FULL HOUSE RESORTS INC
Form 10-Q
August 10, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.

(Exact name of registrant as specified in its charter)

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

(702) 221-7800

(Registrant s telephone number, including area code)

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

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

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

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

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

As of August 9, 2011, there were 18,673,681 shares of Common Stock, $.0001 par value per share, outstanding.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets		
Cash and equivalents	$ 11,547,586	$ 13,294,496
Accounts receivable, net of allowance for doubtful accounts of $1,060,473 and $0	3,204,377	2,276,422
Income taxes receivable		598,886
Prepaid expenses	4,626,867	796,858
Deposits and other	504,263	208,227
	19,883,093	17,174,889
Property and equipment, net of accumulated depreciation of $8,462,389 and $6,888,958	37,652,418	7,372,251
Long-term assets related to tribal casino projects		
Notes receivable	419,703	427,567
Contract rights, net of accumulated amortization of $5,306,877 and $4,120,775	12,058,709	13,244,811
	12,478,412	13,672,378
Other long-term assets		
Goodwill	11,955,718	10,308,520
Intangible assets, net of accumulated amortization of $610,443 and $96,087	14,329,119	2,564,154
Long-term deposits	214,912	5,166,112
Other assets	262,328	192,482
	26,762,077	18,231,268
	$ 96,776,000	$ 56,450,786
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Current portion of long-term debt	$ 6,600,000	$
Accounts payable	1,387,903	181,604
Income tax payable	662,627	384,333
Accrued payroll and related	2,893,658	750,346
Other accrued expenses	2,493,443	229,323
	14,037,631	1,545,606
Long-term debt, net of current portion	25,100,343	

Deferred tax liability	1,913,885	2,110,333
	41,051,859	3,655,939
Stockholders equity		
Common stock, $.0001 par value, 25,000,000 shares authorized; 20,030,276 and 19,364,276 shares issued	2,003	1,936
Additional paid-in capital	42,826,996	42,699,533
Treasury stock, 1,356,595 common shares	(1,654,075)	(1,654,075)
Retained earnings	9,168,891	6,164,927
	50,343,815	47,212,321
Non-controlling interest in consolidated joint venture	5,380,326	5,582,526
	55,724,141	52,794,847
	$ 96,776,000	$ 56,450,786

See notes to unaudited consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenues				
Casino	$ 23,212,583	$ 1,574,987	$ 24,753,635	$ 3,286,999
Food and beverage	1,373,777	445,254	1,786,360	862,445
Hotel	207,173		207,173	
Management fees	5,912,434	6,018,598	12,276,676	12,180,704
Other operations	418,203	19,628	444,552	39,549
	31,124,170	8,058,467	39,468,396	16,369,697
Operating costs and expenses				
Casino	13,011,458	547,475	13,533,914	1,083,382
Food and beverage	1,366,867	495,879	1,839,641	982,904
Hotel	180,707		180,707	
Other operations	1,268,607		1,268,607	
Project development and acquisition costs	86,059	68,126	617,867	135,804
Selling, general and administrative	6,989,450	1,515,932	8,643,158	3,281,664
Depreciation and amortization	2,052,141	859,634	2,903,885	1,720,976
	24,955,289	3,487,046	28,987,779	7,204,730
Operating gains (losses)				
Equity in net income of unconsolidated joint venture, and related guaranteed payments	693,709	649,435	2,189,031	2,091,551
Unrealized losses on notes receivable, tribal governments	(32,439)	(20,354)	(7,864)	(31,118)
	661,270	629,081	2,181,167	2,060,433
Operating income	6,830,151	5,200,502	12,661,784	11,225,400
Other income (expense)				
Interest expense	(917,844)	(3,655)	(1,128,478)	(7,311)
Fair value adjustment of derivative instrument	(350,343)		(350,343)	
Other income (expense), net	(1,889)	1,443	(1,502)	114,284
Income before income taxes	5,560,075	5,198,290	11,181,461	11,332,373
Income taxes	1,457,134	1,229,760	2,863,997	2,768,409
Net income	4,102,941	3,968,530	8,317,464	8,563,964
Income attributable to noncontrolling interest in consolidated joint venture	(2,706,421)	(2,497,415)	(5,313,500)	(5,084,232)
Net income attributable to the Company	$ 1,396,520	$ 1,471,115	$ 3,003,964	$ 3,479,732

Net income attributable to the Company per common share	$ 0.08	$ 0.08	$ 0.17	$ 0.19
Weighted average number of common shares outstanding	18,223,081	18,004,414	18,115,381	18,003,048

