

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **September 30, 2014**
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-32583

**FULL HOUSE RESORTS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction  
of incorporation or organization)*

**4670 S. Fort Apache, Ste. 190**  
**Las Vegas, Nevada**  
*(Address of principal executive offices)*

**13-3391527**  
*(I.R.S. Employer  
Identification No.)*

**89147**  
*(Zip Code)*

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

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

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

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

Non Accelerated Filer  (Do not check if a smaller reporting company)

Accelerated Filer

Smaller reporting company

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

As of November 5, 2014, there were 18,876,681 shares of Common Stock, \$.0001 par value per share, outstanding.

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
<b>Revenues</b>				
Casino	\$ 31,709	\$ 36,912	\$ 90,863	\$ 110,257
Food and beverage	5,320	5,790	15,665	17,783
Hotel	1,314	1,059	3,830	3,127
Management fees	273	313	1,066	1,123
Other operations	1,116	1,205	2,766	3,190
<b>Gross revenues</b>	<u>39,732</u>	<u>45,279</u>	<u>114,190</u>	<u>135,480</u>
Less promotional allowances	(6,815)	(7,837)	(19,513)	(22,208)
<b>Net revenues</b>	<u>32,917</u>	<u>37,442</u>	<u>94,677</u>	<u>113,272</u>
<b>Operating costs and expenses</b>				
Casino	14,099	17,481	43,763	52,416
Food and beverage	2,170	1,981	6,492	6,041
Hotel	214	166	537	457
Other operations	720	1,285	2,185	3,905
Project development and acquisition costs	72	22	407	61
Selling, general and administrative	10,587	11,233	31,636	35,573
Depreciation and amortization	2,398	2,498	7,165	6,906
	<u>30,260</u>	<u>34,666</u>	<u>92,185</u>	<u>105,359</u>
<b>Operating losses</b>				
Impairment loss	--	(4,000)	(11,547)	(4,000)
<b>Operating income (loss)</b>	<u>2,657</u>	<u>(1,224)</u>	<u>(9,055)</u>	<u>3,913</u>
<b>Other expense</b>				
Interest expense	(1,614)	(1,847)	(4,702)	(5,615)
Settlement loss	(1,700)	--	(1,700)	--
Other (expense) income	(61)	15	(68)	(6)
Other expense, net	<u>(3,375)</u>	<u>(1,832)</u>	<u>(6,470)</u>	<u>(5,621)</u>
<b>Loss before income tax benefit</b>	<u>(718)</u>	<u>(3,056)</u>	<u>(15,525)</u>	<u>(1,708)</u>
Income tax expense (benefit)	48	(905)	(5,186)	(91)
<b>Net loss</b>	<u>\$ (766)</u>	<u>\$ (2,151)</u>	<u>\$ (10,339)</u>	<u>\$ (1,617)</u>
<b>Net loss per common share</b>	<u>\$ (0.04)</u>	<u>\$ (0.11)</u>	<u>\$ (0.55)</u>	<u>\$ (0.09)</u>
<b>Weighted-average number of common shares outstanding</b>	<u>18,876,681</u>	<u>18,750,681</u>	<u>18,873,725</u>	<u>18,736,604</u>

See notes to unaudited consolidated financial statements.

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

	<u>September 30,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 16,043	\$ 14,936
Accounts receivable, net of allowance for doubtful accounts of \$459 and \$471	2,160	1,869
Prepaid expenses	4,636	6,288
Other	739	726
	<u>23,578</u>	<u>23,819</u>
Property and equipment, net of accumulated depreciation of \$28,534 and \$23,096	<u>92,591</u>	<u>91,168</u>
Other long-term assets		
Goodwill	16,480	18,127
Intangible assets, net of accumulated amortization of \$5,696 and \$4,055	4,006	15,533
Long-term deposits	1,066	761
Loan fees, net of accumulated amortization of \$3,441 and \$2,327	2,695	3,558
Deferred tax asset	5,576	1,321
	<u>29,823</u>	<u>39,300</u>
	<u>\$ 145,992</u>	<u>\$ 154,287</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 3,575	\$ 2,661
Accrued player club points and progressive jackpots	1,673	1,999
Accrued payroll and related	2,580	3,276
Other accrued expenses	3,683	3,139
Deferred tax liability	66	66
Current portion of capital lease obligation	697	736
	<u>12,274</u>	<u>11,877</u>
Long-term debt, net of current portion	59,500	57,500
Deferred tax liability	113	113
Capital lease obligation, net of current portion	6,411	6,983
	<u>78,298</u>	<u>76,473</u>
Stockholders' equity		
Common stock, \$.0001 par value, 100,000,000 shares authorized; 20,233,276 and 20,107,276 shares issued	2	2
Additional paid-in capital	45,569	45,350
Treasury stock, 1,356,595 common shares	(1,654)	(1,654)
Retained earnings	23,777	34,116
	<u>67,694</u>	<u>77,814</u>
	<u>\$ 145,992</u>	<u>\$ 154,287</u>

See notes to unaudited consolidated financial statements.

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

Nine months ended September 30, 2014	Common stock		Additional paid-in Capital	Treasury stock		Retained earnings	Total stockholders' Equity
	Shares	Dollars		Shares	Dollars		
<b>Beginning balances</b>	20,107	\$ 2	\$ 45,350	1,357	\$ (1,654)	\$ 34,116	\$ 77,814
Issuance of share-based compensation	126	--	9	--	--	--	9
Previously deferred share-based compensation recognized	--	--	210	--	--	--	210
Net loss	--	--	--	--	--	(10,339)	(10,339)
<b>Ending balances</b>	<b>20,233</b>	<b>\$ 2</b>	<b>\$ 45,569</b>	<b>1,357</b>	<b>\$ (1,654)</b>	<b>\$ 23,777</b>	<b>\$ 67,694</b>

See notes to unaudited consolidated financial statements.

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

	Nine months ended September, 30,	
	2014	2013
<b>Cash flows from operating activities:</b>		
Net loss	\$ (10,339)	\$ (1,617)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment loss	11,547	4,000
Depreciation	5,525	4,998
Loss on disposal	7	--
Amortization of loan fees	1,114	1,432
Amortization of player loyalty program, land lease and water rights	1,640	1,908
Other	30	28
Deferred and share-based compensation	219	605
Increases and decreases in operating assets and liabilities:		
Accounts receivable, net	(291)	848
Prepaid expenses	1,652	705
Deferred tax	(4,255)	--
Other assets	(13)	517
Accounts payable and accrued expenses	(316)	(3,001)
Taxes payable	--	594
<b>Net cash provided by operating activities</b>	<b>6,520</b>	<b>11,017</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(6,222)	(3,268)
Other	(329)	(284)
<b>Net cash used in investing activities</b>	<b>(6,551)</b>	<b>(3,552)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long term debt and capital lease obligation	(610)	(2,500)
Borrowings of long term debt	2,000	--
Other	(252)	(204)
<b>Net cash provided by (used in) financing activities</b>	<b>1,138</b>	<b>(2,704)</b>
<b>Net increase in cash and equivalents</b>	<b>1,107</b>	<b>4,761</b>
Cash and equivalents, beginning of period	14,936	20,603
Cash and equivalents, end of period	<u>\$ 16,043</u>	<u>\$ 25,364</u>
	<b>2014</b>	<b>2013</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 3,863</u>	<u>\$ 4,211</u>
Cash received from net loss carryback, net of cash paid of \$0.01 million for income taxes in 2014 and cash received from income tax refund, net of cash paid of \$0.03 million for income taxes in 2013	<u>\$ (1,915)</u>	<u>\$ (2,288)</u>
Non-cash investing activities:		
Accrued property and equipment capital expenditures	<u>\$ 1,301</u>	<u>\$ --</u>

See notes to unaudited consolidated financial statements.

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

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**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 our Annual Report on Form 10-K filed March 10, 2014, for the year ended December 31, 2013, 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. The results of operations for the period ended September 30, 2014, are not necessarily indicative of results to be expected for the year ended December 31, 2014.

The consolidated financial statements include all our accounts and the accounts of our wholly-owned subsidiaries, including Silver Slipper Casino Venture, LLC ("Silver Slipper Casino"), Gaming Entertainment (Indiana) LLC ("Rising Star Casino Resort"), Gaming Entertainment (Nevada) LLC ("Grand Lodge Casino") and Stockman's Casino. All material intercompany accounts and transactions have been eliminated.

***Recently Issued Accounting Pronouncements***

Authoritative U.S. Accounting Standards issued after January 1, 2014 have been reviewed, as of August 27, 2014. The new guidance currently has no impact on our financial statements.

**2. SHARE-BASED COMPENSATION**

On June 1, 2011, our compensation committee approved the issuance of 660,000 shares of restricted stock, then valued at the closing price of our stock (\$3.88), with no discount. The majority of the shares (600,000) vested on June 1, 2013. The remaining shares had a three-year vesting schedule and 20,001 shares vested on June 1, 2012, 20,001 vested on June 1, 2013 and 19,998 vested on June 1, 2014. On January 15, 2013, 50,000 additional shares of restricted stock were issued, then valued at \$3.22, with no discount. These shares will vest over three years, 16,667 vested on January 15, 2014, 16,667 will vest on January 15, 2015 and 16,666 on January 15, 2016. On June 5, 2013, 15,000 additional shares of restricted stock were issued, then valued at \$2.86, with no discount. These shares will vest over three years, 5,000 vested on June 1, 2014, 5,000 will vest on June 1, 2015 and 5,000 will vest on June 1, 2016. On January 1, 2014, 120,000 additional shares of restricted stock were issued, then valued at \$2.78, with no discount. These shares will vest over two years, 60,000 on January 1, 2015 and 60,000 on January 1, 2016.

Vesting is contingent upon certain conditions, including continuous service of the individual recipients. Unvested grants made in connection with our incentive compensation plan are viewed as a series of individual awards and the related share-based compensation expense is amortized into compensation expense on a straight-line basis as services are provided over the vesting period, and reported as a reduction of stockholders' equity. We grant shares of restricted stock to key members of management and the board of directors.

We recognized stock compensation expense of \$0.1 million and \$0.0 million for the three months ended September 30, 2014 and 2013, respectively, and \$0.2 million and \$0.6 million for the nine months ended September 30, 2014 and 2013, respectively. Share-based compensation expense related to the amortization of the restricted stock issued was included in selling, general and administrative expense. At September 30, 2014 and December 31, 2013, we had deferred share-based compensation of \$0.3 million and \$0.2 million, respectively.

