FULL HOUSE RESORTS INC
Form 10-Q
May 14, 2015

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

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2015
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File No. 1-32583

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

Delaware (State or other jurisdiction of incorporation or organization)	13-3391527 (I.R.S. Employer Identification No.)
4670 S. Fort Apache Road, Ste. 190 Las Vegas, Nevada (Address of principal executive offices)	89147 (Zip Code)

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

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

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

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

Large Accelerated Filer o	Accelerated Filer o
Non Accelerated Filer o (Do not check if a smaller	Smaller reporting company þ

reporting company)

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

As of May 12, 2015, there were 18,876,681 shares of Common Stock, $0.0001 par value per share, outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except shares and per share data)

	Three months ended March 31, 2015	2014
Revenues		
Casino	$ 26,354	$ 27,481
Food and beverage	5,849	5,024
Hotel	1,279	1,195
Management fees	--	494
Other operations	638	611
Gross revenues	34,120	34,805
Less promotional allowances	(5,036)	(4,356)
Net revenues	29,084	30,449
Operating costs and expenses		
Casino	13,732	14,461
Food and beverage	2,100	2,099
Hotel	120	108
Other operations	268	228
Selling, general and administrative	10,844	11,133
Preopening and other	42	56
Depreciation and amortization	1,992	2,455
	29,098	30,540
Operating loss	(14)	(91)
Other (expense) income		
Interest expense, net of $0.2 million and $0.08 million, capitalized	(1,525)	(1,517)
Other	12	--
	(1,513)	(1,517)
Loss before income taxes	(1,527)	(1,608)
Provision (benefit) for income taxes	228	(526)
Net loss	$ (1,755)	$ (1,082)
Basic and diluted loss per share	$ (0.09)	$ (0.06)
Basic and diluted weighted average number of common shares outstanding	18,876,681	18,870,681

See condensed notes to consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

		March 31, 2015 (Unaudited)		December 31, 2014
ASSETS				
Current assets				
Cash and equivalents	$	14,337	$	15,639
Accounts receivable, net of allowance for doubtful accounts of $341 and $513		1,316		1,573
Income tax receivable		--		3,095
Prepaid expenses		2,951		2,105
Other		649		728
		19,253		23,140
Property and equipment, net		98,141		95,040
Other long-term assets				
Goodwill		16,480		16,480
Intangible assets, net of accumulated amortization of $6,695 and $6,195		2,818		3,382
Deposits		393		178
Loan fees, net of accumulated amortization of $4,231 and $3,827		2,271		2,650
Deferred tax asset		74		74
		22,036		22,764
	$	139,430	$	140,944
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	4,092	$	4,102
Construction contracts payable		1,280		1,638
Accrued player club points and progressive jackpots		1,932		1,709
Accrued payroll and related		2,402		3,743
Other accrued expenses		2,895		3,704
Deferred tax liability		901		901
Current portion of capital lease obligation		679		690
Current portion of long-term debt		3,059		1,337
		17,240		17,824
Long-term debt, net of current portion		60,033		59,294
Deferred tax liability		327		99
Capital lease obligation, net of current portion		6,051		6,230
		83,651		83,447
Commitments and contingencies (Note 10)				
Stockholders' equity				
		2		2

Common stock, $0.0001 par value, 100,000,000 shares authorized; 20,233,276 shares issued; 18,876,681 shares outstanding						
Additional paid-in capital		45,915			45,878	
Treasury stock, 1,356,595 common shares		(1,654	)		(1,654	)
Retained earnings		11,516			13,271	
		55,779			57,497	
	$	139,430		$	140,944	

See condensed notes to consolidated financial statements.

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

Three months ended March 31, 2015	Common stock Shares	Common stock Dollars	Additional paid-in capital	Treasury stock Shares	Treasury stock Dollars	Retained Earnings	Total Stockholders' Equity
Beginning balances	20,233	$ 2	$ 45,878	1,357	$ (1,654)	$ 13,271	$ 57,497
Stock-based compensation	--	--	37	--	--	--	37
Net loss	--	--	--	--	--	(1,755)	(1,755)
Ending balances	20,233	$ 2	$ 45,915	1,357	$ (1,654)	$ 11,516	$ 55,779

See condensed notes to consolidated financial statements.

