

FULL HOUSE RESORTS INC
Form 10-Q
August 08, 2013

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

13-3391527
(I.R.S. Employer
Identification No.)

4670 S. Fort Apache, Ste. 190
Las Vegas, Nevada
(Address of principal executive offices)

89147
(Zip Code)

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 7, 2013, there were 18,735,681 shares of Common Stock, \$.0001 par value per share, outstanding.

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

(In thousands, except per share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | | | | |
| Casino | \$33,278 | \$25,352 | \$69,070 | \$51,068 |
| Food and beverage | 2,100 | 1,415 | 4,246 | 2,742 |
| Hotel | 160 | 135 | 287 | 251 |
| Management fees | 333 | 400 | 810 | 6,210 |
| Other operations | 833 | 538 | 1,417 | 895 |
| | 36,704 | 27,840 | 75,830 | 61,166 |
| Operating costs and expenses | | | | |
| Casino | 16,885 | 14,551 | 34,935 | 29,322 |
| Food and beverage | 1,985 | 1,409 | 4,060 | 2,584 |
| Hotel | 161 | 148 | 291 | 293 |
| Other operations | 1,347 | 1,337 | 2,620 | 2,489 |
| Project development and acquisition costs | (4) | 175 | 39 | 271 |
| Selling, general and administrative | 12,106 | 7,712 | 24,340 | 16,273 |
| Depreciation and amortization | 2,198 | 1,523 | 4,408 | 3,388 |
| | 34,678 | 26,855 | 70,693 | 54,620 |
| Operating gains | | | | |
| Gain on sale of joint venture | -- | 438 | -- | 41,200 |
| Operating income | 2,026 | 1,423 | 5,137 | 47,746 |
| Other (expense) income | | | | |
| Interest expense | (1,883) | -- | (3,768) | (733) |
| Gain on derivative instrument | -- | -- | - | 8 |
| Other (expense) income, net | (18) | 2 | (21) | 6 |
| Loss on extinguishment of debt | -- | -- | -- | (1,719) |
| Other (expense) income, net | (1,901) | 2 | (3,789) | (2,438) |
| Income before income taxes | 125 | 1,425 | 1,348 | 45,308 |
| Income tax expense | 167 | 693 | 814 | 16,546 |
| Net (loss) income | (42) | 732 | 534 | 28,762 |
| Income attributable to non-controlling interest in consolidated joint venture | -- | -- | -- | (2,181) |
| Net (loss) income attributable to the Company | \$(42) | \$732 | \$534 | \$26,581 |
| Net (loss) income attributable to the Company per common share | \$0.00 | \$0.04 | \$0.03 | \$1.42 |
| Weighted-average number of common shares outstanding | 18,732,748 | 18,677,081 | 18,727,325 | 18,675,372 |

See notes to unaudited consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|---------------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$22,769 | \$20,603 |
| Accounts receivable, net of allowance for doubtful accounts of \$589 and \$959 | 1,939 | 2,657 |
| Income tax receivable | 950 | -- |
| Prepaid expenses | 5,278 | 5,744 |
| Deferred tax asset | 2,110 | 2,110 |
| Deposits and other | 697 | 1,225 |
| | 33,743 | 32,339 |
| Property and equipment, net of accumulated depreciation of \$19,410 and \$16,283 | 82,844 | 83,673 |
| Other long-term assets | | |
| Goodwill | 22,127 | 22,127 |
| Intangible assets, net of accumulated amortization of \$2,773 and \$1,506 | 16,941 | 18,106 |
| Loan fees, net of accumulated amortization of \$1,479 and \$496 | 4,199 | 5,159 |
| Long-term deposits | 296 | 301 |
| Deferred tax asset | 1,020 | 1,020 |
| | 44,583 | 46,713 |
| | \$161,170 | \$162,725 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$2,493 | \$2,532 |
| Income tax payable | 998 | 7 |
| Accrued player club points and progressive jackpots | 2,267 | 2,378 |
| Accrued payroll and related | 4,301 | 4,107 |
| Other accrued expenses | 2,614 | 3,808 |
| Current portion of long-term debt | 2,500 | 2,500 |
| | 15,173 | 15,332 |
| Long-term debt, net of current portion | 63,750 | 66,250 |
| Deferred tax liability | 10 | 10 |
| | 78,933 | 81,592 |
| Stockholders' equity | | |
| Common stock, \$.0001 par value, 100,000,000 shares authorized; 20,092,276 and 20,036,276 shares issued | 2 | 2 |
| Additional paid-in capital | 45,277 | 44,707 |
| Treasury stock, 1,356,595 common shares | (1,654) | (1,654) |

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| | | |
|-------------------|-----------|-----------|
| Retained earnings | 38,612 | 38,078 |
| | 82,237 | 81,133 |
| | \$161,170 | \$162,725 |

See notes to unaudited consolidated financial statements.

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

| Six months ended June 30, 2013 | Common stock | | Additional | Treasury stock | | Retained | Total |
|---|--------------|---------|--------------------|----------------|------------|----------|-------------------------|
| | Shares | Dollars | paid-in Capital | Shares | Dollars | earnings | stockholders' equity |
| Beginning balances | 20,036 | \$2 | \$44,707 | 1,357 | \$(1,654) | \$38,078 | \$81,133 |
| Previously deferred share- based compensation recognized | -- | -- | 551 | -- | -- | -- | 551 |
| Issuance of common stock | 6 | -- | 19 | -- | -- | -- | 19 |
| Issuance of share-based compensation | 50 | -- | -- | -- | -- | -- | -- |
| Net income | -- | -- | -- | -- | -- | 534 | 534 |
| Ending balances | 20,092 | \$2 | \$45,277 | 1,357 | \$(1,654) | \$38,612 | \$82,237 |

| Six months ended June 30, 2012 | Common stock | | Additional | Treasury stock | | Retained | Non- | Total |
|--|--------------|---------|--------------------|----------------|------------|----------|-------------------------|-------------------------|
| | Shares | Dollars | paid-in Capital | Shares | Dollars | earnings | controlling interest | Stockholders' equity |
| Beginning balances | 20,030 | \$2 | \$43,448 | 1,357 | \$(1,654) | \$8,508 | \$5,141 | \$55,445 |
| Previously deferred share- based compensation recognized | -- | -- | 621 | -- | -- | -- | -- | 621 |
| Issuance of common stock | 6 | -- | 17 | -- | -- | -- | -- | 17 |
| Distribution to non-controlling interest in consolidated joint venture | -- | -- | -- | -- | -- | -- | (3,587) | (3,587) |
| Sale of interest in joint venture | -- | -- | -- | -- | -- | 1,735 | (3,735) | (2,000) |
| Net income | -- | -- | -- | -- | -- | 26,581 | 2,181 | 28,762 |
| Ending balances | 20,036 | \$2 | \$44,086 | 1,357 | \$(1,654) | \$36,824 | \$-- | \$79,258 |

See notes to unaudited consolidated financial statements.