### **3. GOODWILL AND OTHER INTANGIBLES**

Goodwill represents the excess of the purchase price over fair value of net assets acquired in connection with Silver Slipper Casino, Rising Star Casino Resort and Stockman's Casino operations. In accordance with the authoritative guidance for goodwill and other intangible assets, we test our goodwill and indefinite-lived intangible assets for impairment annually or if a triggering event occurs. We evaluate goodwill and indefinite-lived intangible assets utilizing the market approach and income approach applying the discounted cash flows in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ ("ASC") Topic 350, "Intangibles-Goodwill and Other."

Goodwill was \$14.7 million for Silver Slipper Casino and \$1.8 million for Stockman's Casino as of September 30, 2014. Goodwill was \$14.7 million for Silver Slipper Casino, \$1.6 million for Rising Star Casino Resort and \$1.8 million for Stockman's Casino as of December 31, 2013. Due to various factors, including weak economic conditions, lower than anticipated discretionary consumer spending, and increased competition in our Indiana market, we realized lower than expected operating results during the first and second quarters of 2014. We performed interim impairment assessments of goodwill and indefinite-lived intangible assets as of June 30, 2014, and recognized a \$1.6 million and \$9.9 million impairment of Rising Star Casino Resort's goodwill and gaming license, respectively during the 2<sup>nd</sup> quarter. We performed interim impairment assessments of goodwill and indefinite-lived intangible assets as of September 30, 2014 and determined that further impairment was not deemed necessary.

These calculations, which are subject to change as a result of future economic uncertainty, contemplate changes for both current year and future year estimates in earnings and the impact of these changes to the fair value of Silver Slipper Casino, Rising Star Casino Resort and Stockman's Casino, although there is always some uncertainty in key assumptions including projected future earnings growth. If our estimates of projected cash flows related to our assets are not achieved, we may be subject to future impairment charges, which could have a material adverse impact on our consolidated financial statements.



**Other Intangible Assets:**

Other intangible assets, net consist of the following (in thousands):

<b>September 30, 2014 (unaudited)</b>				
<b>Estimated Life (years)</b>	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Cumulative Expense / (Disposals)</b>	<b>Intangible Asset, Net</b>
<i>Amortizing Intangible assets:</i>				
Player Loyalty Program - Rising Star	3	\$ 1,700	\$ (1,700)	\$ --
Player Loyalty Program - Silver Slipper	3	5,900	(3,933)	1,967
Land Lease and Water Rights - Silver Slipper	46	1,420	(63)	1,357
Capital One Bank Loan Fees	3	5,033	(2,930)	2,103
ABC Funding, LLC Loan Fees	4	1,103	(511)	592
<i>Non-amortizing intangible assets:</i>				
Gaming License-Indiana – Rising Star	Indefinite	9,900	--	(9,900)
Gaming License-Mississippi	Indefinite	136	--	(16)
Gaming Licensing-Nevada	Indefinite	435	--	(29)
Gaming Licensing-Indiana - FHR	Indefinite	109	--	(7)
Gaming Licensing-New York	Indefinite	14	--	--
Trademark	Indefinite	40	--	--
		<u>\$ 25,790</u>	<u>\$ (9,137)</u>	<u>\$ (9,952)</u>
Other Intangible assets subtotal		\$ 19,654	\$ (5,696)	\$ (9,952)
Loan Fees subtotal		6,136	(3,441)	--
		<u>\$ 25,790</u>	<u>\$ (9,137)</u>	<u>\$ (9,952)</u>

<b>December 31, 2013</b>				
<b>Estimated Life (years)</b>	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Cumulative Expense / (Disposals)</b>	<b>Intangible Asset, Net</b>
<i>Amortizing Intangible assets:</i>				
Player Loyalty Program - Rising Star	3	\$ 1,700	\$ (1,558)	\$ 142
Player Loyalty Program - Silver Slipper	3	5,900	(2,458)	3,442
Land Lease and Water Rights - Silver Slipper	46	1,420	(39)	1,381
Capital One Bank Loan Fees	3	4,887	(2,019)	2,868
ABC Funding, LLC Loan Fees	4	998	(308)	690
<i>Non-amortizing intangible assets:</i>				
Gaming License-Indiana	Indefinite	9,900	--	--
Gaming License-Mississippi	Indefinite	118	--	(13)
Gaming Licensing-Nevada	Indefinite	453	--	(29)
Gaming Licensing-Indiana - FHR	Indefinite	99	--	--
Trademark	Indefinite	40	--	--
		<u>\$ 25,515</u>	<u>\$ (6,382)</u>	<u>\$ (42)</u>
Other Intangible assets subtotal		\$ 19,630	\$ (4,055)	\$ (42)
Loan Fees subtotal		5,885	(2,327)	--
		<u>\$ 25,515</u>	<u>\$ (6,382)</u>	<u>\$ (42)</u>

### ***Player Loyalty Programs***

The player loyalty programs represent the value of repeat business associated with Silver Slipper Casino's and Rising Star Casino Resort's loyalty programs. The value of the \$5.9 million and \$1.7 million Silver Slipper Casino's and Rising Star Casino Resort's player loyalty programs, respectively, were 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 analyses for the active rated players were based on projected revenues and attrition rates. Silver Slipper Casino and Rising Star Casino Resort maintain historical information for the proportion of revenues attributable to the rated players for gross gaming revenue. The value of the player loyalty programs are amortized over a life of three years.

### ***Land Lease and Water Rights***

In November 2004, Silver Slipper Casino entered into a lease agreement with Cure Land Company, LLC for approximately 38 acres of land ("Land Lease"), which includes approximately 31 acres of protected marsh land as well as a seven-acre casino parcel, on which the Silver Slipper Casino was subsequently built. The lease was amended and extended on February 26, 2013, as discussed in Note 6. The \$1.0 million Land Lease represents the excess fair value of the land over the estimated net present value of the Land Lease payments. The \$0.4 million of water rights represented the fair value of the water rights based upon the market rates in Hancock County, Mississippi. The value of the Land Lease and water rights are amortized over the life of the Land Lease, or 46 years.

### ***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. On October 1, 2012, we funded the purchase of the Silver Slipper Casino with the full amount of the \$50.0 million first lien term loan ("First Lien Credit Agreement") with Capital One Bank, N.A. ("Capital One") and the full amount of the second lien term loan ("Second Lien Credit Agreement") with ABC Funding, LLC, as discussed in Note 4. We incurred \$4.7 million in loan fees related to obtaining the First Lien Credit Agreement and \$1.0 million in loan fees related to obtaining the Second Lien Credit Agreement. On August 26, 2013, we entered into a first amendment to the First Lien Credit Agreement (the "First Lien Amendment") and an amendment to the Second Lien Credit Agreement (the "Second Lien Amendment") and incurred \$0.2 million in additional loan fees, as discussed in Note 4. The First Lien Amendment modifications included an extended maturity date to June 29, 2016, therefore the amortization period for these loan fees was extended. On July 18, 2014, we entered into a second amendment to the First Lien Credit Agreement (the "First Lien 2nd Amendment") and an amendment to the Second Lien Credit Agreement (the "Second Lien 2nd Amendment") and incurred \$0.2 million in additional loan fees, as discussed in Note 4. All of the loan fees are amortized over the terms of the agreements.

The aggregate loan fee amortization was \$0.4 million and \$0.4 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.1 million and \$1.4 million for the nine months ended September 30, 2014 and 2013, respectively.

**Gaming Licenses**

Gaming licenses represent the value of the license to conduct gaming in certain jurisdictions, which are subject to highly extensive regulatory oversight and, in some cases, a limitation on the number of licenses available for issuance. As discussed above, as of September 30, 2014, we have recognized a \$9.9 million impairment of Rising Star Casino Resort’s gaming license. The other gaming license values are based on actual costs. Gaming licenses are not amortized as they have indefinite useful lives and are evaluated for potential impairment on an annual basis unless events or changes in circumstances indicate the carrying amount of the gaming licenses may not be recoverable.

**Trademark**

The trademark is based on the legal fees and recording fees related to the trademark of the “Rising Star Casino Resort” name, and variations of such name. The trademark is not subject to amortization, as it has an indefinite useful life and is evaluated for potential impairment on an annual basis unless events or changes in circumstances indicate the carrying amount of the trademark may not be recoverable.

**Current Amortization**

We amortize our definite-lived intangible assets, including our player loyalty programs, loan fees, land leases and water rights over their estimated useful lives. The aggregate amortization expense was \$0.9 million and \$1.1 million for the three months ended September 30, 2014 and 2013, respectively, and \$2.8 million and \$3.3 million for the nine months ended September 30, 2014 and 2013, respectively.

**4. LONG-TERM DEBT**

At September 30, 2014 and December 31, 2013, long-term debt consists of the following:

	<u>2014</u>	<u>2013</u>
<b>Long-term debt, net of current portion:</b>		
Term loan agreement, \$50.0 million on June 29, 2012, funded on October 1, 2012, maturing June 29, 2016, with variable interest as described in the sixth succeeding paragraph. (The average interest rate was 4.75% and 5.4% during the quarter ended September 30, 2014 and year ended December 31, 2013, respectively).	\$ 37,500	\$ 37,500
Term loan agreement, \$20.0 million on October 1, 2012, maturing October 1, 2016, the fixed interest rate increased to 14.25% from 13.25% per annum. (The average interest rate was 14.06% and 13.25% during the quarter ended September 30, 2014 and year ended December 31, 2013, respectively).	20,000	20,000
Revolving loan agreement, \$2.0 million funded on March 24, 2014, maturing June 29, 2016, with variable interest as described in the sixth succeeding paragraph. (The average interest rate was 4.75% during the quarter ended September 30, 2014).	2,000	--
Less current portion	--	--
	<u>\$ 59,500</u>	<u>\$ 57,500</u>

**First and Second Lien Credit Agreements.** On June 29, 2012, we entered into the First Lien Credit Agreement with Capital One, which provided for a term loan in an amount up to \$50.0 million and a revolving loan in an amount up to \$5.0 million. On October 1, 2012, we entered into a Second Lien Credit Agreement with ABC Funding, LLC as administrative agent which provided for a term loan in an amount up to \$20.0 million. Capital One and ABC Funding, LLC are collectively referred to as our (“Creditors”). We funded the purchase of Silver Slipper Casino with the full amount of the \$50.0 million term loan under the First Lien Credit Agreement and the full amount of the Second Lien Credit Agreement. The First and Second Lien Credit Agreements are secured by substantially all of our assets and therefore, our wholly-owned subsidiaries guarantee our obligation under the agreements. The Second Lien Credit Agreement is subject to the lien of the First Lien Credit Agreement.

