

FULL HOUSE RESORTS INC
Form 10QSB/A
May 22, 2006
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U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB/A

(Amendment No. 1)

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005.

OR

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

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 22, 2005, Registrant had 10,340,380 shares of its \$.0001 par value common stock outstanding.

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EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-QSB/A for Full House Resorts, Inc. for the quarterly period ended March 31, 2005, is being filed to amend and restate the items described below contained in the Company's Quarterly Report on Form 10-QSB originally filed with the Securities and Exchange Commission on May 16, 2005.

This Amendment No. 1 makes the following changes for the purposes described:

To amend Item 1. Financial Statements, to retroactively account for advances to Indian tribes as in-substance notes, as more fully described in Note 2, Restatement, to the Company's Unaudited Condensed Consolidated Financial Statements;

To amend Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations, to take into account the effects of the restatement; and

To amend Item 6. Exhibits, Financial Statement Schedules and Reports on Form 8-K, to furnish the certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act.

To preserve the nature and character of the disclosures set forth in such Items as originally filed, this Amendment No. 1 continues to speak as of the date of the original filing of the Quarterly Report on Form 10-QSB on May 16, 2005 and we have not updated the disclosures in this report to speak as of a later date. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in our reports and any amendments filed with the Securities and Exchange Commission for periods subsequent to the date of the original filing of the Quarterly Report on Form 10-QSB.

We did not amend our Annual Reports on Form 10-KSB or Quarterly Reports of Form 10-QSB for periods affected by the restatement that ended prior to December 31, 2003, and the financial statements and related financial information contained in such reports should no longer be relied upon and should be viewed in the context of this report.

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RESORTS, INC
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	MARCH 31, 2005	DECEMBER 31, 2004
	(unaudited) (Restated)	(Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,653,930	\$ 2,466,365
Receivables	153,144	
Due from co-venturer	162,283	
Other	96,788	54,684
Income tax receivable		120,754
	2,066,145	2,641,803
Investment in unconsolidated joint venture	116,758	152,043
Notes receivable, tribal governments	3,275,264	3,123,950
Arbitration award receivable, net of allowance	976,680	
Land held for development	3,858,832	3,858,832
Contract rights, net of accumulated amortization	5,001,259	4,927,814
Deferred income tax asset	126,633	64,257
Deposits and other assets	75,081	231,706
	\$ 15,496,652	\$ 15,000,405
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 225,651	\$ 371,144
Accrued expenses	183,772	64,858
	409,423	436,002
Note payable to co-venturer	2,381,260	2,472,363
Non-controlling interest in consolidated joint venture	1,929,416	1,929,416
Stockholders' equity:		
Cumulative preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$4,777,500 and \$4,725,000 including dividends in arrears of \$2,677,500 and \$2,625,000	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
Deficit	(6,654,440)	(7,268,369)
	10,776,553	10,162,624
	\$ 15,496,652	\$ 15,000,405

See notes to condensed consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2005 (Restated)	2004 (Restated)
Equity in net income of unconsolidated joint venture	\$ 857,337	\$ 907,988
Operating costs and expenses		
Project development costs	277,789	66,616
General and administrative	427,716	494,433
Depreciation and amortization	25,770	42,648
	731,275	603,697
Unrealized gains on notes receivable	5,168	465,111
Income from operations	131,230	769,402
Other income (expense)		
Arbitration award, net	848,393	
Interest, net	(21,556)	(28,180)
Other	103	231
Income before income taxes	958,170	741,453
Income taxes	(344,241)	(295,377)
Net income	613,929	446,076
Less undeclared dividends on cumulative preferred stock	(52,500)	(52,500)
Net income applicable to common shares	\$ 561,429	\$ 393,576
Net income per common share		
Basic and diluted	\$ 0.05	\$ 0.04
Weighted average number of common shares outstanding		
Basic	10,340,380	10,340,380
Diluted	10,915,380	10,340,380

See notes to condensed consolidated financial statements.