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

| | Six months ended June, 30, | |
|--|-------------------------------|------------|
| | 2013 | 2012 |
| Net cash provided by (used in) operating activities | \$7,121 | \$(1,964) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (2,337) | (1,363) |
| Proceeds from sale of joint venture, less holdback | -- | 49,669 |
| Other deposits | (96) | (2,886) |
| Net cash (used in) provided by investing activities | (2,433) | 45,420 |
| Cash flows from financing activities: | | |
| Repayment of long term debt and swap | (2,500) | (26,937) |
| Distributions to non-controlling interest in consolidated joint venture | -- | (3,323) |
| Other | (22) | -- |
| Net cash used in financing activities | (2,522) | (30,260) |
| Net increase in cash and equivalents | 2,166 | 13,196 |
| Cash and equivalents, beginning of period | 20,603 | 14,707 |
| Cash and equivalents, end of period | \$22,769 | \$27,903 |
| | 2013 | 2012 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 2,778 | \$ 547 |
| Cash from income tax refund, net of cash paid for income taxes of \$0.1 million for 2013 | \$ (1,424) | \$ 12,153 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Capital expenditures financed with accounts payable | \$ -- | \$ 14 |
| Non-cash distributions for non-controlling interest in consolidated joint venture | \$ -- | \$ 279 |

See notes to unaudited consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed March 5, 2013, for the year ended December 31, 2012, from which the balance sheet information as of that date was derived. The results of operations for the period ended June 30, 2013, are not necessarily indicative of results to be expected for the year ending December 31, 2013.

The consolidated financial statements include all our accounts and the accounts of our wholly-owned subsidiaries, including Silver Slipper Casino Venture, LLC (“Silver Slipper”), Gaming Entertainment (Indiana) LLC (“Rising Star”), Gaming Entertainment (Nevada) LLC (“Grand Lodge”) and Stockman’s Casino (“Stockman’s”). Gaming Entertainment (Michigan), LLC (“GEM”), our 50%-owned investee was jointly owned by RAM Entertainment, LLC (“RAM”), until March 30, 2012, when the sale of RAM’s and our interest in GEM closed, and was consolidated pursuant to the relevant portions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) Topic 810, “Consolidation”. All material intercompany accounts and transactions have been eliminated.

Recently Issued Accounting Pronouncements

Recently issued authoritative standards issued after January 1, 2013 have been reviewed. The new guidance currently has no impact on our financial statements.

2. SHARE-BASED COMPENSATION

On June 1, 2011, our compensation committee approved the issuance of 660,000 shares of restricted stock, then valued at the closing price of our stock (\$3.88), with no discount. The majority of the shares (600,000) vested on June 1, 2013. The remaining shares have a three year vesting schedule as follows: 20,001 vested on June 1, 2012, 20,001 vested on June 1, 2013 and 19,998 will vest on June 1, 2014. On January 15, 2013, our compensation committee approved the issuance of 50,000 additional shares of restricted stock, then valued at the closing price of our stock (\$3.22), with no discount. These shares will vest over three years, 16,667 on January 15, 2014, 16,667 on January 15, 2015 and 16,666 on January 15, 2016. Vesting is contingent upon certain conditions, including continuous service of the individual recipients. The unvested grants are viewed as a series of individual awards and the related share-based compensation expense will be amortized into compensation expense, reported as a reduction of stockholders’ equity, and is amortized into compensation expense on a straight-line basis as services are provided over the vesting period.

We recognized stock compensation expense of \$0.6 million for both of the six months ended June 30, 2013 and June 30, 2012. Share-based compensation expense related to the amortization of the restricted stock issued was included in selling, general and administrative expense. At June 30, 2013 and December 31, 2012, we had deferred share-based compensation of \$0.2 million and \$0.6 million, respectively.

3. VARIABLE INTEREST ENTITY

GEM. We directed the day-to-day operational activities of GEM that significantly impacted GEM’s economic performance, prior to the sale of our interest on March 30, 2012 and therefore, we were the primary beneficiary pursuant to the relevant portions of FASB ASC Topic 810 “Consolidation” [ASC 810-10-25 Recognition of Variable Interest Entities, paragraphs 38-39]. As such, the joint venture was a variable interest entity that was consolidated in our financial statements.

An unaudited summary of GEM’s operations follows. (GEM’s revenues and net income were zero for the three months ended June 30, 2013 and June 30, 2012.):

GEM CONDENSED STATEMENT OF INCOME INFORMATION

| | Six Months Ended | |
|------------|------------------|------------------|
| | June 30, 2013 | June 30, 2012 |
| | (in thousands) | |
| Revenues | \$ -- | \$ 5,340 |
| Net income | -- | 4,362 |

4. CONTRACT RIGHTS

We sold \$7.5 million in contract rights with our interest in GEM, to the FireKeepers Development Authority (“FDA”) on March 30, 2012, and the remaining \$2.8 million in contract rights was expensed.

5. GOODWILL & OTHER INTANGIBLES

Goodwill:

Goodwill represents the excess of the purchase price over fair value of net assets acquired in connection with Silver Slipper, Rising Star and Stockman’s operations. Goodwill was \$14.7 million for Silver Slipper, \$1.6 million for Rising Star and \$5.8 million for Stockman’s as of June 30, 2013 and December 31, 2012. Impairment calculations, which are subject to change as a result of future economic uncertainty, contemplate changes for both current year and future year estimates in earnings and the impact of these changes to the fair value of Silver Slipper, Rising Star and Stockman’s, although there is always some uncertainty in key assumptions including projected future earnings growth.

Other Intangible Assets:

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

| | June 30, 2013 (unaudited) | | | | |
|--|------------------------------|----------------------------|-----------------------------|--|--------------------------|
| | Estimated Life (years) | Gross Carrying Value | Accumulated Amortization | Cumulative Expense / (Disposals) | Intangible Asset, Net |
| Amortizing Intangible assets: | | | | | |
| Player Loyalty Program - Rising Star | 3 | \$ 1,700 | \$ (1,275) | \$ -- | \$ 425 |
| Player Loyalty Program - Silver Slipper | 3 | 5,900 | (1,475) | -- | 4,425 |
| Land Lease and Water Rights - Silver Slipper | 46 | 1,420 | (23) | -- | 1,397 |
| Capital One Bank Loan Fees | 3 | 4,671 | (1,296) | 10 | 3,385 |
| ABC Funding, LLC Loan Fees | 4 | 984 | (184) | 14 | 814 |
| Non-amortizing intangible assets: | | | | | |
| Gaming License-Indiana | Indefinite | 9,900 | -- | -- | 9,900 |
| Gaming License-Mississippi | Indefinite | 115 | -- | 3 | 118 |
| Gaming Licensing-Nevada | Indefinite | 542 | -- | 96 | 638 |
| Trademarks | Indefinite | 36 | -- | 2 | 38 |
| | | \$ 25,268 | \$ (4,253) | \$ 125 | \$ 21,140 |

| | December 31, 2012 | | | | |
|--|------------------------------|----------------------------|-----------------------------|--|---------------------------|
| | Estimated Life (years) | Gross Carrying Value | Accumulated Amortization | Cumulative Expense / (Disposals) | Intangible Assets, Net |
| Amortizing Intangible assets: | | | | | |
| Player Loyalty Program - Rising Star | 3 | \$ 1,700 | \$ (992) | \$ -- | \$ 708 |
| Player Loyalty Program - Silver Slipper | 3 | 5,900 | (492) | -- | 5,408 |
| Land Lease and Water Rights - Silver Slipper | 46 | 1,420 | (23) | -- | 1,397 |
| Wells Fargo Bank Loan Fees | 5 | 2,614 | (924) | (1,690) | -- |
| Capital One Bank Loan Fees | 3 | 4,671 | (434) | -- | 4,237 |
| ABC Funding, LLC Loan Fees | 4 | 984 | (62) | -- | 922 |
| Non-amortizing intangible assets: | | | | | |
| Gaming License-Indiana | Indefinite | 9,900 | -- | -- | 9,900 |
| Gaming License-Mississippi | Indefinite | 115 | -- | -- | 115 |
| Gaming License-Nevada | Indefinite | 542 | -- | -- | 542 |
| Trademarks | Indefinite | 36 | -- | -- | 36 |

