



Dear Fellow Shareholders:

It has been just over a year since our new management team arrived at Full House Resorts. We wanted to reflect on our progress during the year, and share our thoughts on the prospects we see for our future.

It was a very productive year.

Our net revenues for the year rose 2.6%. Our Adjusted EBITDA\* increased 30.5%. Our net loss was \$1.3 million versus a loss of \$20.8 million in 2014. Perhaps more importantly, we reversed the negative trends that existed at virtually all of our properties and have planned out a strategy for further growth, improved financial strength and enhancement of shareholder value.

### Silver Slipper Casino & Hotel

Our flagship property is the Silver Slipper in Bay St. Louis, Mississippi, approximately an hour east of New Orleans. It accounts for a majority of our income. In 2014, its Adjusted Property EBITDA declined by 21.5% from the results of 2013.

I joined the company in December 2014 and was pleased to reconnect with the management team at the Silver Slipper, which is largely a group that had worked together some years ago at the Casino Magic property in Biloxi, Mississippi. Hurricane Katrina destroyed that property, and much of the Gulf Coast, in 2005. Meanwhile, just prior to the hurricane, the management team was recruited by a private developer to build and operate the Silver Slipper, which opened in 2006. Full House acquired it in 2012.



It's been a pleasure to work with this group again, led by John Ferrucci, one of the best marketers on the Mississippi Gulf Coast. We developed a strategy to improve the operations and the marketing at the property. We reversed the consolidation of the Players' Club desk with the casino cage, which alleviated long lines and frustrated customers. We reintroduced buffet discounts midweek and added expensive, but popular, Dungeness crab to the buffet. In fact, we served more than 225 tons of crab at our buffet during 2015. We also made a subtle adjustment in the property's logo, making it look finer and more "French" in keeping with the regional history, rather than the rough, Western look that it had previously. We think the new logo fits much better with the property.



Results improved almost immediately. Net revenues in the first quarter of 2015, for example, rose 11.4% from the prior-year period.

Meanwhile, the property was in the process of constructing a new hotel — the first hotel rooms at the Silver Slipper. Construction of the hotel was months behind schedule. The design of that hotel also had a major flaw — it had no suites. If our hotel didn't have competitive suites, our best customers might spend their birthdays, anniversaries and other important occasions being hosted overnight at competing properties.

Fortunately, the construction delays meant that the top floor of the hotel had not yet been sectioned into individual guest rooms. We quickly reconfigured that floor, converting 22 “standard” guest rooms into nine high-roller suites on par with the suites of our key competitors. We also brought in additional construction oversight and drove the project to completion. The hotel opened in stages beginning in May 2015, with the final suites opening in September 2015. Adding suites and additional construction oversight increased the overall project costs, but put the project schedule back on track and produced an attractive, competitive product. The total project cost was approximately \$20.5 million, versus the earlier forecasts of approximately \$19 million.



With the hotel, results really took off. Net revenues grew over the prior-year period by 15.3%, 23.0% and 24.5% in the second, third and fourth quarters. The Silver Slipper ended 2015 with net revenues up 18.4% and Adjusted Property EBITDA up 32.3% over the prior-year period, resulting in the property’s best year since 2011.

The Silver Slipper is in good shape. The hotel is brand new, and the casino and other amenities have also been well-maintained over the past nine years since it opened.

Looking ahead, our near-term capital expenditure plans at the Silver Slipper are relatively modest. The property sits at the head of a beautiful, eight-mile-long beach, the closest beach to the cities of New Orleans and Baton Rouge. We plan to add a nice swimming pool in the coming months; our competitors have pools and we think it will help fill the hotel during the midweek period, particularly during the region’s hot and steamy summer. We don’t need that help on weekends, as the hotel readily fills on Friday and Saturday nights. Even a modest improvement in midweek occupancy should result in a strong return on the cost of a new pool.

Our principal near-term investment at the Silver Slipper will be improvements in the slot product and technology.

Longer term, we have enough land around the Silver Slipper to perhaps build another hotel tower someday and make other capital improvements. The property, for example, has very little meeting space and no showroom. At some point, it might make financial sense to add these amenities. These ideas reflect long-term rather than short-term opportunities. For at least the next year or two, we will focus on maximizing the results from our new hotel tower.

## **Rising Star Casino Resort**

Some of our biggest challenges and our greatest opportunities are at the Rising Star Casino Resort in Rising Sun, Indiana.

Rising Star opened in 1996 and was one of the first casinos in the tri-state area. It is located approximately one hour from Cincinnati, Ohio, and within two hours of Louisville, Kentucky and Indianapolis, Indiana. It was built by the Hyatt organization at a cost of approximately \$150 million and was initially a huge financial success. Casino revenues were more than \$150 million per year. Over time, however, competing casinos opened in Indiana and Ohio, including some that cut off the traffic to Rising Star from the major metropolitan areas.

Rising Star’s income declined steadily for the last decade as competing casinos opened. Full House acquired the property in 2011, at a time when casinos had been legalized in Ohio, but none had yet opened. Six casinos opened in southern Ohio between 2012 and 2014. Rising Star’s net revenues fell to only \$51 million in 2014 and Adjusted Property EBITDA was only \$2.2 million. At one point, the casino resort employed some 1,500 individuals; today, it employs just under 600.

