

FULL HOUSE RESORTS INC  
Form 10QSB  
November 12, 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 SEPTEMBER 30, 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)

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

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

**13-3391527**

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

**89147**

(zip code)

**(702) 221-7800**

(Registrant's telephone number)

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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 November 11, 2002, Registrant had 10,340,380 shares of its \$.0001 par value common stock outstanding.

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**FULL HOUSE RESORTS, INC**

**TABLE OF CONTENTS**

PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Unaudited Condensed Consolidated Balance Sheets  
as of September 30, 2002 and December 31, 2001

Unaudited Condensed Consolidated Statements of Operations  
for the three months ended September 30, 2002 and 2001

Unaudited Condensed Consolidated Statements of Operations  
for the nine months ended September 30, 2002 and 2001

Unaudited Condensed Consolidated Statements of Cash Flows  
for the nine months ended September 30, 2002 and 2001

Notes to Unaudited Condensed Consolidated Financial Statements

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

Item 3. Quantitative Disclosure About Market Risk

Item 4. Controls and Procedures

PART II. Item 1. Legal Proceedings

Item 3. Defaults Upon Senior Securities

Item 6. Exhibits and Reports on Form 8-K

Signatures

Certifications

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

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 918,306	\$ 867,419
Receivables	98,135	209,992
Prepaid expenses	145,791	93,878
Total current assets	1,162,232	1,171,289
LAND HELD FOR DEVELOPMENT	2,472,000	2,472,000
FIXTURES AND EQUIPMENT - net	26,987	23,374
INVESTMENTS IN JOINT VENTURES	335,091	
RECEIVABLES	1,197,291	1,017,291
GAMING CONTRACT RIGHTS - net	5,231,335	5,390,239
DEFERRED TAX ASSET	1,089,829	1,375,949
DEPOSITS AND OTHER ASSETS	12,403	14,782
TOTAL	\$ 11,527,168	\$ 11,464,924
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 34,155	\$ 21,468
Payable to joint ventures		48,033
Current portion of long-term debt	2,381,260	3,000,000
Accrued expenses	412,185	171,316
Total current liabilities	2,827,600	3,240,817
LONG TERM DEBT, net of current portion		600,000
<b>COMMITMENTS AND CONTINGENCIES</b>		
STOCKHOLDERS EQUITY:		
Cumulative, preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$4,252,500 and \$4,095,000	70	70
	1,034	1,034

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Common stock, par value \$.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding				
Additional paid in capital		17,429,889		17,429,889
Accumulated deficit		(8,731,425)		(9,806,886)
Total stockholders' equity		8,699,568		7,624,107
TOTAL	\$	11,527,168	\$	11,464,924

See notes to unaudited condensed consolidated financial statements.

## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
<b>OPERATING REVENUES:</b>		
Joint venture revenue	\$ 887,071	\$ 911,025
Management fees	384,639	628,071
Total operating revenues	1,271,710	1,539,096
<b>OPERATING COSTS AND EXPENSES:</b>		
Development costs	291,086	408,586
General and administrative	392,214	388,908
Impairment		4,593,800
Depreciation and amortization	51,668	187,971
Total operating costs and expenses	734,968	5,579,265
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>536,742</b>	<b>(4,040,169)</b>
Interest expense	(28,999)	(75,216)
Interest and other income	450	2,235
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>508,193</b>	<b>(4,113,150)</b>
<b>INCOME TAX (PROVISION) BENEFIT</b>	<b>(210,763)</b>	<b>1,349,589</b>
<b>NET INCOME (LOSS)</b>	<b>297,430</b>	<b>(2,763,561)</b>
Less, undeclared dividends on cumulative preferred stock	52,500	52,500
<b>NET INCOME (LOSS) APPLICABLE TO COMMON SHARES</b>	<b>\$ 244,930</b>	<b>\$ (2,816,061)</b>
<b>NET INCOME (LOSS) PER COMMON SHARE, Basic and Diluted</b>	<b>\$ 0.02</b>	<b>\$ (0.27)</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 OPERATIONS

