

FULL HOUSE RESORTS INC  
Form 10QSB  
May 15, 2002

## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10 QSB

ý **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31,  
2002.**

OR

o **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)

**13-3391527**

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

**4670 S. Fort Apache Road  
Suite 190**

**Las Vegas, Nevada**  
(Address of principal executive offices)

**89147**

(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 May 10, 2002, Registrant had 10,340,380 shares of its \$.0001 par value common stock outstanding.

---

**FULL HOUSE RESORTS, INC**

**TABLE OF CONTENTS**

**PART I. Financial Information**

**Item 1. Condensed Consolidated Financial Statements**

Unaudited Condensed Consolidated Balance Sheets as of March 31, 2002 and December 31, 2001

Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2002 and 2001

Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2002 and 2001

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**

	<b>MARCH 31, 2002</b>	<b>DECEMBER 31, 2001</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 465,065	\$ 867,419
Receivables	291,276	209,992
Prepaid expenses	57,265	93,878
Total current assets	813,606	1,171,289
LAND HELD FOR DEVELOPMENT	2,472,000	2,472,000
FIXTURES AND EQUIPMENT – net	34,043	23,374
INVESTMENTS IN JOINT VENTURES	160,179	
RECEIVABLES	1,077,291	1,017,291
GAMING CONTRACT RIGHTS – net	5,334,839	5,390,239
DEFERRED TAX ASSET	1,342,990	1,375,949
DEPOSITS AND OTHER ASSETS	17,713	14,782
TOTAL	\$ 11,252,661	\$ 11,464,924

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 25,346	\$ 21,468
Payable to joint ventures		48,033
Current portion of long-term debt	2,381,260	3,000,000
Accrued expenses	207,859	171,316
Total current liabilities	2,614,465	3,240,817
LONG TERM DEBT, net of current portion	600,000	600,000

**COMMITMENTS AND CONTINGENCIES****STOCKHOLDERS EQUITY:**

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Cumulative, preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$4,147,500 and \$4,095,000	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	(9,392,797)	(9,806,886)
Total stockholders' equity	8,038,196	7,624,107
TOTAL	\$ 11,252,661	\$ 11,464,924

See notes to unaudited condensed consolidated financial statements.

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

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2002</b>	<b>2001</b>
<b>OPERATING REVENUES:</b>		
Joint venture revenue	\$ 883,957	\$ 1,004,313
Management fees	544,035	
Total operating revenues	1,427,992	1,004,313
<b>OPERATING COSTS AND EXPENSES:</b>		
Joint venture pre-opening costs		122,441
Development costs	215,561	250,000
General and administrative	408,503	398,224
Depreciation and amortization	60,457	132,662
Total operating costs and expenses	684,521	903,327
<b>INCOME FROM OPERATIONS</b>	<b>743,471</b>	<b>100,986</b>
Interest expense	(51,625)	(68,710)
Interest and other income	3,084	3,295
<b>INCOME BEFORE INCOME TAXES</b>	<b>694,930</b>	<b>35,571</b>
<b>INCOME TAX PROVISION</b>	<b>(280,841)</b>	<b>(82,333)</b>
<b>NET INCOME (LOSS)</b>	<b>414,089</b>	<b>(46,762)</b>
Less, undeclared dividends on cumulative preferred stock	52,500	52,500
<b>NET INCOME (LOSS) APPLICABLE TO COMMON SHARES</b>	<b>\$ 361,589</b>	<b>\$ (99,262)</b>
<b>NET INCOME (LOSS) PER COMMON SHARE, Basic and Diluted</b>	<b>\$ 0.03</b>	<b>\$ (0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, Basic and Diluted</b>	<b>10,340,380</b>	<b>10,340,380</b>

See notes to unaudited condensed consolidated financial statements.



## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 414,089	\$ (46,762)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	60,457	132,662
Expired purchase option		250,000
Equity in earnings of joint ventures	(883,957)	(881,872)
Distributions from joint ventures	675,746	851,084
Net advances to joint ventures		(452,394)
Changes in operating assets and liabilities:		
Receivables	(81,284)	
Prepaid expenses	36,613	(20,936)
Deposits and other assets	(2,931)	(7,567)
Deferred taxes	32,959	37,333
Accounts payable and accrued expenses	40,420	(100,858)
Net cash provided (used) by operating activities	292,112	(239,310)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of 50% joint venture interests		(1,800,000)
Advances on receivable	(60,000)	
Purchase of fixtures and equipment	(15,725)	
Net cash used in investing activities	(75,725)	(1,800,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from RAM note	2,381,260	
Repayment of GTECH note	(3,000,000)	
Proceeds from line of credit		1,800,000
Repayment of line of credit		(150,000)
Net cash provided (used) by financing activities	(618,740)	1,650,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(402,354)	(389,310)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	867,419	455,143
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 465,065	\$ 65,833

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 Financial Statements** – The interim condensed consolidated financial statements of Full House Resorts, Inc. (the Company or Full House ) 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, 2001. The results of operations for the period ended March 31, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

**Consolidation** – The unaudited condensed consolidated financial statements include the accounts of the Company and all its majority owned subsidiaries. Prior to March 31, 2001, Full House had four joint ventures with GTECH that were accounted for using the equity method. On March 31, 2001 we purchased GTECH's 50% interest in three of these joint ventures which are now wholly-owned by Full House, and accordingly are no longer accounted for using the equity method. All material intercompany accounts and transactions have been eliminated.

**Reclassifications** – Certain prior period amounts have been reclassified to conform with the current period presentation.

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( 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 was effective for Full House in 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.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

## Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

As of December 31, 2001, our goodwill, net of accumulated amortization, and the carrying value of the Hard Rock licensing and development rights were reduced to zero. Other existing intangibles consist of net Gaming Contract Rights of \$5,334,839.

The Company adopted SFAS 142 and SFAS 144 as of January 1, 2002, and the adoption did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections. The most significant provisions relate to the rescission of SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt. SFAS

145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Generally, SFAS 145 is effective for fiscal years beginning after May 15, 2002, with early application encouraged. The Company has not yet determined the impact of SFAS 145 on its financial position and 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 a development agreement continuing through August 2002, with the Coquille Indian Tribe ( Oregon 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 ( Michigan Tribe ) 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 ( California Tribe ) 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 extended the due date of our \$3,000,000 promissory note from January 25, 2001 until January 25, 2002, with interest at prime. The note was paid in February 2002. 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
Oregon Contract	79,396	1.4 years
	\$ 1,403,854	

As part of the Michigan and California management agreements with the tribes, the Company has advanced funds for tribal operations and the construction of a tribal community center. The Company has recorded receivables of \$1,052,291 from Michigan and \$25,000 from California, attributable to this funding. The repayment obligations are dependent on the future profitable operation of the tribes' gaming enterprises.

## Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

The following summary pro forma results of operations assume that the acquisition occurred as of the beginning of the respective periods ended March 31:

	<b>2001</b>	
Operating revenues	\$	1,286,680
Income before income taxes		154,997
Net income		32,060
Net loss applicable to common shares		(20,440)
Net loss per common share		(0.00)

#### 4. GAMING CONTRACT RIGHTS

As a result of the acquisition from GTECH, 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 Michigan gaming rights of \$4,155,213 that we acquired in 1995 and contributed to the joint venture. Now that these are wholly-owned consolidated entities, these rights are reflected in Gaming Contract Rights, along with the rights acquired in the GTECH acquisition of \$1,403,854.

Contributed Michigan gaming rights	\$	4,155,213
Acquired gaming rights		1,403,854
Less accumulated amortization		(224,228)
Gaming Contract Rights, net (as of March 31, 2002)	\$	5,334,839

The Michigan and California ventures are in the development stage. Successfully developing, and ultimately, sustaining profitable operations is dependent on 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.

#### 5. JOINT VENTURE INVESTMENTS

Through March 30, 2001 the Company had four joint ventures with GTECH. The Investments in Joint Ventures on the balance sheet now reflects our ownership interest in only the Delaware LLC.

