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

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

Form 10-Q
(Mark
One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2016
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File No. 1-32583

FULL HOUSE RESORTS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

FULL HOUSE RESORTS, INC.
FORM 10-Q
INDEX

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

See condensed notes to consolidated financial statements.

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

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

See condensed notes to consolidated financial statements.

4

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

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

See condensed notes to consolidated financial statements.

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

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

See condensed notes to consolidated financial statements.

6

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
1. ORGANIZATION

Organization. Formed as a Delaware corporation in 1987, Full House Resorts, Inc. ("Full House") owns, operates, develops, manages, and/or invests in casinos and related hospitality and entertainment facilities. References in this document to the "Company", “we”, “our”, or “us” refer to Full House Resorts, Inc. and its subsidiaries, except where stated or the context otherwise indicates.

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

Property	Acquisition Date	Location
Silver Slipper Casino and Hotel	2012	Hancock County, MS (near New Orleans)
Bronco Billy's Hotel and Casino	2016	Cripple Creek, CO (near Colorado Springs)
Rising Star Casino Resort	2011	Rising Sun, IN (near Cincinnati)
Stockman’s Casino	2007	Fallon, NV (one hour east of Reno)
Grand Lodge Casino (leased and part of the Hyatt Regency Lake Tahoe Resort)	2011	Incline Village, NV (North Shore of Lake Tahoe)

We manage our casinos based on geographic regions within the United States. Accordingly, Stockman’s Casino and Grand Lodge Casino comprise our Northern Nevada business segment, while Silver Slipper, Rising Star, and Bronco Billy's are currently distinct segments. See Note 11 for further information.
2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. As permitted by the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to those rules and regulations. These consolidated financial statements should be read in conjunction with the Company’s 2015 annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

The interim consolidated financial statements of the Company included herein reflect all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the entire year.

The consolidated financial statements include the accounts of Full House and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated.

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

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

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

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

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

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

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

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

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

3. ACQUISITION

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

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

8

(In thousands, unaudited)

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

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

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

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

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

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

Pro Forma Consolidated Statement of Operations
(In thousands, unaudited)

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

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

4. PROPERTY AND EQUIPMENT

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

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

5. GOODWILL AND OTHER INTANGIBLES

At least annually during the fourth quarter, or more frequently when there is a material change in circumstances that could have a negative effect, the Company performs an assessment of its goodwill and other indefinite-lived intangible assets to determine if the carrying value of such assets exceeds the fair value. No change in circumstances that would trigger an evaluation occurred during the three and six months ended June 30, 2016, or subsequently.

6. LONG-TERM DEBT AND WARRANT LIABILITY

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

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

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

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

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

10

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

First Lien Credit Facility

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

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

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

Second Lien Credit Facility

As of June 30, 2016, the Amended and Restated Second Lien Credit Facility had $55 million of principal indebtedness outstanding and matures on the earlier of (i) May 13, 2022, or (ii) six months following the maturity date of the Amended and Restated First Lien Credit Facility. Given that the Amended and Restated First Lien Credit Facility currently matures in May 2019, the current maturity date of the Amended and Restated Second Lien Credit Facility is November 2019. Interest is currently payable monthly at a rate of 13.5% (and may vary between 12.5% and 13.5%, depending on the total leverage of the Company), and there are no quarterly principal payment requirements as all principal is due at maturity. The prepayment premium is 3% of the total principal amount until May 13, 2017, 2% until May 13, 2018, 1% until May 13, 2019, and no prepayment premium thereafter. We incurred debt issuance costs of $1,239,000, which are being amortized over the current remaining term of the loan, and expensed debt modification costs of $283,000.

Second Lien Credit Facility Common Stock Warrants

As part of the Amended and Restated Second Lien Credit Facility, on May 13, 2016, the Company granted the second lien lenders warrants representing 5% of the outstanding common equity of the Company, as determined on a fully-diluted basis. The warrants have an exercise price of $1.67 per share (the average trading price of the Company's common stock during a 60-day period bracketing the completion of the financing) and expire May 13, 2026. The warrants also provide the second lien lenders with redemption rights, pre-emptive rights to maintain their 5% ownership interest in the Company, piggyback registration rights and mandatory registration rights after two years. The redemption rights allow the second lien lenders, at their option, to require the Company to repurchase all or a portion of all of the warrants in the event of: (i) the maturity of the Amended and Restated Second Lien Credit Facility, (ii) an acceleration pursuant to the Amended and Restated Second Lien Credit Facility, (iii) a refinancing, repayment or other transaction decreasing the aggregate principal amount of the Amended Second Lien Facility debt outstanding as of May 13, 2016 by more than 50%, (iv) a liquidity event, as defined, or (v) the Company's insolvency. The repurchase value is the 21-day average price of the Company's stock at the time of the event, as defined, net of the warrant exercise price. If the redemption rights are exercised, the repurchase amount is payable by the Company in cash or through the issuance of an unsecured note with a four-year term and a minimum interest rate of 13.25%, as further defined. Although unsecured, the note would be guaranteed by the Company's subsidiaries. Alternatively, the second lien lenders may choose to have the Company register and sell the shares related to the warrants through a public stock offering.