See notes to unaudited consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six months ended June 30, 2011	Common stock Shares	Common stock Dollars	Additional paid-in capital	Treasury stock Shares	Treasury stock Dollars	Retained earnings	Non-controlling interest	Total stockholders Equity
Beginning balances	19,364,276	$ 1,936	$ 42,699,533	1,356,595	$ (1,654,075)	$ 6,164,927	$ 5,582,526	$ 52,794,847
Issuance of share based compensation	660,000	66	(66)					
Previously deferred share-based compensation recognized			103,470					103,470
Issuance of common stock	6,000	1	24,059					24,060
Distribution to non-controlling interest in consolidated joint venture							(5,515,700)	(5,515,700)
Net income						3,003,964	5,313,500	8,317,464
Ending balances	20,030,276	$ 2,003	$ 42,826,996	1,356,595	$ (1,654,075)	$ 9,168,891	$ 5,380,326	$ 55,724,141

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Six months ended June 30, 2010	Common stock Shares	Common stock Dollars	Additional paid-in capital	Treasury stock Shares	Treasury stock Dollars	Retained earnings (deficit)	Non-controlling Interest	Total stockholders Equity
Beginning balances	19,358,276	$ 1,936	$ 42,665,390	1,356,595	$ (1,654,075)	$ (1,504,320)	$ 5,447,995	$ 44,956,926
Previously deferred share-based compensation recognized			16,683					16,683
Issuance of common stock	6,000		17,460					17,460
Distribution to non-controlling interest in consolidated joint venture							(4,774,514)	(4,774,514)

Net income						3,479,732	5,084,232	8,563,964
Ending balances	19,364,276	$ 1,936	$ 42,699,533	1,356,595	$ (1,654,075)	$ 1,975,412	$ 5,757,713	$ 48,780,519

See notes to unaudited consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June, 30, 2011	2010
Net cash provided by operating activities	$ 11,244,568	$ 7,688,105
Cash flows from investing activities:		
Purchase of property and equipment	(649,364)	(309,797)
Proceeds from repayment of tribal advances		5,000,000
Grand Victoria acquisition	(19,514,157)	
Proceeds from sale of assets		1,200
Other assets	(82,778)	
Net cash provided by (used in) investing activities	(20,246,299)	4,691,403
Cash flows from financing activities:		
Payments on long-term debt to joint venture affiliate		(1,450,087)
Proceeds from borrowing	15,103,891	
Repayment of long-term debt	(1,650,000)	
Distributions to non-controlling interest in consolidated joint venture	(5,515,701)	(4,774,514)
Loan fees	(646,542)	
Other	(36,827)	
Net cash provided by (used in) financing activities	7,254,821	(6,224,601)
Net increase (decrease) in cash and equivalents	(1,746,910)	6,154,907
Cash and equivalents, beginning of period	13,294,496	9,198,399
Cash and equivalents, end of period	$ 11,547,586	$ 15,353,306

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	2011	2010
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 725,948	$
Cash paid for income taxes	$ 2,752,118	$ 5,279,760
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment financed with prior year deposit	$ 5,000,000	$ 94,784
Deposit and other costs of Grand Victoria acquisition made through term loan	$ 17,896,109	$

See notes to unaudited consolidated financial statements.

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

1. BASIS OF PRESENTATION

The interim consolidated financial statements of Full House Resorts, Inc. and subsidiaries (collectively, FHR or the Company) included herein reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. Certain information normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America has been omitted pursuant to the interim financial information rules and regulations of the United States Securities and Exchange Commission.

These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed March 7, 2011, for the year ended December 31, 2010, from which the balance sheet information as of that date was derived. Certain minor reclassifications to amounts previously reported have been made to conform to the current period presentation, none of which affected previously reported net income or earnings per share attributable to the Company. The results of operations for the period ended June 30, 2011, are not necessarily indicative of results to be expected for the year ending December 31, 2011.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including Gaming Entertainment (Indiana) LLC (Grand Victoria) and Stockman s Casino (Stockman s). Gaming Entertainment (Michigan), LLC (GEM), a 50%-owned investee of the Company that is jointly owned by RAM Entertainment, LLC (RAM), has been consolidated pursuant to the relevant portions of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 810, Consolidation. The Company accounts for its investment in Gaming Entertainment (Delaware), LLC (GED) (Note 3) using the equity method of accounting. All material intercompany accounts and transactions have been eliminated.

