

FULL HOUSE RESORTS INC

Form 10-K

March 08, 2011

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**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

- ☒ **Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended: December 31, 2010**
- ☐ **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission file number 1-32583**

**FULL HOUSE RESORTS, INC.  
(Exact Name of Registrant as specified in Its Charter)**

|  |  |
|--|--|
| <b>Delaware</b><br><b>(State or Other Jurisdiction</b><br><b>of Incorporation or Organization)</b> | <b>13-3391527</b><br><b>(I.R.S. Employer</b><br><b>Identification No.)</b> |
|--|--|

**4670 S. Fort Apache Rd., Suite 190, Las Vegas, Nevada 89147**

**(Address and zip code of principal executive offices)**

**(702) 221-7800**

**(Registrant's Telephone Number, Including Area Code)**

**Securities registered under Section 12(b) of the Exchange Act:**

|  |   |
|--|---|
| <b>Common Stock, \$.0001 per Share</b><br><b>(Title of Each Class)</b> | <b>NYSE Amex (formerly American Stock Exchange)</b><br><b>(Name of Each Exchange on Which Registered)</b> |
|--|---|

**Securities registered under Section 12(g) of the Exchange Act:**

**None**

**(Title of class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Check if the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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):

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Large Accelerated Filer ☐ Accelerated Filer ☐ Non Accelerated Filer ☐ Smaller reporting company ☐

Do not check if smaller reporting company

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

The aggregate market value of registrant's voting \$.0001 par value common stock held by non-affiliates of the registrant, as of June 30, 2010, was: \$50,208,086. As of March 1, 2011, there were 18,007,681 shares of Common Stock, \$.0001 par value per share, outstanding.

**Documents Incorporated By Reference**

The information required by Part III of this Form 10-K, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive proxy statement relating the annual meeting of stockholders to be held in 2010, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Form 10-K relates.

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**PART I**

**Item 1. Business.**

**BACKGROUND**

Full House Resorts, Inc., a Delaware corporation formed in 1987, (Full House, we, our, ours, us) develops, manages, invests in and/or owns gaming-related enterprises. Beginning in 1994, we became involved in several gaming projects, including the FireKeepers Casino near Battle Creek, Michigan with the Nottawaseppi Huron Band of Potawatomi (the Michigan Tribe) and Harrington Raceway and Casino (Harrington Casino), a racino in Harrington, Delaware, both of which are discussed in detail below. The Company owns Stockman's Casino in Fallon, Nevada, and we have entered into definitive agreements with Grand Victoria Casino & Resort, LP to acquire all of the operating assets of the Grand Victoria Casino & Resort (Grand Victoria), located in Rising Sun, Indiana on the Ohio River. The acquisition, subject to receipt of gaming approvals, is currently expected to close early in the second quarter of 2011.

**Projects Currently Operating**

**Harrington Raceway and Casino, Delaware**

We are a 50%-investor in Gaming Entertainment (Delaware), LLC (GED), an unconsolidated joint venture with Harrington Raceway, Inc. (HRI), which has a management contract with Harrington Casino. Harrington Casino, a division of HRI, which operates video lottery terminals under the supervision of the Delaware State Lottery Office, commenced operations on August 20, 1996. GED provided over \$11.0 million in financing and managed the development of the project, and has a contract to provide management services to HRI for a fee which expires in August 2011. We do not expect to renew the management contract with Harrington Casino. The fee is based primarily on a percentage of revenues and operating profits of Harrington Casino as defined, which was previously subject to an annual limitation. The gaming facility was originally 35,000 square feet and opened with 500 gaming devices, a simulcast parlor and a small buffet. An expansion and renovation project commenced in 2007 and was completed in early February 2008. The facility now offers approximately 1,800 slot machines and 40 table games, a 450-seat buffet, a fine dining restaurant, a 50-seat diner, and an entertainment lounge area.

On June 18, 2007, we restructured our joint venture agreement with HRI to allow HRI to assume complete control over day to day operations of Harrington Casino, while providing us with guaranteed growth in our GED adjusted management fee entitlement for the remaining term of the management agreement. Under the terms of the restructured management agreement, we receive the greater of 50% of GED's distributable net income as prescribed under the management agreement or a 5% increase in our share of GED's management fees paid in the prior year, except for 2008 when the increase was 8%. The annual growth rate in 2010 through the expiration of the GED management contract in August 2011 is 5% per year.

The Harrington Casino is located in Harrington, Delaware on Route 13, approximately 20 miles south of Dover, Delaware between Philadelphia and Baltimore/Washington, D.C. and is one of three gaming facilities operating in Delaware. In January 2010, the Delaware state legislature passed a law allowing live table games at the three Delaware casinos. The bill was signed into law and table game operations commenced in June 2010. In 2004, the Pennsylvania legislature passed a law authorizing gambling. Included in the authorized types of games are slot machines similar to those operated in Delaware. During 2006 and in January 2007, the Pennsylvania Gaming Control Board issued licenses for operators and gaming equipment suppliers. Several of the racino licensed facilities and casinos have subsequently opened. The Harrington Casino is located the furthest south of the three authorized gaming locations in Delaware and does not attract a substantial patronage from Pennsylvania. Pennsylvania has also legalized table games in 2009 which the Pennsylvania licensed facilities have begun to implement.

During 2008, the Maryland legislature approved casino-type gaming in certain designated counties of the state. In the November 2008 elections, Maryland voters passed a referendum approving the bill. The new law allows for a total of 15,000 slot machines in five locations. Two casino facilities have opened in Maryland, the Perryville casino opened in September 2010 and the Ocean Downs Racino opened in January 2011. While we expect there to be an adverse impact on the revenues of Harrington Casino from this added competition when it is fully implemented, as well as from the current economic climate, we expect to be insulated from the effect of such competitive and economic factors by the guaranteed minimum payment paid to us under the restructured management agreement with HRI, which guarantees us a 5% increase in the management fees we receive each year through the end of the agreement.

Table games are not part of the authorization at Maryland gaming establishments, although the Maryland legislature is considering a bill to allow table game operations. This may give Delaware casinos an edge over Maryland gaming but the impact on revenues is unknown and is not expected to have a positive impact on our management fees.

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**Stockman's Casino**

We acquired Stockman's Casino and Holiday Inn Express in Fallon, Nevada (Stockman's) on January 31, 2007. The acquisition was funded by a revolving loan agreement from Nevada State Bank of \$16.0 million, approximately \$1.2 million of seller financing in the form of a promissory note and approximately \$10.2 million in cash which was raised as part of an equity offering in December 2006. Stockman's Casino has approximately 8,400 square feet of gaming space with approximately 264 slot machines, four table games and keno. There is a bar, a fine dining restaurant and a coffee shop. Initially, our facility included a Holiday Inn Express, which had 98 guest rooms, indoor and outdoor pools, sauna, fitness center and a meeting room.

On October 1, 2007, we entered into an agreement to sell the Holiday Inn Express. Under the terms of the agreement, the buyer agreed to purchase the real property, building, improvements and personal property comprising the hotel operations for \$7.2 million. On February 20, 2008, the sale was consummated and we received net cash proceeds of approximately \$7.0 million, which we used to reduce debt.

Stockman's is located on the west side of Fallon on Highway 50, approximately 60 miles east of Reno, Nevada, and is the largest of several casinos in the Churchill County area. Churchill County's population is roughly 25,000 with a nearby naval air base which has a significant economic impact on our business. Of the nine casinos currently operating in the Fallon, Nevada market, our major competitors are three other casinos that are smaller than Stockman's both in size and in number of gaming machines. At December 31, 2010, Stockman's share of the slot units in the Churchill County market was approximately 23.5% and our share of slot revenues for the 2010 year was approximately 31.5%. While we are not aware of any planned expansion to gaming capacity in the Churchill County area, additional competition in the area may adversely affect the financial condition or results of operations of Stockman's Casino.

**FireKeepers Casino**

We own 50% of Gaming Entertainment Michigan, LLC (GEM), a joint venture with RAM Entertainment, LLC (RAM), a privately-held investment company. GEM has a management agreement with the Michigan Tribe, for the development and management of the FireKeepers Casino near Battle Creek, Michigan. The Michigan Tribe's compact with the State of Michigan, originally entered into in 1998, was amended in 2009 to permit gaming until 2030 and other matters.

The Michigan Tribe achieved final federal recognition as a tribe in April 1996. The land for the development was taken into trust in December 2006 and the Tribe obtained a gaming compact from Michigan's governor in December 1998 to operate an unlimited number of electronic gaming devices as well as roulette, keno, dice and banking card games. The Michigan legislature ratified the compact by resolution in December 1998. The compact became effective in 1999 upon its approval by the Secretary of the Interior and remains in effect for 20 years thereafter, but the recent amendment extended the term until 2030, reduced the slot exclusivity fee as well as amended certain other terms of the compact. The land designated for the casino was designated reservation land under federal law by the Secretary of the Interior in October 2007. The management agreement was approved by the National Indian Gaming Commission (NIGC) on December 14, 2007, and an amended version was approved by the NIGC on April 21, 2008.

On May 6, 2008, the FireKeepers Development Authority of the Nottawaseppi Huron Band of Potawatomi Michigan Tribe (the Authority) closed on \$340.0 million of Senior Secured Notes and a \$35.0 million equipment financing facility to fund the development and construction of the FireKeepers Casino. In connection with the project financing, GEM received partial reimbursement of its tribal notes receivable in the amount of \$9.3 million leaving a balance of \$5.0 million outstanding due to GEM from the Michigan Tribe. The Michigan tribe paid the remaining \$5.0 million with interest to GEM in February 2010.



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The FireKeepers Casino commenced construction in May 2008 and opened on August 5, 2009. The closest competition to the FireKeepers Casino, prior to the opening of the Gun Lake Casino, is located in Detroit, approximately 100 miles east of the Battle Creek area and the Four Winds Casino in the New Buffalo, Michigan area which is approximately 100 miles to the southwest. The Gun Lake Tribe constructed a casino which opened February 11, 2011 in Wayland, Michigan, approximately a one hour drive northwest of our site. The approximately \$157.0 million project includes approximately 1,450 slot machines, 28 table games and various dining options. At this time, however, it is unclear how significant the impact the Gun Lake project may have on casino revenues and our related management fees.

In March 2011, the Authority announced that it plans to construct a 240 room resort style hotel on the FireKeepers Casino site. The project is in its final design stage, is expected to break ground in spring 2011 and is anticipated to open in late summer of 2012.

### **Projects in Development**

#### **Grand Victoria Casino & Resort, LP**

On September 10, 2010, we entered into definitive agreements with Grand Victoria Casino & Resort, LP to acquire all of the operating assets of the Grand Victoria, located in Rising Sun, Indiana, on the Ohio River. The purchase price is \$43.0 million, exclusive of estimated cash and net working capital balances of \$8.0 million and fees and expenses as of the closing date. We entered into a Credit Agreement ( Credit Agreement ) with Wells Fargo Bank on October 29, 2010 for a term loan and a revolving loan agreement. On December 17, 2010, the Company entered into a Commitment Increase Agreement and related Assignment Agreements with Wells Fargo and certain lenders under the Credit Agreement (the Commitment ). The Commitment increases the funds available under the Credit Agreement from \$36.0 million to \$38.0 million, consisting of a \$33.0 million term loan and a revolving line of credit of \$5.0 million. All other terms of the Credit Agreement remain materially unchanged.

We expect regulatory approvals will be obtained to accommodate a closing on the property early in the second quarter of 2011. We anticipate applying approximately \$19.0 million of cash on hand to the purchase price and funding the balance with available funds under the Credit Agreement. Through December 31, 2010, we have incurred \$0.2 million in acquisition related expenses which are included in project development expense. On September 10, 2010, we deposited the \$0.5 million initial deposit toward the \$43.0 million purchase price with an escrow agent and an additional \$4.5 million was deposited on October 29, 2010. This deposit is not refundable. In conjunction with closing on the financing commitment, we paid \$2.0 million in financing related fees. As a result, we plan to use approximately \$11.7 million of additional cash to complete the transaction. The closing of the Grand Victoria acquisition and the initial funding under the Credit Agreement, which are expected to occur early in the second quarter of 2011, are subject to the satisfaction of certain conditions precedent, including among other things the receipt of all applicable gaming approvals. We currently anticipate being licensed in the state of Indiana in mid-March, however no assurance can be given that such conditions will be satisfied or that the acquisition will close.

### **Discontinued Projects**

#### **Nambé Pueblo Indian Tribe Santa Fe, New Mexico**

In the first quarter of 2008, we received notice that the Nambé tribal council had effectively terminated the business relationship with Full House. As a result, the Company recorded an impairment loss of \$0.2 million related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Nambé Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of \$0.7 million. The development agreement between the Company and the Nambé Pueblo provides that the Company is entitled to recoup its advances from future gaming development, even if the Company does not ultimately develop the project. Management is currently engaged in assisting the Nambé Pueblo in the process of obtaining financing to develop a small casino or slot parlor addition to their existing travel center which will likely have the ability to repay the advances from future cash flows of the project once open. Funding is expected during the second quarter of 2011 with the expected facility opening in the fourth quarter of 2011. There can be no assurance that a facility will open or that we will receive all or any of our reimbursement.



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**Northern Cheyenne Tribe Decker, Montana**

The proposed site for this project is on land held in trust for the tribe, which was approved for gaming use by the Secretary of the Interior on October 28, 2008 and the Governor of Montana on July 30, 2009, pursuant to the Indian Gaming Regulatory Act. The recent economic recession and resulting impact on credit availability has significantly decreased the likelihood that financing could be obtained on favorable terms, if at all, for the Montana project in the foreseeable future. Based on current economic conditions management has determined that both the timing and feasibility of this project have become more difficult to determine. As a result, we believe that the project assets are impaired and collectability is doubtful and the fair value of the notes receivable originally valued at \$0.6 million and contract rights originally valued at \$0.1 million related to the project were written down to zero value as of December 2009, which resulted in a \$0.7 million impairment loss. As of December 31, 2010, the Montana project notes receivable and contract rights were written off, as the amounts are uncollectible.

**GOVERNMENT REGULATION**

The ownership, management, and operation of gaming facilities are subject to many federal, state, provincial, tribal and/or local laws, regulations and ordinances, which are administered by the relevant regulatory agency or agencies in each jurisdiction. These laws, regulations and ordinances are different in each jurisdiction, but primarily deal with the responsibility, financial stability and character of the owners and managers of gaming operations as well as persons financially interested or involved in gaming operations.

We may not own, manage or operate a gaming facility unless we obtain proper licenses, permits and approvals. Applications for a license, permit or approval may be denied for reasonable cause. Most regulatory authorities license, investigate, and determine the suitability of any person who has a material relationship with us. Persons having material relationships include officers, directors, employees, and security holders.

Once obtained, licenses, permits, and approvals must be renewed from time to time and generally are not transferable. Regulatory authorities may at any time revoke, suspend, condition, limit, or restrict a license for reasonable cause. License holders may be fined and in some jurisdictions and under certain circumstances gaming operation revenues can be forfeited. We may be unable to obtain any licenses, permits, or approvals, or if obtained, they may not be renewed or may be revoked in the future. In addition, a rejection or termination of a license, permit, or approval in one jurisdiction may have a negative effect in other jurisdictions. Some jurisdictions require gaming operators licensed in that state to receive their permission before conducting gaming in other jurisdictions.

The political and regulatory environment for gaming is dynamic and rapidly changing. The laws, regulations, and procedures dealing with gaming are subject to the interpretation of the regulatory authorities and may be amended. Any changes in such laws, regulations, or their interpretations could have a negative effect on our operations and future development of gaming opportunities. Certain specific provisions applicable to us are described below.

*Delaware Regulatory Matters*

As the owner of at least 10% of the management company operating video lottery machines in Delaware, we are subject to approval under the Delaware Video Lottery Code in order for our Delaware joint venture to maintain its license to manage the video lottery location of the Harrington Casino. That law authorized the ownership and operation of video lottery machines, as defined in the law and commonly known as slot machines, by the State Lottery Office through certain licensed agents, including our Delaware joint venture and starting in 2009, the accepting of bets on sporting contests, commonly known as sports books. In January 2010, Delaware law was again changed to authorize live table games at the three licensed video lottery outlets. The bill was signed into law and table game operations commenced in June 2010.

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The lottery director has discretion to adopt such rules and regulations as the lottery director deems necessary or desirable for the efficient and economical operation and administration of the system, including:

- type and number of games permitted;
- pricing of games;
- numbers and sizes of prizes;
- manner of payment;
- value of bills, coins or tokens needed to play;
- requirements for licensing agents and service providers;
- standards for advertising, marketing and promotional materials used by licensed agents;
- procedures for accounting and reporting;
- registration, kind, type, number and location of video lottery (slot) machines on a licensed agent's premises;
- security arrangements for the video lottery system; and
- reporting and auditing of financial information of licensed agents.

There are continuing licensure requirements for all officers, directors, key employees and persons who own directly or indirectly 10% or more of a licensed agent, which licensure requirements shall include the satisfaction of such security, fitness and background standards as the lottery director may deem necessary relating to competence, honesty and integrity, such that a person's reputation, habits and associations do not pose a threat to the public interest of the State or to the reputation of or effective regulation and control of the video lottery; it being specifically understood that any person convicted of any felony, a crime involving gambling, or a crime of moral turpitude within 10 years prior to applying for a license or at any time thereafter shall be deemed unfit.

The lottery director may revoke or suspend the license of a licensed agent for cause. Cause is broadly defined and could potentially include falsifying any application for license or report required by the rules and regulations, the failure to report any information required by the rules and regulations, the material violation of any rules and regulations promulgated by the lottery director or any conduct by the licensee which undermines the public confidence in the video lottery system or serves the interest of organized gambling or crime and criminals in any manner. A license may be revoked for an unintentional violation of any federal, state or local law, rule or regulation provided that the violation is not cured within a reasonable time as determined by the lottery director. A hearing officer's decision revoking or suspending the license shall be appealable to the Delaware Superior Court under the provisions of the Administrative Procedures Act. All existing or new officers, directors, key employees and owners of a licensed agent are subject to background investigation. Failure to satisfy the background investigation may constitute cause for suspension or revocation of the license.

The license of our Delaware joint venture may also be revoked or suspended in the event that we do not maintain our approval to own at least 10% of the joint venture. The same standard of cause defined above applies to our approval. Currently, our officers have filed the required application forms and have been found suitable by the Delaware State Police, which is empowered to conduct the security, fitness and background checks required by the lottery director.

*Nevada Regulatory Matters*

In order to acquire and own Stockman's Casino or any other gaming operation in Nevada, we are subject to the Nevada Gaming Control Act and to the licensing and regulatory control of the Nevada State Gaming Control Board, the Nevada Gaming Commission, and various local, city and county regulatory agencies.

