

POKER MAGIC INC
Form 10-Q
August 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

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

Commission File Number 0-16686

POKER MAGIC, INC.

(Exact name of registrant as specified in its charter)

Minnesota
(State or other jurisdiction of incorporation or
organization)

20-4709758
(I.R.S. Employer Identification No.)

130 West Lake Street, Suite 300, Wayzata, MN
(Address of Principal Executive Offices)

(952) 473-3442
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed from last report)

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.

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Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☒

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

As of August 9, 2010 there were 10,233,224 shares of the issuer's common stock, \$0.001 par value, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Poker Magic, Inc.
(A Development Stage Company)
Balance Sheets

	June 30, 2010 (unaudited)	December 31, 2009 (audited)
ASSETS		
Current Assets		
Cash	\$ 2,181	\$ 5,464
Inventory	1,621	1,621
Total Current Assets	3,802	7,085
Intangible assets, net of amortization	6,204	10,340
Total Assets	\$ 10,006	\$ 17,425
Liabilities and Shareholders' Equity (Deficit)		
Current Liabilities		
Accounts payable	\$ 7,668	\$ 13,446
Accrued royalty	210	120
Note payable related party – short-term	80,000	40,000
Interest payable	4,506	873
Deferred revenue	-	975
Total Current Liabilities	92,384	55,414
Total Liabilities	92,384	55,414
Commitments and contingencies:		
Shareholders' Equity (Deficit)		
Common Stock, \$.001 par value: Authorized 250,000,000 shares:		
Issued and outstanding 10,233,224 and 9,963,224 shares on June 30, 2010 and December 31, 2009, respectively.	10,233	9,963
Additional paid-in capital	668,607	644,877
Deficit accumulated during the development stage	(761,218)	(692,829)
Total Shareholders' Equity (Deficit)	(82,378)	(37,989)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 10,006	\$ 17,425

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Statements of Operations
(unaudited)

	Three months ended		Three months ended		Six months ended		Six months ended		Period from
	June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009		January 10, 2006
									(inception)
									through
									June 30, 2010
Revenues	\$	600	\$	2,025	\$	1,800	\$	3,650	\$ 11,175
Cost of Revenues		2,098		3,794		4,226		8,242	53,915
Gross Loss		(1,498)		(1,769)		(2,426)		(4,592)	(42,740)
Operating Expenses:									
Selling, General and Administrative		24,951		35,804		62,330		92,590	716,175
Operating Loss:		(26,449)		(37,573)		(64,756)		(97,182)	(758,915)
Other Income (Expense)									
Interest income		-		11		-		192	2,203
Interest expense		(2,199)		-		(3,633)		-	(4,506)
Total Other Income (Expense)		(2,199)		11		(3,633)		192	(2,303)
Net Loss	\$	(28,648)	\$	(37,562)	\$	(68,389)	\$	(96,990)	\$ (761,218)
Basic and diluted net loss per common share	\$	(0.00)	\$	(0.00)	\$	(0.01)	\$	(0.01)	\$ (0.10)
Weighted-average number of common shares outstanding		10,083,224		8,900,724		10,023,555		9,014,168	7,898,775

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Statements of Cash Flows
(unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Period from January 10, 2006 (inception) to June 30, 2010
Cash flows from operating activities:			
Net loss	\$ (68,389)	\$ (96,990)	\$ (761,218)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of intangible asset	4,136	4,136	35,153
Common stock issued for services	-	-	6,500
Consulting service expense paid in stock	-	4,373	123,841
Officers compensation expense paid in stock	24,000	18,000	122,000
Officers compensation expense as contributed capital	-	12,000	50,000
Changes in operating assets and liabilities:			
Accounts receivable	-	-	-
Inventory	-	450	(871)
Prepaid expense	-	-	5,434
Accounts payable	(5,778)	6,160	7,668
Accrued royalty	90	17	210
Interest payable	3,633	-	4,506
Deferred revenue	(975)	-	-
Net cash used in operating activities	(43,283)	(51,854)	(406,777)
Cash flows from investing activities:			
Acquisition of Select Video assets	-	-	(17,000)
Net cash used in investing activities	-	-	(17,000)
Cash flows from financing activities:			
Proceeds from subscription receivable	-	-	14,000
Proceeds from issuance of common stock	-	-	426,000
Redemption of common stock	-	(91,667)	(91,667)
Proceeds from note payable related party	40,000	-	80,000
Payment of short-term debt	-	-	(2,375)
Net cash provided by (used in) financing activities	40,000	(91,667)	425,958
Net increase (decrease) in cash	(3,283)	(143,521)	2,181
Cash, beginning of the period	5,464	145,117	-
Cash, end of the period	\$ 2,181	\$ 1,596	\$ 2,181

Non-cash investing and financing activities:

Acquisition of certain assets and liabilities of Select Video in exchange for common stock

Inventory	\$	-	\$	-	\$	750
Intangible Asset		-		-		24,357
Accounts Payable		-		-		(32,000)
Note Payable		-		-		(7,084)
Stock issued in lieu of cash for note payable		-		-		19,709
Stock issued in lieu of cash for prepaid services		-		-		175,400
Stock subscriptions received for common stock		-		-		14,000

The accompanying notes are an integral part of these financial statements.