SUMMARY INFORMATION FOR THE THREE MONTH PERIODS ENDED MARCH 31,

2002	Delaware	Oregon	Michigan	California
------	----------	--------	----------	------------

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Revenues	\$	4,768,676	\$	\$
Income (loss) from operations		1,767,913		
Net income		1,767,913		

2001		Delaware		Oregon		Michigan		California
Revenues	\$	3,964,829	\$	570,137	\$		\$	
Income (loss) from operations		1,443,892		564,734		(197,522)		(47,360)
Net income		1,443,892		564,734		(197,522)		(47,360)

**6. LONG – TERM DEBT**

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC ( RAM ), a privately held investment company, whereby RAM will acquire a 50% interest in the California and Michigan projects upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. In addition, RAM is to provide the necessary funding for their development. RAM advanced \$2,381,260 to Full House in the form of a loan which bears interest adjustable daily at prime and requires interest payments monthly. If the required federal approvals are not received prior to February 15, 2003, and RAM does not waive the approval requirement, then the principal amount becomes due and RAM shall forfeit its right to any interest in the projects.

The proceeds of this loan, together with cash on hand, was used to repay the \$3,000,000 GTECH note.

**7. SEGMENT INFORMATION**

Since the joint venture acquisition from GTECH, 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. The prior year amounts have been reclassified to conform with the current year presentation.

## SUMMARY INFORMATION FOR THE THREE MONTHS ENDED MARCH 31,

**2002**

	<b>Operations</b>	<b>Development</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	\$ 1,427,992	\$	\$	\$ 1,427,992
Development costs		215,561		215,561
Income (loss) from operations	1,413,981	(256,951)	(413,559)	743,471
Net income (loss)	868,663	(183,660)	(270,914)	414,089

**2001**

	<b>Operations</b>	<b>Development</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	\$ 1,004,313	\$	\$	\$ 1,004,313
Development costs		372,441		372,441
Income (loss) from operations	962,124	(456,819)	(404,319)	100,986

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

Net income (loss)	505,070	(287,124)	(264,708)	(46,762)
-------------------	---------	-----------	-----------	----------



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

**Results of Operations**

**First Quarter Ended March 31, 2002 Compared to First Quarter Ended March 31, 2001**

**Revenues.** As a result of the acquisition of GTECH's interest in three joint venture projects (Oregon, Michigan and California), 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 reported as management fees.

Total operating revenues increased \$423,679, or 42% from the prior year period. This increase is due to improved performance in Delaware and the acquisition of the additional 50% interest in the Oregon joint venture.

**Delaware Joint Venture.** Our share of income from the Delaware joint venture was \$883,957 for the first quarter ended March 31, 2002, compared to \$721,946 in the prior year. This \$162,011 increase is primarily the result of continued market improvement coupled with an increase in gaming devices. Midway Slots now operates approximately 1,270 machines, compared to 1,150 last year.

**Oregon.** Our management fees from the Oregon contract were \$544,035 compared to joint venture revenue of \$282,367 in the prior year period. This increase primarily reflects the increase in our ownership percentage. A slight increase in gaming revenues at the property was more than offset by the reduction in the management fee structure from 11% of revenue to 10%, in accordance with the management agreement. This agreement will expire in August 2002, and no further fees will be paid.

**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 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 \$215,561 during the first quarter of 2002, compared to \$122,441 for the prior year. 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, as well as land option payments

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.** Expenses for the three months ended March 31, 2002 increased \$10,279 as compared to the comparable period in 2001. This increase is primarily due to increased payroll expenses resulting from staffing changes to accommodate the increased ownership of our development projects.

**Depreciation and Amortization.** The \$60,457 expense is comprised of depreciation of fixtures and equipment in the amount of \$5,056 and amortization of the Gaming Rights acquired in the GTECH acquisition in the amount of \$55,401. The prior year amount included \$6,095 of depreciation and \$126,567 of goodwill amortization. This goodwill was fully amortized as of September 30, 2001.

**Interest Expense.** Interest expense decreased by \$17,085 primarily as a result of lower interest rates.

**Interest and Other Income.** Interest and other income was comparable to the prior year period and results primarily from interest on invested cash balances.