Table of Contents**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	THREE MONTHS ENDED MARCH 31,	
	2005 (Restated)	2004 (Restated)
Net cash (used in) provided by operating activities	(203,738)	276,734
Cash flows from investing activities:		
Advances to tribal governments	(408,697)	(256,449)
Acquisition of contract rights	(200,000)	
Cash used in investing activities	(608,697)	(256,449)
Net decrease in cash and cash equivalents	(812,435)	(20,285)
Cash and cash equivalents, beginning of period	2,466,365	1,942,430
Cash and cash equivalents, end of period	\$ 1,653,930	\$ 1,922,145

See notes to condensed consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The restated (Note 2) interim condensed consolidated financial statements of Full House Resorts, Inc. (the Company) 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. Certain information 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 interim condensed consolidated financial statements should be read in conjunction with the restated 2004 annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005, from which the balance sheet information as of December 31, 2004, was derived. In addition to the restatements discussed in Note 2, certain minor reclassifications to previously reported balances have been made to conform to the current period presentation. The results of operations for the period ended March 31, 2005, are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

2. RESTATEMENT

Subsequent to the original issuance of the accompanying condensed consolidated financial statements, the Company re-evaluated its accounting methodology surrounding its advances to and contractual relationships with Indian tribes. As is becoming the predominant practice in the industry, management has determined to retroactively account for the advances to Indian tribes as in-substance structured notes pursuant to Emerging Issues Task Force (EITF) Issue No. 96-12, *Recognition of Interest Income and Balance Sheet Classification of Structured Notes*, and give separate accounting recognition to the contractual notes receivable and the related contract rights when advances are made pursuant to the agreements. Historically, the Company recorded its advances to Indian tribes as development expenses or notes receivable, carried at cost, subject to allowances for doubtful collectibility, and deferred recognition of interest income due to the contingent repayment terms of the notes. As a result, the accompanying unaudited condensed consolidated financial statements for the three months ended March 31, 2005 and 2004 have been restated to give retroactive effect to these accounting changes.

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A summary of the significant effects of the restatement is as follows:

	For the Three Months Ended March 31, 2005:	
	As	
	As Previously Reported	Restated
	(In thousands, except per share data)	
Consolidated statement of income:		
Project development costs	\$ 420	\$ 278
Unrealized gain on notes receivable		5
Income taxes	(319)	(344)
Net income	492	614
Net income applicable to common shares	440	561
Net income per share, basic and diluted	0.04	0.05

	For the Three Months Ended March 31, 2004:	
	As	
	Previously Reported	Restated
	(In thousands, except per share data)	
Consolidated statement of income:		
Project development costs	\$ 143	\$ 67
Unrealized gain on notes receivable		465
Income taxes	(111)	(295)
Net income	89	446
Net income applicable to common shares	36	394
Net income per share, basic and diluted	0.00	0.04

The restatement also resulted in an increase in previously reported retained earnings as of January 1, 2004 of \$612,549.

3. INVESTMENT IN UNCONSOLIDATED JOINT VENTURE

The investment in unconsolidated joint venture on the balance sheet is comprised of the Company's 50% ownership interest in Gaming Entertainment (Delaware), LLC (GED), a joint venture between the Company and Harrington Raceway Inc. (HRI), carried on the equity method of accounting.

Summary information for GED's operations for the three months ended March 31 is as follows:

	Three Months	
	2005	2004
Management fee revenues	\$ 1,903,917	\$ 1,943,873
Income from operations	1,781,938	1,815,975
Net income	1,781,938	1,815,975

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As of March 31, 2005 and December 31, 2004, Full House has made advances to tribal governments totaling \$6,895,034 and \$6,541,337 as follows:

	March 31, 2005	December 31, 2004
Contractual (stated) amount		
Michigan tribe	\$ 6,892,534	\$ 6,516,337
Other	2,500	25,000
	\$ 6,895,034	\$ 6,541,337
Estimated fair value of notes receivable related to Indian casino projects		
Michigan tribe	\$ 3,273,598	\$ 3,098,950
Other	1,666	25,000
	\$ 3,275,264	\$ 3,123,950

Certain portions of the advances to or on behalf of the tribal governments are in dispute, which has been considered in management's fair value estimates. (See also Note 6).