2. SHARE-BASED COMPENSATION

On June 1, 2011, the Company s compensation committee approved the issuance of 660,000 shares of restricted stock, then valued at the closing price of the Company s stock ($3.88), with no discount. The majority of the shares (600,000) will vest in two years, and will be fully vested on June 1, 2013. The remaining shares will vest over three years, 20,001 on June 1, 2012, 20,001 on June 1, 2013, and 19,998 on June 1, 2014. Vesting is contingent upon certain conditions, including continuous service of the individual recipients. 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. The Company recognized stock compensation expense of $103,470 and $0 for the three months ended June 30, 2011 and June 30, 2010, respectively, and $103,470 and $16,683 for the six months ended June 30, 2011 and June 30, 2010, respectively. Share based compensation expense related to the amortization of the restricted stock issued is included in selling, general and administrative expense.

In the second quarter of 2011 and 2010, the Company issued 6,000 shares of unrestricted stock in conjunction with director compensation, which was valued at $24,060 and $17,460 based on the closing price of the Company s stock of $4.01 and $2.91, with no discount. Since the shares were fully vested at the date of grant, the Company recognized share-based compensation expense of $24,060 and $17,460 related to these grants.

At June 30, 2011, the Company recorded deferred share-based compensation of $2,457,330. At June 30, 2010, the Company had no deferred share-based compensation recorded.

3. VARIABLE INTEREST ENTITIES

GED. 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. 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 the Company has limited exposure to risk of loss. Therefore, the Company does not consolidate, but accounts for, its investment using the equity method. The Company believes the maximum exposure to loss is the account receivable and investment in GED as GED carries no loans.

As of the balance sheet dates presented, the Company s assets and liabilities related to its investment in GED consisted of an amount due from HRI included in receivables of $22,663 as of June 30, 2011, and an accounts receivable of $0.7 million as of December 31, 2010 as part of the Management Reorganization Agreement s guaranteed payments for the three months ending June 30, 2011 and December 31, 2010, respectively. The investment in GED was $0.2 million as of June 30, 2011, and December 31, 2010, included in other assets.

GED has no non-operating income or expenses, is treated as a partnership for income tax reporting purposes and consequently recognizes no federal or state income tax provision. As a result, income from operations for GED is equal to its net income for each period presented, and there are no material differences between GED s income for financial and tax reporting purposes. An unaudited summary for GED s operations follows:

GED CONDENSED BALANCE SHEET INFORMATION

	June 30, 2011	December 31, 2010
Total assets	$ 500,451	$ 426,449
Total liabilities	49,406	41,487
Members capital	451,046	384,962

GED CONDENSED STATEMENT OF INCOME INFORMATION

	Three Months Ended:		Six Months Ended:	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues	$ 1,471,184	$ 1,867,461	$ 3,032,728	$ 3,612,351
Net income	1,332,095	1,724,966	2,754,524	3,335,072

GEM. The Company directs the day to day operational activities of GEM that significantly impact GEM s economic performance and therefore considers itself to be the primary beneficiary. As such, the joint venture is a variable interest entity that is consolidated in our financial statements.

Management believes the maximum exposure to loss from the Company s investment in GEM is $8.7 million (before tax impact), which is composed of contract rights and the Company s equity investment that is eliminated in consolidation. GEM has no debt or long-term liabilities. GEM s current assets include the FireKeepers management fee receivable for both dates presented. Long-term assets include $8.8 million and $9.6 million in contract rights as of June 30, 2011 and December 31, 2010, respectively.

An unaudited summary of GEM s operations follows:

GEM CONDENSED BALANCE SHEET INFORMATION

	June 30, 2011	December 31, 2010
Current assets	$ 2,059,209	$ 1,985,419
Long-term assets	8,764,168	9,626,458

Current liabilities	62,725	446,825

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GEM CONDENSED STATEMENT OF INCOME INFORMATION

	Three Months Ended:		Six Months Ended:	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Revenues	$ 5,912,434	$ 6,018,598	$ 12,276,676	$ 12,180,704
Net income	5,412,841	4,994,831	10,627,000	10,168,464

4. FAIR VALUE MEASUREMENTS

The carrying value of the Company s cash and cash equivalents and accounts payable approximate fair value because of the short maturity of those instruments. The estimated fair values of the Company s debt approximate their recorded values as of the balance sheet dates presented, based on level 2 inputs consisting of interest rates offered to the Company for loans of the same or similar remaining maturities and bearing similar risks.