\$ 27,882 \$ (2,927) \$ (1,690) \$ 23,265

Player Loyalty Programs

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

Land Lease and Water Rights

In November 2004, Silver Slipper entered into a lease agreement with Cure Land Company, LLC for approximately 38 acres of land ("Land Lease"), which includes approximately 31 acres of protected marsh land as well as a seven acre casino parcel, on which the Silver Slipper was subsequently built. The lease was amended and extended on February 26, 2013, as discussed in Note 8 to the consolidated financial statements. The \$1.0 million Land Lease represents the excess fair value of the land over the estimated net present value of the Land Lease payments. The \$0.4 million of water rights represents the fair value of the water rights based upon the current market rate in Hancock County, Mississippi.

Loan Fees

Loan fees incurred and paid as a result of debt instruments are accumulated and amortized over the term of the related debt, based on an effective interest method. On March 30, 2012, we paid off the then remaining debt and interest rate swap ("Swap"), related to the Credit Agreement with Wells Fargo ("Wells Fargo Credit Agreement"), and therefore expensed the net remaining loan fees and incurred a \$1.7 million loss on extinguishment of debt.

On October 1, 2012, we funded the purchase of the Silver Slipper with the full amount of the \$50.0 million first lien term loan ("First Lien Credit Agreement") with Capital One Bank, N.A. ("Capital One") and the full amount of the second lien term loan ("Second Lien Credit Agreement") with ABC Funding, LLC, as discussed in Note 6 to the consolidated financial statements. We incurred \$4.7 million in loan fees related to obtaining the First Lien Credit Agreement and \$1.0 million in loan fees related to obtaining the Second Lien Credit Agreement which are amortized over the terms of the agreements, which began October 2012.

The aggregate loan fee amortization was \$0.5 million and \$0.0 million for the three months ended June 30, 2013 and June 30, 2012, respectively, and \$1.0 million and \$0.2 million for the six months ended June 30, 2013 and June 30, 2012, respectively.

Gaming Licenses

Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which are subject to highly extensive regulatory oversight and, in some cases, a limitation on the number of licenses available for issuance. The value of \$9.9 million of the Rising Star gaming license was determined using a multi-period excess earning method of the income approach, which examines the economic returns contributed by the identified tangible and intangible assets of a company, and then isolates the excess return, which is attributable to the asset being valued, based on cash flows attributable to the gaming license. The other gaming license values are based on actual costs. Gaming licenses are not subject to amortization as they have indefinite useful lives and are evaluated for potential impairment on an annual basis unless events or changes in circumstances indicate the carrying amount of the gaming licenses may not be recoverable. We incurred \$0.1 million in costs related to pursuing a Mississippi gaming license for the purchase of all of the outstanding membership interest of Silver Slipper Casino Venture, LLC which owns and operates the Silver Slipper.

Trademarks

Trademarks are based on the legal fees and recording fees related to the trademark of the "Rising Star Casino Resort" name, and variations of such name. Trademarks are not subject to amortization, as they have an indefinite useful life and are evaluated for potential impairment on an annual basis unless events or changes in circumstances indicate the carrying amount of the trademark may not be recoverable.

Current Amortization

We amortize our definite-lived intangible assets, including our player loyalty programs, loan fees, land leases and water rights over their estimated useful lives. The aggregate amortization expense was \$1.1 million and \$0.1 million for the three months ended June 30, 2013 and June 30, 2012, respectively, and \$2.3 million and \$0.5 million for the six months ended June 30, 2013 and June 30, 2012, respectively.

6. LONG-TERM DEBT

At June 30, 2013 and December 31, 2012, long-term debt consists of the following:

| | 2013 | 2012 |
|---|-----------|-----------|
| Long-term debt, net of current portion: | | |
| Term loan agreement, \$50.0 million on June 29, 2012, funded on October 1, 2012, maturing October 1, 2015, with variable interest as described in the second succeeding paragraph. (5.75% during the quarter ended June 30, 2013 and year ended December 31, 2012). | \$ 46,250 | \$ 48,750 |
| Term loan agreement, \$20.0 million on October 1, 2012, maturing October 1, 2016, interest rate is fixed at 13.25% per annum. | 20,000 | 20,000 |
| Less current portion | (2,500) | (2,500) |
| | \$ 63,750 | \$ 66,250 |

First and Second Lien Credit Agreements. On June 29, 2012, we entered into the First Lien Credit Agreement with Capital One, which provided for a term loan in an amount up to \$50.0 million and a revolving loan in an amount up to \$5.0 million. On October 1, 2012, we entered into a Second Lien Credit Agreement with ABC Funding, LLC as administrative agent which provided for a term loan in an amount up to \$20.0 million. We funded the purchase of Silver Slipper with the full amount of the \$50.0 million term loan under the First Lien Credit Agreement and the full amount of the Second Lien Credit Agreement. The \$5.0 million revolving loan under the First Lien Credit Agreement remains undrawn and available. The First and Second Lien Credit Agreements are secured by substantially all of our assets and therefore, our wholly-owned subsidiaries guarantee our obligation under the agreements. The Second Lien Credit Agreement is subject to the lien of the First Lien Credit Agreement. The First and Second Lien Credit Agreements contain customary negative covenants and events of default for transactions of this type.

We have elected to pay interest on the First Lien Credit Agreement based on a LIBOR rate plus a margin rate as set forth in the agreement. LIBOR rate elections can be made based on 30 day, 60 day, 90 day or six-month LIBOR. The LIBOR rate is a rate per annum equal to the quotient (rounded upward if necessary to the nearest 1/16 of one percent) of (a) the greater of (1) 1.00% and (2) the rate per annum referenced to as the BBA (British Bankers Association) LIBOR divided by (b) one minus the reserve requirement set forth in the First Lien Credit Agreement for such loan in effect from time to time. We pay interest on the Second Lien Credit Agreement at the rate of 13.25% per annum.

As of December 31, 2012, we elected, at our discretion, to prepay the principal payment of \$1.3 million due April 1, 2013 on the First Lien Credit Agreement, in order to reduce interest costs. Also, on June 3, 2013, we elected, at our discretion, to prepay the sum of \$2.5 million in principal payments due July 1, 2013 and October 1, 2013. The next scheduled principal payment is due January 1, 2014. We are required to make prepayments under the First Lien Credit Agreement, under certain conditions defined in the agreement, in addition to the scheduled principal installments for any fiscal year ending December 31, 2012 and thereafter. We are required to pay the entire outstanding principal on the First and Second Lien Credit Agreements, together with all accrued and unpaid interest thereon, on the respective maturity dates. Prepayment penalties will be assessed in the event that prepayments are made on the Second Lien Credit Agreement prior to the discharge of the First Lien Credit Agreement.