We measure the fair value of the warrants at each reporting period. The fair value at issuance of the warrants was $0.6 million and was recorded as a liability due to the redemption feature and a resulting discount to the Amended and Restated Second Lien Credit Facility. The discount is amortized to interest expense during the expected term of the Amended and Restated Second Lien Credit Facility, which is currently 3.5 years. The Company recognized $0.2 million of expense due to a change in the fair value of the warrants from the grant date through the period ended June 30, 2016 which was reflected as part of "Other" non-operating expense on the consolidated statements of operations. The liability related to the warrants reflected in the consolidated balance sheets was $0.8 million at June 30, 2016.

Due to the variable terms regarding the timing of the settlement of the warrants, the Company utilized a Monte Carlo simulation approach to measure the fair value of the warrants which included the Company's stock price and the following assumptions: an expected contractual term of 3.85 years, an expected stock price volatility rate of 44.78%, an expected dividend yield of 0% and an expected risk-free interest rate of 1.1%. The simulation included certain estimates by Company management regarding the estimated timing of the settlement of the warrants. Significant increases or decreases in those management estimates would result in a significantly higher or lower fair value measurement. The Company also utilized the Monte Carlo simulation approach for its valuation at June 30, 2016 using materially similar assumptions. The change in value of the warrants was largely due to the increase in the Company's stock price.

Covenants

The Amended and Restated First and Second Lien Credit Facilities 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; dispose of assets; and change the basic underlying nature of our business. We are also required to make capital expenditures of at least 1.425%, and no more than 5.25%, of our prior-year revenues, excluding capital expenditures made from any future sale of equity securities.

The Amended and Restated First Lien and Second Lien Credit Facilities define Adjusted EBITDA as, for any four fiscal quarter period, (a) net income (loss) for such period, plus (b) to the extent deducted in determining net income (loss) for such period: (i) interest expense, (ii) provisions for income taxes, (iii) depreciation and amortization expenses, (iv) extraordinary losses (including non-cash impairment charges), (v) stock compensation expense, (vi) acquisition costs related to Bronco Billy's in an aggregate amount not to exceed $1 million, (vii) pre-opening expenses related to the hotel at Silver Slipper that opened in 2015, and (viii) non-recurring development expenses for new initiatives in an aggregate amount not to exceed $500,000 for the trailing four consecutive fiscal quarters, minus (c) extraordinary gains, and minus (d) joint venture net income, unless such net income has been actually received by the Company in the form of cash dividends or distributions. Adjusted EBITDA shall include results for Bronco Billy's as if it were owned for the entire measurement period.

The Amended and Restated First Lien and Second Lien Credit Facilities 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 against outstanding debt and fixed charges (as defined in the agreements). These financial covenant ratios currently are as follows:
First Lien Credit Facility

Applicable Period	Maximum Total Leverage Ratio	Maximum First Lien Leverage Ratio
April 1, 2016 through and including March 30, 2017	5.875x	2.750x
March 31, 2017 through and including September 29, 2017	5.875x	2.625x
September 30, 2017 through and including March 30, 2018	5.750x	2.500x
March 31, 2018 through and including September 29, 2018	5.625x	2.375x
September 30, 2018 through and including March 30, 2019	5.375x	2.250x
March 31, 2019 and thereafter	5.250x	2.125x

Additionally, the Fixed Charge Coverage Ratio as of the last day of any fiscal quarter shall not be less than 1.10x.

Second Lien Credit Facility

Applicable Period	Maximum Total Leverage Ratio	Maximum First Lien Leverage Ratio
April 1, 2016 through and including March 30, 2017	6.125x	3.000x
March 31, 2017 through and including September 29, 2017	6.125x	2.875x
September 30, 2017 through and including March 30, 2018	6.000x	2.750x
March 31, 2018 through and including September 29, 2018	5.875x	2.625x
September 30, 2018 through and including March 30, 2019	5.625x	2.500x
March 31, 2019 through and including September 29, 2019	5.500x	2.375x
September 30, 2019 and thereafter	5.250x	2.250x

Additionally, the Fixed Charge Coverage Ratio as of the last day of any fiscal quarter shall not be less than 1.0x.

We were in compliance with our covenants as of June 30, 2016; however, there can be no assurances that we will remain in compliance with all covenants in the future. The Amended First and Second Lien Credit Facilities 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; repurchase 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 Amended and Restated First and Second Lien Credit Facilities or by law. If a breach of covenants or other event of default were to occur, we would seek modifications to covenants or a temporary waiver or waivers from the Amended and Restated First and Second Lien Credit Facilities lenders. No assurance can be given that we would be successful in obtaining such waivers or modifications.

