

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 JUNE 30, 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)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>13-3391527</b> (I.R.S. Employer Identification No.)
<b>4670 S. Fort Apache Road</b>  <b>Suite 190</b>	
<b>Las Vegas, Nevada</b> (Address of principal executive offices)	<b>89147</b> (zip code)
<b>(702) 221-7800</b>	
(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**

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As of July 20, 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 June 30, 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 August 15, 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 August 15, 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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**FULL HOUSE RESORTS, INC.**

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**Table of Contents****FULL HOUSE RESORTS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	JUNE 30,	DECEMBER 31,
	2005	2004
	(unaudited)	(Restated)
	(Restated)	(Restated)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,589,611	\$ 2,466,365
Due from related parties	160,083	
Other	223,067	54,684
Income tax receivable		120,754
	1,972,761	2,641,803
Investment in unconsolidated joint venture	319,380	152,043
Notes receivable, tribal governments	3,599,135	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	4,991,073	4,927,814
Deferred income tax asset		64,257
Deposits and other assets	76,058	231,706
	\$ 15,793,919	\$ 15,000,405
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 89,820	\$ 371,144
Accrued expenses		64,858
	89,820	436,002
Note payable to co-venturer, including accrued interest	2,539,413	2,472,363
Other long-term liabilities	272,138	
Deferred income tax liability	71,525	
	2,883,076	2,472,363
Non-controlling interest in consolidated joint ventures	1,853,347	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 \$4,830,000 and \$4,620,000 including undeclared dividends in arrears of \$2,730,000 and \$2,520,000	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	(6,463,317)	(7,268,369)
	10,967,676	10,162,624

\$ 15,793,919      \$ 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**

	<b>THREE MONTHS ENDED</b>	
	<b>JUNE 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Restated)</b>	<b>(Restated)</b>
<b>Equity in net income of unconsolidated joint venture</b>	\$ 1,031,217	\$ 818,867
<b>Operating costs and expenses</b>		
Project development costs	354,100	156,858
General and administrative	572,190	332,265
Depreciation and amortization	22,606	42,746
	948,896	531,869
Unrealized gains on notes receivable	20,409	9,054
<b>Income from operations</b>	102,730	296,052
<b>Other income (expense)</b>		
Interest	(35,099)	(24,000)
Other	12,167	249
<b>Income before income taxes and non-controlling interest</b>	79,798	272,301
Non-controlling interest in net loss of consolidated joint venture	324,860	
Income taxes	(213,535)	(142,348)
<b>Net income</b>	191,123	129,953
Less undeclared dividends on cumulative preferred stock	(52,500)	(52,500)
<b>Net income applicable to common shares</b>	\$ 138,623	\$ 77,453
<b>Net income per common share</b>		
Basic and diluted	\$ 0.01	\$ 0.01
<b>Weighted average number of common shares outstanding</b>		
Basic	10,340,380	10,340,380
Diluted	10,340,380	11,040,380

See notes to condensed consolidated financial statements.

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

	SIX MONTHS ENDED	
	JUNE 30,	
	2005 (Restated)	2004 (Restated)
<b>Equity in net income of unconsolidated joint venture</b>	\$ 1,888,554	\$ 1,726,855
<b>Operating costs and expenses</b>		
Project development costs	764,172	223,475
General and administrative	999,906	826,698
Depreciation and amortization	48,376	85,394
	1,812,454	1,135,567
Unrealized gains on notes receivable	25,577	474,166
Arbitration award, net	848,393	
<b>Income from operations</b>	950,070	1,065,454
<b>Other income (expense)</b>		
Interest	(67,051)	(52,180)
Other	22,666	480
<b>Income before income taxes and non-controlling interest</b>	905,685	1,013,754
Non-controlling interest in net loss of consolidated joint venture	457,143	
Income taxes	(557,776)	(437,725)
<b>Net income</b>	805,052	576,029
Less undeclared dividends on cumulative preferred stock	(105,000)	(105,000)
<b>Net income applicable to common shares</b>	\$ 700,052	\$ 471,029
<b>Net income per common share</b>		
Basic	\$ 0.07	\$ 0.05
Diluted	\$ 0.06	\$ 0.04
<b>Weighted average number of common shares outstanding</b>		
Basic	10,340,380	10,340,380
Diluted	11,131,289	11,040,380

See notes to condensed consolidated financial statements.