7. DERIVATIVE INSTRUMENTS

During the three months ended March 31, 2012, we were subject to interest rate risk to the extent we borrowed against variable interest credit facilities under the prior Wells Fargo Credit Agreement, until our repayment of the then remaining debt on March 30, 2012. We reduced our exposure to changes in interest rates by entering into the Swap with Wells Fargo Bank, N.A., which became effective on April 1, 2011.

Effective March 30, 2012 the Swap was terminated, and \$0.5 million was paid, which reflected the fair value of the Swap on that date, and we ceased to recognize the Swap as a liability on the balance sheet in long-term debt. Prior to the pay-off of the Swap, the Swap was marked to fair value and the adjustment of the Swap was recognized as income during the first quarter of 2012. During the three months ended March 31, 2012, the weighted average cash interest rate paid on the debt was 8.16%, including Swap interest and loan interest.

8. OPERATING LEASE COMMITMENTS

Operating leases. On December 1, 2012, we amended and extended our corporate office lease through May 2018. Effective December 2010, Stockman's entered into a lease agreement as lessee for its primary outdoor casino sign until November 2015. On June 28, 2011, the Grand Lodge entered into a Casino Operations Lease ("Grand Lodge Lease") with Hyatt Equities, L.L.C. for approximately 20,900 square feet of building space occupied by the Grand Lodge gaming operations, as well as associated gaming office space. On April 8, 2013, the Grand Lodge entered into a first amendment to the Grand Lodge Lease (the "Amendment") with Hyatt Equities, L.L.C. amending the terms of the lease. The Amendment extended the initial term of the Grand Lodge Lease until August 31, 2018 and makes certain other conforming changes. Except as set forth in the Amendment, all other terms of the Grand Lodge Lease remain in full force and effect.

Silver Slipper entered into the Land Lease in November 2004 as amended in March 2009, September 2012 and February 2013, which includes approximately 31 acres of protected marsh land as well as a seven acre casino parcel, on which the Silver Slipper was subsequently built. In December 2010, Silver Slipper entered into a lease agreement with Cure Land Company, LLC for approximately five acres of land occupied by the Silver Slipper gaming office and warehouse space through November 30, 2020. On January 31, 2012, Silver Slipper entered into a lease agreement with Chelsea Company, LLC for a small parcel of land with a building which may be occupied by a future proposed Silver Slipper welcome center, through December 31, 2019. On January 11, 2013, Silver Slipper terminated a previous restaurant lease agreement with Diamondhead Country Club & Property Owners Association ("DCCPOA") and entered into a contract to purchase services to be provided by DCCPOA related to its golf and country club through December 31, 2019.

Land Lease buyout. The Land Lease includes an exclusive option to purchase the leased land (“Purchase Option”), as well as an exclusive option to purchase a four acre portion of the leased land (“4 Acre Parcel Purchase Option”), which may be exercised at any time in conjunction with a hotel development during the term of the Land Lease for \$2.0 million. On February 26, 2013, Silver Slipper entered into a third amendment to the Land Lease which amended the term and Purchase Option provisions of the Land Lease. The term of the Land Lease was extended to April 30, 2058, and the Purchase Option was extended through October 1, 2027 and may only be exercised after February 26, 2019. If there is no change in ownership, the purchase price will be \$15.5 million, less \$2.0 million if the 4 Acre Parcel Purchase Option has been previously exercised, plus a retained interest in Silver Slipper operations of 3% of net income. In the event that we sell or transfer substantially all of the assets of our ownership in Silver Slipper, then the purchase price will increase to \$17.0 million.

The total rent expense for all operating leases was \$0.7 million and \$0.4 million for the three months ended June 30, 2013 and June 30, 2012, respectively, and \$1.4 million and \$0.8 million for the six months ended June 30, 2013 and June 30, 2012, respectively.

9. SEGMENT REPORTING

The following tables reflect selected information for our reporting segments for the three and six months ended June 30, 2013 and 2012. The casino operation segments include the Silver Slipper’s operation in Bay St. Louis, Mississippi, Rising Star’s operation in Rising Sun, Indiana, the Grand Lodge’s operation in Lake Tahoe, Nevada and Stockman’s operation in Fallon, Nevada. We have included regional information for segment reporting and aggregated casino operations in the same region. The development/management segment includes costs associated with casino development and management projects, including the management agreement with the Pueblo of Pojoaque to advise on the operations of the Buffalo Thunder in Santa Fe, New Mexico, and, until March 30, 2012, GEM. The Corporate segment includes our general and administrative expenses.

Selected statement of operations data for the three months ended June 30 (in thousands):

2013

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|---|---------|----------|------------|----------------------------|-----------|--------------|
| Revenues | \$5,203 | \$17,798 | \$13,370 | \$ 333 | \$-- | \$ 36,704 |
| Selling, general and administrative expense | 1,513 | 4,369 | 4,689 | -- | 1,535 | 12,106 |
| Depreciation and amortization | 177 | 726 | 1,292 | -- | 3 | 2,198 |
| Operating income (loss) | 948 | 1,044 | 1,235 | 336 | (1,537) | 2,026 |
| Net income (loss) attributable to the Company | 626 | 672 | 800 | 116 | (2,256) | (42) |

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2012

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|---|----------|-----------|------------|----------------------------|-----------|--------------|
| Revenues | \$ 5,179 | \$ 22,261 | \$ -- | \$ 400 | \$ -- | \$ 27,840 |
| Selling, general and administrative expense | 1,570 | 4,645 | -- | -- | 1,497 | 7,712 |
| Depreciation and amortization | 247 | 1,274 | -- | -- | 2 | 1,523 |
| Operating gains | -- | -- | -- | 438 | -- | 438 |
| Operating income (loss) | 723 | 1,536 | -- | 749 | (1,585) | 1,423 |
| Net income (loss) attributable to the Company | 476 | 1,450 | -- | (150) | (1,044) | 732 |

Selected statement of operations data for the six months ended June 30 (in thousands):

2013

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|---|----------|----------|------------|----------------------------|-----------|--------------|
| Revenues | \$10,528 | \$37,412 | \$27,080 | \$ 810 | \$-- | \$ 75,830 |
| Selling, general and administrative expense | 2,997 | 8,774 | 9,295 | -- | 3,274 | 24,340 |
| Depreciation and amortization | 357 | 1,473 | 2,573 | -- | 5 | 4,408 |
| Operating income (loss) | 1,908 | 2,999 | 2,737 | 771 | (3,278) | 5,137 |
| Net income (loss) attributable to the Company | 1,260 | 1,637 | 1,790 | 497 | (4,650) | 534 |

2012

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|---|----------|----------|------------|----------------------------|-----------|--------------|
| Revenues | \$10,065 | \$44,892 | \$-- | \$ 6,209 | \$-- | \$ 61,166 |
| Selling, general and administrative expense | 3,137 | 9,662 | -- | 136 | 3,338 | 16,273 |

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| | | | | | | |
|---|-------|-------|----|--------|----------|--------|
| Depreciation and amortization | 488 | 2,302 | -- | 593 | 5 | 3,388 |
| Operating gains | -- | -- | -- | 41,200 | -- | 41,200 |
| Operating income (loss) | 1,081 | 3,599 | -- | 46,560 | (3,494) | 47,746 |
| Net income (loss) attributable to the Company | 709 | 412 | -- | 29,959 | (4,499) | 26,581 |

