

FULL HOUSE RESORTS INC  
Form 10QSB  
May 14, 2003

## 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, 2003.**

**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)

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

As of May 10, 2003, 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   |
|                 |                       | <u>Unaudited Condensed Consolidated Balance Sheets</u><br><u>as of March 31, 2003 and December 31, 2002</u>                   |
|                 |                       | <u>Unaudited Condensed Consolidated Statements of Operations</u><br><u>for the three months ended March 31, 2003 and 2002</u> |
|                 |                       | <u>Unaudited Condensed Consolidated Statements of Cash Flows</u><br><u>for the three months ended March 31, 2003 and 2002</u> |
|                 |                       | <u>Notes to Unaudited Condensed Consolidated Financial Statements</u>   |
|                 | <u>Item 2.</u>        | <u>Management's Discussion and Analysis of Financial Condition and</u><br><u>Results of Operations</u>                        |
|                 | <u>Item 3.</u>        | <u>Controls and Procedures</u>  |
| <u>PART II.</u> | <u>Item 1.</u>        | <u>Legal Proceedings</u>  |
|                 | <u>Item 3.</u>        | <u>Defaults Upon Senior Securities</u>  |
|                 | <u>Item 6.</u>        | <u>Exhibits and Reports on Form 8 - K</u>   |
|                 | <u>Signatures</u>     |   |
|                 | <u>Certifications</u> |   |

## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

|   | MARCH 31,<br>2003 | DECEMBER 31,<br>2002 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| CURRENT ASSETS:   |                   |                      |
| Cash and cash equivalents   | \$ 1,169,747      | \$ 1,164,053         |
| Receivables   | 125,000           | 186,969              |
| Prepaid expenses  | 131,521           | 106,656              |
| Total current assets  | 1,426,268         | 1,457,678            |
| NON-OPERATING LAND  | 2,472,000         | 2,472,000            |
| FIXTURES AND EQUIPMENT - net  | 20,449            | 23,612               |
| INVESTMENTS IN JOINT VENTURES   | 145,217           | 27,876               |
| RECEIVABLES   | 1,317,291         | 1,257,291            |
| GAMING AND CONTRACT RIGHTS - net  | 5,148,558         | 5,189,947            |
| DEFERRED INCOME TAX ASSET   | 660,118           | 712,418              |
| DEPOSITS AND OTHER ASSETS   | 6,382             | 6,382                |
| TOTAL   | \$ 11,196,283     | \$ 11,147,204        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                   |                      |
| CURRENT LIABILITIES:  |                   |                      |
| Accounts payable  | \$ 20,556         | \$ 13,426            |
| Payable to joint ventures   | 48,030            |                      |
| Current portion of long-term debt   | 2,381,260         | 2,381,260            |
| Accrued expenses  | 107,423           | 172,654              |
| Total current liabilities   | 2,557,269         | 2,567,340            |
| <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 \$4,357,500 and \$4,305,000 | 70                | 70                   |
| Common stock, par value \$.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding   | 1,034             | 1,034                |

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

|                            |               |               |
|----------------------------|---------------|---------------|
| Additional paid in capital | 17,429,889    | 17,429,889    |
| Accumulated deficit        | (8,791,979)   | (8,851,129)   |
| Total stockholders' equity | 8,639,014     | 8,579,864     |
| TOTAL                      | \$ 11,196,283 | \$ 11,147,204 |

See notes to unaudited condensed consolidated financial statements.

**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

|  | THREE MONTHS ENDED<br>MARCH 31, |                   |
|--|---------------------------------|-------------------|
|  | 2003                            | 2002              |
| <b>OPERATING REVENUES:</b>   |                                 |                   |
| Joint venture earnings   | \$ 803,608                      | \$ 883,957        |
| Management fees  |                                 | 544,035           |
| Total operating revenues   | 803,608                         | 1,427,992         |
| <b>OPERATING COSTS AND EXPENSES:</b>   |                                 |                   |
| Development costs  | 162,634                         | 215,561           |
| General and administrative   | 394,313                         | 408,503           |
| Depreciation and amortization  | 44,552                          | 60,457            |
| Total operating costs and expenses   | 601,499                         | 684,521           |
| <b>INCOME FROM OPERATIONS</b>  | <b>202,109</b>                  | <b>743,471</b>    |
| Interest expense   | (24,954)                        | (51,625)          |
| Interest and other income  | 295                             | 3,084             |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>177,450</b>                  | <b>694,930</b>    |
| <b>INCOME TAX PROVISION</b>  | <b>(118,300)</b>                | <b>(280,841)</b>  |
| <b>NET INCOME</b>  | <b>59,150</b>                   | <b>414,089</b>    |
| Less, undeclared dividends on cumulative preferred stock                       | 52,500                          | 52,500            |
| <b>NET INCOME APPLICABLE TO COMMON SHARES</b>                                  | <b>\$ 6,650</b>                 | <b>\$ 361,589</b> |
| <b>NET INCOME PER COMMON SHARE, Basic and Diluted</b>                          | <b>\$ 0.00</b>                  | <b>\$ 0.03</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**



Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

|   | THREE MONTHS ENDED<br>MARCH 31, |             |
|---|---------------------------------|-------------|
|   | 2003                            | 2002        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |             |
| Net income  | \$ 59,150                       | \$ 414,089  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |             |
| Depreciation and amortization   | 44,552                          | 60,457      |
| Equity in earnings of joint venture   | (803,608)                       | (883,957)   |
| Distributions from joint venture  | 686,267                         | 675,746     |
| Changes in operating assets and liabilities:                                      |                                 |             |
| Receivables   | 61,969                          | (81,284)    |
| Prepaid expenses  | (24,865)                        | 36,613      |
| Deposits and other assets   |                                 | (2,931)     |
| Deferred income taxes   | 52,300                          | 32,959      |
| Accounts payable and accrued expenses   | (10,071)                        | 40,420      |
| Net cash provided by operating activities   | 65,694                          | 292,112     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |             |
| Advances on receivable  | (60,000)                        | (60,000)    |
| Purchase of fixtures and equipment  |                                 | (15,725)    |
| Net cash used in investing activities   | (60,000)                        | (75,725)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |             |
| Proceeds from RAM note  |                                 | 2,381,260   |
| Repayment of GTECH note   |                                 | (3,000,000) |
| Net cash used by financing activities   |                                 | (618,740)   |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                              | 5,694                           | (402,354)   |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                    | 1,164,053                       | 867,419     |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | \$ 1,169,747                    | \$ 465,065  |

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, 2002. The results of operations for the period ended March 31, 2003 are not necessarily indicative of the results to be expected for the year ending December 31, 2003.

*Consolidation* - The unaudited condensed consolidated financial statements include the accounts of the Company and 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.

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2001, the FASB issued SFAS No. 143 *Accounting for Asset Retirement Obligations* which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and / or normal operation, except for certain obligations of lessees. This Statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to*



Others, and interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

### 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.

In addition to the gaming and 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 and 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<br>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 |                      |

### 4. GAMING AND CONTRACT RIGHTS

As a result of the GTECH acquisition, the three joint ventures that had previously been accounted for using the equity method are now wholly owned consolidated entities. A substantial portion of our investment in these joint ventures was comprised of previously contributed Michigan gaming rights of \$4,155,213 that we acquired in 1995 and which represent the Company's acquisition of a 50% ownership of the right to manage the planned facility through the management agreement held by the joint ventures. Amortization of the contributed Michigan gaming rights will



commence when the associated facility is developed and becomes operational and will be on a straight-line basis over seven years, or the term of the management contract. Now that these are wholly-owned consolidated entities, these rights are reflected in Gaming and Contract Rights, along with the contract rights acquired in the GTECH acquisition of \$1,403,854. The contract rights acquired in the GTECH acquisition represent the Company's acquisition of 100% ownership and management's ability to control the operations of these entities. Therefore, amortization of the acquired contract rights commenced as of April 1, 2001. Gaming and Contract Rights, net, as of March 31, 2003 is comprised of the following:

|                                    |    |           |
|------------------------------------|----|-----------|
| Contributed Michigan gaming rights | \$ | 4,155,213 |
| Acquired contract rights           |    | 1,403,854 |
| Less accumulated amortization      |    | (410,509) |
| Gaming Contract Rights, net        | \$ | 5,148,558 |

Annual amortization expense related to the acquired contract rights is \$165,560 through 2008, with the then remaining balance of \$41,374 expensed in 2009. As of March 31, 2003, the weighted average amortization period for acquired contract rights is 6 years.

The Michigan and California ventures are in the development stage. Successful development, 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

The Investments in Joint Venture on the balance sheet now reflects our ownership interest in only the Delaware LLC. The joint venture revenue recorded in the statements of operation represents a 50% interest in the net income of the joint venture.

SUMMARY INFORMATION FOR THE DELAWARE LLC FOR THE THREE MONTH PERIODS ENDED MARCH 31, is as follows:

|                        | 2003         | 2002         |
|------------------------|--------------|--------------|
| Revenues               | \$ 4,689,569 | \$ 4,768,676 |
| Income from operations | 1,607,216    | 1,767,913    |
| Net income             | 1,607,216    | 1,767,913    |

## 6. LONG TERM DEBT

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

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 and provide the necessary funding for their development. RAM advanced \$2,381,260 to Full House in the form of a loan, to be forgiven upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. The loan bears interest adjustable daily at prime and requires interest payments monthly. The principal was originally due on February 15, 2003 unless earlier forgiven pursuant to the terms.