Poker Magic, Inc.
(A Development Stage Company)
Notes to Financial Statements
June 30, 2010

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations and basis of presentation

Poker Magic, Inc. (the “Company”) is a development stage company that was incorporated in the State of Minnesota on January 10, 2006. Our business consists primarily of marketing and licensing a new form of poker-based table game to casinos and on-line gaming facilities in the United States.

Interim financial information

The following condensed balance sheet as of December 31, 2009, which has been derived from audited financial statements, and the unaudited interim condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or any other period. The accompanying financial statements and related notes should be read in conjunction with the audited Financial Statements of the Company, and notes thereto, contained in this filing for the year ended December 31, 2009. The financial information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the results of the interim periods presented in order to make the financial statements not misleading.

Liquidity

The accompanying financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the period from January 10, 2006 (inception) to June 30, 2010, the Company incurred a net loss of \$761,218. The Company's ability to continue as a going concern is dependent on it ultimately achieving profitability, producing additional revenues and/or raising additional capital. Management intends to obtain additional debt or equity capital to meet all of its existing cash obligations and to support the revenue generating process; however, there can be no assurance that the sources will be available or available on terms favorable to the Company.

Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash, accounts payable, and notes payable approximate fair value due to their relatively short maturities.

Intangible assets

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video, Inc. (Select Video). Three patents were acquired as a part of the March 10, 2006 purchase. The patents are stated at cost and are amortized on a straight-line basis over 60 months. Amortization expense was \$2,068 for both of the three month s

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ended June 30, 2010 and 2009, \$4,136 for both of the six months ended June 30, 2010 and 2009 and \$35,153 for the period from January 10, 2006 (inception) to June 30, 2010. Estimated amortization expense for the next two years of patents issued as of June 30, 2010 is as follows:

Remainder of 2010	\$	4,136
2011		2,068
Total	\$	6,204

Impairment of long-lived assets

Management reviews the Company's long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets, the asset's value will be adjusted appropriately. No impairment indicators were present as of June 30, 2010 or December 31, 2009.

NOTE 2—NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss attributable to common shareholders by the weighted average number of vested common shares outstanding during the period. A reconciliation of the numerator and denominator used in the calculation of basic and diluted net loss per common share follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Period from January 10, 2006 (inception) to June 30, 2010
Numerator: Net Loss	\$ (28,648)	\$ (37,562)	\$ (68,389)	\$ (96,990)	\$ (761,218)
Denominator: Weighted-average number of common shares outstanding	10,083,224	8,900,724	10,023,555	9,014,168	7,898,775
Basic and diluted net loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.10)

The 1,000,000 outstanding warrants at June 30, 2009 were excluded from the calculation of diluted loss per share as their effects were anti-dilutive due to the Company's net losses for that period.

NOTE 3—COMMITMENTS AND CONTINGENCIES

The asset purchase agreement with Select Video dated March 10, 2006, provides that when the Company receives any revenue generated by Winner's Pot Poker and other similar games, Select Video will be entitled to receive an amount equal to five percent (5%) of all gross proceeds generated by these games.

As of June 30, 2010 and December 31, 2009, \$210 and \$120 were owed to Select Video under this agreement.

NOTE 4—SHAREHOLDERS' EQUITY

Common stock

On January 10, 2006, the founders of the Company purchased 2,500,000 shares of common stock for \$2,500.

On March 10, 2006, the Company purchased certain assets and assumed certain liabilities of Select Video in exchange for 3,022,991 shares of common stock issued at the deemed fair market value of \$.001 per share or \$3,023.

On May 23, 2006, the Company issued 60,000 shares of common stock at \$0.25 per share in lieu of cash for liabilities assumed.

During 2006, the Company raised additional cash of \$87,500 at \$0.25 per share through the issuance of 350,000 shares of common stock.

During 2006, the Company issued 22,000 shares to various consultants at \$0.25 per share for services rendered.

During 2006, the Company issued 100,000 shares valued at \$4,000 (value of the services to be provided) for services rendered and to be rendered.