We are required to make prepayments under the Amended and Restated First Lien Credit Facility, under certain conditions as defined in the agreement, in addition to the scheduled principal installments as defined. With regards to the Amended and Restated Second Lien Credit Facility, no mandatory prepayments are required prior to the discharge of the First Lien Credit Facility.

7. CAPITAL LEASE OBLIGATION

Our Indiana subsidiary, Gaming Entertainment (Indiana) LLC ("GEI"), leases a 104-room hotel at Rising Star Casino Resort. At any time during the lease term, we have the exclusive option to purchase the hotel at a price based upon the project’s actual cost of $7.7 million, reduced by the cumulative principal payments made by the Company during the lease term. At June 30, 2016, such net amount was $5.9 million. Upon expiration of the lease term, (i) the Landlord has the right to sell the hotel to us, and (ii) we have the option to purchase the hotel. In either case, the purchase price is $1 plus closing costs. The hotel lease agreement is not guaranteed by any other subsidiary or the parent company.

On March 16, 2016, the hotel lease agreement was amended. The amendment extended the initial term of the lease by four years to October 1, 2027 and modified the rent payment schedule. The rental rate has been reduced from $77,537 per month as follows: (i) to $48,537 per month from April 2016 through March 2017, (ii) to $56,537 per month from April 2017 through March 2018; (iii) to $57,537 per month from April 2018 through March 2019; and (iv) to $63,537 per month from April 2019 through March 2020. Beginning April 1, 2020 through the end of the lease, the scheduled monthly payment shall be $54,326. The amendment also requires the Company to make certain improvements to the Rising Star Casino Resort of at least $1 million by March 31, 2017 which the Company planned and intends to complete. If the Company does not make the $1 million of improvements, the lease will revert back to the original payment schedule.

8. INCOME TAXES

The Company's effective income tax rate for the three and six months ended June 30, 2016 was -8.2% and -11.4%, compared to an effective tax rate of 10.4% and -8.9% during the corresponding prior-year periods. Our tax rate differs from the statutory rate of 34.0% primarily due to the effects of our valuation allowance and certain permanent items for tax purposes. During 2016, we continued to provide a valuation allowance against the deferred tax assets that remain after being utilized by deferred tax liabilities. In future years, if it is determined that we meet the "more likely than not" threshold of utilizing our deferred tax assets, we may reverse some or all of our valuation allowance against our deferred tax assets. Our annual effective tax rate could not be reasonably estimated at the present time.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

In addition to the following leases, we have less significant operating leases for certain office and warehouse facilities, office equipment, signage and land.

Grand Lodge Casino Lease through August 2023. Our subsidiary, Gaming Entertainment (Nevada), LLC, has a lease with Hyatt Equities L.L.C. ("Hyatt") to operate the Grand Lodge Casino. The lease is secured by the Company's interests under the lease and property as defined and is subordinate to the liens in the Amended and Restated First and Second Lien Credit Facilities. Hyatt has an option, beginning January 1, 2019, to purchase our leasehold interest and related operating assets of the Grand Lodge Casino subject to assumption of applicable liabilities. The option price is an amount equal to the Grand Lodge Casino's positive working capital, plus Grand Lodge Casino's earnings before interest, income taxes, depreciation and amortization ("EBITDA") for the twelve-month period preceding the acquisition (or pro-rated if less than twelve months remain on the lease), plus the fair market value of the Grand Lodge Casino's personal property. Monthly rent will increase from $125,000 to (i) $145,833 commencing on January 1, 2017, and (ii) $166,667 commencing on January 1, 2018. As a condition of the lease, the Company is required to purchase new gaming devices and equipment or make other capital expenditures at its sole cost and expense of approximately $1.5 million, and Hyatt is required to renovate the casino at its sole cost and expense of approximately $3.5 million by February 2017.

We also have an agreement with Hyatt to rent a villa for use by our designated casino guests which commenced on June 1, 2016. The villa is a free-standing building and consists of two, two-bedroom suites. The agreement includes monthly payments of $41,667, a six-month termination notification clause which may be exercised by either party, and a maturity date of August 31, 2023, or earlier as set forth therein.

Silver Slipper Casino Land Lease through April 2058 and Options to Purchase. In 2004, our subsidiary, Silver Slipper Casino Venture, LLC, entered into a land lease with Cure Land Company, LLC for approximately 31 acres of marshlands and a seven-acre parcel on which the Silver Slipper Casino & Hotel is situated (the "Silver Slipper Land Lease"). The Silver Slipper Land Lease includes base monthly payments of $77,500 plus contingent rents of 3% of monthly gross gaming revenue (as defined) in excess of $3.65 million.