5. ARBITRATION AWARD, NET OF ALLOWANCE

On February 16, 2005, the Company received a favorable award in binding arbitration against the Torres Martinez Desert Cahuilla Indians (the California Tribe) in connection with a dispute over a series of development and management agreements. The arbitrator's decision determined that the development agreement entered into in 1997 was valid and enforceable, and accordingly, awarded the Company damages approximating \$1.1 million. Accordingly, the Company has recorded a receivable for the award, net of an allowance for estimated collection costs of \$100,000. The Company also has written off its advance to the California Tribe and the unamortized carrying value of the related gaming and contract rights.

6. LITIGATION CONTINGENCY

Litigation involving environmental issues in Michigan has been filed to prevent the Secretary of the Interior from taking the site for the Michigan project into trust that, in the event of an unfavorable outcome, might prevent or delay the completion of the Michigan project and realization of a portion of the Company's investment therein. Details are in Part II, Item 1 of this report.

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7. SUBSEQUENT EVENT

In May 2005, the Company and RAM Entertainment, LLC, (RAM) a privately held investment company, agreed in principle to, among other items, extend the maturity date of the Company's note payable to RAM to July 1, 2007, with interest payments continuing to accrue without payment or penalty. RAM will subordinate its security interest in the collateral to other borrowings by the Company up to \$3,000,000 subject to certain terms, and RAM will share Michigan development expenditures, previously absorbed and expensed by Full House, of up to \$800,000, retroactive to January 1, 2005. Therefore, the Company has recorded a \$162,283 due from the co-venturer representing RAM's share of Michigan development expenditures paid by the Company on RAM's behalf since January 1, 2005.

Item 2. Management's Discussion and Analysis or Plan of Operation.

Overview

Currently, we are a 50% investor in Gaming Entertainment (Delaware), LLC, (GED), a joint venture with Harrington Raceway, Inc., that manages Midway Slots and Simulcast (Midway Slots) at the Delaware State Fairgrounds in Harrington, Delaware. Midway Slots has approximately 1,430 gaming devices, a 450-seat buffet, a 50-seat diner and an entertainment lounge area. In addition, we are developing a casino project for the Nottawaseppi Huron Band of Potawatomi (the Michigan tribe) in Michigan. We are also actively investigating, on our own and with partners, new business opportunities including traditional and tribal gaming operations. We seek to expand through buying, managing, or developing casinos in profitable markets.

Critical Accounting Estimates and Policies

As discussed below and in note 2 to our condensed consolidated financial statements, we retroactively changed our accounting for advances made to the tribes and the resultant notes receivable. The estimated fair value of such notes are now accounted for as in-substance structured notes in accordance with the guidance contained in Emerging Issues Task Force (EITF) Issue No. 96-12, *Recognition of Interest Income and Balance Sheet Classification of Structured Notes*.

Although our financial statements necessarily make use of certain accounting estimates by management, we believe that, except as discussed below, no matters that are the subject of such estimates are so highly uncertain or susceptible to change as to present a significant risk of a material impact on our financial condition or operating performance.

The significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management's fair value estimates related to notes receivable from tribal governments, and the related evaluation of the recoverability of our investments in contract rights. Various assumptions, principally affecting the probability of completing our various projects under development and getting them open for business, and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact and project specific and takes into account factors such as historical experience and current and expected legal, regulatory and economic conditions. We regularly evaluate these estimates and assumptions, particularly in areas, if any, where changes in such estimates and assumptions could have a material impact on our results of operations, financial position and, generally to a lesser extent, cash flows. Where recoverability of these assets is contingent upon the successful development and management of a project, we evaluate the likelihood that

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the project will be completed and then evaluate the prospective market dynamics and how the proposed facilities should compete in that setting in order to forecast future cash flows necessary to recover the recorded value of the assets. In most cases, we engage independent experts to prepare market and/or feasibility studies to assist in the preparation of forecasted cash flows. Our conclusions are reviewed as warranted by changing conditions.

