

FULL HOUSE RESORTS INC

Form 10QSB

August 13, 2007

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**U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB**

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007.
OR**

**TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____.
Commission File No. 1-32583
FULL HOUSE RESORTS, INC.
(Exact name of small business issuer as specified in its charter)**

Delaware	13-3391527
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4670 S. Fort Apache Road Suite 190 Las Vegas, Nevada	89147
(Address of principal executive offices)	(zip code)
(702) 221-7800	
(Registrant's telephone number)	

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 10, 2007, Registrant had 19,342,276 shares of its \$.0001 par value common stock outstanding.
Transitional Small Business Disclosure Format (check one) Yes No

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CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2007	December 31,
	(unaudited)	2006
ASSETS		
Current assets		
Cash	\$ 9,808,564	\$ 22,117,482
Accounts receivable, net of allowance of \$20,000 in 2007	160,339	
Prepaid expenses	555,399	76,204
Other	166,778	115,000
	10,691,080	22,308,686
Property and equipment, net of accumulated depreciation of \$6,894,351 and \$107,774	16,327,872	7,401
Long-term assets related to tribal casino projects		
Notes receivable	12,125,882	10,995,782
Contract rights, net of accumulated amortization of \$642,199 and \$608,899	5,660,709	5,160,185
Land held for development	130,000	130,000
	17,916,591	16,285,967
Other long-term assets		
Goodwill	12,041,668	
Investment in unconsolidated joint venture	281,574	
Deferred income tax assets		159,054
Deposits and other	909,632	1,395,012
	13,232,874	1,554,066
	\$ 58,168,417	\$ 40,156,120
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 2,582,770	\$ 2,381,260
Accounts payable	249,289	153,330
Accrued interest	617,425	428,051
Other accrued expenses	904,303	486,841
Dividend payable		3,042,084
Income tax payable		237,623
Other	272,137	272,137
	4,625,924	7,001,326
Long-term debt, net of current portion	15,891,477	

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Deferred income tax liability	2,505,419	
	18,396,896	
Non-controlling interest in consolidated joint venture	2,396,632	2,035,041
Stockholders' equity		
Cumulative preferred stock, \$.0001 par value, 5,000,000 shares authorized; 700,000 shares issued and outstanding in 2006;		70
Common stock, \$.0001 par value, 25,000,000 shares authorized; 19,342,276 and 18,408,380 shares issued and outstanding	1,934	1,841
Additional paid-in capital	42,838,032	42,195,263
Deferred compensation	(1,586,765)	(2,245,981)
Deficit	(8,504,236)	(8,831,440)
	32,748,965	31,119,753
	\$ 58,168,417	\$ 40,156,120

See notes to condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues				
Casino	\$ 2,005,397	\$	\$ 3,354,187	\$
Food and beverage	544,980		865,782	
Hotel	556,338		861,382	
Other operating income	303,809		318,885	
	3,410,524		5,400,236	
Operating costs and expenses				
Casino	689,792		1,079,835	
Food and beverage	558,666		872,832	
Hotel	341,641		556,934	
Project development costs	60,554	133,386	245,734	\$ 432,024
Selling, general and administrative	2,055,021	1,288,677	3,807,276	1,696,183
Depreciation and amortization	418,501	19,321	712,411	37,539
	4,124,175	1,441,384	7,275,022	2,165,746
Other operating gains				
Equity in net income of unconsolidated joint venture	1,026,218	1,017,027	2,073,705	1,994,591
Unrealized gains on notes receivable, tribal governments	523,768	490,557	928,301	717,749
	1,549,986	1,507,584	3,002,006	2,712,340
Income from operations	836,335	66,200	1,127,220	546,594
Other income (expense)				
Interest and other income	116,053	18,077	286,480	46,332
Interest expense	(362,435)	(45,750)	(623,275)	(90,504)
	(246,382)	(27,673)	(336,795)	(44,172)
Income before non-controlling interest in net loss of consolidated joint venture and income tax (expense) benefit	589,953	38,527	790,425	502,422
Non-controlling interest in net (income) loss of consolidated joint venture	(103,664)	(23,296)	(111,590)	18,049

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Income before income tax (expense) benefit	486,289	15,231	678,835	520,471
Income tax (expense) benefit	(250,056)	134,382	(351,631)	(83,466)
Net income	236,233	149,613	327,204	437,005
Less undeclared dividends on cumulative preferred stock		(52,500)		(105,000)
Net income available to common stockholders	\$ 236,233	\$ 97,113	\$ 327,204	\$ 332,005
Net income per common share				
Basic and diluted	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.03
Weighted-average number of common shares outstanding				
Basic	19,322,828	10,563,047	19,265,597	10,451,098
Diluted	19,322,996	11,287,551	19,265,597	11,179,336

See notes to condensed consolidated financial statements.