Despite that long downward trend, we believe that Rising Star has potential.

All of the casinos legalized under Ohio and Indiana law are now open and have been operating for at least 18 months. The Kentucky legislature has consistently rejected proposals to legalize casinos in that state. A court decision in 2014 allows racetracks in Kentucky to operate “historical racing machines,” which attempt to mimic a slot machine. A racetrack in northern Kentucky has applied for permission to install some of these machines. We think the competitive impact of a limited number of such machines will be relatively minor.

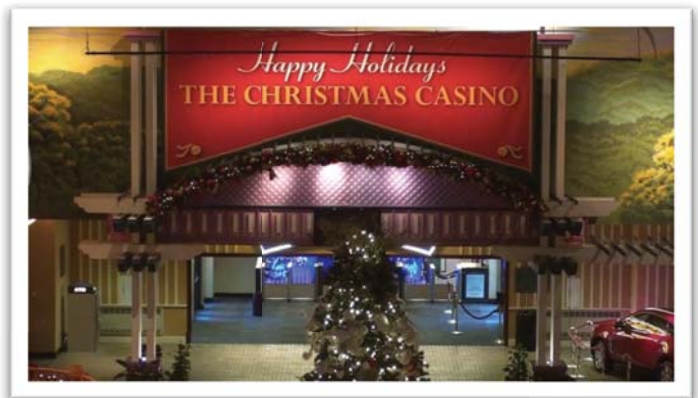
Rising Star has a large footprint. We own or control approximately 314 acres of land around our casino. We have two hotels, with a total of 294 guest rooms. We have surface parking for some 2,000 cars. We have an 18-hole golf course and extensive meeting capabilities, including a large ballroom that can function as a showroom. The casino itself is on a riverboat, a large vessel originally built for use in the New Orleans market. Truthfully, that casino is larger than is needed for today’s revenues and is a bit worn. That’s an opportunity. The boat itself has decent “bones,” with escalators in a central core and an eclectic, Victorian charm. Most of our competition appears to have hired the same design firm and churned out what has become a rather standard contemporary casino look. Rising Star, on the other hand, is quirky, atmospheric, and different.

Rising Sun itself is a pleasant place. It is an old riverboat town, rich in history, with a historic district only a short walk from our casino. The drive to Rising Sun is a scenic one through pastoral hills or along the river. It is far enough to be a getaway, but not so far that it feels like a long drive.

Because of the large footprint, and because it was recently operating at only slightly above breakeven, any increase in revenues at Rising Star has a large percentage impact on income. It also falls in the lower tiers of Indiana’s progressive gaming tax structure, which allows much of any incremental gaming revenues to fall quickly to the bottom line. We can easily accommodate more business with minimal incremental costs if we can simply attract more customers.

So, we tried something a bit different in late 2015. We leased the property to Santa Claus.

Not the real Santa Claus, of course. We trademarked the “Christmas Casino” name. We rented seven live reindeer.<sup>1</sup> We hired the folks who do the storefront window displays for Macy’s in Manhattan and removed slot machines from the casino, replacing them with waving teddy bears and flying fairies. We bought new uniforms for our employees, dressing them as elves, Mrs. Claus, and Santa’s helpers. We modified the names and menus of our restaurants, so the buffet became *Mrs. Claus’ Kitchen* and the steakhouse became *The Yuletide Inn*. We prepared roast goose, mincemeat pie and figgy pudding for our guests. We played holiday music and had professional carolers strolling through the property. And we had fun.



And it worked. We spent approximately \$600,000 on Christmas decorations, uniforms and whatnot, most of which is now carefully stored for next year. Our visitor counts at the property rose 18% over November and December of the previous year. While gaming revenues for the region were down, our gaming revenues over the two-month period rose 14%. And our Adjusted Property EBITDA rose by \$1.1 million when compared to the prior-year’s fourth quarter. Yes, the Christmas Casino will be back, bigger and better, in 2016.

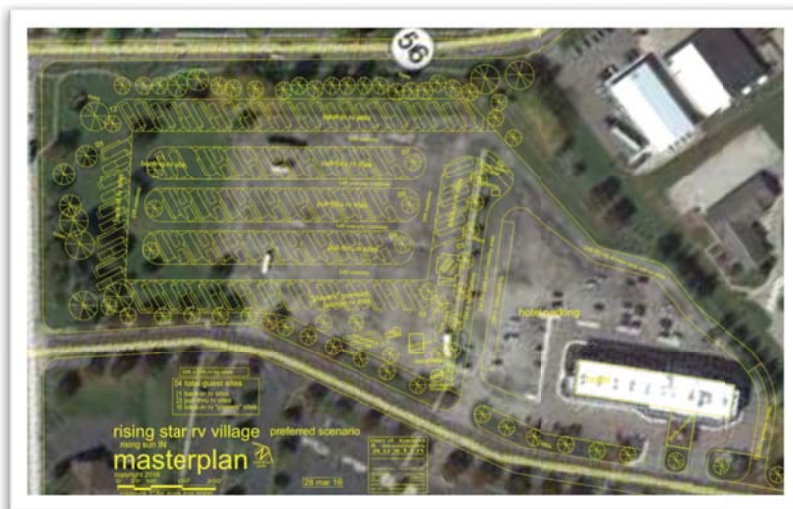
More importantly, the Christmas Casino demonstrated that the property has a pulse. It demonstrated that with proper promotion and some creativity, we can induce customers to drive past the other casinos and come to our unique property. That opens up all sorts of possibilities.