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

	Three months ended March 31, 2015	2014
Cash flows from operating activities:		
Net loss	$ (1,755)	$ (1,082)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,492	1,814
Amortization of loan fees	404	370
Amortization of player loyalty program, land lease and water rights	500	641
Loss on disposals	--	1
Stock-based compensation	37	79
Increases and decreases in operating assets and liabilities:		
Accounts receivable, net	257	134
Income tax receivable	3,095	1,970
Prepaid expenses	(846)	(440)
Other assets	162	(9)
Deferred tax	228	--
Accounts payable and accrued expenses	(1,988)	(1,664)
Net cash provided by operating activities	1,586	1,814
Cash flows from investing activities:		
Purchase of property and equipment, net of construction contracts payable	(4,900)	(2,019)
Deposits	(234)	(1,964)
Other	--	(10)
Net cash used in investing activities	(5,134)	(3,993)
Cash flows from financing activities:		
First Term loan borrowings	4,461	--
Revolving loan (repayment)/borrowings	(2,000)	2,000
Repayment of long-term debt on capital lease obligation	(190)	(237)
Other	(25)	(1)
Net cash provided by financing activities	2,246	1,762
Net decrease in cash and equivalents	(1,302)	(417)
Cash and equivalents, beginning of period	15,639	14,936
Cash and equivalents, end of period	$ 14,337	$ 14,519
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,113	$ 1,212

Cash received from income tax refunds, net of cash paid of $0.05 million for income taxes in 2014	$	(3,095	)	$	(1,915	)
NON-CASH INVESTING AND FINANCING ACTIVITIES:						
Accrued property and equipment capital expenditures	$	1,331		$	648	

See condensed notes to consolidated financial statements.

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

1. ORGANIZATION

Organization. Formed as a Delaware corporation in 1987, Full House Resorts, Inc., owns, operates, develops, manages, and/or invests in casinos and related hospitality and entertainment facilities. References in this document to "Full House," the "Company", "we", "our," or "us" refer to Full House Resorts, Inc. and its subsidiaries, except where stated the context otherwise indicates.

We currently own three casino properties and operate a fourth casino subject to a lease, as follows:

Property	Acquisition Date	Location
Silver Slipper Casino (Owned)	2012	Bay St. Louis, MS (near New Orleans)
Rising Star Casino Resort (Owned)	2011	Rising Sun, IN (near Cincinnati)
Stockman's Casino (Owned)	2007	Fallon, NV (one hour east of Reno)
Grand Lodge Casino (leased and part of the Hyatt Regency Lake Tahoe Resort)	2011	Incline Village, NV (North Shore of Lake Tahoe)

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. As permitted by the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. These consolidated financial statements should be read in conjunction with the Company's 2014 annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The interim consolidated financial statements of the Company and its subsidiaries included herein reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire year.

The consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain minor reclassifications have been made to prior-period amounts to conform to the current period presentation. These reclassifications had no effect on the previously reported net loss.

Preopening expenses. Preopening expenses are expensed as incurred and include payroll, outside services, advertising, and other expenses related to new or start-up operations.

Recently issued accounting standards. Recently issued authoritative standards issued after January 1, 2015 have been reviewed. The new guidance currently is not expected to have a material impact on our financial statements.

3. INCOME TAX RECEIVABLE

In March 2015, we received a $3.1 million refund related to tax losses incurred during 2014 which we elected to carryback to taxable income earned during 2012.

4. PROPERTY AND EQUIPMENT

Property and equipment, including capital lease assets, consisted of the following (in thousands):

	March 31, 2015 (Unaudited)	December 31, 2014
Land and improvements	$ 11,670	$ 11,670
Buildings and improvements	73,997	73,997
Furniture and equipment	28,097	27,951
Construction in progress	15,712	11,264
	129,476	124,882
Less accumulated depreciation	(31,335)	(29,842)
	$ 98,141	$ 95,040

Construction in progress amounts primarily related to construction of the hotel at Silver Slipper Casino, and included capitalized interest of $0.6 million and $0.4 million for in-progress projects at March 31, 2015 and December 31, 2014, respectively.

5. ACCRUED LIABILITIES

Other accrued expenses consisted of the following (in thousands):

	March 31, 2015 (Unaudited)	December 31, 2014
Real estate and personal property taxes	$ 979	$ 1,172
Gaming taxes	206	294
Other taxes	468	495
Gaming related accruals	400	490
Other	842	1,253
	$ 2,895	$ 3,704

6. GOODWILL AND OTHER INTANGIBLES

At least annually during the fourth quarter or more frequently when there is a material change in circumstances that could have a negative effect, the Company performs an assessment of its goodwill and other indefinite-lived intangible assets to determine if the carrying value of such assets exceeds the fair value. No change in circumstances that would trigger an evaluation were observed during the three months ended March 31, 2015 or subsequently, and no impairment charges were recorded during the March 31, 2015 and 2014 quarters. We evaluate these assets using the market (comparable transactions) and income (discounted cash flow) approaches to value, both of which use Level 3 inputs as defined by GAAP.