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six months ended June 30,	
	2007	2006
Net cash provided by (used in) operating activities:	\$ 856,299	\$ (647,790)
Investing activities:		
Deposits and other cash costs of the Stockman's Casino acquisition, net of cash acquired of \$920,824 in 2007	(8,317,493)	(863,972)
Acquisition of contract rights and other assets	(304,464)	(110,893)
Acquisition of property and equipment	(112,624)	
Advances to tribal governments, net of \$32,030 and \$106,589 expensed	(235,623)	(818,882)
Proceeds from sale of equipment	900	
Repayments by co-venturer		37,215
Net cash used in investing activities	(8,969,304)	(1,756,532)
Financing activities:		
Dividends paid	(3,042,084)	
Payments on long-term debt	(1,153,829)	
Offering costs		(50,203)
Cash used in financing activities	(4,195,913)	(50,203)
Net decrease in cash and cash equivalents	(12,308,918)	(2,454,525)
Cash and cash equivalents, beginning of period	22,117,482	3,275,270
Cash and cash equivalents, end of period	\$ 9,808,564	\$ 820,745

See notes to condensed consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements of Full House Resorts, Inc. (Full House, we, our, ours, us) and its subsidiaries (collectively, the Company) included herein reflect all 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 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 condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in Full House's Annual Report on Form 10-KSB for the year ended December 31, 2006 (2006 Annual Report), from which the balance sheet information as of December 31, 2006, was derived. Certain minor reclassifications to amounts previously reported have been made to conform to the current period presentation. The results of operations for the period ended June 30, 2007, are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

The condensed consolidated financial statements include the accounts of the Company, including Stockman's Casino and Holiday Inn Express (Stockman's) since its acquisition on January 31, 2007 (Note 2). Gaming Entertainment (Michigan) LLC (GEM), a consolidated 50%-owned subsidiary of the Company, which is jointly owned with RAM Entertainment, LLC (RAM), a privately held company, has been determined to be a variable interest entity, as defined in Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities* and also is consolidated. The Company accounts for its investment in Gaming Entertainment (Delaware) LLC (GED) (Note 4), using the equity method of accounting. All material intercompany accounts and transactions have been eliminated.

2. ACQUISITION OF STOCKMAN'S CASINO

On January 31, 2007, the Company acquired Stockman's in Fallon, Nevada. The purchase price was approximately \$27.4 million (including acquisition costs of \$659,846), which was financed through an equity offering effected during 2006, a \$16 million reducing revolving loan from a bank, and a promissory note to the seller in the approximate amount of \$1.25 million (Note 6).

The purchase price was allocated in the first quarter of 2007 as follows:

Current assets	\$ 1,437,662
Other assets	151,531
Property and equipment	16,885,000
Current liabilities	(440,514)
Goodwill	9,372,983
	\$ 27,406,662

Total acquisition costs exceeded the estimate disclosed in the 2006 Annual Report by \$34,745. While the evaluation of fair market value of the assets has been completed, the Company is currently evaluating the tax treatment and contemplates having further discussion with seller. The resulting accounting is expected to be completed within one year of the purchase. In the first quarter of 2007, goodwill was adjusted upward from the original estimate disclosed in the 2006 Annual Report by approximately \$2.5 million, primarily as a result of the

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recognition of a deferred tax liability related to the Company's carry-over tax basis in Stockman's property assets. The following unaudited, condensed consolidated pro forma data summarizes the Company's results of operations for the periods indicated as if the acquisition had occurred as of January 1, 2006. This unaudited pro forma consolidated financial information is not necessarily indicative of what the Company's actual results would have been had the acquisition been completed on that date, or of future financial results.