Due to the absence of observable market quotes on the Company s notes receivable from tribal governments (Note 5), tribal notes receivable are recorded and subsequently re-measured and adjusted periodically to estimated fair value based only on level 3 inputs as defined in ASC Topic 820. These level 3 inputs are based primarily on management s estimates of expected cash flow streams, based on factors such as 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.

5. NOTES RECEIVABLE, TRIBAL GOVERNMENTS

The Company has a note receivable related to advances made to, or on behalf of, Nambé Pueblo to fund tribal operations and development expenses related to a potential casino project. Repayment of this note is conditioned upon the development of the project, and ultimately, the successful operation of a casino. Subject to such condition, the Company s agreements with the Nambe Pueblo tribe provide for the reimbursement of these advances plus applicable interest, if any, either from the proceeds of any outside financing of the development, and the actual operation itself.

Note receivable from tribal governments was as follows:

	June 30, 2011	**December 31, 2010**
Contractual (stated) amount of Nambé Pueblo note receivable	$ 661,600	$ 661,600
Estimated fair value of Nambé Pueblo note receivable	$ 419,703	$ 427,567

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In the first quarter of 2008, the Company received notice that the Nambé Pueblo tribal council had effectively terminated the business relationship with Full House. The development agreement between the Company and the Nambé Pueblo provides that the Company is entitled to recoup its advances from future gaming revenues, even if the Company does not ultimately develop the project. The Company is 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. 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 third quarter of 2011 with the expected facility opening during the second quarter of 2012. There can be no assurance that a facility will ever open or that the Company 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 June 30, 2011.

The following table summarizes changes in the estimated fair value of notes receivable from tribal governments, determined using level 3 estimated fair value inputs, from January 1, 2011 to June 30, 2011:

	Nambé Pueblo
Balances, January 1, 2011	$ 427,567
Unrealized gains (losses)	(7,864)
Balances, June 30, 2011	$ 419,703

6. GOODWILL & OTHER INTANGIBLES

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 and the Grand Victoria Hotel and Casino. Goodwill is $10.3 million and $1.6 million for Stockman s and Grand Victoria as of June 30, 2011, respectively. The Company s review of goodwill associated with the purchase of Stockman s as of June 30, 2011, resulted in approximately a 3% excess estimated fair value over the carrying amount of Stockman s goodwill and related assets using a 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. The Company continues to review goodwill on a quarterly basis and will recognize an impairment charge should earnings decline. The Company acquired the Grand Victoria on April 1, 2011 for approximately $43 million, before adjusting for working capital and cash acquired. The goodwill of $1.6 million is the excess purchase price over the assets purchased.

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Other Intangible Assets:

Other intangible assets, net consist of the following:

	June 30, 2011 (unaudited)			
	Estimated Life (years)	Gross Carrying Value	Accumulated Amortization	Intangible Asset (Net)
Amortizing Intangibles assets:				
Player Loyalty Program-Grand Victoria	3	$ 1,700,000	$ (141,667)	$ 1,558,333
Nevada State Bank Loan Fees-FHR	15	218,545	(218,545)	
Wells Fargo Bank Loan Fees-FHR	5	2,612,188	(250,230)	2,361,958
Non-amortizing intangible assets:				
Gaming License -Grand Victoria	Indefinite	9,900,000		9,900,000
Gaming License- Other	Indefinite	484,675		484,675
Trademark	Indefinite	24,153		24,153
		$ 14,939,561	$ (610,442)	$ 14,329,119

	December 31, 2010			
	Estimated Life (years)	Gross Carrying Value	Accumulated Amortization	Intangible Asset (Net)
Amortizing Intangibles assets:				
Nevada State Bank Loan Fees-FHR	15	$ 218,545	$ (96,087)	$ 122,458
Wells Fargo Bank Loan Fees-FHR	5	1,965,646		1,965,646
Non-amortizing intangible assets:				
Gaming License-Other	Indefinite	464,232		464,232
Trademark	Indefinite	11,818		11,818
		$ 2,660,241	$ (96,087)	$ 2,564,154

Player Loyalty Program

The player loyalty program represents the value of repeat business associated with Grand Victoria s loyalty program. The value of $1.7 million of the Grand Victoria gaming license is determined using a multi-period excess earning method of the income approach, which examines the economic returns contributed by the identified tangible and intangible assets of a company, and then isolates the excess return, which is attributable to the asset being valued, based on cash flows attributable to the player loyalty program. The valuation analysis for the active rated player was based on projected revenues and attrition rates. Grand Victoria maintains historical information for the proportion of revenues attributable to the rated players for gross gaming revenue.