On August 26, 2013, we entered into the First Lien Amendment and the Second Lien Amendment which amended certain provisions of these agreements. The First Lien Amendment modifications included a \$10.0 million increase to the term loan portion of the First Lien Credit Agreement to \$56.3 million, a 1% lower interest rate and an extended maturity date to June 29, 2016. Also, certain financial ratio covenants were revised under the First Lien Credit Agreement and Second Lien Credit Agreement to accommodate the additional extension of credit under the First Lien Credit Agreement and our capital lease agreement related to the new hotel tower at Rising Star Casino Resort as discussed in Note 7. The \$10.0 million term loan under the First Lien Credit Agreement remains undrawn and subject to covenants and other terms of the First Lien Credit Agreement.

On March 24, 2014 we made a \$2.0 million draw on our \$5.0 million revolving loan under the First Lien Credit Agreement, subject to the terms and restrictions of the First Lien Credit Agreement, and deposited \$1.75 million into escrow related to the Interest Purchase Agreement for the potential purchase of the Fitz Tunica Casino & Hotel. We currently have \$3.0 million undrawn on the revolving loan.

On July 18, 2014, we entered into the Second Amendment to First Lien Credit Agreement (“First Lien 2nd Amendment”) which amended certain provisions of the agreement, which became effective as of June 30, 2014. The First Lien 2nd Amendment modifications included revisions of certain financial ratio covenants as of June 30, 2014, and going forward through the term of the loan. The First Lien 2nd Amendment also extended the time period for draws against the \$10.0 million term loan associated with the Silver Slipper Casino Hotel to March 31, 2015. No draws on the \$10 million term loan have been made to date, but we expect to begin drawing on the loan in the fourth quarter of 2014.

On July 18, 2014, we entered into the Second Amendment to Second Lien Credit Agreement (“Second Lien 2nd Amendment”), which amended certain provisions of the agreement. The Second Lien 2<sup>nd</sup> Amendment modifications included revisions of certain financial ratio covenants as of June 30, 2014, and going forward through the term of the loan and an increase in the interest rate by 1%, to 14.25% for the remainder of the term of the loan.

We have elected to pay interest on the First Lien Credit Agreement based on the greater of the elected LIBOR rate, or 1.0%, plus a margin rate as set forth in the agreement. As of September 30, 2014, the interest rate was 4.75% on the balance outstanding on the First Lien Credit Agreement, for both our term loan and revolving loan, based on the 1.0% minimum, plus a 3.75% margin. We paid interest on the Second Lien Credit Agreement at the fixed rate of 13.25% per annum, through July 18, 2014 and 14.25% thereafter.

The First Lien Credit Agreement and Second Lien Credit Agreement contain customary negative covenants for transactions of this type, including, but not limited to, restrictions on our 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 our business. The First Lien Credit Agreement and Second Lien Credit Agreement require that we maintain specified financial covenants, including a total leverage ratio, a first lien leverage ratio, and a fixed charge coverage ratio all of which measure Adjusted EBITDA (as defined in the agreements and amendments) against outstanding debt and fixed charges (as defined in the agreements and amendments). A capital expenditure ratio must also be maintained as set forth in the agreements. The First Lien Credit Agreement and Second Lien Credit Agreement, as amended, define Adjusted EBITDA as net income (loss) plus (i) interest expense, net, (ii) provision for taxes (iii) depreciation and amortization; and further adjusted to eliminate the impact of certain items that are not indicative of ongoing operating performance such as: (iv) extraordinary losses including non-cash impairment charges, (v) stock compensation expense, (vi) certain acquisition costs, (vii) certain registration costs (viii) a pro forma credit for the Indiana gaming tax reductions, less extraordinary gains and any joint venture net income.

We measure compliance with our covenants on a quarterly basis. We successfully renegotiated our defined terms and maximum leverage ratios in the amendments to our First and Second Lien Credit Agreements during the 2<sup>nd</sup> quarter, as discussed above. We were in compliance with these covenants at September 30, 2014.

The First Lien Credit Agreement and Second Lien Credit Agreement also include 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 us or our subsidiaries; occurrence of certain ERISA events; re-purchase of our own stock and certain changes of control. A breach of a covenant or other events of default could cause the loans to be immediately due and payable, terminate commitments for additional loan funds, or the lenders could exercise any other remedy available under the First Lien Credit Agreement or Second Lien Credit Agreement or by law.

As a practice, we consistently prepaid our quarterly payments on the term loan under our First Lien Credit Agreement before the due dates in 2013, and during the year ended December 31, 2013, we prepaid, at our discretion, the sum of \$8.8 million in quarterly principal payments, which were due through July 1, 2015. The next scheduled principal payment on the term loan is due October 1, 2015. The \$2.0 million principal drawn on our revolving loan is due June 29, 2016.

We are required to make additional prepayments under the First Lien Credit Agreement, under certain conditions defined in the agreement, in addition to the scheduled principal installments. Prepayment penalties will be assessed in the event that prepayments are made on the Second Lien Credit Agreement prior to the discharge of the First Lien Credit Agreement.

#### **5. DERIVATIVE INSTRUMENTS – INTEREST RATE CAP AGREEMENT**

Currently, we are subject to interest rate risk under our Capital One First Lien Credit Agreement. In November 2012, in accordance with the terms of the First Lien Credit Agreement, we entered into a prepaid interest rate cap agreement with Capital One for a notional amount of \$15.0 million at a LIBOR cap rate of 1.5%. The agreement was effective November 2, 2012 and terminated on October 1, 2014. On September 12, 2014, we entered into a prepaid interest rate cap agreement with Capital one for a notional amount of \$14.8 million at a LIBOR cap rate of 1.5%. The agreement was effective October 1, 2014 and terminates on June 29, 2016. Any future settlements resulting from the interest rate cap will be recognized in interest expense during the period in which the change occurs.

#### **6. OPERATING LEASE COMMITMENTS**

**Operating leases.** On December 1, 2012, we amended and extended our corporate office lease through May 2018. Effective December 2010, Stockman's Casino entered into a lease agreement as lessee for its primary outdoor casino sign until November 2015. On June 28, 2011, the Grand Lodge Casino entered into a Casino Operations Lease ("Grand Lodge Lease") with Hyatt Equities, L.L.C. for approximately 20,900 square feet of building space occupied by the Grand Lodge Casino gaming operations, as well as associated gaming office space. On April 8, 2013, the Grand Lodge Casino entered into a first amendment to the Grand Lodge Lease (the "Amendment") with Hyatt Equities, L.L.C. amending the terms of the lease. The Amendment extended the initial term of the Grand Lodge Lease until August 31, 2018 and makes certain other conforming changes. Except as set forth in the Amendment, all other terms of the Grand Lodge Lease remain in full force and effect.

Silver Slipper Casino entered into the Land Lease in November 2004 as amended in March 2009, September 2012 and February 2013, which includes approximately 31 acres of protected marsh land as well as a seven-acre casino parcel, on which the Silver Slipper Casino was subsequently built. In December 2010, Silver Slipper Casino entered into a lease agreement with Cure Land Company, LLC for approximately five acres of land occupied by the Silver Slipper Casino gaming office and warehouse space through November 30, 2020. On January 31, 2012, Silver Slipper Casino entered into a lease agreement with Chelsea Company, LLC for a small parcel of land which is currently being used for directional signage, through December 31, 2019. On January 11, 2013, Silver Slipper Casino terminated a previous restaurant lease agreement with Diamondhead Country Club & Property Owners Association ("DCCPOA") and entered into a contract to purchase services to be provided by DCCPOA related to its golf and country club through December 31, 2019.

**Land Lease buyout.** The Land Lease includes an exclusive option to purchase the leased land (“Purchase Option”), as well as an exclusive option to purchase a four-acre portion of the leased land (“4 Acre Parcel Purchase Option”), which may be exercised at any time in conjunction with a hotel development during the term of the Land Lease for \$2.0 million. On February 26, 2013, Silver Slipper Casino entered into a third amendment to the Land Lease which amended the term and Purchase Option provisions. The term of the Land Lease was extended to April 30, 2058, and the Purchase Option was extended through October 1, 2027 and may only be exercised after February 26, 2019. If there is no change in ownership, the purchase price will be \$15.5 million, less \$2.0 million if the 4 Acre Parcel Purchase Option has been previously exercised, plus a retained interest in Silver Slipper Casino operations of 3% of net income. In the event that we sell or transfer substantially all of the assets of our ownership in Silver Slipper Casino, then the purchase price will increase to \$17.0 million.

The total rent expense for all operating leases was \$0.7 million and \$0.7 million for the three months ended September 30, 2014 and 2013, respectively; and \$2.2 million and \$2.2 million for the nine months ended September 30, 2014 and 2013, respectively.

## 7. CAPITAL LEASE OBLIGATION

**Rising Star Casino Resort Capital Lease.** In October 2011, Rising Sun/Ohio County First, Inc., an Indiana non-profit corporation, and Rising Sun Regional Foundation, Inc. teamed up to develop a new 104-room hotel on land adjacent to our Rising Star Casino Resort. Construction commenced in December 2012, and the new hotel tower at Rising Star Casino Resort opened November 15, 2013. The added hotel room inventory in proximity to our casino facility has favorably impacted revenues and visitor counts.

On August 16, 2013, we entered into a 10-year capital lease for the new hotel tower at Rising Star Casino Resort (the “Rising Star Hotel Agreement”) which commenced on November 15, 2013 and provides us with full management control and an option to purchase the new hotel tower at Rising Star Casino Resort at the end of the lease term. We have recorded the capital lease obligation and hotel assets in our financial statements. On November 15, 2013 we began operating the new hotel tower at Rising Star Casino Resort. The Rising Star Hotel Agreement provides that we, as the lessee, assume all responsibilities, revenues, expenses, profits and losses related to the hotel’s operations. The term of the Rising Star Hotel Agreement is for 10 years from November 15, 2013, with the landlord having a right to sell the hotel to us at the end of the term and our corresponding obligation to purchase it on the terms set forth in the Rising Star Hotel Agreement. During the term, we will have the exclusive option to purchase the new hotel tower at Rising Star Casino Resort at a pre-set price. On January 1, 2014, we began paying a fixed monthly rent payment of approximately \$80,000, which will continue throughout the term of the Rising Star Hotel Agreement unless we elect to purchase the hotel before the end of the lease period. In the event that we default on the lease agreement, the landlord’s recourse is limited to taking possession of the property, collection of all rent due and payable, and the right to seek remediation for any attorneys’ fees, litigation expenses, and costs of retaking and re-leasing the property.