The Silver Slipper Land Lease includes an exclusive option to purchase the leased land ("Purchase Option") after February 26, 2019 through October 1, 2027, for $15.5 million plus a seller retained interest in Silver Slipper Casino & Hotel's operations of 3% of net income (as defined), for ten years from the purchase date. In the event that we sell or transfer (i) substantially all of the assets of Silver Slipper Casino Venture, LLC, or (ii) our membership interests in Silver Slipper Casino Venture, LLC in its entirety, the purchase price will increase to $17.1 million plus the retained interest for ten years mentioned above. In either case, we also have an option to purchase only a four-acre portion of the leased land for $2 million, which may be exercised at any time in conjunction with the development of a hotel and which accordingly reduces the purchase price of the remaining land by $2 million.

Bronco Billy's Lease and Option to Purchase. Bronco Billy's leases certain parking lots and buildings, including a portion of the hotel and casino, under a long-term lease. The lease terms include an initial expiration date of January 2017, current rents of $18,500 per month, and six renewal options in three-year increments to 2035. Bronco Billy's recently exercised its first renewal option through January 2020, which increases the monthly rents to $25,000 for the first two years of the renewal period and $30,000 for the third year. The lease also contains a $7.6 million purchase option exercisable at any time during the lease and a right of first refusal.

Litigation

In 2013 and 2014, we expended approximately $1.6 million to repair defects to the parking garage at the Silver Slipper Casino & Hotel. The parking garage was originally built in 2007 and we acquired the property in 2012. We hired outside legal counsel to pursue the reimbursement of such costs from the contractor and architect, who neglected to install certain structural elements required by the building codes. During the third quarter of 2015, the case was dismissed in favor of the defendants, as the statutes of repose had expired and, in the judge's opinion, we had failed to prove elements that would have extended our right to seek reimbursement of the remedial costs. We filed an appeal on November 2, 2015. On November 25, 2015, we entered into a settlement and release agreement with the architect, and on January 12, 2016, we filed an appellate brief in the US District Court of Appeals 5th Circuit with respect to our litigation with the contractor.

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.

10. SHARE-BASED BENEFIT PLANS

2015 Equity Incentive Plan. As of June 30, 2016, we had 443,756 share-based awards available for grant from the 2015 Equity Incentive Plan (the "2015 Plan").

In May 2016, the Company issued 420,000 stock options to various employees of the Company, all of which have an exercise price of $1.70, a price slightly higher than the Company's closing price on the day of grant. These stock options all vest in equal amounts over the next three years. The Company also issued 74,116 stock options with an exercise price of $1.70 and a one-year vesting period to members of its Board of Directors, as well as 49,413 shares of common stock which vested immediately.

The following table summarizes information related to our common stock options as of June 30, 2016:

	Number of Stock Options	Weighted Average Exercise Price
Options outstanding at January 1, 2016	1,563,834	$ 1.33
Granted	494,116	1.70
Exercised	—	n/a
Canceled/Forfeited	—	n/a
Options outstanding at June 30, 2016	2,057,950	$ 1.42
Options exercisable at June 30, 2016	586,515	$ 1.32

We estimated the fair value of each stock option award on the grant date using the Black-Scholes valuation model. Option valuation models require the input of highly subjective assumptions. Changes in assumptions used can materially affect the fair value estimate. Option valuation assumptions for the options granted during the six-month period ended June 30, 2016 included: an expected volatility range between 43.7% and 44.6%, an expected dividend yield of 0%, an expected life of 5.0 to 5.8 years, and an expected weighted-average risk-free rate of between 1.3% and 1.4%.

Compensation Costs. Stock-based compensation expense totaled $164,000 and $191,000 for the three months ended June 30, 2016 and 2015, and $220,000 and $228,000 for the six months ended June 30, 2016 and 2015. As of June 30, 2016, there was approximately $0.8 million of unrecognized compensation cost related to unvested stock options granted by the Company. This unrecognized compensation cost is expected to be recognized over a weighted average period of 2.4 years.

11. SEGMENT REPORTING

We manage our casinos based on geographic regions within the United States. The casino/resort segments include the Silver Slipper Casino and Hotel in Hancock County, Mississippi; Bronco Billy's Casino and Hotel in Cripple Creek, Colorado; the Rising Star Casino Resort in Rising Sun, Indiana; and the Northern Nevada segment, which consists of the Grand Lodge Casino in Incline Village, Nevada and Stockman’s Casino in Fallon, Nevada. Bronco Billy's Casino and Hotel was purchased on May 13, 2016 and reflects information from May 13, 2016 through June 30, 2016 in the tables below. We no longer have a Development/Management segment as we did not manage any properties for others during the reporting periods.