Loan Fees

Loan fees incurred and paid as a result of debt instruments are accumulated and amortized over the term of the related debt, based on an effective interest method. Loan fees incurred for Nevada State Bank in the amount of $0.2 million resulted from the credit facility to purchase Stockman s Casino in 2007. In March 2011, the credit facility with Nevada

State Bank was terminated and the amortization of the loan fees was accelerated. The Company recognized amortization expense of $122,458 during the first quarter of 2011 as a result of the termination. On October 29, 2010, the Company entered into a Credit Agreement with Wells Fargo Bank. In December 2010, the Company entered into a Commitment Increase Agreement to increase the funds available under the Credit Agreement. Loan fees related to the Wells Fargo Bank debt were $2.6 million and will be amortized over the five-year term of the loan. The aggregate amortization expense was $243,715 and $3,655 for the three months ended June 30, 2011 and June 30, 2010, respectively; and $372,689 and $7,311 for the six months ended June 30, 2011 and June 30, 2010, respectively.

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Gaming Licenses

Gaming license rights represent the value of the license to conduct gaming in certain jurisdictions, which is subject to highly extensive regulatory oversight and a limitation on the number of licenses available for issuance. The value of $9.9 million of the Grand Victoria gaming license is determined using a multi-period excess earning method of the income approach, which examines the economic returns contributed by the identified tangible and intangible assets of a company, and then isolates the excess return, which is attributable to the asset being valued, based on cash flows attributable to the gaming license. The other gaming license values are based on actual costs. Gaming licenses are not subject to amortization as they have indefinite useful lives.

Trademark

Trademarks are based on the legal fees and recording fees related to the trademark of the Rising Sun Casino Resort & Hotel name, and variations of such name. Trademarks are not subject to amortization, as they have an indefinite useful life.

Current & Future Amortization

The Company amortizes its definite-lived intangible assets, including its player loyalty program, over their estimated useful lives. The aggregate amortization expense was $141,667 and $0 for the three months ended June 30, 2011 and June 30, 2010, respectively; and $141,667 and $0 for the six months ended June 30, 2011 and June 30, 2010, respectively.

Total amortization expense for intangible assets for the years ended December 30, 2011, 2012, 2013, 2014, 2015 and thereafter is anticipated to be approximately $1.3 million, $1.3 million, $1.1 million, $0.5 million, $0.2 million, and $12,400, respectively.

7. LONG-TERM DEBT

At June 30, 2011 and December 31, 2010, long-term debt consists of the following:

	2011	2010
Long-term debt, net of current portion:		
Term loan agreement, $33.0 million on October 29, 2010, maturing June 30, 2016, interest greater of 1 month LIBOR, or 1.5%, plus margin [4.5%-5.5%], LIBOR rates and margins are adjusted quarterly. (7.0% during quarter ended June 30, 2011)	$ 31,350,000	$
Swap agreement, $20.0 million on January 7, 2011, effective April 1, 2011, maturing April 1, 2016, interest received based on 1 month LIBOR, and paid at a fixed rate of 1.9% (1.65% net settlement rate during quarter ended June 30, 2011)	$ 350,343	$
Less current portion	(6,600,000)	
	$ 25,100,343	$

Credit Agreement with Wells Fargo. In 2010, the Company, as borrower, entered into a Credit Agreement, as amended, (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. The funds available under the Credit Agreement as of June 30, 2011 were $38.0 million, consisting of a $33.0 million term loan and a revolving line of credit of $5.0 million.

The initial funding date of the Credit Agreement occurred March 31, 2011, when the Company borrowed $33.0 million on the term loan which was used to fund the Company s acquisition of the Grand Victoria Casino & Resort in Rising Sun, Indiana (Grand Victoria) on April 1, 2011. The final maturity of the Credit Agreement is March 31, 2016.

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The revolving line of credit has no outstanding balance of as of June 30, 2011 and therefore, the Company had $4.8 million available for future use. The availability of the line decreases every three months by $250,000 until maturity on March 31, 2016.

The Company pays interest under the Credit Agreement at either the Base Rate or the LIBOR Rate set forth in the Credit Agreement which calculates a rate and then applies an applicable margin based on a leverage ratio. The leverage ratio is defined as the ratio of total funded debt as of such date to adjusted EBITDA for the four consecutive fiscal quarter periods most recently ended for which Financial Statements are available. 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%). The applicable margin on the Base Rate calculation ranges from 3.5% to 4.5%. 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 applicable margin on the LIBOR Rate calculation ranges from 4.5% to 5.5%. The Company has elected to use the LIBOR rate and for the three months ended June 30, 2011 the rate charged was 7.0%.