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The laws, regulations and supervisory procedures of the Nevada gaming authorities are based upon declarations of public policy which are concerned with, among other things:

- the character of persons having any direct or indirect involvement with gaming to prevent unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- application of appropriate accounting practices and procedures;
- maintenance of effective control over the financial practices and financial stability of licensees, including procedures for internal controls and the safeguarding of assets and revenues;
- recordkeeping and reporting to the Nevada gaming authorities;
- fair operation of games; and
- the raising of revenues through taxation and licensing fees.

In May 2006, we applied for registration with the Nevada Gaming Commission as a publicly traded corporation, which was granted on January 25, 2007. The registration is not transferable and requires periodic payment of fees. The Nevada gaming authorities may limit, condition, suspend or revoke a license, registration, approval or finding of suitability for any cause deemed reasonable by the licensing agency. If a Nevada gaming authority determines that we violated gaming laws, then the approvals and licenses we hold could be limited, conditioned, suspended or revoked, and we, and the individuals involved, could be subject to substantial fines for each separate violation of the gaming laws at the discretion of the Nevada Gaming Commission. Each type of gaming device, slot game, slot game operating system, table game or associated equipment manufactured, distributed, leased, licensed or sold in Nevada must first be approved by the Nevada State Gaming Control Board and, in some cases, the Nevada Gaming Commission. We must regularly submit detailed financial and operating reports to the Nevada State Gaming Control Board. Certain loans, leases, sales of securities and similar financing transactions must also be reported to or approved by the Nevada Gaming Commission.

Certain of our officers, directors and key employees are required to be, and have been, found suitable by the Nevada Gaming Commission and employees associated with gaming must obtain work permits which are subject to immediate suspension under certain circumstances. An application for suitability may be denied for any cause deemed reasonable by the Nevada Gaming Commission. Changes in specified key positions must be reported to the Nevada Gaming Commission. In addition to its authority to deny an application for a license, the Nevada Gaming Commission has jurisdiction to disapprove a change in position by an officer, director or key employee. The Nevada Gaming Commission has the power to require licensed gaming companies to suspend or dismiss officers, directors or other key employees and to sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities.

The Nevada Gaming Commission may also require anyone having a material relationship or involvement with us to be found suitable or licensed, in which case those persons are required to pay the costs and fees of the Nevada State Gaming Control Board in connection with the investigation. Any person who acquires more than 5% of our voting securities must report the acquisition to the Nevada Gaming Commission; any person who becomes a beneficial owner of 10% or more of our voting securities is required to apply for a finding of suitability. Under certain circumstances, an institutional investor, as such term is defined in the regulations of the Nevada Gaming Commission, which acquires more than 10% but not more than 15% of our voting securities, may apply to the Nevada Gaming Commission for a waiver of such finding of suitability requirements, provided the institutional investor holds the voting securities for investment purposes only. The Nevada Gaming Commission has amended its regulations pertaining to institutional investors to temporarily allow an institutional investor to beneficially own more than 15%, but not more than 19%, if the ownership percentage results from a stock repurchase program. These institutional investors may not acquire any additional shares and must reduce their holdings within one year from constructive notice of exceeding 15%, or must file a suitability application. An institutional investor will be deemed to hold voting securities for investment purposes only if the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action which the Nevada Gaming Commission finds to be inconsistent with holding our voting securities for investment purposes only.



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Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission may be found unsuitable based solely on such failure or refusal. The same restrictions apply to a record owner if the record owner, when requested, fails to identify the beneficial owner. Any security holder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock beyond such period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a gross misdemeanor. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a security holder or to have any other relationship with us, we:

- pay that person any dividend or interest upon our voting securities;
- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; or
- give remuneration in any form to that person.

If a security holder is found unsuitable, then we may be found unsuitable if we fail to pursue all lawful efforts to require such unsuitable person to relinquish his or her voting securities for cash at fair market value.

The Nevada Gaming Commission may also, in its discretion, require any other holders of our debt or equity securities to file applications, be investigated and be found suitable to own the debt or equity securities. The applicant security holder is required to pay all costs of such investigation. If the Nevada Gaming Commission determines that a person is unsuitable to own such security, then pursuant to the regulations of the Nevada Gaming Commission, we may be sanctioned, including the loss of our approvals, if, without the prior approval of the Nevada Gaming Commission, we:

- pay to the unsuitable person any dividends, interest or any distribution whatsoever;
- recognize any voting right by such unsuitable person in connection with such securities;
- pay the unsuitable person remuneration in any form; or
- make any payment to the unsuitable person by way of principal, redemption, conversion; exchange, liquidation or similar transaction.

We are required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Commission at any time, and to file with the Nevada Gaming Commission, at least annually, a list of our stockholders. The Nevada Gaming Commission will have the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Gaming Control Act and the regulations of the Nevada Gaming Commission.

As a licensee or registrant, we may not make certain public offerings of our securities without the prior approval of the Nevada Gaming Commission. Also, changes in control of us through merger, consolidation, acquisition of assets, management or consulting agreements or any form of takeover cannot occur without prior investigation by the Nevada State Gaming Control Board and approval by the Nevada Gaming Commission.

The Nevada legislature has declared that some repurchases of voting securities, corporate acquisitions opposed by management, and corporate defense tactics affecting Nevada gaming licensees, and registered companies that are affiliated with those operations, may be harmful to stable and productive corporate gaming. The Nevada Gaming Commission has established a regulatory scheme to reduce the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming licensees and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

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Because we are a registered company, approvals may be required from the Nevada Gaming Commission before we can make exceptional repurchases of voting securities above their current market price and before a corporate acquisition opposed by management can be consummated. The Nevada Gaming Control Act also requires prior approval of a plan of recapitalization proposed by a registered company's board of directors in response to a tender offer made directly to its stockholders for the purpose of acquiring control.

Any person who is licensed, required to be licensed, registered, required to be registered, or who is under common control with those persons, collectively, licensees, and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Gaming Control Board, and thereafter maintain, a revolving fund in the amount of \$25,000 to pay the expenses of investigation by the Nevada Gaming Control Board of the licensee's participation in foreign gaming. We currently comply with this requirement. The revolving fund is subject to increase or decrease at the discretion of the Nevada Gaming Commission. Licensees are required to comply with the reporting requirements imposed by the Nevada Gaming Control Act. A licensee is also subject to disciplinary action by the Nevada Gaming Commission if it:

- knowingly violates any laws of the foreign jurisdiction pertaining to the foreign gaming operation;
- fails to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations;
- engages in any activity or enters into any association that is unsuitable because it poses an unreasonable threat to the control of gaming in Nevada, reflects or tends to reflect, discredit or disrepute upon the State of Nevada or gaming in Nevada, or is contrary to the gaming policies of Nevada;
- engages in activities or enters into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees; or
- employs, contracts with or associates with a person in the foreign operation who has been denied a license or a finding of suitability in Nevada on the ground of unsuitability.

In May 2006, we adopted a compliance plan and appointed a compliance committee which currently consists of Company directors and officers, Ken Adams (Chair), Carl Braunlich (Director), Kathleen Caracciolo (Director) and Mark J. Miller (CFO and COO), in accordance with Nevada Gaming Commission requirements. Our compliance committee meets quarterly and is responsible for implementing and monitoring our compliance with Nevada regulatory matters. This committee will also review information and reports regarding the suitability of potential key employees or other parties who may be involved in material transactions or relationships with us.

### *Indiana Regulatory Matters*

The Company has formed a wholly-owned subsidiary, Gaming Entertainment (Indiana) LLC ( "GEI" ), to acquire and operate the Grand Victoria Casino and Resort in Rising Sun, Indiana. The ownership and operation of casino facilities in Indiana are subject to extensive state and local regulation, including primarily the licensing and regulatory control of the Indiana Gaming Commission (the "Commission" ). The Commission is given extensive powers and duties for administering, regulating and enforcing riverboat gaming in Indiana.

Pursuant to the Indiana Riverboat Gaming Act, as amended (the "Indiana Act" ), the Commission is authorized to award up to 11 gaming licenses to operate riverboat casinos in the State of Indiana, including five to counties contiguous to Lake Michigan in northern Indiana, five to counties contiguous to the Ohio River in southern Indiana and one to a county contiguous to Patoka Lake in southern Indiana, which was subsequently relocated to French Lick, Indiana. In April 2007, the Indiana General Assembly enacted legislation that authorized the two horse tracks located in Anderson and Shelbyville, Indiana to install 2,000 slot machines at each facility. The Commission granted each track a five-year gaming license authorizing the use of such slot machines. Installation of slot machines beyond the statutorily authorized number would require further approval by the Commission. The slot operations at the tracks opened in the second quarter of 2008.



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The Indiana Act strictly regulates the facilities, persons, associations and practices related to gaming operations pursuant to the police powers of Indiana, including comprehensive law enforcement provisions. The Indiana Act vests the Commission with the power and duties of administering, regulating and enforcing the system of riverboat gaming in Indiana. The Commission's jurisdiction extends to every person, association, corporation, partnership and trust involved in riverboat gaming operations in Indiana.

The Indiana Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Commission. To obtain an owner's license, the Indiana Act requires extensive disclosure of records and other information concerning an applicant. Applicants for licensure must submit a comprehensive application and personal disclosure forms and undergo an exhaustive background investigation prior to the issuance of a license. The applicant must also disclose the identity of every person holding an ownership interest in the applicant. Any person holding an interest of 5% or more in the applicant must undergo a background investigation and be licensed. The Commission has the authority to request specific information on or license anyone holding an ownership interest.

Each license entitles the licensee to own and operate one riverboat and gaming equipment as part of a gaming operation. The Indiana Act allows a person to hold up to 100% of up to two individual licenses.

Each initial owner's license runs for a period of five years. Thereafter, the license is subject to renewal on an annual basis upon a determination by the Commission that the licensee continues to be eligible for an owner's license pursuant to the Indiana Act and the rules and regulations adopted thereunder. The GEI has applied for the transfer of a riverboat owner's license. Upon expected approval of the application by the Commission, the existing license would transfer and continue.

The Indiana Act requires that a licensed owner undergo a complete investigation every three years. If for any reason the license is terminated, the assets of the riverboat gaming operation cannot be disposed of without the approval of the Commission. Furthermore, the Indiana Act requires that officers, directors and employees of a gaming operation be licensed.

The Commission has a rule mandating that licensees maintain a cash reserve to protect patrons against defaults in gaming debts. The cash reserve is to be equal to a licensee's average payout for a three-day period based on the riverboat's performance during the prior calendar quarter. The cash reserve can consist of cash on hand, cash maintained in Indiana bank accounts and cash equivalents not otherwise committed or obligated.

The Indiana Act does not limit the maximum bet or loss per patron. Each licensee sets minimum and maximum wagers on its own games. Players must use chips or tokens as, according to the Indiana Act, wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager, and wagers may only be taken from persons present on a licensed riverboat.

The Commission places special emphasis on the participation of minority business enterprises (MBEs) and women business enterprises (WBEs) in the riverboat industry. Each licensee is required to submit annually to the Commission a report that includes the total dollar value of contracts awarded for goods and services and the percentage awarded to MBEs and WBEs, respectively. The Commission has previously required licensees to establish goals of expending 10% of the total dollars spent on the majority of goods and services with MBEs and 5% with WBEs. Following a disparity study entitled "A Disparity Study for the Commission, May 2007" (the Disparity Study) to determine whether there existed a gap between the capacity of MBEs and WBEs and the utilization thereof by riverboat casinos in Indiana, the Commission mandated that, effective as of January 1, 2008, annual goals for expenditures to WBEs for the purchase of construction goods and services shall be set at 10.9%. For expenditures in all other areas, the Commission has taken the position that the capacity percentages set forth in the Disparity Study for MBEs and WBEs, respectively, are goals and targets for which best faith efforts of each licensee are expected. Failure to meet these goals will be scrutinized heavily by the Commission and the Indiana Act authorizes the Commission to suspend, limit or revoke an owner's gaming license or impose a fine for failure to comply with these guidelines. However, if a determination is made that a licensee has failed to demonstrate compliance with these guidelines, the licensee has 90 days from the date of the determination to comply.



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A licensee may not lease, hypothecate, borrow money against or lend money against an owner's riverboat gaming license. An ownership interest in an owner's riverboat gaming license may only be transferred in accordance with the regulations promulgated under the Indiana Act.

Indiana state law stipulates a graduated wagering tax with a starting tax rate of 15% and a top rate of 40% for adjusted gross receipts in excess of \$600.0 million. In addition to the wagering tax, an admissions tax of \$3 per admission is assessed. The Indiana Act provides for the suspension or revocation of a license if the wagering and admissions taxes are not timely submitted.

A licensee may enter into debt transactions that total \$1.0 million or more only with the prior approval of the Commission. Such approval is subject to compliance with requisite procedures and a showing that each person with whom the licensee enters into a debt transaction would be suitable for licensure under the Indiana Act. Unless waived, approval of debt transactions requires consideration by the Commission at two business meetings. The Commission, by resolution, has authorized its executive director, subject to subsequent ratification by the Commission, to approve debt transactions after a review of the transaction documents and consultation with the Commission chair and the Commission's financial consultant.

The Commission may subject a licensee to fines, suspension or revocation of its license for any act that is in violation of the Indiana Act or the regulations of the Commission or for any other fraudulent act. In addition, the Commission may revoke an owner's license if the Commission determines that the revocation of the license is in the best interests of the State of Indiana.

The Indiana Act provides that the sale of alcoholic beverages at riverboat casinos is subject to licensing, control and regulation pursuant to Title 7.1 of the Indiana Code and the rules adopted by the Indiana Alcohol and Tobacco Commission.

*Indian Gaming*

Gaming on Indian Lands (lands over which Indian tribes have jurisdiction and which meet the definition of Indian Lands under the Indian Gaming Regulatory Act of 1988, (the "Regulatory Act")) is regulated by federal, state and tribal governments. The regulatory environment regarding Indian gaming is always changing. Changes in federal, state or tribal law or regulations may limit or otherwise affect Indian gaming or may be applied retroactively and could then have a negative effect on our operations.

The terms and conditions of management agreements or other agreements, and the operation of casinos on Indian Land, are subject to the Regulatory Act, which is implemented by the NIGC. The contracts also are subject to the provisions of statutes relating to contracts with Indian tribes, which are supervised by the Department of the Interior. The Regulatory Act is interpreted by the Department of the Interior and the NIGC and may be clarified or amended by the judiciary or legislature.

Under the Regulatory Act, the NIGC has the power to:

- inspect and examine certain Indian gaming facilities;
- perform background checks on persons associated with Indian gaming;
- inspect, copy and audit all records of Indian gaming facilities;
- hold hearings, issue subpoenas, take depositions, and adopt regulations; and
- penalize violators of the Regulatory Act.

Penalties for violations of the Regulatory Act include fines, and possible temporary or permanent closing of gaming facilities. The Department of Justice may also impose federal criminal sanctions for illegal gaming on Indian Lands and for theft from Indian gaming facilities.

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The Regulatory Act also requires that the NIGC review tribal gaming ordinances. Such ordinances are approved only if they meet certain requirements relating to:

- ownership;
- security;
- personnel background;
- recordkeeping and auditing of the tribe's gaming enterprises;
- use of the revenues from gaming; and
- protection of the environment and the public health and safety.

The Regulatory Act also regulates Indian gaming and management agreements. The NIGC must approve management agreements and collateral agreements, including agreements like promissory notes, loan agreements and security agreements. A management agreement can be approved only after determining that the contract provides for:

- adequate accounting procedures and verifiable financial reports, copies of which must be furnished to the tribe;
- tribal access to the daily operations of the gaming enterprise, including the right to verify gross revenues and income;
- minimum guaranteed payments to the tribe, which must have priority over the retirement of development and construction costs;
- a ceiling on the repayment of such development and construction costs; and
- a contract term not exceeding five years and a management fee not exceeding 30% of profits and a determination by the chairman of the NIGC that the fee is reasonable considering the circumstances; provided that the NIGC may approve up to a seven year term and a management fee not to exceed 40% of net revenues if the NIGC is satisfied that the capital investment required or the income projections for the particular gaming activity justify the larger profit allocation and longer term.

Under the Regulatory Act, we must provide the NIGC with background information, including financial statements and gaming experience, on:

- each person with management responsibility for a management agreement;
- each of our directors; and
- the ten persons who have the greatest direct or indirect financial interest in a management agreement to which we are a party, or in the case of a publicly traded company, the holders of 5% or more of the ownership interest in the Company.

The NIGC will not approve a management company and may void an existing management agreement if a director, key employee or an interested person of the management company:

- is an elected member of the Indian tribal government that owns the facility being managed;
- has been or is convicted of a felony or misdemeanor gaming offense;

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has knowingly and willfully provided materially false information to the NIGC or a tribe;  
has refused to respond to questions from the NIGC;  
is a person whose prior history, reputation and associations pose a threat to the public interest or to effective gaming regulation and control, or create or enhance the chance of unsuitable, unfair or illegal activities in gaming or the business and financial arrangements incidental thereto; or  
has tried to influence any decision or process of tribal government relating to gaming.

Contracts may also be voided if:

the management company has materially breached the terms of the management agreement, or the tribe's gaming ordinance; or  
a trustee, exercising the skill and diligence to which a trustee is commonly held, would not approve such management agreement.

The Regulatory Act divides games that may be played on Indian Land into three categories. Class I Gaming includes traditional Indian games and private social games and is not regulated under the Regulatory Act. Class II Gaming includes bingo, pull tabs, lotto, punch boards, tip jars, instant bingo, and other games similar to bingo, if those games are played at a location where bingo is played. Class III Gaming includes all other commercial forms of gaming, such as video casino games (*e.g.*, video slots, video blackjack), so-called table games (*e.g.*, blackjack, craps, roulette), and other commercial gaming (*e.g.*, sports betting and pari-mutuel wagering).

Class II Gaming is allowed on Indian Land if performed according to a tribal ordinance which has been approved by the NIGC and if the state in which the Indian Land is located allows such gaming for any purpose. Class II Gaming also must comply with several other requirements, including a requirement that key management officials and employees be licensed by the tribe.

Class III Gaming is permitted on Indian Land if the same conditions that apply to Class II Gaming are met and if the gaming is performed according to the terms of a written gaming compact between the tribe and the host state. The Regulatory Act requires states to negotiate in good faith with Indian tribes that seek to enter into tribal-state compacts. Should the state not negotiate in good faith, regulations of the Department of Interior allow the Secretary of the Interior to impose the terms of a gaming compact on the state.

The negotiation and adoption of tribal-state compacts is vulnerable to legal and political changes that may affect our future revenues and securities prices. Accordingly, we cannot predict:

which additional states, if any, will approve casino gaming on Indian Land;  
the timing of any such approval;  
the types of gaming permitted by each tribal-state compact;  
any limits on the number of gaming machines allowed per facility; or  
whether states will attempt to renegotiate or take other steps that may affect existing compacts.

