FULL HOUSE RESORTS INC
Form 10-Q
August 15, 2016

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 June 30, 2016
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	13-3391527
(State or other jurisdiction of incorporation or organization)	(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 reporting company)	Smaller reporting company þ

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 August 12, 2016, there were 19,018,809 shares of Common Stock, $0.0001 par value per share, outstanding.

FULL HOUSE RESORTS, INC.
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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 per share data)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Casino	$31,307	$27,442	$60,437	$53,797
Food and beverage	6,926	6,313	13,154	12,162
Hotel	2,161	1,537	4,126	2,816
Other operations	1,105	1,045	1,845	1,682
Gross revenues	41,499	36,337	79,562	70,457
Less promotional allowances	(6,652)	(5,611)	(12,708)	(10,647)
Net revenues	34,847	30,726	66,854	59,810
Operating costs and expenses				
Casino	16,074	14,237	30,759	27,969
Food and beverage	2,308	2,250	4,274	4,350
Hotel	268	238	471	430
Other operations	459	382	762	650
Selling, general and administrative	12,502	10,419	23,842	21,193
Project development and acquisition costs	485	123	772	164
Depreciation and amortization	1,899	2,030	3,591	4,022
	33,995	29,679	64,471	58,778
Operating income	852	1,047	2,383	1,032
Other (expense) income				
Interest expense, net of amounts capitalized	(2,230)	(1,523)	(3,992)	(3,047)
Debt modification costs	(601)	—	(601)	—
Adjustment to fair value of warrants and other	(241)	—	(241)	12
	(3,072)	(1,523)	(4,834)	(3,035)
Loss before income taxes	(2,220)	(476)	(2,451)	(2,003)
Provision (benefit) for income taxes	180	(49)	280	179
Net loss	$(2,400)	$(427)	$(2,731)	$(2,182)
Basic and diluted loss per share	$(0.13)	$(0.02)	$(0.14)	$(0.12)
Basic and diluted weighted average number of common shares outstanding	18,997	18,934	18,983	18,906

See condensed notes to consolidated financial statements.

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

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets		
Cash and equivalents	$ 20,639	$ 14,574
Restricted cash	—	569
Accounts receivable, net of collection allowance of $70 and $121	1,717	1,714
Inventories	1,336	1,125
Prepaid expenses	4,396	2,800
Acquisition deposit	—	2,500
	28,088	23,282
Property and equipment, net	111,889	98,982
Other long-term assets		
Goodwill	21,129	16,480
Intangible assets, net of accumulated amortization of $7,717 and $7,701	11,649	2,127
Deposits and other	601	541
Deferred taxes	55	55
	33,434	19,203
	$ 173,411	$ 141,467
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 4,547	$ 4,272
Accrued payroll and other	9,327	6,529
Deferred taxes	1,009	981
Current portion of long-term debt	2,250	6,000
Current portion of capital lease obligation	373	665
	17,506	18,447
Warrant liability	815	—
Deferred taxes	604	350
Long-term debt, net of current portion	94,921	60,642
Capital lease obligation, net of current portion	5,553	5,505
	119,399	84,944
Commitments and contingencies (Notes 7 and 9)		
Stockholders' equity		
Common stock, $0.0001 par value, 100,000,000 shares authorized; 20,375,404 and 20,325,991 issued; and 19,018,809 and 18,969,396 shares outstanding	2	2
Additional paid-in capital	46,441	46,221
Treasury stock, 1,356,595 common shares	(1,654)	(1,654)
Retained earnings	9,223	11,954
	54,012	56,523
	$ 173,411	$ 141,467

See condensed notes to consolidated financial statements.

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

	Common stock			Treasury stock			
	Shares	Dollars	Additional Paid-in Capital	Shares	Dollars	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 2016	20,326	$ 2	$ 46,221	1,357	$ (1,654)	$ 11,954	$ 56,523
Stock-based compensation	49	—	220	—	—	—	220
Net loss	—	—	—	—	—	(2,731)	(2,731)
Balance as of June 30, 2016	20,375	$ 2	$ 46,441	1,357	$ (1,654)	$ 9,223	$ 54,012

