

FULL HOUSE RESORTS INC
Form 10QSB
August 14, 2001

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001.

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File No. 0 20630

FULL HOUSE RESORTS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

2300 W. Sahara Ave.
Suite 450, Box 23
Las Vegas, Nevada

(Address of principal executive offices)

13 3391527

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

89102

(zip code)

(702) 221 7800

(Registrant's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 11, 2001, Registrant had 10,340,380 shares of its \$.0001 par value common stock outstanding.

**FULL HOUSE RESORTS, INC.
TABLE OF CONTENTS**

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

PART I.

Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000

Unaudited Condensed Consolidated Statements of Operations for the three months ended June 30, 2001 and 2000

Unaudited Condensed Consolidated Statements of Operations for the six months ended June 30, 2001 and 2000

Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2000

Notes to Unaudited Condensed Consolidated Financial Statements

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

PART II.

Other Information

Signatures

**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

| ASSETS | JUNE 30, 2001 | DECEMBER 31, 2000 |
|-------------------------------|----------------------|----------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 484,778 | \$ 455,143 |
| Receivables | 283,212 | - |
| Prepaid expenses | 77,886 | 92,804 |
| Total current assets | 845,876 | 547,947 |
| LAND HELD FOR DEVELOPMENT | 4,621,670 | 4,621,670 |
| FIXTURES AND EQUIPMENT, net | 35,011 | 47,202 |
| INVESTMENTS IN JOINT VENTURES | 321,760 | 3,192,634 |
| GOODWILL, net | 126,579 | 379,713 |
| NOTES RECEIVABLE | 897,291 | 1,667,269 |
| GAMING CONTRACT RIGHTS, net | 5,508,994 | - |
| DEFERRED TAX ASSET | 72,924 | 294,900 |
| DEPOSITS AND OTHER ASSETS | 2,458,912 | 2,701,344 |
| TOTAL | \$ 14,889,017 | \$ 13,452,679 |

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

| | | | | |
|---------------------------|----|---------|----|---------|
| Accounts payable | \$ | 15,240 | \$ | 18,106 |
| Payable to joint ventures | | - | | 27,831 |
| Accrued expenses | | 153,038 | | 182,024 |

| | | | | |
|---------------------------|--|---------|--|---------|
| Total current liabilities | | 168,278 | | 227,961 |
|---------------------------|--|---------|--|---------|

| | | | | |
|--|--|-----------|--|-----------|
| LONG TERM DEBT, net of current portion | | 4,500,000 | | 3,150,000 |
|--|--|-----------|--|-----------|

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY:

| | | | | |
|--|--|-------------|--|-------------|
| Cumulative preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$3,990,000 and \$3,885,000 | | 70 | | 70 |
| Common stock, par value \$.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding | | 1,034 | | 1,034 |
| Additional paid in capital | | 17,429,889 | | 17,429,889 |
| Accumulated deficit | | (7,210,254) | | (7,356,275) |

| | | | | |
|----------------------------|--|------------|--|------------|
| Total stockholders' equity | | 10,220,739 | | 10,074,718 |
|----------------------------|--|------------|--|------------|

| | | | | |
|-------|----|------------|----|------------|
| TOTAL | \$ | 14,889,017 | \$ | 13,452,679 |
|-------|----|------------|----|------------|

See notes to unaudited condensed consolidated financial statements.

**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**THREE MONTHS ENDED
JUNE 30,**

2001 **2000**

OPERATING REVENUES:

| | | | | |
|-----------------|----|---------|----|---------|
| Joint ventures | \$ | 802,452 | \$ | 901,713 |
| Management fees | | 593,425 | | - |

| | | | | |
|--------------------------|--|-----------|--|---------|
| Total operating revenues | | 1,395,877 | | 901,713 |
|--------------------------|--|-----------|--|---------|