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<sup>1</sup> Why seven? It was a mix-up rooted in literary history. There are actually eight reindeer in the original poem, written in 1823. In 1939, the Montgomery Ward chain added Rudolph in a story written to be handed out to children at the store. We plan to have all eight of the original reindeer with us during the next holiday season, but not Rudolph and his neon nose.



For example, we have extensive parking lots from the early heydays, some of which haven't been used in many years. For about \$1 million, we plan to convert one of the parking lots into a state-of-the-art RV park, accommodating about 50 recreational vehicles. RV parks are common at casinos in other regions — we have one at the Silver Slipper, for example — but currently do not exist at any casino in this area. Yet people in Indiana, Kentucky and Ohio enjoy traveling in RVs. Because we already own the land, we can introduce a new amenity to Rising Star for a relatively modest budget — an amenity that will bring more people to our property. We believe that it will pay for itself in two to three years.



We plan to build a restaurant in the casino, where we have more space than we need for our gaming revenues. Today, most of our food service is in the mainland pavilion, so our customers have to leave the casino for a meal. In addition to being inconvenient, that departure for a meal also results in a second admission tax to us, as we pay for each entry (and re-entry) of a customer onto the casino floor. By putting a restaurant on the boat, we improve the customer experience, increase the time that customers might stay at our casino, and modestly decrease the admission tax paid per customer. Ultimately, we think we'll have more customers, so the overall admission taxes paid might be unchanged. The restaurant concept that we have in mind is unique, but we are not yet ready to disclose it.

We want to create a VIP area in the casino and a better “sense of arrival.” That will make us more competitive in the market, without costing a large amount of money. And we have some little things we want to fix, including our Tivoli lights and the speed of the two elevators on the boat. All told, we might invest \$2 million to \$3 million in the casino. These improvements will make a major difference in the experience and should generate a rapid payback on the investment.

We intend to “spruce up” the large pavilion that our customers pass through to get to the casino. The pavilion was built to accommodate crowds waiting for the next boarding time, when the boat was required to “cruise.” Today, we don't have to cruise and it is just a large, cavernous space. For a modest price, we will convert the short walk into a more welcoming and interesting experience.



We also have a plan to improve our geography.

Rising Sun is across the Ohio River from Boone County, Kentucky — home of the major Cincinnati airport and the extensive and growing development around it. However, there is no bridge at Rising Sun. There is a similarly eclectic town in Kentucky called Rabbit Hash that is only 2,100 feet away from Rising Sun, but it is 40 miles and a one-hour drive to transit from Rising Sun to Rabbit Hash.

At one time, an easy path between the two towns existed. A ferry boat shuttled between Rising Sun and Rabbit Hash from the mid-1800s until 1945. The farmers in Kentucky used it to bring their crops across the river, where the larger steamboats could tie up. The larger boats would then transport those items to the major cities north and south along the river. Children in Rabbit Hash went to school in Rising Sun and the two communities were closely related in many ways.

In 1945, the Rabbit Hash/Rising Sun ferry hit ice in the river and sank. By then, farmers relied on trucks rather than horse-drawn wagons, and roads and railroads competed with the transportation provided by the river. There was a larger, more powerful ferry just 10 miles north of Rabbit Hash, crossing to Aurora, Indiana. There was also a ferry approximately 10 miles south of Rabbit Hash, at Warsaw, Kentucky. So the Rabbit Hash ferry was not replaced.

Twenty years later, a bridge opened 10 miles further south of Warsaw, putting the Warsaw ferry out of business. Then, in 1977, the big bridge on I-275 at Lawrenceburg, Indiana opened 10 miles north of Aurora, putting the Aurora ferry out of business. The bridges are approximately 15 miles north and south of Rising Sun and both now have competing casinos at their

landings in Indiana. Essentially, there is now a nearly 40-mile stretch of the Ohio River without any ferry boats or bridges...and Rising Sun/Rabbit Hash sits midway in that stretch.

There are about 650 ferry boats operating in the U.S. About half carry cars. Most of those are small, carrying between one and 20 cars per trip. Several still operate along the Ohio River, including the privately owned Anderson Ferry near Cincinnati, which has operated continuously since 1817. It charges \$5 per car and carries a respectable number of cars.