See condensed notes to consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net loss	$(2,731)	$(2,182)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	3,575	3,023
Amortization of debt issuance costs	639	810
Amortization of player loyalty program, land lease and water rights	16	999
Tribal advance collection allowance reduction	—	(500)
Loss on disposal of assets	76	—
Stock-based compensation	220	228
Change in fair value of stock warrants	241	—
Increases and decreases in operating assets and liabilities:		
Accounts receivable, net	(252)	(29)
Income tax receivable	—	3,095
Prepaid expenses, inventories and other	(1,600)	(2,287)
Deferred taxes	282	178
Accounts payable and accrued expenses	1,407	(2,475)
Net cash provided by operating activities	1,873	860
Cash flows from investing activities:		
Acquisition of Bronco Billy's, net of cash acquired	(28,394)	—
Purchase of property and equipment	(876)	(8,883)
Restricted cash	569	—
Refunded deposits and other, net	2,604	(456)
Net cash used in investing activities	(26,097)	(9,339)
Cash flows from financing activities:		
First Term Loan (repayments) borrowings	(1,000)	7,726
Revolving Loan repayments	(2,000)	—
Second Term Loan borrowings	35,000	—
Repayment of capital lease obligation	(244)	(381)
Debt issuance costs	(1,467)	(25)
Net cash provided by financing activities	30,289	7,320
Net increase (decrease) in cash and equivalents	6,065	(1,159)
Cash and equivalents, beginning of period	14,574	15,639
Cash and equivalents, end of period	$20,639	$14,480
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$3,296	$2,081
Cash (received) paid for income taxes	$—	$(3,160)
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Accounts payable related capital expenditures	$273	$1,215
Issuance of stock warrants	$574	$—
Accounts payable related debt issuance costs	$—	$231

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. ("Full House") owns, operates, develops, manages, and/or invests in casinos and related hospitality and entertainment facilities. References in this document to the "Company", “we”, “our”, or “us” refer to Full House Resorts, Inc. and its subsidiaries, except where stated or the context otherwise indicates.

On May 13, 2016, the Company completed its acquisition of Bronco Billy's Casino and Hotel and concurrently refinanced its outstanding first and second lien debt. We currently own and operate four casino properties and operate Grand Lodge Casino subject to a space lease, as noted in the table below.

Property	Acquisition Date	Location
Silver Slipper Casino and Hotel	2012	Hancock County, MS (near New Orleans)
Bronco Billy's Hotel and Casino	2016	Cripple Creek, CO (near Colorado Springs)
Rising Star Casino Resort	2011	Rising Sun, IN (near Cincinnati)
Stockman’s Casino	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)

We manage our casinos based on geographic regions within the United States. Accordingly, Stockman’s Casino and Grand Lodge Casino comprise our Northern Nevada business segment, while Silver Slipper, Rising Star, and Bronco Billy's are currently distinct segments. See Note 11 for further information.
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 generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to those rules and regulations. These consolidated financial statements should be read in conjunction with the Company’s 2015 annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The interim consolidated financial statements of the Company included herein reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. 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 the accounts of Full House and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

Fair Value Measurements. Fair value measurements affect our accounting and impairment assessments of our long-lived assets, assets acquired in an acquisition, goodwill, and other intangible assets. Fair value measurements also affect our accounting for certain financial assets and liabilities, including our common stock warrant liability. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is measured according to a hierarchy that includes: “Level 1” inputs, such as quoted prices in an active market for identical assets or liabilities; “Level 2” inputs, which are observable inputs for similar assets; or “Level 3” inputs, which are unobservable inputs.

The Company utilizes Level 3 inputs when measuring the estimated fair value of common stock warrants at issuance and for periodic changes in the related liability (see Note 6).

Income taxes. For interim income tax reporting, it was determined that the Company's annual effective tax rate could not be reasonably estimated at the present time. As a result, the actual year-to-date effective tax rate was used to determine the tax expense incurred during the three and six months ended June 30, 2016 and 2015.

Earnings (loss) per share. Earnings (loss) per share is computed by dividing net income (loss) applicable to common stock by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the additional dilution for all potentially-dilutive securities, including common stock options, warrants and unvested restricted shares, using the treasury stock method.

For the three and six months ended June 30, 2016 and 2015, all potentially dilutive securities, totaling 3.1 million and 1.6 million shares, were excluded from the loss per share computation, as their effect was anti-dilutive due to the net loss recognized by the Company. These securities could potentially dilute basic earnings per share in the future.