Under the Regulatory Act, Indian tribal governments have primary regulatory authority over gaming on Indian Land within the tribe's jurisdiction unless a tribal-state compact has delegated this authority. Therefore, persons engaged in gaming activities, including us, are subject to the provisions of tribal ordinances and regulations on gaming.

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Tribal-State compacts have been litigated in several states, including Michigan. In addition, many bills have been introduced in Congress that would amend the Regulatory Act, including bills introduced in 2005 that seek to limit off reservation gaming by Indian tribes. Although this legislative attempt was rejected, the Department of the Interior under the Bush administration in January 2008 issued a guidance memorandum immediately followed by a series of decisions which gave effect to the defeated legislation, placing limitations on the distance a tribal casino could be from the tribe's reservation. If the Regulatory Act were amended or this department policy remain in effect, then the governmental structure and requirements by which Indian tribes may conduct gaming could be significantly changed, which could have an impact on our future operations and development of tribal gaming opportunities. Furthermore, in 2009, the United States Supreme Court issued a decision which interpreted the Indian Reorganization Act, enacted in 1934, and found that the Secretary of the Interior was only authorized to take land into trust for Indian Tribes recognized as of the date of that Act. Thus, an Indian tribe receiving federal recognition after 1934 was not allowed to have land taken into trust for its benefit. While the decision was entered after the Nottawaseppi Huron Band of Potawatomi's Firekeepers Casino site was taken into trust by the Secretary of the Interior, no judicial action has been brought and no ruling has been made as to the retroactive effect of the United States Supreme Court decision.

### *Huron Tribal Gaming Commission*

The Michigan Tribe has adopted a gaming ordinance to regulate gaming at the FireKeepers Casino. Part of the gaming ordinance establishes and authorizes a Gaming Commission to oversee the regulation of gaming at FireKeepers Casino. The Gaming Commission shall license the management contractor, (which is GEM), all gaming employees, gaming equipment vendors and others, pursuant to the standards of the ordinance (which are substantially similar to those contained in Indian Gaming Regulatory Act, IGRA and NIGC regulation), including a review of the honesty and integrity of the applicant and its financial stability.

In conjunction with the issuance of the license to GEM, we were approved by the Huron Tribal Gaming Commission on April 4, 2008. This license is renewable annually. We were granted a license renewal in 2010 and we have submitted the requisite renewal application for 2011. The Gaming Commission is also responsible for the regulation of gaming operations, including oversight and audits to ensure compliance with minimum internal controls established to ensure patron safety and the safeguarding of income and assets. Violations of internal controls and Gaming Commission imposed standards can result in penalties, fines, loss of employment and loss or denial of gaming licenses.

### *Costs and Effects of Compliance with Environmental Laws*

In order to have land taken into trust or otherwise be approved for use by an Indian tribe for gaming purposes by the federal Bureau of Indian Affairs (BIA), as a federal agency, the BIA is required to comply with the National Environmental Policy Act (NEPA). Likewise, in order for the NIGC to approve a management agreement for us to manage an Indian gaming casino as required by the Indian Gaming Regulatory Act, the NIGC, as a federal agency, is required to comply with NEPA. For these purposes NEPA requires a federal agency to consider the effect on the human, physical and natural environment of a development project as part of its approval process. Compliance with NEPA begins with conducting an environmental assessment, which considers the factors identified in NEPA, as implemented by the Council on Environmental Quality, and determines whether the development will cause a significant impact on the environment. If not, the federal agency may issue a finding of no significant impact ( FONSI ). If the federal agency determines the development project may cause a significant impact on the environment, then it will conduct a further study resulting in an environmental impact statement, which considers all impacts on the environment and what can be done to mitigate those impacts. Since this constitutes action by a federal agency, any of these determinations can be the subject of litigation.

Appropriate environmental reviews were conducted by the BIA and NIGC reviewing the impacts caused by the Firekeepers Casino project in Michigan as part of their approval process. The land was taken into trust in 2007 and the management agreement was approved in December 2007 and an amendment was approved in April 2008.

During 2005 and 2006, we also funded environmental assessments related to the casino development project for the Nambé Pueblo and for the Northern Cheyenne Tribe. The environmental assessment related to the Northern Cheyenne Tribe is on behalf of the BIA in conjunction with its approval of the land chosen by the tribe for its casino site for use for gaming. The Secretary of the Interior acting for the BIA approved the land for gaming use in October 2008,

subject to the concurrence of the Governor of the State of Montana, which was granted in 2009.

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Indiana riverboat casinos are subject to regulation by the Indiana Department of Environmental Management (DEM). That department has regulations similar to the federal Department of Environmental Protection and maintains permitting and enforcement programs in the areas of air pollution, water and wastewater pollution and hazardous waste handling. As a riverboat and land-based golf club, we will be subject to the regulation of the DEM in our operations. The DEM has reporting requirements and can impose fines and other penalties for violations of its regulations. While there can be criminal sanctions for serious and intentional violations of the regulations, the general penalty is a fine of up to \$25,000 for each day of a violation and injunctions against continued violations and corrective orders.

### **COMPETITION**

The gaming industry is highly competitive. Gaming activities include traditional land-based casinos; riverboat and dockside gaming, casino gaming on Indian land, state-sponsored lotteries, video poker in restaurants, bars and hotels, pari-mutuel betting on horse racing, dog racing and jai alai, sports bookmaking, card rooms, and casinos at racetracks. The FireKeepers Casino, Stockman's Casino, the Grand Victoria acquisition and the Indian-owned and other casinos that we are developing and plan to manage or own compete with all these forms of gaming, and will compete with any new forms of gaming that may be legalized in additional jurisdictions, as well as with other types of entertainment. Some of our competitors have more personnel and greater financial or other resources.

Stockman's is located on the west side of Fallon on Highway 50, approximately 60 miles east of Reno, Nevada, and is the largest of several casinos in the Churchill County area. The county's population is roughly 25,000 with a nearby naval air base which has a significant economic impact on our business. Of the nine casinos currently operating in the Fallon, Nevada market, our major competitors are three other casinos that are smaller than Stockman's both in size and the number of gaming machines. At December 31, 2010, Stockman's share of the slot units in the Churchill County market was approximately 23.5% and our share of slot revenues for 2010 was approximately 31.5%. While we are not aware of any planned expansion to gaming capacity in the Churchill County area, additional competition may adversely affect our financial condition or results of operations.

The closest competition to the FireKeepers Casino, prior to the opening of the Gun Lake Casino, is located in Detroit, approximately 100 miles east of the Battle Creek area and the Four Winds Casino in the New Buffalo, Michigan area which is approximately 100 miles to the southwest. The Gun Lake Tribe constructed a casino in Wayland, Michigan, approximately a one hour drive northwest of FireKeepers Casino, which opened February 11, 2011. The approximately \$157.0 million project includes approximately 1,450 slot machines, 28 table games and various dining options. At this time, however, it is unclear how significant the impact the Gun Lake project may have on casino revenues and our related management fees.

The Harrington Casino is one of three facilities currently operating in Delaware. The facility draws a significant number of customers from Maryland and we believe that competitive gaming in Maryland will have a negative impact on the facility. The magnitude will depend on both the form of gaming that is authorized, and the locations of competing facilities.

During 2008, the Maryland legislature approved casino-type gaming in certain designated counties of the State. Recently, bids were submitted to the State for authorization by private contractors to conduct gaming in Maryland. While we can expect there to be an adverse impact on the revenues of Harrington Casino from this added competition, as well as the current economic climate, we expect to be insulated from the effect of such competitive and economic factors by the guaranteed minimum payment paid to us, which guarantees us a 5% increase, except for 2008 when the increase was 8% over 2007, in the management fees we receive from the operation over those received in the previous year. The annual growth rate in 2009 through the expiration of the GED management contract in August 2011 is 5% per year.



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Additionally, during 2009, Delaware authorized its three licensed casinos to operate sports books for the taking of bets on sporting events. A federal court ruled that such bets must be parlay or multiple-contest bets and not bets on individual contests. This ruling is being appealed. Then, in January 2010, the legislature authorized live table games at the three licensed Delaware casinos. The bill was signed into law and table game operations commenced in June 2010. Neither form of wagering is permitted in Maryland. While increased types of wagering are expected to enhance revenues, the impact of these additional forms of legalized wagering has yet to be determined.

Grand Victoria Casino and Resort is one of three riverboat casinos located on the Ohio River in southeastern Indiana. Its closest competitor is the Hollywood Casino, only a twenty minute drive, which is larger with 150,000 square feet of casino space, 3,200 slots and electronic table games and over 88 table games from a \$335.0 million expansion program completed in June 2009. To the south is the Belterra Casino, approximately thirty minutes away, with 1,600 slot machines and 54 table games. While Kentucky has no legal casino gaming and the cities of Lexington and Louisville are within the market of the Grand Victoria, Ohio has recently authorized legalized gambling with one casino being developed in Cincinnati and a proposed racino nearby. Each of these facilities is within the general market of Grand Victoria and will provide competition to our potential operations there.

### **EMPLOYEES**

As of March 1, 2011, we have thirteen full-time corporate employees, four of whom are executive officers and an additional two are senior management. Our Stockman's Casino has approximately 95 full-time employees and our Delaware joint venture and FireKeepers management contracts oversees approximately 613 and 1,348 full-time employees, respectively at the Harrington Casino and FireKeepers Casino, none of which are direct employees of the Company. Management believes that its relationship with its employees is good. None of our employees are currently represented by a labor union, although such representation could occur in the future.

#### **Item 1A. Risk Factors.**

As a smaller reporting company, the Company is not required to provide the information required by this item.

#### **Item 1B. Unresolved Staff Comments.**

As a smaller reporting company, the Company is not required to provide the information required by this item.

### **Item 2. Properties.**

On August 5, 2009, the FireKeepers Casino, which is managed by GEM on behalf of the Michigan tribe, commenced operations. FireKeepers Casino is located at Exit 104 directly off Interstate 94 in Battle Creek, Michigan. FireKeepers has a 106,900 square foot gaming floor with 2,700 Class III slot machines, 78 table games, a 120-seat poker room and a bingo hall. In addition, the property features five restaurants, including a 70-seat fine dining signature restaurant, a 300-seat buffet, a 150-seat 24-hour cafe and a 110-seat quick service restaurant and a grab-and-go outlet, as well as three bar areas. The bar areas include a sports bar with high definition flat screen televisions, a 113-seat lounge with cabaret and live entertainment and a lounge within our fine dining area. The casino also has an approximately 4,000 square-foot multi-function room used for special events and a gift shop with branded merchandise, an attached multi-level parking garage that accommodates approximately 2,100 vehicles, surface parking for an additional 917 vehicles and an area for bus and recreational vehicle parking. On December 2, 2010, the FireKeepers Development Authority entered into a hotel consulting services agreement with GEM, as the consultant, related to the FireKeepers Casino phase II development project, which includes development of a hotel, multi-purpose/ballroom facility, surface parking and related ancillary support spaces and improvements. GEM will perform hotel consulting services for a fixed fee of \$12,500 per month, continuing through to the opening of the project, provided the total fee for services do not exceed \$0.2 million in total. In March 2011, the Authority announced that it plans to construct a 240 room resort style hotel on the FireKeepers Casino site. The project is in its final design stage, is expected to break ground in spring 2011 and is anticipated to open in late summer of 2012.

Stockman's, a wholly-owned subsidiary, owns the site on which Stockman's Casino operates in Fallon, Nevada. Stockman's has approximately 8,400 square feet of gaming space with approximately 264 slot machines, four table games and keno. There is also a bar, a fine dining restaurant and a coffee shop. Until February 20, 2008, the facility included a Holiday Inn Express, which had 98 guest rooms, indoor and outdoor pools, sauna, a fitness center and meeting room. The hotel was subsequently sold to an independent operator. Management considers Stockman's Casino to be in good condition and well maintained. The Revolver is guaranteed by Stockman's and is secured by a pledge of

the stock and the assets of Stockman s.

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The Wells Fargo Credit Agreement will be secured by substantially all of the Company's assets. The Company's wholly-owned subsidiaries will guarantee the obligations of the Company.

We lease the office space in Las Vegas, Nevada pursuant to the amended lease agreement dated November 1, 2009. We occupy approximately 2,569 square feet of office space in the same location we have occupied for the past several years. The lease agreement expires September 30, 2013.

**Item 3. Legal Proceedings.**

None.

**Item 4. (Removed and Reserved).****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our stock trades on the NYSE Amex under the symbol FLL. Set forth below are the high and low sales prices of the common stock as reported on the American Stock Exchange and the NYSE Amex for the periods indicated.

|                              | <b>High</b> | <b>Low</b> |
|------------------------------|-------------|------------|
| Year Ended December 31, 2010 |             |            |
| First Quarter                | \$ 3.65     | \$ 2.25    |
| Second Quarter               | 3.40        | 2.66       |
| Third Quarter                | 3.30        | 2.82       |
| Fourth Quarter               | 3.77        | 2.86       |
| Year Ended December 31, 2009 |             |            |
| First Quarter                | \$ 1.22     | \$ 0.90    |
| Second Quarter               | 2.80        | 1.15       |
| Third Quarter                | 2.98        | 2.10       |
| Fourth Quarter               | 3.98        | 2.25       |

On March 1, 2011, the last sale price of the Common Stock as reported by the NYSE Amex Exchange was \$3.97.

As of March 1, 2011, we had 130 holders of record of our common stock. We believe that there are over 1,000 beneficial owners.

We intend to retain future earnings, if any, to provide funds for the operation of our business, retirement of our debt and pursue acquisitions and, accordingly, do not expect to pay any cash dividends on our common stock in the foreseeable future.

**Item 6. Selected Financial Data.**

As a smaller reporting company, the Company is not required to provide the information required by this item.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward Looking Statements**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as: believes, expects, anticipates, estimates, plans, intends, objectives, goals, aims, projects, forecasts, may, could, should, might, likely, enable, or similar words or expressions are used in this Form 10-K, and 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.

In addition to the risks discussed in Item 1 Factors That May Affect Our Future Performance, various other 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 and credit, including our ability to finance future business requirements;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license legislation and regulations and taxes;
- 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.

#### **Overview**

We develop, manage, invest in and/or own gaming-related enterprises. The Company continues to actively investigate, individually and with partners, new business opportunities.

Specifically, we own and operate Stockman's Casino in Fallon, Nevada. We also own 50% of Gaming Entertainment Michigan, LLC ( GEM ), a joint venture with RAM Entertainment, LLC ( RAM ), where we are the primary beneficiary and, therefore, consolidate GEM in our consolidated financial statements. GEM has a 7-year management agreement with the Nottawaseppi Huron Band of Potawatomi Indians for the development and management of the FireKeepers Casino near Battle Creek, Michigan. The FireKeepers Casino commenced construction in May 2008 and opened on August 5, 2009, which triggered the commencement of the 7-year management agreement term. We are also a noncontrolling 50%-investor in Gaming Entertainment Delaware, LLC ( GED ), a joint venture with Harrington Raceway Inc. ( HRI ). GED has a management contract through August 2011 with Harrington Casino at the Delaware State Fairgrounds in Harrington, Delaware. On September 13, 2010, we announced an agreement to acquire all of the operating assets of Grand Victoria Casino & Resort, LP subject to conditions including the obtaining of financing and regulatory approvals.



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

Although our financial statements necessarily make use of certain accounting estimates by management, except as discussed in the following paragraphs, we believe that 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 primarily include management's fair value estimates related to notes receivable from tribal governments, the related evaluation of the recoverability of our investments in contract rights and the valuation of Stockman's goodwill. Various assumptions, principally affecting the timing and, to a lesser extent, the probability of completing our various projects under development and getting them open for business with successful operations, 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 or planned investments are contingent upon the successful development and management of a project, we evaluate the likelihood that the project will be completed, 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 or planned investment. We review our conclusions as warranted by changing conditions.

We have two variable interest entities, GED and GEM. Our investment in unconsolidated joint venture is a 50% ownership interest in GED, a joint venture between Harrington Raceway Inc. (HRI) and us. GED has a management agreement with Harrington Raceway and Casino (Harrington) (formerly known as Midway Slots and Simulcast), which is located in Harrington, Delaware. Under the terms of the joint venture agreement, as restructured in 2007, the Company receives the greater of 50% of GED's member distribution as currently prescribed under the joint venture agreement, or a 5% growth rate in its 50% share of GED's prior year member distribution through the expiration of the GED management contract in August 2011. GED is a variable interest entity due to the fact that we have limited our exposure to the risk of loss. Therefore, we do not consolidate but account for our investment using the equity method. We believe the maximum exposure to loss is the account receivable and investment in GED as GED carries no loans.

Due to our financing arrangement for the development and management of the FireKeepers project through a 50%-owned joint venture, GEM, we were exposed to the majority of risk of economic loss from the joint venture's activities. As of August 2010, our member payable was paid. However, we direct the day to day operational activities of GEM that significantly impact GEM's economic performance and therefore, we consider ourselves to be the primary beneficiary. As such, the joint venture continues to be a variable interest entity that requires consolidation in our financial statements.

Management believes the maximum exposure to loss from our investment in GEM is \$5.6 million, which is composed of our equity investment that is eliminated in consolidation. Currently, GEM has no debt. In addition, as part of the GEM member agreement modification, the GEM members agreed that distributions to the members were to be made on a 50/50 basis to both members until such time RAM's member payable had been fully repaid and thereafter 70% to us and 30% to RAM until such time as the remaining payable to us had been repaid. As of March 31, 2010, RAM's member payable was paid and as of August 2010, FHR's member payable also had been paid. Accordingly, GEM began paying a 50/50 split on distributions to the Company and RAM in September 2010.

#### *Long-term assets related to Indian casino projects*

We account for the advances made to tribes as in-substance structured notes at estimated fair value in accordance with the guidance contained in Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 320, Investments-Debt and Equity Securities and Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820).



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Because our right to recover our advances and development costs with respect to Indian gaming projects is limited to, and contingent upon, the future net revenues of the proposed gaming facilities, 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 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, based on feasibility analyses and legal reviews, that there is a high probability that the project will be completed and that the probable future economic benefit is sufficient to compensate us for our efforts in relation to the perceived financial risks. In arriving at our initial conclusion of probability, we consider both positive and negative evidence. Positive evidence ordinarily consists not only of project-specific advancement or progress, but the advancement of similar projects in the same and other jurisdictions, while negative evidence ordinarily consists primarily of unexpected, unfavorable legal, regulatory or political developments such as adverse actions by legislators, regulators or courts. Such positive and negative evidence is reconsidered at least quarterly. 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 will 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.

