

FULL HOUSE RESORTS INC  
Form 10QSB  
May 14, 2004

## U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

### FORM 10-QSB

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004.**

OR

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**TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM TO .**

Commission File No. 0-20630

## FULL HOUSE RESORTS, INC.

(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**13-3391527**

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

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

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

**89147**

(zip code)

**(702) 221-7800**

(Registrant's telephone number)

Check whether the registrant: (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 ý No o

**APPLICABLE ONLY TO CORPORATE ISSUERS**

As of May 10, 2004, Registrant had 10,340,380 shares of its \$.0001 par value common stock outstanding.

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**FULL HOUSE RESORTS, INC**

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## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | MARCH 31,<br>2004<br>(unaudited) | DECEMBER<br>31,<br>2003 |
|---|----------------------------------|-------------------------|
| <b>ASSETS</b>   |                                  |                         |
| <b>CURRENT ASSETS:</b>  |                                  |                         |
| Cash and cash equivalents   | \$ 1,922,145                     | \$ 1,942,430            |
| Receivables   | 125,000                          | 125,000                 |
| Prepaid expenses  | 139,181                          | 110,932                 |
| Total current assets  | 2,186,326                        | 2,178,362               |
| JOINT VENTURE INVESTMENT IN LAND HELD FOR DEVELOPMENT   | 1,929,415                        | 1,929,415               |
| FIXTURES AND EQUIPMENT - net  | 11,351                           | 12,610                  |
| INVESTMENTS IN JOINT VENTURE  | 217,497                          | 171,403                 |
| RECEIVABLES   | 1,557,291                        | 1,497,291               |
| GAMING AND CONTRACT RIGHTS - net  | 4,982,999                        | 5,024,389               |
| DEFERRED INCOME TAX ASSET   | 580,875                          | 626,270                 |
| DEPOSITS AND OTHER ASSETS   | 5,032                            | 6,382                   |
| TOTAL   | \$ 11,470,786                    | \$ 11,446,122           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |                         |
| <b>CURRENT LIABILITIES:</b>   |                                  |                         |
| Accounts payable  | \$ 26,593                        | \$ 33,465               |
| Payable to joint ventures   | 62,916                           | 54,328                  |
| Current portion of long-term debt   | 2,381,260                        | 2,381,260               |
| Accrued expenses  | 138,021                          | 204,008                 |
| Total current liabilities   | 2,608,790                        | 2,673,061               |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                  |                         |
| <b>STOCKHOLDERS EQUITY:</b>   |                                  |                         |
| Cumulative, preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$4,567,500 and \$4,515,000 | 70                               | 70                      |
| Common stock, par value \$.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding   | 1,034                            | 1,034                   |
| Additional paid in capital  | 17,429,889                       | 17,429,889              |
| Accumulated deficit   | (8,568,997)                      | (8,657,932)             |
| Total stockholders equity   | 8,861,996                        | 8,773,061               |
| TOTAL   | \$ 11,470,786                    | \$ 11,446,122           |

See notes to unaudited condensed consolidated financial statements.

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

|  | <b>THREE MONTHS ENDED<br/>MARCH 31,</b> |                   |
|--|---|-------------------|
|  | <b>2004</b>                             | <b>2003</b>       |
| <b>OPERATING REVENUES:</b>   |   |                   |
| Joint venture earnings   | \$ 907,988                              | \$ 803,608        |
| Total operating revenues   | 907,988                                 | 803,608           |
| <b>OPERATING COSTS AND EXPENSES:</b>   |   |                   |
| Development costs  | 142,628                                 | 162,634           |
| General and administrative   | 494,433                                 | 394,313           |
| Depreciation and amortization  | 42,648                                  | 44,552            |
| Total operating costs and expenses   | 679,709                                 | 601,499           |
| <b>INCOME FROM OPERATIONS</b>  | <b>228,279</b>                          | <b>202,109</b>    |
| Interest expense   | (28,180)                                | (24,954)          |
| Interest and other income  | 231                                     | 295               |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>200,330</b>                          | <b>177,450</b>    |
| <b>INCOME TAX PROVISION</b>  | <b>(111,395)</b>                        | <b>(118,300)</b>  |
| <b>NET INCOME</b>  | <b>88,935</b>                           | <b>59,150</b>     |
| Less, undeclared dividends on cumulative preferred stock                           | 52,500                                  | 52,500            |
| <b>NET INCOME APPLICABLE TO COMMON SHARES</b>                                      | <b>\$ 36,435</b>                        | <b>\$ 6,650</b>   |
| <b>NET INCOME PER COMMON SHARE, Basic and Diluted</b>                              | <b>\$ 0.00</b>                          | <b>\$ 0.00</b>    |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON<br/>SHARES OUTSTANDING, Basic and Diluted</b> | <b>10,340,380</b>                       | <b>10,340,380</b> |

See notes to unaudited condensed consolidated financial statements.

## FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | THREE MONTHS ENDED<br>MARCH 31, |              |
|---|---------------------------------|--------------|
|   | 2004                            | 2003         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                 |              |
| Net income  | \$ 88,935                       | \$ 59,150    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |              |
| Depreciation and amortization   | 42,648                          | 44,552       |
| Equity in earnings of joint venture   | (907,988)                       | (803,608)    |
| Distributions from joint venture  | 861,894                         | 686,267      |
| Changes in operating assets and liabilities:                                      |                                 |              |
| Receivables   |                                 | 61,969       |
| Prepaid expenses  | (28,249)                        | (24,865)     |
| Deposits and other assets   | 1,350                           |              |
| Deferred income taxes   | 45,395                          | 52,300       |
| Accounts payable and accrued expenses   | (64,270)                        | (10,071)     |
| Net cash provided by operating activities   | 39,715                          | 65,694       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                 |              |
| Advances on receivable  | (60,000)                        | (60,000)     |
| Net cash used in investing activities   | (60,000)                        | (60,000)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                 |              |
| Net cash used by financing activities   |                                 |              |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                              | (20,285)                        | 5,694        |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                    | 1,942,430                       | 1,164,053    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | \$ 1,922,145                    | \$ 1,169,747 |

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, 2003. The results of operations for the period ended March 31, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

**AWARDS OF STOCK-BASED COMPENSATION** - Full House has adopted SFAS No. 123, *Accounting for Awards of Stock-Based Compensation* which establishes financial accounting and reporting standards for stock-based employee compensation plans and for transactions where equity securities are issued for goods and services. This statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Full House continues to apply APB Opinion No. 25 to its stock based compensation awards to employees and discloses the required pro forma effect on net income and net income per common share.

The Company had three stock-based employee compensation plans. The ability to issue options under these plans expired in 2002, but outstanding options may still be exercised in accordance with their terms. The Company accounts for these plans under the recognition and measurement principles of APB No. 25 and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans has an exercise price equal to the market value of the underlying common stock on the date of the grant.

All options that are outstanding as of March 31, 2004 have vested and applying the fair value recognition provisions of SFAS No. 123 results in pro forma net income that is the same as historical net income for the periods presented.

**2. JOINT VENTURE INVESTMENT IN LAND HELD FOR DEVELOPMENT**

On September 9, 2003 a joint venture between the Company and RAM Entertainment, LLC, purchased approximately 80 acres of land located at the intersection of I-94 and 11 Mile Road in

Emmett Township, just outside Battle Creek, Michigan. The purchase price of \$3,858,830 was funded equally by the two parties. The land is intended to be used as the site for a casino project for the Nottawaseppi Band of Huron Potawatomi Indians.

### 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 an 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 |                      |

The value of the Oregon contract was amortized over the remaining term. The Michigan and California contracts are being amortized over an eight year period which reflects a seven year contract term and an initial expectation of development being one year in the future.

### 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 asset will commence when the associated facility is developed and becomes operational and will be on a straight-line basis over seven

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years, or the term of the related management contract. Now that these are wholly-owned consolidated entities, these previously contributed 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 three entities. Therefore, amortization of the acquired contract rights commenced as of April 1, 2001. Gaming and contract rights, net, as of March 31, 2004 is comprised of the following:

|                                    |    |           |
|------------------------------------|----|-----------|
| Contributed Michigan gaming rights | \$ | 4,155,213 |
| Acquired contract rights           |    | 1,403,854 |
| Less accumulated amortization      |    | (576,068) |
| Gaming and Contract Rights, net    | \$ | 4,982,999 |

The annual amortization expense will be \$165,557 through 2008, with the then remaining balance of \$41,391 expensed in 2009. As of March 31, 2004, the weighted average amortization period for acquired contract rights is 5 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:

|                        | 2004         | 2003         |
|------------------------|--------------|--------------|
| Revenues               | \$ 5,110,417 | \$ 4,689,569 |
| Income from operations | 1,815,975    | 1,607,216    |
| Net income             | 1,815,975    | 1,607,216    |

## 6. LONG TERM DEBT

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC ( RAM ), a privately held investment company, whereby RAM will acquire a 50% interest in the California and Michigan projects 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

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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. On February 15, 2003, we entered into an agreement with RAM Entertainment, LLC to extend the due date until February 15, 2004.