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

	SIX MONTHS ENDED	
	2005 (Restated)	2004 (Restated)
<b>Net cash provided by operating activities</b>	236,820	636,925
<b>Cash flows from investing activities:</b>		
Advances to tribal governments	(910,801)	(466,307)
Acquisition of contract rights and other assets	(202,773)	(1,491)
<b>Cash used in investing activities</b>	<b>(1,113,574)</b>	<b>(467,798)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(876,754)</b>	<b>169,127</b>
Cash and cash equivalents, beginning of period	2,466,365	1,942,430
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,589,611</b>	<b>\$ 2,111,557</b>

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 has been omitted pursuant to the interim financial information 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 June 30, 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 and six months ended June 30, 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	
	June 30, 2005:	
	As Previously	As
	Reported (In thousands, except per share data)	Restated
<b>Consolidated statement of income:</b>		
Project development costs	\$ 566	\$ 354
Unrealized gain on notes receivable		20
Income taxes	(171)	(214)
Net income	1	191
Net income applicable to common shares	(51)	139
Net income per share, basic and diluted	0.00	0.01

	For the Three Months Ended	
	June 30, 2004:	
	As Previously	As
	Reported (In thousands, except per share data)	Restated
<b>Consolidated statement of income:</b>		
Project development costs	\$ 202	\$ 157
Unrealized gain on notes receivable		9
Income taxes	(124)	(142)
Net income	94	130
Net income applicable to common shares	42	77
Net income per share, basic and diluted	0.00	0.01

	For the Six Months Ended	
	June 30, 2005:	
	As Previously	As
	Reported (In thousands, except per share data)	Restated
<b>Consolidated statement of income:</b>		
Project development costs	\$ 1,118	\$ 764
Unrealized gain on notes receivable		26
Income taxes	(490)	(558)
Net income	494	805
Net income applicable to common shares	389	700
Net income per share, basic	0.04	0.07
Net income per share, diluted	0.03	0.06

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	For the Six Months Ended	
	June 30, 2004:	
	As Previously Reported	As Restated
	(In thousands, except per share data)	
<b>Consolidated statement of income:</b>		
Project development costs	\$ 345	\$ 223
Unrealized gain on notes receivable		474
Income taxes	(235)	(438)
Net income	183	576
Net income applicable to common shares	78	471
Net income per share, basic	0.01	0.05
Net income per share, diluted	0.01	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., carried on the equity method of accounting.

Summary information for GED's operations for the three and six months ended June 30, is as follows:

	Three Months		Six Months	
	2005	2004	2005	2004
Management fee revenues	\$ 2,193,235	\$ 2,143,873	\$ 4,091,152	\$ 3,729,076
Income from operations	2,062,433	1,637,734	3,844,371	3,453,710
Net income	2,062,433	1,637,734	3,844,371	3,453,710

**4. NOTES RECEIVABLE, TRIBAL GOVERNMENTS**

As of June 30, 2005 and December 31, 2004, Full House has made advances to tribal governments totaling \$7,427,138 and \$6,541,337 as follows:

	June 30,	December 31,
	2005	2004
<b>Contractual (stated) amount</b>		
Michigan tribe	\$ 7,395,764	\$ 6,516,337
Other	31,374	25,000
	\$ 7,427,138	\$ 6,541,337
<b>Estimated fair value of notes receivable related to Indian casino projects</b>		
Michigan tribe	\$ 3,577,351	\$ 3,098,950
Other	21,784	25,000
	\$ 3,599,135	\$ 3,123,950



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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 1995 was valid and enforceable, and accordingly, awarded the Company damages approximating \$1.1 million, which has been recorded net of a \$100,000 allowance for estimated collection costs. The Company is currently negotiating the payment of the award with the California tribe and by letter dated July 21, 2005, the California tribe made an offer of settlement in accordance with terms previously requested by the Company. Any final settlement is subject to the signing of a formal settlement agreement.

### **6. COMMITMENTS AND CONTINGENCY**

In May 2005, the Company entered into development and management agreements with the Northern Cheyenne Tribe of Montana for a proposed casino to be built approximately 100 miles southeast of Billings, Montana. As part of the agreements, the Company has committed to advance certain costs associated with the development and furtherance of this project, which costs cannot reasonably be estimated at this time, and to use its best efforts to arrange financing for the construction and equipping of the facility for a total estimated cost of \$16 million.