In assessing the probability of completing the project, we also consider the status of the regulatory approval process including whether:

- the Federal Bureau of Indian Affairs, or BIA, recognizes the tribe;
- the tribe has the right to acquire land to be used as a casino site;
- the Department of the Interior has put the land into trust as a casino site;
- the tribe has a gaming compact with the state government;
- the NIGC has approved a proposed management agreement; and
- 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 casino is open for business. Thereafter, the management phase of the relationship, governed by the management contract, typically continues for a period of between five to seven years. Seven years is the maximum allowed under federal law. 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 receivable and accrued interest is only required if the casino is successfully opened and distributable profits are available from the casino operations. Under the management agreement, we typically earn a management fee calculated as a percentage of the net income of the gaming facility. In addition, repayment of the loans and our management 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.





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### *Notes receivable*

We account for and present our notes receivable from and management agreements 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 would retain the right to collect on our notes receivable in the event a casino project is completed by another developer. Because we ordinarily do not consider the stated rate of interest on the notes receivable to be commensurate with the risk inherent in these projects (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 if the rights were acquired in a separate, unbundled transaction, expensed as period costs of retaining such rights.

Subsequent to its effective initial recording at estimated fair value using level 3 inputs, which are defined in ASC Topic 820 as unobservable inputs that reflect management's estimates about the assumptions that market participants would use in pricing an asset or liability, the note receivable portion of the advance is adjusted to its current estimated fair value at each balance sheet date, also using level 3 inputs. Due to the absence of observable market quotes on our notes receivable from tribal governments, management develops inputs based on the best information available, including internally-developed data, such as estimates of future interest rates, discount rates and casino opening dates. We do not adjust notes receivable to an estimated fair value that exceeds the face value of the note plus accrued interest, if any. Due to the uncertainties surrounding the projects, no interest income is recognized in the consolidated financial statements 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 made pursuant to ASC Topic 310, Receivables, and the amount contractually due under the notes is amortized into income using the effective interest method over the remaining term of the note.

### *Contract rights*

Contract rights are recognized as intangible assets related to the acquisition of the management agreements and 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. The FireKeepers casino opened on August 5, 2009, and as a result, the \$17.4 million in contract rights associated with the FireKeepers project began being amortized in the third quarter of 2009 on a straight-line basis over the seven year term of the GEM management agreement.

The cash flow estimates for each project were developed based upon published and other information gathered pertaining to the applicable markets. We have many years of experience in making these estimates. The cash flow estimates are initially prepared (and periodically updated) primarily for business planning purposes with the tribes and are secondarily used in connection with our impairment analysis of the carrying value of contract rights, land held for development, and other capitalized costs, if any, associated with our tribal casino projects. The primary assumptions used in estimating the undiscounted cash flow from the projects include the expected number of Class III gaming devices, table games, and poker tables, and the related estimated win per unit per day ( WPUD ). Generally, within reasonably possible operating ranges, our impairment decisions are not particularly sensitive to changes in these assumptions because estimated cash flows greatly exceed the carrying value of the related intangibles and other capitalized costs. We believe that the primary competitors to our Michigan project are the Four Winds Casino in southwestern Michigan, five northern Indiana riverboats, three downtown Detroit casinos and another Native American casino by the Gun Lake Tribe approximately one hour northwest of our facility which opened February 11, 2011.

**Table of Contents***Summary of assets related to Indian casino projects*

At December 31, 2010 and 2009, assets associated with tribal casino projects are summarized as follows, with notes receivable presented at their estimated fair value:

|                                      | 2010          | 2009          |
|--------------------------------------|---------------|---------------|
| FireKeepers Casino:                  |               |               |
| Notes receivable, tribal governments | \$            | \$ 4,682,420  |
| Contract rights, net                 | 13,244,811    | 15,617,016    |
|                                      | 13,244,811    | 20,299,436    |
| Other projects:                      |               |               |
| Notes receivable, tribal governments | 427,567       | 430,467       |
|                                      | \$ 13,672,378 | \$ 20,729,903 |

As previously noted, the FireKeepers Casino project comprises the majority of long-term assets related to Indian casino projects. We have an approved management agreement with the FireKeepers Development Authority, (the Authority ) for the development and operation of the FireKeepers Casino, which provides that we will receive, only from the operations and financing of the project, reimbursement for all advances we have made to the Authority and a management fee, after certain distributions to the Tribe, equal to 26% of the net revenues of the casino (defined effectively as net income prior to management fees) for a period of seven years commencing upon opening. The terms of an amended management agreement were approved by the NIGC in April 2008. In May 2008, in connection with the project financing, \$9.3 million of the notes receivable was repaid, which resulted in an increase in the estimated fair value of the notes receivable of approximately \$1.8 million, which was recorded as an unrealized gain in the first quarter of 2008. The remaining \$5.0 million of the note receivable was repaid in February 2010.

We are not obligated to fund the construction phase of our Northern Cheyenne project in Montana. The recent economic recession and resulting impact on credit availability has significantly decreased the likelihood that financing could be obtained on favorable terms if at all for the Montana project in the foreseeable future. At December 2009, we determined that the project assets were impaired and collectability was doubtful and the notes receivable originally valued at \$0.6 million and contract rights originally valued at \$0.1 million related to the project were written down to zero value which resulted in an \$0.7 million impairment loss. As of December 31, 2010, the Montana project notes receivable and contract rights were written off.

In the first quarter of 2008, we received notice that the Nambé tribal council had effectively terminated the business relationship with Full House. As a result, the Company recorded an impairment loss of \$0.2 million related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Nambé Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of \$0.7 million. The development agreement between the Company and the Nambé Pueblo provides that the Company is entitled to recoup its advances from future gaming development, even if the Company does not ultimately develop the project. Management is currently engaged in assisting the Nambé Pueblo in the process of obtaining financing to develop a small casino or slot parlor addition to their existing travel center which will likely have the ability to repay the advances from future cash flows of the project once open. Funding is expected during the second quarter of 2011 with the expected facility opening during the fourth quarter of 2011. There can be no assurance that a facility will open or that we will receive all or any of our reimbursement.

Due to the absence of observable market quotes on our notes receivable from tribal governments, management develops inputs based on the best information available, including internally-developed data, such as estimates of future interest rates, discount rates and casino opening dates as discussed below.

The estimated fair value of our notes receivable related to tribal casino projects make up approximately 1% of our total assets, and are the only assets in our financial statements that are reported at estimated fair value. Changes in the estimated fair value of our notes receivable are reported as unrealized gains (losses), which affect reported net income, but do not affect cash flows.

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As of December 31, 2010, the fair value of the \$0.7 million face amount Nambé notes receivable was estimated assuming an opening date of 1.0 year and a 23% discount rate. Also as of December 31, 2009, the fair value of the \$0.6 million face amount Montana notes receivable, originally valued at \$0.6 million was written down to zero value as we believe that the project assets are impaired and collectability is doubtful. As of December 31, 2010, the Montana notes receivable were written off as the amount was considered to be uncollectible.

For the portion of the notes not repaid prior to the commencement of operations, management estimates that the stated interest rates during the loan repayment terms will be commensurate with the inherent risk at that time. The estimated probability rates have been re-evaluated and modified accordingly, based on project-specific risks such as delays of regulatory approvals for the projects and review of the financing environment. The estimated casino opening dates used in the valuations take into account project-specific circumstances such as ongoing litigation, the status of required regulatory approvals, construction periods and other factors.

Factors that we consider in arriving at a discount rate include discount rates typically used by gaming industry investors and appraisers to value individual casino properties outside of Nevada and discount rates produced by the widely accepted Capital Asset Pricing Model, or 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 trailing 10-year average for 90-day Treasury Bills;
- Investment beta factor equal to the unlevered five-year average for the hotel/gaming industry; and
- Project-specific adjustments based on typical size premiums for micro-cap and low-cap companies using 10 and 15-year averages, and the status of outstanding required regulatory approvals and/or litigation, if any.

Management believes that under the circumstances, essentially three critical dates and events that impact the project specific discount rate adjustment when using CAPM are: (1) the date that management completes its feasibility assessment and decides to invest in the opportunity; (2) the date that construction financing has been obtained after all legal obstacles have been removed; and (3) the date that operations commence.

Amortizations of contract rights are on a straight-line basis over the contractual lives of the assets. The contractual lives may include, or not begin until after, a development period and/or the term of the subsequent management agreement. Prior to 2007, the Company acquired an interest in contract rights, related to three joint venture projects for \$1.8 million, of which \$1.1 million was allocated to the Michigan project for control of the development processes. Accordingly, amortization of these rights commenced immediately with revisions to the development/amortization period accounted for prospectively as changes in estimates. Effective August, 2009, the remaining contract rights have been amortized on a straight-line basis over the seven year term of the GEM management contract. The FireKeepers casino opened on August 5, 2009, and as a result, the \$17.4 million of contract rights associated with the FireKeepers project began being amortized on August 5, 2009 on a straight-line basis over the seven year term of the GEM management agreement.

### **Recently Issued Accounting Pronouncements**

None.

### **Results of Operations**

A significant portion of our revenue is generated from our management agreements with the Harrington Casino in Delaware and the FireKeepers Casino in Michigan. The Delaware contract ends in August 2011, and the Michigan contract ends in August 2016. We do not expect to renew the management contract with Harrington Casino, and there can be no assurance that the FireKeepers Casino management contract will be extended.

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**Year Ended December 31, 2010 Compared to Year Ended December 31, 2009**

**Operating revenues from continuing operations.** For 2010, total operating revenues from continuing operations increased \$13.9 million or 73.0%, as compared to 2009, primarily due to a \$14.5 million increase in management fees from FireKeepers Casino. The FireKeepers Casino opened in August 2009. The increase in operating revenues was offset by decreases in casino and food and beverage revenues of \$0.7 million or 7.9% at Stockman's. We believe the decline in revenues (and in our year-to-date average market share of slot win from 34.9% in 2009 to 31.5% in 2010) at Stockman's is generally consistent with and primarily a result of the general economic weakness in Churchill County, Nevada, and elsewhere and a lower than normal hold percentage due to the introduction of free play.

**Operating costs and expenses from continuing operations.** For 2010, total operating costs and expenses increased \$1.4 million, or 11.0% as compared to 2009, primarily due to an increase in contract rights amortization of \$1.4 million or 140.0% which we commenced amortizing upon the opening of FireKeepers in August 2009.

**Project development costs.** For 2010, project development costs increased \$0.2 million or 93.8%, as compared to 2009, primarily due to the \$0.2 million of acquisition expenses for the Grand Victoria Casino & Resort.

**Selling, general and administrative expense.** For 2010, selling, general and administrative expenses decreased \$0.04 million, or 0.7%, as compared to 2009 mainly due to decreased stock compensation expenses at the corporate level of \$0.3 million, offset by increased legal fees, related to the HRI arbitration of \$0.08 million.

**Operating gains (losses).** For 2010, operating gains increased by \$2.5 million, or 96.1%. The increase over 2009 is primarily due to a nonrecurring \$2.1 million charge from the GEM member agreement modification signed in October 7, 2009. In that year, amounts due to each member by GEM were adjusted to reflect a total due to RAM of \$8.5 million, including \$2.7 million reported as equity, and a total due to the Company of \$11.9 million, including \$2.7 million reported as equity, causing our recognition of a net pre-tax gain of \$1.4 million. The net pre-tax gain is presented gross on our 2009 statements of operations as a \$2.1 million charge characterized as a member agreement modification offset by a \$3.5 million credit attributable to the noncontrolling interest. Operating gains also increased in 2010 due to the effect of a nonrecurring \$0.7 million impairment loss in 2009 related to the Montana project assets.

**Other income (expense).** For 2010, other income decreased by \$0.2 million, or 71.0% consisting of a decrease of interest and other income of \$0.3 million or 69.0%, related to interest on the \$5.0 million receivable from FireKeepers Casino, which was repaid in 2009. Interest expense decreased \$0.1 million, or 66.4% due to the interest expense related to the reduction of outstanding debt on the Company's revolving line of credit and the payoff of the promissory note to Peters Family Trust.

**Income taxes.** For 2010, the effective income tax rate increased to approximately 43%, compared to 40% for the same period in 2009 primarily due to the effect of state income taxes on management fees received subsequent to the opening of the FireKeepers Casino in August 2009. There is no valuation allowance on the deferred tax asset of \$0.1 million as of December 31, 2010, because management believes the deferred tax asset is fully realizable.

**Noncontrolling interest.** For 2010, the income attributable to noncontrolling interest in consolidated joint venture increased by \$9.3 million consisting of RAM's share of the increased net income in GEM of \$18.7 million as compared to 2009. GEM's increased net income was due primarily to the approximately \$24.5 million in management fee income earned, related to the FireKeepers Casino.

**Liquidity and Capital Resources**

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



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The FireKeepers Casino, Harrington Casino and Stockman's Casino operations are currently our primary sources of recurring income and significant positive cash flow. Our management agreement for the Harrington Casino in Delaware ends in August 2011 and our management agreement for the FireKeepers Casino in Michigan end in August 2016. We do not expect to renew the management contract with Harrington Casino, and there can be no assurance that the FireKeepers Casino management contract will be extended. Under the management agreement for FireKeepers Casino, certain distributions must be paid from net revenue prior to the payment of the management fee to us. In addition, the Gun Lake Tribe has constructed a casino, which opened February 11, 2011, that is approximately a one-hour drive northwest of FireKeepers Casino, and the increase competition may affect the revenues of FireKeepers Casino and ultimately our management fee.

GEM began earning management fees from the FireKeepers Casino in the third quarter of 2009, with the first payments made in September. Distributions from the Delaware operation are governed by the terms of the applicable joint venture agreement and management reorganization agreement. The total amount distributed from the Delaware operations for the year ended December 31, 2010 and 2009 to us was \$4.9 million and \$4.7 million, respectively, which is a 5.0% increase from prior year. We expect to continue receiving management fees as currently prescribed under the joint venture agreement, with a minimum guaranteed growth factor over the prior year of 5.0% through August 2011.

On a consolidated basis, cash provided by operations for 2010 increased \$6.4 million over the prior year primarily due to the FireKeepers Casino management fees. Cash provided by investing activities decreased \$0.1 million from the prior year primarily due to cash deposited for the purchase of Grand Victoria, but offset by cash proceeds generated from the repayment of tribal advances. Cash provided by financing activities decreased \$6.1 million primarily in 2010 due to repayment of long-term debt, distributions related to the FireKeepers Casino to RAM and loan fees associated with the purchase of Grand Victoria. As of December 31, 2010, the Company had approximately \$13.3 million in cash and availability on its revolving credit facility of \$7.9 million

Our future cash requirements include selling, general and administrative expenses, project development costs, capital expenditures, primarily at Stockman's, and costs related to the acquisition of the Grand Victoria. Subject to the effects of the economic uncertainties discussed above, we believe that adequate financial resources will be available to execute our current growth plan from a combination of operating cash flows and external debt and equity financing. However, continued downward pressure on cash flow from operations due to, among other reasons, the adverse effects on gaming activity of the current economic environment and the lack of available funding sources, for example, due to the recent unprecedented global contraction in available credit, increases the uncertainty with respect to our development and growth plans.

The maximum committed amount under the loan agreement with Nevada State Bank ( "Revolver" ) was increased from \$8.1 million to \$8.9 million, based upon the amendment to the Revolver dated June 25, 2009 and the repayment terms were amended (as discussed below). The maximum amount permitted to be outstanding under the Revolver decreased \$312,000 on July 1, 2009. Effective January 1, 2010, based upon the amendment to the Revolver, the maximum amount permitted to be outstanding decreases \$329,000 semiannually on January 1 and July 1 of each year and any outstanding amounts above such reduced maximum must be repaid on each such date. The reducing revolving loan is payable over 15 years at a variable interest rate based on the five-year LIBOR/Swap rate plus 2.1%. This rate, which was 7.24% per annum as of December 31, 2010 and 2009, adjusts annually based on the funded debt to EBITDA ratio of Stockman's, with adjustments based on the five-year LIBOR/Swap rate occurring every five years.

The Revolver also contains customary financial representations and warranties and requires that Stockman's maintain specified financial covenants, including a fixed charge coverage ratio, a funded debt to EBITDA ratio and a minimum tangible net worth. In addition, the loan agreement limits the amount of distributions from and capital expenditures by Stockman's. The loan agreement also provides for customary events of default including payment defaults and covenant defaults. The Credit Agreement covenants with Wells Fargo Bank state that the Nevada State Bank line of credit must be terminated at least two business days prior to the Wells Fargo loan initial funding date. The Company will terminate the Revolver prior to or upon borrowing the funds necessary to purchase the Grand Victoria (see "Other Projects" below).



On June 30, 2009 the Company paid off the Peters Family Trust promissory note of \$0.7 million plus \$4,477 in accrued interest with a drawdown of the Revolver. The original amount of the promissory note was \$1.25 million, payable to the seller of Stockman's over 60 monthly installments of principal and interest and was secured by a second lien in the real estate of Stockman's. Effective July 9, 2009 the second lien in the real estate of Stockman's was released.

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On October 29, 2010, the Company, as borrower, entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank. On December 17, 2010, the Company entered into a Commitment Increase Agreement and related Assignment Agreements with Wells Fargo and certain lenders under the Credit Agreement (the "Commitment"). The Commitment increases the funds available under the Credit Agreement from \$36.0 million to \$38.0 million, consisting of a \$33.0 million term loan and a revolving line of credit of \$5.0 million. All other terms of the Credit Agreement remain materially unchanged by the Commitment. Funds borrowed under the Credit Agreement will be used to fund the Company's previously announced \$43.0 million acquisition, exclusive of approximately \$8.0 million of cash on hand and net working capital, of the Grand Victoria in Rising Sun, Indiana. The acquisition and initial funding of the Credit Agreement is expected to occur early in the second quarter of 2011.

On or prior to the initial funding date, the Credit Agreement will be secured by substantially all of the Company's assets. The Company's wholly-owned subsidiaries will guarantee the obligations of the Company under the Credit Agreement.

Once funding occurs, the Company will pay interest under the Credit Agreement at either the Base Rate or the LIBOR Rate set forth in the Credit Agreement. The Base Rate means, on any day, the greatest of (a) Wells Fargo's prime rate in effect on such day, (b) the Federal Funds Rate in effect on the business day prior to such day plus one and one half percent (1.50%) and (c) the One Month LIBOR Rate for such day (determined on a daily basis as set forth in the Credit Agreement) plus one and one-half percent (1.50%). LIBOR Rate means a rate per annum equal to the quotient (rounded upward if necessary to the nearest 1/16 of one percent) of (a) the greater of (1) 1.50% and (2) the rate per annum referred to as the BBA (British Bankers Association) LIBOR RATE divided by (b) one minus the reserve requirement set forth in the Credit Agreement for such loan in effect from time to time.

