FULL HOUSE RESORTS INC
Form 10-Q
November 06, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2014 or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.
(Exact name of registrant 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, Ste. 190 Las Vegas, Nevada (Address of principal executive offices)	89147 (Zip Code)

(702) 221-7800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer o	Accelerated Filer o
Non Accelerated Filer o (Do not check if a smaller	Smaller reporting company þ

reporting company)

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

As of November 5, 2014, there were 18,876,681 shares of Common Stock, $.0001 par value per share, outstanding.

FULL HOUSE RESORTS, INC.
INDEX

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues				
Casino	$31,709	$36,912	$90,863	$110,257
Food and beverage	5,320	5,790	15,665	17,783
Hotel	1,314	1,059	3,830	3,127
Management fees	273	313	1,066	1,123
Other operations	1,116	1,205	2,766	3,190
Gross revenues	39,732	45,279	114,190	135,480
Less promotional allowances	(6,815)	(7,837)	(19,513)	(22,208)
Net revenues	32,917	37,442	94,677	113,272
Operating costs and expenses				
Casino	14,099	17,481	43,763	52,416
Food and beverage	2,170	1,981	6,492	6,041
Hotel	214	166	537	457
Other operations	720	1,285	2,185	3,905
Project development and acquisition costs	72	22	407	61
Selling, general and administrative	10,587	11,233	31,636	35,573
Depreciation and amortization	2,398	2,498	7,165	6,906
	30,260	34,666	92,185	105,359
Operating losses				
Impairment loss	--	(4,000)	(11,547)	(4,000)
Operating income (loss)	2,657	(1,224)	(9,055)	3,913
Other expense				
Interest expense	(1,614)	(1,847)	(4,702)	(5,615)
Settlement loss	(1,700)	--	(1,700)	--
Other (expense) income	(61)	15	(68)	(6)
Other expense, net	(3,375)	(1,832)	(6,470)	(5,621)
Loss before income tax benefit	(718)	(3,056)	(15,525)	(1,708)
Income tax expense (benefit)	48	(905)	(5,186)	(91)
Net loss	$(766)	$(2,151)	$(10,339)	$(1,617)
Net loss per common share	$(0.04)	$(0.11)	$(0.55)	$(0.09)
Weighted-average number of common shares outstanding	18,876,681	18,750,681	18,873,725	18,736,604

See notes to unaudited consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except shares)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and equivalents	$16,043	$14,936
Accounts receivable, net of allowance for doubtful accounts of $459 and $471	2,160	1,869
Prepaid expenses	4,636	6,288
Other	739	726
	23,578	23,819
Property and equipment, net of accumulated depreciation of $28,534 and $23,096	92,591	91,168
Other long-term assets		
Goodwill	16,480	18,127
Intangible assets, net of accumulated amortization of $5,696 and $4,055	4,006	15,533
Long-term deposits	1,066	761
Loan fees, net of accumulated amortization of $3,441 and $2,327	2,695	3,558
Deferred tax asset	5,576	1,321
	29,823	39,300
	$145,992	$154,287
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$3,575	$2,661
Accrued player club points and progressive jackpots	1,673	1,999
Accrued payroll and related	2,580	3,276
Other accrued expenses	3,683	3,139
Deferred tax liability	66	66
Current portion of capital lease obligation	697	736
	12,274	11,877
Long-term debt, net of current portion	59,500	57,500
Deferred tax liability	113	113
Capital lease obligation, net of current portion	6,411	6,983
	78,298	76,473
Stockholders' equity		
Common stock, $.0001 par value, 100,000,000 shares authorized; 20,233,276 and 20,107,276 shares issued	2	2
Additional paid-in capital	45,569	45,350
Treasury stock, 1,356,595 common shares	(1,654)	(1,654)
Retained earnings	23,777	34,116
	67,694	77,814
	$145,992	$ 154,287

See notes to unaudited consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common stock		Additional paid-in	Treasury stock		Retained	Total stockholders'
Nine months ended September 30, 2014	Shares	Dollars	Capital	Shares	Dollars	earnings	Equity
Beginning balances	20,107	$ 2	$ 45,350	1,357	$ (1,654)	$ 34,116	$ 77,814
Issuance of share-based compensation	126	--	9	--	--	--	9
Previously deferred share-based compensation recognized	--	--	210	--	--	--	210
Net loss	--	--	--	--	--	(10,339)	(10,339)
Ending balances	20,233	$ 2	$ 45,569	1,357	$ (1,654)	$ 23,777	$ 67,694

See notes to unaudited consolidated financial statements.