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
<b>OPERATING REVENUES:</b>		
Joint venture revenue	\$ 2,607,626	\$ 2,717,790
Management fees	1,529,558	1,221,496
Total operating revenues	4,137,184	3,939,286
<b>OPERATING COSTS AND EXPENSES:</b>		
Joint venture pre-opening costs		122,441
Development costs	684,131	855,519
General and administrative	1,337,096	1,267,827
Impairment		4,593,800
Depreciation and amortization	171,787	503,369
Total operating costs and expenses	2,193,014	7,342,956
<b>INCOME (LOSS) FROM OPERATIONS</b>	1,944,170	(3,406,670)
Interest expense	(119,106)	(234,900)
Interest and other income	3,884	8,416
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	1,828,948	(3,630,154)
<b>INCOME TAX (PROVISION) BENEFIT</b>	(753,487)	1,012,613
<b>NET INCOME (LOSS)</b>	1,075,461	(2,617,541)
Less, undeclared dividends on cumulative preferred stock	157,500	157,500
<b>NET INCOME (LOSS) APPLICABLE TO COMMON SHARES</b>	\$ 917,961	\$ (2,775,041)
<b>NET INCOME (LOSS) PER COMMON SHARE, Basic and Diluted</b>	\$ 0.09	\$ (0.27)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, Basic and Diluted</b>	10,340,380	10,340,380

See notes to unaudited condensed consolidated financial statements.

## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## UNACONDENSED UDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 1,075,461	\$ (2,617,541)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	171,787	503,369
Impairment		4,593,800
Expired purchase option		250,000
Equity in earnings of joint ventures	(2,607,626)	(2,595,349)
Distributions from joint ventures	2,224,503	2,498,924
Changes in operating assets and liabilities:		
Receivables	111,857	(315,693)
Prepaid expenses	(51,913)	(56,961)
Deposits and other assets	2,379	(7,567)
Deferred taxes	286,120	(1,197,025)
Accounts payable and accrued expenses	253,555	(42,017)
Net cash provided by operating activities	1,466,123	1,013,940
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of 50% joint venture interests		(1,800,000)
Advances on receivable	(180,000)	(140,000)
Purchase of fixtures and equipment	(16,496)	
Net cash used in investing activities	(196,496)	(1,940,000)
<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	(600,000)	(1,050,000)
Net cash (used in) provided by financing activities	(1,218,740)	750,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	50,887	(176,060)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	867,419	455,143
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 918,306	\$ 279,083

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 periods ended September 30, 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 subsidiaries of Full House, and accordingly are consolidated in the accompanying financial statements. All material intercompany accounts and transactions have been eliminated.

**2. IMPAIRMENT**

In September 2001, the Company, in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, recorded an impairment charge of \$4,593,800.

During the third quarter of 2001, our discussions with various potential partners for the development of a Hard Rock - Biloxi project concluded with no agreement. Based upon the timing requirements in our agreements with Hard Rock, and the conditions in the tourism industry we did not reasonably expect to be able to develop this project as planned. As a result of these circumstances, we reviewed the carrying values of our Mississippi investments which included a one acre parcel of land acquired for \$4,621,670, the Hard Rock license acquired for \$2,000,000, and development permits and plans carried at \$444,130. We recorded an impairment provision of \$4,593,800, to reduce the carrying value to \$2,472,000, which represents the net realizable value of our land parcel.

**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 that ended in 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	

The following summary pro forma results of operations assume that the acquisition occurred as of January 1, 2001:

	Nine Months Ended September 30, 2001
Operating revenues	\$ 4,221,653
Income (loss) before taxes	(3,510,728)
Net income (loss)	(2,538,719)
Net income (loss) applicable to common shares	(2,696,219)
Net income (loss) per common share	(0.26)

#### 4. RECEIVABLES

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 \$1,172,291 from Michigan and \$25,000 from California, attributable to this funding. Our Michigan agreements provide for a monthly \$20,000 payment to fund tribal operations. The repayment obligations are dependent on the future profitable operation of the tribes gaming enterprises.

**5. 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		(327,732)
Gaming Contract Rights, net (as of September 30, 2002)	\$	5,231,335

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. The Company adopted SFAS 142, Goodwill and Other Intangible Assets as of January 1, 2002, and the adoption did not have a material impact on the Company's consolidated financial statements. In accordance with SFAS 142, the Company amortizes acquired gaming rights over the life of the contract.

## 6. JOINT VENTURE INVESTMENTS

Through March 30, 2001, the Company had four joint ventures with GTECH. The Investments in Joint Ventures on the balance sheet as of September 30, 2002 and December 31, 2001, reflects our ownership interest in only the Delaware LLC. Furthermore, the joint venture revenue, and joint venture pre-opening costs, in the accompanying statements of operations includes only the revenues and costs from the California, Michigan, and Oregon joint ventures through March 31, 2001, the date they became wholly-owned subsidiaries.