On February 15, 2003 we entered into an agreement with RAM to extend the due date until August 15, 2003 for receipt of regulatory approvals, or the repayment of the note. The loan continues to bear interest adjustable daily at prime and requires interest payments monthly. The legal challenge preventing the land from being taken into trust is pending in Federal District Court. A status conference concerning this matter has been scheduled for June 5, 2003.

**7. SEGMENT INFORMATION**

We 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 MARCH 31,

**2003**

|                               | Operations | Development | Corporate | Consolidated |
|-------------------------------|------------|-------------|-----------|--------------|
| Revenues                      | \$ 803,608 | \$          | \$        | \$ 803,608   |
| Development costs             |            | 162,634     |           | 162,634      |
| Income (loss) from operations | 803,608    | (204,023)   | (397,476) | 202,109      |
| Net income (loss)             | 470,017    | (148,727)   | (262,140) | 59,150       |

**2002**

|                               | Operations   | Development | Corporate | Consolidated |
|-------------------------------|--------------|-------------|-----------|--------------|
| 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      |

**8. SUBSEQUENT EVENT**

On April 4, 2003 the Company entered into an agreement to sell its one-acre parcel of land located in Biloxi, Mississippi. The selling price is \$2,500,000, and closing is scheduled to occur on, or before, June 1, 2003. The buyer has deposited \$75,000 into escrow.



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

**Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates and such differences may be material to the financial statements. Our accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements included in our Form 10-KSB dated December 31, 2002.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management's evaluation of the recoverability of intangibles. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

## **Results of Operations**

### **First Quarter Ended March 31, 2003 Compared to First Quarter Ended March 31, 2002**

**Revenues.** As a result of the expiration of the Oregon contract in August 2002 pursuant to its terms, our Delaware joint venture contract represents our only current revenue source. Revenue related to the Oregon contract for 2002 is reported as management fees.

**Delaware Joint Venture.** Our share of income from the Delaware joint venture was \$803,608 for the first quarter ended March 31, 2003, compared to \$883,957 in the prior year. This decrease is attributable to two primary factors: a statewide smoking ban and adverse weather conditions.

In late November 2002, a statewide smoking ban took effect in Delaware that prohibits smoking in the casino facilities. Additionally, adverse weather conditions in January and February, which caused the facility to be closed for two days of President's Day weekend, had a significant impact on operations. Statewide VLT (Video Lottery Terminal) revenue declined approximately 8%, 28%, and 11% for January, February and March, respectively, compared to the prior year periods. VLT revenue at our managed facility declined approximately 8%, 28%, and 7% on a comparative basis. We are unable to accurately determine the relative impact attributable to each factor, however, we believe the smoking ban, which is expected to be permanent, may be responsible for monthly revenue declines approximating 10%.

**Oregon.** This agreement expired in August 2002 pursuant to its terms, and no further fees will be paid. Our management fees from the Oregon contract were \$544,035 in the prior year period.

**Development Costs.** Total development related costs for the Michigan project were \$162,634 during the first quarter of 2003, compared to \$215,561 for the prior year. 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.

**General and Administrative Expenses.** Expenses for the three months ended March 31, 2003

were \$394,313, a decrease of \$14,190 from the comparable period in 2002. This level of expenditures for operating overhead has been fairly consistent, and is expected to remain so.

**Depreciation and Amortization.** The \$44,552 expense is comprised of depreciation of fixtures and equipment in the amount of \$3,163 and amortization of the Contract Rights acquired in the GTECH acquisition in the amount of \$41,389. The prior year amount included \$5,056 of depreciation and \$55,401 of amortization. The prior year period included amortization related to the Oregon contract of \$14,012.

**Interest Expense.** Interest expense decreased by \$26,671 as a result of lower interest rates and a reduction in outstanding debt.

**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 \$118,300. The effective tax rate reflects Delaware state taxes on joint venture earnings determined on a separate return basis, combined with the tax effect of non-deductible amortization expenses. Although consolidated earnings before taxes decreased significantly, the state tax provision only reflects a decrease related to the Delaware joint venture earnings.

#### **Liquidity and Capital Resources**

At March 31, 2003, we had cash and cash equivalents of \$1,169,747. For the three months ended March 31, 2003, cash of \$65,694 was provided by operating activities, as compared to \$292,112 in the prior year period. This change is primarily due to decreased earnings resulting from the termination of our Oregon contract. Net cash used in investing activities was \$60,000 for advances to the Michigan tribe, compared to the same level of advances in the prior year coupled with \$15,725 for fixtures and equipment. There were no financing activities in the current year period. In the prior year we used \$618,740 which reflected the \$3,000,000 repayment of the GTECH note and the receipt of a \$2,381,260 advance under the RAM note.