We are exploring the resurrection of the historic ferry service that existed between Rising Sun and Rabbit Hash. We recently purchased land in Kentucky, directly across from Rising Star. It is believed to be the location of Boone County's first ferry boat service, which began in 1842. It would involve a small ferry boat, much like the Anderson Ferry. We will need to build a short road on the Kentucky side and extend the road at our golf course on the Indiana side, plus build ramps into the river on both sides. All of this will take several governmental approvals, and we have begun that process. If all goes well, we intend to acquire or lease an appropriate boat and operate the service ourselves. The fares will likely be similar to those of the Anderson Ferry, and we might choose to reimburse the fares for those customers who visit our casino. We think the ferry itself might be profitable, while providing an important service to the communities on both sides of the river and augmenting the number of customers at our casino. We estimate our total investment, including the acquired land, planned roads and ferry boat, will probably be in the neighborhood of \$1.0 million to \$1.5 million.



Ferry boats aren't very fast, but the river isn't very wide. We estimate that it will take less than three minutes to cross the river. It probably takes a bit longer than that to load and unload the boat. The boat could probably make four or five round trips per hour, similar to what we believe is achieved by the Anderson Ferry. Over time, the numbers add up. Clearly, a portion of the ferry users will opt to visit our casino. When we consider the benefits to our casino business, the returns on the investment in the ferry service are probably quite high. If it doesn't work, we'll have a boat we can sell. But, we believe the ferry will work.

Finally, I note that we enjoy the strong support of the Rising Sun community. Rising Star is the largest employer and taxpayer in Rising Sun and Ohio County, Indiana.

A few years ago, an entity related to the local governments helped our subsidiary finance The Lodge at Rising Star, which provides 104 of our 294 guest rooms. We lease that hotel from that entity at favorable interest rates. At the end of the lease, we have the option to purchase the hotel for \$1. If we don't exercise that option, our landlord has the option to "put" the hotel to us for \$1. We think it is likely that we will own that hotel over the long term and it is best to think of the lease (which is a capitalized lease and is not guaranteed by our parent company) as favorable financing for our subsidiary.

We have a symbiotic relationship with the community. We were able to negotiate a decrease in our real estate taxes over the past year, resulting in a decrease in our taxes of approximately \$500,000 per year and a one-time refund for past taxes of \$1.4 million. The local government entity from which we lease The Lodge recently agreed to help us fund capital improvements by delaying the repayment of \$1 million of principal under that capitalized lease. In return, we agreed to reinvest that \$1 million into property improvements.

The bottom line is that we see opportunity at Rising Star. It may never again earn what it did in its heyday, when it was one of the only casinos in the region. However, with careful management and modest capital investment, Rising Star can earn considerably more than it has in recent years.

## American Place Proposal

Rising Star has yet another hidden asset. Under Indiana law, we are permitted to operate approximately 1,500 “gambling games,” which is more than twice the gambling games needed to accommodate the current and likely demand at this location. That’s an asset.

Indiana is a unique place, making that asset even more important. The state has a fairly large gaming industry, generating \$2 billion in annual gaming revenues, thousands of jobs, and hundreds of millions of dollars in state and local taxes. Such revenues and employment have been declining in recent years, as gaming has expanded in Illinois and Michigan and casinos have been introduced in Ohio.



Indiana has a conservative electorate, led by its conservative governor and a strongly conservative legislature. A large proportion of politicians are opposed to the “expansion” of gaming. Yet, recently, the legislature allowed the introduction of table games in 2020 at the large slot parlors located at the state’s two racetracks. They concluded that it was not an expansion of gaming, provided that the racetracks remove one slot machine for each table game being introduced. We found that intriguing.

The state has an issue. When it legalized casinos, it primarily did so at locations around the periphery of the state, intending to bring revenues and jobs to the state from residents of Illinois, Michigan, Ohio and Kentucky. Now, those states have their own casinos and Indiana’s revenues are declining. That is helping contribute to challenges in the state and local budgets. Any relocation of the existing casino capacity requires approval of the state legislature and either the signature or inaction of the governor, or an override of the governor’s veto.

Because of what has happened in neighboring states, Indiana’s gambling games are, to a large extent, now in unfavorable locations. There are too many gambling games assigned to places like Rising Sun and Gary, while there are significant population centers that have no casinos at all. For example, the state’s largest city — Indianapolis, with some 2 million people in the metropolitan area, around 30% of the state’s population — has no casino. Neither does Fort Wayne, Terre Haute or Lafayette. Each of these cities is a significant population center. The state’s revenues, investment and employment could be significantly improved if a portion of its finite gaming capacity was relocated to places where it might be more effective than slot machines sitting in an actual or a metaphysical warehouse in Rising Sun. We believe such relocation should not be considered an expansion of gaming, as the total number of gambling games permitted in the state would not change. And the relocation of such gaming capacity, if structured properly, would have little to no negative impact on the existing casino communities, such as Rising Sun.

There are scores of communities in Indiana with populations greater than Fallon, Nevada. Fallon supports four small casinos, including our own Stockman’s.

Recognizing this opportunity for both us and for the State of Indiana, we responded to a “request for proposals” by the Indianapolis Airport Authority for development of surplus land owned by the Airport Authority. Our proposal, named American Place, called for development of a large lifestyle complex, involving extensive retail space, condos, offices and other amenities, all anchored by a small casino. Its website is at [www.AmericanPlace.us](http://www.AmericanPlace.us).