Debt issuance costs. In April 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” (“ASU 2015-03”), which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The amortization of such costs will continue to be reported as interest expense. Accordingly, the Company has adopted this accounting standard and reclassified the prior-period amounts to conform to the current-period presentation.

Reclassifications. Certain minor reclassifications have been made to prior period amounts to conform to the current-period presentation. Such reclassifications had no effect on the previously reported net loss or retained earnings.

Recently issued accounting standards. In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” (“ASU 2016-02”), which replaces the existing guidance in ASC 840, Leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (“ROU”) asset and a corresponding lease liability. The Company is currently assessing the impact that adoption of this guidance will have on its consolidated financial statements and footnote disclosures.

Management believes that there are no other recently issued accounting standards not yet effective that are likely to have a material impact on our financial statements.

3. ACQUISITION

On May 13, 2016, we completed our acquisition of Bronco Billy's Casino and Hotel in Cripple Creek, Colorado from Pioneer Group, Inc. for consideration of $31.1 million, inclusive of an estimate for net working capital. The acquisition included the three licensed operations known as Bronco Billy's Casino, Buffalo Billy's Casino and Billy's Casino (collectively referred to as "Bronco Billy's"). The results of Bronco Billy's operations have been included in the consolidated financial statements since that date. The acquisition was financed primarily through a $35 million increase in our Second Lien Credit Facility (see Note 6). Bronco Billy’s has approximately 803 slot and video poker machines, 13 table games and a 24-guest-room hotel. This acquisition diversifies our operations into a new geographical market and we believe it will provide long-term growth opportunities for our stockholders.

The following table summarizes our preliminary estimates of the fair values of the assets acquired and liabilities assumed at the acquisition date. We are in the process of completing our valuation analysis and thus these estimates are subject to change.

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(In thousands, unaudited)

Cash and equivalents	$2,682
Other current assets	256
Property and equipment	16,194
Goodwill	4,649
Gaming licenses (Intangible)	7,500
Trade names (Intangible)	1,800
Total assets	33,081
Current liabilities	2,005
Total liabilities	2,005
Estimated net assets acquired	$31,076

The $4.6 million of estimated goodwill, which represents the excess of the purchase price over the estimated fair value of the assets purchased, was primarily attributable to expected synergies and the economic benefits arising from other assets acquired that could not be individually identified and separately recognized including the assembled workforce of Bronco Billy's. All of the goodwill is expected to be deductible for income tax purposes.

The intangible assets identified above, including gaming licenses and trade names, were assigned indefinite useful lives.

The Company incurred $0.4 million of acquisition-related costs for the six months ended June 30, 2016 and $0.4 million for the year ended December 31, 2015. These costs are included in the consolidated statements of operations under "Project development and acquisition costs". Also, during the quarter ended June 30, 2016, the Company incurred $1.5 million of debt issuance costs, $0.6 million of warrant issuance costs, and $0.6 million of debt modification expenses in conjunction with the refinanced credit facilities.

From May 13, 2016 through the period ending June 30, 2016, $3.6 million of revenue and $0.8 million of net income related to Bronco Billy's were included in our consolidated statements of operations.

The following unaudited pro forma consolidated income statement includes the results of Bronco Billy's as if the acquisition and related financing transactions occurred on January 1, 2015. The pro forma financial information does not necessarily represent the results that might have actually occurred or may occur in the future. The pro forma amounts include the historical operating results of Full House and Bronco Billy's prior to the acquisition, adjusted only for matters directly attributable to the acquisition, which primarily include interest expense related to the Amended and Restated First and Second Lien Credit Facilities (see Note 6). The pro forma results also reflect adjustments for the impact of depreciation and amortization expense based on the fair value of the fixed assets acquired, tax expense, and the removal of non-recurring expenses directly attributable to the transaction of $1 million and $1.1 million for the three and six months ended June 30, 2016, respectively. The pro forma results do not include any anticipated synergies or other expected benefits from the acquisition.