The current portion of our capital lease obligation is \$0.7 million, which represents the minimum lease payments, less interest, to be paid over the next year. The capital lease obligation, net of current portion is \$6.4 million.

## 8. COMMITMENTS AND CONTINGENCIES

### *Silver Slipper Casino Hotel Construction*

On August 26, 2013, the Silver Slipper Casino entered into an agreement with WHD Silver Slipper, LLC related to construction of the six-story, 142-room Silver Slipper Casino Hotel (the "Construction Agreement") being built between the south side of the casino and the waterfront, with rooms featuring views of the bay. Our future cash requirements include funding needs of approximately \$1.9 million towards future construction costs and a total of \$5.9 million in construction and financing costs have already been funded from available cash through the quarter ended September 30, 2014. A total of \$7.8 million will be funded from available cash. The Silver Slipper Casino Hotel is scheduled for completion in early 2015 and is budgeted to cost approximately \$17.8 million, excluding capitalized interest. In connection with the financing of the Silver Slipper Casino Hotel, on August 26, 2013, we entered into the First Lien Amendment and the Second Lien Amendment which amended certain provisions of these agreements. The First Lien Amendment modifications included a \$10.0 million increase to the term loan portion of the First Lien Credit Agreement to \$56.3 million, a 1% lower interest rate and an extended maturity date to June 29, 2016. We intend to finance \$10.0 million of the construction cost of the Silver Slipper Casino Hotel with the proceeds of the increase in the term loan under our First Lien Credit Agreement. The \$10.0 million term loan under the First Lien Credit Agreement remains undrawn and subject to covenants and other terms of the First Lien Credit Agreement. We expect to have fully funded the \$7.8 million and to commence drawing on the \$10 million 1<sup>st</sup> Lien Loan during the fourth quarter of 2014. Capital One and ABC Funding, LLC are collectively referred to as our ("Creditors"). In 2014, we capitalized \$0.2 million in interest related to the construction of the Silver Slipper Casino Hotel.

### *Keeneland Association, Inc.*

On February 26, 2014, we entered into an exclusivity agreement ("Exclusivity Agreement") with Keeneland to own, manage, and operate instant racing and, if authorized, traditional casino gaming at race tracks in Kentucky, subject to completion of definitive documents for each opportunity. On June 12, 2014, we executed an amendment to the Exclusivity Agreement extending the term to June 30, 2019. In addition, we and Keeneland have a letter of intent that provides for an exclusive option to purchase the Thunder Ridge Raceway in Prestonsburg, Kentucky, subject to the completion of definitive documents and the approval of the Kentucky Horse Racing Commission, including the approval to transfer the racing license to a to-be-constructed quarter horse racetrack near Corbin, Kentucky to be owned 75% by us and 25% by Keeneland.

Recent Company events have caused the Company and Keeneland to evaluate the nature and scope of their ongoing relationship. We and Keeneland are currently in discussions as to the terms and conditions under which we may terminate the agreements between us and Keeneland.



*Other items*

We are party to a number of pending legal proceedings which occurred in the normal course of business. Management does not expect that the outcome of such proceedings, either individually or in the aggregate, will have a material effect on our financial position, cash flows or results of operations.

**9. SEGMENT REPORTING**

The following tables reflect selected information for our reporting segments for the three and nine months ended September 30, 2014 and 2013. The casino operation segments include the Silver Slipper Casino's operation in Bay St. Louis, Mississippi, Rising Star Casino Resort's operation in Rising Sun, Indiana, the Grand Lodge Casino's operation in Lake Tahoe, Nevada and Stockman's Casino operation in Fallon, Nevada. References to (i) Midwest segment refers to Rising Star Casino Resort, (ii) Gulf Coast segment refers to Silver Slipper Casino and (iii) Northern Nevada segment refers to Grand Lodge Casino and Stockman's Casino. The development/management segment includes costs associated with casino development and management projects, including the management agreement with the Pueblo of Pojoaque for their gaming operations including the Buffalo Thunder Casino and Resort in Santa Fe, New Mexico. The Corporate segment includes our general and administrative expenses.

Selected statement of operations data for the three months ended September 30 (in thousands):

**2014**

	<b>Casino Operations</b>					<b>Consolidated</b>
	<b>Northern Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/Management</b>	<b>Corporate</b>	
Net revenues	\$ 7,134	\$ 13,399	\$ 12,111	\$ 273	\$ --	\$ 32,917
Selling, general and administrative expense	1,377	3,950	4,265	--	995	10,587
Depreciation and amortization	209	766	1,419	--	4	2,398
Impairment loss	--	--	--	--	--	--
Operating income (loss)	2,254	884	317	201	(999)	2,657
Net income (loss)	1,474	320	200	42	(2,802)	(766)

2013

	<b>Casino Operations</b>					
	<b>Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/ Management</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenues	\$ 7,164	\$ 17,001	\$ 12,964	\$ 313	\$ --	\$ 37,442
Selling, general and administrative expense	1,477	4,316	4,434	--	1,006	11,233
Depreciation and amortization	172	749	1,573	--	4	2,498
Impairment loss	(4,000)	--	--	--	--	(4,000)
Operating (loss) income	(1,834)	359	971	291	(1,011)	(1,224)
Net (loss) income	(1,211)	745	639	(451)	(1,873)	(2,151)

Selected statement of operations data for the nine months ended September 30 (in thousands):

2014

	<b>Casino Operations</b>					
	<b>Northern Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/ Management</b>	<b>Corporate</b>	<b>Consolidated</b>
Net revenues	\$ 16,543	\$ 40,189	\$ 36,879	\$ 1,066	\$ --	\$ 94,677
Selling, general and administrative expense	4,182	11,646	12,467	--	3,341	31,636
Depreciation and amortization	639	2,306	4,207	--	13	7,165
Impairment loss	--	(11,547)	--	--	--	(11,547)
Operating income (loss)	3,207	(11,357)	1,789	659	(3,353)	(9,055)
Net income (loss)	2,103	(7,724)	1,165	447	(6,330)	(10,339)

**2013**

	<b>Casino Operations</b>					
	<b>Northern Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/ Management</b>	<b>Corporate</b>	<b>Consolidated</b>
Net revenues	\$ 17,692	\$ 54,413	\$ 40,044	\$ 1,123	\$ --	\$ 113,272
Selling, general and administrative expense	4,474	13,090	13,729	--	4,280	35,573
Depreciation and amortization	529	2,222	4,146	--	9	6,906
Impairment loss	(4,000)	--	--	--	--	(4,000)
Operating income (loss)	74	3,358	3,708	1,062	(4,289)	3,913
Net income (loss)	49	2,382	2,429	46	(6,523)	(1,617)

Selected balance sheet data as of September 30, 2014 and December 31, 2013 (in thousands):

**2014**

	<b>Casino Operations</b>					
	<b>Northern Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/ Management</b>	<b>Corporate</b>	<b>Consolidated</b>
Total assets	\$ 12,332	\$ 40,554	\$ 73,151	\$ 59	\$ 19,896	\$ 145,992
Property and equipment, net	6,805	34,671	51,077	--	38	92,591
Goodwill	1,809	--	14,671	--	--	16,480
Liabilities	1,876	11,928	3,073	--	61,421	78,298

**2013**

	<b>Casino Operations</b>					
	<b>Northern Nevada</b>	<b>Midwest</b>	<b>Gulf Coast</b>	<b>Development/ Management</b>	<b>Corporate</b>	<b>Consolidated</b>
Total assets	\$ 13,838	\$ 55,523	\$ 71,662	\$ 59	\$ 13,205	\$ 154,287
Property and equipment, net	7,352	36,427	47,338	--	51	91,168
Goodwill	1,809	1,647	14,671	--	--	18,127
Liabilities	2,056	12,718	3,559	--	58,140	76,473

## 10. SUBSEQUENT EVENTS

October 22, 2014, the Company's Board of Directors has authorized management to initiate a process for the sale of the Company. After its evaluation of strategic alternatives, the Board of Directors determined that pursuing a sale of the Company is the best course of action to maximize stockholder value and is accordingly in the best interest of all stockholders.

On October 28, 2014, a group of dissident minority stockholders (the "Dissident Stockholders") of the Company filed a definitive consent solicitation statement seeking to call a special meeting to appoint certain individuals to the Company's board of directors and to make changes to the Company's bylaws. The Company will incur costs and expenses responding to the solicitation, which could be material to the Company's results of operations.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Unless otherwise noted, transactions, trends and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. In addition, unless expressly stated otherwise, the comparisons presented in this MD&A refer to the same period in the prior year. Our MD&A is presented in eight sections:

- Overview
- Key Performance Indicators
- Results of Continuing Operations
- Liquidity and Capital Resources
- Off-balance-sheet Arrangements
- Seasonality
- Regulation and Taxes
- Critical Accounting Estimates and Policies

### Overview

We are a multi-jurisdictional developer, owner and operator of gaming-related enterprises in regional markets. We have successfully transitioned from a gaming management company to a company with operations that consist primarily of owned casino properties. The repositioning of our business plan is highlighted by the acquisition of Rising Star Casino Resort and the lease of Grand Lodge Casino in 2011 and the acquisition of Silver Slipper Casino and the sale of the management agreement for the FireKeepers Casino in 2012. We actively explore, individually and with partners, new gaming-related opportunities with a focus on acquiring and developing casino properties.

We currently own three casino properties, lease one casino property and have one management contract for a group of related casino properties, which agreement expired as anticipated in the three months ended September 30, 2014. These properties are located in four distinct regions of the United States – the Gulf Coast, the Midwest, Northern Nevada and the Southwest.

On March 30, 2012, we entered into a Membership Interest Purchase Agreement with Silver Slipper Casino Venture LLC to acquire all of the outstanding membership interest of the entity operating Silver Slipper Casino in Bay St. Louis, Mississippi. The purchase was closed on October 1, 2012, for a price of approximately \$69.3 million exclusive of cash and working capital in the amount of \$6.4 million and \$2.9 million, respectively. We entered into the First Lien Credit Agreement ("First Lien Credit Agreement") with Capital One Bank, N.A. ("Capital One") on June 29, 2012 and the Second Lien Credit Agreement ("Second Lien Credit Agreement") with ABC Funding, LLC, on October 1, 2012, as discussed in Note 4 to our consolidated financial statements, and we used the debt to fund the Silver Slipper Casino purchase price.