On January 15, 2007, the Company issued 600,000 shares of common stock to two consultants for services to be provided over a 12 month period commencing on January 15, 2007. These services were valued at \$50,000.

On January 15, 2007, the Company issued 500,000 shares of common stock to the two founders for their services to be provided over a 12 month period commencing January 15, 2007. These services were valued at \$48,000.

On July 26, 2007, the Company settled the note payable of \$7,084 for a cash payment of \$2,375 and the issuance of 20,000 shares of common stock valued at \$4,709 for payment in full on the note.

In July 2007, the Company raised cash of \$20,000 at \$0.25 per share through the issuance of 80,000 shares of common stock.

On August 1, 2007, the Company issued 65,000 shares of common stock for services to be provided over a 12 month period commencing retroactively on June 1, 2007. These services were valued at \$5,000.

On August 1, 2007, the Company issued 100,000 shares of common stock to a consultant for services to be provided over a 12 month period commencing on August 1, 2007. These services were valued at \$8,300.

On August 1, 2007, the Company issued 25,000 shares of common stock for services. These services were valued at \$1,000.

On November 26, 2007, the Company issued 50,000 shares of common stock to a consultant for services to be provided over a 12 month period commencing on November 26, 2007. These services were valued at \$12,500.

In December 2007, the Company raised cash of \$30,000 at \$0.25 per share through the issuance of 120,000 shares of common stock.

In January 2008, the Company raised cash of \$25,000 at \$0.25 per share through the issuance of 100,000 shares of common stock.

On May 28, 2008, the Company raised cash of \$250,000 at \$0.25 per share through the issuance of 1,000,000 shares of common stock together with a warrant, classified as permanent equity, to purchase up to 1,000,000 shares of common stock, which was immediately exercisable. The warrants do not possess any embedded derivative features. The exercise price was \$0.25 per share if purchased within six months of issuance. The exercise price increased to \$0.425 for months seven through twelve (after the date of issuance) and to \$0.50 after twelve months. The warrant expired on May 27, 2010.

In May 2008, the Company raised cash of \$12,500 at \$0.25 per share through the issuance of 50,000 shares of common stock.

On August 26, 2008, the Company issued 200,000 shares of common stock to a consultant for services to be provided over a five month period commencing on August 1, 2008. These services were valued at \$20,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a five month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 60,000 shares of common stock for services to be provided over a twelve month period commencing retroactively on August 1, 2008. These services were valued at \$5,000.

On August 26, 2008, the Company issued 10,000 shares of common stock for services. These services were valued at \$2,500.

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On August 26, 2008, the Company issued 50,000 shares of common stock for services. These services were valued at \$5,000.

On December 16, 2008, the Company issued 40,400 shares of common stock for services. These services were valued at \$10,100.

On December 31, 2008, the Company issued 32,000 shares of common stock for officer compensation. These services were valued at \$8,000.

On February 25, 2009, the Company redeemed, at the request of a non-affiliate shareholder, 366,667 shares of common stock held by a single shareholder at a price of \$.25 per share, for a total amount of \$91,667, which was the price originally paid for the redeemed shares.

On June 30, 2009, the Company issued 400,000 shares of common stock for officer compensation with a fair value of \$12,000.

On June 30, 2009, the Company issued 200,000 shares of common stock for officer bonus compensation with a fair value of \$6,000.

On June 30, 2009, the Company issued 50,000 shares of common stock for consultant service bonus with a fair value of \$1,500.

On June 30, 2009, the Company issued 5,000 shares of common stock for services with a fair value of \$150.

On June 30, 2009, the Company issued 7,500 shares of common stock for services with a fair value of \$225.

On September 30, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On December 31, 2009, the Company issued 200,000 shares of common stock for officer compensation with a fair value of \$12,000.

On March 31, 2010, the Company issued 120,000 shares of common stock for officer compensation with a fair value of \$12,000.

On June 30, 2010, the Company issued 150,000 shares of common stock for officer compensation with a fair value of \$12,000.

At June 30, 2010, a total of 10,233,224 shares of common stock were issued and outstanding.

NOTE 5—INCOME TAXES

The Company applies the guidance for accounting for uncertainty in income tax provisions. As such, the Company is required to recognize in the financial statements only those tax positions determined to be more likely than not of being sustained upon examination, based on the technical merits of the positions. Interest and penalties are expensed as incurred as operating expenses. There are no uncertain tax positions at June 30, 2010 and December 31, 2009.

At June 30, 2010, the Company had federal and state net operating loss carryforward of approximately \$712,000 available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2027 if not used before such time to offset future taxable income or tax liabilities. Current and future changes in the stock ownership of the Company may place limitations on the use of these net operating loss carryforwards.