5

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine months ended September, 30, 2014	2013
Cash flows from operating activities:		
Net loss	$(10,339)	$(1,617)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment loss	11,547	4,000
Depreciation	5,525	4,998
Loss on disposal	7	--
Amortization of loan fees	1,114	1,432
Amortization of player loyalty program, land lease and water rights	1,640	1,908
Other	30	28
Deferred and share-based compensation	219	605
Increases and decreases in operating assets and liabilities:		
Accounts receivable, net	(291)	848
Prepaid expenses	1,652	705
Deferred tax	(4,255)	--
Other assets	(13)	517
Accounts payable and accrued expenses	(316)	(3,001)
Taxes payable	--	594
Net cash provided by operating activities	6,520	11,017
Cash flows from investing activities:		
Purchase of property and equipment	(6,222)	(3,268)
Other	(329)	(284)
Net cash used in investing activities	(6,551)	(3,552)
Cash flows from financing activities:		
Repayment of long term debt and capital lease obligation	(610)	(2,500)
Borrowings of long term debt	2,000	--
Other	(252)	(204)
Net cash provided by (used in) financing activities	1,138	(2,704)
Net increase in cash and equivalents	1,107	4,761
Cash and equivalents, beginning of period	14,936	20,603
Cash and equivalents, end of period	$16,043	$25,364

	2014	2013
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 3,863	$ 4,211
Cash received from net loss carryback, net of cash paid of $0.01 million for income taxes in 2014 and cash received from income tax refund, net of cash	$ (1,915)	$ (2,288)

paid of $.03 million for income taxes in 2013

Non-cash investing activities:				
Accrued property and equipment capital expenditures	$	1,301	$	--

See notes to unaudited consolidated financial statements.

6

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

1. BASIS OF PRESENTATION

The interim consolidated financial statements of Full House Resorts, Inc. and subsidiaries (collectively, "FHR" or the "Company") included herein reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. Certain information normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America has been omitted pursuant to the interim financial information rules and regulations of the United States Securities and Exchange Commission.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed March 10, 2014, for the year ended December 31, 2013, from which the balance sheet information as of that date was derived. Certain minor reclassifications to amounts previously reported have been made to conform to the current period presentation, none of which affected previously reported net income or earnings per share. The results of operations for the period ended September 30, 2014, are not necessarily indicative of results to be expected for the year ended December 31, 2014.

The consolidated financial statements include all our accounts and the accounts of our wholly-owned subsidiaries, including Silver Slipper Casino Venture, LLC ("Silver Slipper Casino"), Gaming Entertainment (Indiana) LLC ("Rising Star Casino Resort"), Gaming Entertainment (Nevada) LLC ("Grand Lodge Casino") and Stockman's Casino. All material intercompany accounts and transactions have been eliminated.

Recently Issued Accounting Pronouncements

Authoritative U.S. Accounting Standards issued after January 1, 2014 have been reviewed, as of August 27, 2014. The new guidance currently has no impact on our financial statements.

2. SHARE-BASED COMPENSATION

On June 1, 2011, our compensation committee approved the issuance of 660,000 shares of restricted stock, then valued at the closing price of our stock ($3.88), with no discount. The majority of the shares (600,000) vested on June 1, 2013. The remaining shares had a three-year vesting schedule and 20,001 shares vested on June 1, 2012, 20,001 vested on June 1, 2013 and 19,998 vested on June 1, 2014. On January 15, 2013, 50,000 additional shares of restricted stock were issued, then valued at $3.22, with no discount. These shares will vest over three years, 16,667 vested on January 15, 2014, 16,667 will vest on January 15, 2015 and 16,666 on January 15, 2016. On June 5, 2013, 15,000 additional shares of restricted stock were issued, then valued at $2.86, with no discount. These shares will vest over three years, 5,000 vested on June 1, 2014, 5,000 will vest on June 1, 2015 and 5,000 will vest on June 1, 2016. On January 1, 2014, 120,000 additional shares of restricted stock were issued, then valued at $2.78, with no discount. These shares will vest over two years, 60,000 on January 1, 2015 and 60,000 on January 1, 2016.