In May 2011, we entered into a three-year agreement with the Pueblo of Pojoaque, which was approved by the National Indian Gaming Commission as a management contract, to advise on the operations of Buffalo Thunder Casino and Resort in Santa Fe, New Mexico, along with the Pueblo's Cities of Gold and other gaming facilities which in aggregate have approximately 1,200 slot machines, 18 tables games (including poker) and a simulcast area. Our management and related agreements with Buffalo Thunder Casino and Resort became effective on September 23, 2011 and terminated, as anticipated, on September 23, 2014.

As of September 1, 2011, we own the operating assets of Grand Lodge Casino, and have a lease terminating August 31, 2018 with Hyatt Equities, L.L.C. for the casino space in the Hyatt Regency Lake Tahoe Resort, Spa and Casino in Incline Village, Nevada on the north shore of Lake Tahoe. There can be no assurance that the Grand Lodge Casino lease ending in August 2018 will be extended beyond its current terms.

We conduct gaming operations in four gaming jurisdictions and are subject to regulatory oversight in each of those jurisdictions. Accordingly, we are required to submit regular reports to the gaming authorities in each jurisdiction regarding our operations and from time to time make applications regarding our operations, including financial arrangements entered into by us, and obtaining gaming licenses or findings of suitability of key personnel working at our properties. Such reporting and applications may affect our abilities to obtain financings or loans for our existing operations or expansion opportunities. We believe that we and our operations are in material compliance with all such gaming regulations.

#### **Key Performance Indicators**

We use several key performance indicators to evaluate the operations of our properties. These key performance indicators include the following:

##### *Gaming revenue indicators:*

Slot coin-in is the gross dollar amount wagered in slot machines and table game drop is the total amount of cash deposited in table games drop boxes, plus the sum of markers issued at all table games. Slot coin-in and table game drop are indicators of volume and/or market share.

Slot win and table game hold is the difference between customer wagers and customer winnings on slot machines and table games, respectively. Slot win and table game hold percentages represent the relationship between slot coin-in and table game drop to gaming wins and losses.

##### *Room revenue indicators:*

Hotel occupancy rate is an indicator of volume measuring the utilization of our available rooms; average daily rate ("ADR") is a price indicator; and hotel revenue per available room ("RevPAR") is an indicator of operating margin. Complimentary room sales, or the retail value of accommodations gratuitously furnished to customers, are included in the calculation of the hotel occupancy rate, ADR and RevPAR.

## Results of Continuing Operations

For purposes of our discussion, references to (i) Midwest segment refers to Rising Star Casino Resort, (ii) Gulf Coast segment refers to Silver Slipper Casino and (iii) Northern Nevada segment refers to Grand Lodge Casino and Stockman's Casino.

Indiana gaming tax legislation was recently passed, which allows a portion of the free play to be tax-free, resulting in a savings of \$0.1 million for the three months ended September 30, 2014, and \$0.5 million for the nine months ended September 30, 2014, for the Rising Star Casino Resort. In addition, as part of the legislation, since Rising Star Casino Resort's gross gaming revenues are less than \$75.0 million during the State of Indiana's fiscal year ended June 30, 2014, we began receiving additional tax relief of approximately \$2.5 million per year, beginning on July 1, 2014. For the three months ended September 30, 2014, we have realized a tax savings of \$1.2 million, due to the lower tax structure.

### Three Months Ended September 30, 2014, Compared to Three Months Ended September 30, 2013

#### *Net Revenues*

The \$4.5 million, or 12%, decrease in net revenues for the three months ended September 30, 2014 primarily consisted of the following changes by revenue type: a \$5.2 million, or 14%, decrease in casino revenues, a \$0.5 million, or 8%, decrease in food and beverage revenues, and a \$0.1 million, or 8%, decrease in other revenues, offset by a \$0.3 million, or 24%, increase in hotel revenues and a \$1.0 million, or 13%, decrease in promotional allowances.

The \$4.5 million decrease in net revenues was principally related to a \$3.6 million, or 21%, decrease in our Midwest segment net revenues primarily as a result of increased competition and lower than expected market growth, along with a \$0.9 million, or 7%, decrease in our Gulf Coast segment net revenues which reflects continuing economic weakness in the region and some business interruption due to construction of the adjacent hotel.

The \$4.3 million decrease in our Midwest segment net revenues was mainly the result of lower gross casino revenues at the Rising Star Casino Resort, which decreased \$4.1 million, or 23% primarily a result of increased competition due to the opening of two Ohio racinos in December 2013 and May 2014, a new casino in Cincinnati, Ohio, which opened in March 2013, and continued pressure from other Ohio casinos. Rising Star Casino Resort's slot coin-in and slot win were both 26% below the prior year period. Table drop was down 9% compared to the prior year period, but table hold increased from 19.6% in the third quarter of 2013 to 22.2% in the same period in 2014, bringing the table win in \$0.1 million over the prior year. Food and beverage revenues decreased by \$0.4 million, or 20%, due to decreased customer visitation. These reductions in revenue were partially offset by a \$0.3 million, or 24%, increase in hotel revenues, due to the addition of the new rooms and a \$0.7 million, or 16%, decrease in promotional allowances.

The Rising Star Casino Resort's gross hotel revenue for the quarter ended September 30, 2014 was \$1.3 million, an increase of \$0.3 million over the prior year period, primarily due to the increase in available rooms related to the new Rising Star Hotel tower, which increased total available room nights for the period from 16,924 to 26,018. The Rising Star Casino Resort sold 20,215 room nights in the quarter and had a hotel occupancy rate of 78%, an ADR of \$64 and RevPAR of \$50, for the three months ended September 30, 2014, as compared to room sales of 16,469 room nights, a hotel occupancy rate of 97%, an ADR of \$62 and RevPAR of \$61, for the three months ended September 30, 2013. The Rising Star Casino Resort's hotel occupancy consisted of approximately 79% of complimentary room sales for the three months ended September 30, 2014, as compared to approximately 87% of complimentary room sales for the three months ended September 30, 2013. Complimentary room sales, or the retail value of accommodations gratuitously furnished to customers, are included in the calculation of the hotel occupancy rate, ADR and RevPAR, although complimentary room sales are excluded from net revenues in our consolidated statements of operations.

The \$0.9 million decrease in our Gulf Coast segment revenues was the result of lower casino revenues at the Silver Slipper Casino, primarily as a result of continuing economic weakness in the region and some business interruption due to construction of the adjacent hotel.

Silver Slipper Casino's slot coin-in in 2014 was 9% below the prior year period and the slot win was 7% below prior year same period, due to a slightly higher hold percentage. Table drop was comparable to the same period in the prior year, but table win was down by 11% because of a lower table hold percentage of 14.2%, compared to 15.9% in the prior year.

Net revenues in our Northern Nevada segment were comparable to the same period in the prior year. Although casino revenues declined \$0.2 million, this was offset by an equal decrease in promotional allowances.

#### ***Operating Costs and Expenses***

For the three months ended September 30, 2014, total operating costs and expenses decreased \$4.4 million, or 13%, as compared to 2013, as a result of a \$3.4 million, or 19%, decrease in casino expenses, a \$0.6 million, or 6%, decrease in selling, general and administrative expenses and a \$0.6 million, or 44%, decrease in other operation expenses, offset by a \$0.2 million or 10%, increase in food and beverage expenses and \$0.1 million decrease, or 4%, in depreciation and amortization expense.

The decrease in operating costs was primarily due to a \$4.1 million, or 25%, decrease in our Midwest segment operating costs, a \$0.2 million, or 2%, decrease in our Gulf Coast segment operating costs, and a \$0.1 million decrease in Northern Nevada operating costs. The \$4.1 million decrease in our Midwest segment operating expenses was the result of cost containment measures, a decrease in business volume and a reduction in the gaming tax rate which began on July 1, 2014. The decrease in Midwest segment operating costs were spread among expense categories with the largest decrease of \$3.3 million, or 35%, in lower casino expenses, largely due to a \$2.3 million, or 72%, decrease in gaming taxes due to lower taxable gaming revenues and a reduction in the gaming tax rate. In addition, casino costs were reduced in payroll, promotional allocations and other operating areas.

#### ***Project Development and Acquisition Costs***

For the three months ended September 30, 2014, project development costs were \$72,000 relating largely to legal and travel, compared to \$22,000 for the same period in 2013.



### ***Selling, General and Administrative Expense***

For the three months ended September 30, 2014, selling, general and administrative expenses decreased \$0.6 million, or 6%, as compared to 2013. Selling, general and administrative expenses decreased \$0.4 million, or 8%, in our Midwest segment, \$0.2 million, or 4%, in our Gulf Coast segment and remained flat in our corporate and Northern Nevada segments.

The \$0.4 million decrease in our Midwest segment's selling, general and administrative expenses was due to Rising Star Casino Resort's cost control initiatives which resulted in lower payroll and other employee related expenses and a decline in marketing expenses. The \$0.2 million decrease in our Gulf Coast segment's selling, general and administrative expenses was also due to Silver Slipper Casino's cost control initiatives which resulted in a savings in payroll and other related expenses and in lower marketing expenses.

### ***Other Expense***

For the three months ended September 30, 2014, we incurred \$1.6 million in interest expense related to our First Lien Credit Agreement and Second Lien Credit Agreement, whose proceeds were used to purchase Silver Slipper Casino, as compared to \$1.8 million of interest expense in the prior year period. The \$0.2 million, or 13%, decrease in interest expense was primarily due to \$8.8 million in payments of long-term debt since September 30, 2013, as well as the 1% reduction in the First Lien Credit Agreement term loan interest rate, due to the First Lien Amendment in August 2013, offset by the 1% increase in interest rate on the Second Lien Credit Agreement, as discussed in Note 4. For the third quarter of 2014, we capitalized \$0.1 million in interest related to the construction of the Silver Slipper Casino Hotel, as discussed in Note 8 to the consolidated financial statements.

During the three months ended September 30, 2014, we incurred a settlement expense of \$1.7 million pursuant to the terms of a settlement agreement with Majestic Star Casino, LLC and Majestic Mississippi, LLC. This settlement agreement resolves all disputes in connection with the terminated offer to purchase the outstanding interests of Majestic Mississippi's property in Tunica, Mississippi.