The Credit Agreement contains customary negative covenants for transactions of this type, including, but not limited to, restrictions on the Company's and its subsidiaries' ability to: incur indebtedness; grant liens; pay dividends and make other restricted payments; make investments; make fundamental changes; dispose of assets; and change the nature of their business. The negative covenants are subject to certain exceptions as specified in the Credit Agreement. The Credit Agreement also includes customary events of default, including, among other things: non-payment; breach of covenant; breach of representation or warranty; cross-default under certain other indebtedness or guarantees; commencement of insolvency proceedings; inability to pay debts; entry of certain material judgments against the Company or its subsidiaries; occurrence of certain ERISA events; and certain changes of control.

Additional projects are considered based on their forecasted profitability, development period, regulatory and political environment and the ability to secure the funding necessary to complete the development, among other considerations. As part of our agreements for tribal developments, we typically fund costs associated with projects which may include legal, civil engineering, environmental, design, training, land acquisition and other related advances while assisting the tribes in securing financing for the construction of the project. The majority of costs are advanced to the tribes and are reimbursable to us, pursuant to management and development agreements, as part of the financing of the project's development. While each project is unique, we forecast these costs when determining the feasibility of each opportunity. Such agreements to finance costs associated with the development and furtherance of projects are typical in this industry and have become expected of tribal gaming developers.

As of December 31, 2010, we held \$12.2 million in a Federal Deposit Insurance Corporation ("FDIC") insured noninterest bearing account and \$0.3 million in a U.S. Government money market account with Nevada State Bank (NSB), the institution where we hold the \$7.9 million line of credit. NSB is a subsidiary of Zion's Bancorporation. Weiss Ratings rated Zion's "D" (weak financial strength) in the January 5, 2011, report meaning that this institution demonstrates significant weaknesses which could negatively affect the recoverability of depositors' funds or creditors. FDIC insurance ensures the Company's full NSB cash balance in the event of further bank weakness.

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### *FireKeepers Casino*

GEM, our FireKeepers Casino joint venture, has the exclusive right to arrange the financing and provide casino management services to the Michigan Tribe in exchange for a management fee, after certain other distributions are paid to the Tribe, of 26% of net revenues (defined effectively as net income before management fees) for seven years which commenced upon the opening of the FireKeepers Casino on August 5, 2009. The terms of our management agreement were approved by the NIGC in December 2007 and a revised management agreement was approved in April 2008. On December 2, 2010, the FireKeepers Development Authority entered into a hotel consulting services agreement with GEM, as the consultant, related to the FireKeepers Casino phase II development project, which includes development of a hotel, multi-purpose/ballroom facility, surface parking and related ancillary support spaces and improvements. GEM will perform hotel consulting services for a fixed fee of \$12,500 per month, continuing through to the opening of the project, provided the total fee for services do not exceed \$0.2 million in total. Effective September 30, 2009, an agreement was reached between RAM and us ( GEM Financial Resolution ) clarifying the treatment of the following items:

Reimbursable and non-reimbursable advances funded by the members, before RAM acquired its interest in GEM.

Repayments of disproportionate advances by us as prior agreements were unclear as to the treatment.

As a result, payables due from GEM to each member were adjusted to reflect a total payable due to RAM of \$8.5 million, including \$2.7 million reported as equity, and a total payable due to FHR of \$11.9 million, including \$2.7 million reported as equity, resulting in the recognition of a net pre-tax gain \$1.4 million, which was recorded in September 2009. In addition, the GEM members agreed that distributions to the members will be made on a 50/50 basis to both members until such time RAM's member payable has been fully repaid and thereafter 70% to us and 30% to RAM until such time as the remaining payable to us was repaid. Thereafter, distributions to members were made on a 50/50 basis. Also, no further interest accruals were made on any member payables. As of March 31, 2010, RAM's member payable had been paid and as of August 30, 2010, FHR's member payable had also been paid.

On August 5, 2009, the FireKeepers Casino, which is managed by GEM on behalf of the Michigan Tribe, commenced operations. FireKeepers Casino is located at Exit 104 directly off Interstate 94 in Battle Creek, Michigan. FireKeepers has a 106,900 square foot gaming floor with 2,700 Class III slot machines, 78 table games, a 120-seat poker room and a bingo hall. In addition, the property features five restaurants, including a 70-seat fine dining signature restaurant, a 300-seat buffet, a 150-seat 24-hour cafe and a 110-seat quick service restaurant and a grab-and-go outlet, as well as three bar areas. The bar areas include a sports bar with high definition flat screen televisions, a 113-seat lounge with cabaret and live entertainment and a lounge within our fine dining area. The casino also has an approximately 4,000 square-foot multi-function room used for special events and a gift shop with branded merchandise, an attached multi-level parking garage that accommodates approximately 2,100 vehicles, surface parking for an additional 917 vehicles and an area for bus and recreational vehicle parking. On December 2, 2010, the FireKeepers Development Authority entered into a hotel consulting services agreement with GEM, as the consultant, related to the FireKeepers Casino phase II development project, which includes development of a hotel, multi-purpose/ballroom facility, surface parking and related ancillary support spaces and improvements. GEM will perform hotel consulting services for a fixed fee of \$12,500 per month, continuing through to the opening of the project, provided the total fee for services do not exceed \$0.2 million in total. In March 2011, the Authority announced that it plans to construct a 240 room resort style hotel on the FireKeepers Casino site. The project is in its final design stage, is expected to break ground in spring 2011 and is anticipated to open in late summer of 2012. Although certain distributions (including a minimum guaranteed monthly payments to the Tribe of \$50,000, a preferred payment to the Tribe of \$0.2 million and repayment of loan principal to be paid out of the Tribe's share of net revenues) will be paid from net revenue prior to the payment to the Company of the management fee, the Company believes the property will generate sufficient revenues to pay the management fee equal to 26% of net revenues on a monthly basis.

### *Other projects*

On September 10, 2010, we entered into definitive agreements with Grand Victoria Casino & Resort, LP to acquire all of the operating assets of the Grand Victoria, located in Rising Sun, Indiana, on the Ohio River. The purchase price is \$43.0 million, exclusive of estimated cash and net working capital balances of \$8.0 million and fees and expenses as

of the closing date.

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We expect regulatory approvals will be obtained to accommodate a closing early in the second quarter of 2011. We anticipate applying approximately \$19.0 million of cash on hand to the purchase price and funding the balance with available funds under the Credit Agreement. Through December 31, 2010, we have incurred \$0.2 million in acquisition related expenses which are included in project development expense. On September 10, 2010, we deposited the \$0.5 million initial deposit toward the \$43.0 million purchase price with an escrow agent and an additional \$4.5 million was deposited on October 29, 2010. In conjunction with closing on the financing commitment, we paid \$2.0 million in financing related fees. As a result, we plan to use approximately \$11.7 million of additional cash to complete the transaction.

The closing of the Grand Victoria acquisition and the initial funding under the Credit Agreement are subject to the satisfaction of certain conditions precedent, including among other things the receipt of all applicable gaming approvals. We currently anticipate being licensed in the state of Indiana in mid-March, however no assurance can be given that such conditions will be satisfied or that the acquisition will close.

In the first quarter of 2008, we received notice that the Nambé tribal council had effectively terminated the business relationship with Full House. As a result, the Company recorded an impairment loss of \$0.2 million related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Nambé Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of \$0.7 million. The development agreement between the Company and the Nambé Pueblo provides that the Company is entitled to recoup its advances from future gaming development, even if the Company does not ultimately develop the project. Management is currently engaged in assisting the Nambé Pueblo in the process of obtaining financing to develop a small casino or slot parlor addition to their existing travel center which will likely have the ability to repay the advances from future cash flows of the project once open. Funding is expected during the second quarter of 2011 with the expected facility opening during the fourth quarter of 2011. There can be no assurance that a facility will open or that we will receive all or any of our reimbursement.

Our agreements with the various Indian tribes contain limited waivers of sovereign immunity and, in many cases, provide for arbitration to enforce the agreements. Generally, our only recourse for collection of funds under these agreements is from revenues, if any, of prospective casino operations. At December 31, 2010, the notes receivable from the Nambé tribe had been discounted approximately \$0.2 million below the contractual value of the note receivable.

The Company continues to actively investigate, individually and with partners, new business opportunities. Management believes they will have sufficient cash and financing available to fund acquisitions and development opportunities in the future.

**Item 8. Financial Statements.**

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| <u>Report of Independent Registered Public Accounting Firm</u> | <b>30</b>   |
| <u>Consolidated Balance Sheets</u>                             | <b>31</b>   |
| <u>Consolidated Statements of Operations</u>                   | <b>32</b>   |
| <u>Consolidated Statements of Stockholder's Equity</u>         | <b>33</b>   |
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| <u>Notes to Consolidated Financial Statements</u>              | <b>35</b>   |



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

Full House Resorts, Inc.

Las Vegas, NV

We have audited the accompanying consolidated balance sheets of Full House Resorts, Inc. and Subsidiaries (collectively, the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Piercy Bowler Taylor & Kern

Piercy Bowler Taylor & Kern

Certified Public Accountants

Las Vegas, Nevada

March 7, 2011

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**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**

|   | <b>2010</b>   | <b>2009</b>   |
|---|---------------|---------------|
| <b>ASSETS</b>   |               |               |
| Current assets  |               |               |
| Cash and equivalents  | \$ 13,294,496 | \$ 9,198,399  |
| Notes receivable related to tribal casino project                               |               | 4,682,420     |
| Accounts receivable, net of allowance for doubtful accounts of \$0 and \$1,072  | 2,276,422     | 1,802,100     |
| Incomes taxes receivable  | 598,886       |               |
| Prepaid expenses  | 796,858       | 372,735       |
| Deferred tax asset  | 101,417       | 136,126       |
| Deposits and other  | 106,810       | 90,685        |
|   | 17,174,889    | 16,282,465    |
| Property and equipment, net of accumulated depreciation                         | 7,372,251     | 7,961,734     |
| Long-term assets related to tribal casino projects                              |               |               |
| Notes receivable net of allowance of \$0 and 618,875                            | 427,567       | 430,467       |
| Contract rights, net of accumulated amortization of \$4,120,775 and \$1,748,570 | 13,244,811    | 15,617,016    |
|   | 13,672,378    | 16,047,483    |
| Other assets  |               |               |
| Goodwill  | 10,308,520    | 10,308,520    |
| Deposits  | 5,166,112     | 330,297       |
| Loan fees, net of accumulated amortization of \$96,087 and \$41,864             | 2,088,104     | 176,681       |
| Other assets  | 668,532       | 478,406       |
|   | 18,231,268    | 11,293,904    |
|   | \$ 56,450,786 | \$ 51,585,586 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                     |               |               |
| Current liabilities   |               |               |
| Debt to joint venture affiliate   | \$            | \$ 1,450,087  |
| Accounts payable  | 181,604       | 136,485       |
| Income taxes payable  | 384,333       | 2,273,777     |
| Accrued payroll and related   | 750,346       | 723,783       |
| Other accrued expenses  | 229,323       | 288,443       |
|   | 1,545,606     | 4,872,575     |
| Deferred tax liability  | 2,110,333     | 1,756,085     |



|  |               |               |
|--|---------------|---------------|
|  | 3,655,939     | 6,628,660     |
| Stockholders' equity   |               |               |
| Common stock, \$.0001 par value, 25,000,000 shares authorized; 19,364,276 and 19,358,276 shares issued | 1,936         | 1,936         |
| Additional paid-in capital   | 42,699,533    | 42,665,390    |
| Treasury stock, 1,356,595 common shares  | (1,654,075)   | (1,654,075)   |
| Retained earnings (deficit)  | 6,164,927     | (1,504,320)   |
|  | 47,212,321    | 39,508,931    |
| Noncontrolling interest in consolidated joint venture  | 5,582,526     | 5,447,995     |
|  | 52,794,847    | 44,956,926    |
|  | \$ 56,450,786 | \$ 51,585,586 |

See notes to consolidated financial statements.

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**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

|   | <b>2010</b>  | <b>2009</b>  |
|---|--------------|--------------|
| <b>Revenues</b>   |              |              |
| Casino  | \$ 6,529,773 | \$ 7,194,476 |
| Food and beverage   | 1,728,879    | 1,775,623    |
| Management fees   | 24,473,066   | 9,953,009    |
| Other   | 165,411      | 89,575       |
|   | 32,897,129   | 19,012,683   |
| <b>Operating costs and expenses</b>   |              |              |
| Casino  | 2,159,199    | 2,271,337    |
| Food and beverage   | 2,016,394    | 1,970,309    |
| Project development costs   | 423,160      | 218,353      |
| Selling, general and administrative   | 6,429,845    | 6,473,117    |
| Depreciation and amortization   | 3,421,256    | 2,090,094    |
|   | 14,449,854   | 13,023,210   |
| <b>Operating gains (losses)</b>   |              |              |
| Equity in net income of unconsolidated joint venture, and related guaranteed payments | 5,094,664    | 4,929,337    |
| Unrealized gains (loss) on notes receivable, tribal governments                       | (2,900)      | 567,348      |
| Member agreement modification   |              | (2,147,327)  |
| Impairment loss   |              | (752,899)    |
|   | 5,091,764    | 2,596,459    |
| <b>Operating income</b>   | 23,539,039   | 8,585,932    |
| <b>Other income (expense)</b>   |              |              |
| Interest and other income   | 120,750      | 389,008      |
| Interest expense  | (58,368)     | (173,819)    |
| <b>Income before income taxes</b>   | 23,601,421   | 8,801,121    |
| Income taxes  | (5,739,430)  | (3,184,955)  |
| <b>Net income</b>   | 17,861,991   | 5,616,166    |
| Income attributable to noncontrolling interest in consolidated joint venture          | (10,192,744) | (847,927)    |
| <b>Net income attributable to the Company</b>   | \$ 7,669,247 | \$ 4,768,239 |
| <b>Net income attributable to the Company per common share</b>                        | \$ 0.43      | \$ 0.26      |
| <b>Weighted-average number of common shares outstanding</b>                           | 18,005,390   | 18,025,326   |

See notes to consolidated financial statements.

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**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| 2010  | Common stock |          | Treasury stock |                | Additional<br>paid-in<br>capital | Retained<br>earnings<br>(deficit) | Noncontrolling<br>interest | Total<br>stockholders<br>equity |
|---|--------------|----------|----------------|----------------|----------------------------------|-----------------------------------|----------------------------|---------------------------------|
|   | Shares       | Dollars  | Shares         | Dollars        |                                  |                                   |                            |                                 |
| <b>Beginning<br/>balances</b>                                       | 19,358,276   | \$ 1,936 | 1,356,595      | \$ (1,654,075) | \$ 42,665,390                    | \$ (1,504,320)                    | \$ 5,447,995               | \$ 44,956,926                   |
| Previously<br>deferred<br>share-based<br>compensation<br>recognized |              |          |                |                | 16,683                           |                                   |                            | 16,683                          |
| Issuances of<br>common stock  | 6,000        |          |                |                | 17,460                           |                                   |                            | 17,460                          |
| Distributions<br>to Members   |              |          |                |                |                                  |                                   | (10,058,213)               | (10,058,213)                    |
| Net income  |              |          |                |                |                                  | 7,669,247                         | 10,192,744                 | 17,861,991                      |
| <b>Ending<br/>balances</b>  | 19,364,276   | \$ 1,936 | 1,356,595      | \$ (1,654,075) | \$ 42,699,533                    | \$ 6,164,927                      | \$ 5,582,526               | \$ 52,794,847                   |

  

| 2009  | Common stock |          | Treasury stock |                | Additional<br>paid-in<br>capital | Deficit        | Noncontrolling<br>interest | Total<br>stockholders<br>equity |
|---|--------------|----------|----------------|----------------|----------------------------------|----------------|----------------------------|---------------------------------|
|   | Shares       | Dollars  | Shares         | Dollars        |                                  |                |                            |                                 |
| <b>Beginning<br/>balances</b>                                       | 19,350,276   | \$ 1,935 | 1,210,414      | \$ (1,502,182) | \$ 42,356,098                    | \$ (6,272,559) | \$ 4,600,068               | \$ 39,183,360                   |
| Previously<br>deferred<br>share-based<br>compensation<br>recognized |              |          |                |                | 288,893                          |                |                            | 288,893                         |
| Issuances of<br>common stock  | 8,000        | 1        |                |                | 20,399                           |                |                            | 20,400                          |
| Purchase of<br>treasury stock                                       |              |          | 146,181        | (151,893)      |                                  |                |                            | (151,893)                       |
| Net income  |              |          |                |                |                                  | 4,768,239      | 847,927                    | 5,616,166                       |
| <b>Ending<br/>balances</b>  | 19,358,276   | \$ 1,936 | 1,356,595      | \$ (1,654,075) | \$ 42,665,390                    | \$ (1,504,320) | \$ 5,447,995               | \$ 44,956,926                   |

See notes to consolidated financial statements.

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**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

|   | <b>2010</b>         | <b>2009</b>        |
|---|---------------------|--------------------|
| <b>Cash flows from operating activities:</b>                                      |                     |                    |
| Net income  | \$ 7,669,247        | \$ 4,768,239       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                    |
| Equity in net income of unconsolidated investee                                   | (3,181,139)         | (3,468,195)        |
| Distributions from unconsolidated investee  | 3,096,193           | 3,420,469          |
| Non-controlling interest in consolidated joint venture                            | 10,192,744          | 847,927            |
| Unrealized gain on notes receivable, tribal governments                           | 2,900               | (567,348)          |
| Gain on disposal of fixed assets  | (6,101)             |                    |
| Depreciation  | 1,049,051           | 1,070,752          |
| Amortization of gaming and other rights   | 2,372,205           | 1,019,342          |
| Impairment loss adjustment  |                     | 752,899            |
| Deferred compensation   | 16,683              |                    |
| Share-based compensation  | 17,460              | 309,293            |
| Member agreement modification   |                     | 2,147,327          |
| Increases and decreases in operating assets and liabilities:                      |                     |                    |
| Accounts receivable   | (1,390,788)         | (1,204,252)        |
| Prepaid expenses  | (424,123)           | 131,286            |
| Deferred tax asset  | 34,709              | 157,472            |
| Deposits and other current assets   | (16,125)            | 7,524              |
| Other assets  | 158,862             | (156,263)          |
| Accounts payable and accrued expenses   | 10,088              | 98,481             |
| Income taxes payable  | (1,889,444)         | 2,158,292          |
| Deferred tax liability  | 354,248             | 161,661            |
| <b>Net cash provided by operating activities</b>                                  | <b>18,066,670</b>   | <b>11,654,906</b>  |
| <b>Cash flows from investing activities:</b>                                      |                     |                    |
| Proceeds from repayment of tribal advances  | 5,000,000           |                    |
| Purchase of property and equipment  | (360,481)           | (404,679)          |
| Proceeds from sale of assets  | 1,200               | 20,569             |
| Deposits and other capitalized acquisition costs                                  | (5,122,245)         |                    |
| Other   | (15,100)            | 854                |
| <b>Net cash used in investing activities</b>                                      | <b>(496,626)</b>    | <b>(383,256)</b>   |
| <b>Cash flows from financing activities:</b>                                      |                     |                    |
| Repayment of long-term debt   | (1,450,087)         | (7,616,863)        |
| Distributions to non-controlling interest in consolidated joint venture           | (10,058,213)        |                    |
| Proceeds from borrowings  |                     | 395,000            |
| Purchase of treasury stock  |                     | (151,893)          |
| Loan fees   | (1,965,647)         | (4,250)            |
| <b>Net cash used in financing activities</b>                                      | <b>(13,473,947)</b> | <b>(7,378,006)</b> |

|   |                      |                     |
|---|----------------------|---------------------|
| <b>Net increase in cash and equivalents</b> | 4,096,097            | 3,893,644           |
| Cash and equivalents, beginning of year     | 9,198,399            | 5,304,755           |
| <b>Cash and equivalents, end of year</b>    | <b>\$ 13,294,496</b> | <b>\$ 9,198,399</b> |

|  | <b>2010</b>  | <b>2009</b> |
|--|--------------|-------------|
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                           |              |             |
| Cash paid for interest   |              | \$ 102,764  |
| Cash paid for income taxes   | \$ 8,259,760 | \$ 671,485  |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                  |              |             |
| Purchases of property and equipment financed with prior year deposit | \$ 94,185    |             |
| Debt refinanced through line of credit                               |              | \$ 705,989  |
| See notes to consolidated financial statements.                      |              |             |

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**FULL HOUSE RESORTS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION, NATURE AND HISTORY OF OPERATIONS**

**Nature of operations and key relationships.** Full House Resorts, Inc. ( we, us, our, Full House or the Company ) develops, manages, invests in and/or owns gaming related enterprises. The Company continues to actively investigate, individually and with partners, new business opportunities including commercial and tribal gaming operations in profitable markets.