In June 2005, we signed a gaming development and management agreement with the Nambe Pueblo of New Mexico to develop a 50,000 square foot facility including gaming, restaurants, entertainment and other amenities as part of the tribe's multi-phased master plan of economic development. As part of the agreements, the Company has committed to advance certain costs associated with the development and furtherance of this project, which costs cannot reasonably be estimated at this time, and to use its best efforts to arrange financing for the construction and equipping of the facility for a total estimated cost of \$40 million.

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. As a result, a draft environmental impact statement has been prepared and the Bureau of Indian Affairs, as the lead agency for these purposes, has scheduled a public hearing for August 24, 2005, in Battle Creek, Michigan to consider comments to the draft.

The Company's estimated minimum estimated loss is zero and its maximum exposure to loss as a result of its involvement with the Michigan project, as of June 30, 2005, is approximately \$12.2

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million, which is made up of the net book value of contract rights, land, and notes receivable from the Michigan tribe. This would be the case only if the project were to be abandoned and none of its assets were recoverable. The foregoing estimated range of exposure does not include defense costs as the Company's policy is to expense legal and other litigation costs in the period incurred. Accordingly, no provision has been made in the financial statements for any such losses, but consistent with the Company's accounting policy, notes receivable are carried at management's best estimate of their fair value.

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

#### **Overview**

Full House Resorts, Inc., a Delaware corporation, develops, manages and/or invests in gaming related opportunities. We continue to actively investigate, on our own and with partners, new business opportunities including traditional and tribal gaming operations. We seek to expand through acquiring, managing, or developing casinos in profitable markets. Currently, we are a 50% investor in Gaming Entertainment (Delaware), LLC, a joint venture with Harrington Raceway, Inc., that manages Midway Slots and Simulcast at the Delaware State Fairgrounds in Harrington, Delaware. Midway Slots has approximately 1,581 gaming devices, a 350-seat buffet, a 50-seat diner and an entertainment lounge area. We are also developing a casino project for the Nottawaseppi Huron Band of Potawatomi in Michigan, referred to as the Michigan tribe.

In addition, we have entered into development and gaming management agreements, which are subject to approval by the National Indian Gaming Commission, with the Nambé Pueblo of New Mexico for the development of a coordinated entertainment venue centered on a 50,000 square foot casino, and with the Northern Cheyenne Nation of Montana for the development and management of a 25,000 square foot gaming facility.

#### **Critical Accounting Estimates and Policies**

As discussed below and in note 2 to our condensed consolidated financial statements, effective for 2005, 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

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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 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,
- (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





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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

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.

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**Summary of long-term assets related to Indian casino projects.** Long-term assets associated with Indian casino projects at June 30, 2005 and December 31, 2004 totaled \$12,449,040 and \$11,910,596, respectively, consisting of notes receivable, contract rights, net of accumulated amortization, and land held for future development. Of such amounts \$12,215,755 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.

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 June 30, 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%	\$ (210,377)
Discount rate decreases to 20%	228,274
Forecasted opening date delayed one year	(657,064)
Forecasted opening date accelerated one year	804,903

Selected key assumptions and information used to estimate the fair value of the notes receivable for all projects at June 30, 2005 and December 31, 2004 is as follows:

	June 30,	December 31,
	2005	2004
Aggregate face amount of the notes receivable	\$ 7,427,138	\$ 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

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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);

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, 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 to be effective for us for the quarterly 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. Since no stock-based compensation was issued during the periods presented in this report, the use of this accounting method has had no effect. The effect of adoption of the new standard on future periods cannot be predicted at this time.

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 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 presently expect to enter into any transactions during the foreseeable future that would be affected by adopting SFAS 153.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and SFAS No. 3*. SFAS No. 154 replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements* and changes the requirement for the accounting for and reporting of a change in accounting principles. SFAS No. 154 applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include

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specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The provisions of SFAS No. 154 will be effective for accounting changes made in the fiscal year beginning after December 15, 2005. We have not completed our evaluation or determined the impact of adopting SFAS No. 154, which may or may not be material to our results of operations in the first quarter of fiscal year 2006 and thereafter.