The Company's management utilizes Adjusted Property EBITDA as the primary profit measure for its segments. Adjusted Property EBITDA is a non-GAAP measure defined as Adjusted EBITDA before corporate-related costs and expenses that are not allocated to each property. Adjusted EBITDA is a non-GAAP measure defined as earnings before interest and other non-operating income (expense), taxes, depreciation and amortization, pre-opening expenses, impairment charges, asset write-offs, recoveries, gain (loss) from asset disposals, board and executive transition costs, project development and acquisition costs, and non-cash share-based compensation expense. Adjusted EBITDA or Adjusted Property EBITDA should not be construed as an alternative to operating income or net income for use as an indicator of our performance; or as an alternative to cash flows from operating activities for use as a measure of liquidity; or as an alternative to any other measure determined in accordance with GAAP. We have significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in Adjusted EBITDA or Adjusted Property EBITDA. Also, other companies in the gaming and hospitality industries that report Adjusted EBITDA or Adjusted Property EBITDA information may calculate Adjusted EBITDA or Adjusted Property EBITDA in a different manner.

The following tables reflect selected operating information for our reporting segments for the three and six months ended June 30, 2016 and 2015 and include a reconciliation of Adjusted Property EBITDA to operating income (loss) and net income (loss):
For the three months ended June 30, 2016
(In thousands, unaudited)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Casino & Hotel	Northern Nevada	Corporate	Consolidated
Revenues, net	$14,494	$12,053	$3,584	$ 4,716	$—	$ 34,847
Adjusted Property EBITDA	$2,369	$432	$1,088	$ 624	$—	$ 4,513
Other operating costs and expenses:						
Depreciation and amortization	835	664	219	178	3	1,899
Corporate expenses	—	—	—	—	1,113	1,113
Project development and acquisition costs	—	—	—	—	485	485
Stock compensation	—	—	—	—	164	164
Operating income (loss)	1,534	(232)	869	446	(1,765)	852
Non-operating expense:						
Interest expense	4	52	—	—	2,174	2,230
Debt modification costs	—	—	—	—	601	601
Adjustment to fair value of warrants	—	—	—	—	241	241

Non-operating expense	4	52	—	—	3,016	3,072
Income (loss) before income taxes	1,530	(284)	869	446	(4,781)	(2,220)
Provision for income taxes	143	—	31	—	6	180
Net income (loss)	$ 1,387	$ (284)	$ 838	$ 446	$ (4,787)	$ (2,400)

16

For the three months ended June 30, 2015
(In thousands, unaudited)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Hotel & Casino	Northern Nevada	Corporate	Consolidated
Revenues, net	$14,350	$11,766	$ —	$4,610	$—	$30,726
Adjusted Property EBITDA	$2,665	$592	$ —	$679	$—	$3,936
Other operating costs and expenses:						
Depreciation and amortization	1,159	673	—	194	4	2,030
Other losses (recoveries)	—	—	—	—	(450)	(450)
Corporate expenses	—	—	—	—	995	995
Project development and acquisition costs	—	—	—	—	48	48
Pre-opening	75	—	—	—	—	75
Stock compensation	—	—	—	—	191	191
Operating income (loss)	1,431	(81)	—	485	(788)	1,047
Non-operating expense:						
Interest expense, net of amounts capitalized	4	42	—	—	1,477	1,523
Non-operating expense	4	42	—	—	1,477	1,523
Income (loss) before income taxes	1,427	(123)	—	485	(2,265)	(476)
Provision (benefit) for income taxes	(49)	—	—	—	—	(49)
Net income (loss)	$1,476	$(123)	$ —	$485	$(2,265)	$(427)

For the six months ended June 30, 2016
(In thousands, unaudited)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Hotel & Casino	Northern Nevada	Corporate	Consolidated
Revenues, net	$29,339	$24,299	$3,584	$ 9,632	$—	$ 66,854
Adjusted Property EBITDA	$5,030	$1,733	$1,088	$ 1,390	$—	$ 9,241
Other operating costs and expenses:						
Depreciation and amortization	1,664	1,333	219	368	7	3,591
Corporate expenses	—	—	—	—	2,275	2,275
Project development and acquisition costs	—	—	—	—	772	772
Stock compensation	—	—	—	—	220	220
Operating income (loss)	3,366	400	869	1,022	(3,274)	2,383
Non-operating expense:						
Interest expense	9	106	—	—	3,877	3,992
Debt modification costs	—	—	—	—	601	601
Adjustment to fair value of warrants	—	—	—	—	241	241
Non-operating expense	9	106	—	—	4,719	4,834
Income (loss) before income taxes	3,357	294	869	1,022	(7,993)	(2,451)
Provision for income taxes	241	1	31	1	6	280
Net income (loss)	$3,116	$293	$838	$ 1,021	$(7,999)	$ (2,731)

