, resignation, removal, or disqualification of the director.

4.4 Quorum. A majority of the Board of Directors constitutes a quorum for the transaction of business; provided, however, that if any vacancies exist by reason of death, resignation, or otherwise, a majority of the remaining directors constitutes a quorum. If less than a quorum is present at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

4.5 Action of Directors. The acts of a majority of the directors present at a meeting at which a quorum is present are the acts of the Board of Directors.

4.6 Meetings. Meetings of the Board of Directors may be held from time to time at any place, within or without the State of Minnesota, that the Board of Directors may select. If the Board of Directors fails to select a place for a meeting, the meeting shall be held at the principal executive office of the Corporation. The Chief Executive Officer or any director may call a meeting of the Board of Directors by giving notice to all directors of the date, time and place of the meeting. If the notice is to be mailed, then the notice must be mailed to each director at least five (5) calendar days prior to the meeting. If the notice is not to be mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. If the date, time and place of the meeting of the Board of Directors have been announced at a previous meeting of the Board of Directors, no additional notice of such meeting is required, except that notice shall be given to all directors who were not present at the previous meeting. Notice of the meeting of the Board of Directors need not state the purpose of the meeting. A director may orally or in writing waive notice of the meeting. Attendance by a director at a meeting of the Board of Directors also constitutes a waiver of notice of such meeting, unless the director objects at the beginning of the meeting to the transaction of business because the meeting allegedly is not lawfully called or convened and such director does not participate thereafter in the meeting.

4.7 Meeting by Electronic Communications. A conference among directors by any means of communication through which the directors may simultaneously hear each other during the conference constitutes meeting of the Board of Directors if the number of directors participating in the conference would be sufficient to constitute a quorum at a meeting, and if the same notice is given of the conference as would be required for a Board of Directors meeting under these By-Laws. In any Board of Directors meeting, a director may participate by any means of communication through which the director, other directors so participating, and all directors physically present at the meeting may simultaneously hear each other during the meeting.

4.8 Compensation. Directors may receive such compensation as may be determined from time to time by resolution of the Board of Directors.

4.9 Committee. By the affirmative vote of a majority of the directors, the Board of Directors may establish a committee or committees having the authority of the Board of Directors in the management of the business of the Corporation to the extent provided in the resolution adopted by the Board of Directors. A committee shall consist of one or more persons, who need not be directors, that have been appointed by affirmative vote of a majority of the directors present. A majority of the members of the committee present at any meeting of the committee is a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in the resolution approved by the Board of Directors. Minutes of any meetings of committees created by the Board of Directors shall be available upon request to members of the committee and to any director.

4.10 Action by Absent Director. A director may give advance written consent or opposition to a proposal to be acted upon at a Board of Directors meeting by giving a written statement to the Chief Executive Officer, Chief Financial Officer, or any director which sets forth the proposal to be voted on and contains a statement of the director's voting preference with regard to the proposal. An advance written statement does not constitute presence of the director for purposes of determining a quorum, but the advance written statement shall be counted in the vote on the subject proposal provided that the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal set forth in the advance written statement. The advance written statement by a director on a proposal shall be included in the records of the Board of Directors' action on the proposal.

4.11 Removal of Directors by Board of Directors. Any director who has been elected by the Board of Directors to fill a vacancy on the Board of Directors, or to fill a directorship created by action of the Board of Directors, and who has not subsequently been reelected by the shareholders, may be removed by a majority vote of all directors constituting the Board, exclusive of the director whose removal is proposed.

4.12 Vacancies. Any vacancy on the Board of Directors may be filled by vote of the remaining directors, even though less than a quorum.

4.13 Written Action by Less than All of the Directors. Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting and notice thereof if a consent in writing setting forth the action taken is signed by the number of directors required to take the same action at a duly held meeting of the Board of Directors at which all of the directors are present. If a written action is signed by less than all the directors, any director not signing the action will be notified as soon as reasonably possible of the content of the action and the effective date of the action. Failure to provide the notice does not invalidate the written action. A director who does not sign or consent to the written action has no liability for the action or actions so taken.

4.14 Dissent from Action. A director of the Corporation who is present at a meeting of the Board of Directors at which any action is taken shall be presumed to have assented to the action taken unless the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter, or unless the director votes against the action at the meeting, or is prohibited from voting on the action.

4.15 Disclosure to Gaming Regulatory Authorities. Each director must agree to provide such background information, including a financial statement, and consent to such background investigation, as may be required by gaming regulatory authorities, and must agree to respond to questions from gaming regulatory authorities.

ARTICLE 5

OFFICERS

5.1 Election of Officers. The Board of Directors shall from time to time, elect a Chief Executive Officer, President, and a Chief Financial Officer, who may also be designated as Treasurer. The Board of Directors may elect, but shall not be required to elect, a Secretary, one or more Vice Presidents, and a Chairman of the Board. In addition, the Board of Directors may elect such other officers and agents as it may deem necessary. The officers shall exercise such powers and perform such duties as are prescribed by applicable statutes, the Articles of Incorporation, the By-Laws, or as may be determined from time to time by the Board of Directors. Any number of offices may be held by the same person.

5.2 Term of Office. The officers shall hold office until their successors are elected and qualify; provided, however, that any officer may be removed with or without cause by the affirmative vote of a majority of the directors present at a Board of Directors meeting at which a quorum is present.