These other expense items are allocated to our corporate operations segment.

### ***Income taxes***

The estimated effective tax rate for the three months ended September 30, 2014 is approximately -7% compared to 30% for the same period in 2013. The lower tax rate in the current quarter is primarily due to an expense recorded on a pre-tax book loss in 2014 as compared to a benefit recorded on pre-tax book loss for the same period in 2013. The federal tax benefit is offset by state tax expense as a result of the non-deductibility of gaming taxes in certain states. There is no valuation allowance on the long-term deferred tax asset of \$5.6 million as of September 30, 2014, as we believe the deferred tax assets are fully realizable.

## Nine Months Ended September 30, 2014, Compared to Nine Months Ended September 30, 2013

### *Net Revenues*

The \$18.6 million, or 16%, decrease in net revenues for the nine months ended September 30, 2014 primarily consisted of the following changes by revenue type: a \$19.4 million, or 18%, decrease in casino revenues, a \$2.1 million, or 12%, decrease in food and beverage revenues, and a \$0.5 million, or 34%, decrease in other revenues, offset by a \$0.7 million, or 23%, increase in hotel revenues and a \$2.7 million, or 12%, decrease in promotional allowances.

The \$18.6 million decrease in net revenues was principally related to a \$14.2 million, or 26%, decrease in our Midwest segment net revenues primarily as a result of increased competition and adverse weather conditions in the first quarter of 2014, a \$3.2 million, or 8%, decrease in our Gulf Coast segment net revenues primarily due to adverse weather conditions in the first quarter 2014, continuing economic weakness and construction disruption and a \$1.1 million, or 6%, decrease in our Northern Nevada segment revenues primarily due to poor weather conditions in the Lake Tahoe region early in the year and continued economic weakness in Northern Nevada.

The \$14.2 million decrease in our Midwest segment revenues was largely the result of lower gross casino revenues at the Rising Star Casino Resort, which decreased \$15.1 million, or 27%, primarily a result of increased competition due to the opening of two Ohio racinos in December 2013 and May 2014, a new casino in Cincinnati, Ohio, which opened in March 2013, coupled with adverse weather conditions during the first quarter in the Midwest that affected the entire Indiana/Ohio market. Food and beverage revenues at Rising Star Casino Resort decreased as well by \$1.7 million, or 24%, and other revenue decreased by \$0.5 million, or 55%, offset by a \$0.7 million, or 23%, increase in gross hotel revenues due to the increase in hotel rooms upon completion of the new hotel at Rising Star casino Resort and a \$2.3 million, or 17%, decrease in promotional allowances. Rising Star Casino Resort's slot coin-in in 2014 was 28% below the prior year period and table drop was down 21% compared to the prior year period. The win percentages for slots were consistent with the win percentages in the prior year, whereas the table hold decreased 1% over the prior year period.

The Rising Star Casino Resort's hotel revenue for the nine months ended September 30, 2014 was \$3.8 million, an increase of \$0.7 million over the prior year period primarily due to the increase in available rooms related to the new Rising Star Hotel tower, which increased available room nights from 50,239 to 77,798. The Rising Star Casino Resort sold 58,376 room nights in the nine months ended September 30, 2014 and had a hotel occupancy rate of 75%, an ADR of \$65 and RevPAR of \$49, as compared to room nights sold of 48,029, a hotel occupancy rate of 96%, an ADR of \$63 and RevPAR of \$60, for the nine months ended September 30, 2013. The Rising Star Casino Resort's hotel occupancy consisted of approximately 83% of complimentary room sales for the nine months ended September 30, 2014, as compared to approximately 90% of complimentary room sales for the nine months ended September 30, 2013. Complimentary room sales, or the retail value of accommodations gratuitously furnished to customers, are included in the calculation of the hotel occupancy rate, ADR and RevPAR, although complimentary room sales are excluded from net revenues in our consolidated statements of operations.

The \$3.2 million decrease in our Gulf Coast segment net revenues was largely the result of lower gross casino revenues at the Silver Slipper Casino, primarily as a result of adverse weather conditions in the first quarter, continued weak economic conditions and some construction disruption related to the new hotel project. Silver Slipper Casino's slot coin-in in 2014 was 9% below the prior year period and win was \$1.5 million or 7% below last year. Table drop remained comparable to the prior year same period, but the table win declined by \$0.3 million or 7% due to a lower hold percentage.

The \$1.1 million decrease in our Northern Nevada segment net revenues was the result of \$0.9 million, or 7%, lower net revenues at the Grand Lodge Casino and \$0.2 million, or 5% lower net revenues at the Stockman's Casino due to lower gross casino revenues. At Grand Lodge Casino, slot coin-in and win in 2014 were 6% below the prior year period. Table drop in 2014 was down 5% from the nine months ended September 30, 2013, but due to lower hold percentage, the table win declined \$0.4 million or 13% primarily due to poor weather conditions in the Lake Tahoe region early in the year. The lower gross casino revenues at the Stockman's Casino were primarily a result of lower volume due to continuing economic weakness. Stockman's Casino's slot win in 2014 was 7% below the prior year period, although the hold percentage for slots remained comparable to the prior year period.

#### ***Operating Costs and Expenses***

For the nine months ended September 30, 2014, total operating costs and expenses decreased \$13.2 million, or 13%, as compared to 2013, as a result of a \$8.7 million, or 17%, decrease in casino expenses, a \$3.9 million, or 11%, decrease in selling, general and administrative expenses and a \$1.7 million, or 44%, decrease in other operation expenses, offset by a \$0.3 million, or 4%, increase in depreciation and amortization expense, partially due to the new Rising Star Hotel capitalized leased assets, a \$0.3 million increase in project development costs, a \$0.1 million or 17% increase in hotel expenses and \$0.5 million, or 7%, increase in food and beverage expenses.

The decrease in operating costs was primarily due to an \$11.1 million, or 22%, decrease in our Midwest segment operating costs, a \$1.2 million, or 3%, decrease in our Gulf Cost segment operating costs, a \$0.9 million, or 22%, decrease in our corporate operating costs and a \$0.3 million, or 2%, decrease in our Northern Nevada segment operating costs, offset by a \$0.3 million increase in our project development costs, as explained below.

The \$11.1 million decrease in our Midwest segment operating expenses was the result of cost containment measures and a decrease in business volume. The decrease in Midwest segment operating costs were spread among expense categories with \$8.3 million, or 28%, in lower casino expenses, largely due to a \$5.7 million, or 53%, decrease in gaming taxes related to the decline in casino revenue and the legislated tax reduction, \$1.7 million, or 46%, in lower other expenses, \$1.4 million, or 11%, in lower selling, general and administrative expenses (as explained below), offset by \$0.2 million, or 11%, higher food and beverage expenses.

#### ***Project Development and Acquisition Costs***

For the nine months ended September 30, 2014, project development costs increased \$0.3 million as compared to 2013, as a result of costs related to the proposed acquisition of Fitz Tunica Casino & Hotel incurred in the current year period. Project development and acquisition costs are allocated to our development/management segment.

### ***Selling, General and Administrative Expense***

For the nine months ended September 30, 2014, selling, general and administrative expenses decreased \$3.9 million, or 11%, as compared to 2013. Selling, general and administrative expenses decreased \$1.4 million, or 11%, in our Midwest segment, \$1.3 million, or 9%, in our Gulf Coast segment, \$0.9 million, or 22%, in our corporate segment and \$0.3 million, or 7%, in our Northern Nevada segment. The \$0.9 million decrease in our corporate segment selling, general and administrative expenses was largely due to a \$0.6 million, or 75%, reduction in stock and incentive compensation costs. No bonuses have been earned by or awarded to eligible employees in 2014.

The \$1.4 million decrease in our Midwest segment's selling, general and administrative expenses was due to Rising Star Casino Resort's cost control initiatives which resulted in \$0.5 million, or 9%, lower payroll and other employee related expenses and a \$0.8 million, or 43%, decline in marketing expenses. The \$1.3 million decrease in our Gulf Coast segment's selling, general and administrative expenses was due to Silver Slipper Casino's cost control initiatives which resulted in \$0.9 million, or 16%, lower payroll and other related expenses and \$0.2 million, or 10%, lower marketing expenses. The \$0.3 million decrease in our Northern Nevada segment's selling, general and administrative expenses was due to Grand Lodge Casino's cost control initiatives which resulted in \$0.5 million, or 27%, lower payroll and related expenses and \$0.1 million, or 11%, lower marketing expenses.

### ***Operating Loss***

For the nine months ended September 30, 2014, we incurred an impairment loss of \$11.5 million related to Rising Star Casino Resort's goodwill and gaming license, as discussed in Note 3 to the consolidated financial statements.

### ***Other Expense***

For the nine months ended September 30, 2014, we incurred \$4.7 million in interest expense related to our First Lien Credit Agreement and Second Lien Credit Agreement, whose proceeds were used to purchase Silver Slipper Casino, as compared to \$5.6 million of interest expense in the prior year period. The \$0.9 million, or 16%, decrease in interest expense was primarily due to \$8.8 million in payments of long-term debt since September 30, 2013, as well as the 1% reduction in the First Lien Credit Agreement term loan interest rate, due to the First Lien Amendment in August 2013, as discussed in Note 4, and partially offset by the 1% increase in interest rate on the Second Lien Credit Agreement as of July 2014. We capitalized \$0.2 million in interest related to the construction of the Silver Slipper Casino Hotel, as discussed in Note 8 to the consolidated financial statements. These other expense items are allocated to our corporate operations segment. During the nine months ended September 30, 2014, we incurred a settlement expense of \$1.7 million pursuant to the terms of a settlement agreement with Majestic Star Casino, LLC and Majestic Mississippi, LLC. This settlement agreement resolves all disputes in connection with the terminated offer to purchase the outstanding interests of Majestic Mississippi's property in Tunica, Mississippi.

## ***Income Taxes***

The estimated effective tax rate for the nine months ended September 30, 2014 is approximately 33% compared to 5% for the same period in 2013. The higher tax rate in the current year is primarily due to the larger pre-tax book loss when compared to the pre-tax book loss for the same period in 2013. The federal tax benefit is offset by state tax expense as a result of the non-deductibility of gaming taxes in certain states. There is no valuation allowance on the long-term deferred tax asset of \$5.6 million as of September 30, 2014, as we believe the deferred tax assets are fully realizable.