18

For the six months ended June 30, 2015
(In thousands, unaudited)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Hotel & Casino	Northern Nevada	Corporate	Consolidated
Revenues, net	$28,074	$22,881	$ —	$ 8,855	$ —	$ 59,810
Adjusted Property EBITDA	$5,362	$797	$ —	$ 1,042	$ —	$ 7,201
Other operating costs and expenses:						
Depreciation and amortization	2,260	1,361	—	394	7	4,022
Impairments	—	—	—	80	4	84
Other losses (recoveries)	—	—	—	—	(450)	(450)
Corporate expenses	—	—	—	—	2,121	2,121
Project development and acquisition costs	—	—	—	—	51	51
Pre-opening	113	—	—	—	—	113
Stock compensation	—	—	—	—	228	228
Operating income (loss)	2,989	(564)	—	568	(1,961)	1,032
Non-operating expense:						
Interest expense, net of amounts capitalized	9	84	—		2,954	3,047
Other	—	(11)	—	—	(1)	(12)
Non-operating expense	9	73	—	—	2,953	3,035
Income (loss) before income taxes	2,980	(637)	—	568	(4,914)	(2,003)
Provision for income taxes	178	1	—	—	—	179
Net income (loss)	$2,802	$(638)	$ —	$ 568	$(4,914)	$ (2,182)

19

Selected balance sheet data is as follows:
As of June 30, 2016
(In thousands, unaudited)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Hotel & Casino	Northern Nevada	Corporate	Consolidated
Total assets	$80,494	$36,301	$35,868	$12,437	$ 8,311	$ 173,411
Property and equipment, net	59,727	30,119	16,128	5,799	116	111,889
Goodwill	14,671	—	4,649	1,809	—	21,129
Liabilities	3,382	9,962	3,155	2,218	100,682	119,399

As of December 31, 2015
(In thousands)

	Casino/Resort Operations					
	Silver Slipper Casino & Hotel	Rising Star Casino Resort	Bronco Billy's Hotel & Casino	Northern Nevada	Corporate	Consolidated
Total assets	$82,621	$37,141	$ —	$12,105	$ 9,600	$ 141,467
Property and equipment, net	61,150	31,391	—	6,098	343	98,982
Goodwill	14,671	—	—	1,809	—	16,480
Liabilities	3,389	10,034	—	1,834	69,687	84,944

12. SUBSEQUENT EVENT

On August 15, 2016, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission for a proposed $5 million rights offering. In the proposed rights offering, each right will entitle the holder to a basic subscription right and an over-subscription right. Under the basic subscription right, each whole right entitles its holder to purchase 0.2022 new shares for each share of our common stock on the record date for the rights offering or one new share for each 4.9449 shares held as of the record date. Under the over-subscription right, each rightsholder exercising its basic subscription right in full will have the right to subscribe, at the subscription price, for additional shares to the extent not purchased by other rightsholders, which may be up to five times such rightsholder’s basic subscription right and to the extent available following the purchase of 1,000,000 shares by the standby purchaser. If we receive oversubscription requests for more shares of our common stock than we have available for oversubscriptions, each requesting rightsholder will receive its pro rata portion of the available shares based on the number of shares it purchased under its basic subscription right. If following allocation of available shares to all over-subscribing rightsholders we have allocated fewer than 3,846,154 shares (including the first 1,000,000 shares allocated to the standby purchaser), the standby purchaser will purchase the remaining shares, subject to a cap of 3,801,860 shares. The standby purchaser for our proposed rights offering is Daniel R. Lee, the Company’s President and Chief Executive Officer.

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions that may cause our actual results to differ materially from those discussed in the forward-looking statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and notes for the fiscal year ended December 31, 2015, which were included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2016. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods. Full House Resorts, Inc., together with its subsidiaries, may be referred to as "Full House", the "Company", "we", "our" or "us", except where stated or the context otherwise indicates.

Executive Overview

Our primary business is the ownership and operation of casino and related hospitality and entertainment facilities, which includes offering gaming, hotel, dining, entertainment, retail and other amenities. We own or operate five casino properties in Mississippi, Indiana, Colorado and Nevada. We view our Mississippi, Indiana and Colorado properties as distinct operating segments and both of our Nevada properties as one operating segment.

Our portfolio consists of the following:

Property	Acquisition Date	Location
Silver Slipper Casino and Hotel	2012	Hancock County, MS (near New Orleans)
Bronco Billy Casino and Hotel	2016	Cripple Creek, CO (near Colorado Springs)
Rising Star Casino Resort	2011	Rising Sun, IN (near Cincinnati)
Stockman's Casino	2007	Fallon, NV (one hour east of Reno)
Grand Lodge Casino (leased and part of the Hyatt Regency Lake Tahoe Resort)	2011	Incline Village, NV (North Shore of Lake Tahoe)

Our revenues are primarily derived from gaming sources, which include revenues from slot machines, table games and live keno. In addition, we derive a significant amount of revenue from our hotel rooms and food and beverage outlets. We also derive revenues from our golf course at the Rising Star Casino Resort, retail outlets and entertainment. Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those guests spend per visit. Additionally, our operating results may be affected by, among other things, overall economic conditions affecting the disposable income of our guests, weather conditions affecting our properties, achieving and maintaining cost efficiencies, competitive factors, gaming tax increases and other regulatory changes, the commencement of new gaming operations and construction at existing facilities. We may experience significant fluctuations in our quarterly operating results due to seasonality, variations in gaming hold percentages and other factors.