5.3 Chief Executive Officer. The Chief Executive Officer shall:

- (a) Have general active management of the business of the Corporation;
- (b) When present, preside at all meetings of the shareholders;
- (c) When present, and if there is not a Chairman of the Board, preside at all meetings of the Board of Directors; and
- (d) Maintain records of and, whenever necessary, certify all proceedings of the Board of Directors and the shareholders.

All other officers shall be subject to the direction and authority of the Chief Executive Officer.

5.4 Chief Financial Officer. The Chief Financial Officer shall:

- (a) Keep accurate financial records for the Corporation;
- (b) Deposit all money, drafts and checks in the name of and to the credit of the Corporation in the banks and depositories designated by the Board of Directors;
- (c) Endorse for deposit all notes, checks and drafts received by the Corporation as ordered by the Board of Directors, making proper vouchers therefor;
- (d) Disburse corporate funds and issue checks and drafts in the name of the Corporation, as ordered by the Board of Directors;
- (e) Render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of all transactions by the Chief Financial Officer and of the financial condition of the Corporation; and
- (f) Perform all other duties prescribed by the Board of Directors or by the Chief Executive Officer.

5.5 President. The President shall:

- (a) Subject to direction of the Chief Executive Officer, be responsible for the day-to-day operations of the Corporation, and oversee the activities and responsibilities of all officers and employees other than the Chairman of the Board and the Chief Executive Officer;

- (b) See that all orders and resolutions of the Board of Directors are carried into effect;
- (c) Sign and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Articles of Incorporation or Bylaws or by the Board of Directors to some other officer or agent of the Corporation; and
- (d) Perform all other duties presented by the Board of Directors.

5.6 Vice President. Each Vice President, if any, shall have such powers and perform such duties as may be specified in these By-Laws or prescribed by the Board of Directors. If the Chief Executive Officer is absent or disabled, the Vice President shall succeed to the Chief Executive Officer's powers and duties. If there are two or more Vice Presidents, the order of succession shall be determined by seniority of election or as otherwise prescribed by the Board of Directors.

5.7 Secretary. The Secretary, if any, shall attend all meetings of the shareholders and the Board of Directors. The Secretary shall act as clerk and shall record all the proceedings of the meetings in the minute book of the Corporation and shall give proper notice of meetings of shareholders and the Board of Directors. The Secretary shall keep the seal of the Corporation, if any, and shall affix the seal to any instrument requiring it and shall attest the seal, and shall perform such other duties as may be prescribed from time to time by the Board of Directors.

5.8 Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and shall perform such other duties as may from time to time be assigned by the Board of Directors.

5.9 Assistant Officers. In the event of absence or disability of any Vice President, Secretary or the Chief Financial Officer, the assistant to such officer, if any, shall succeed to the powers and duties of the absent officer until the principal officer resumes his duties or a replacement is elected by the Board of Directors. If there are two or more assistants, the order of succession shall be determined through seniority by the order in which elected or as otherwise prescribed by the Board of Directors. The assistant officers shall exercise such other powers and duties as may be delegated to them from time to time by the Board of Directors or the principal officer under whom they serve, but at all times shall remain subordinate to the principal officers they are designated to assist.

ARTICLE 6

INDEMNIFICATION

The Corporation shall indemnify its officers, directors, employees and agents to the full extent permitted by the laws of the State of Minnesota, as now in effect, or as the same may be hereafter modified.

ARTICLE 7

SHARES AND THEIR TRANSFER

7.1 Certificates of Shares. Unless the Board of Directors has provided that the Corporation's shares are to be uncertified, every owner of shares of the Corporation shall be entitled to a certificate, to be in such form as the Board of Directors prescribes, certifying the number of shares owned by such shareholder. The certificates for shares shall be numbered in the order in which they are issued and shall be signed in the name of the Corporation by the Chief Executive Officer or a Vice President and by the Secretary or Assistant Secretary, or the Chief Financial Officer, or any other officer of the Corporation authorized by the Board of Directors and shall have the corporate seal, if any, affixed thereto. A record shall be kept of the name of the person owning the shares represented by each certificate, the respective issue dates thereof, and in the case of cancellation, the respective dates of cancellation. Except as provided in Section 7.5 of this Article 7, every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no other certificate shall be issued in exchange for any existing certificate until such existing certificate is cancelled.

7.2 Uncertificated Shares. The Board of Directors by a majority vote of directors present at a duly called meeting may provide that any or all shares of classes or series of shares are to be uncertificated shares. In that case, any shareholder who is issued uncertificated shares shall be provided with the information legally required to be disclosed in a certificate.

7.3 Issuance of Shares. The Board of Directors is authorized to issue shares of the capital stock of the Corporation up to the number of shares authorized by the Articles of Incorporation. Shares may be issued for any consideration (including, without limitation, money or other tangible or intangible property received by the Corporation or to be received by the Corporation under a written agreement, or services rendered to the Corporation or to be rendered to the Corporation under a written agreement) which is authorized by a resolution approved by the affirmative vote of a majority of the directors present, valuing all nonmonetary consideration and establishing a price in money or other consideration, or a minimum price, or a general formula or method by which the price will be determined. Upon authorization by resolution approved by the affirmative vote of a majority of the directors present, the Corporation may, without any new or additional consideration, issue shares of its authorized and unissued capital stock in exchange for or in conversion of its outstanding shares, or issue its own shares pro rata to its shareholders or the shareholders of one or more classes or series, to effectuate share dividends or splits, including reverse share splits. No shares of a class or series shall be issued to the holder of the shares of another class or series, unless issuance is either expressly provided for in the Articles of Incorporation or is approved at a meeting by the affirmative vote of the holders of a majority of the voting power of all shares of the same class or series as the shares to be issued.