The casino would utilize up to half of the permitted gaming capacity of Rising Star and be operated under the same casino license, not unlike the off-track betting parlors that the racetracks operate under their licenses. Hence, the concept of one license being utilized in two locations is well established. American Place involves an investment of perhaps \$650 million and would provide an estimated \$85 million per year in state and local taxes. We envision developing it with appropriate partners who would provide capital and relevant experience in each of the different businesses in the complex. We would act as the “master developer,” a term that was used in the Airport Authority’s RFP.

In March, the Airport Authority announced preliminary indications that it was favoring a different proposal. The local press questioned the backing and viability of that other proposal. A few weeks ago, the Airport Authority cancelled its RFP process



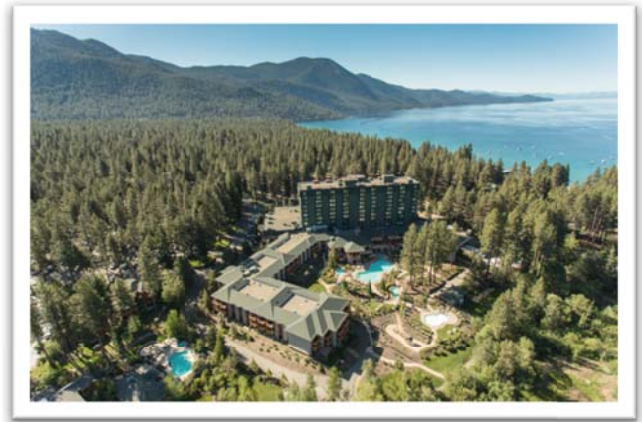
and refunded our small deposit. It also indicated, however, that it intends to continue to seek development of that surplus land. Meanwhile, we intend to continue to explore the potential development of American Place.

This may be a long-term growth opportunity for us. The underutilized gaming capacity is an asset for both us and the State of Indiana. We like the Airport Authority's site and we think the American Place concept is exciting. However, if that does not prove viable, we intend to explore other locations where we could relocate unused gaming capacity for the betterment of the state and as a possible opportunity for our company.

## Grand Lodge Casino

We operate the Grand Lodge Casino at the Hyatt Regency Lake Tahoe under a lease from the Hyatt organization.

The Hyatt Regency is one of the nicest hotels in the Reno/Lake Tahoe area, with a AAA Four Diamond Award. Located on the north shore of Lake Tahoe, approximately 35 minutes off Interstate 80 and about 45 minutes from downtown Reno, it has 422 guest rooms and stretches along 500 feet of the pristine lake's shoreline. The hotel is surrounded by some of the most valuable vacation homes in the country. The area attracts people from Northern California, particularly the Sacramento, San Francisco, and San Jose metropolitan areas. The property offers a much different and higher-end experience than the tribal casinos that are now in most areas of California or the casinos in nearby Reno.



In recent years, Hyatt has invested significantly in the hotel, renovating its guest rooms and suites and adding a high-end spa and the region's best swimming pool complex. Hyatt, however, didn't renovate the casino, as it is leased to Full House. Full House, meanwhile, also didn't invest much in the casino, as its lease was due to expire in 2018.



We saw an opportunity to reach out for a higher-end casino customer. The "high end" has long been dominated by the Caesars properties at the south end of Lake Tahoe, but Caesars is now operating in bankruptcy. By bringing the Grand Lodge Casino up to the quality of its excellent surrounding hotel, we would offer the best overall product for the gaming customer in northern Nevada.

We approached Hyatt and reached the following agreement: between Full House and Hyatt, we will invest approximately \$5 million in the renovation of the casino. Of this, Hyatt is contributing \$3.5 million, principally for the renovation of the casino and the bars in the casino. We will provide \$1.5 million, principally for gaming equipment and related items. Our lease has been extended for five additional years, to 2023. Our rent, which is currently \$1.5 million per year, will increase to \$1.75 million for 2017 and then to \$2.0 million for each year thereafter. We think the benefits of a renovated casino will more than offset the increase in rent.

We also agreed to lease two suites from Hyatt on every night of the year at a negotiated rate. While our management has always had a good working relationship with the hotel's management, occasionally we would have an important customer call on short notice and request a room, only to find that the hotel was sold out to non-casino customers. With the new lease arrangement, we may occasionally be renting suites from Hyatt that sit empty, but we also ensure that we have some control of at least those two suites for VIP customers at peak times. The suites allow us to compete with more traditional casino hotels, where it is common to withhold some guest rooms until the last minute in a "casino block" to accommodate last-minute casino VIP customers. Either party can cancel this suite lease arrangement if we find it isn't working as envisioned.

Having modified the lease, we are now working with Hyatt to hire the designers and architects for the refurbishment. It will take some time for these professionals to do their work and for us to obtain permits and negotiate the construction contracts. We plan to do the actual construction following the 2016/2017 ski season and complete it before the strategically important 2017 summer season. That will require careful planning and coordination. We will also phase the construction in a way that the casino remains open during the construction.

### **Stockman's Casino**

We own and operate Stockman's Casino in Fallon, Nevada.