OPERATING COSTS AND EXPENSES:

| | | | | |
|---------------------------------|--|---------|--|---------|
| Joint venture pre-opening costs | | - | | 120,966 |
| Development costs | | 196,933 | | - |
| General and administrative | | 480,695 | | 492,971 |
| Depreciation and amortization | | 182,736 | | 132,797 |

| | | | | |
|------------------------------------|--|---------|--|---------|
| Total operating costs and expenses | | 860,364 | | 746,734 |
|------------------------------------|--|---------|--|---------|

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

| | | |
|--|-------------------|-------------------|
| INCOME FROM OPERATIONS | 535,513 | 154,979 |
| Interest expense | (90,974) | (83,028) |
| Interest and other income | 2,886 | 2,498 |
| | <u>447,425</u> | <u>74,449</u> |
| INCOME BEFORE INCOME TAXES | 447,425 | 74,449 |
| INCOME TAX PROVISION | (254,643) | (107,366) |
| | <u>192,782</u> | <u>(32,917)</u> |
| NET INCOME (LOSS) | 192,782 | (32,917) |
| Less, undeclared dividends on cumulative preferred stock | 52,500 | 52,500 |
| | <u>140,282</u> | <u>(85,417)</u> |
| NET INCOME (LOSS) APPLICABLE TO COMMON SHARES | \$ 140,282 | \$ (85,417) |
| | <u>0.01</u> | <u>(0.01)</u> |
| NET INCOME (LOSS) PER COMMON SHARE, Basic and Diluted | \$ 0.01 | \$ (0.01) |
| | <u>10,340,380</u> | <u>10,340,380</u> |
| Weighted average number of common shares Outstanding; Basic and Diluted | 10,340,380 | 10,340,380 |

See notes to unaudited condensed consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | SIX MONTHS ENDED | |
|--|-------------------------|-------------------|
| | JUNE 30, | |
| | 2001 | 2000 |
| | <u> </u> | <u> </u> |
| OPERATING REVENUES: | | |
| Joint ventures | \$ 1,806,765 | \$ 1,767,313 |
| Management fees | 593,425 | - |
| | <u>2,400,190</u> | <u>1,767,313</u> |
| Total operating revenues | 2,400,190 | 1,767,313 |
| OPERATING COSTS AND EXPENSES: | | |
| Joint venture pre-opening costs | 122,441 | 257,593 |
| Development costs | 446,933 | - |
| General and administrative | 878,919 | 924,987 |
| Depreciation and amortization | 315,398 | 265,615 |
| | <u>1,763,691</u> | <u>1,448,195</u> |
| Total operating costs and expenses | 1,763,691 | 1,448,195 |
| INCOME FROM OPERATIONS | 636,499 | 319,118 |
| Interest expense | (159,684) | (165,306) |
| Interest and other income | 6,181 | 5,904 |
| | <u>482,996</u> | <u>159,716</u> |
| INCOME BEFORE INCOMES TAXES | 482,996 | 159,716 |
| INCOME TAX PROVISION | (336,976) | (195,022) |
| | <u>146,020</u> | <u>(35,306)</u> |
| NET INCOME (LOSS) | 146,020 | (35,306) |
| Less, undeclared dividends on cumulative preferred stock | 105,000 | 105,000 |
| | <u>41,020</u> | <u>(140,306)</u> |
| NET INCOME (LOSS) APPLICABLE TO COMMON SHARES | \$ 41,020 | \$ (140,306) |
| | <u>0.00</u> | <u>(0.01)</u> |
| NET INCOME (LOSS) PER COMMON SHARE, Basic and Diluted | \$ 0.00 | \$ (0.01) |

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Weighted average number of common shares Outstanding, Basic and Diluted 10,340,380 10,340,380