**Income Tax Provision.** Income tax expense was \$280,841. The effective tax rate reflects state taxes on joint venture earnings combined with the tax effect of non-deductible amortization expenses. As a result of increased earnings and the elimination of goodwill, the effective tax rate for the current quarter was approximately 40%.

### **Liquidity and Capital Resources**

At March 31, 2002, we had cash and cash equivalents of \$465,065. For the three months ended March 31, 2002, cash of \$292,112 was provided by operating activities, as compared to \$239,310 used by operations in the prior year period. This change is primarily due to advances and distributions from the joint ventures, coupled with the change in our ownership percentage in the Oregon LLC. Net cash used in investing activities was \$75,725, primarily for advances to the Michigan tribe, compared to using \$1,800,000 for the GTECH acquisition transaction in the prior year. Financing activities used \$618,740 during the current quarter reflecting the \$3,000,000 repayment of the GTECH note and the receipt of a \$2,381,260 advance under the RAM note. In the prior period, a \$1,800,000 bank line draw was used to close the GTECH acquisition. There was a net decrease in cash and cash equivalents of \$402,354 during the first quarter of 2002.

In 1998, we obtained a \$2,000,000 line of credit with Coast Community Bank of Mississippi with an initial maturity date of February 25, 1999. We have renewed this line on an annual basis, and in February 2002, the renewal also reduced the availability to \$1,000,000. The line bears interest adjustable daily at one-half percent above prime (5.25% at March 31, 2002) and requires interest payments monthly on the outstanding balance with all principal and accrued interest due at maturity on February 25, 2003. At March 31, 2002, \$600,000 was outstanding on the bank line.

Full House was a party to a series of agreements with GTECH Corporation, a leading supplier of computerized systems and services for government-authorized lotteries, to jointly pursue certain gaming opportunities. Pursuant to the agreements, joint venture companies equally owned by GTECH and Full House were formed. Full House contributed its rights to the North Bend, Oregon facility and the rights to develop the Torres Martinez, Nottawaseppi Huron Band of Potawatomi and Delaware State Fair projects to the joint venture companies. GTECH contributed cash and other intangible assets and agreed to loan the joint venture entities up to \$16.4 million to complete the North Bend, Oregon and Delaware facilities. Full House agreed to guarantee one-half of the obligations of the joint venture companies to GTECH under these loans, all of which have been repaid. GTECH also provided project management, technology and other expertise to analyze and develop/manage the implementation of opportunities developed by the joint venture entities. GTECH also loaned Full House \$3.0 million, which loan was convertible into 600,000 shares of Full House Common Stock. The loan conversion clause expired without exercise. In addition, Full House has been reimbursed by one of the joint venture companies for certain advances and expenditures made by Full House relating to the gaming development agreements. As part of this transaction, Allen E. Paulson, William P. McComas and Lee Iacocca granted to GTECH an option, which expired December 29, 2000, to purchase their shares should they propose to transfer them. The parties are no longer required to present gaming opportunities to the other for joint development.



## Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

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, Gaming Entertainment (Michigan), LLC, and Gaming Entertainment (California), LLC. The purchase price was \$1.8 million, and was funded through Full House's existing credit facility. As part of this transaction, GTECH extended the due date of our \$3.0 million promissory note until January 25, 2002, with interest at prime. This note was paid in February 2002.

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC (RAM), a privately held investment company, whereby RAM will acquire a 50% interest in the California and Michigan projects upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. In addition, RAM is to provide the necessary funding for their development. RAM advanced \$2,381,260 to Full House in the form of a loan which bears interest adjustable daily at prime and requires interest payments monthly (4.75% at March 31, 2002.). If the required federal approvals are not received prior to February 15, 2003, and RAM does not waive the approval requirement, then the principal amount becomes due and RAM shall forfeit its right to any interest in the projects.