Vesting is contingent upon certain conditions, including continuous service of the individual recipients. Unvested grants made in connection with our incentive compensation plan are viewed as a series of individual awards and the related share-based compensation expense is amortized into compensation expense on a straight-line basis as services are provided over the vesting period, and reported as a reduction of stockholders' equity. We grant shares of restricted stock to key members of management and the board of directors.

We recognized stock compensation expense of $0.1 million and $0.0 million for the three months ended September 30, 2014 and 2013, respectively, and $0.2 million and $0.6 million for the nine months ended September 30, 2014 and 2013, respectively. Share-based compensation expense related to the amortization of the restricted stock issued was included in selling, general and administrative expense. At September 30, 2014 and December 31, 2013, we had deferred share-based compensation of $0.3 million and $0.2 million, respectively.

3. GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of the purchase price over fair value of net assets acquired in connection with Silver Slipper Casino, Rising Star Casino Resort and Stockman's Casino operations. In accordance with the authoritative guidance for goodwill and other intangible assets, we test our goodwill and indefinite-lived intangible assets for impairment annually or if a triggering event occurs. We evaluate goodwill and indefinite-lived intangible assets utilizing the market approach and income approach applying the discounted cash flows in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") Topic 350, "Intangibles-Goodwill and Other."

Goodwill was $14.7 million for Silver Slipper Casino and $1.8 million for Stockman's Casino as of September 30, 2014. Goodwill was $14.7 million for Silver Slipper Casino, $1.6 million for Rising Star Casino Resort and $1.8 million for Stockman's Casino as of December 31, 2013. Due to various factors, including weak economic conditions, lower than anticipated discretionary consumer spending, and increased competition in our Indiana market, we realized lower than expected operating results during the first and second quarters of 2014. We performed interim impairment assessments of goodwill and indefinite-lived intangible assets as of June 30, 2014, and recognized a $1.6 million and $9.9 million impairment of Rising Star Casino Resort's goodwill and gaming license, respectively during the 2nd quarter. We performed interim impairment assessments of goodwill and indefinite-lived intangible assets as of September 30, 2014 and determined that further impairment was not deemed necessary.

These calculations, which are subject to change as a result of future economic uncertainty, contemplate changes for both current year and future year estimates in earnings and the impact of these changes to the fair value of Silver Slipper Casino, Rising Star Casino Resort and Stockman's Casino, although there is always some uncertainty in key assumptions including projected future earnings growth. If our estimates of projected cash flows related to our assets are not achieved, we may be subject to future impairment charges, which could have a material adverse impact on our consolidated financial statements.

Other Intangible Assets:

Other intangible assets, net consist of the following (in thousands):

	September 30, 2014 (unaudited)				
	Estimated Life (years)	Gross Carrying Value	Accumulated Amortization	Cumulative Expense / (Disposals)	Intangible Asset, Net
Amortizing Intangible assets:					
Player Loyalty Program - Rising Star	3	$1,700	$ (1,700)	$--	$--
Player Loyalty Program - Silver Slipper	3	5,900	(3,933)	--	1,967
Land Lease and Water Rights - Silver Slipper	46	1,420	(63)		1,357
Capital One Bank Loan Fees	3	5,033	(2,930)	--	2,103
ABC Funding, LLC Loan Fees	4	1,103	(511)	--	592
Non-amortizing intangible assets:					
Gaming License-Indiana – Rising Star	Indefinite	9,900	--	(9,900)	--
Gaming License-Mississippi	Indefinite	136	--	(16)	120
Gaming Licensing-Nevada	Indefinite	435	--	(29)	406
Gaming Licensing-Indiana - FHR	Indefinite	109	--	(7)	102
Gaming Licensing-New York	Indefinite	14	--	--	14
Trademark	Indefinite	40	--	--	40
		$25,790	$ (9,137)	$(9,952)	$6,701
Other Intangible assets subtotal		$19,654	$ (5,696)	$(9,952)	$4,006
Loan Fees subtotal		6,136	(3,441)	--	2,695
		$25,790	$ (9,137)	$(9,952)	$6,701