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Selected balance sheet data as of June 30, 2013 and December 31, 2012 (in thousands):

2013

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|-----------------------------|-----------|-----------|------------|-------------------------|-----------|--------------|
| Total assets | \$ 16,705 | \$ 50,808 | \$ 71,360 | \$ 94 | \$ 22,203 | \$ 161,170 |
| Property and equipment, net | 6,974 | 29,359 | 46,470 | -- | 41 | 82,844 |
| Goodwill | 5,809 | 1,647 | 14,671 | -- | -- | 22,127 |
| Liabilities | 2,185 | 5,243 | 2,783 | -- | 68,722 | 78,933 |

2012

Casino Operations

| | Nevada | Midwest | Gulf Coast | Development/ Management | Corporate | Consolidated |
|-----------------------------|-----------|-----------|------------|-------------------------|-----------|--------------|
| Total assets | \$ 16,964 | \$ 51,054 | \$ 72,911 | \$ 96 | \$ 21,700 | \$ 162,725 |
| Property and equipment, net | 6,988 | 29,632 | 47,024 | -- | 29 | 83,673 |
| Goodwill | 5,809 | 1,647 | 14,671 | -- | -- | 22,127 |
| Liabilities | 2,281 | 5,817 | 3,020 | -- | 70,474 | 81,592 |

10. SUBSEQUENT EVENT

On August 2, 2013, we received a commitment for a \$10.0 million loan from Capital One, our First Lien Credit Lender. The terms and conditions of the commitment, subject to completion of loan documentation, are: the First Lien Credit Agreement (1) will be increased by \$10.0 million; (2) the interest rate will be lowered by 1.0%; (3) will be extended to a new maturity date of June 29, 2016; and (4) certain financial ratio covenants will be revised to accommodate the additional extension of credit. The new First Lien Credit Agreement contracts are currently being drafted. The proceeds will be used to fund a portion of the \$17.5 million construction of a 140 room hotel at our Silver Slipper property. The remaining \$7.5 million of the construction cost will be funded from available cash. We anticipate closing the loan, signing construction contracts, and giving a notice-to-proceed within the next 30 days. We estimate that construction of the hotel will take approximately one year from ground-breaking.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions, trends and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. In addition, unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year. Our MD&A is presented in seven sections:

- Overview
- Results of continuing operations
- Liquidity and capital resources
- Off-balance-sheet arrangements
- Seasonality
- Regulation and taxes
- Critical accounting estimates and policies

Overview

We own, develop, manage, and/or invest in gaming-related enterprises. We continue to actively investigate, individually and with partners, new business opportunities and we have been successful in our long-term strategy to transition from primarily a management company to primarily an owner/operator of regional casino operations with our significant acquisitions of the Rising Star Casino Resort ("Rising Star") in 2011 and the Silver Slipper Casino Venture, LLC ("Silver Slipper") in 2012. With the sale of our interests in Gaming Entertainment (Michigan), LLC ("GEM") and the related management agreement for the FireKeepers Casino also in 2012, we transitioned the primary source of our revenues to owned entities. Our current ongoing strategy is to continue to create memorable experiences for our customers through customer service, employee engagement and entertainment as well as to continue to seek new business opportunities.

We own and operate the Silver Slipper in Bay St. Louis, Mississippi, the Rising Star in Rising Sun, Indiana, Stockman's Casino ("Stockman's") in Fallon, Nevada and we lease and operate the Grand Lodge Casino ("Grand Lodge") in Incline Village, Nevada. We receive management fees from our management agreement with the Pueblo of Pojoaque for the management of the Buffalo Thunder in Santa Fe, New Mexico, ("Buffalo Thunder") along with the Pueblo's Cities of Gold and Sports Bar casino facilities, which is in effect through September 23, 2014.

On October 1, 2012, we purchased the Silver Slipper for approximately \$69.3 million, exclusive of cash and working capital in the amount of \$6.4 million and \$2.9 million, respectively. We entered into the first lien term loan ("First Lien Credit Agreement") with Capital One Bank, N.A. ("Capital One") on June 29, 2012 and the second lien term loan ("Second Lien Credit Agreement") with ABC Funding, LLC on October 1, 2012, as discussed in Note 6 to the consolidated financial statements, and we used the debt to fund the Silver Slipper purchase price. A \$5.0 million revolving loan under the First Lien Credit Agreement remains undrawn and available.

Until March 30, 2012, we owned 50% of GEM, a joint venture with RAM Entertainment, LLC (“RAM”), where we were the primary beneficiary and, therefore, consolidated GEM in our consolidated financial statements. We and RAM sold GEM and its management rights and responsibilities under the management agreement to FireKeepers Development Authority, (“FDA”) for approximately \$97.5 million. The sale closed March 30, 2012 and effectively terminated the existing management agreement, which was scheduled to run through August 2016. We used a portion of the proceeds to pay-off our then remaining outstanding debt under the Wells Fargo Credit Agreement.

In addition to the \$97.5 million sale price, the FDA paid RAM and us \$1.2 million each, equal to the management fee that would have been earned under the management agreement for April 2012, less a \$0.3 million reduction and a \$0.1 million holdback receivable. The \$0.1 million holdback receivable was received in May 2012, less expenses related to the sale, deducted by the FDA. Our gain on the sale of GEM and related management rights was \$41.2 million and allocated as follows (in millions):

| | |
|--|--------|
| Gross proceeds, before \$0.3 million reduction and \$0.1 holdback receivable | \$48.8 |
| Plus: April 2012 ‘Wind up’ fee received, net | 0.9 |
| | 49.7 |
| Less: Net basis of contract rights expensed | (2.8) |
| Less: Our interest in GEM | (5.7) |
| Gain on sale of joint venture | \$41.2 |

Results of continuing operations

A significant portion of our operating income in 2012 and prior years was generated from our management agreements, including agreements with the FireKeepers Casino in Michigan and the Buffalo Thunder in New Mexico. The FireKeepers management agreement ended March 30, 2012, with the sale of our interest in GEM. The Buffalo Thunder management agreement is in effect through September 2014. There can be no assurance that the Buffalo Thunder management agreement will be extended. We have owned Stockman’s Casino since 2007. Consistent with our long-term strategy, we have acquired gaming properties and have transitioned from primarily a management company to primarily an owner/operator of regional casino operations. With the acquisition of the Rising Star and the leasing of the casino at Grand Lodge in 2011 and the acquisition of the Silver Slipper in 2012, our results of continuing operations have been significantly impacted and our revenues are currently primarily derived from owned operations.

For the three months ended March 31, 2012, our revenues from the FireKeepers management agreement were \$5.3 million, which represented a significant amount of our total annual operating income for 2012. Management fees represented 1% of revenues for both the three months ended June 30, 2013 and June 30, 2012, respectively. With the sale of our interest in GEM and the acquisition of the Silver Slipper, we have completed the planned strategic transition from primarily a management company to primarily an owner/operator of regional casino operations and have secured an earnings stream that should be easier for the investor community to understand and value. We believe the impact of the lost revenues from the sale of our interest in GEM and the FireKeepers management agreement was diminished with the acquisition of the Silver Slipper, as well as the Rising Star and Grand Lodge operations.