As a result of our agreement with GTECH, receipt by Full House of revenues from the Delaware venture is governed by the terms of the joint venture agreement. The contract provides that net cash flow (after certain deductions) is to be distributed monthly to Full House and GTECH. While Full House does not believe that this arrangement will adversely impact its liquidity, our continuing cash flow is dependent on the operating performance of this joint venture, and the ability to receive monthly distributions.

As a result of the agreement with RAM, development funding cash needs for the Michigan project will be primarily provided by RAM. Therefore, our future cash needs will primarily be to fund general and administrative expenses. The Oregon contract will expire in August of 2002, leaving the Delaware joint venture as our sole source of operating cash thereafter. We believe that adequate financial resources will be available to execute our current business plans.

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 Receivable is attributable to this funding, and the repayment obligation is dependent on the future profitable operation of the tribes' gaming enterprises. In August 2001, we received a notice from the Torres-Martinez Tribe in California purporting to sever our relationship. We are in the process of discussing an appropriate resolution of this matter that includes reimbursement for costs that we incurred on their behalf. The Receivable on the balance sheet includes a \$25,000 advance due from Torres-Martinez Tribe, and Gaming Contract Rights includes approximately \$170,000 attributable to this contact. We have incurred an aggregate of approximately \$1 million, including interest, on behalf of Torres-Martinez Tribe. We believe that the balance sheet amounts are recoverable based upon the expressed intentions of Torres-Martinez Tribe, as well as the contractual rights that we continue to hold.

In November 1998, we executed a series of agreements with Hard Rock related to the proposed development project in Biloxi, Mississippi. Pursuant to a licensing agreement, Full House has the right to develop and operate a Hard Rock Casino in Biloxi. We paid a territory fee of \$2,000,000. In September 1998, Full House 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.

In September 2001, our discussions with potential partners concluded with no agreements. Based upon the timing requirements in our agreements with Hard Rock, and the current conditions in the tourism industry we do not reasonably expect to be able to develop this project as planned. As a result of these circumstances, we have reviewed the carrying values of our Mississippi investments and recorded an Impairment provision of \$4,593,800.

### Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2002:

	Total	Payments Due by Period			
		2002	2003	2004	Thereafter
Long term debt	\$ 2,981,260	\$ 2,981,260	\$	\$	\$
Operating leases	175,890	26,383	35,178	35,178	79,151
Total	\$ 3,157,150	\$ 3,007,643	\$ 35,178	\$ 35,178	\$ 79,151

As of March 31, 2002, we had cumulative undeclared and unpaid dividends in the amount of \$2,047,500 on the 700,000 outstanding shares of our 1992 1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears.

**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.

**Recent Accounting Pronouncements.** In July 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( 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 was effective for Full House in 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.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

As of December 31, 2001, our goodwill, net of accumulated amortization, and the carrying value of the Hard Rock licensing and development rights were reduced to zero. Other existing intangibles consist of net Gaming Contract Rights of \$5,334,839.

## Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

The Company adopted SFAS 142 and SFAS 144 as of January 1, 2002, and the adoption did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145 Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections. The most significant provisions relate to the rescission of SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Generally, SFAS 145 is effective for fiscal years beginning after May 15, 2002, with early application encouraged. The Company has not yet determined the impact of SFAS 145 on its financial position and results of operations.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Securities Exchange Commission staff has decided not to recommend to the Commission that any charges be filed against Gregg Giuffria, a former president of Full House, in connection with their investigation of his ownership and trading in the stock of the Company. It is our understanding that the investigation has been concluded without the filing of any charges and without any settlement of charges.

**Item 3. Defaults upon Senior Securities**

As of March 31, 2002, cumulative dividends were \$2,047,500, which were undeclared, unpaid and were in arrears, with respect to the Company's Series 1992-1 Preferred Stock, which class ranks prior to the Company's Common Stock with regard to dividend and liquidation rights.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits.

10.56 Investor Agreement by and between Full House Resorts, Inc. and RAM Entertainment, LLC, dated February 15, 2002.

(b) Reports on Form 8-K;

None

**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: May 11, 2002

By: */s/* MICHAEL P. SHAUNNESSY  
Michael P. Shaunnessy, Executive V. P.  
and Chief Financial Officer