7.4 Transfer of Shares. Transfer of shares on the books of the Corporation may be authorized only by the shareholder named in the certificates or the shareholder's representative or duly authorized attorney-in-fact and only upon surrender for cancellation of the certificate for such shares. The shareholder in whose name shares stand on the books of the Corporation shall be considered the owner thereof for all purposes regarding the Corporation.

7.5 Lost Certificates. Any shareholder claiming a certificate for shares has been lost or destroyed shall make an affidavit or affirmation of that fact in such form as the Board of Directors may require and shall, if the directors so require, give the Corporation a bond of indemnity in form and with one or more sureties satisfactory to the Board of Directors and in an amount determined by the Board of Directors, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of the certificate. A new certificate may then be issued in the same tenor for the same number of shares as the one alleged to have been lost or destroyed.

7.6 Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents or transfer clerks and one or more registrars and may require all certificates for shares to bear the signature or signatures of any of them.

7.7 Facsimile Signature. When any certificate is manually signed by a transfer agent, a transfer clerk, or a registrar appointed by the Board of Directors to perform such duties, a facsimile or engraved signature of the officers and a facsimile corporate seal, if any, may be inscribed on the certificate in lieu of the actual signatures and seal.

ARTICLE 8

FINANCIAL AND PROPERTY MANAGEMENT

8.1 Checks. All checks, drafts, other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by the Chief Executive Officer or Chief Financial Officer, or any other officer or officers, agent or agents of the Corporation, as may from time to time be determined by resolution of the Board of Directors.

8.2 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

8.3 Voting Securities Held by Corporation. The Chief Executive Officer, or other officer or agent designated by the Board of Directors, shall have full power and authority on behalf of the Corporation to attend, act at, and vote at any meeting of security or interest holders of other corporations or entities in which the Corporation may hold securities or interests. At the meeting, the Chief Executive Officer or other designated agent shall possess and exercise any and all rights and powers incident to the ownership of the securities or interest which the Corporation holds.

ARTICLE 9

AMENDMENTS

The Board of Directors of the Corporation is expressly authorized to make By-Laws of the Corporation and from time to time to adopt, amend or repeal By-Laws so made to the extent and in the manner prescribed in the Minnesota Statutes. The Board of Directors shall not adopt, amend, or repeal a By-Law fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the Board of Directors, or fixing the number of directors or their classifications, qualifications, or terms of office, but may adopt or amend a By-Law to increase the number of directors. The authority in the Board of Directors is subject to the power of the voting shareholders to adopt, change or repeal the By-Laws by a vote of shareholders holding a majority of the shares entitled to vote and present or represented at any regular meeting or special meeting called for that purpose.

ARTICLE 10

FORUM FOR ADJUDICATION OF DISPUTES

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Minnesota Business Corporation Act, or (iv) any action asserting a claim governed by the internal affairs doctrine, shall be a state or federal court located within the state of Minnesota, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants.

FOURTH AMENDED AND RESTATED BYLAWS

OF

LAKES ENTERTAINMENT, INC.

ARTICLE 1

OFFICES

1.1 Registered Office. The registered office of the Corporation shall be located within the State of Minnesota as set forth in the Articles of Incorporation. The Board of Directors shall have authority to change the registered office of the Corporation and a statement evidencing any such change shall be filed with the Secretary of State of Minnesota as required by law.

1.2 Offices. The Corporation may have other offices, including its principal business office, either within or without the State of Minnesota.

ARTICLE 2

CORPORATE SEAL

2.1 Corporate Seal. The Board of Directors shall determine whether or not the Corporation will adopt a corporate seal. If a corporate seal is adopted, inscribed on the corporate seal shall be the name of the Corporation and the words "Corporate Seal," and when so directed by the Board of Directors, a duplicate of the seal may be kept and used by the Secretary of the Corporation.

ARTICLE 3

SHAREHOLDERS

3.1 Regular Meetings. Regular meetings of the shareholders shall be held at the Corporation's registered office or at such other place within or without the State of Minnesota as is designated by the Board of Directors. Regular meetings may be held annually or on a less frequent periodic basis, as established by a resolution of the Board of Directors, or may be held on call by the Board of Directors from time to time as and when the Board determines. At each regular meeting, the shareholders shall elect, as provided in the Articles of Incorporation and these By-laws, qualified successors for directors who serve for an indefinite term or whose terms have expired or are due to expire within six (6) months after the date of the meeting, and may transact such other business which properly comes before them. Notwithstanding the foregoing, if a regular meeting of the shareholders has not been held for a period of fifteen (15) months, a shareholder or group of shareholders holding three percent (3%) or more of the issued and outstanding voting shares of the Corporation may demand that a regular meeting of the shareholders be held by giving written notice to the President or Treasurer of the Corporation. Within thirty (30) days after receipt of the notice, the Board shall cause a regular meeting of the shareholders to be called and held within ninety (90) days after receipt of the notice. Any regular meeting held pursuant to such a demand by a shareholder or shareholders shall be held within the county where the principal executive office of the Corporation is located.