We amortize our definite-lived intangible assets, including our player loyalty programs, loan fees, land leases and water rights, over their estimated useful lives. For the three months ended March 31, 2015, the aggregate amortization expense was $0.9 million, which includes $0.4 million for loan fees. For the three months ended March 31, 2014, such amount was $1.0 million, including $0.4 million for loan fees. Loan fees are amortized to interest expense.

7. CAPITAL LEASE

Our Indiana subsidiary, Gaming Entertainment (Indiana) LLC, leases a 104-room hotel at Rising Star Casino Resort pursuant to a capital lease agreement (the “Rising Star Lease Agreement”) with Rising Sun/Ohio County First, Inc., an Indiana non-profit corporation (the “Landlord”) for $77,537 per month and an annual interest rate varying between 2.5% and 4.5% during the term of the lease. The Rising Star Lease Agreement is not guaranteed by the parent company or any subsidiary other than Gaming Entertainment (Indiana), LLC. The term is for 10 years with the Landlord having a right to sell the hotel to us at the end of the term for $1 plus closing costs on the terms set forth in the Rising Star Lease Agreement. During the term, we also have the exclusive option to purchase the hotel at any time at a price based upon the project’s actual cost of $7.7 million, reduced by the cumulative principal payments made by the Company during the lease term. Upon expiration of the term of the lease, if we have not exercised our option to purchase the hotel tower, we have the option to purchase the hotel for $1 plus closing costs. In the event of a default on the lease agreement, the Landlord’s recourse allows for them to take possession of the property; collection of rents as defined; the right to seek remediation for any attorneys’ fees and litigation expenses; and the costs of retaking and re-leasing the property.

8. LONG-TERM DEBT

Long-term debt consisted of the following (in thousands):

	March 31, 2015 (Unaudited)	December 31, 2014
Long-term debt, net of current portion:		
First Term Loan, maturing June 29, 2016, quarterly payments of $0.25 million beginning June 1, 2015; quarterly payments of $1.25 million beginning October 1, 2015; interest payable monthly at a variable rate which averaged 4.75% for both periods presented	$ 43,092	$ 38,631
Revolving Loan, maturing June 29, 2016, interest payable monthly at a variable rate which averaged 4.75% for both periods presented	--	2,000
	20,000	20,000

Second Term Loan, maturing April 1, 2017, interest payable monthly at 14.25% per annum (13.25% prior to July 18, 2014)				
Less current portion		(3,059)		(1,337)
	$	60,033	$	59,294

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First and Second Lien Credit Facilities. The First Lien Credit Facility, including the Revolving Loan, and Second Lien Credit Facility are secured by substantially all of our assets, and our wholly owned subsidiaries guarantee our obligations under the agreements. As of March 31, 2015, we had drawn $5.6 million of the $10 million term loan under the First Lien Credit Facility. The remaining $4.4 million of funding availability under the term loan will be used to fund a portion of the construction costs of the 129-room hotel addition to the Silver Slipper Casino, which is scheduled to open in phases during the second quarter of 2015.

During March 2015, we paid down $2.0 million previously drawn on our $5.0 million Revolving Loan under the First Lien Credit Facility.

We have elected to pay interest on the First Lien Credit Facility based on the greater of the elected London Interbank Offered Rate (“LIBOR”) rate or 1.0%, plus a margin rate. As of March 31, 2015, the interest rate was 4.75% on the balance outstanding on the First Lien Credit Facility, based on the 1.0% minimum plus a 3.75% margin.

The First and Second Lien Credit Facilities contain customary covenants, including a maximum total leverage ratio, maximum first lien leverage ratio, and a fixed charge coverage ratio, as indicated in the tables below:

	First Lien Credit Facility					
Applicable Period	Maximum Total Leverage Ratio		Maximum First Lien Leverage Ratio		Minimum Fixed Charge Coverage Ratio	
June 30, 2014 through and including September 29, 2014	4.75	x	3.50	x	1.10	x
September 30, 2014 through and including December 30, 2014	5.50	x	3.50	x	1.10	x
December 31, 2014 through and including June 29, 2015	5.50	x	4.00	x	1.10	x
June 30, 2015 through and including September 29, 2015	4.75	x	3.50	x	1.10	x
September 30, 2015 through and including December 30, 2015	4.50	x	3.25	x	1.10	x
December 31, 2015 through and including March 30, 2016	4.25	x	3.00	x	1.10	x
March 31, 2016 and thereafter	4.25	x	3.00	x	1.10	x