**GED.** We are a noncontrolling 50% investor in Gaming Entertainment (Delaware), LLC ( GED ), a joint venture with Harrington Raceway, Inc. ( HRI ). GED has a management contract through August 2011 with Harrington Raceway and Casino, at the Delaware State Fairgrounds in Harrington, Delaware ( Harrington Casino ). Harrington Casino has approximately 1,800 slot machines and 40 table games, a 450-seat buffet, a 50-seat diner, a gourmet steakhouse and an entertainment lounge area.

Under the terms of the joint venture agreement, as restructured in 2007, the Company receives the greater of 50% of GED's member distribution as currently prescribed under the joint venture agreement, or a 5% growth rate in its 50% share of GED's prior year member distribution through the expiration of the GED management contract in August 2011 (Note 3).

**GEM.** We own 50% of Gaming Entertainment Michigan, LLC ( GEM ), a joint venture with co-venturer, RAM Entertainment, LLC ( RAM ), where we have determined we are the primary beneficiary and, therefore, include GEM in our consolidated financial statements. RAM is a privately-held investment company. GEM has a management agreement with the Nottawaseppi Huron Band of Potawatomi Indians (the Michigan Tribe ), for the development and management of the FireKeepers Casino near Battle Creek, Michigan. More specifically, our joint venture has the exclusive right to arrange the financing and provide casino management services to the Michigan tribe in exchange for 26% of net profits for seven years and certain other specified consideration from any future gaming or related activities conducted by the Michigan Tribe.

On August 5, 2009, the FireKeepers Casino commenced operations. FireKeepers Casino is located at Exit 104 directly off Interstate 94 in Battle Creek, Michigan. FireKeepers Casino has a 106,900 square foot gaming floor with 2,700 Class III slot machines, 78 table games, a 120-seat poker room and a bingo hall. In addition, the property features five restaurants, including a 70-seat fine dining signature restaurant, a 300-seat buffet, a 150-seat 24-hour cafe and a 110-seat quick service restaurant and a grab-and-go outlet, as well as three bar areas. The bar areas include a sports bar with high definition flat screen televisions, a 113-seat lounge with cabaret and live entertainment and a lounge within our fine dining area. The casino also has an approximately 4,000 square-foot multi-function room used for special events and a gift shop with branded merchandise, an attached multi-level parking garage that accommodates approximately 2,100 vehicles, surface parking for an additional 917 vehicles and an area for bus and recreational vehicle parking. In March 2011, the Authority announced that it plans to construct a 240 room resort style hotel on the FireKeepers Casino site. The project is in its final design stage, is expected to break ground in spring 2011 and is anticipated to open in late summer of 2012.

In 2002, the Company entered into a joint venture membership agreement with RAM, a privately held investment company, whereby RAM was admitted as a 50% member in GEM and Gaming Entertainment (California), LLC, (GEC), consolidated investee of the Company, in exchange for providing a portion of the necessary funding for the development of planned projects in Michigan and California. Accordingly, RAM loaned Full House \$2.4 million to fund the projects. Pursuant to the joint venture membership agreement, effective in 2007, RAM exercised its right to convert the loan into a \$2.0 million capital contribution in, and a \$0.4 million loan to GEM. In addition, accrued interest payable in the amount of \$0.6 million, previously due on the original promissory note, was also converted into a loan to GEM which was to mature no sooner than two years after the opening of the Michigan project.

Effective September 30, 2009, an agreement was reached between the Company and RAM ( GEM Financial Resolution ) (Note 9) clarifying the treatment of the following items:

Reimbursable and non-reimbursable advances funded by the members, before RAM acquired its interest in GEM.



Repayments of disproportionate advances by the Company as prior agreements were unclear as to the treatment.

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As a result, payables due from GEM to each member were adjusted to reflect a total payable due to RAM of \$8.5 million, including \$2.7 million reported as equity, and a total payable due to FHR of \$11.9 million, including \$2.7 million reported as equity, resulting in the recognition of a net pre-tax gain \$1.4 million, which was recorded in September 2009. In addition, the GEM members agreed that distributions to the members would be made on a 50/50 basis to both members until such time RAM's member payable was fully repaid and thereafter 70% to us and 30% to RAM until such time as the remaining payable to us was repaid. Thereafter, distributions to members are to be made on a 50/50 basis. Also, no further interest accruals were made on any member payables. As of March 31, 2010, RAM's member payable had been paid and as of August 30, 2010, FHR's member payable had also been paid and therefore, distributions are now made on a 50/50 basis.

**Stockman's.** Stockman's has approximately 8,400 square feet of gaming space with approximately 264 slot machines, four table games and keno. The property also has a bar, a fine dining restaurant and a coffee shop.

**Other.** The Company also has development and management agreements with the Northern Cheyenne Nation of Montana (the Montana Tribe) for the development and management of a 25,000 square foot gaming facility to be built approximately 28 miles north of Sheridan, Wyoming. The management agreement provides for a management fee of 30% of revenues net of prizes and operating expenses and is subject to approval by the NIGC, while the development agreement obligates the Montana Tribe to reimburse any development advances from future gaming revenue in the event the management agreement is not approved. The previously estimated fair value of the notes receivable and contract rights related to the project were written down to zero value as of December, 2009, which resulted in \$0.7 million impairment loss (Note 4). As of December 31, 2010, the notes receivable and contract rights related to the project were written-off as the amounts are expected to be uncollectible.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation and accounting.** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including Stockman's Casino (Stockman's). In addition, as stated in Note 1, GEM, a 50%-owned investee of the Company that is jointly owned by RAM, has been consolidated. The Company accounts for its investment in GED (Note 3) using the equity method of accounting. All material intercompany accounts and transactions have been eliminated. In addition, on January 1, 2009, the Company retroactively adopted the requirements of ASC Topic 810 for the noncontrolling or minority interest in a subsidiary. The adoption of these provisions of Topic 810 did not have any effect on the Company's consolidated net income or net income attributable to the Company per common share for the periods presented.

The Company has not elected to adopt the option available under ASC Topic 825, Financial Instruments, to measure any of its eligible financial instruments or other items. Accordingly, except where carried at estimated fair value under other generally accepted accounting principles and disclosed herein (Note 4), the Company continues to measure all of its assets and liabilities on the historical cost basis of accounting.

**Use of estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts. Accordingly, actual results could differ from those estimates. Estimated fair value of notes receivable and the recoverability of the Company's investment in other long-term assets related to Indian casino projects (Note 4) are particularly vulnerable to variation and could change materially in the next year based on evolving developments.

**Cash equivalents.** Cash in excess of daily requirements is invested in highly liquid short-term investments with initial maturities of three months or less when purchased and are reported as cash equivalents in the consolidated financial statements.

**Concentrations and economic risks and uncertainties.** The United States has been experiencing a widespread and severe recession accompanied by, among other things, weakness in consumer spending including for gaming and other recreational activity and reduced credit and capital financing availability in the commercial and investment banking systems resulting in reduced credit and capital financing availability, and highly curtailed gaming and other recreational activities and general discretionary consumer spending, and is also engaged in war, all of which have far-reaching effects on economic conditions in the country for an indeterminate period. Our operations are currently concentrated in northern Nevada, Delaware and Michigan. Accordingly, future operations and cash flows could be affected by adverse economic conditions particularly in those areas and their key feeder markets in neighboring states. The effects and duration of these conditions and related risks and uncertainties on the Company's future operations and

cash flows, including its access to capital or credit financing, cannot be estimated at this time, but may likely be significant.

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Except as discussed in the following paragraph, the Company's credit risk (or market risk) is concentrated in notes receivable from tribal governments (Note 4). Advances to tribal governments, including contractual accrued interest, if any, are recoverable solely from the future cash flows generated by the operations of the gaming facility and, although there can be no assurance that a facility will be opened, management does not believe that there currently is significant risk of loss associated with such investment, but considers its assessment of such risk in its fair value estimates. However, the maximum loss that could be sustained if such advances prove to be uncollectible is limited to the recorded amount of the receivable and the related contract rights, less any allowances that may be provided.

Accounts receivable are uncollateralized and carried, net of an appropriate allowance, at their estimated collectible value based on customers' past credit history and current financial condition and on current general economic conditions. Since credit is extended on a short-term basis, accounts receivables do not normally bear interest. The allowances for doubtful accounts are estimated by management for accounts that are partially or entirely uncollectible. The Company records uncollectible allowances over 90 days old as a charge to selling, general and administrative expenses.

**Property and equipment.** Property and equipment (Note 8) is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

**Debt issuance costs.** Costs incurred in obtaining long-term financing are included in loan fees, net of amortization over the life of the related debt. As of December 31, 2010, the Company had incurred \$2.0 million in loan fees related to the Wells Fargo Credit Agreement, which will be amortized beginning when the debt is drawn. The amount of expected amortization over each of the next five years will be approximately \$0.4 million per year.

**Investment in unconsolidated joint venture.** The Company accounts for its investment in GED using the equity method of accounting (Note 3). The investment in GED was \$0.2 million and \$0.1 million December 31, 2010 and 2009, respectively, included in other assets. The amounts due from HRI of \$0.7 million and \$0.6 million December 31, 2010 and 2009, respectively, are included in accounts receivable.

**Assets related to Indian casino projects.** The Company evaluates the financial opportunity of each potential service arrangement before entering into an agreement to provide financial support for the development of and subsequent management services for an Indian casino project. The Company accounts for its notes receivable from and management contracts with the tribes as separate assets.

Due to the absence of observable market quotes on the Company's notes receivable from tribal governments (Note 4), the Company's financial assets that are recorded and subsequently measured at estimated fair value based only on level 3 inputs from among the three levels of the fair value hierarchy set forth in ASC Topic 820. The level 3 inputs used are based primarily on management's estimates of expected cash flow streams, future interest rates, casino opening dates and discount rates.

The estimated casino opening dates used in the valuations take into account project-specific circumstances such as ongoing litigation, the status of required regulatory approvals, construction periods and other factors. Factors considered in the determination of an appropriate discount rate include discount rates typically used by gaming industry investors and appraisers to value individual casino properties in the appropriate regions, and discount rates produced by the widely-accepted Capital Asset Pricing Model (CAPM). The following key assumptions are used in the CAPM:

- S&P 500, average benchmark investment returns (medium-term horizon risk premiums);
- Risk free investment return equal to the trailing 10-year average for 90-day treasury bills;
- Investment beta factor equal to the average of a peer group of similar entities in the hotel and gaming industry;

Project-specific adjustments based on the status of the project (*i.e.*, litigation, regulatory approvals, tribal politics, *etc.*), and typical size premiums for micro-cap and low-cap companies.

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A tabular summary of the current period activity related to notes receivable from tribal governments, is presented in Note 4.

Upon opening of the casino, any difference between the then estimated fair value of the notes receivable and the amount contractually due under the notes is amortized into income using the effective interest method over the remaining term of the note. Such notes are then evaluated for impairment pursuant to ASC Topic 310, *Receivables*. Intangible assets consisting of contract rights related to the acquisition of the management contracts (contract rights) are periodically evaluated for impairment based on the estimated cash flows from the management contract on an undiscounted basis. In the event the carrying value of the intangible assets were to exceed the estimated undiscounted cash flow, the difference between the estimated fair value and carrying value of the assets would be charged to operations as an impairment loss. The Company expects to amortize the contract rights using the straight-line method over seven years, or the term of the related management contract, whichever is shorter, typically beginning upon commencement of casino operations.

**Goodwill.** Goodwill represents the excess of the purchase price over fair market value of net assets acquired in the Stockman's transaction and relates to its casino operation. The Company performs a quarterly review of goodwill and whenever there might be an impairment triggering event as described in ASC Topic 360.

**Revenue recognition and promotional allowances.** Casino revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs (commonly called *casino front money*) and for chips and tokens in the customers' possession (outstanding chip and token liability). Hotel, food and beverage, entertainment and other operating revenues are recognized as services are performed, net of revenue-based taxes. Advance ticket sales are recorded as deferred revenue until services are provided to the customer. Revenues are recognized net of certain sales incentives, and accordingly, cash incentives to customers for gambling activity, including the cash value of points redeemed by Players Club members, totaling \$0.09 and \$0.4 million have been recognized as a direct reduction of casino revenue in 2010 and 2009, respectively. Sales and similar revenue-linked taxes collected from customers are excluded from revenue and recorded as a liability payable to the appropriate taxing authority and included in accrued expenses. Revenue also does not include the retail value of accommodations, food and beverage, and other services gratuitously furnished to customers totaling \$0.3 million in 2010 and \$0.2 million in 2009. The estimated cost of providing such gratuities is included primarily in casino expenses as follows:

|                   | 2010       | 2009       |
|-------------------|------------|------------|
| Food and beverage | \$ 275,824 | \$ 222,294 |
| Cash incentives   | 94,593     | 414,813    |
| Other incentives  | 1,145      | 909        |
|                   | \$ 371,562 | \$ 638,016 |

GEM receives a management fee of 26% of net profits from FireKeepers Casino and beginning on December 2, 2010, also receives a consulting fee related to the FireKeepers Casino phase II development project, which includes development of a hotel, multi-purpose/ballroom facility, surface parking and related ancillary support spaces and improvements for a fixed fee of \$12,500 per month, continuing through to the opening of the project, provided the total fee for services do not exceed \$0.2 million in total. Both contracts are recorded monthly as earned on an accrual basis. Typically, the payment is received in the following month.

**Share-based compensation.** For 2010 and 2009, share-based compensation expense of approximately \$0.02 million and \$0.30 million respectively, from stock awards (Note 13) is included in general and administrative expense. Unvested stock grants made in connection with the Company's 2006 Incentive Compensation Plan and a consulting agreement with a director were viewed as a series of individual awards and the related share-based compensation expense was initially deferred and recorded as unearned stock-based compensation, shown as a reduction of stockholders' equity, and was subsequently amortized into operations as compensation expense as services were provided on a straight-line basis over the vesting period. The value of the restricted stock at the date of grant is

amortized through expense over the requisite service period using the straight-line method. The Company grants shares of restricted stock, rather than options, to key members of management and the Board of Directors. Since 2006, there have been no forfeitures of such restricted shares granted and there are currently no unvested stock grants.

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**Legal defense costs.** The Company does not accrue for estimated future legal and related defense costs, if any, to be incurred in connection with outstanding or threatened litigation and other disputed matters but rather, records such as period costs when the related services are rendered.

**Income taxes.** Income tax-related interest and penalties, if any, are treated as part of income tax expense.

**Income per common share.** Basic income or earnings per share ( EPS ) is computed based upon the weighted-average number of common shares outstanding during the year. Diluted EPS is computed based upon the weighted average number of common and common equivalent shares if their effect upon exercise would have been dilutive using the treasury stock method. As of December 31, 2010 and 2009, there were no common equivalent shares that would have been dilutive and, therefore, the calculations for basic and diluted EPS are equal.

**Reclassifications.** Certain minor reclassifications in prior year balances have been made to conform to the current presentation, which had no effect on previously reported net income.

**3. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES**

The Company's investment in unconsolidated joint venture is comprised of a 50% ownership interest in GED, a joint venture between the Company and Harrington Raceway Inc. ( HRI ). GED has a management agreement with Harrington Raceway and Casino ( Harrington ) (formerly known as Midway Slots and Simulcast), which is located in Harrington, Delaware. GED has no non-operating income or expenses, is treated as a partnership for income tax purposes and consequently recognizes no federal or state income tax provision. As a result, income from operations for GED is equal to net income for each period presented, and there are no material differences between its income for financial and for tax reporting purposes.

Under the terms of the joint venture agreement, as restructured in 2007, the Company receives the greater of 50% of GED's member distribution as currently prescribed under the joint venture agreement, or a 5% growth rate in its 50% share of GED's prior year member distribution through the expiration of the GED management contract in August 2011. Management does not expect the management contract with Harrington Casino will be renewed.

As of the balance sheet dates presented, the Company's assets and liabilities related to its investment in GED consisted of an account receivable from HRI of \$0.7 million as of December 31, 2010 and \$0.6 million as of December 31, 2009. The investment in GED was \$0.2 million and \$0.1 million December 31, 2010 and December 31, 2009, respectively, included in other assets.

On June 19, 2009, Harrington Raceway, Inc. filed a demand for arbitration, disputing the formula for computing the minimum payment of our share of the management fee pursuant to the Management Reorganization Agreement dated June 18, 2007. Harrington Raceway's demand would require the Company to refund \$1.5 million in management fees. A hearing was held on February 15 and 16, 2010. On April 26, 2010, the American Arbitration Association ( AAA ) arbitrator issued a binding decision in our favor and denying the claim of HRI. The decision held that pursuant to the Management Reorganization Agreement, we are entitled to the greater of the share of management fee actually due from the operations or the amount actually paid in the prior year plus a percentage increase, currently 5%. The decision held further that HRI is not entitled to any credit, and the payments are to continue as they have been computed. On May 25, 2010, we received notice from the AAA that the arbitrator declined to consider our request for an award of attorney's fees and additional costs.