3.2 Special Meeting. Special meetings of the shareholders may be called by the Chief Executive Officer, by a Vice-President in the absence of the Chief Executive Officer, by the Chief Financial Officer, or by the Board of Directors or any two or more members thereof. Special meetings may also be called by one or more shareholders holding ten percent (10%) or more of the issued and outstanding voting shares of the Corporation by delivering to the Chief Executive Officer or Chief Financial Officer a written demand for a special meeting, which demand shall state the purposes of such meeting. Within thirty (30) days after receipt of the written demand, the Board of Directors shall call a special meeting of the shareholders to be held within ninety (90) days after receipt of the written demand. Any special meeting held pursuant to such written demand shall be held within the county where the principal executive office of the Corporation is located.

3.3 Quorum. Business may be transacted at any duly held meeting of the shareholders at which a quorum is present. The holders of a majority of the voting power of the shares entitled to vote at a meeting are a quorum. The shareholders present at the meeting may continue to transact business until adjournment, even though a number of shareholders withdraw leaving less than a quorum. If a quorum is not present at any meeting, those shareholders present have the power to adjourn the meeting from time to time until the requisite number of voting shares are present. The date, time and place of the reconvened meeting shall be announced at the time of adjournment and notice of the reconvened meeting shall be given to all shareholders who were not present at the time of adjournment. Any business which might have been transacted at the meeting which was adjourned may be transacted at the reconvened meeting.

3.4 Voting. At each shareholders' meeting, every shareholder having the right to vote is entitled to vote in person or by proxy. Shareholders have one (1) vote for each share having voting power standing in their name on the books of the Corporation, unless otherwise provided in the Articles of Incorporation, or these By-Laws, or in the terms of the shares. All elections and questions shall be decided by a majority vote of the number of shares entitled to vote and represented at any meeting at which there is a quorum, except as otherwise required by statute, the Articles of Incorporation, these By-Laws, or by agreement among the shareholders.

3.5 Notice of Meeting. Notice of regular or special meetings of the shareholders shall be given by an officer or agent of the Corporation to each shareholder shown on the books of the Corporation to be the holder of record of shares entitled to vote at the meeting. If the notice is to be mailed, then the notice must be mailed to each shareholder at the shareholder's address as shown on the books of the Corporation at least five (5) calendar days prior to the meeting. If the notice is not mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. The notice must contain the date, time and place of the meeting, and in the case of a special meeting, must also contain a statement of the purpose of the meeting. In no event shall notice be given more than sixty (60) days prior to the meeting. If a plan of merger, exchange, sale or other disposition of all or substantially all of the assets of the Corporation is to be considered at a meeting of shareholders, notice of such meeting shall be given to every shareholder, whether or not entitled to vote, not less than fourteen (14) days prior to the date of such meeting.

3.6 Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney-in-fact. Such proxies must be filed with an officer of the Corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

3.7 Closing Transfer Books. The Board of Directors may close the stock transfer books for a period of time which does not exceed sixty (60) days preceding any of the following: the date of any meeting of shareholders; the payment of dividends; the allotment of rights; or the change, conversion, or exchange of shares.

3.8 Record Date. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date, not exceeding sixty (60) days preceding the date of any of the events described in Section 3.7, as a record date for the determination of which shareholders are entitled (i) to notice of and to vote at any meeting and any meeting subsequent to adjournment, (ii) to receive any dividend or allotment of rights, or (iii) to exercise the rights in respect to any change, conversion, or exchange of shares. If a record date is fixed by the Board of Directors, only those shareholders of record on the record date shall be entitled to receive notice of and to vote at the meeting and any meeting subsequent to adjournment or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date so fixed. If the share transfer books are not closed and no record date is fixed for determination of the shareholders of record, then the date on which notice of the meeting is mailed or the date of adoption of a resolution of the Board of Directors declaring a dividend, allotment of rights, change, conversion or exchange of shares, as the case may be, shall be the record date for such determination.

3.9 Presiding Officer. The Chief Executive Officer of the Corporation shall preside over all meetings of the shareholders. In the absence of the Chief Executive Officer, the shareholders may choose any person present to act as presiding officer.

3.10 Written Action by Shareholders. Any action which may be taken at a meeting of the shareholders may be taken without a meeting and notice if a consent in writing, setting forth the action so taken, is signed by all of the shareholders entitled to notice of a meeting for such purpose.

3.11 Advance Notice of Shareholder Proposals. At any regular meeting of shareholders, only such business (other than the nomination and election of directors, which shall be subject to Section 3.12) may be conducted as shall be appropriate for consideration at the meeting of shareholders and as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any shareholder entitled to vote at the meeting who complies with the notice procedures hereinafter set forth in this Section 3.11.