See notes to unaudited condensed consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED JUNE 30, | |
|--|------------------------------|-------------|
| | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 146,020 | \$ (35,306) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 315,398 | 265,615 |
| Amortization of deferred compensation expense | - | 27,719 |
| Expired purchase option | 250,000 | - |
| Equity in income of joint ventures | (1,684,324) | (1,509,720) |
| Distributions from joint ventures | 1,529,462 | 1,419,154 |
| Changes in operating assets and liabilities: | | |
| Receivables | (194,395) | 34,057 |
| Prepaid expenses | 14,918 | 17,713 |
| Other assets | (7,567) | (95,857) |
| Deferred taxes | 221,976 | 113,812 |
| Accounts payable and accrued expenses | (31,853) | (61,688) |
| Net cash provided by operating activities | 559,635 | 175,499 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of 50% joint venture interest | (1,800,000) | - |
| Advances on note receivable | (80,000) | - |
| Deposits on purchase options | - | (50,000) |
| Receivables from joint ventures | - | (71,393) |
| Net cash used in investing activities | (1,880,000) | (121,393) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from line of credit | 1,800,000 | - |
| Repayment of line of credit | (450,000) | (250,000) |
| Net cash provided by (used in) financing activities | 1,350,000 | (250,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 29,635 | (195,894) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 455,143 | 438,800 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 484,778 | \$ 242,906 |

See notes to unaudited condensed consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Condensed Consolidated Financial Statements - The interim condensed consolidated financial statements of Full House Resorts, Inc. (the "Company") included herein reflect all adjustments which are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. All such adjustments are of a normal recurring nature. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10 KSB for the year ended December 31, 2000. The results of operations for the period ended June 30, 2001 are not necessarily indicative of the results to be expected for the year ending December 31, 2001.

Consolidation The unaudited condensed consolidated financial statements include the accounts of the Company and all its majority owned subsidiaries. Prior to March 31, 2001, we had four joint ventures with GTECH that were accounted for using the equity method. Three of these joint ventures are now wholly owned by the Company, and accordingly are no longer accounted for using the equity method. All material intercompany accounts and transactions have been eliminated.

Reclassifications - Certain prior year amounts have been reclassified to conform with the current year presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 prohibits the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS 142, which will be effective January 2002, requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing intangibles as goodwill, reassessment of the useful lives of existing intangibles, and ongoing assessments of potential impairment of existing goodwill.

As of June 30, 2001 the Company had goodwill, net of accumulated amortization, of \$126,579, which will be fully amortized in our third quarter. In addition, existing intangibles consist of net Gaming Contract Rights of \$5,508,994 and Hard Rock licensing and development rights of \$2,367,880 included in Deposits and Other Assets. The Company has not yet determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

3. JOINT VENTURE ACQUISITION

On March 30, 2001 we acquired GTECH's 50% interest in three joint venture projects that had been equally owned by the two companies: Gaming Entertainment, LLC, owner of an agreement continuing through August 2002, with the Coquille Tribe, which conducts gaming at The Mill Casino in Oregon; Gaming Entertainment Michigan, LLC, owner of a Management Agreement with the Nottawaseppi Huron Band of Potawatomi to develop and manage a gaming facility near Battle Creek; and Gaming Entertainment California, LLC owner of a Management Agreement with the Torres-Martinez Band of Desert Cahuilla Indians to develop and manage a gaming facility near Palm Springs.

The purchase price was \$1,800,000, and was funded through our existing credit facility. As part of this transaction, GTECH has extended the due date of our \$3,000,000 promissory note from January 25, 2001 until January 25, 2002, with interest at prime. Also as part of this transaction, GTECH is no longer required to provide the necessary financing for the two development projects (Michigan and California) that we acquired. This transaction did not include our other joint venture with GTECH, Gaming Entertainment (Delaware), LLC, owner of a management agreement continuing through 2011, to manage Midway Slots & Simulcast in Harrington, Delaware.