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. In February 2002, the renewal reduced the availability to \$1,000,000 and extended the maturity date to May 12, 2003. The line bears interest adjustable daily at one-half percent above prime (4.75% at March 31, 2003) and requires interest payments monthly on the outstanding balance with all principal and accrued interest due at maturity on May 12, 2003. At March 31, 2003, there was nothing outstanding on the bank line.

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

On April 4, 2003, we entered into an agreement to sell our one-acre parcel of land located in Biloxi, Mississippi. The selling price is \$2,500,000, and closing is scheduled to occur on, or before, June 1, 2003. The buyer has deposited \$75,000 into escrow.

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC, a privately held investment company, whereby RAM may acquire a 50% interest in the California and Michigan projects and provide the necessary funding for their development. RAM advanced \$2,381,260 to us in the form of a loan, to be forgiven upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. The loan bears interest adjustable daily at prime and requires interest payments monthly. The principal was due at maturity on February 15, 2003 unless earlier forgiven pursuant to its terms. The anticipated approvals have not yet been received, and the parties have extended the maturity date to August 15, 2003. The legal challenge preventing the land from being taken

into trust is pending in Federal District Court. A status conference concerning this matter has been scheduled for June 5, 2003.

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

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

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. Our balance sheet includes as a receivable a \$25,000 advance due from Torres-Martinez Tribe, and included in Gaming and Contract Rights is approximately \$140,000 attributable to this contact. We have incurred aggregate expenses of approximately \$1 million, including interest, on behalf of Torres-Martinez Tribe. In June 2002, the Tribe requested additional documentation concerning these costs, which we have provided. We are discussing an appropriate resolution of this matter including reimbursement for costs that we incurred. We believe that these amounts are recoverable based upon the expressed intentions of Torres-Martinez Tribe, as well as our contractual rights.

In November 2002, we executed a termination agreement with respect to our Hard Rock licensing rights in Biloxi, Mississippi in exchange for a \$100,000 termination fee. Additionally, if Hard Rock executes a new licensing agreement for Biloxi within one year of the termination agreement, we agreed to provide consulting services to Hard Rock for a two year period.

**Contractual Obligations.**

The following table summarizes our contractual obligations as of March 31, 2003:

| Total | Payments Due by Period |      |      |            |
|-------|------------------------|------|------|------------|
|       | 2003                   | 2004 | 2005 | Thereafter |



Edgar Filing: FULL HOUSE RESORTS INC - Form 10QSB

|                  |    |           |    |           |    |        |    |           |
|------------------|----|-----------|----|-----------|----|--------|----|-----------|
| Long term debt   | \$ | 2,381,260 | \$ | 2,381,260 | \$ |        | \$ |           |
| Operating leases |    | 155,379   |    | 27,171    |    | 37,677 |    | 39,184    |
| Total            | \$ | 2,536,639 | \$ | 2,408,431 | \$ | 37,677 | \$ | 39,184    |
|                  |    |           |    |           |    |        |    | \$ 51,347 |

As of March 31, 2003, we had cumulative undeclared and unpaid dividends in the amount of \$2,257,500 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.

**Recent Accounting Pronouncements.** In June 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and / or normal operation, except for certain obligations of lessees. This Statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, and interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

### **Item 3. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures.** Full House's chief executive and financial officers, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934) as of a date ( Evaluation Date ) within 90 days before the filing of this quarterly report, have concluded that as of the Effective Date, the Company's disclosure controls and procedures were effective and designed to ensure that material information relating to the Company would be made known to them to allow timely decisions regarding disclosures.

**Changes in Internal Controls.** Full House does not believe that there are significant deficiencies in the design or operation of its internal controls that could adversely effect its ability to record, process, summarize and report financial data. There were no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the Evaluation Date.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 3. Defaults upon Senior Securities**

As of March 31, 2003, cumulative dividends were \$2,257,500, 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.

99.1

(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: May 11, 2003

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

(on behalf of the Registrant and  
as principal 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 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 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 on 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

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: May 11, 2003

By: /s/ William P. McComas

William P. McComas

Chief Executive Officer

**CERTIFICATION**

I, Michael P. Shaunnessy, certify that:

1. I have reviewed this quarterly report on Form 10-K 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 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 on 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

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: May 11, 2003

By: /s/ Michael P. Shaunnessy

Michael P. Shaunnessy

Chief Financial Officer