The Company is also required to pay a commitment fee on the last business day of each March, June, September and December. This is calculated as a percentage of all indebtedness of or attributable to the Company which ranges from 0.5% to 0.75% based on the leverage ratio. At June 30, 2011 the rate charged was 0.5%. The Credit Agreement is secured by substantially all of the Company s assets. The Company s wholly-owned subsidiaries, including Stockman s Casino and Grand Victoria Casino, guarantee the obligations of the Company under the Credit Agreement.

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 requires that the Company maintain specified financial covenants, including a total leverage ratio, a fixed charge coverage ratio and a minimum adjusted EBITDA. 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.

The Company has the ability to make optional prepayments under the term loan but may not re-borrow the principal of the term loan after payment. The Company is also required to make mandatory prepayments under the Credit Facility if certain events occur. These include: GEM receives any buy-out, termination fee or similar payment related to FireKeepers; or the Company sells or otherwise disposes of certain prohibited assets in any single transaction or series of related transactions and the net proceeds of such sale or other disposition which exceed $100,000; the Company issues or incurs any indebtedness for borrowed money, including indebtedness evidenced by notes, bonds, debentures or other similar instruments, issues or sells any equity securities or receives any capital contribution from any other source; or the Company receives any net insurance proceeds or net condemnation proceeds which exceed $250,000. The mandatory repayments are subject to certain exceptions as specified in the Credit Agreement.

Scheduled maturities of long-term debt as of the most recent balance sheet presented are as follows, for the annual periods ended June 30:

2012	$ 6,600,000
2013	6,600,000
2014	6,600,000
2015	6,600,000
2016	4,950,000

8. DERIVATIVE INSTRUMENTS

The Company is subject to interest rate risk to the extent we borrow against credit facilities with variable interest rates as described above. The Company has potential interest rate exposure with respect to the $33.0 million outstanding balance on our variable rate term loan. During January 2011, the Company reduced its exposure to changes in interest rates by entering into an interest rate swap agreement (Swap) with Wells Fargo Bank, N.A., which became effective on April 1, 2011. The Swap contract exchanges a floating rate for fixed interest payments periodically over the life of the Swap without exchange of the underlying $20.0 million notional amount. The interest payments under the Swap are settled on a net basis. The notional amount of the Swap is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. Our credit risk related to the Swap is considered low because the agreement is with a creditworthy financial institution. The Company does not hold or issue derivative financial instruments for trading purposes.

The Swap became effective April 1, 2011 and continues through April 1, 2016. The Company will pay interest at a fixed rate of 1.9% on the notional amount of $20.0 million, which will be reduced by $1.0 million quarterly in July, October, January and April of each year. The terms of the interest rate swap agreement also require Wells Fargo Bank to pay based upon the variable LIBOR rate. The net interest payments, based on the notional amount, will match the timing of the related liabilities. The Swap is not designated as a hedge for accounting purposes under ASC Topic 815, Derivatives and Hedging. The Company recognized the derivative as a liability on the balance sheet and is included in long-term debt, and marked the derivative to fair value through the income statement income as a fair value adjustment of the derivative. During the quarter ended June 30, 2011, the Company paid interest on the hedged portion of the debit ($20 million) at a net rate of 8.65%, and paid interest on the non-hedged portion of the debt ($13 million) at rate of 7.0%.

The following table presents the historical fair value of the interest rate swaps recorded in the accompanying condensed consolidated balance sheets as of June 30, 2011. The Company had no interest swap agreements during the fiscal year ended December 31, 2010.

			Fair Value of Liability		
Effective Date	Notional Amount	Net Settlement Rate	June 30, 2011	December 31, 2010	Maturity Date
April 1, 2011	$ 20,000,000	1.65%	$ 350,343	$	April 1, 2016
Totals	$ 20,000,000		$ 350,343	$	

Fair Value

Fair value approximates the amount we would pay if these contracts were settled at the respective valuation dates. Fair value is recognized based on estimates provided by Wells Fargo Bank, which are based upon current, and predictions of future, interest rate levels along a yield curve, the remaining duration of the instruments and other market conditions, and therefore, is subject to significant estimation and a high degree of variability and fluctuation between periods. The fair value is adjusted, to reflect the impact of credit ratings of the counterparties or the Company, as applicable. These adjustments resulted in a reduction in the fair values as compared to their settlement values.