During the quarter ended June 30, 2013, a new Indiana gaming tax legislation was passed, which allowed \$2.5 million in free play to be tax-free for the Indiana Gaming Commission's (IGC) twelve month fiscal year ended June 30, 2013, resulting in a savings of \$0.7 million for the Rising Star. Also, during the IGC fiscal year ending June 30, 2014, \$5.0 million in free play will be tax-free and we expect tax benefits to be approximately \$0.2 million per quarter. In addition, as part of the legislation, if Rising Star's gross gaming revenues are less than \$75.0 million during the IGC fiscal year ended June 30, 2014, we may be entitled to additional tax relief currently estimated at about \$2.5 million per year, beginning July 1, 2014.

Three Months Ended June 30, 2013, Compared to Three Months Ended June 30, 2012

Revenues. For the three months ended June 30, 2013, total revenues increased \$8.9 million (32%) as compared to 2012, primarily due to \$13.4 million in revenues at Silver Slipper, our Gulf Coast segment's revenues, which was purchased on October 1, 2012, offset by a \$4.5 million (20%) decrease in our Midwest segment revenues derived from Rising Star Casino in Indiana. Rising Star's casino revenues decreased \$4.3 million (21%) due to the opening of the Horseshoe Casino in Cincinnati, Ohio, in March 2013 as well as two casinos which opened in Columbus, Ohio in 2012.

Operating costs and expenses. For the three months ended June 30, 2013, total operating costs and expenses increased \$7.8 million (29%), as compared to 2012, primarily due to the purchase of the Silver Slipper operations with \$12.1 million in operating costs, offset by a \$4.0 million (19%) decrease in our Midwest segment operating costs.

The \$4.0 million decrease in our Midwest segment operating expenses was largely due to \$2.8 million (23%) lower casino expenses, \$0.5 million (43%) lower depreciation expense, \$0.3 million (31%) lower food and beverage expenses and \$0.3 million (6%) lower selling, general and administrative expenses. Rising Star's casino expenses decreased \$2.8 million over the prior year period, mainly due to a \$2.0 million (32%) decrease in gaming taxes, a \$0.3 million (12%) decrease in complimentary expense and a \$0.2 million (11%) decrease in casino payroll and related expenses. The lower gaming taxes were partially due to new Indiana gaming tax legislation, which allowed \$2.5 million in free play to be tax-free for the IGC twelve month fiscal year ended June 30, 2013, resulting in a savings of \$0.7 million, as well as our lower volume in gaming revenues. Rising Star's depreciation expenses decreased \$0.5 million over the prior year period, due to fixed assets which became fully depreciated. Rising Star's food and beverage expenses decreased \$0.3 million over the prior year period primarily due to lower food and beverage cost of sales largely as a result of lower sales. Rising Star's selling, general and administrative expenses decreased \$0.3 million over the prior year period, as explained below.

Project development and acquisition costs. For the three months ended June 30, 2013, project development costs decreased \$0.2 million (102%), as compared to 2012, primarily due to Silver Slipper acquisition costs in the prior year period. Project development and acquisition costs are allocated to our development/management operations segment.

Selling, general and administrative expense. For the three months ended June 30, 2013, selling, general and administrative expenses increased \$4.4 million (57%) as compared to 2012. Selling, general and administrative expenses were \$4.7 million for the quarter at the Silver Slipper, purchased October 1, 2012, offset by a \$0.3 million (6%) decrease in our Midwest segment expenses.

The \$0.3 million decrease in our Midwest segment's selling, general and administrative expenses was due to Rising Star's \$0.3 million (13%) lower payroll and other employee related expenses, as a result of cost control initiatives.

Operating gains. For the three months ended June 30, 2013, operating gains decreased by \$0.4 million as compared to 2012, consisting primarily of a \$0.4 million adjustment to the gain on sale of the joint venture, related to the sale of

our interest in GEM in the prior year period.

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Other (expense) income. For the three months ended June 30, 2013, other expense increased by \$1.9 million as compared to 2012 primarily due to a \$1.9 million increase in interest expense related to the First and Second Lien Credit Agreements with Capital One and ABC Funding, LLC, respectively, as discussed in Note 6 to the consolidated financial statements. In 2012, we had no loans outstanding or related interest expense in the second quarter. These other (expense) income items are allocated to our corporate operations segment.

Income taxes. The estimated effective income tax rate for the three months ended June 30, 2013 is approximately 134%, compared to 49% for the same period in 2012. The higher tax rate in the current year is primarily due to state tax expense and the deductibility of restricted stock partially as a result of permanent differences related to the deductibility of executive compensation under the Internal Revenue Code. State tax expense is typically high as a result of the non-deductibility of gaming taxes in Indiana and represents a much larger percentage of total earnings in 2013 compared to 2012. The tax deduction for restricted stock, which vested in June 2013, was lower than the cumulative expense recognized on the income statement over the three year vesting period. There is no valuation allowance on the current deferred tax asset of \$2.1 million and the long-term deferred tax asset of \$1.0 million as of June 30, 2013, as we believe the deferred tax assets are fully realizable.

Six Months Ended June 30, 2013, Compared to Six Months Ended June 30, 2012

Revenues. For the six months ended June 30, 2013, total revenues increased \$14.7 million (24%) as compared to 2012, primarily due to \$27.1 million in revenue at Silver Slipper, our Gulf Coast segment purchased on October 1, 2012, offset by a \$7.5 million (17%) decrease in our Midwest segment revenues as a result of increased competition and a \$5.4 million (87%) decrease in our development/management segment revenues as a result of the sale of our interest in GEM and the FireKeepers management agreement on March 30, 2012. Our Nevada segment's revenues increased by \$0.5 million (5%) primarily due to a \$0.7 million (12%) increase in casino revenues at the Grand Lodge.

The \$7.5 million decrease in our Midwest segment revenues was primarily due to lower casino revenues at the Rising Star, which decreased \$7.3 million (17%) due to the opening of the Horseshoe Casino in Cincinnati, Ohio, in March 2013 as well as two casinos which opened in Columbus, Ohio in 2012.

Operating costs and expenses. For the six months ended June 30, 2013, total operating costs and expenses increased \$16.1 million (29%), as compared to 2012, primarily due to the purchase of the Silver Slipper operations with \$24.3 million in operating costs, offset by a \$6.9 million (17%) decrease and a \$0.8 million (95%) decrease in our Midwest segment and our development/management segment operating costs, respectively.

The \$6.9 million decrease in our Midwest segment operating expenses was largely due to \$4.9 million (20%) lower casino expenses, \$0.9 million (9%) lower selling, general and administrative expenses, \$0.8 million (36%) lower depreciation expense and \$0.3 million (16%) lower food and beverage expenses. Rising Star's casino expenses decreased \$4.9 million over the prior year period, mainly due to a \$3.3 million (26%) decrease in gaming taxes, a \$0.8 million (14%) decrease in complimentary expense and a \$0.5 million (10%) decrease in casino payroll and related expenses. The lower gaming taxes were partially due to new Indiana gaming tax legislation, which allowed \$2.5 million in free play to be tax-free for the IGC twelve month fiscal year ended June 30, 2013, resulting in a savings of \$0.7 million, as well as a lower taxable base due to lower gaming revenues. Rising Star's selling, general and administrative expenses decreased \$0.9 million over the prior year period, as explained below. Rising Star's depreciation expenses decreased \$0.8 million over the prior year period, due to fixed assets which became fully depreciated. Rising Star's food and beverage expenses decreased \$0.3 million over the prior year period primarily due to lower food and beverage cost of sales, largely as a result of lower sales. The \$0.8 million decrease in our development/management segment operating costs was predominantly attributable to the sale of our interest in GEM

and the FireKeepers management agreement which closed March 30, 2012.