Long-term assets related to Indian casino projects

We evaluate the financial opportunity of each potential service arrangement before entering into an agreement to provide financial support for the development of an Indian casino project. This process includes (1) determining the financial feasibility of the project assuming the project is built, (2) assessing the likelihood that the project will receive the necessary regulatory approvals and funding for construction and operations to commence, and (3) estimating the expected timing of the various elements of the project including commencement of operations. When we enter into a service or lending arrangement, management has concluded that the probable future economic benefit is sufficient to compensate us for our efforts in relation to the perceived financial risks. No asset, including notes receivable or contract rights, related to an Indian casino project is recorded on our books unless it is considered probable that the project will be built and result in an economic benefit sufficient for us to recover the asset.

In initially determining the financial feasibility of the project, we analyze the proposed facilities and their location in relation to market conditions, including customer demographics and existing and proposed competition for the project. Typically, independent consultants are also hired to prepare market and financial feasibility reports. These reports are reviewed by management and updated periodically as conditions change.

We also consider the status of the regulatory approval process including whether:

- (1) the Bureau of Indian Affairs (BIA) recognizes the tribe,
- (2) the tribe has the right to acquire land to be used as a casino site,
- (3) the Department of the Interior has put the land into trust as a casino site,
- (4) the tribe has a gaming compact with the state government,
- (5) the National Indian Gaming Commission has approved a proposed management agreement, and
- (6) other legal or political obstacles exist or are likely to occur.

The development phase of each relationship commences with the signing of the respective agreements and continues until the casinos open for business. Thereafter, the management phase of the relationship, governed by the management contract, continues for a period of up to seven years. We make advances to the tribes, recorded as notes receivable, primarily to fund certain portions of the projects, which bear no interest or below market interest until operations commence. Repayment of the notes and accrued interest is only required if the casino is successfully opened and distributable profits are available from the casino operations. Under the management contract, we typically earn a management fee calculated as a percentage of the net operating income of the gaming facility. In addition, repayment of the loans and the manager's fees are subordinated to certain other financial obligations of the respective operations. Generally, the order of priority of payments from the casinos' cash flows is as follows:

a certain minimum monthly priority payment to the tribe

repayment of various senior debt associated with construction and equipping of the casino with interest accrued thereon

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repayment of various debt with interest accrued thereon due to us

management fee to us

other obligations, and

the remaining funds distributed to the tribe.

Notes receivable. We have historically accounted for our notes and advances receivable from and management contracts with the tribes as separate assets. Under the contractual terms, the notes do not become due and payable unless and until the projects are completed and operational. However, if our development activity is terminated prior to completion, we generally retain the right to collect in the event of completion by another developer. Because the stated rate of the notes receivable alone is not commensurate with the risk inherent in these projects (at least prior to commencement of operations), the estimated fair value of the notes receivable is generally less than the amount advanced. At the date of each advance, the difference between the estimated fair value of the note receivable and the actual amount advanced is recorded as either an intangible asset, contract rights, or expensed as period costs of retaining such rights if the rights were acquired in a separate unbundled transaction.

Subsequent to its effective initial recording at estimated fair value, the note receivable portion of the advance is adjusted to its current estimated fair value at each balance sheet date using typical market discount rates for prospective Indian casino operations, as affected by project-specific circumstances such as estimated probabilities affecting the expected opening date and changes in the status of regulatory approvals which include whether (1) the Bureau of Indian Affairs recognizes the tribe, (2) the tribe has the right to acquire land to be used as a casino site, (3) the Department of the Interior has put the land into trust as a casino site, (3) the tribe has a gaming compact with the state government, (4) the National Indian Gaming Commission has approved a proposed management agreement, and (5) other legal or political obstacles exist or are likely to occur. The notes receivable are not adjusted to an estimated fair value that exceeds the face value of the note plus accrued interest, if any. No interest income is recognized during the development period, but changes in estimated fair value of the notes receivable are recorded as unrealized gains or losses in our statement of operations.