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Summary financial information for GED as of and for the years ended December 31, 2010 and 2009 follows:

**CONDENSED BALANCE SHEET INFORMATION**

|                   | <b>2010</b> | <b>2009</b> |
|-------------------|-------------|-------------|
| Total assets      | \$ 426,449  | \$ 420,907  |
| Total liabilities | 41,487      | 205,838     |
| Members' capital  | 384,962     | 215,069     |

**CONDENSED STATEMENT OF INCOME INFORMATION**

|            | <b>2010</b>   | <b>2009</b>   |
|------------|---------------|---------------|
| Revenues   | \$ 29,807,625 | \$ 24,255,490 |
| Net income | 6,392,279     | 6,936,391     |

**4. NOTES RECEIVABLE, TRIBAL GOVERNMENTS**

The Company has notes receivable related to advances made to, or on behalf of, tribes to fund tribal operations and development expenses related to potential casino projects. Repayment of these notes is conditioned upon the development of the projects, and ultimately, the successful operation of the facilities. Subject to such condition, the Company's agreements with the tribes provide for the reimbursement of these advances plus applicable interest, if any, either from the proceeds of any outside financing of the development, the actual operation itself or in the event that the Company does not complete the development, from the revenues of any tribal gaming operation following completion of development activities undertaken by others.

As of December 31, 2010 and 2009, notes receivable from tribal governments were as follows:

|   | <b>2010</b> | <b>2009</b>  |
|---|-------------|--------------|
| Contractual (stated) amount:              |             |              |
| FireKeepers Development Authority         | \$          | \$ 5,000,000 |
| Other                                     | 661,600     | 1,280,475    |
|   | \$ 661,600  | \$ 6,280,475 |
| Estimated fair value of notes receivable: |             |              |
| FireKeepers Development Authority         | \$          | \$ 4,682,420 |
| Other                                     | 427,567     | 430,467      |
|   | \$ 427,567  | \$ 5,112,887 |

The FireKeepers Casino opened on August 5, 2009. Although certain distributions (including a minimum guaranteed monthly payments to the Tribe of \$50,000, a preferred payment to the Tribe of \$0.2 million and repayment of loan principal to be paid out of the Tribe's share of net revenues) will be paid from net revenue prior to the payment to the Company of the management fee, the Company believes the property will generate sufficient revenues to pay the management fee equal to 26% of net revenues monthly.

The recent economic recession and resulting impact on credit availability has significantly decreased the likelihood that financing could be obtained on favorable terms if at all for the Montana project in the foreseeable future. As a result, we believe that the project assets are impaired and collectability is doubtful and the fair value of the notes receivable originally valued at \$0.6 million and contract rights originally valued at \$0.1 million related to the project were written down to zero value as of December 2009, which resulted in a \$0.7 million impairment loss. As of December 31, 2010 the project assets were written-off.





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In the first quarter of 2008, we received notice that the Nambé tribal council had effectively terminated the business relationship with Full House. As a result, the Company recorded an impairment loss of \$0.2 million related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Nambé Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of \$0.7 million. The development agreement between the Company and the Nambé Pueblo provides that the Company is entitled to recoup its advances from future gaming development, even if the Company does not ultimately develop the project. Management is currently engaged in assisting the Nambé Pueblo in the process of obtaining financing to develop a small casino or slot parlor addition to their existing travel center which will likely have the ability to repay the advances from future cash flows of the project once open. Funding is expected during the second quarter of 2011 with the expected facility opening during the fourth quarter of 2011. There can be no assurance that a facility will ever open or that we will receive all or any reimbursement. With due consideration to the foregoing factors, management has estimated the fair value of the note receivable from the Nambé Pueblo at \$0.4 million as of December 31, 2010. The following table summarizes the changes in the estimated fair value of notes receivable from tribal governments, based on level 3 inputs, from January 1, 2010, to December 31, 2010:

|                               |              | <b>2010<br/>FireKeepers<br/>Development</b> |                     |
|-------------------------------|--------------|---|---------------------|
|                               | <b>Total</b> | <b>Authority</b>                            | <b>Other tribes</b> |
| Balances, January 1, 2010     | \$ 5,112,887 | \$ 4,682,420                                | \$ 430,467          |
| Unrealized gains              | 314,680      | 317,580                                     | (2,900)             |
| Repayment of notes receivable | (5,000,000)  | (5,000,000)                                 |                     |
| Balances, December 31, 2010   | \$ 427,567   | \$  | \$ 427,567          |

|                             |              | <b>2009<br/>FireKeepers<br/>Development</b> |                     |
|-----------------------------|--------------|---|---------------------|
|                             | <b>Total</b> | <b>Authority</b>                            | <b>Other tribes</b> |
| Balances, January 1, 2009   | \$ 5,114,767 | \$ 4,097,002                                | \$ 1,017,765        |
| Other                       | (854)        |   | (854)               |
| Impairment loss             | (568,374)    |   | (568,374)           |
| Unrealized gains            | 567,348      | 585,418                                     | (18,070)            |
| Balances, December 31, 2009 | \$ 5,112,887 | \$ 4,682,420                                | \$ 430,467          |

**5. CONTRACT RIGHTS**

Contract rights are comprised of the following as of December 31, 2010 and 2009:

| <b>2010</b>                       | <b>Cost</b>   | <b>Accumulated<br/>amortization</b> | <b>Net</b>    |
|-----------------------------------|---------------|-------------------------------------|---------------|
| FireKeepers project, initial cost | \$ 4,155,213  | \$ (840,936)                        | \$ 3,314,277  |
| Firekeepers project, additional   | 13,210,373    | (3,279,839)                         | 9,930,534     |
|                                   | \$ 17,365,586 | \$ (4,120,775)                      | \$ 13,244,811 |

**Accumulated**

| <b>2009</b>                       | <b>Cost</b>   | <b>amortization</b> | <b>Net</b>    |
|-----------------------------------|---------------|---------------------|---------------|
| Firekeepers project, initial cost | \$ 4,155,213  | \$ (247,334)        | \$ 3,907,879  |
| Firekeepers project, additional   | 13,210,373    | (1,501,236)         | 11,709,137    |
|                                   | \$ 17,365,586 | \$ (1,748,570)      | \$ 15,617,016 |

Amortization commenced on these additional contract rights at the opening date of the FireKeepers Casino over the management contract period (seven years). The estimated amortization expense of contract rights for each of the next five years is expected to be \$2.4 million per year.

**Table of Contents****6. GOODWILL**

Goodwill represents the excess of the purchase price over fair market value of net assets acquired in connection with the Stockman's Casino operation. The Company's review of goodwill as of December 31, 2010, resulted in a nominal excess of estimated fair value over the carrying amount of Stockman's goodwill and related assets using an market approach considering an earnings multiple of 6.5 times. The calculation, which is subject to change as a result of future economic uncertainty, contemplates changes for both current year and future year estimates in earnings and the impact of these changes to the fair value of Stockman's, although there is always some uncertainty in key assumptions including projected future earnings growth. Management believes Stockman's could sustain a minimal decline in projected earnings or earnings growth without impairment.

**7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of the Company's cash and equivalents, accounts receivable and accounts payable approximate their estimated fair values because of the short maturity of those instruments. All of the Company's notes receivables are carried at estimated fair value, determined based on level 3 inputs, as discussed in Notes 2 and 4, above.

**8. PROPERTY AND EQUIPMENT**

At December 31, 2010 and 2009, property and equipment consists of the following:

|                               | <b>Estimated<br/>useful<br/>lives</b> | <b>2010</b>  | <b>2009</b>  |
|-------------------------------|---------------------------------------|--------------|--------------|
| Land                          |                                       | \$ 1,885,400 | \$ 1,885,400 |
| Buildings and improvements    | 10-39                                 | 5,580,045    | 5,580,045    |
| Furniture and equipment       | 5-7                                   | 6,795,764    | 6,436,829    |
|                               |                                       | 14,261,209   | 13,902,274   |
| Less accumulated depreciation |                                       | (6,888,958)  | (5,940,540)  |
|                               |                                       | \$ 7,372,251 | \$ 7,961,734 |

**9. LONG-TERM DEBT**

At December 31, 2010 and 2009, long-term debt consists of the following:

|  | <b>2010</b> | <b>2009</b>  |
|--|-------------|--------------|
| <b>Long-term debt, due to co-venturer (RAM):</b> |             |              |
| Promissory notes                                 | \$          | \$ 1,450,087 |
| Less current portion                             |             | (1,450,087)  |
|  | \$          | \$           |

**Long-term debt, due to co-venturer (RAM).** As a result of the joint venture membership agreement modification discussed in Note 1, payables due from GEM to each member were adjusted to reflect a total payable due to RAM of \$8.5 million, including \$2.7 million reported as equity, and a total payable due to the Company of \$11.9 million, including \$2.7 million reported as equity, resulting in the recognition of a net pre-tax gain of \$1.4 million, which was recorded in September 2009. In addition, the GEM members agreed that distributions to the members would be made on a 50/50 basis to both members until such time RAM's member payable had been fully repaid and thereafter 70% to the Company and 30% to RAM until such time as the remaining payable to us was repaid. Thereafter, distributions to members were made on a 50/50 basis. Also, no further interest accruals were made on any member's payables. As of March 31, 2010, RAM's member payable had been paid and as of August 30, 2010, FHR's member payable had also been paid.



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**Reducing revolving loan (the Revolver ).** The maximum committed amount under the Revolver was increased from \$8.1 million to \$8.9 million, based upon the amendment to the Revolver dated June 25, 2009, and the repayment terms were amended (as discussed below). The maximum amount permitted to be outstanding under the Revolver decreased \$312,000 on July 1, 2009, and any outstanding amounts above such reduced maximum must be repaid. Effective January 1, 2010, based upon the amendment to the Revolver, the maximum amount permitted to be outstanding decreases \$329,000 semiannually on January 1 and July 1 of each year and any outstanding amounts above such reduced maximum must be repaid on each such date. Draws on the Revolver are payable over 15 years at a variable interest rate based on the five year LIBOR/Swap rate plus 2.1%. This rate adjusts annually based on the funded debt to EBITDA ratio of Stockman's with adjustments based on the five-year LIBOR/Swap rates. Stockman's assets are pledged as collateral for the loan. The Revolver also contains certain customary financial representations and warranties and requires that Stockman's maintain specified financial covenants, including a fixed charge coverage ratio, a funded debt to EBITDA ratio and a minimum tangible net worth. In addition, the loan agreement limits the amount of distributions from and capital expenditures by Stockman's. The loan agreement also provides for customary events of default including payment defaults and covenant defaults. As of December 31, 2010 and December 31, 2009, there were no amounts drawn on the Revolver, and the Company was in full compliance with the debt covenants. As of December 31, 2010, the Company had \$7.9 million available and unused under its revolving credit line. The covenants in the Credit Agreement (described below) require the Company to terminate the Revolver at least two business days prior to the Wells Fargo loan initial funding date of the Credit Agreement.

**Peters Family Trust Promissory Note.** On June 30, 2009, the Company paid off the Peters Family Trust promissory note of \$0.7 million plus \$4,477 in accrued interest with a drawdown of the Revolver. The original amount of the promissory note was \$1.25 million and was payable to the seller of Stockman's in 60 monthly installments of principal and interest and secured by a second lien on the real estate of Stockman's, which was released effective July 9, 2009.

**Credit Agreement with Wells Fargo.** On October 29, 2010, the Company, as borrower, entered into a Credit Agreement (the Credit Agreement ) with the financial institutions listed therein (the Lenders ) and Wells Fargo Bank, National Association as administrative agent for the Lenders, as collateral agent for the Secured Parties (as defined in the Credit Agreement), as security trustee for the Lenders, as Letters of Credit Issuer and as Swing Line Lender. On December 17, 2010, the Company entered into a Commitment Increase Agreement and related Assignment Agreements with Wells Fargo and certain Lenders (the Commitment ). The Commitment increases the funds available under the Credit Agreement from \$36.0 million to \$38.0 million, consisting of a \$33.0 million term loan and a revolving line of credit of \$5.0 million. All other terms of the Credit Agreement remain materially unchanged. Funds borrowed under the Credit Agreement will be used to fund the Company's previously announced \$43.0 million acquisition, exclusive of approximately \$8.0 million of cash on hand and net working capital, of the Grand Victoria Casino and Resort in Rising Sun, Indiana ( Grand Victoria ). The closing of the Grand Victoria acquisition and the initial funding under the Credit Agreement are subject to the satisfaction of certain conditions precedent, including among other things the receipt of all applicable gaming approvals. We currently anticipate being licensed in the state of Indiana in mid-March, however no assurance can be given that such conditions will be satisfied or that the acquisition will close.

On or prior to the initial funding date, the Credit Agreement will be secured by substantially all of the Company's assets. The Company's wholly-owned subsidiaries will guarantee the obligations of the Company under the Credit Agreement. Once funding occurs, the Company will pay interest under the Credit Agreement at either the Base Rate or the LIBOR Rate set forth in the Credit Agreement. The Base Rate means, on any day, the greatest of (a) Wells Fargo's prime rate in effect on such day, (b) the Federal Funds Rate in effect on the business day prior to such day plus one and one half percent (1.50%) and (c) the One Month LIBOR Rate for such day (determined on a daily basis as set forth in the Credit Agreement) plus one and one-half percent (1.50%). LIBOR Rate means a rate per annum equal to the quotient (rounded upward if necessary to the nearest 1/16 of one percent) of (a) the greater of (1) 1.50% and (2) the rate per annum referred to as the BBA (British Bankers Association) LIBOR RATE divided by (b) one minus the reserve requirement set forth in the Credit Agreement for such loan in effect from time to time.



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The Credit Agreement contains customary negative covenants for transactions of this type, including, but not limited to, restrictions on the Company's and its subsidiaries' ability to: incur indebtedness; grant liens; pay dividends and make other restricted payments; make investments; make fundamental changes; dispose of assets; and change the nature of their business. The negative covenants are subject to certain exceptions as specified in the Credit Agreement.

**10. STOCKHOLDERS' EQUITY**

Pursuant to a stock repurchase plan (the "Repurchase Plan") adopted in 2008, the Company's board of directors authorized the repurchase of up to \$2.0 million of the Company's common stock, and extended the expiration of the Repurchase Plan to April 30, 2009. Through December 31, 2009, the Company had repurchased 1,356,595 shares at a weighted average-price per share of \$1.22 (\$1.6 million, including commissions and other related transaction costs). The Repurchase Plan expired April 30, 2009, and therefore is no longer in effect.

On May 31, 2010, the Board of Directors authorized the Company to repurchase up to \$1.0 million in additional common stock of the Company at a price not to exceed \$3.00 per share subject to management's discretion. This authorization expired on December 31, 2010, without any shares being repurchased and is no longer effective.

**11. INCOME TAXES**

The income tax provision consists of the following:

|           |         | <b>2010</b>  | <b>2009</b>  |
|-----------|---------|--------------|--------------|
| Current:  | Federal | \$ 3,587,094 | \$ 2,255,965 |
|           | State   | 1,777,895    | 609,857      |
|           |         | 5,364,989    | 2,865,822    |
| Deferred: | Federal | 354,076      | 223,572      |
|           | State   | 20,365       | 95,561       |
|           |         | 374,441      | 319,133      |
|           |         | \$ 5,739,430 | \$ 3,184,955 |

A reconciliation of the income tax provision relative to continuing operations with amounts determined by applying the statutory U.S. Federal income tax rate of 34% to consolidated income before income taxes is as follows:

|                                      | <b>2010</b>  | <b>2009</b>  |
|--------------------------------------|--------------|--------------|
| Tax provision at U.S. statutory rate | \$ 4,562,113 | \$ 2,704,086 |
| State taxes, net of federal benefit  | 1,310,630    | 519,203      |
| Other (benefit)                      | (133,313)    | (38,334)     |
|                                      | \$ 5,739,430 | \$ 3,184,955 |

At December 31, 2010 and 2009, the Company's deferred tax assets (liabilities) consist of the following:

|                                 | <b>2010</b> | <b>2009</b> |
|---------------------------------|-------------|-------------|
| Deferred tax assets:            |             |             |
| Deferred compensation           | \$          | \$ 37,186   |
| Prepaid expenses and accruals   | 101,417     | 84,479      |
| Allowance for doubtful accounts |             | 364         |
| Depreciation of fixed assets    |             | 36,931      |
| Other                           |             | 53,487      |



|   |                |                |
|---|----------------|----------------|
|   | 101,417        | 212,447        |
| Deferred tax liabilities:   |                |                |
| Interest in partnerships  | (70,023)       | (74,743)       |
| Amortization of gaming rights and unrealized gain on tribal receivables | (1,001,954)    | (946,274)      |
| Amortization of goodwill  | (929,003)      | (694,830)      |
| Other   | (109,353)      | (116,559)      |
|   | (2,110,333)    | (1,832,406)    |
|   | \$ (2,008,916) | \$ (1,619,959) |

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Management has made an annual analysis of its state and federal tax returns that remain subject to examination by major authorities (presently consisting of tax years 2006 through 2009) and concluded that the Company has no recordable liability as of December 31, 2010 or 2009, for unrecognized tax benefits as a result of uncertain tax positions taken.

**12. COMMITMENTS**

**Operating leases.** In November 2009, the Company entered into an agreement to lease office space as lessee through July 31, 2013. Effective December 31, 2010, Stockman's entered into a lease agreement as lessee for its primary outdoor casino sign until November, 2015.

The total rent expense for all operating leases as of December 31, 2010 and 2009 was \$0.1 million.

Future minimum lease payments are as follows:

|      |            |
|------|------------|
| 2011 | \$ 112,006 |
| 2012 | 108,402    |
| 2013 | 87,401     |
| 2014 | 47,448     |
| 2015 | 43,494     |
|      | \$ 398,751 |

**Employment agreements.** The Company is obligated under employment agreements with certain key employees that provide the employee with a base salary, bonus, restricted stock grants and other customary benefits and severance in the event the employee is terminated without cause or due to a change of control, as defined in the agreements. The severance amounts vary with the term of the agreement and can be up to two years' base salary and an average bonus calculated as earned in the previous three years. If such termination occurs within two years of a change of control, as defined in the agreements, or by the Company without cause, the employee will receive a lump sum payment equal to no less than one year's annual base salary, a lump sum cash payment equal to the average bonus earned in the previous two to three years, and the acceleration and vesting of all unvested shares and stock-based grants awarded upon the date of change of control, along with insurance costs, 401(k) matching contributions and certain other benefits total ranging from \$1.8 million to \$1.9 million, in the aggregate.

In the event the employee's employment terminates due to illness, incapacity or death, the severance amounts vary with the term of the agreement and can be up to two years' base salary, an amount equal to the prior year bonus on a pro-rata basis to date of termination, reimbursement of expenses incurred prior to date of termination, and applicable insurance and other group benefit proceeds, including those due under any Company long-term disability plan with an expected cost ranging from \$0.1 million to \$0.8 million per employee.