## **Results of Operations**

### **Six Months Ended June 30, 2005, Compared to Six Months Ended June 30, 2004**

**Equity in Net Income of Unconsolidated Joint Venture.** Our share of income from the Delaware joint venture increased \$161,699, or 9% year-to-date in 2005 compared to the same period ending June 30, 2004 and increased \$212,350, or 25% for the three months ended June 30, 2005, compared to the same three-month period in 2004. The increases are due to an expansion of the facilities, the addition of 140 machines and extended operating hours in the second quarter, offset by a first quarter increase to the estimated management fee rebate of \$33,632 and \$17,019 of increased payroll costs.

**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 are primarily for legal and other professional fees and are expensed in the period in which they are incurred. Project development costs increased \$540,697 for the six months ended June 30, 2005, compared to the same time period in the prior year. The increase is attributable to architectural fees of \$291,570, environmental impact study costs of \$228,172 and increased legal fees associated with the Michigan development and other new projects.

**General and Administrative Expenses.** General and administrative expenses for the six months ended June 30, 2005, increased by \$173,208 over the same period last year, due primarily to an increase of approximately \$114,000 in legal fees for corporate issues including the settlement of arbitration proceedings involving the Torres Martinez Desert Cahuilla Indians (California tribe). The remaining increase is attributable to increased corporate related travel and the cost of the annual report and shareholder s meeting.

**Unrealized Gains 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. Unrealized gains decreased \$448,589 or 95% for the six months ended June 30, 2005 compared to the same period in 2004. The large amount of unrealized gains in 2004 resulted from the change in the estimated opening time of the Michigan project being changed from four years to three years.

**Other Income.** During the first quarter of 2005, we were awarded reimbursement and damages totaling \$1,076,680, including legal fees, resulting from a favorable arbitration ruling regarding terminated development and management agreements entered into in 1995 and 1997 with the California tribe. This income was reduced by the write-off of the remaining net gaming rights and advances relating to the California tribe totaling \$128,287, and the establishment of an allowance for estimated collection costs of \$100,000. The remaining increase of \$7,315 is primarily due to increased interest income, partially offset by the increase in the interest rate of our long-term debt.

**Non-controlling Interest in Net Loss of Consolidated Joint Venture.** RAM Entertainment, LLC, (RAM), a privately held investment company, has a 50% non-controlling interest in our consolidated

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joint venture, GEM. GEM's losses are a result of development expenses associated with the Michigan project. Since RAM did not share in the expenses of GEM in the prior year under the agreement between us and RAM that effectively expired January 1, 2005, there was no non-controlling interest in the consolidated investee's losses in the comparable prior year periods.

### **Liquidity and Capital Resources**

The Delaware joint venture is our sole source of recurring income and significant positive cash flow. Distributions from it 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 its members. While we do not believe that this arrangement will adversely impact our liquidity, our continuing cash flow is dependent on the operating performance of this joint venture, and its ability to make monthly distributions.

Cash flow from operations for the six months ended June 30, 2005, decreased \$400,105 from the same time period in 2004, primarily as a result of income tax payments, corporate legal expenses and increased project development costs. Cash used in investing included \$200,000 expended to advance our position in obtaining gaming development rights related to the Manuelito Chapter of the Navajo tribe in New Mexico. We advanced \$910,801 to tribal governments, primarily the Michigan Tribe, during the six months ended June 30, 2005.

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 from a combination of operating cash flows and external debt and equity financing. A decrease in our cash receipts or the unavailability of funding sources would limit our development. Additional projects are considered based on the project's construction period and ability to secure the funding necessary to complete the development.

### **Indian casino projects**

Our funding of the Michigan project and our liquidity are affected by an agreement with RAM Entertainment, LLC, a privately held investment company. RAM has acquired a 50% interest in the California and Michigan joint ventures 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 the Michigan joint venture upon federal approval of the land into trust application and federal approval of the management agreement with the Michigan tribe. As of June 30, 2005, neither event had occurred. In May 2005, we and RAM agreed to, among other items, extend the maturity date of the note payable to RAM to July 1, 2007, with interest continuing to accrue without payment or penalty. As part of that agreement, RAM has subordinated its security interest in the collateral to our other borrowings up to \$3,000,000 subject to certain terms, and RAM has committed to sharing Michigan development expenditures, previously absorbed and expensed by us, of up to \$800,000, retroactive to January 1, 2005, significantly improving our cash flows since that date. As of June 30, 2005, included in due from related parties, we have recorded a \$31,074 receivable from RAM representing their net share of Michigan development expenditures paid by us on RAM's behalf.