Fallon is a remote town in central Nevada, approximately 60 miles east of Reno. Primarily an agricultural community, it is the county seat of Churchill County, which has a population of approximately 25,000. Tesla is building a large, multi-billion-dollar battery plant midway between Fallon and Reno.

Fallon also has a large Naval Air Station, home to the famed "Top Gun" school. Fallon is a long way from any place where an aircraft carrier could dock, making it a strange place for a naval air station. On the other hand, it is at the north end of a vast, sparsely populated military airspace, encompassing the Nuclear Test Site and even the once-secret Area 51. Navy pilots can fly at supersonic speeds and train different maneuvers that would be difficult to train almost anywhere else. So, periodically, the Navy pilots and their large support staff travel to Fallon for training, often staying several weeks at a time.

Stockman's, meanwhile, is the largest of four casinos in this small town. It is the only casino to regularly offer table games. Its steakhouse is the town's leading restaurant and its coffee shop is highly popular. The casino is small, with only 234 slot machines, but that's appropriate for this small community.

Full House acquired Stockman's in 2007 for \$27 million. At the time, the property included a neighboring Holiday Inn Express hotel. The hotel was sold shortly after the acquisition for approximately \$7 million. Excluding the hotel, Stockman's business levels are down, generating about one-third of the financial results produced several years ago.

There's no obvious external reason for that decline. There's been no new competition over that timeframe. The population and economy of the town have been stable. The Navy seems to be investing more in the Naval Air Station, perhaps planning to consolidate other training operations at this unique facility.

Clearly, the quality of the casino had declined. The carpets were worn, the roof leaked and the surrounding landscaping had largely died. The slot product was tired.

The property also experienced significant operating issues. Employee turnover was as high as 80%, which is extreme even in an industry known for high turnover. That is particularly damaging in a small, tight-knit community. Slot machines had been crammed into a labyrinth layout in the small casino. And the slot machines were perceived to be "tight."

Over the past year, we made a number of changes to this small property. We enlisted our management team from Grand Lodge to bring some of the Hyatt standards of upkeep, good employee relations, and friendly customer service to Fallon. We loosened our slot machines. We removed slot machines and improved sight lines and "feel." We installed new carpet. We are fixing the roof.





We also developed a strategy to get the property back to the revenue and EBITDA levels that it earned only a few years ago.

We call it “The Big Flip.”

The exterior of the decades-old property has little “curb appeal.” Stockman’s is the odd casino where the inside is actually considerably nicer than the outside.

The layout within the building itself has the casino on the west side and the restaurants on the east of the casino, with the kitchens and back of the house running the length of the east side of the building. The principal customer parking is east of the building, so there is no entrance from the main parking lot into the casino. Given the configuration, we can’t create such an entrance, as it would lead into our kitchens. Our customers are forced to walk around the corner of our building, to the south side, where there is a nondescript entrance into the casino.

Conversely, there are two existing entrances on the west side of our casino, but they don’t lead anywhere. We own a defunct strip shopping center that blocks the use of those entrances — an ugly cinder block structure that houses our executive offices. That building blocks much of the visibility of our casino for traffic approaching from the west. It sits next to a dirt lot that we also own.



So, here’s the plan. We’re going to blow up the executive offices. We’d rather have our management team located in the casino itself rather than a separate building next door. Of course, we’ll move our team into temporary office space (essentially, a construction trailer) before we bulldoze the building.

Then, we’ll build a nice parking lot on that dirt lot, providing more spaces and more convenient casino access than our existing lot. We can do that without any disruption to the parking and the entrances now being used. We’ll enhance the two existing entrances on the west side, with some architectural details and energy-saving foyers. We’ll plant trees and bushes around our nondescript building, allowing the entrances to “pop” and creating far better curb appeal. Then, once we have “flipped” our customers from parking on the east side of our building to the new west-side lot (where the casino is), we’ll add modest and efficient offices onto the east side of the building, connecting into the back of the house. We also plan to add a small, inexpensive warehouse, so we can stop leasing storage containers for the maintenance department and bring the kitchen’s walk-in coolers into the building. We hope to accomplish this for around \$1 million to \$2 million, and we think it will dramatically improve our competitiveness in this small market. We believe that this facility is capable of earning three times what it is earning today. Our modest investment should help us get there.

### **Bronco Billy’s**

In September 2015, we agreed to acquire the Bronco Billy’s Casino and Hotel in Cripple Creek, Colorado.

Colorado legalized casino gaming in 1991, limiting it to three small “ghost” towns in the mountains. All were originally mining towns. Two of those towns adjoin each other, about an hour west of Denver. The third is Cripple Creek, approximately an hour west of Colorado Springs, which is the second-largest metropolitan area in Colorado. The Colorado Springs area has a population of approximately 700,000 people, growing at approximately 3.5% in recent years. There have been efforts in past years to legalize casinos elsewhere in Colorado, but none have come anywhere close to passing. Colorado Springs is also in the center of Colorado, so casinos in neighboring states such as Oklahoma and Kansas are much further away from our key customer base than Cripple Creek.