**Defined Contribution Pension Plan.** The Company sponsors a defined contribution pension plan for all eligible employees providing for voluntary contributions by eligible employees and matching contributions by the Company. Matching contributions made by the Company were \$0.1 million for 2010 and 2009, excluding nominal administrative expenses assumed by the Company.

**Table of Contents****13. SHARE-BASED COMPENSATION PLANS**

In 2006, the Company's stockholders approved the 2006 Incentive Compensation Plan (the "Plan"), authorizing the issuance of up to 1,100,000 restricted shares of the Company's common stock as incentive compensation to officers, directors and consultants. In 2008, the number of shares allocated to the Plan was increased to a total of 1,200,000. At the time of the initial authorization of the Plan in 2006, the Company's compensation committee also approved the issuance of 668,000 shares of restricted stock pursuant to the Plan, then valued at the closing price of the Company's stock (\$3.25), with no discount. Of the total shares granted, 145,500 immediately vested and the remaining 522,500 vested through February 2010, upon certain conditions including continuous service of the recipient. The unvested grants are viewed as a series of individual awards and the related share-based compensation expense was initially recorded as deferred compensation expense, reported as a reduction of stockholder's equity, and will subsequently be amortized into compensation expense on a straight-line basis as services are provided over the vesting period.

Also in 2006, the Company entered into a consulting agreement with Lee Iacocca, one of its directors, for consulting services to the Company related to marketing and advertising through 2009 in exchange for 300,000 restricted shares of the Company's common stock which vested and amortized on a straight-line basis as compensation in equal amounts over the three-year term of the agreement.

In the second quarter of 2010 and 2009, the Company issued 6,000 and 8,000 shares of unrestricted stock in conjunction with director compensation, which was valued at \$17,460 and \$20,400 based on the closing price of the Company's stock of \$2.91 and \$2.55, with no discount. Since the shares were fully vested at the date of grant, the Company recognized share-based compensation expense of \$17,460 and \$20,400 related to these grants.

At December 31, 2009, the Company recorded deferred share-based compensation of \$16,683, which was amortized through February 2010. At December 31, 2010 the Company has no recorded deferred share-based compensation expense.

The following table summarizes the Company's restricted stock activity relative to share-based compensation for 2010 and 2009:

|                               | <b>2010</b>   |  | <b>2009</b>   |  |
|-------------------------------|---------------|--|---------------|--|
|                               | <b>Shares</b> | <b>Weighted<br/>average<br/>grant date<br/>value (per<br/>share)</b> | <b>Shares</b> | <b>Weighted<br/>average<br/>grant date<br/>value (per<br/>share)</b> |
| Unvested at beginning of year | 36,667        | \$ 3.64  | 275,419       | \$ 3.53  |
| Vested                        | (36,667)      | 3.64   | (238,752)     | 3.51   |
| Forfeited                     |               |  |               |  |
| Unvested at end of year       |               |  | 36,667        | 3.64   |

**14. CONTINGENCIES**

**Acquisition.** On September 10, 2010, the Company entered into definitive agreements with Grand Victoria Casino & Resort, LP to acquire all of the operating assets of the Grand Victoria, located in Rising Sun, Indiana on the Ohio River. The purchase price is \$43.0 million, exclusive of estimated cash and net working capital balances of \$8.0 million and fees and expenses as of the closing date. The Company entered into the Credit Agreement with Wells Fargo on October 29, 2010, as discussed in Note 9, and regulatory approvals are expected to be obtained to accommodate a closing early in the second quarter of 2011.

Through December 31, 2010, the Company incurred \$0.2 million in acquisition related expenses which are included in project development expense. On September 10, 2010, the Company deposited the \$0.5 million initial deposit toward the \$43.0 million purchase price with an escrow agent and an additional \$4.5 million was deposited on October 29, 2010. This deposit is not refundable. In conjunction with closing on the financing commitment, the Company paid

\$2.0 million in financing related fees. As a result, we plan to use approximately \$11.7 million of additional cash to complete the transaction.

**Table of Contents****15. SEGMENT REPORTING**

The Company's operations are composed of three primary business segments. The casino operations segment includes the Stockman's Casino operation in Fallon, Nevada. The development/management segment includes costs associated with tribal casino development and management projects and the Michigan and Delaware joint ventures and includes the current year impairment loss on Montana's receivable and contract rights of approximately \$0.7 million. The Corporate segment includes general and administrative expenses of the Company.

Selected statement of operations data as of and for 2010 and 2009 is as follows:

|   |    | <b>Casino</b>     | <b>Development/</b> |                  |                     |
|---|----|-------------------|---------------------|------------------|---------------------|
| <b>2010</b>                                 |    | <b>operations</b> | <b>management</b>   | <b>Corporate</b> | <b>Consolidated</b> |
| Revenues                                    | \$ | 8,338,757         | \$ 24,558,372       | \$               | \$ 32,897,129       |
| Selling, general and administrative expense |    | 1,729,554         | 730,035             | 3,970,256        | 6,429,845           |
| Depreciation and amortization               |    | 960,675           | 2,372,781           | 87,800           | 3,421,256           |
| Operating gains                             |    |                   | 5,091,764           |                  | 5,091,764           |
| Operating income                            |    | 1,472,935         | 26,545,979          | (4,479,875)      | 23,539,039          |
| Income (loss) attributable to Company       |    | 976,664           | 9,680,712           | (2,988,129)      | 7,669,247           |

|   |    | <b>Casino</b>     | <b>Development/</b> |                  |                     |
|---|----|-------------------|---------------------|------------------|---------------------|
| <b>2009</b>                                 |    | <b>operations</b> | <b>management</b>   | <b>Corporate</b> | <b>Consolidated</b> |
| Revenues                                    | \$ | 9,048,686         | \$ 9,953,009        | \$ 10,988        | \$ 19,012,683       |
| Selling, general and administrative expense |    | 1,757,923         | 586,291             | 4,128,903        | 6,473,117           |
| Depreciation and amortization               |    | 984,824           | 1,019,919           | 85,351           | 2,090,094           |
| Operating gains                             |    |                   | 2,596,459           |                  | 2,596,459           |
| Operating income                            |    | 2,064,293         | 10,892,130          | (4,370,491)      | 8,585,932           |
| Income (loss) attributable to Company       |    | 1,365,673         | 6,301,194           | (2,898,628)      | 4,768,239           |

Selected balance sheet data as of December 31, 2010 and 2009 is as follows:

|                             |    | <b>Casino</b>     | <b>Development/</b> |                  |                     |
|-----------------------------|----|-------------------|---------------------|------------------|---------------------|
| <b>2010</b>                 |    | <b>operations</b> | <b>management</b>   | <b>Corporate</b> | <b>Consolidated</b> |
| Total assets                | \$ | 19,949,159        | \$ 16,705,051       | \$ 19,796,576    | \$ 56,450,786       |
| Property and equipment, net |    | 7,325,852         | 241                 | 46,158           | 7,372,251           |
| Goodwill                    |    | 10,308,520        |                     |                  | 10,308,520          |
| Liabilities                 |    | 1,319,064         | 1,621,394           | 715,481          | 3,655,939           |

|                             |    | <b>Casino</b>     | <b>Development/</b> |                  |                     |
|-----------------------------|----|-------------------|---------------------|------------------|---------------------|
| <b>2009</b>                 |    | <b>operations</b> | <b>management</b>   | <b>Corporate</b> | <b>Consolidated</b> |
| Total assets                | \$ | 19,800,305        | \$ 22,790,171       | \$ 8,995,110     | \$ 51,585,586       |
| Property and equipment, net |    | 7,834,951         | 818                 | 125,965          | 7,961,734           |
| Goodwill                    |    | 10,308,520        |                     |                  | 10,308,520          |
| Liabilities                 |    | 1,125,099         | 2,871,553           | 2,632,008        | 6,628,660           |

**16. SUBSEQUENT EVENTS**

On January 7, 2011, in conjunction with the Wells Fargo Credit agreement, the Company entered into a Lender Rate Contract (hedge agreement) to provide coverage of \$20.0 million of the term loans as required by the facility.

In March 2011, the FireKeepers Development Authority announced that it plans to construct a 240 room resort style hotel on the FireKeepers Casino site. The project is in its final design stage, is expected to break ground in spring

2011 and is anticipated to open in late summer of 2012.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures** As of December 31, 2010, we completed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer/Chief Operating Officer of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer/Chief Operating Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level in timely alerting them to material information relating to us which is required to be included in our periodic Securities and Exchange Commission filings.

**Evaluation of Internal Control Over Financial Reporting** Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting (as defined in the Securities Exchange Act of 1934 Rule 13a-15(f) and 15d-15(f)) as of December 31, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item will be set forth under the captions Proposal No. 1. Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance in the definitive Proxy Statement for our 2011 Annual Meeting of Stockholders (our Proxy Statement) to be filed with the Securities and Exchange Commission on or before April 30, 2011 and is incorporated herein by this reference.

**Item 11. Executive Compensation.**

The information required by this Item will be set forth under the caption Executive Compensation in our Proxy Statement and is incorporated herein by this reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item will be set forth under the captions Proposal No. 1. Election of Directors Security Ownership of Certain Beneficial Owners and Management and Executive Compensation Equity Compensation Plan Information in our Proxy Statement and is incorporated herein by this reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by this Item will be set forth under the caption Certain Transactions in our Proxy Statement and is incorporated herein by this reference.

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**Item 14. Principal Accountants Fees and Services.**

The information required by this Item will be set forth under the caption Independent Registered Public Accounting Firm in our Proxy Statement and will be incorporated herein by this reference when submitted.



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**Item 15. Exhibits.**

- (a) Financial statements of the Company (including related notes to consolidated financial statements) filed as part of this report are listed below:  
 Report of Independent Registered Public Accounting Firm;  
 Consolidated Balance Sheets as of December 31, 2010 and 2009;  
 Consolidated Statements of Operations for the years ended December 31, 2010 and 2009;  
 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010 and 2009;  
 Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009;  
 Notes to Consolidated Financial Statements.
- (b) Exhibits

| <b>Exhibit Number</b> | <b>Exhibit Description</b>  |
|-----------------------|---|
| 2.1                   | Asset Purchase Agreement by and between Grand Victoria Casino & Resort, L.P. and Full House Resorts, Inc., dated as of September 10, 2010 (Incorporated by reference to Exhibit 2.1 to Full House's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2010. ) |
| 3.1                   | Certificate of Incorporation as amended to date (Incorporated by reference to Exhibit 3.1 to Full House's registration statement on Form SB-2 (#333-136341) filed on August 4, 2006)  |
| 3.2                   | Amended and Restated Bylaws of Full House Resorts Inc. (Incorporated by reference to Exhibit 3.1 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 4, 2008)   |
| 10.1                  | Amended and Restated Class III Management Agreement dated November 18, 1996 between Nottawaseppi Huron Band of Potawatomi and Gaming Entertainment (Michigan) LLC (Incorporated by reference to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 1996)                         |
| 10.2                  | Investor Agreement by and between Full House Resorts, Inc. and RAM Entertainment, LLC, dated February 15, 2002 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002)   |
| 10.3                  | Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated January 31, 1996 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)   |
| 10.4                  | Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated March 18, 1998 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)  |
| 10.5                  | Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated July 1, 1999 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)  |
| 10.6                  | Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated February 4, 2002 (Incorporated by reference to Full House's  |

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Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

- 10.7 Amendment to Investor Agreement by and between Full House Resorts, Inc. and RAM Entertainment, LLC, dated May 31, 2005 (Incorporated by reference to Exhibit 10.62 to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 2005)
- 10.8 Economic Development Agreement between Full House Resorts, Inc. and Northern Cheyenne Tribe dated May 24, 2005 (Incorporated by reference to Exhibit 10.63 to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 2005)

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.9                  | Development Agreement by and among Pueblo of Nambé, Nambé Pueblo Gaming Enterprise Board and Gaming Entertainment (Santa Fe), LLC dated as of September 20, 2005 (Incorporated by reference to Exhibit 10.64 to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 2005)                        |
| 10.10                 | Security and Reimbursement Agreement by and among the Nambé Pueblo Gaming Enterprise Board, Gaming Entertainment (Santa Fe), LLC and the Pueblo of Nambé dated as of September 20, 2005 (Incorporated by reference to Exhibit 10.65 to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 2005) |
| 10.11                 | Class III Gaming Management Agreement between the Northern Cheyenne Tribe and Gaming Entertainment (Montana), LLC dated January 20, 2006 2005 (Incorporated by reference to Exhibit 10.67 to Full House's Annual Report on Form 10-KSB for the fiscal ended December 31, 2005)   |
| 10.12                 | Development Agreement by and between the Northern Cheyenne Tribe and Full House Resorts, Inc. dated May 24, 2005. (Incorporated by reference to Exhibit 10.68 to Full House's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2006)  |
| 10.13                 | Security and Reimbursement Agreement by and between the Northern Cheyenne Tribe and Full House Resorts, Inc. dated August 23, 2005. (Incorporated by reference to Exhibit 10.69 to Full House's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2006)  |
| 10.14                 | Management Agreement between Nottawaseppi Huron Band of Potawatomi and Gaming Entertainment (Michigan), LLC dated June 12, 2006. (Incorporated by reference to Exhibit 10.70 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 16, 2006)                           |
| 10.15                 | Loan Agreement between Nottawaseppi Huron Band of Potawatomi and Gaming Entertainment (Michigan), LLC dated November 3, 2002. (Incorporated by reference to Exhibit 10.71 to Full House's Registration Statement on Form SB-2 (#333-136341) filed on August 4, 2006)   |
| 10.16                 | Security Agreement between Nottawaseppi Huron Band of Potawatomi and Gaming Entertainment (Michigan), LLC dated November 3, 2002. (Incorporated by reference to Exhibit 10.72 to Full House's Registration Statement on Form SB-2 (#333-136341) filed on August 4, 2006)   |
| 10.17                 | Promissory Note by the Nottawaseppi Huron Band of Potawatomi dated November 3, 2002. (Incorporated by reference to Exhibit 10.73 to Full House's Registration Statement on Form SB-2 (#333-136341) filed on August 4, 2006)  |
| 10.18                 | 2006 Incentive Compensation Plan (Incorporated by reference to Appendix E to Full House's Definitive Proxy Statement as filed with the Securities and Exchange Commission on May 1, 2006)  |

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- 10.19 Form of Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.75 to Full House's Quarterly Report on Form 10-QSB as filed with the Commission on August 14, 2006)
- 10.20 Consulting Agreement dated September 25, 2006 between Full House and Lee Iacocca. (Incorporated by reference to Exhibit 10.66 to Full House's Amendment No. 1 to Registration Statement on Form SB-2 (#333-136341) filed on September 27, 2006)
- 10.21 Reducing Revolving Loan Agreement, dated January 31, 2007 between Full House Resorts, Inc. and Nevada State Bank. (Incorporated by reference to Exhibit 10.80 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 2007)
- 10.22 Reducing Revolving Promissory Note, dated January 31, 2007 by Full House Resorts in favor of Nevada State Bank. (Incorporated by reference to Exhibit 10.81 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 5, 2007)
- 10.23 Purchase and Sale Agreement, dated May 15, 2007, between Gaming Entertainment (Michigan), LLC and Green Acres Casino Management, Inc. (Incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 31, 2007)

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| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 10.24                 | Management Reorganization Agreement, dated June 18, 2007 by Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. (Incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 21, 2007)   |
| 10.25                 | Employment Agreement, dated July 17, 2007, between Full House Resorts, Inc. and Andre Hilliou. (Incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 20, 2007) +  |
| 10.26                 | Employment Agreement, dated July 17, 2007, between Full House Resorts, Inc. and Mark J. Miller. (Incorporated by reference to Exhibit 10.2 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 20, 2007) +   |
| 10.27                 | Employment Agreement, dated April 10, 2007, between Full House Resorts, Inc. and Wes Elam (Incorporated by reference to Exhibit 10.3 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 26, 2007) +  |
| 10.28                 | Amendment to Reducing Revolving Loan Agreement dated as of the 25th day of June, 2009, by and between the Company and Nevada State Bank. (Incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 1, 2009)   |
| 10.29                 | Amendment to Reducing Revolving Promissory Note dated as of the 25th day of June, 2009, by and between the Company and Nevada State Bank. (Incorporated by reference to Exhibit 10.2 to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 1, 2009)  |
| 10.30                 | Credit Agreement dated October 29, 2010 by and among Full House Resorts, Inc., the financial institutions from time to time listed therein (the Lenders) and Wells Fargo Bank, National Association as administrative agent for the Lenders, collateral agent for the Secured Parties (as defined in the Credit Agreement), security trustee for the Lenders, Letters of Credit Issuer and Swing Line Lender (incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 2, 2010). |
| 10.31                 | Commitment Increase Agreement dated December 17, 2010 by and among the Company, Bank of Nevada and Wells Fargo (incorporated by reference to Exhibit 10.1 to Full House's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2010).  |
| 10.32                 | Assignment Agreement dated December 17, 2010 by and among the Company, Bank of Nevada and Wells Fargo (incorporated by reference to Exhibit 10.2 to Full House's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 20, 2010).   |
| 10.33                 | Assignment Agreement dated December 17, 2010 by and among the Company, Bank of Nevada, Capital One, N.A. and Wells Fargo (incorporated by reference to Exhibit 10.3 to Full House's Current Report on Form 8-K filed with the Securities and Exchange Commission on  |

December 20, 2010).

- 21 List of Subsidiaries of Full House Resorts, Inc. \*
- 23 Consent of Piercy Bowler Taylor & Kern Certified Public Accountants \*
- 31.1 Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*
- 31.2 Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*
- 32.1 Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*
- 32.2 Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

\* Filed herewith.

+ Executive compensation plan or arrangement

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**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

FULL HOUSE RESORTS, INC.

Date: March 7, 2011

By: /s/ ANDRE M. HILLIOU  
Andre M. Hilliou,  
Chief Executive Officer

In accordance with the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <b>Name and Capacity</b>  | <b>Date</b>   |
|---|---------------|
| /s/ ANDRE M. HILLIOU  | March 7, 2011 |
| Andre M. Hilliou,<br>Chief Executive Officer and<br>Director Chairman of the Board<br>(Principal Executive Officer) |               |
| /s/ LEE A. IACocca  | March 7, 2011 |
| Lee A. Iacocca,<br>Director   |               |
| /s/ KEN ADAMS   | March 7, 2011 |
| Ken Adams,<br>Director  |               |
| /s/ CARL G. BRAUNLICH   | March 7, 2011 |
| Carl G. Braunlich,<br>Director  |               |
| /s/ KATHLEEN CARACCILO  | March 7, 2011 |
| Kathleen Caracciolo,<br>Director  |               |
| /s/ MARK J. MILLER  | March 7, 2011 |
| Mark J. Miller,<br>Chief Financial Officer and COO<br>(Principal Financial and Accounting Officer)                  |               |