NOTE 6—NOTES PAYABLE RELATED PARTY

On July 30, 2009, Lantern Advisers, LLC, a Minnesota limited liability company owned equally by Douglas Polinsky and Joseph A. Geraci, II (each of whom is an officer and director of the Company), loaned the Company \$10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of twelve percent (12.0%) per annum, and requires that accrued interest be paid on a monthly basis until July 29, 2010, at which time the entire unpaid principal balance of the promissory note will become due. This promissory note, with an unpaid principal balance of \$10,000 together with the unpaid accrued interest of \$1,200 (accrued at 12% per annum) became due and payable on July 29, 2010. Lantern Advisers, LLC has agreed to renew the unsecured term promissory note and interest payable for a term of one year under the terms of the original promissory note which will become due on July 29, 2011.

On October 13, 2009, Lantern Advisers loaned the Company \$10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal

balance of the promissory note at the rate of twelve percent (12.0%) per annum, and requires that accrued interest be paid on a monthly basis until October 12, 2010, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

On December 14, 2009, Lantern Advisers, LLC loaned the Company \$20,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of twelve percent (12.0%) per annum, and requires that accrued interest be paid on a monthly basis until December 13, 2010, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

On January 21, 2010, Lantern Advisers, LLC loaned the Company \$10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of twelve percent (12.0%) per annum, and requires that accrued interest be paid on a monthly basis until January 20, 2011, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

On April 1, 2010, Lantern Advisers, LLC loaned the Company \$10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until March 31, 2011, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

On May 1, 2010, Lantern Advisers, LLC loaned the Company \$20,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until April 30, 2011, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

The Company has accrued interest and interest expense of \$2,199 and \$3,633 for the three and six months ended June 30, 2010, respectively, and \$4,506 for the period from January 10, 2006 (inception) to June 30, 2010 related to the notes payable with a related party.

NOTE 7—SUBSEQUENT EVENT

On July 16, 2010, the Commission approved our petition to conduct business as a licensed casino service industry supplier with Bally's Park Place.

On August 1, 2010, Lantern Advisers, LLC loaned the Company \$10,000 under terms and conditions set forth in a related unsecured term promissory note. The promissory note provides for simple interest to accrue on the unpaid principal balance of the promissory note at the rate of 12% per annum, and requires that accrued interest be paid on a monthly basis until July 31, 2011, at which time the entire unpaid principal balance of the promissory note will become due. The loan was made to provide working capital to the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, contained in our Form 10-K filed with the SEC on February 26, 2010 and related to our year ended December 31, 2009, and the period from January 10, 2006 (inception) to December 31, 2009.

Forward-Looking Statements

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual actions or future results may be materially different from the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this report. Examples of specific factors that might cause our actual results to differ from our current expectations include but are not limited to:

- Our lack of a significant prior operating history to provide our management with a basis to better evaluate certain likelihoods
 - Our need for additional financing
- The significant risk that our game may not be accepted by casinos or gaming establishments or, ultimately, by gaming consumers and enthusiasts
- Our inability to obtain required registrations, licenses and approvals with or from appropriate state gaming authorities
 - Changes in legal and regulatory regimes applicable to our business or our games
 - Our inability to effectively protect our intellectual property, or
 - Our inability, for any reason, to retain our executive management personnel.

The foregoing list is not exhaustive. In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Poker Magic, Inc. or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever.

General Overview

Poker Magic Inc. is a Minnesota corporation formed in January 2006. In this report, we refer to Poker Magic, Inc. as “we,” “us,” “Poker Magic” or the “Company.” We are a development-stage company focused on promoting and placing our Winner's Pot Poker game into casinos and entertainment facilities country-wide, including those located in Native American tribal lands. We believe that the long-term success of our operations will be determined by our ability to bring new and innovative products, game play and services to the market.

Our current gaming product is “Winner’s Pot Poker,” which is a table game form of five-card stud poker. In the Winner’s Pot Poker game, the dealer deals each player, and the dealer himself, two cards face down and three cards face up. Each player “antes” before the deal to be eligible to receive cards in the game. After each player has received his or her first three cards from the dealer, each player may either fold or place a first bet equal to the ante. The first bet may not be any more or less than the ante. After the next card is dealt, each of the remaining players has a choice between folding or placing a second bet that must be equal to twice the ante. The dealer may not fold. After the last card is dealt, the hands are compared and the winning hand (determined by using standard poker rankings) takes a predetermined percentage of the total bets and antes made in the course of the game. In addition, players are entitled to make certain optional “bonus bets.”