On February 12, 2004, we received notice from RAM Entertainment, LLC that they desired to extend the maturity date of the \$2,381,260 loan to November 15, 2004 unless they are required to convert the loan into a 50% equity ownership position in Gaming Entertainment (Michigan), LLC,

the subsidiary which is party to the Development and Management Agreement with the Michigan Tribe. Pursuant to the agreement with RAM, the loan is convertible into equity on the occurrence of two events, (a) federal approval of the land into trust application and (b) federal approval of the Management Agreement with the Tribe. Neither event has occurred as of March 31, 2004, but RAM may waive either or both conditions and convert the loan into equity.

## 7. SEGMENT INFORMATION

We view our business in three primary business segments. The Operations segment includes the performance of our Delaware project. The Development segment includes costs associated with our activities in Michigan and California. The Corporate segment reflects the management and administrative expenses of the business.

SUMMARY INFORMATION FOR THE THREE MONTHS ENDED MARCH 31,

### 2004

|                               | Operations | Development | Corporate | Consolidated |
|-------------------------------|------------|-------------|-----------|--------------|
| Revenues                      | \$ 907,988 | \$          | \$        | \$ 907,988   |
| Development costs             |            | 142,628     |           | 142,628      |
| Income (loss) from operations | 907,988    | (184,017)   | (495,692) | 228,279      |
| Net income (loss)             | 551,463    | (135,523)   | (327,005) | 88,935       |

### 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       |

## 8. SUBSEQUENT EVENTS

On April 9, 2004, the 50% interest in Gaming Entertainment (Delaware) LLC held by GTECH was acquired by Harrington Raceway, Inc., the owner of Midway Slots and Simulcast. There have been no changes to the Limited Liability Company Operating Agreement based on the change in membership of the Limited Liability Company.

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On April 12, 2004, management of Full House met with representatives of the Torres-Martinez Tribe to discuss the planned development of a casino by the Tribe. The Company has made one final offer to the Tribe to resolve the differences which have existed. Representatives of the Tribe have not responded to that offer, the terms of which required a response before April 23, 2004.

On April 23, 2004, the United States District Court for the District of Columbia entered a ruling in the case of CETAC vs. Norton. This case was an objection by a citizens group opposed to the casino gaming development of the Huron Potawatomi Tribe for which Full House has a management contract. The court ruled in favor of the Tribe and the government's determination

on three of the four issues. On the question of the validity of the basis of the Secretary of the Interior's Finding of No Significant Impact (FONSI) pursuant to the National Environmental Protection Act (NEPA), the Court found the environmental assessment lacking in three areas. The Court directed the Secretary of the Interior to further elaborate the environmental assessment in the particulars noted or in the alternative to prepare an Environmental Impact Statement. The government is not allowed to take land into trust for the casino development until these issues are resolved.



**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, 2003.

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 continually 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, 2004 Compared to First Quarter Ended March 31, 2003**

**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.

**Delaware Joint Venture.** Our share of income from the Delaware joint venture was \$907,988 for the first quarter ended March 31, 2004, compared to \$803,608 in the prior year. This increase is primarily attributable to milder weather conditions.

Adverse weather conditions in January and February 2003, which caused the facility to be closed for two days of President's Day weekend, had a significant impact on the prior year's performance. The statewide smoking ban that took effect in late November 2002, has now lapsed a full year and the performance in the first quarters of 2003 and 2004 are both effected by the continuing impact.

**Development Costs.** Total development related costs for the Michigan project were \$142,628 during the first quarter of 2004, compared to \$162,634 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, 2004 were \$494,433, an increase of \$100,120 from the comparable period in 2003. This increase is due to severance payments of approximately \$115,000 made to former executives.

**Depreciation and Amortization.** The \$42,648 expense is comprised of depreciation of fixtures and equipment in the amount of \$1,259 and amortization of the Contract Rights acquired in the GTECH acquisition in the amount of \$41,389. The prior year amount included \$3,163 of depreciation and \$41,389 of amortization.

**Interest Expense.** Interest expense of \$28,180 is attributable to the RAM note and is comparable to the prior year period.

**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 \$111,395. 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.

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

At March 31, 2004, we had cash and cash equivalents of \$1,922,145. For the three months ended March 31, 2004, cash of \$39,715 was provided by operating activities, as compared to \$65,694 in the prior year period. Net cash used in investing activities was \$60,000 in both periods, and was for advances to the Michigan tribe. There were no financing activities in either period.