- (a) Timing of Notice. For such business to be properly brought before any regular meeting by a shareholder, the shareholder must be a beneficial owner both at the time of proposal and the time of the meeting and have given timely notice thereof in writing, not less than 90 days before the first anniversary of the date of the preceding year's annual meeting; provided, however, that (i) in the event the date of the annual meeting is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so received not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting, and (ii) with respect to the Corporation's 2009 annual meeting of shareholders, notice by a shareholder shall be timely only if so received within 10 days after the first public announcement of the date of such annual meeting. To be timely, a shareholder's notice of any such business to be conducted at a regular meeting other than an annual meeting must be delivered to the Secretary of the Corporation or mailed and received at the principal executive office of the Corporation within 10 days after the first public announcement of the date of such regular meeting. Except to the extent otherwise required by law, the adjournment of a regular meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as required above. For the purposes of this Section 3.11 and Section 3.12 below, "public announcement" means disclosure (i) when made in a press release reported by the Associated Press or comparable national news service, (ii) when filed in a document publicly filed by the Corporation with the Securities and Exchange Commission, or (iii) when mailed as notice of the meeting as provided in Section 3.5 above.
- (b) Content of Notice. A shareholder's notice to the corporation shall set forth as to each matter the shareholder proposes to bring before the regular meeting:
- (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting;
 - (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business;
 - (iii) the class or series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such shareholder the purpose or effect of which is to provide such shareholder with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the shareholder;
 - (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of the shareholder in such business; and
 - (v) a representation that the shareholder is a holder of record of shares entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to make the proposal.
- (c) Consequences of Failure to Satisfy Advance Notice Procedures. The officer of the Corporation chairing the meeting shall, if the facts warrant, determine that business was not properly brought before the meeting in accordance with the procedures described in this Section 3.11 and, if such officer should so determine, such officer shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted. Nothing in this Section 3.11 shall be deemed to preclude discussion by any shareholder of any business properly brought before the meeting in accordance with these By-Laws.
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3.12 Nomination of Director Candidates. Only persons who are nominated in accordance with the procedures set forth in this Section 3.12 shall be eligible for election as directors. Nominations of persons for election of the Board of Directors may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors or a committee designated by the Board of Directors or (ii) by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 3.12.

- (a) Timing of Notice. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, the shareholder must be a beneficial owner both at the time of nomination and the time of the meeting and have given timely notice thereof in writing, not less than 90 days before the first anniversary of the date of the preceding year's annual meeting; provided, however, that (i) in the event the date of the annual meeting is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so received not less than 90 days before such annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting, and (ii) with respect to the Corporation's 2009 annual meeting of shareholders, notice by a shareholder shall be timely only if so received within 10 days after the first public announcement of the date of such annual meeting. If a special meeting of shareholders is called in accordance with Section 3.2 for the purpose of electing one or more members to the Corporation's Board of Directors, for a shareholder's notice of nominations to be timely it must be delivered to the Secretary of the Corporation, or mailed and received at the principal executive office of the Corporation within 10 days after the first public announcement of the date of such special meeting. Except to the extent otherwise required by law, the adjournment of a regular meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as required above.
 - (b) Content of Notice. A shareholder's notice to the Corporation of nominations for a regular or special meeting of shareholders shall set forth:
 - (i) as to each person whom the shareholder proposes to nominate for election or re-election as a director:
 - (A) such person's name, age, business address and residence address and principal occupation or employment;
 - (B) the class and series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such person the purpose or effect of which is to provide such person with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the person;
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(C) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or that is otherwise required, pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively the "Exchange Act");

(D) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and

(E) a representation from such person that such person is not and will not become a party to any agreement, arrangement, or understanding with, and has not given any commitment or assurance to, any person or entity (1) as to how such person, if elected as a director of the Corporation will act of vote on any issue or question or (2) that could limit or interfere with such person's ability to comply, if elected as a director of the Corporation, with such person's fiduciary duties under applicable law.

(ii) as to the shareholder giving the notice:

(A) the name and address, as they appear on the Corporation's books, or such shareholder;

(B) the class or series (if any) and number of shares (including, without limitation, derivative securities, swaps or other transaction or series of transactions engaged in, directly or indirectly, by such person the purpose or effect of which is to provide such person with economic risk similar to ownership of shares of any class or series of the Corporation) that are owned beneficially or of record by the shareholder;

(C) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder;

(D) all other information relating to such shareholder that is required to be disclosed in solicitations of proxies for election of directors, or that is otherwise required, pursuant to the Exchange Act; and

(E) a representation that the shareholder is a holder of record of shares of the Corporation entitled to vote for the election of directors and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Corporation the information required to be set forth in a shareholder's notice of nomination that pertains to a nominee.

- (c) Consequences of Failure to Satisfy Nominating Procedures. The officer of the Corporation chairing the meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed in this Section 3.12 and, if such officer should so determine, such officer shall so declare to the meeting, and the defective nomination shall be disregarded.
- (d) Compliance with Law. Notwithstanding the foregoing provisions of Sections 3.11 and 3.12 above, a shareholder shall also comply with all applicable requirements of Minnesota law and the Exchange Act with respect to the matters set forth in such Sections. For purposes of clarity, the requirements of Sections 3.11 and 3.12 apply to proposals made or brought or sought to be made or brought at any regular meeting, whether or not such proposals are, or are required to be, included in the Corporation's proxy statement pursuant to the federal proxy rules set forth in the Exchange Act.