Upon opening of the casino, the difference, if any, between the then recorded estimated fair value of the notes receivable, subject to any appropriate impairment adjustments pursuant to Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan*, and the amount contractually due under the notes would be amortized into income using the effective interest method over the remaining term of the note.

Contract rights. Intangible assets related to the acquisition of the management contracts are periodically evaluated for impairment based on the estimated cash flows from the management contract on an undiscounted basis and amortized using the straight-line method over the lesser of seven years or contractual lives of the agreements, typically beginning upon commencement of casino operations. In the event the carrying value of the intangible assets were to exceed the undiscounted cash flow, the difference between the estimated fair value and carrying value of the assets would be charged to operations.

Summary of long-term assets related to Indian casino projects. Long-term assets associated with Indian casino projects at March 31, 2005 and December 31, 2004 totaled \$12,135,355 and \$11,910,596, respectively, consisting of notes receivable, contract rights and land held for future development. Of such amounts \$11,932,813 and \$11,885,596 relate to the Michigan project, for which we have a management agreement with the Michigan tribe for the development and operation of a casino resort near Battle Creek, Michigan.

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To recap the current status of the Michigan project:

- (1) the Michigan tribe is federally recognized,
 - (2) adequate land for the proposed casino resort has not been placed in trust pending the outcome of item 5 below,
 - (3) the Michigan tribe has a valid gaming compact with the State of Michigan,
 - (4) the National Indian Gaming Commission has not yet approved the management contract, and
 - (5) the Bureau of Indian affairs is expected to issue a final environmental impact statement during the first half of 2006.
- At March 31, 2005, the sensitivity of changes in the assumptions related to the Michigan project are illustrated by the following increases (decreases) in the estimated fair value of the note receivable:

Discount rate increases to 25%	\$ (194,278)
Discount rate decreases to 20%	210,806
Forecasted opening date delayed one year	(606,784)
Forecasted opening date accelerated one year	743,303

Selected key assumptions and information used to estimate the fair value of the notes receivable for all projects at March 31, 2006 and December 31, 2005 is as follows:

	March 31, 2005	December 31, 2004
Aggregate face amount of the notes receivable	\$ 6,895,034	\$ 6,541,337
Estimated years until opening of casino:		
Michigan	3.00	3.00
New Mexico	2.00	
Montana	2.00	
Discount rate	22.5%	22.5%

It is estimated that the stated interest rates during the loan repayment term will be commensurate with the inherent risk at that time.

Factors that the Company considers in arriving at a discount rate include (1) discount rates typically used by gaming industry investors and appraisers to value individual casino properties outside of Nevada and (2) discount rates produced by the widely accepted Capital Asset Pricing Model (CAPM) using the following key assumptions:

S&P 500, 10 and 15-year average benchmark investment returns (medium-term horizon risk premiums);

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Risk-free investment return equal to the 10-year average for 90-day Treasury Bills;

Investment beta factor equal to the unleveraged five-year average for the hotel / gaming industry; and

Plus project specific adjustments based on typical size premiums for micro-cap and low-cap companies using 10 and 15-year averages. Management believes that under the circumstances there are essentially three critical dates / events that impact the project specific discount rate adjustment when using CAPM: (1) the date that management completes its feasibility assessment and decides to invest in the opportunity; (2) the date when construction financing has been obtained after all legal obstacles have been removed; and (3) the date that operations commence.

Recent Accounting Pronouncements:

In December 2003, the FASB issued Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)) which was effective for the Company's December 31, 2004, financial statements. Prior to FIN 46(R), companies were required to include in their consolidated financial statements only those entities in which they had a controlling equity interest. FIN 46(R) provides additional guidance requiring a variable interest entity (VIE), as defined, to be consolidated by the reporting entity that is exposed to the majority of the risk of economic loss from the VIE's activities, or is entitled to receive the majority of the VIE's residual returns, or both.