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 converted into equity 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 original February 15, 2003 maturity date was extended to February 15, 2004 and extended again at the option of RAM until November 15, 2004 unless it is required to convert the loan into equity. The legal challenge preventing the land from being taken into trust is pending in Federal District Court in Washington, D.C.

On September 9, 2003 we, together with RAM Entertainment, LLC, our joint venture partner, purchased approximately 80 acres of land located at the intersection of I-94 and 11 Mile Road in Emmett Township, just outside Battle Creek, Michigan. The purchase price of \$3,858,830 was funded equally by the two parties. The land is intended to be used as the site for a casino project for the Nottawaseppi Band of Huron Potawatomi Indians

As a result of our agreement with RAM, development funding cash needs for the Michigan project may be substantially provided by RAM. Our future cash requirements will primarily be to fund the balance of development expense and 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, which is to concentrate on the Michigan project and select development and management opportunities.

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Receipt by Full House of revenues from the Delaware venture is governed by the terms of the applicable joint venture agreement. The contract provides that net cash flow (after certain deductions) is to be distributed monthly to the members of the LLC. 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 on our balance sheet is attributable to this funding, and the repayment obligation is dependent on the future profitable operation of the tribes' gaming enterprises. Additional advanced costs, which we have expensed

as period development costs may also be recovered if we successfully develop and operate a gaming enterprise for the tribe.

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 \$114,000 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. On April 12, 2004, we met with representatives of the Torres-Martinez Tribe to discuss the planned development of a casino by the Tribe. We have made one final offer to the Tribe to resolve the differences which have existed. Representatives of the Tribe have not responded to that offer, the terms of which required a response before April 23, 2004. 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 executed 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 beginning with the opening of a Biloxi facility, entitling us to receive annually, for the two year consulting period, \$100,000, or 10% of licensing fees, as defined, whichever is greater. During 2003, Hard Rock executed a new licensing agreement for Biloxi.

**Contractual Obligations.** The following table summarizes our contractual obligations as of March 31, 2004:

|                  | Total        | Less than 1 year | Payments Due by Period |              |            |
|------------------|--------------|------------------|------------------------|--------------|------------|
|                  |              |                  | 1 to 3 years           | 3 to 5 years | Thereafter |
| Long term debt   | \$ 2,381,260 | \$ 2,381,260     | \$                     | \$           | \$         |
| Operating leases | 117,660      | 37,693           | 79,967                 |              |            |
| Total            | \$ 2,498,920 | \$ 2,418,953     | \$ 79,967              | \$           | \$         |

As of March 31, 2004, we had cumulative undeclared and unpaid dividends in the amount of \$2,467,500 on the 700,000 outstanding shares of our 1992-1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears.

**Quantitative and Qualitative Disclosures 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 total outstanding short-term debt of \$2.4 million at March 31, 2004 is subject to variable interest rates, which averaged 4.0% during the current quarter. Our variable rate debt is based on the Prime lending rate and therefore, our interest rates on this variable rate debt will change as the Prime rate changes. Based on our \$2.4 million of outstanding variable rate debt at March 31, 2004, a hypothetical 100 basis point (1%) change in rates would result in an annual interest expense change of approximately \$24,000.



**Recent Accounting Pronouncements.** A description of significant accounting policies and estimates can be found in Note 2 of the Annual Report on Form 10-KSB for the year ended December 31, 2003. There have been no material changes to these policies or estimates as of March 31, 2004.

**Item 3. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures.** Full House's chief executive and financial officers, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934) as of March 31, 2004 have concluded that as of such date, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to them to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting.** Full House does not believe that there are have been any changes in internal controls during the last fiscal quarter that had materially affected, or are reasonably likely to materially affect its internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 3. Defaults upon Senior Securities**

As of March 31, 2004, cumulative dividends were \$2,467,500, 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 4. Submission of Matters to a Vote of Security Holders**

We held our Annual Meeting of Stockholders on February 13, 2004. A total of 10,198,513 common shares and 350,000 preferred shares (95% of all eligible shares) were represented by proxy or in person, and cast their votes on the following matter:



| <b>Election of Directors</b> | <b>FOR</b> | <b>AGAINST</b> |
|------------------------------|------------|----------------|
| Lee A. Iacocca               | 10,526,503 | 22,010         |
| J. Michael Paulson           | 10,526,503 | 22,010         |
| William P. McComas           | 10,058,503 | 490,010        |

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

(a) Exhibits.

- 31.1 Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of principal executive and financial officers pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 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: May 12, 2004

By : /s/ GREG VIOLETTE  
Greg Violette  
Chief Financial Officer  
(on behalf of the Registrant and  
as principal financial officer)