Gaming in Cripple Creek originally involved a large number of tiny casinos, most of them in narrow, historical buildings built in the 1890s. Over the past 20 years, the better operators have absorbed the adjoining properties. Today, the market is dominated by five casinos, with three of those being the most dominant and adjoining each other along one block of the town’s

main street. We believe that Bronco Billy's is one of the two leading operators in town, accounting for approximately 21% of the town's gaming revenues.

This is an important acquisition for Full House Resorts. First, it is a stable property in a stable market and we are acquiring it at a favorable price. We agreed to pay \$30 million, subject to working capital adjustments, and its Adjusted Property EBITDA for the trailing 12 months, according to financial statements provided by the seller, was approximately \$5.1 million when we signed the purchase agreement. Its income has been increasing of late, thanks to its absorption last May of an adjoining casino property. Bronco Billy's has been one of the consistent market leaders in the Cripple Creek gaming market.



Bronco Billy's provides important diversification for our company. It will be our second-largest earnings contributor and make us substantially less reliant on the Silver Slipper for our earnings and debt service. The Silver Slipper is a great and stable property, but we can borrow on much better terms and provide a more stable investment for shareholders with better diversification.

Third, it comes with a very capable and well-established management team. We welcome them to our family and look forward to learning from each other.

Fourth, Bronco Billy's is in good shape. It occupies historic buildings built over a hundred years ago, which have the usual issues of old brick buildings. Yet, the management team has done a good job of restoring those buildings, creating a pleasing casino environment and maintaining an up-to-date slot product.

Finally, we think there are moderate-term growth opportunities at the property. Most notably, the entire Cripple Creek market has only about 450 hotel rooms and Bronco Billy's offers only 24 of them. Given that our primary customer base is an hour's drive away and comprises 700,000 people, we think that we could build a modest-sized hotel, fill it, and perhaps attract new customers to the market. Bronco Billy's controls land where such a hotel could be built and the return on that hotel could be very high, much like the benefits we are enjoying today from the new hotel at the Silver Slipper. This hotel is perhaps a couple of years away — we would have to design it first, there are complicated design criteria in this historical district, and we want to buttress our financial strength before undertaking another major construction project. It is something that might drive our growth in a three- to five-year time frame.

Acquisitions are complicated in the casino industry. In most other businesses, the buyer negotiates the deal with the seller and then closes on the acquisition. The financing and the need for that capital to close on that acquisition occur simultaneously. In the casino industry, the buyer usually has to obtain new casino licenses in that jurisdiction. The investigation process of the buying company and its executives and directors typically takes months, even if it is already licensed in other jurisdictions. Often, other jurisdictions may also have to approve the acquisition or the buyer's financing. So in the casino business, the buyer and seller reach an agreement, but the transaction does not close until several months later. So the commitment to make the acquisition does not run concurrent with the financing for the deal, which isn't needed until the buyer is licensed and can close on the transaction.

Many years ago, this mismatch could be resolved with a commitment by investment banks to fund the acquisition at some future date. When Caesars was acquired by the investment firms of TPG and Apollo in 2008, there were several billions of dollars of such commitments. While the investment firms were being licensed by the dozens of jurisdictions where Caesars operates, Bear Stearns went through a tumultuous acquisition, Lehman Brothers folded, and the high-yield market collapsed. The banks that provided those financing commitments lost hundreds of millions of dollars. Even today, several years later, few banks are willing to provide such commitments, particularly for a small company like ours.

The resolution is typically a good-faith deposit made by the buyer that is forfeited if the deal does not close, resulting in a sharing of risk between the buyer and seller. If the financial markets deteriorate, the buyer will end up financing the transaction

with capital that is more expensive than was originally envisioned. If the markets deteriorate so much that financing is not available, then the buyer loses the deposit, and the seller is left holding the property and must attempt to resell it in a more difficult financial market.

When we agreed to acquire Bronco Billy's, the high-yield bond market was relatively healthy, and we planned to fund the acquisition and refinance all of our existing debt in the "term loan B" market. Essentially, that involves a floating-rate, five-year bond that is purchased by funds in a subset of the high-yield market. We thought the cost of that debt would be less than our existing cost of debt.

As we went through the Colorado licensing process, the high-yield market deteriorated. Concerns about energy company bonds (given the sharp decline in oil prices) and the slowdown in the Chinese economy led to the steepest global decline in high-yield bond prices since the collapse of Lehman Brothers. By the time we were licensed in Colorado in February, it was clear that the terms of that planned \$100 million bond would be very onerous, if it could even be placed at all.

Fortunately, we've maintained a good relationship with our existing lenders, most of whom have tentatively agreed to step up and finance both the acquisition and the refinancing of our existing debt, which is near its scheduled maturity. We've also made some new friends, with at least one new bank planning to join our credit facility. We now plan to continue to have a two-tranche debt structure, with traditional banks holding senior paper and a fund providing second-lien financing on much more expensive terms than the first tier. We expect the interest rates on our first- and second-lien tranches to be similar to what they are today, but we will have more second-lien debt, as we are essentially using that tranche to finance the Bronco Billy's acquisition.