Due to the Company's current financing arrangement for the Michigan and California developments through its 50% ownership interest in Gaming Entertainment (California), LLC, (GEC) and Gaming Entertainment (Michigan), LLC, (GEM), respectively, the Company is exposed to the majority of risk related to GEM and GEC's activities. Therefore, in accordance with FIN 46(R), the Company considers GEM and GEC as VIEs that require consolidation of GEM and GEC into the Company's financial statements as of December 31, 2004. We adopted FIN 46(R) in 2004, without retroactive restatement to our 2003 financial statements, as permitted under FIN 46(R), by consolidating two 50%- in-substance joint ventures. Since they were previously carried on the equity method of accounting, there was no cumulative effect of an accounting change.

In December, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R requires that compensation cost related to share-based employee compensation transactions be recognized in the financial statements. Share-based employee compensation transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee share purchase plans. The provisions of SFAS 123R are effective as of the period ending March 31, 2006. Accordingly, we anticipate implementing the revised standard in the first quarter of fiscal year 2006. Currently, we account for our share-based employee compensation transactions under the provisions of APB 25, which does not necessarily require the recognition of compensation cost in the financial statements.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions*. The amendments made by SFAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based

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on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. The Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect to enter into any transactions that would be affected by adopting SFAS 153.

Results of Operations

Three Months Ended March 31, 2005, Compared to Three Months Ended March 31, 2004

Equity in Net Income of Unconsolidated Joint Venture. Our share of income from the Delaware joint venture decreased \$50,651, or 6% in the first quarter year of 2005 compared to the same period ending March 2004. A change to the estimated management fee rebate reduced current year's recorded earnings by \$33,632. The remaining decrease of \$17,019 is due to increased payroll costs, several days of harsh weather and fewer operating days in 2005 due to Easter and leap year.

Project Development Costs. Project development costs result from researching and identifying new business opportunities and the start-up and pre-opening expenses associated with projects in development. These costs consist primarily of legal and other professional fees and are expensed in the period in which they are incurred.

Project development costs for various projects increased by \$211,173 during the first three months of 2005, compared to the same period of the prior year. The increase is attributable primarily to costs associated with the Navajo project in New Mexico and an environmental impact study for the Michigan project.

General and Administrative Expenses. General and administrative expenses for the three months ended March 31, 2005, decreased by \$66,717 primarily due to a change in management, auditors and insurance carriers during the second quarter of 2004.

Unrealized Gain on Notes Receivable. Unrealized gains on notes receivable are determined based upon the estimated fair value of our notes receivable related to Indian casino projects. The decrease of \$459,943 for the three months ended March 31, 2005 compared to the same period in 2004 resulted from the reduction of the estimated years until opening of the Michigan project from four to three years, due to favorable rulings in litigation that had been delaying the project.

Other Income. We were awarded reimbursement and damages, including legal fees, from the arbitration against the California Tribe for approximately \$1,076,680 regarding terminated development and management agreements entered into in 1995 and 1997. This income was reduced by the write off of net gaming rights and advances relating to the California tribe in the amount of \$128,287 and an allowance for estimated collection costs of \$100,000. The remaining increase of \$6,496 is primarily due to our higher bank interest income, partially offset by the increase in the interest rate of our long term debt.

Liquidity and Capital Resources

GED is our sole source of recurring income. Distributions from GED to us are governed by the terms of the applicable joint venture agreement. The fifteen year contract, which expires in the year 2011 unless it is renewed, provides that net cash flow (after certain deductions) is to be distributed monthly to

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the members of GED (Full House Resorts and Harrington Raceway Inc.). While we do not believe that this arrangement will adversely impact our liquidity, our continuing cash flow is dependent on the operating performance of GED, and its ability to receive monthly distributions.

Cash flow from operations for the three months ended March 31, 2005, decreased \$480,472 from 2004 primarily as a result of income tax payments as well as increased project development costs. Cash used in investing included \$200,000 expended for gaming development rights related to the Manuelito Chapter of the Navajo tribe in New Mexico. We advanced \$408,697 to tribal governments, primarily the Michigan tribe, during the quarter.