## **Liquidity and Capital Resources**

### ***Economic conditions and related risks and uncertainties***

The United States has experienced, since 2007, a widespread and severe economic slowdown accompanied by, among other things, weakness in consumer spending including gaming activity and reduced credit and capital financing availability, all of which have far-reaching effects on economic conditions in the country for an indeterminate period. Our operations are currently concentrated in the Gulf Coast, the Midwest, Northern Nevada and the Southwest. Accordingly, future operations could be affected by adverse economic conditions and increased competition particularly in those areas and their key feeder markets in neighboring states. The effects and duration of these conditions and related risks and uncertainties on our future operations and cash flows, including our access to capital or credit financing, cannot be estimated at this time, but may be significant.

Silver Slipper Casino, Rising Star Casino Resort, Grand Lodge Casino, and Stockman's Casino operations are currently our primary sources of income and operating cash flow. In addition, for the nine months ended September 30, 2014 and 2013, The Buffalo Thunder Casino and Resort management agreement with the Pueblo of Pojoaque generated \$1.1 million in management income for each of those periods. The management agreement ended in accordance with the contract on September 23, 2014. There can be no assurance that the Grand Lodge Casino lease ending in August 2018 will be extended beyond its current terms.

On a consolidated basis, cash provided by operations for the nine months ended September 30, 2014 was \$6.5 million. Cash of \$6.6 million was used in investing activities primarily due to \$6.2 million in property and equipment acquired at our various properties, including \$3.9 million in construction costs for the Silver Slipper Casino Hotel. Cash of \$1.1 million was provided by financing activities primarily related to the \$2.0 million draw on our \$5.0 million revolving loan under the First Lien Credit Agreement, less \$0.6 million in repayment of our long term capital lease obligation.

As of September 30, 2014, we had approximately \$16.0 million in cash and equivalents. As a practice, we consistently prepaid our quarterly payments on the term loan under our First Lien Credit Agreement before the due dates in 2013, and during the year ended December 31, 2013, we prepaid, at our discretion, the sum of \$8.8 million in quarterly principal payments, which were due through July 1, 2015. The next scheduled principal payment on the term loan is due October 1, 2015. On March 24, 2014 we made a \$2.0 million draw on our \$5.0 million revolving loan under the First Lien Credit Agreement, subject to the terms and restrictions of the First Lien Credit Agreement, and deposited \$1.75 million into escrow related to the Interest Purchase Agreement for the potential purchase of the Fitz Tunica Casino & Hotel. Pursuant to the terms of the August 21, 2014 settlement agreement Majestic and Majestic Mississippi received \$1.7 million of the funds held in escrow and the Company received \$50,000. Additionally, Majestic, Majestic Mississippi and the Company agreed that the Interest Purchase Agreement was terminated. We currently have \$3.0 million undrawn on the revolving loan. The \$2.0 million principal drawn on our revolving loan is due June 29, 2016.

## *Projects*

We are currently under construction of a 142-room hotel at Silver Slipper Casino. Our future cash requirements include funding needs of approximately \$1.9 million towards future construction costs for the Silver Slipper Casino Hotel. A total of \$5.9 million in construction and financing costs have already been funded from available cash through the quarter ended September 30, 2014. A total of \$7.8 million will be funded from available cash before we draw on the available \$10.0 million term loan as described below. The Silver Slipper Casino Hotel is scheduled for completion in the first quarter of 2015 and is budgeted to cost approximately \$17.8 million. Our topping-off of the steel structure was completed in late October, 2014. In connection with the financing of the Silver Slipper Casino Hotel, on August 26, 2013, we entered into a First Lien Amendment to the First Lien Credit Agreement (“First Lien Amendment”) and an Amendment No. 1 to the Second Lien Credit Agreement (“Second Lien Amendment”) which amended certain provisions of these agreements. The First Lien Amendment modifications included a \$10.0 million increase to the term loan portion of the First Lien Credit Agreement to \$56.3 million, a 1% lower interest rate and an extended maturity date to June 29, 2016. We intend to finance \$10.0 million of the construction cost of the Silver Slipper Casino Hotel with the proceeds of the increase in the term loan under our First Lien Credit Agreement as described in Note 4 to the consolidated financial statements, which remains undrawn and subject to covenants and other terms of the First Lien Credit Agreement. We expect to begin drawing on the \$10 million hotel construction loan during the fourth quarter of 2014. Capital One and ABC Funding, LLC are collectively referred to as our (“Creditors”). As of June 30, 2014, we successfully renegotiated terms to our First and Second Lien Credit Agreements that modified key definitions and increased the maximum allowable leverage ratios, as discussed in Note 4 to the consolidated financial statements. We are in compliance with our First and Second Lien covenants at September 30, 2014.

We believe the Silver Slipper Casino Hotel is a much-needed amenity which will allow guests to extend their visits and enjoy more of what Silver Slipper Casino has to offer and favorably impact customer loyalty and revenues.

In October 2011, the Rising Sun/Ohio County First, Inc., an Indiana non-profit corporation, and Rising Sun Regional Foundation, Inc. teamed up to develop a new 104-room hotel on land adjacent to our Rising Star Casino Resort. Construction commenced in December 2012, and the new hotel tower at Rising Star Casino Resort opened November 15, 2013. The added hotel room inventory in proximity to our casino facility has favorably impacted revenues and visitor counts.

On August 16, 2013, we entered into a 10-year capital lease for the new hotel tower at Rising Star Casino Resort (the "Rising Star Hotel Agreement") which commenced on November 15, 2013 and provides us with full management control and an option to purchase the new hotel tower at Rising Star Casino Resort at the end of the lease term. We have recorded the capital lease obligation and hotel assets in our financial statements. On November 15, 2013, we began operating the new hotel tower at Rising Star Casino Resort. The Rising Star Hotel Agreement provides that we, as the lessee, assume all responsibilities, revenues, expenses, profits and losses related to the hotel's operations. The term of the Rising Star Hotel Agreement is for 10 years from November 15, 2013, with the landlord having a right to sell the hotel to us at the end of the term and our corresponding obligation to purchase it on the terms set forth in the Rising Star Hotel Agreement. During the term, we will have the exclusive option to purchase the new hotel tower at Rising Star Casino Resort at a pre-set price. On January 1, 2014, we began paying a fixed monthly rent payment of approximately \$80,000, which will continue throughout the term of the Rising Star Hotel Agreement unless we elect to purchase the hotel before the end of the lease period. In the event that we default on the lease agreement, the landlord's recourse is limited to taking possession of the property, collection of all rent due and payable, and the right to seek remediation for any attorneys' fees, litigation expenses, and costs of retaking and re-leasing the property.

Subject to the effects of the economic uncertainties discussed above, we believe that adequate financial resources will be available to execute our current growth plan from a combination of operating cash flows and external debt and equity financing. However, there can be no assurances of our ability to continue expanding.

#### ***Other Projects***

We evaluate projects on a number of factors, including forecasted profitability, development period, regulatory and political environment and the ability to secure the funding necessary to complete the development or acquisition, among other considerations. No assurance can be given that any additional projects will be pursued or completed or that any completed projects will be successful.

On March 21, 2014, we entered into a definitive agreement with The Majestic Star Casino LLC ("Majestic Star") to acquire all of the outstanding membership interests of the entity operating Fitz Tunica Casino & Hotel ("Majestic Mississippi, LLC"), located in Tunica, Mississippi, for a purchase price of \$62.0 million. On June 23, 2014, we terminated the Interest Purchase Agreement ("Agreement") on the basis of mutual agreement, or in the alternative, inability to obtain financing for the purchase. The termination became effective immediately. On June 25, 2014, Majestic Star notified us that it believes that the Agreement remains in effect and disputed its termination. Additionally, Majestic Star disputed the release of the \$1.75 million held in escrow, pursuant to the terms of the Agreement, to us. On August 21, 2014 Majestic, Majestic Mississippi and the Company entered into a settlement agreement to resolve all disputes, including the dismissal with prejudice of the Lawsuit, and mutually released each other and their respective officers, directors, employees from any claims, demands or actions for damages related thereto. Pursuant to the terms of the settlement agreement Majestic and Majestic Mississippi will receive \$1.7 million of the funds held in escrow and the Company will receive \$50,000. Additionally, Majestic, Majestic Mississippi and the Company agreed that the Interest Purchase Agreement was terminated.

On February 26, 2014, we entered into an exclusivity agreement ("Exclusivity Agreement") with Keeneland to own, manage, and operate instant racing and, if authorized, traditional casino gaming at race tracks in Kentucky, subject to completion of definitive documents for each opportunity. On June 12, 2014, we executed an amendment to the Exclusivity Agreement extending the term to June 30, 2019. In addition, we and Keeneland have a letter of intent that provides for an exclusive option to purchase the Thunder Ridge Raceway in Prestonsburg, Kentucky, subject to the completion of definitive documents and the approval of the Kentucky Horse Racing Commission, including the approval to transfer the racing license to a to-be-constructed quarter horse racetrack near Corbin, Kentucky to be owned 75% by us and 25% by Keeneland.

Recent Company events have caused the Company and Keeneland Association, Inc. (“Keeneland”) to evaluate the nature and scope of their ongoing relationship. We and Keeneland are currently in discussions as to the terms and conditions under which we may terminate the agreements between us and Keeneland.

### ***Banking Relationships***

On June 29, 2012, we entered into the First Lien Credit Agreement with Capital One, which provided for a term loan in an amount up to \$50.0 million and a revolving loan in an amount up to \$5.0 million. On October 1, 2012, we entered into the Second Lien Credit Agreement with ABC Funding, LLC as administrative agent which provided for a term loan in an amount up to \$20.0 million. On October 1, 2012, we closed on the acquisition of all of the equity membership interests in Silver Slipper Casino Venture LLC dba Silver Slipper Casino located in Bay St. Louis, Mississippi. The purchase price of approximately \$69.3 million, exclusive of cash and working capital in the amount \$6.4 million and \$2.9 million, respectively, was funded by our First Lien Credit Agreement with Capital One Bank, N.A. and our Second Lien Credit Agreement with ABC Funding, LLC. The First Lien Credit Agreement and Second Lien Credit Agreement are secured by substantially all of our assets and therefore, our wholly-owned subsidiaries guarantee our obligations under the agreements. The Second Lien Credit Agreement is subject to the lien of the First Lien Credit agreement.