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The net effect of our floating-to-fixed interest rate swap resulted in an increase in interest expense of $82,500 for the three and six months ended June 30, 2011, as compared to the contractual rate of the underlying hedged debt for the period. During the three and six months ended June, 30, 2011, due to the derivative not being designated as a hedging instrument, we recognized a loss on the change in the fair value of the swap of $350,343.

9. SEGMENT REPORTING

The Company s operations are composed of two primary business segments. The following tables reflect selected segment information for the three and six months ended June 30, 2011 and 2010. The casino operations segment includes the Grand Victoria Hotel and Casino s operation in Rising Sun, Indiana and Stockman s Casino operation in Fallon, Nevada. The Company reviews operating results, assesses performance and makes decisions related to the allocation of resources on a property-by-property basis, and therefore management believes that each property is an operating segment that are appropriately aggregated and presented as one reportable segment. To enhance disclosure, the Company also chooses to include regional information on this segment. The development/management segment includes costs associated with tribal casino development and management projects and the Michigan and Delaware joint ventures. The Corporate segment includes general and administrative expenses of the Company.

Selected statement of operations data for the three months ended June 30:

	Casino Operations Nevada	Casino Operations Mid-West	Development/ Management	Corporate	Consolidated
2011					
Revenues	$ 2,021,239	$ 23,190,637	$ 5,912,294	$	$ 31,124,170
Selling, general and administrative expense	484,098	5,203,444	130,958	1,170,950	6,989,450
Depreciation and amortization	236,135	1,220,183	593,147	2,676	2,052,141
Operating gains			661,270		661,270
Operating income (loss)	255,590	1,984,787	5,849,459	(1,259,685)	6,830,151
Net income (loss) attributable to Company	168,773	470,033	2,426,110	(1,668,396)	1,396,520
2010					
Revenues	$ 2,039,869	$	$ 6,018,598	$	$ 8,058,467
Selling, general and administrative expense	414,550		155,416	945,966	1,515,932
Depreciation and amortization	240,990		593,195	25,449	859,634
Operating gains			629,081		629,081
Operating income (loss)	340,977		5,897,734	(1,038,209)	5,200,502
Net income (loss) attributable to Company	225,724		1,932,747	(687,356)	1,471,115

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Selected statement of operations data for the six months ended June 30:

	Casino Operations Nevada	Casino Operations Mid-West	Development/ Management	Corporate	Consolidated
2011					
Revenues	$ 4,001,078	$ 23,190,637	$ 12,276,681	$	$ 39,468,396
Selling, general and administrative expense	946,062	5,203,444	283,197	2,210,455	8,643,158
Depreciation and amortization	474,950	1,220,183	1,186,343	22,409	2,903,885
Operating gains			2,181,167		2,181,167
Operating income (loss)	539,421	1,984,787	12,988,307	(2,850,731)	12,661,784
Net income (loss) attributable to Company	356,184	470,033	5,035,078	(2,857,331)	3,003,964
2010					
Revenues	$ 4,188,993	$	$ 12,180,704	$	$ 16,369,697
Selling, general and administrative expense	860,826		400,824	2,020,014	3,281,664
Depreciation and amortization	486,072		1,186,389	48,515	1,720,976
Operating gains			2,060,433		2,060,433
Operating income (loss)	775,809		12,652,190	(2,202,599)	11,225,400
Net income (loss) attributable to Company	512,836		4,418,869	(1,451,973)	3,479,732

Selected balance sheet data as of June 30, 2011 and December 31, 2010:

	Casino Operations Nevada	Casino Operations Mid-West	Development/ Management	Corporate	Consolidated
2011					
Total assets	$ 19,177,360	$ 55,808,380	$ 14,785,785	$ 7,004,475	$ 96,776,000
Property and equipment, net	7,009,533	30,617,739		25,146	37,652,418
Goodwill	10,308,520	1,647,198			11,955,718
Liabilities	1,371,129	6,267,182	1,206,714	32,206,834	41,051,859
2010					
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

10. ACQUISITION OF GRAND VICTORIA CASINO

On September 10, 2010, the Company entered into definitive agreements with Grand Victoria Casino and Resort L.P. to acquire all of the operating assets of the property, located in Rising Sun, Indiana on the Ohio River. The purchase price was $43.0 million, exclusive of working capital adjustment, property cash and fees, as of March 31, 2011. The Company entered into the Credit Agreement with Wells Fargo on October 29, 2010, as discussed in Note 7, and regulatory approvals were obtained to accommodate a closing effective April 1, 2011.