Project development and acquisition costs. For the six months ended June 30, 2013, project development costs decreased \$0.2 million (86%), as compared to 2012, primarily due to Silver Slipper acquisition costs in the prior year period. Project development and acquisition costs are allocated to our development/management operations segment.

Selling, general and administrative expense. For the six months ended June 30, 2013, selling, general and administrative expenses increased \$8.1 million (50%) as compared to 2012. Selling, general and administrative expenses were \$9.3 million for the year ended June 30, 2013 at the Silver Slipper, which was acquired October 1, 2012, offset by a \$0.9 million (9%) decrease in our Midwest segment expenses.

The \$0.9 million decrease in our Midwest segment's selling, general and administrative expenses was due to Rising Star's \$0.6 million (12%) lower payroll and other employee related expenses, \$0.3 million (96%) lower maintenance expenses related to the dredging of the boat, which was performed in the prior year and is typically done every two years and \$0.2 million (32%) lower advertising expenses. The reduction in Rising Star's administrative payroll was due to cost control initiatives.

Operating gains (losses). For the six months ended June 30, 2013, operating gains decreased by \$41.2 million as compared to 2012, consisting primarily of the gain on sale of the joint venture, related to the sale of our interest in GEM in the prior year period.

Other (expense) income. For the six months ended June 30, 2013, other expense increased by \$1.4 million (55%) as compared to 2012 primarily due to a \$3.0 million increase in interest expense related to the First and Second Lien Credit Agreements with Capital One and ABC Funding, LLC, respectively, as discussed in Note 6 to the consolidated financial statements, offset by a \$1.7 million loss on extinguishment of debt related to the write-off of the Wells Fargo loan costs in the prior year period. These other (expense) income items are allocated to our corporate operations segment.

Income taxes. The estimated effective income tax rate for the six months ended June 30, 2013 is approximately 60%, compared to 38% for the same period in 2012. The higher tax rate in the current year is primarily due to state tax expense and the deductibility of restricted stock partially as a result of permanent differences related to the deductibility of executive compensation under the Internal Revenue Code. State tax expense is typically high as a result of the non-deductibility of gaming taxes in Indiana and represents a much larger percentage of total earnings in 2013 compared to 2012. The tax deduction for restricted stock, which vested in June 2013, was lower than the cumulative expense recognized on the income statement over the three year vesting period. There is no valuation allowance on the current deferred tax asset of \$2.1 million and the long-term deferred tax asset of \$1.0 million as of June 30, 2013, as we believe the deferred tax assets are fully realizable.

Noncontrolling interest. For the six months ended June 30, 2013, the net income attributable to non-controlling interest in consolidated joint venture decreased by \$2.2 million as compared to 2012, as the current year period does not include any interest in GEM and the prior year non-controlling interest only represented the first quarter's 50% interest in GEM. Our interest in GEM was sold on March 30, 2012.

Liquidity and capital resources

Economic conditions and related risks and uncertainties

The United States and the world have experienced a widespread economic slowdown accompanied by, among other things, weakness in consumer spending including gaming activity and reduced credit and capital financing availability, all of which have far-reaching effects on economic conditions in the country for an indeterminate period. Our operations are currently concentrated in Indiana, northern Nevada and New Mexico and the Gulf Coast. Accordingly, future operations could be affected by adverse economic conditions and increased competition particularly in those areas and their key feeder markets in neighboring states. The effects and duration of these conditions and related risks and uncertainties on our future operations and cash flows, including our access to capital or credit financing, cannot be estimated at this time, but may be significant.

The Silver Slipper, Rising Star, Grand Lodge, and Stockman's operations, along with the Buffalo Thunder management agreement, are currently our primary sources of recurring income and significant positive cash flow. There can be no assurance that the Buffalo Thunder management agreement ending in September 2014, will be extended beyond its term.

On a consolidated basis, cash provided by operations for the first six months of 2013 increased \$9.1 million over the same period in the prior year primarily due to the addition of the Silver Slipper Casino and higher net income at the Rising Star and Grand Lodge casinos, which offset the absence of FireKeepers management fees in the current year. Cash provided by investing activities decreased \$47.9 million from the prior year period primarily due to the \$49.7 million of proceeds from the sale of our interest in GEM in the prior year. Cash used in financing activities decreased \$27.7 million from the prior year primarily due to the \$26.9 million repayment of long term debt and the interest rate swap liability ("Swap") related to the Wells Fargo Credit Agreement, in the prior year.

As of June 30, 2013, we had approximately \$22.8 million in cash. Management estimates that approximately \$15.0 million of cash is required for day to day operations.

Our future cash requirements include partially funding approximately \$7.5 million of the construction of a 140 room hotel at Silver Slipper Casino in Mississippi. We have received a \$10.0 million loan commitment from our First Lien Credit Lender to complete the construction and expect to close the loan and sign other construction contracts within the next 30 days. In addition cash may be used for project development costs, various capital expenditures, taxes and possibly funding any negative cash flow of our casino operations.

In October 2011, the Rising Sun/Ohio County First, Inc. (RSOCF) and the Rising Sun Regional Foundation, Inc. teamed up to develop a new 104-room hotel on land adjacent to our property. On June 13, 2012, the City of Rising Sun Advisory Plan Commission ("Plan Commission") provided a favorable recommendation to the City Council of Rising Sun, Indiana, regarding a revised amendment to the plan of development, which was adopted by the City Council on July 5, 2012. Construction commenced in December 2012, and the hotel is expected to open in late 2013. We believe that the added hotel room inventory in proximity to the casino facility will favorably impact revenues and visitor counts.

Subject to the effects of the economic uncertainties discussed above, we believe that adequate financial resources will be available to execute our current growth plan from a combination of operating cash flows and external debt and equity financing. However, continued downward pressure on cash flow from operations due to, among other reasons, the adverse effects on gaming activity of the current economic environment, increased competition and a generally

tight credit environment, increases the uncertainty with respect to our development and growth plans.

Banking Relationships

On March 30, 2012, we paid off the then remaining \$25.3 million debt and extinguished the Wells Fargo Credit Agreement, which consisted of \$24.8 million of our existing long term debt and \$0.5 million due on the Swap, from proceeds from the sale of our interest in GEM and the FireKeepers management agreement.

On October 1, 2012, we closed on the acquisition of all of the equity membership interests in Silver Slipper Casino Venture LLC d/b/a Silver Slipper Casino located in Bay St. Louis, Mississippi. The purchase price of approximately \$69.3 million, exclusive of \$6.4 million cash and \$2.9 million working capital, was funded by the First Lien Credit Agreement and the Second Lien Credit Agreement. The \$5.0 million revolving loan under the First Lien Credit Agreement remains undrawn and available. The First and Second Lien Credit Agreements are secured by substantially all of our assets and therefore, our wholly-owned subsidiaries guarantee our obligation under the agreements. The Second Lien Credit Agreement is subject to the lien of the First Lien Credit agreement.