### SUMMARY INFORMATION FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30,

	Delaware	Oregon	Michigan	California
<b>2002</b>				
Revenues	\$ 5,196,176	\$	\$	\$
Income from operations	1,774,142			
Net income	1,774,142			
<b>2001</b>				
Revenues	\$ 4,855,060	\$	\$	\$
Income from operations	1,822,049			
Net income	1,822,049			

### SUMMARY INFORMATION FOR THE NINE MONTHS ENDED SEPTEMBER 30,

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	Delaware	Oregon	Michigan	California
<b>2002</b>				
Revenues	\$ 14,967,989	\$	\$	\$
Income from operations	5,215,251			
Net income	5,215,251			
<b>2001</b>				
Revenues	\$ 13,425,391	\$ 570,137	\$	\$
Income (loss) from operations	4,870,846	564,734	(197,522)	(47,360)
Net income (loss)	4,870,846	564,734	(197,522)	(47,360)

## 7. 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.

## 8. 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.

### SUMMARY INFORMATION FOR THE THREE MONTHS ENDED SEPTEMBER 30,

	Operations	Development	Corporate	Consolidated
<b>2002</b>				
Revenues	\$ 1,271,710	\$	\$	\$ 1,271,710
Development costs		291,086		291,086
Income (loss) from operations	1,264,998	(332,476)	(395,780)	536,742
Net income (loss)	820,854	(262,506)	(260,918)	297,430
<b>2001</b>				
Revenues	\$ 1,539,096	\$	\$	\$ 1,539,096
Development costs and impairment		5,002,386		5,002,386
Income (loss) from operations	1,482,897	(5,128,167)	(394,899)	(4,040,169)
Net income (loss)	916,565	(3,418,861)	(261,265)	(2,763,561)





## SUMMARY INFORMATION FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30,

	Operations	Development	Corporate	Consolidated
<b>2002</b>				
Revenues	\$ 4,137,184	\$	\$	\$ 4,137,184
Development costs		684,131		684,131
Income (loss) from operations	4,102,450	(933,301)	(1,224,979)	1,944,170
Net income (loss)	2,568,579	(687,195)	(805,923)	1,075,461
<b>2001</b>				
Revenues	\$ 3,939,286	\$	\$	\$ 3,939,286
Development costs and impairment		5,571,760		5,571,760
Income (loss) from operations	3,784,699	(5,961,946)	(1,226,423)	(3,403,670)
Net income (loss)	2,165,873	(3,977,391)	(806,024)	(2,617,541)

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Results of Operations for the Three and Nine Months Ended September 30, 2002 Compared to the Three and Nine Months Ended September 30, 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 decreased \$267,386 for the three month period primarily due to the August 2002 expiration of the Oregon agreement pursuant to its terms. Revenues for the nine month period increased \$197,898 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 \$887,071, a decrease of \$23,954 for the three month period, and \$2,607,626, an increase of \$172,203, for the nine month period. The venture's revenues for the three month period increased \$341,116 while expenses, primarily payroll and promotional costs, increased by \$352,023. For the nine month period, revenues increased \$1,542,598 while costs only increased \$1,198,193.

*Oregon.* Our management fees from the Oregon contract were \$384,639 and \$1,529,558 for the

respective three and nine month periods, compared to Oregon related revenues of \$628,071 and \$1,503,863 in the respective prior year periods. The increase in the nine month period primarily reflects the increase in our ownership percentage. The decrease for the three month period is a result of the contract termination on August 18, 2002, pursuant to its terms. There will be no further revenues related to this 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 reported as development costs thereafter.

**Pre-opening and Development.** Total development related costs (joint venture pre-opening costs and development costs) for the California and Michigan projects were \$291,086 compared to \$408,586 for the three month period, and \$684,131 compared to \$727,960 for the nine month period. The majority of these costs were 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.

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. This expense is included in development costs in the accompanying condensed consolidated statement of operations.

**General and Administrative Expenses.** General and Administrative Expenses increased by \$3,306 and \$69,269 for the respective three and nine month periods. These increases reflect an increase in payroll expenses resulting from staffing changes to accommodate the increased ownership of our development projects, a litigation settlement of \$125,000, and a reduction in rent expense.

**Depreciation and Amortization.** In 2002, amortization of Gaming Contract Rights was \$48,103 for the quarter and \$158,903 for the nine month period. The prior year only included this amortization beginning April 1, 2001 as a result of the GTECH transaction and amounted to \$55,413 and \$105,540 for the respective comparable periods. The prior year also included goodwill amortization of \$126,567 and \$379,701 for the respective three and nine month periods. This goodwill was fully amortized as of September 30, 2001. Depreciation expense was \$3,564 and \$12,883 for the three and nine month periods compared to \$5,991 and \$18,128 in the respective prior year periods.

**Interest Expense.** Interest expense decreased by \$46,217 and \$115,794 for the three and nine months ended September 30, 2002, compared to the respective prior year periods, due to lower outstanding borrowings coupled with a decrease in interest rates.

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

**Income Tax Provision.** Income tax expense 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 year is approximately 41%. The Company expects that its net operating loss carryforward will be fully utilized in the current year and the Accrued expenses on the balance sheet include approximately \$250,000 in taxes payable.