Through June 30, 2011 and December 31, 2010, the Company had incurred $0.5 million and $0.2 million in acquisition related expenses, respectively, which are included in project development and acquisition expense. In conjunction with closing on the financing commitment, the Company has incurred $2.6 million in financing related fees located on the balance sheet in other intangibles.

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The purchase price was allocated in the second quarter of 2011 as follows (in millions):

Land and land improvements	$	8.1
Buildings and building improvements		16.8
Equipment and boat related assets		6.3
Gaming license		9.9
Player loyalty program		1.7
Goodwill		1.6
Working capital (deficit)		(2.0)
	$	42.4

The goodwill is the excess purchase price over the assets purchased.

The following unaudited, condensed consolidated pro forma data summarizes the Company s results of operations for the periods indicated as if the acquisition had occurred as of January 1, 2010. This unaudited pro forma consolidated financial information is not necessarily indicative of what the Company s actual results would have been had the acquisition been completed on that date, or of future financial results. The estimated net income attributable to the Company and the net income per share has been adjusted for Grand Victoria s effective tax rate in the State of Indiana.

In thousands, except for per share amounts	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Net revenues	$ 31,124	$ 31,820	$ 62,585	$ 62,668
Depreciation and amortization	2,052	2,768	4,547	5,594
Operating income	6,830	2,615	13,489	6,397
Net income attributable to the Company	1,397	(2,181)	2,786	(2,542)
Net income per share	$ 0.08	$ (0.12)	$ 0.15	$ (0.14)

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Safe harbor provision

This Quarterly Report on Form 10-Q 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, for may, could, should, might, likely, enable, or similar words or expressions are used in this Form 10-Q, a statements containing phrases such as in our view, there can be no assurance, although no assurance can be given, o there is no way to anticipate with certainty, forward-looking statements are being made.

Various risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following risks:

- 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;
- ability to obtain and maintain gaming and other governmental licenses
- regulatory approvals;
- competitive environment, including increased competition in our target market areas;
- 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 risks emerge from time to time and it is not possible for us to predict all such risks, nor can we assess the impact of all such risk factors on our 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, 2010, which triggered the commencement of the 7-year management agreement term. On April 1, 2011, we acquired all of the operating assets of Grand Victoria Casino & Resort, L.P. (Grand Victoria) through Gaming Entertainment (Indiana) LLC, our wholly-owned subsidiary. 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.

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In May 2011, the Company entered into a three-year consulting agreement with the Pueblo of Pojoaque to advise on the operations of the Buffalo Thunder Casino and Resort in Santa Fe, New Mexico along with the Pueblo s Cities of Gold and Sports Bar casino facilities. The Company will receive a base consulting fee of $100,000 per month plus a success fee based on achieving certain financial targets and expects to incur only minimal incremental operating costs related to the contract. The Company s consulting and related agreements have been submitted to the National Indian Gaming Commission (NIGC) and remain conditioned on its approval. During its review, the NIGC determined that the relationship of the Company to the casino facilities was a management relationship and the agreement is treated as a management contract for purposes of the NIGC review and approval.

On June 28, 2011, the Company, through a wholly owned subsidiary, entered into a five-year lease agreement with Hyatt Equities, LLC for the Grand Lodge Casino at Hyatt Regency Lake Tahoe Resort, Spa and Casino in Incline Village, Nevada on the north shore of Lake Tahoe. The Company will pay a fixed monthly rent of $125,000 over the initial term of the lease. In addition, the Company has entered into an agreement with HCC Corporation, an affiliate of HGMI Gaming, Inc., to acquire the operating assets and certain liabilities related to the Grand Lodge Casino for approximately $0.6 million, exclusive of operating cash and working capital. The Grand Lodge Casino features approximately 260 slot machines, 24 table games and a sports book, and is integrated into Hyatt Regency Lake Tahoe Resort, Spa and Casino. These agreements are conditioned on approval by the Nevada Gaming Control Board and Nevada Gaming Commission. We expect these approvals to be received in August 2011.

Critical accounting estimates and policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the determination of player loyalty program liability, the estimated useful lives assigned to our assets, asset impairment, bad debt expense, derivative instrument, purchase price allocations made in connection with our acquisitions and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, terms of existing contracts, observance of trends in the gaming industry and information available from other outside sources. There can be no assurance that actual results will not differ from our estimates.

Our significant accounting policies and basis of presentation are discussed below, as well as where appropriate in this discussion and analysis and in the notes to our consolidated financial statements. 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 and Grand Victoria 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 some 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.

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The majority