Our future cash requirements will be primarily to fund the balance of development expenses for the Michigan and other projects, and general and administrative expenses. We believe that adequate financial resources will be available to execute our current growth plan.

Indian casino projects

Our funding of the Michigan project and our liquidity are affected by an agreement with RAM Entertainment, LLC, (RAM) a privately held investment company, whereby RAM has acquired a 50% interest in the GEC and GEM in exchange for providing a portion of the necessary funding for the development of related projects. Accordingly, RAM advanced us \$2,381,260, which is partially convertible into a capital contribution to GEM upon federal approval of the land into trust application and federal approval of the management agreement with the Michigan Tribe. As of March 31, 2005, neither event has occurred. On December 10, 2004, the Company and RAM executed a forbearance agreement, whereby each of us agreed to take no action to enforce any right nor to pursue any remedy under the investor agreement. Currently, we have an understanding in principle, subject to the execution of a definitive agreement, to modify certain terms of the investor agreement, including extending the due date, and continue the relationship. The agreement states that RAM and Full House will share Michigan development expenditures up to \$800,000, retroactive to January 1, 2005. Accordingly, we have recorded a \$162,283 due from the co-venturer which represents RAM's share of Michigan development expenditures which were paid by us on RAM's behalf since January 1, 2005.

In February 2005, we were named as developer and manager of a gaming project to be developed by the Manuelito Chapter of Navajo Indians in New Mexico. In furtherance of this development, we entered into a joint venture agreement with NADACS, Inc. (NADACS), a New Mexico company, to pursue the project. Pursuant to the joint venture agreement with NADACS, we paid NADACS a total of \$200,000 as partial payment for gaming rights held by NADACS to develop Navajo gaming facilities. We have submitted a form of Management Agreement for the Chapter's consideration and approval by the Navajo Nation. This project is subject to the consent of the Navajo Nation and compliance with its yet to be created gaming commission rules and regulations and approval by the National Indian Gaming Commission.

In March 2005, the Northern Cheyenne Tribe of Montana (Montana tribe) signed a letter of intent to negotiate a management agreement with Full House Resorts for a proposed casino to be built approximately 100 southeast of Billings, Montana. The Montana tribe currently operates the Charging Horse casino in Lame Deer, Montana, consisting of 125 gaming devices, a 300 seat bingo hall and restaurant.

We are pursuing reimbursement from the Torres-Martinez tribe in California (California tribe) for expenses and damages and other relief of approximately \$1.1 million which arose from the California

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tribe's termination its 1995 and 1997 development and management agreements. An arbitration award was issued in our favor on February 16, 2005. On March 4, 2005, the California tribe forwarded a letter to us outlining an offer to settle the claim. We are continuing to discuss with the Tribe a settlement of these claims.

Other

As part of a termination agreement of our Hard Rock licensing rights in Biloxi, Mississippi, we have agreed to provide consulting services to Hard Rock if and when the Biloxi facility opens, entitling us to annually receive the greater of \$100,000 or 10% of licensing fees for the two year consulting period. We have been informed that construction of a Hard Rock Casino in Biloxi is under way and an opening is to be scheduled during the third quarter of 2005.

As of March 31, 2005, we had cumulative undeclared and unpaid dividends in the amount of \$2,677,500 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. The Company does not plan to declare dividends until there is sufficient cash flow from operations. However, we are evaluating other alternatives to settle the dividends 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 variable rate debt of \$2.4 million at March 31, 2005, is subject to variable interest rates, which averaged 5.4% during the current quarter. The applicable interest rate debt is based on the prime lending rate and therefore, the interest rate will change as the prime lending rate changes. Based on our \$2.4 million of outstanding variable rate debt at March 31, 2005, a hypothetical 100 basis point (1%) change in rates would result in an annual interest expense change of approximately \$24,000. At this time, we do not anticipate that either inflation or interest rate variations will have a material impact on our future operations.

Safe Harbor Provision

This Quarterly Report on Form 10-QSB 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, possible, seeks, may, could, should, similar words or expressions are used in this Form 10-QSB, 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.