ARTICLE 4

DIRECTORS

4.1 General Powers. The property, affairs and business of the Corporation shall be managed by the Board of Directors. In addition to the powers and authorities by these By-Laws expressly conferred upon it, the Board may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, the Articles of Incorporation or these By-Laws directed or required to be exercised or done by the shareholders.

4.2 Number. The number of directors shall be fixed by or in the manner provided in the articles of incorporation or these bylaws. The number of directors may be increased or decreased by a resolution adopted by the affirmative vote of a majority of the Board of Directors; provided, however, that no decrease in the number of directors pursuant to this Section 4.2 shall effect the removal of any director then holding office except in compliance with applicable law and Section 4.11 below. Any newly created directorships established by the Board of Directors shall be filled by a majority vote of the directors serving at the time of the increase.

4.3 Qualifications and Term of Office. Directors need not be shareholders or residents of the State of Minnesota. The Board of Directors shall be elected by the shareholders at their regular meeting and at any special shareholders' meeting called for that purpose. A director shall hold office until the annual meeting for the year in which his or her term expires and until the director's successor is elected and qualifies, or until the earlier death, resignation, removal, or disqualification of the director.

4.4 Quorum. A majority of the Board of Directors constitutes a quorum for the transaction of business; provided, however, that if any vacancies exist by reason of death, resignation, or otherwise, a majority of the remaining directors constitutes a quorum. If less than a quorum is present at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

4.5 Action of Directors. The acts of a majority of the directors present at a meeting at which a quorum is present are the acts of the Board of Directors.

4.6 Meetings. Meetings of the Board of Directors may be held from time to time at any place, within or without the State of Minnesota, that the Board of Directors may select. If the Board of Directors fails to select a place for a meeting, the meeting shall be held at the principal executive office of the Corporation. The Chief Executive Officer or any director may call a meeting of the Board of Directors by giving notice to all directors of the date, time and place of the meeting. If the notice is to be mailed, then the notice must be mailed to each director at least five (5) calendar days prior to the meeting. If the notice is not to be mailed, then the notice must be given at least forty-eight (48) hours prior to the meeting. If the date, time and place of the meeting of the Board of Directors has been announced at a previous meeting of the Board of Directors, no additional notice of such meeting is required, except that notice shall be given to all directors who were not present at the previous meeting. Notice of the meeting of the Board of Directors need not state the purpose of the meeting. A director may orally or in writing waive notice of the meeting. Attendance by a director at a meeting of the Board of Directors also constitutes a waiver of notice of such meeting, unless the director objects at the beginning of the meeting to the transaction of business because the meeting allegedly is not lawfully called or convened and such director does not participate thereafter in the meeting.

4.7 Meeting by Electronic Communications. A conference among directors by any means of communication through which the directors may simultaneously hear each other during the conference constitutes meeting of the Board of Directors if the number of directors participating in the conference would be sufficient to constitute a quorum at a meeting, and if the same notice is given of the conference as would be required for a Board of Directors meeting under these By-Laws. In any Board of Directors meeting, a director may participate by any means of communication through which the director, other directors so participating, and all directors physically present at the meeting may simultaneously hear each other during the meeting.

4.8 Compensation. Directors may receive such compensation as may be determined from time to time by resolution of the Board of Directors.

4.9 Committee. By the affirmative vote of a majority of the directors, the Board of Directors may establish a committee or committees having the authority of the Board of Directors in the management of the business of the Corporation to the extent provided in the resolution adopted by the Board of Directors. A committee shall consist of one or more persons, who need not be directors, that have been appointed by affirmative vote of a majority of the directors present. A majority of the members of the committee present at any meeting of the committee is a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in the resolution approved by the Board of Directors. Minutes of any meetings of committees created by the Board of Directors shall be available upon request to members of the committee and to any director.

4.10 Action by Absent Director. A director may give advance written consent or opposition to a proposal to be acted upon at a Board of Directors meeting by giving a written statement to the Chief Executive Officer, Chief Financial Officer, or any director which sets forth the proposal to be voted on and contains a statement of the director's voting preference with regard to the proposal. An advance written statement does not constitute presence of the director for purposes of determining a quorum, but the advance written statement shall be counted in the vote on the subject proposal provided that the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal set forth in the advance written statement. The advance written statement by a director on a proposal shall be included in the records of the Board of Directors' action on the proposal.

4.11 Removal of Directors by Board of Directors. Any director who has been elected by the Board of Directors to fill a vacancy on the Board of Directors, or to fill a directorship created by action of the Board of Directors, and who has not subsequently been reelected by the shareholders, may be removed by a majority vote of all directors constituting the Board, exclusive of the director whose removal is proposed.

4.12 Vacancies. Any vacancy on the Board of Directors may be filled by vote of the remaining directors, even though less than a quorum.

4.13 Written Action by Less than All of the Directors. Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting and notice thereof if a consent in writing setting forth the action taken is signed by the number of directors required to take the same action at a duly held meeting of the Board of Directors at which all of the directors are present. If a written action is signed by less than all the directors, any director not signing the action will be notified as soon as reasonably possible of the content of the action and the effective date of the action. Failure to provide the notice does not invalidate the written action. A director who does not sign or consent to the written action has no liability for the action or actions so taken.