	December 31, 2013				
	Estimated Life (years)	Gross Carrying Value	Accumulated Amortization	Cumulative Expense / (Disposals)	Intangible Asset, Net
Amortizing Intangible assets:					
Player Loyalty Program - Rising Star	3	$1,700	$ (1,558)	$--	$142
Player Loyalty Program - Silver Slipper	3	5,900	(2,458)	--	3,442
Land Lease and Water Rights - Silver Slipper	46	1,420	(39)	--	1,381
Capital One Bank Loan Fees	3	4,887	(2,019)	--	2,868
ABC Funding, LLC Loan Fees	4	998	(308)	--	690
Non-amortizing intangible assets:					
Gaming License-Indiana	Indefinite	9,900	--	--	9,900
Gaming License-Mississippi	Indefinite	118	--	(13)	105
Gaming Licensing-Nevada	Indefinite	453	--	(29)	424
Gaming Licensing-Indiana - FHR	Indefinite	99	--	--	99
Trademark	Indefinite	40	--	--	40
		$25,515	$ (6,382)	$(42)	$19,091
Other Intangible assets subtotal		$19,630	$ (4,055)	$(42)	$15,533

Loan Fees subtotal	5,885	(2,327)	--	3,558
	$25,515	$ (6,382)	$(42)	$19,091

9

Player Loyalty Programs

The player loyalty programs represent the value of repeat business associated with Silver Slipper Casino's and Rising Star Casino Resort's loyalty programs. The value of the $5.9 million and $1.7 million Silver Slipper Casino's and Rising Star Casino Resort's player loyalty programs, respectively, were determined using a multi-period excess earning method of the income approach, which examines the economic returns contributed by the identified tangible and intangible assets of a company, and then isolates the excess return, which is attributable to the asset being valued, based on cash flows attributable to the player loyalty program. The valuation analyses for the active rated players were based on projected revenues and attrition rates. Silver Slipper Casino and Rising Star Casino Resort maintain historical information for the proportion of revenues attributable to the rated players for gross gaming revenue. The value of the player loyalty programs are amortized over a life of three years.

Land Lease and Water Rights

In November 2004, Silver Slipper Casino entered into a lease agreement with Cure Land Company, LLC for approximately 38 acres of land ("Land Lease"), which includes approximately 31 acres of protected marsh land as well as a seven-acre casino parcel, on which the Silver Slipper Casino was subsequently built. The lease was amended and extended on February 26, 2013, as discussed in Note 6. The $1.0 million Land Lease represents the excess fair value of the land over the estimated net present value of the Land Lease payments. The $0.4 million of water rights represented the fair value of the water rights based upon the market rates in Hancock County, Mississippi. The value of the Land Lease and water rights are amortized over the life of the Land Lease, or 46 years.

Loan Fees

Loan fees incurred and paid as a result of debt instruments are accumulated and amortized over the term of the related debt, based on an effective interest method. On October 1, 2012, we funded the purchase of the Silver Slipper Casino with the full amount of the $50.0 million first lien term loan ("First Lien Credit Agreement") with Capital One Bank, N.A. ("Capital One") and the full amount of the second lien term loan ("Second Lien Credit Agreement") with ABC Funding, LLC, as discussed in Note 4. We incurred $4.7 million in loan fees related to obtaining the First Lien Credit Agreement and $1.0 million in loan fees related to obtaining the Second Lien Credit Agreement. On August 26, 2013, we entered into a first amendment to the First Lien Credit Agreement (the "First Lien Amendment") and an amendment to the Second Lien Credit Agreement (the "Second Lien Amendment") and incurred $0.2 million in additional loan fees, as discussed in Note 4. The First Lien Amendment modifications included an extended maturity date to June 29, 2016, therefore the amortization period for these loan fees was extended. On July 18, 2014, we entered into a second amendment to the First Lien Credit Agreement (the "First Lien 2nd Amendment") and an amendment to the Second Lien Credit Agreement (the "Second Lien 2nd Amendment") and incurred $0.2 million in additional loan fees, as discussed in Note 4. All of the loan fees are amortized over the terms of the agreements.

The aggregate loan fee amortization was $0.4 million and $0.4 million for the three months ended September 30, 2014 and 2013, respectively, and $1.1 million and $1.4 million for the nine months ended September 30, 2014 and 2013, respectively.

Gaming Licenses

Gaming licenses represent the value of the license to conduct gaming in certain jurisdictions, which are subject to highly extensive regulatory oversight and, in some cases, a limitation on the number of licenses available for issuance. As discussed above, as of September 30, 2014, we have recognized a $9.9 million impairment of Rising Star Casino Resort's gaming license. The other gaming license values are based on actual costs. Gaming licenses are not amortized as they have indefinite useful lives and are evaluated for potential impairment on an annual basis unless events or changes in circumstances indicate the carrying amount of the gaming licenses may not be recoverable.