## Liquidity and Capital Resources

At September 30, 2002, we had cash and cash equivalents of \$918,306. For the nine months ended September 30, 2002, cash of \$1,466,123 was provided by operating activities, as compared to \$1,013,940 in the prior year period. This change is primarily due to improved earnings resulting from the change in our ownership percentage in the Oregon LLC, as well as improving performance in Delaware. Net cash used in investing activities was \$196,496, primarily for \$180,000 in advances to the Michigan tribe, compared to using \$1,940,000 in the prior year primarily for the GTECH acquisition transaction. Financing activities used \$1,218,740 during the current period reflecting the \$3,000,000 repayment of the GTECH note, the receipt of a \$2,381,260 advance under the RAM note, and a \$600,000 reduction in bank borrowings. In the prior period, a \$1,800,000 bank line draw was used to close the GTECH acquisition and \$1,050,000 was repaid. There was a net increase in cash and cash equivalents of \$50,887 during the nine month period.

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 (4.75% at September 30, 2002) 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.

On August 9, 2002, the United State Department of Interior gave notice of their intent to take land into trust for the Huron Potawatomi project in Battle Creek, Michigan. On August 30, 2002, CETAC (Citizens Exposing Truth About Casinos) filed a complaint in Federal District Court for the District of Columbia, seeking to prevent this land from being taken into trust. The Department of Justice is preparing its response and request for dismissal, which should be filed in early November.

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 expired in August of 2002, leaving the Delaware joint venture as our sole source of operating cash. We believe that adequate financial resources will be available to execute our current business plans.

On April 15, 2002 we announced the intent to hire an investment advisor to assist in enhancing shareholder value through the exploration of various strategic alternatives. Although the process is ongoing, there can be no assurance that any substantive results will be achieved.

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 September 30, 2002) and requires interest payments monthly on the outstanding balance with all principal and accrued interest due at maturity on February 25, 2003. At September 30, 2002, there was nothing 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.

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.

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 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 continue to seek 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 \$150,000 attributable to this contract. We have incurred an aggregate of approximately \$1 million in expenses, 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 reviewed the carrying values of our Mississippi investments and recorded an Impairment provision of \$4,593,800, in the third quarter of 2001.

**Contractual Obligations.**

The following table summarizes our contractual obligations as of September 30, 2002:

	Total	Payments Due by Period			
		2002	2003	2004	Thereafter
Long term debt	\$ 2,381,260	\$	\$ 2,381,260	\$	\$
Operating leases	158,302	8,795	35,178	35,178	79,151
Total	\$ 2,539,562	\$ 8,795	\$ 2,416,438	\$ 35,178	\$ 79,151

As of September 30, 2002, we had cumulative undeclared and unpaid dividends in the amount of \$2,152,500 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.

**Item 3. 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.

Our outstanding variable rate debt as of September 30, 2002 is \$2,381,260. A one-percentage point change in interest rates will cause our interest expense to change approximately \$24,000 annually.

**Item 4. Controls and Procedures**

Within the 90 day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.



**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

**Item 3. Defaults Upon Senior Securities**

As of September 30, 2002, cumulative dividends were \$2,152,500, 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.

10.57 Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated January 31, 1996.

10.58 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated March 18, 1998.

10.59 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated July 1, 1999.

10.60 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated February 4, 2002.

10.61 Employment Agreement between Full House Resorts, Inc. and Michael P. Shaunnessy dated January 1, 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.**

Date: November 11, 2002

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

**CERTIFICATION**

I, William P. McComas, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Full House Resorts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based upon our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

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a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management of other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls, or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 11, 2002

By: /s/ William P. McComas  
William P. McComas  
Chief Executive Officer

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I, Michael P. Shaunnessy, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Full House Resorts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based upon our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and



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b) any fraud, whether or not material, that involves management of other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls, or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 11, 2002

By: /s/ Michael P. Shaunnessy  
Michael P. Shaunnessy  
Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Full House Resorts, Inc. for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission (the Report), I, William P. McComas, Chairman of the Board and Chief Executive Officer of Full House Resorts, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Full House Resorts, Inc.

Dated: November 11, 2002

By: /s/ William P. McComas  
William P. McComas  
Chairman of the Board and Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Full House Resorts, Inc. for the quarter ended September 30, 2002 as filed with the Securities and Exchange Commission (the Report), I, Michael P. Shaunnassy, Executive Vice President and Chief Financial Officer of Full House Resorts, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Full House Resorts, Inc.

Dated: November 11, 2002

By: /s/ Michael P. Shaunnessy  
Michael P. Shaunnessy  
Executive Vice President and Chief Financial Officer