4.14 Dissent from Action. A director of the Corporation who is present at a meeting of the Board of Directors at which any action is taken shall be presumed to have assented to the action taken unless the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter, or unless the director votes against the action at the meeting, or is prohibited from voting on the action.

4.15 Disclosure to Gaming Regulatory Authorities. Each director must agree to provide such background information, including a financial statement, and consent to such background investigation, as may be required by gaming regulatory authorities, and must agree to respond to questions from gaming regulatory authorities.

ARTICLE 5

OFFICERS

5.1 Election of Officers. The Board of Directors shall from time to time, elect a Chief Executive Officer, President, and a Chief Financial Officer, who may also be designated as Treasurer. The Board of Directors may elect, but shall not be required to elect, a Secretary, one or more Vice Presidents, and a Chairman of the Board. In addition, the Board of Directors may elect such other officers and agents as it may deem necessary. The officers shall exercise such powers and perform such duties as are prescribed by applicable statutes, the Articles of Incorporation, the By-Laws, or as may be determined from time to time by the Board of Directors. Any number of offices may be held by the same person.

5.2 Term of Office. The officers shall hold office until their successors are elected and qualify; provided, however, that any officer may be removed with or without cause by the affirmative vote of a majority of the directors present at a Board of Directors meeting at which a quorum is present.

5.3 Chief Executive Officer. The Chief Executive Officer shall:

- (a) Have general active management of the business of the Corporation;
- (b) When present, preside at all meetings of the shareholders;
- (c) When present, and if there is not a Chairman of the Board, preside at all meetings of the Board of Directors; and
- (d) Maintain records of and, whenever necessary, certify all proceedings of the Board of Directors and the shareholders.

All other officers shall be subject to the direction and authority of the Chief Executive Officer.

5.4 Chief Financial Officer. The Chief Financial Officer shall:

- (a) Keep accurate financial records for the Corporation;
- (b) Deposit all money, drafts and checks in the name of and to the credit of the Corporation in the banks and depositories designated by the Board of Directors;
- (c) Endorse for deposit all notes, checks and drafts received by the Corporation as ordered by the Board of Directors, making proper vouchers therefor;
- (d) Disburse corporate funds and issue checks and drafts in the name of the Corporation, as ordered by the Board of Directors;
- (e) Render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of all transactions by the Chief Financial Officer and of the financial condition of the Corporation; and
- (f) Perform all other duties prescribed by the Board of Directors or by the Chief Executive Officer.

5.5 President. The President shall:

- (a) Subject to direction of the Chief Executive Officer, be responsible for the day-to-day operations of the Corporation, and oversee the activities and responsibilities of all officers and employees other than the Chairman of the Board and the Chief Executive Officer;
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- (b) See that all orders and resolutions of the Board of Directors are carried into effect;
- (c) Sign and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Articles of Incorporation or Bylaws or by the Board of Directors to some other officer or agent of the Corporation; and
- (d) Perform all other duties presented by the Board of Directors.

5.6 Vice President. Each Vice President, if any, shall have such powers and perform such duties as may be specified in these By-Laws or prescribed by the Board of Directors. If the Chief Executive Officer is absent or disabled, the Vice President shall succeed to the Chief Executive Officer's powers and duties. If there are two or more Vice Presidents, the order of succession shall be determined by seniority of election or as otherwise prescribed by the Board of Directors.

5.7 Secretary. The Secretary, if any, shall attend all meetings of the shareholders and the Board of Directors. The Secretary shall act as clerk and shall record all the proceedings of the meetings in the minute book of the Corporation and shall give proper notice of meetings of shareholders and the Board of Directors. The Secretary shall keep the seal of the Corporation, if any, and shall affix the seal to any instrument requiring it and shall attest the seal, and shall perform such other duties as may be prescribed from time to time by the Board of Directors.

5.8 Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and shall perform such other duties as may from time to time be assigned by the Board of Directors.

5.9 Assistant Officers. In the event of absence or disability of any Vice President, Secretary or the Chief Financial Officer, the assistant to such officer, if any, shall succeed to the powers and duties of the absent officer until the principal officer resumes his duties or a replacement is elected by the Board of Directors. If there are two or more assistants, the order of succession shall be determined through seniority by the order in which elected or as otherwise prescribed by the Board of Directors. The assistant officers shall exercise such other powers and duties as may be delegated to them from time to time by the Board of Directors or the principal officer under whom they serve, but at all times shall remain subordinate to the principal officers they are designated to assist.

ARTICLE 6

INDEMNIFICATION

The Corporation shall indemnify its officers, directors, employees and agents to the full extent permitted by the laws of the State of Minnesota, as now in effect, or as the same may be hereafter modified.

ARTICLE 7

SHARES AND THEIR TRANSFER

7.1 Certificates of Shares. Unless the Board of Directors has provided that the Corporation's shares are to be uncertified, every owner of shares of the Corporation shall be entitled to a certificate, to be in such form as the Board of Directors prescribes, certifying the number of shares owned by such shareholder. The certificates for shares shall be numbered in the order in which they are issued and shall be signed in the name of the Corporation by the Chief Executive Officer or a Vice President and by the Secretary or Assistant Secretary, or the Chief Financial Officer, or any other officer of the Corporation authorized by the Board of Directors and shall have the corporate seal, if any, affixed thereto. A record shall be kept of the name of the person owning the shares represented by each certificate, the respective issue dates thereof, and in the case of cancellation, the respective dates of cancellation. Except as provided in Section 7.5 of this Article 7, every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no other certificate shall be issued in exchange for any existing certificate until such existing certificate is cancelled.