	Six months ended June 30,	
	2007	2006
Net revenues	\$8,526,197	\$7,517,394
Net income	469,851	1,806,665
Earnings per share, basic	0.02	0.17
Earnings per share, diluted	0.02	0.16

3. SHARE-BASED COMPENSATION

For the six months ended June 30, 2007 and 2006, general and administrative expense for share-based compensation was \$1,135,216 and \$528,887, respectively, as a result of amortization of restricted stock grants. The current quarter expense includes \$335,156 as a result of the vesting of 137,500 shares of restricted stock held by a former employee.

On June 25, 2007, the Company issued 20,000 shares of unrestricted stock in conjunction with director compensation, which was valued at \$75,600 based on the closing price of the Company's stock (\$3.78), with no discount. Since the shares were fully vested at the date of grant, the Company recognized share-based compensation expense of \$75,600 related to this grant during the second quarter of 2007.

4. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

The Company's investment in unconsolidated joint venture is comprised of a 50% ownership interest in GED, a joint venture between the Company and Harrington Raceway Inc. (HRI). Since GED has no non-operating income or expenses, and is treated as a partnership for income tax purposes and consequently recognizes no federal or state income tax provision, income from operations for GED is equal to net income for each period presented, and there are no material differences between its income for financial and tax reporting purposes.

On June 18, 2007, the Company restructured its management contract relating to Midway Slots and Simulcast (Midway) in Harrington, Delaware. The Company has agreed with HRI, the owner of Midway and an equal co-venturer in GED, to allow HRI greater flexibility in the management of the facility while providing the Company with guaranteed growth in its share of the management fee for the remaining term of the management contract, which expires in August, 2011.

The Company will continue to receive management fees as currently prescribed under the management agreement, with a minimum guaranteed growth factor of 5% per year over the previous year, beginning with 2007. However, the minimum guaranteed growth factor is to be increased to 8% in 2008 to account for the scheduled opening of the expansion currently underway at Midway.

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Unaudited summary information for GED's operations is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Management fee				
revenues	\$2,160,479	\$2,142,493	\$4,383,610	\$4,222,433
Net income	2,052,456	2,034,051	4,147,410	3,989,181

5. NOTES RECEIVABLE, TRIBAL GOVERNMENTS

The Company has advanced funds directly to tribes to fund tribal operations and for development expenses related to potential projects. The repayment of these notes is contingent upon the development of the projects, and ultimately, the successful operation of the facilities. The Company's agreements with the tribes provide for the reimbursement of these advances plus applicable interest either from the proceeds of any outside financing of the development, the actual operation itself or in the event that the Company does not complete the development, from the revenues of the tribal gaming operation following completion of development activities undertaken by others.

As of June 30, 2007 and December 31, 2006, the Company has made advances to tribal governments totaling \$13,910,302 and \$13,652,328 as follows:

	June 30, 2007	December 31, 2006
Contractual (stated) amount (not including interest):		
Huron (Michigan) tribe	\$ 12,839,080	\$ 12,728,428
Other	1,071,222	923,900
	\$ 13,910,302	\$ 13,652,328
Estimated fair value of notes receivable related to Tribal casino projects:		
Huron (Michigan) tribe	\$ 11,239,687	\$ 10,258,202
Other	886,195	737,580
	\$ 12,125,882	\$ 10,995,782

In June 2007, the estimated opening date for the Montana casino was extended from the third quarter to the fourth quarter of 2008. This change in estimate results from slower than expected progress on compact negotiations. However, the change in estimate did not have a material impact on either the estimated fair value of the related notes receivable or the unrealized gains for the current quarter.