In addition to the gaming contract rights, we acquired the other 50% interest in a note receivable from the Michigan tribe in the amount of \$396,146. The excess purchase price over the fair value of assets acquired was allocated to the gaming contract rights acquired based on the discounted present value of expected future cash flows. The excess purchase price of \$1,403,854 was allocated as follows:

| | Value | Amortization Term |
|---------------------|--------------|----------------------|
| Michigan contract | \$ 1,141,682 | 8.0 years |
| California contract | 182,776 | 8.0 years |

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

| | | |
|-----------------|--------------|-----------|
| Oregon contract | 79,396 | 1.4 years |
| | \$ 1,403,854 | |

4. GAMING CONTRACT RIGHTS

As a result of the GTECH acquisition, the three joint ventures that had previously been accounted for using the equity method are now wholly owned consolidated entities. A substantial portion of our investment in these joint ventures was comprised of previously contributed Michigan gaming rights of \$4,155,213 that we acquired in 1995. Now that these are wholly-owned consolidated entities, these previously contributed rights are reflected in Gaming Contract Rights, along with the rights acquired in the GTECH acquisition of \$1,403,854. The Investments in Joint Ventures on the balance sheet now reflects our ownership interest in only the Delaware LLC.

5. JOINT VENTURE INVESTMENTS

Through March 30, 2001 we had four joint ventures with GTECH. The Delaware venture, which continues as a joint venture with GTECH, manages a slot operation at Harrington Raceway in Harrington. As of March 31, 2001, the other three previous joint ventures became wholly owned by us, and accordingly are no longer accounted for using the equity method. The Oregon venture developed the Mill Casino in North Bend for the Coquille Indian Tribe. The Michigan venture, which has a management agreement with a Tribe in Battle Creek, and the California venture, which has an agreement with a Tribe in Thermal are both still in the development stage. Successful development and, ultimately, sustaining profitable operations is dependent upon future events, including appropriate regulatory approvals and adequate market demand. These two ventures have not generated any revenues, and the costs incurred to date relate to pre-opening expenses such as payroll, legal, and consulting.

SUMMARY INFORMATION FOR THE THREE MONTH PERIODS ENDED JUNE 30,

| 2001 | Delaware | Oregon | Michigan | California |
|------------------------|-----------|--------|----------|------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 4,605,502 | - | - | - |
| Income from operations | 1,604,905 | - | - | - |
| Net income | 1,604,905 | - | - | - |

| 2000 | Delaware | Oregon | Michigan | California |
|-------------------------------|-----------|---------|-----------|------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 3,822,672 | 588,504 | - | - |
| Income (loss) from operations | 1,221,509 | 581,916 | (211,550) | (30,382) |
| Net income (loss) | 1,221,509 | 581,916 | (211,550) | (30,382) |

SUMMARY INFORMATION FOR THE SIX MONTH PERIODS ENDED JUNE 30,

| 2001 | Delaware | Oregon | Michigan | California |
|-------------------------------|-----------|---------|-----------|------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 8,570,331 | 570,137 | - | - |
| Income (loss) from operations | 3,048,797 | 564,734 | (197,522) | (47,360) |
| Net income (loss) | 3,048,797 | 564,734 | (197,522) | (47,360) |

| 2000 | Delaware | Oregon | Michigan | California |
|-------------------------------|-----------|-----------|-----------|------------|
| | \$ | \$ | \$ | \$ |
| Revenues | 6,965,199 | 1,144,376 | - | - |
| Income (loss) from operations | 2,396,838 | 1,137,787 | (471,148) | (44,038) |
| Net income (loss) | 2,396,838 | 1,137,787 | (471,148) | (44,038) |

6. SEGMENT INFORMATION

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Since the GTECH acquisition transaction, we now view our business in three primary business segments. The Operations segment includes the performance of the Delaware and Oregon projects. The Development segment includes costs associated with our activities in Michigan, California, and Mississippi. The Corporate segment reflects the management and administrative expenses of the business.