Pro Forma Consolidated Statement of Operations

(In thousands, unaudited)

	For the three months ended		For the six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015

Net revenues	$37,797	$37,253	$76,066	$72,174
Net loss	(2,144)	(1,573)	(3,485)	(4,148)
Basic and diluted loss per share	(0.11)	(0.08)	(0.18)	(0.22)

4. PROPERTY AND EQUIPMENT

Property and equipment, including capital lease assets, consisted of the following:

(In thousands)	June 30, 2016 (Unaudited)	December 31, 2015
Land and improvements	$ 13,549	$ 12,657
Buildings and improvements	102,382	90,636
Furniture and equipment	35,579	31,899
Construction in progress	136	13
	151,646	135,205
Less accumulated depreciation	(39,757)	(36,223)
	$ 111,889	$ 98,982

5. 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 occurred during the three and six months ended June 30, 2016, or subsequently.

6. LONG-TERM DEBT AND WARRANT LIABILITY

Long-term debt, related discounts and issuance costs consisted of the following:

(In thousands)	June 30, 2016 (unaudited)			
	Outstanding Principal	Unamortized Discount	Unamortized Debt Issuance Costs	Long-term Debt, Net
First Term Loan	$45,000	$ —	$ (691)	$ 44,309
Revolving Loan	—	—	—	—
Second Term Loan	55,000	(551)	(1,587)	52,862
Total debt including current maturities	100,000	(551)	(2,278)	97,171
Less current portion	(2,250)	—	—	(2,250)
Total long-term debt, net	$97,750	$ (551)	$ (2,278)	$ 94,921

(In thousands)	December 31, 2015		
	Outstanding Principal	Unamortized Debt Issuance Costs	Long-term Debt, Net
First Term Loan	$46,000	$ (777)	$ 45,223
Revolving Loan	2,000	—	2,000
Second Term Loan	20,000	(581)	19,419
Total debt including current maturities	68,000	(1,358)	66,642
Less current portion	(6,000)	—	(6,000)
Total long-term debt, net	$62,000	$ (1,358)	$ 60,642

First and Second Lien Credit Facilities. On May 13, 2016, we entered into an amended and restated First Lien Credit Facility ("Amended and Restated First Lien Credit Facility") with Capital One Bank, N.A., ("Capital One"), which includes a First Term Loan of $45 million and Revolving Loan of $2 million, and an amended and restated Second

Lien Credit Facility ("Amended and Restated Second Lien Credit Facility") with ABC Funding, LLC, which includes a term loan facility increase from $20 million

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to $55 million, of which the additional proceeds of $35 million were used primarily to complete our acquisition of Bronco Billy's. The Amended and Restated First and Second Lien Credit Facilities are secured by substantially all of our assets and our wholly-owned subsidiaries guarantee our obligations under the agreements. The Amended and Restated Second Lien Credit Facility is subordinate to the lien of the Amended and Restated First Lien Credit Facility.

First Lien Credit Facility

The Amended and Restated First Lien Credit Facility matures in May 2019 and requires interest-only payments monthly and quarterly principal payments of $562,500 until May 2018, with such quarterly principal payments increasing to $843,750 through maturity. We incurred debt issuance costs of $248,000, which are being amortized over the remaining term of the loan, and expensed debt modification costs of $318,000.

The interest rate of the Amended and Restated First Lien Credit Facility is initially based on the greater of the elected London Interbank Offered Rate ("LIBOR") (as defined) or 1.0%, plus a margin rate of 3.75%. The margin rate of 3.75% will increase by 50 basis points beginning in May 2017 and will increase by an additional 50 basis points if the Company does not raise at least $5 million of gross equity proceeds by May 13, 2017. The proceeds may be used for capital expenditure projects (as defined). There is no prepayment premium or interest rate cap associated with this facility.

During June 2016, $569,000 of previously restricted cash proceeds drawn from the original construction loan were released to the Company.

Second Lien Credit Facility

As of June 30, 2016, the Amended and Restated Second Lien Credit Facility had $55 million of principal indebtedness outstanding and matures on the earlier of (i) May 13, 2022, or (ii) six months following the maturity date of the Amended and Restated First Lien Credit Facility. Given that the Amended and Restated First Lien Credit Facility currently matures in May 2019, the current maturity date of the Amended and Restated Second Lien Credit Facility is November 2019. Interest is currently payable monthly at a rate of 13.5% (and may vary between 12.5% and 13.5%, depending on the total leverage of the Company), and there are no quarterly principal payment requirements as all principal is due at maturity. The prepayment premium is 3% of the total principal amount until May 13, 2017, 2% until May 13, 2018, 1% until May 13, 2019, and n