Our mission is to maximize shareholder value. We seek to increase revenues by providing our guests with their favorite games and amenities, high-quality customer service, and appropriate customer loyalty programs. Our customers include local gaming customers who represent a high potential for repeat visits. We seek to satisfy our customers and build loyalty. We continuously focus on improving the operating margins of our existing properties through a combination of top-line revenue growth and careful expense management. We also assess growth and development opportunities, which include capital investments at our existing properties, the development of new properties, and the acquisition of existing properties.

Bronco Billy's Acquisition and Amended and Restated Credit Facilities

On May 13, 2016, we completed our acquisition of Bronco Billy's Casino and Hotel in Cripple Creek, Colorado from Pioneer Group, Inc. for consideration of $31.1 million, including an estimate for net working capital. Concurrent with the acquisition of Bronco Billy's, we entered into an amended and restated First Lien Credit Facility ("Amended and Restated First Lien Credit Facility") with a group of banks led by Capital One Bank, N.A., ("Capital One"), which includes a First Term Loan of $45 million and Revolving Loan of $2 million. We also entered into and an amended and restated Second Lien Credit Facility ("Amended and Restated Second Lien Credit Facility") with ABC Funding, LLC which includes a term loan facility increase from $20 million to $55 million, of which the additional proceeds of $35 million were primarily used to complete our acquisition of Bronco Billy's. As part of the Amended and Restated Second Lien Credit Facility, on May 13, 2016, the Company granted the second lien lenders 1,006,568 redeemable warrants representing 5% of the outstanding common equity of the Company on a fully-diluted basis.

Bronco Billy’s has approximately 803 slot and video poker machines, 13 table games, a 24-guest-room hotel, a steakhouse, four casual dining outlets, and an outdoor amphitheater. This acquisition diversified our operations into a new geographical market and we believe it will provide opportunities for long-term growth for our stockholders. The acquisition included the three licensed operations known as Bronco Billy's Casino, Buffalo Billy's Casino and Billy's Casino.

See Notes 3 and 6 in the Condensed Notes to the Consolidated Financial Statements for further information.

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 or promises to pay (“markers”) exchanged into chips for use at the Company’s table games. Slot coin-in and table game drop are indicators of volume.

Slot win is the difference between customer wagers and customer winnings on slot machines. Table game hold is the difference between net winnings by customers and the amount of money or markers exchanged into chips. 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 the utilization of our available rooms; average daily rate (“ADR”) is a price indicator; and hotel revenue per available room (“RevPAR”) is the product of the two and indicates the overall revenue generation of the hotel. 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.

EBITDA Margin:

EBITDA margin is a measure of operating performance calculated by dividing the property's Adjusted Property EBITDA by its net revenues.

Adjusted EBITDA and Adjusted Property EBITDA:

Management uses Adjusted EBITDA and Adjusted Property EBITDA as measures of performance as more fully explained and discussed later herein. See "Non-GAAP Financial Measures" for additional information.

23

Results of Operations

Consolidated operating results

The following summarizes our consolidated operating results for the three and six months ended June 30, 2016 and 2015:

(In thousands)	Three Months Ended June 30, 2016	2015	Percent Change	Six Months Ended June 30, 2016	2015	Percent Change
Net revenues	$34,847	$30,726	13.4 %	$66,854	$59,810	11.8 %
Operating expenses	33,995	29,679	14.5 %	64,471	58,778	9.7 %
	852	1,047	(18.6)%	2,383	1,032	130.9 %
Interest and other, net	3,072	1,523	101.7 %	4,834	3,035	59.3 %
Income tax expense (benefit)	180	(49)	(467.3)%	280	179	56.4 %
Net loss	$(2,400)	$(427)	462.1 %	$(2,731)	$(2,182)	25.2 %

(In thousands)	Three Months Ended June 30, 2016	2015	Percent Change	Six Months Ended June 30, 2016	2015	Percent Change
Casino revenues						
Slots	$27,373	$23,797	15.0 %	$51,650	$46,263	11.6 %
Table games	3,842	3,569	7.6 %	8,585	7,365	16.6 %
Other	92	76	21.1 %	202	169	19.5 %
	31,307	27,442	14.1 %	60,437	53,797	12.3 %
Non-casino revenues, net						
Food and beverage	2,331	2,369	(1.6)%	4,373	4,527	(3.4)%
Hotel	431	247	74.5 %	733	400	83.3 %
Other	778	668	16.5 %	1,311	1,086	20.7 %
	3,540	3,284	7.8 %	6,417	6,013	6.7 %
Total net revenues	$34,847	$30,726	13.4 %	$66,854	$59,810	11.8 %

The following discussion is based on our consolidated financial statements for the three and six months ended June 30, 2016 and 2015.