SUMMARY INFORMATION FOR THE THREE MONTH PERIODS ENDED JUNE 30,

2001

| | <u>Operations</u> | <u>Development</u> | <u>Corporate</u> | <u>Consolidated</u> |
|---------------------------------|-------------------|--------------------|------------------|---------------------|
| Revenues | \$ 1,395,877 | \$ - | \$ - | 1,395,877 |
| Pre-opening / Development costs | - | 196,933 | - | 196,933 |
| Income (loss) from operations | 1,339,678 | (376,960) | (427,205) | 535,513 |
| Net income (loss) | 744,238 | (271,406) | (280,050) | 192,782 |

2000

| | <u>Operations</u> | <u>Development</u> | <u>Corporate</u> | <u>Consolidated</u> |
|---------------------------------|-------------------|--------------------|------------------|---------------------|
| Revenues | \$ 901,713 | \$ - | \$ - | 901,713 |
| Pre-opening / Development costs | - | 120,966 | - | 120,966 |
| Income (loss) from operations | 859,524 | (205,344) | (499,201) | 154,979 |
| Net income (loss) | 430,434 | (135,527) | (327,824) | (32,917) |

SUMMARY INFORMATION FOR THE SIX MONTH PERIODS ENDED JUNE 30,

2001

| | <u>Operations</u> | <u>Development</u> | <u>Corporate</u> | <u>Consolidated</u> |
|---------------------------------|-------------------|--------------------|------------------|---------------------|
| Revenues | \$ 2,400,190 | \$ - | \$ - | 2,400,190 |
| Pre-opening / Development costs | - | 569,384 | - | 569,384 |
| Income (loss) from operations | 2,301,802 | (833,779) | (831,524) | 636,499 |
| Net income (loss) | 1,249,308 | (558,530) | (544,758) | 146,020 |

2000

| | <u>Operations</u> | <u>Development</u> | <u>Corporate</u> | <u>Consolidated</u> |
|---------------------------------|-------------------|--------------------|------------------|---------------------|
| Revenues | \$ 1,767,313 | \$ - | \$ - | 1,767,313 |
| Pre-opening / Development costs | - | 257,593 | - | 257,593 |
| | 1,682,935 | (426,349) | (937,468) | 319,118 |

| | | | | | |
|-------------------------------|---------|-----------|-----------|----------|--|
| Income (loss) from operations | | | | | |
| Net income (loss) | 846,571 | (264,919) | (616,958) | (35,306) | |

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

Results of Operations for the Three and Six Months Ended June 30, 2001 Compared to Three and Six Months Ended June 30, 2000

Revenues. As a result of the acquisition of GTECH's interest in three joint venture projects, our classification of revenues is not directly comparable to prior periods. The revenues related to our Delaware contract continue to be reported as joint venture revenue, but as of March 31, 2001, the revenue related to the Oregon contract is now reported as management fees.

Total operating revenues increased \$494,164, or 55% for the three month period and \$632,877 or 36% for the six month period as compared to the same periods in 2000. These increases are due to improved performance in Delaware and the acquisition of the additional 50% interest in Oregon.

Delaware Joint Venture. Our share of income from the Delaware joint venture was \$802,452, an increase of \$191,697, for the three month period, and \$1,524,398, an increase of \$325,979 for the six month period. On May 11, 2000 we opened an expansion of the Harrington facility, and these revenue increases are primarily attributable to the increased gaming capacity. As we begin the third quarter our comparisons will no longer be driven by this additional capacity.

Oregon. Our management fees from the Oregon contract were \$593,425 for the three month period compared to joint venture revenue of \$290,958, in the prior year. Oregon related revenues for the six month period were \$875,792 compared to \$568,894 in the prior year. These increases primarily reflect the increase in our ownership percentage. Additionally, continued growth in the market contributed to revenue increases at the facility that more than offset the fee percentage reduction from 12% of revenue to 11% in accordance with the management agreement.

Cost and Expenses. As a result of our acquisition of GTECH's interest in three joint venture projects, our classification of expenses is not directly comparable to prior periods. The expenses related to our California and Michigan projects, which had been reported as joint venture pre-opening costs, as of March 31, 2001 are now reported as development costs.

Pre-opening and Development. Total development related costs (Joint venture pre-opening costs and Development costs) for the California and Michigan projects were \$196,933 compared to \$120,966 for the three month period, and \$319,374 compared to \$257,593 for the six month period. The majority of these costs were due to increased activities related to the Michigan venture with the Huron Potawatomi Tribe in Battle Creek. These costs were primarily for legal and consulting fees to assist the Tribe in obtaining suitable land and complying with the requirements of the Indian Gaming Regulatory Act.