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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 factors:

our growth strategies;

our development and potential acquisition of new facilities;

risks related to development and construction activities;

anticipated trends in the gaming industries;

patron demographics;

general market and economic conditions;

access to capital, including our ability to finance future business requirements;

the availability of adequate levels of insurance;

changes in federal, state, and local laws and regulations, including environmental and gaming license legislation and regulations;

regulatory approvals;

competitive environment;

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 risk factors 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 its business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.

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 Section 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act)) as of March 31, 2005, 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. Management believes that there have been no changes in our internal control during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

California On July 2, 2004, the Company forwarded to the American Arbitration Association a demand for arbitration against the California Tribe for reimbursement and damages of approximately \$1.1 million that arose from the California Tribe's notice that it had terminated development and management agreements entered into in 1995 and 1997.

A hearing before a single arbitrator was held in December, 2004, and the arbitrator issued a decision on February 16, 2005, which upheld the 1995 development agreement, granting the Company the exclusive right to develop, manage and operate any and all gaming activities engaged in by the California Tribe for a period of seven years after the date that gaming commences. The ruling also gave the Company the right to lease from the California Tribe a minimum of ten percent of the land which the California Tribe acquired from the federal government for a term of 50 years, at an annual rental of \$10 plus 15% of the net profits generated by any commercial, recreational, industrial or residential development. In addition, the Company was awarded the alternative of monetary damages plus attorney's fees and other related costs, currently in the amount of approximately \$1.1 million.

We have since been approached by the California Tribe with an offer of settlement of this award. We will continue to discuss a possible amicable resolution, however, there can be no guarantee that the California Tribe will agree with our terms for settlement. In the event that no settlement is reached, we will pursue legal action to enforce the arbitration award in the United States District Court pursuant to the Federal Arbitration Act, 9 U.S.C. (s)(s) 1 et seq. While an attempt at enforcement may be unsuccessful, we believe that we can recover the amounts carried on our balance sheet based upon the California Tribe's expressed intentions, the arbitration ruling in our favor, as well as our contractual rights.

Michigan The Company has a management agreement with the Michigan tribe for the development and operation of a casino upon federal approval of the land into trust application and federal approval of the management agreement with the Michigan tribe. The legal challenge preventing the land from being taken into trust is pending in Federal District Court in Washington, D.C.

The ruling of the United States District Court for the District of Columbia in the case of *CETAC vs. Norton* entered on April 23, 2004, required a reassessment of the environmental analysis of the Michigan project. An environment impact study has been commenced and we are awaiting the completion of this process to begin construction of the casino.

On July 30, 2004 the Michigan Supreme Court issued its ruling in *Taxpayers of Michigan Against Casinos (TOMAC) vs. State of Michigan* that the Michigan Legislature did not violate the state constitution when it approved four tribal casino compacts in 1998 by a resolution. The Supreme Court ruling upholds a 2002 ruling by the Michigan Court of Appeals that reversed a ruling in 1999 by Ingham County Circuit Court Judge Peter Houk. This ruling removes the objection to the Tribal-State Compact between the Nottawaseppi Huron Band of Potawatomi tribe and the State of Michigan to allow Class III casino gaming at the proposed site near Battle Creek. On October 28, 2004, TOMAC filed a Petition for Certiorari in the U.S. Supreme Court asking the U.S. Supreme Court to hear its appeal of the Michigan Supreme Court's ruling approving the compacts. In February 2005, the United States Supreme Court

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denied, without comment, the petition, upholding the validity of four Tribal-State Gaming Compacts entered into with the State of Michigan and ending the appeal.

Item 3. Defaults upon Senior Securities

As of March 31, 2005, we had cumulative undeclared and unpaid dividends in the amount of \$2,677,500 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. The preferred stock's class ranks prior to the Company's common stock with regard to dividend and liquidation rights.

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 and financial officers pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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.

Date: May 19, 2006

FULL HOUSE RESORTS, INC.

By: /s/ JAMES MEIER
James Meier
Chief Financial Officer
(on behalf of the Registrant and as
principal financial officer)

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