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 an agreement with NADACS, Inc., a New Mexico company, to pursue the

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project. Pursuant to the agreement, we paid NADACS \$200,000 as partial payment for the right to pursue development and management agreements for future 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. We have committed to finance any additional costs needed to operate the joint venture or develop, construct or operate the facility.

In May 2005, we entered into development and management agreements with the Northern Cheyenne Tribe of Montana for a proposed casino to be built approximately 100 miles 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. As part of the agreements, we have committed to finance costs associated with the development and furtherance of this project.

In June 2005, we signed a gaming development and management agreement with the Nambe Pueblo of New Mexico to develop a 50,000 square foot facility including gaming, restaurants, entertainment and other amenities as part of the tribe's multi-phased master plan of economic development. Accordingly, we advanced \$12,000 and have committed to finance costs associated with the development and furtherance of this project.

We are pursuing reimbursement from the California tribe for expenses and damages and other relief of approximately \$1.1 million which arose from the California tribe's termination of its 1995 and 1997 development and management agreements. An arbitration award was issued in our favor on February 16, 2005. By letter dated July 21, 2005, the attorney for the California tribe advised that the General Council of the California tribe voted to accept a settlement previously proposed by Full House by which the California tribe would pay an initial amount of \$200,000 and the balance of the settlement over 7 years, therefore having only a minor impact on our annual cash flows. This understanding is subject to execution of a formal settlement agreement between the parties.

## **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. Construction of the Hard Rock Casino in Biloxi is under way with an opening date estimated to be during the third quarter of 2005. Accordingly, the positive effect of this matter on future cash flows cannot be predicted but may not be significant.

As of June 30, 2005, we had cumulative undeclared and unpaid dividends in the amount of \$2,730,000 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. We do 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.

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### **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 June 30, 2005, is subject to variable interest rates, which averaged 5.9% during the current quarter. The applicable interest rate 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 June 30, 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, 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.

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;



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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.** Our 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) have concluded that as of June 30, 2005, our disclosure controls and procedures were effective and designed to ensure that information required to be disclosed in reports filed under the Securities 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.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

**California** On July 2, 2004, we 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 us 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 us 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, we were awarded the alternative of monetary damages plus attorney's fees and other related costs, currently in the amount of approximately \$1.1 million.

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We have been approached by the California tribe with an offer of settlement of this award. We will continue to discuss a possible amicable resolution, however, the California Tribe may not 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. By letter dated July 21, 2005, the attorney for the California tribe advised that the General Council of the California tribe voted to accept a settlement by which the California tribe would pay to the Company an initial amount of \$200,000 and the balance over 7 years at 7% interest. We had previously proposed these terms to the California tribe. This settlement understanding is subject to execution of a formal settlement agreement between the parties.

**Michigan** We have 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. A 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. A draft environmental impact statement has been prepared and the Bureau of Indian Affairs, as the lead agency for these purposes, has scheduled a public hearing to consider comments to the draft for August 24 in the Battle Creek, Michigan area. The next step in the process is to prepare a final environmental impact statement based on comments received to the draft statement. We are awaiting the completion of the environmental impact study process to begin construction of the casino.

**Item 3. Defaults upon Senior Securities**

As of June 30, 2005, we had cumulative undeclared and unpaid dividends in the amount of \$2,730,000 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 4. Submission Of Matters To A Vote Of Security Holders**

We held our 2005 annual meeting on May 19, 2005 at which Carl G. Braunlich, Andre M. Hilliou, Lee A. Iacocca, William P. McComas, Mark J. Miller and J. Michael Paulson were elected to our board of directors. Our stockholders also ratified the appointment of Piercy Bowler Taylor & Kern as our independent auditors. No other proposals were presented at the 2005 annual meeting. At the meeting the votes were cast as follows:

	<b>In Favor</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-vote</b>
Election of Carl G. Braunlich	8,750,655	9,660	1,580,065	0
Election of Andre M. Hilliou	8,749,455	10,860	1,580,065	0

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	<b>In Favor</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-vote</b>
Election of Lee A. Iacocca	8,399,970	360,345	1,580,065	0
Election of William McComas	5,118,270	3,642,045	1,580,065	0
Election of Mark J. Miller	8,750,970	9,345	1,580,065	0
Election of J. Michael Paulson	8,750,370	9,945	1,580,065	0
Ratification of Piercy Bowler Taylor & Kern as independent auditors	8,754,605	5,410	1,580,365	0

**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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