Revenues. Consolidated net revenues for the three-month period increased 13.4%, primarily due to the acquisition of Bronco Billy's. Excluding Bronco Billy's, our consolidated net revenues increased 1.7%, as each of our other properties had modest increases or were flat for the quarter.

Consolidated net revenues for the six-month period increased 11.8%, due to our acquisition of Bronco Billy's and increases at each of our properties. Excluding Bronco Billy's, our consolidated net revenues increased 5.8%. At Silver Slipper, the completion of the new hotel in September 2015 helped drive an increase in customers and casino revenue. At Rising Star, marketing enhancements and other customer-focused initiatives resulted in increases in both slots and table games revenue. At our Northern Nevada segment, Grand Lodge Casino experienced an increase in casino revenues primarily due to an improved ski season in the Lake Tahoe region, while Stockman's casino revenues increased due to modest physical improvements at the property and marketing enhancements.

See further information within our reportable segments described below.

Operating expenses. Consolidated operating expenses increased for the three and six-month periods, primarily as a result of the acquisition of Bronco Billy's and increased casino expenses, selling, general and administrative costs and corporate acquisition costs, partially offset by a decrease in depreciation and amortization due to fully amortized intangible assets at Silver Slipper. Excluding Bronco Billy's, our operating expenses increased 3.8% and 4.2% for the three and six month periods, respectively, primarily due to increases at Silver Slipper and Rising Star.

See further information within our reportable segments described below.

Interest expense and other, net.

Interest expense

Interest expense consists of the following:

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest cost (excluding loan fee amortization)	$1,999	$1,376	$3,378	$2,693
Amortization of debt costs	231	406	614	810
Capitalized interest	—	(259)	—	(456)
	$2,230	$1,523	$3,992	$3,047

The increase in interest cost above was primarily attributed to the debt refinancing on May 13, 2016, which resulted in $35 million of additional debt proceeds.

Other, net

Other non-operating expenses incurred during the three and six months ended June 30, 2016 were debt modification costs of $0.6 million in conjunction with the debt refinancing, and the change in fair value of the warrants of $0.2 million.

Income tax expense. The Company's effective income tax rate for the three and six months ended June 30, 2016 was -8.2% and -11.4%, compared to an effective tax rate of 10.4% and -8.9% during the corresponding prior-year periods. Our tax rate differs from the statutory rate of 34.0% primarily due to the effects of our valuation allowance and permanent items for tax purposes. During 2016, we continued to provide a valuation allowance against our deferred tax assets, net of any related deferred tax liabilities. In future years, if it is determined that we meet the "more likely than not" threshold of utilizing our deferred tax assets, we may reverse some or all of our valuation allowance against our deferred tax assets.

We do not expect to pay any federal income taxes or receive any federal tax refunds related to our 2016 results. Tax losses incurred in 2016 may shelter taxable income in future years, but because of the level of uncertainty regarding sufficient prospective income, we maintain a valuation allowance against our remaining deferred tax assets, as mentioned above.

Operating results – reportable segments

We manage our casinos based on geographic regions within the United States. Accordingly, Stockman’s Casino and Grand Lodge Casino comprise our Northern Nevada business segment, while Silver Slipper Casino and Hotel, Rising Star Casino Resort and Bronco Billy's Casino and Hotel are currently distinct segments. We no longer have a Development/Management segment as we did not manage any properties for others during the reporting periods.

The following table presents detail by segment of our consolidated net revenue and Adjusted EBITDA. Management uses Adjusted Property EBITDA as the primary profit measure for its reportable segments. See "Non-GAAP Financial Measures" for additional information.

(In thousands)	Three Months Ended June 30,		Percent Change	Six Months Ended June 30,		Percent Change
	2016	2015		2016	2015	
Net revenues						
Silver Slipper Casino and Hotel	$14,494	$14,350	1.0 %	$29,339	$28,074	4.5 %
Rising Star Casino Resort	12,053	11,766	2.4 %	24,299	22,881	6.2 %
Bronco Billy's Casino and Hotel	3,584	—	n/a	3,584	—	n/a
Northern Nevada Casinos	4,716	4,610	2.3 %	9,632	8,855	8.8 %
	$34,847	$30,726	13.4 %	$66,854	$59,810	11.8 %
Adjusted EBITDA						
Silver Slipper Casino and Hotel	$2,369	$2,665	(11.1)%	$5,030	$5,362	(6.2)%
Rising Star Casino Resort	432	592	(27.0)%	1,733	797	117.4 %
Bronco Billy's Casino and Hotel	1,088	—	n/a	1,088	—	n/a
Northern Nevada Casinos	624	679	(8.1)%	1,390	1,042	33.4 %
Corporate	(1,113)	(995)	11.9 %	(2,275)	(2,121)	7.3 %
	$3,400	$2,941	15.6 %	$		