7.2 Uncertificated Shares. The Board of Directors by a majority vote of directors present at a duly called meeting may provide that any or all shares of classes or series of shares are to be uncertificated shares. In that case, any shareholder who is issued uncertificated shares shall be provided with the information legally required to be disclosed in a certificate.

7.3 Issuance of Shares. The Board of Directors is authorized to issue shares of the capital stock of the Corporation up to the number of shares authorized by the Articles of Incorporation. Shares may be issued for any consideration (including, without limitation, money or other tangible or intangible property received by the Corporation or to be received by the Corporation under a written agreement, or services rendered to the Corporation or to be rendered to the Corporation under a written agreement) which is authorized by a resolution approved by the affirmative vote of a majority of the directors present, valuing all nonmonetary consideration and establishing a price in money or other consideration, or a minimum price, or a general formula or method by which the price will be determined. Upon authorization by resolution approved by the affirmative vote of a majority of the directors present, the Corporation may, without any new or additional consideration, issue shares of its authorized and unissued capital stock in exchange for or in conversion of its outstanding shares, or issue its own shares pro rata to its shareholders or the shareholders of one or more classes or series, to effectuate share dividends or splits, including reverse share splits. No shares of a class or series shall be issued to the holder of the shares of another class or series, unless issuance is either expressly provided for in the Articles of Incorporation or is approved at a meeting by the affirmative vote of the holders of a majority of the voting power of all shares of the same class or series as the shares to be issued.

7.4 Transfer of Shares. Transfer of shares on the books of the Corporation may be authorized only by the shareholder named in the certificates or the shareholder's representative or duly authorized attorney-in-fact and only upon surrender for cancellation of the certificate for such shares. The shareholder in whose name shares stand on the books of the Corporation shall be considered the owner thereof for all purposes regarding the Corporation.

7.5 Lost Certificates. Any shareholder claiming a certificate for shares has been lost or destroyed shall make an affidavit or affirmation of that fact in such form as the Board of Directors may require and shall, if the directors so require, give the Corporation a bond of indemnity in form and with one or more sureties satisfactory to the Board of Directors and in an amount determined by the Board of Directors, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of the certificate. A new certificate may then be issued in the same tenor for the same number of shares as the one alleged to have been lost or destroyed.

7.6 Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents or transfer clerks and one or more registrars and may require all certificates for shares to bear the signature or signatures of any of them.

7.7 Facsimile Signature. When any certificate is manually signed by a transfer agent, a transfer clerk, or a registrar appointed by the Board of Directors to perform such duties, a facsimile or engraved signature of the officers and a facsimile corporate seal, if any, may be inscribed on the certificate in lieu of the actual signatures and seal.

ARTICLE 8

FINANCIAL AND PROPERTY MANAGEMENT

8.1 Checks. All checks, drafts, other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by the Chief Executive Officer or Chief Financial Officer, or any other officer or officers, agent or agents of the Corporation, as may from time to time be determined by resolution of the Board of Directors.

8.2 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

8.3 Voting Securities Held by Corporation. The Chief Executive Officer, or other officer or agent designated by the Board of Directors, shall have full power and authority on behalf of the Corporation to attend, act at, and vote at any meeting of security or interest holders of other corporations or entities in which the Corporation may hold securities or interests. At the meeting, the Chief Executive Officer or other designated agent shall possess and exercise any and all rights and powers incident to the ownership of the securities or interest which the Corporation holds.

ARTICLE 9

AMENDMENTS

The Board of Directors of the Corporation is expressly authorized to make By-Laws of the Corporation and from time to time to adopt, amend or repeal By-Laws so made to the extent and in the manner prescribed in the Minnesota Statutes. The Board of Directors shall not adopt, amend, or repeal a By-Law fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the Board of Directors, or fixing the number of directors or their classifications, qualifications, or terms of office, but may adopt or amend a By-Law to increase the number of directors. The authority in the Board of Directors is subject to the power of the voting shareholders to adopt, change or repeal the By-Laws by a vote of shareholders holding a majority of the shares entitled to vote and present or represented at any regular meeting or special meeting called for that purpose.

ARTICLE 10

FORUM FOR ADJUDICATION OF DISPUTES

Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Minnesota Business Corporation Act, or (iv) any action asserting a claim governed by the internal affairs doctrine, shall be a state or federal court located within the state of Minnesota, in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants.

ARTICLE 11

OPT OUT OF CONTROL SHARE ACQUISITION ACT

Neither Section 302A.671 of the Minnesota Statutes nor any successor statute thereto shall apply to, or govern in any manner, the Corporation or any existing or future control share acquisition of shares of capital stock of the Corporation or limit in any respect the voting or other rights of any existing or future shareholder of the Corporation or entitle the Corporation or its shareholders to any redemption or other rights with respect to outstanding capital stock of the Corporation that the Corporation or its shareholders would not have in the absence of Section 302A.671 of the Minnesota Statutes or any successor statute thereto.

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: July 30, 2015

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: July 30, 2015

**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 June 28, 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

July 30, 2015