On August 26, 2013, we entered into the First Lien Amendment and the Second Lien Amendment which amended certain provisions of these agreements. The First Lien Amendment modifications included a \$10.0 million increase to the term loan portion of the First Lien Credit Agreement to \$56.3 million, a 1% lower interest rate and an extended maturity date to June 29, 2016. Also, certain financial ratio covenants were revised under the First Lien Credit Agreement and Second Lien Credit Agreement to accommodate the additional extension of credit under the First Lien Credit Agreement and our capital lease agreement related to the new hotel tower at Rising Star Casino Resort, as discussed in Note 7 to the consolidated financial statements. The \$10.0 million increase to the term loan under our First Lien Credit Agreement remains undrawn and subject to covenants and other terms of the First Lien Credit Agreement and the First and Second Amendments.

On March 24, 2014 we made a \$2.0 million draw on our \$5.0 million revolving loan under the First Lien Credit Agreement, subject to the terms and restrictions of the First Lien Credit Agreement, and deposited \$1.75 million into escrow related to the Interest Purchase Agreement for the potential purchase of the Fitz Tunica Casino & Hotel, as discussed previously.

On July 18, 2014, we entered into the Second Amendment to First Lien Credit Agreement (“First Lien 2nd Amendment”) which amended certain provisions of the agreement, which became effective as of June 30, 2014. The First Lien 2nd Amendment modifications included revisions of certain financial ratio covenants as of June 30, 2014, and going forward through the term of the loan. The First Lien 2nd Amendment also extended the time period for draws against the \$10.0 million term loan associated with the Silver Slipper Casino Hotel to March 31, 2015. We expect to begin drawing on the \$10 million hotel construction loan during the fourth quarter of 2014. On July 18, 2014, we entered into a Second Amendment to Second Lien Credit Agreement (“Second Lien 2<sup>nd</sup> Amendment”), which amended certain provisions of the agreement. The Second Lien 2<sup>nd</sup> Amendment modifications included revisions of certain financial ratio covenants as of June 30, 2014, and going forward through the term of the loan and an increase in the interest rate by 1%, to 14.25% for the remainder of the term of the loan.



Under the amendments, the First Lien Credit Agreement and the Second Lien Credit Agreement maximum total leverage ratio and maximum first lien leverage ratio vary according to the applicable time period and the fixed charge coverage ratio remains constant, as indicated in the tables below:

**First Lien Credit Agreement**

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

**Second Lien Credit Agreement**

<b>Applicable Period</b>	<b>Maximum Total Leverage Ratio</b>	<b>Maximum First Lien Leverage Ratio</b>	<b>Minimum Fixed Charge Coverage Ratio</b>
June 30, 2014 through and including September 29, 2014	5.00x	3.75x	1.00x
September 30, 2014 through and including December 30, 2014	5.75x	3.75x	1.00x
December 31, 2014 through and including March 30, 2015	5.75x	4.25x	1.00x
March 31, 2015 through and including June 29, 2015	5.75x	4.25x	1.00x
June 30, 2015 through and including September 29, 2015	5.00x	3.75x	1.00x
September 30, 2015 through and including December 30, 2015	4.75x	3.50x	1.00x
December 31, 2015 through and including March 30, 2016	4.50x	3.25x	1.00x
March 31, 2016 and thereafter	4.50x	3.25x	1.00x

We have elected to pay interest on the First Lien Credit Agreement based on the greater of the elected LIBOR rate, or 1.0%, plus a margin rate as set forth in the agreement. As of September 30, 2014, the interest rate was 4.75% on the balance outstanding on the First Lien Credit Agreement, for both our term loan and revolving loan, based on the 1.0% minimum, plus a 3.75% margin. We paid interest on the Second Lien Credit Agreement at the fixed rate of 13.25% per annum, through June 30, 2014 and 14.25% thereafter.

The First Lien Credit Agreement and Second Lien Credit Agreement contain customary negative covenants, including, but not limited to, restrictions on our 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 our business. The First Lien Credit Agreement and Second Lien Credit Agreement require that we maintain specified financial covenants, including a total leverage ratio, a first lien leverage ratio, and a fixed charge coverage ratio, all of which measure Adjusted EBITDA (as defined in the agreements and amendments) against outstanding debt and fixed charges (as defined in the agreements and amendments). A capital expenditure ratio must also be maintained as set forth in the agreements. The First Lien Credit Agreement and Second Lien Credit Agreement, as amended, define Adjusted EBITDA as net income (loss) plus (i) interest expense, net, (ii) provision for taxes (iii) depreciation and amortization; and further adjusted to eliminate the impact of certain items that are not indicative of ongoing operating performance such as: (iv) extraordinary losses including non-cash impairment charges, (v) stock compensation expense, (vi) certain acquisition costs, (vii) certain registration costs, (viii) a pro forma credit for the Indiana gaming tax reductions; less extraordinary gains and any joint venture net income.

We measure compliance with our covenants on a quarterly basis. At March 31, 2014 we exceeded the allowable total leverage ratio and the first lien leverage ratios for both of our credit agreements; however, we received waivers for compliance with these ratios at March 31, 2014 from our Creditors. We successfully renegotiated our defined terms and maximum leverage ratios in the amendments to our First and Second Lien Credit Agreements, as discussed above, and we were in compliance with these covenants at September 30, 2014.

The First Lien Credit Agreement and Second Lien Credit Agreement also include 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 us or our subsidiaries; occurrence of certain ERISA events; re-purchase of our own stock and certain changes of control. A breach of a covenant or other events of default could cause the loans to be immediately due and payable, terminate commitments for additional loan funds, or the lenders could exercise any other remedy available under the First Lien Credit Agreement or Second Lien Credit Agreement or by law.

As a practice, we consistently prepaid our quarterly payments on the term loan under our First Lien Credit Agreement before the due dates in 2013, and during the year ended December 31, 2013, we prepaid, at our discretion, the sum of \$8.8 million in quarterly principal payments, which were due through July 1, 2015. The next scheduled principal payment on the term loan is due October 1, 2015. The \$2.0 million principal drawn on our revolving loan is due June 29, 2016.

We are required to make additional prepayments under the First Lien Credit Agreement, under certain conditions defined in the agreement, in addition to the scheduled principal installments. Prepayment penalties will be assessed in the event that prepayments are made on the Second Lien Credit Agreement prior to the discharge of the First Lien Credit Agreements.

## **Off-balance sheet Arrangements**

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## **Seasonality**

We believe that our casino operations and management contracts and our estimates of completion for projects in development are affected by seasonal factors, including holidays, adverse weather and travel conditions. Accordingly, our results of operations may fluctuate from year to year and the results for any year may not be indicative of results for future years.

## **Regulation and Taxes**

We, and our casino operations, are subject to extensive regulation by state and tribal gaming authorities. We will also be subject to regulation, which may or may not be similar to current state regulations, by the appropriate authorities in any jurisdiction where we may conduct gaming activities in the future. Changes in applicable laws or regulations could have an adverse effect on us.

The gaming industry represents a significant source of tax revenues to state governments. From time to time, various federal or state legislators and officials have proposed changes in tax law, or in the administration of such law, affecting the gaming industry. It is not possible to determine the likelihood of possible changes in tax law or in the administration of such law. Such changes, if adopted, could have a material adverse effect on our future financial position, results of operations and cash flows.

## **Critical Accounting Estimates and Policies**

We describe our critical accounting estimates and policies in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2013. We also discuss our critical accounting estimates and policies in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our Form 10-K for the year ended December 31, 2013. There has been no significant change in our critical accounting estimates or policies since the end of 2013.

## **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," "forecasts," "possible," "seeks," "may," "could," "should," "might," "likely," "enable," or similar words or expressions are used in this Form 10-Q, as well as statements containing phrases such as "in our view," "there can be no assurance," "although no assurance can be given," or "there is no way to anticipate with certainty," forward-looking statements are being made.

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:

- The effect of the consent solicitation by the dissident stockholders to appoint certain individuals to the Company's board of directors;
- our growth strategies;
- our potential acquisitions and investments;
- successful integration of acquisitions;
- risks related to development and construction activities;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions, including but not limited to, the effects of local and national economic, housing and energy conditions on the economy in general and on the gaming and lodging industries in particular;
- access to capital and credit, including our ability to finance future business requirements;
- our dependence on key personnel;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license or legislation and regulations;
- ability to obtain and maintain gaming and other governmental licenses;
- regulatory approvals;
- impact of weather;
- competitive environment, including increased competition in our target market areas;
- increases in the effective rate of taxation at any of our properties or at the corporate level; and
- 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 risk factors, 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 forecasted in any forward-looking statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not applicable

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures** — As of September 30, 2014, we completed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at a reasonable assurance level in timely alerting them to material information relating to us which is required to be included in our periodic Securities and Exchange Commission filings.

**Changes in Internal Control Over Financial Reporting** — There have been no changes in our internal controls over financial reporting that occurred during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II - OTHER INFORMATION

### Item 6. Exhibits

31.1	Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of principal executive officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of principal financial officer pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Labels*
101.PRE	XBRL Taxonomy Extension Presentation*

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\* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FULL HOUSE RESORTS, INC.**

Date: November 5, 2014

By: /s/ DEBORAH J. PIERCE

Deborah J. Pierce  
Chief Financial Officer  
(on behalf of the Registrant and  
as principal financial officer)

**CERTIFICATION**

I, Andre M. Hilliou, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Full House Resorts, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management of other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Dated: November 5, 2014

By: /s/ ANDRE M. HILLIOU

Andre M. Hilliou  
Chief Executive Officer and Chairman of the Board



**CERTIFICATION**

I, Deborah J. Pierce, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Full House Resorts, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f)) for the small business issuer and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management of other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Dated: November 5, 2014

By: /s/ DEBORAH J. PIERCE

Deborah J. Pierce  
Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Full House Resorts, Inc. for the quarter ended September 30, 2014 as filed with the Securities and Exchange Commission (the "Report"), I, Andre M. Hilliou, Chief Executive Officer and Chairman of the Board of Full House Resorts, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Full House Resorts, Inc.

Dated: November 5, 2014

By: /s/ ANDRE M. HILLIOU  
Andre M. Hilliou  
Chief Executive Officer and Chairman of the Board

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Full House Resorts, Inc. for the quarter ended September 30, 2014 as filed with the Securities and Exchange Commission (the "Report") I, Deborah Pierce, Chief Financial Officer of Full House Resorts, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Full House Resorts, Inc.

Dated: November 5, 2014

By: /s/ DEBORAH J. PIERCE

Deborah J. Pierce  
Chief Financial Officer