The following table summarizes the changes in notes receivable, tribal government between December 31, 2006 and June 30, 2007:

	Total	Michigan tribe	Other tribes
Balances, January 1, 2007	\$ 10,995,782	\$ 10,258,202	\$ 737,580
Total advances	267,653	120,332	147,321
Advances allocated to contract rights	(33,824)		(33,824)

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Advances expensed as period costs	(32,030)	(32,030)	
Unrealized gains	928,301	893,182	35,119
Balances, June 30, 2007	\$ 12,125,882	\$ 11,239,686	\$ 886,196

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Long-term debt arose in the first quarter of 2007 as a result of the Stockman's acquisition. Accordingly, at June 30, 2007, long-term debt consists of the following:

Reducing revolving loan agreement, \$16.0 million limit on January 31, 2007, due January 31, 2022, interest at 2.1% above the five year LIBOR/Swap rate, adjusted annually (7.39%) at June 30, 2007)	\$ 14,933,334
Promissory note, \$1.25 million on January 31, 2007, due February 1, 2012, interest at a fixed annual rate of 7.44%	1,159,653
Promissory note, \$2.38 million on February 15, 2002, originally due March 15, 2003, and was extended to December 2007, interest based on Bank of America New York prime rate (8.25% at June 30, 2007)	2,381,260
	18,474,247
Less current portion of long-term debt	(2,582,770)
	\$ 15,891,477

The maximum amount permitted to be outstanding under the reducing revolving loan decreases \$533,000 semiannually on January 1 and July 1 of each year and any outstanding amounts above such reduced maximum must be repaid on each such date. The reducing revolving loan is payable over 15 years at a variable interest rate based on the five year LIBOR/Swap rate plus 2.1%. This rate adjusts annually based on the funded debt to EBITDA ratio of Stockman's with adjustments based on the five year LIBOR/Swap rates. Stockman's assets are pledged as collateral for the loan. The loan agreement also contains certain customary financial representations and warranties and requires that Stockman's maintain specified financial covenants, including a fixed charge coverage ratio, a funded debt to EBITDA ratio and a minimum tangible net worth. In addition, the loan agreement provides restrictions on certain distributions and capital expenditures by Stockman's, and also provides for customary events of default including payment defaults and covenant defaults.

On April 30, 2007, the Company elected to pay and paid \$1.1 million of its long-term debt prior to the scheduled due dates of July 1, 2007 and January 1, 2008 and as a result the Company has approximately \$1.1 million of availability under its revolving credit line at June 30, 2007.

The promissory note payable to the seller of Stockman's is payable in 60 monthly installments of principal and interest and is secured by a second interest in the real estate of Stockman's.

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Scheduled maturities of long-term debt are as follows:

Annual periods ending June 30,

2008	\$ 2,582,770
2009	1,302,032
2010	1,320,205
2011	1,339,776
2012	1,260,130
Thereafter	10,669,334
Total	\$ 18,474,247

7. INCOME TAXES

Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), became effective and was adopted by the Company beginning in 2007. Based on management's assessment of its tax positions in accordance with FIN 48, there was no impact on its opening retained earnings or the current periods' results of operations as a result of the change in accounting principle to adopt FIN 48.

For the periods ended June 30, 2007 and 2006, the difference between the Company's estimated effective and statutory tax rates was primarily due to the state tax provision, net of the federal benefit, as well as the treatment of stock based compensation.

8. SEGMENT REPORTING

Following the acquisition of Stockman's in January 2007, our business is comprised of three primary business segments. The operations segment includes Stockman's casino and hotel operation in Fallon, Nevada. The development / management segment includes costs associated with our tribal casino projects and our Delaware joint venture. The Corporate segment reflects the management and administrative expenses of the Company and one-time revenues of \$283,554 in connection with the termination of our consulting agreement from the Hard Rock casino in Biloxi, Mississippi. The following tables reflect selected segment information for the three and six months ended June 30, 2007 and 2006.

Selected unaudited Statements of Operations data for the three months ended June 30,

2007	Casino/Hotel Operations	Development/ Management	Corporate	Consolidated
Revenues	\$3,126,970	\$	\$ 283,554	\$3,410,524
Selling, general and administrative	400,051	55,047	1,599,923	2,055,021
Depreciation and amortization	400,048	16,650	1,803	418,501
Other operating gains		1,549,986		1,549,986
Income (loss) from operations	736,772	1,411,254	(1,311,691)	836,335
Net income (loss)	745,388	1,224,384	(1,733,539)	236,233
2006	Casino/Hotel Operations	Development/ Management	Corporate	Consolidated

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Revenues	\$	\$	\$	\$
Selling, general and administrative		49,900	1,238,777	1,288,677
Depreciation and amortization		16,650	2,671	19,321
Other operating gains		1,507,584		1,507,584
Income (loss) from operations				