During the three month periods there were no other development costs. For the six month periods, we expensed \$250,000 in the first quarter of 2001 related to the expiration of a land purchase option in Biloxi Mississippi that we chose not to exercise or renew.

General and Administrative Expenses. General and administrative expenses decreased by \$12,276 and \$46,068 for the respective three and six month periods ended June 30, 2001. These decreases are primarily due to reduced payroll expenses.

Depreciation and Amortization. Amortization expense increased \$50,073 for both the three and six month periods which reflects the amortization of the Gaming Rights acquired in the GTECH acquisition transaction which is described in Notes 3 and 4 of the condensed consolidated financial statements. Goodwill amortization was \$126,567 and \$253,134 for the respective three and six month periods. The remaining goodwill balance of \$126,579 will be expensed in the third quarter of 2001.

Interest Expense. Interest expense increased by \$7,946 for the three month period and decreased by \$5,622 for the six month period. These changes are a result of changes in the amounts outstanding under our bank line, coupled with a decrease in interest rates.

Interest and Other Income. Interest and other income was comparable in both the three and six month periods and is primarily due to earnings on invested cash balances.

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Income Tax Provision. Income tax expense increased by \$147,277 and \$141,954 for the respective three and six month periods. These increases are primarily due to increased earnings. The effective tax rate reflects a combination of state taxes on joint venture earnings combined with the tax effect of non-deductible amortization expenses. For federal tax purposes we have net operating loss carryforwards of approximately \$1,335,000 which may be carried forward to offset future taxable income. The loss carryforwards expire in 2010 through 2019. The availability of the loss carryforwards may be limited in the event of a significant change in ownership of the Company or that of our subsidiaries.

Liquidity and Capital Resources

At June 30, 2001, we had cash and cash equivalents of \$484,778. For the six months ended June 30, 2001, cash of \$559,635 was provided by operating activities, as compared to \$175,499 in the prior year period. The increase is primarily due to increased earnings. Net cash used in investing activities was \$1,880,000, primarily for the GTECH acquisition transaction. In the prior year period, \$121,393 was used in investing activities, for options and deposits related to the Biloxi project as well as joint venture activities in Michigan. Financing activities consisted of draws and repayments on our credit line. A draw of \$1,800,000 was used to fund the GTECH acquisition transaction. As a result of these factors, there was a net increase in cash and cash equivalents of \$29,635 during the first six months of 2001.

On March 30, 2001, we acquired GTECH's 50% interest in three joint venture projects that had been equally owned by the two companies: Gaming Entertainment, LLC, owner of an agreement continuing through August 2002, with the Coquille Tribe, which conducts gaming at The Mill Casino in Oregon; Gaming Entertainment Michigan, LLC, owner of a Management Agreement with the Nottawaseppi Huron Band of Potawatomi to develop and manage a gaming facility near Battle Creek; and Gaming Entertainment California, LLC owner of a Management Agreement with the Torres-Martinez Band of Desert Cahuilla Indians to develop and manage a gaming facility near Palm Springs.

The purchase price was \$1,800,000, and was funded through our existing credit facility. As part of this transaction, GTECH has extended the due date of our \$3,000,000 promissory note from January 25, 2001 until January 25, 2002, with interest at prime. Also as part of this transaction, GTECH is no longer required to provide the necessary financing for the two development projects (Michigan and California) that we acquired. Since we do not have the financial resources to fund these projects alone, we are actively pursuing alternative means of financing these developments.

This transaction did not include our other joint venture with GTECH, Gaming Entertainment (Delaware), LLC, owner of a management agreement continuing through 2011, to manage Midway Slots & Simulcast in Harrington, Delaware. As a result of this continuing agreement with GTECH, our receipt of revenues from the operations of our Delaware joint venture project is governed by the terms of the related agreement. It provides that net cash flow (after certain deductions) is to be distributed monthly to Full House and GTECH. While we do not believe that this arrangement will adversely impact our liquidity, our continuing cash flow is dependent on the operating performance of this joint venture, and the ability to receive monthly distributions.