We have elected to pay interest on the First Lien Credit Agreement based on a LIBOR rate plus a margin rate as set forth in the agreement. LIBOR rate means a rate per annum equal to the quotient of (a) the greater of (1) 1.00% and (2) the rate per annum referenced to as the BBA (British Bankers Association) LIBOR divided by (b) one minus the reserve requirement set forth in the First Lien Credit Agreement for such loan in effect from time to time. We pay interest on the Second Lien Credit Agreement at the rate of 13.25% per annum. The First and Second Lien Credit Agreements contain customary negative covenants and events of default for transactions of this type.

As of December 31, 2012, we elected, at our discretion, to prepay the \$1.3 million principal payment due April 1, 2013 on the First Lien Credit Agreement, in order to reduce interest costs. Also, on June 3, 2013, we elected, at our discretion, to prepay the sum of \$2.5 million in principal payments due July 1, 2013 and October 1, 2013. The next scheduled principal payment is due January 1, 2014. We are required to make prepayments under the First Lien Credit Agreement, under certain conditions defined in the agreement, in addition to the scheduled principal installments for any fiscal year ending December 31, 2012 and thereafter. Prepayment penalties will be assessed in the event that prepayments are made on the Second Lien Credit Agreement prior to the discharge of the First Lien Credit Agreement.

On August 2, 2013, we received a commitment for a \$10.0 million loan from Capital One, our First Lien Credit Lender. The terms and conditions of the commitment, subject to completion of loan documentation, are: the First Lien Credit Agreement (1) will be increased by \$10.0 million; (2) the interest rate will be lowered by 1.0%; (3) will be extended to a new maturity date of June 29, 2016; and (4) certain financial ratio covenants will be revised to accommodate the additional extension of credit. The new First Lien Credit Agreement contracts are currently being drafted. The proceeds will be used to fund a portion of the \$17.5 million construction of a 140 room hotel at our Silver Slipper property. The remaining \$7.5 million of the construction cost will be funded from available cash. We anticipate closing the loan, signing construction contracts, and giving a notice-to-proceed within the next 30 days. We estimate that construction of the hotel will take approximately one year from ground-breaking.

In September 2012, we opened noninterest bearing accounts with Capital One Bank (USA), N.A. As of June 30, 2013, we had \$6.0 million in these noninterest bearing accounts. Bankrate.com's Safe & Sound® service rated Capital One Bank (USA), N.A. in Virginia a "4 Star" as of March 31, 2013, which is defined as a "sound" ranking of relative financial strength and stability. As of June 30, 2013, we held \$5.4 million in a noninterest bearing account with Nevada State Bank, a subsidiary of Zion's Bancorporation.

In November 2010, the Federal Deposit Insurance Corporation (“FDIC”) issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) that provided for unlimited insurance coverage of noninterest-bearing transaction accounts. From December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts were fully insured, regardless of the balance of the account, at all FDIC-insured institutions. As scheduled, the unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000.

Other projects

Additional projects are considered based on their forecasted profitability, development period, regulatory and political environment and the ability to secure the funding necessary to complete the development or acquisition, among other considerations. No assurance can be given that any additional projects will be pursued or completed or that any completed projects will be successful.

We continue to actively investigate, individually and with partners, new business opportunities. Management believes we will have sufficient cash and financing available to fund acquisitions and development opportunities in the future.

Off-balance sheet arrangements

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Seasonality

We believe that our casino operations and management contracts and our estimates of completion for projects in development are affected by seasonal factors, including holidays, adverse weather and travel conditions. Accordingly, our results of operations may fluctuate from year to year and the results for any year may not be indicative of results for future years.

Regulation and taxes

We, and our casino operations, are subject to extensive regulation by state and tribal gaming authorities. We will also be subject to regulation, which may or may not be similar to current state regulations, by the appropriate authorities in any jurisdiction where we may conduct gaming activities in the future. Changes in applicable laws or regulations could have an adverse effect on us.

The gaming industry represents a significant source of tax revenues to state governments. From time to time, various federal or state legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. It is not possible to determine the likelihood of possible changes in tax law or in the administration of such law. Such changes, if adopted, could have a material adverse effect on our future financial position, results of operations and cash flows.

Critical accounting estimates and policies

We describe our critical accounting estimates and policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2012. We also discuss our critical accounting estimates and policies in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10-K for the year ended December 31, 2012. There has been no significant change in our critical accounting estimates or policies since the end of 2012.

Safe harbor provision

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as: “believes,” “expects,” “anticipates,” “estimates,” “plans,” “intends,” “objectives,” “goals,” “aims,” “projects,” “forecasts,” “may,” “could,” “should,” “might,” “likely,” “enable,” or similar words or expressions are used in this Form 10-Q, as well as statements containing phrases such as “in our view,” “there can be no assurance,” “although no assurance can be given,” or “there is no way to anticipate with certainty,” forward-looking statements are being made.

Various risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following risks:

- our growth strategies;
- our development and potential acquisition of new facilities;
- successful integration of acquisitions of new facilities;
- risks related to development and construction activities; including weather, labor, supply and other unforeseen interruptions, including development of hotel or other amenities in conjunction with the Silver Slipper and Rising Star;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions, including but not limited to, the effects of local and national economic, housing and energy conditions on the economy in general and on the gaming and lodging industries in particular;
- access to capital and credit, including our ability to finance future business requirements;
- our dependence on key personnel;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license or legislation and regulations;
- ability to obtain and maintain gaming and other governmental licenses;
- regulatory approvals;
- impact of weather;
- competitive environment, including increased competition in our target market areas;
- increases in the effective rate of taxation at any of our properties or at the corporate level; and
- risks, uncertainties and other factors described from time to time in this and our other SEC filings and reports.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risks emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecasted in any forward-looking statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures — As of June 30, 2013, we completed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level in timely alerting them to material information relating to us which is required to be included in our periodic Securities and Exchange Commission filings.

Changes in Internal Control Over Financial Reporting — On October 1, 2012, we acquired the Silver Slipper. Management is currently continuing its assessment of the effectiveness of the newly acquired property's internal controls. We have a period of one year from the respective acquisition date to complete our assessment of effectiveness of the internal controls of newly acquired operations and to take the required actions to ensure that adequate internal controls and procedures are in place.

Upon completion of our assessment of the effectiveness of the internal controls, as well as implementation of certain controls and procedures, we will provide a conclusion in our quarterly report on Form 10-Q for the fiscal quarter ending September 30, 2013 about whether or not our internal control over financial reporting related to the respective acquisitions was effective as of the corresponding reporting period, based on the criteria in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no other changes in our internal controls over financial reporting that occurred during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 6. 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 officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 101.INS XBRL Instance*
- 101.SCH XBRL Taxonomy Extension Schema*
- 101.CAL XBRL Taxonomy Extension Calculation*
- 101.DEF XBRL Taxonomy Extension Definition*
- 101.LAB XBRL Taxonomy Extension Labels*
- 101.PRE XBRL Taxonomy Extension Presentation*

* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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: August 7, 2013

By: /s/ DEBORAH J. PIERCE
Deborah J. Pierce
Chief Financial Officer
(on behalf of the Registrant and
as principal financial officer)