So, in effect, we plan to close on the acquisition within a few weeks and the financing of the deal is more expensive than we first envisioned, given what has happened in the broader financial markets in the interim. Nevertheless, it is important to close on the Bronco Billy's acquisition. The diversification and growth potential are important to us and we also don't want to lose our \$2.5 million deposit. Perhaps more importantly, it also provides a path to cheaper financing in the future.

We are not particularly highly leveraged. With the acquisition completed, our total indebtedness will be approximately \$100 million and our total leverage ratio (pro forma for the Bronco Billy's acquisition) will be approximately five times. Many casino companies have much greater leverage, but most of them are also larger and more diverse than we are. For companies our size, banks seem to be driven today by the seemingly-always-changing bank regulations to favor a total leverage ratio of four times rather than five times, which is where we are. At a ratio of four times, it seems that banks chase clients, whereas at five times, it seems that sometimes we are chasing them. That small variation is why we are forced into such expensive second-tier debt.

We mentioned several small capital expenditure projects above, like a swimming pool at the Silver Slipper, a ferry boat at Rising Star and a parking lot at Stockman's. We believe these can be funded without additional debt and we think that they will help meaningfully grow our annual EBITDA, perhaps over the next couple years. Once our total leverage ratio approaches four times, we hope to refinance all of our debt on terms that, on average, are much more favorable to us than the terms of our current and prospective debt. The terms of our current and prospective financing are expensive, but we hope that such debt will not be outstanding for very long.

As I write this, our lawyers are working out the details of our financing documents and the lenders are completing their due diligence. We also need approval of the financing from the various gaming commissions. We're reasonably confident that we will complete this financing, receive all the approvals, and close the acquisition within a few weeks. However, there is still no certainty that this will be the case.

### **Other Noteworthy Items in 2015**

We revamped our employee health insurance, improving benefits for most of our employees while reducing our annual costs by approximately \$700,000 per year.

We obtained a \$3.7 million federal tax refund related to calendar year 2014, whose tax losses we were able to carry back to recover tax payments made in 2012 pursuant to the sale of a management contract we once had to operate a tribal casino. We had significant additional potential tax losses to carry back, but unfortunately, we were not able to trigger them prior to the expiration of the carry-back period, which occurred only a few weeks after the 2014 management change.



The Buffalo Thunder tribal casino north of Santa Fe, New Mexico opened in 2008. In 2011, as a condition of the renegotiation of some of its financing, the tribe agreed to hire a third-party management company to oversee the casino for a period of time. It selected Full House Resorts, agreeing to pay at least \$0.3 million per quarter until September 2014, most of which was income to Full House. That tribal contract was not renewed at its maturity. This is only significant relative to the 2015 results as it affected the year-over-year comparisons during the first three quarters of the year. Fortunately, improvements in our other operations more than offset the loss of the tribal management income.

In 2005, our company funded efforts by a different Native American tribe to put land into trust and develop a casino, also in New Mexico. In 2011, the advances were deemed uncollectible and, accordingly, we wrote off the note receivable that we had from the tribe. That note, however, continued to have legal recourse. During 2015, we negotiated the repayment of \$500,000 to us by the tribe, receiving \$250,000 in the second half of 2015 and the remainder in the first quarter of 2016.

We're proud of the turnaround that we achieved in 2015. Perhaps most importantly, we've put together a team of new people and Full House veterans who are working well together. We're having fun. We now look forward to a bright future for all of us at Full House Resorts. Ours is a small company, but with careful stewardship and some creativity, we intend to make it into a big success.

We thank our shareholders for your support. We will continue to work hard and effectively on your behalf.



Daniel R. Lee  
President and Chief Executive Officer

*\* Note: This letter supplants the glossy annual reports that are still prepared by some companies; such a report would not be economical for our small company. For a full description of our financial results, please see our 10-K report that was filed with the Securities and Exchange Commission and that is available on our website, at [www.fullhouserestorts.com](http://www.fullhouserestorts.com).*

*This letter contains statements that are "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. Some forward-looking statements in this letter include, but are not limited to, the statements regarding Full House's proposed capital improvements and investments at its properties, receipt of remaining regulatory approvals, completion of its debt refinancing, closing of its acquisition of Bronco Billy's Hotel and Casino, and our operating trends and expected results of operations. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the control of Full House. Information concerning potential risk factors that could affect Full House's financial condition and results of operations is included in the reports Full House files with the Securities and Exchange Commission, including, but not limited to, its Form 10-K for the most recently ended fiscal year and the Company's other periodic reports filed with the Securities and Exchange Commission. The Company is under no obligation to (and expressly disclaims any such obligation to) update or revise its forward-looking statements as a result of new information, future events or otherwise. Actual results may differ materially from those indicated in the forward-looking statements.*

*This letter also contains supplemental financial information and should only be viewed in conjunction with our audited financial results reported using U.S. generally accepted accounting principles (GAAP) and as filed with the Securities and Exchange Commission. A reconciliation between non-GAAP measures such as Adjusted EBITDA and Adjusted Property EBITDA and GAAP measures can also be found in the Company's Form 10-K, including for the most recently ended fiscal year. For a reconciliation of non-GAAP measures for Bronco Billy's, please see our 8-K filed on September 28, 2015.*