Our long-term debt represents the \$3,000,000 balance on the GTECH promissory note and \$1,500,000 due under the bank line of credit, which was used to fund the GTECH acquisition. We expect to repay these amounts with a combination of cash from operations and leveraging our ownership of the gaming contracts acquired.

We have a \$2 million line of credit with Coast Community bank in Mississippi. The line bears interest at prime plus ½%, with interest payable monthly. Any outstanding principal is due at maturity in February 2002. At June 30, 2001, there was \$1,500,000 outstanding at a rate of 8%.

As part of the Michigan and California management agreements with the tribes, we have advanced funds for tribal operations and the construction of a tribal community center. The Notes Receivable is attributable to this funding, and the repayment obligation is dependent on the future profitable operation of the tribes' gaming enterprise.

In November 1998, we executed a series of agreements with Hard Rock Cafe International related to the proposed development project in Biloxi, Mississippi. Pursuant to a licensing agreement, the Company has the right to develop and operate a Hard Rock Casino in Biloxi. We have paid a territory fee of \$2,000,000. In September 1998, the Company and Allen E. Paulson formed a limited liability company, equally owned, for the purpose of developing this project. Mr. Paulson agreed to contribute a gaming vessel (the former Treasure Bay barge in Tunica, MS.), and we agreed to contribute our rights to the Hard Rock agreements. In June 2001, we agreed to dissolve this company with each party retaining their respective rights and assets. We continue to pursue the development of a Hard Rock in Biloxi.

As of June 30, 2001, Full House had cumulative undeclared and unpaid dividends in the amount of \$1,890,000 on the 700,000 outstanding shares of its 1992 1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears.

This report contains certain forward looking statements made pursuant to the Private Securities Litigation Reform Act of 1995, such as statements relating to our development plans and expectations, and financing availability. These statements are subject to risks and uncertainties

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

discussed in this report and in our other filings with the Securities and Exchange Commission, which could cause actual results or timing to differ materially from that implied by such statements.

Quantitative Disclosure About Market Risk. Market risk is the risk of loss from changes in market rates or prices, such as interest rates and commodity prices. We are exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on our variable rate debt. We have not invested in derivative based financial instruments.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the Allen E. Paulson et al. vs. Jefferies & Company, Inc., et al. litigation filed in U.S. District Court for the Central District of California, Case No. 98-2644 FMC, which included a Third Party Complaint against the Company, we reached a de minimis settlement in July with both Jefferies and Paulson releasing us from this litigation.

Item 3. Defaults upon Senior Securities

As of June 30, 2001, cumulative dividends were \$1,890,000, which were undeclared, unpaid and were in arrears, with respect to our Series 1992 1 Preferred Stock, which class ranks prior to our Common Stock with regard to dividend and liquidation rights.

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

We held our Annual Meeting of Stockholders on May 30, 2001. A total of 9,473,152 shares (86%) were represented by proxy or in person, and cast their votes on the following matters:

| Election of Directors: | FOR | AGAINST |
|------------------------|-----------|---------|
| Lee A. Iacocca | 9,467,167 | 5,985 |
| William P. McComas | 9,467,167 | 5,985 |
| Ronald K. Richey | 9,467,167 | 5,985 |
| Michael P. Shaunnessy | 9,467,167 | 5,985 |

Ratification of Deloitte & Touche LLP to serve as independent accountants for the current year:

FOR: 9,465,167 **AGAINST:** 4,385 **ABSTAIN:** 3,600

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits - None
- (b) Reports on Form 8 K;

The Company filed current reports dated April 14, 2001 and June 22, 2001 related to the acquisition of GTECH Corporation's interest in three joint ventures that had been equally owned by the parties.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FULL HOUSE RESORTS, INC.

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Date: August 14, 2001

By /s/ MICHAEL P. SHAUNNESSY

Michael P. Shaunnessy, Executive V.P. Finance
(Principal Accounting and Financial Officer)