FULL HOUSE RESORTS INC
Form 10KSB
March 27, 2008

Table of Contents

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

FORM 10-KSB

þ **Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended: December 31, 2007

o **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission file number 1-32583

FULL HOUSE RESORTS, INC.
(Name of Small Business Issuer in Its Charter)

Delaware	**13-3391527**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

4670 S. Fort Apache Rd., Suite 190, Las Vegas, Nevada 89147
(Address and zip code of principal executive offices)
(702) 221-7800
(Issuer s Telephone Number, Including Area Code)
Securities registered under Section 12(b) of the Exchange Act:

Common Stock, $.0001 per Share	**American Stock Exchange**
(Title of Each Class)	**(Name of Each Exchange on Which Registered)**

Securities registered under Section 12(g) of the Exchange Act:
None
(Title of class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. o
Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o
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
State issuer s revenues for its most recent fiscal year: $3,860,293.
The aggregate market value of registrant s voting $.0001 par value common stock held by non-affiliates of the registrant, as of March 25, 2008, was: $26,885,764.
The number of shares outstanding of registrant s $.0001 par value common stock, as of March 25, 2008, was 19,342,276 shares.

Documents Incorporated By Reference

The information required by Part III of this Form 10-KSB, to the extent not set forth herein, is incorporated by reference from the Registrant s definitive proxy statement relating the annual meeting of stockholders to be held in 2008, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Form 10-KSB relates.
Transitional Small Business Disclosure Format (check one) Yes o No þ

TABLE OF CONTENTS

PART I
Item 1. Description of Business.
BACKGROUND

Full House Resorts, Inc., a Delaware corporation formed in 1987, (Full House, we, our, ours, us) develops, manages and invests in gaming related opportunities. In May 1994, Lee Iacocca, who has been one of our directors since 1998, brought to us several opportunities to become involved in gaming projects, including the proposed FireKeepers Casino near Battle Creek, Michigan with the Nottawaseppi Huron Band of Potawatomi (the Michigan tribe) and a racino in Harrington, Delaware, both of which are discussed in detail below.

We also have an agreement with the Northern Cheyenne Tribe of Montana for the development and management of a gaming facility in Montana. On March 19, 2008, we announced that we are no longer pursuing the Nambé Pueblo project in New Mexico and we recognized an impairment loss of approximately $200,000 as of December 31, 2007 on the development contract rights pending a resolution with the Pueblo. Additional details follow.

On January 31, 2007, we acquired all of the outstanding shares of capital stock of Stockman s Casino (Stockman s), a Nevada corporation, which operates Stockman s Casino and, until February 20, 2008, the Holiday Inn Express in Fallon, Nevada. Details of the Stockman s acquisition and its operations are discussed in detail below.

Project Currently Operating

Harrington Raceway and Casino, formerly Midway Slots and Simulcast Harrington, Delaware

We are currently a 50% investor in Gaming Entertainment (Delaware), LLC (GED), a joint venture with Harrington Raceway, Inc. (HRI), which has a management contract with Harrington Raceway and Casino (formerly known as Midway Slots and Simulcast). Harrington Raceway and Casino (Harrington), a division of Harrington Raceway, Inc. (HRI), which operates video lottery terminals (gaming devices) under the supervision of the Delaware State Lottery Office, commenced operations on August 20, 1996. GED provided over $11 million in financing, managed the development of the project and currently provides management services to Harrington Raceway, Inc. for a fee under a 15-year contract, which expires in 2011. The fee is based primarily on a percentage of revenues and operating profits of Harrington Casino as defined, which was previously subject to an annual limitation. The gaming facility was originally 35,000 square feet and opened with 500 gaming devices, a simulcast parlor and a small buffet, but was expanded and renovated during 2007. The expansion and renovation was completed in early February of 2008, and now the facility offers approximately 2,100 gaming devices, a 450-seat buffet, a fine dining restaurant, a 50-seat diner, and an entertainment lounge area.

On June 18, 2007, we restructured our management contract relating to Harrington to allow HRI greater flexibility in the management of the facility, while providing us with guaranteed growth in our share of the management fee for the remaining term of the management contract. Under the terms of the restructured management agreement, for 2007 we are to receive the greater of management fees as prescribed under the management agreement, or 105% of the 2006 fee, whichever is greater. For 2008, the minimum increases to 108% of the 2007 fee to account for the expansion completed in February 2008.

The Harrington Casino is located in Harrington, Delaware on Route 13, approximately 20 miles south of Dover, Delaware between Philadelphia and Baltimore/Washington, D.C. and is one of three gaming facilities operating in Delaware. The closest competing casino is in Dover and operates over 2,800 devices. In February 2006, the law was changed to allow up to 4,000 gaming devices at each of the three authorized locations in Delaware. The third facility is approximately 60 miles north of the Harrington Casino. In 2004, the Pennsylvania legislature passed a law authorizing gambling. Included in the authorized types of games are slot machines similar to those operated in Delaware. During 2006 and in January 2007, the Pennsylvania Gaming Control Board issued licenses for operators and gaming equipment suppliers. Several of the racino licensed facilities have subsequently opened. The Harrington Casino is located the furthest south of the three authorized gaming locations in Delaware and does not attract a substantial patronage from Pennsylvania. We have not seen and do not anticipate that the commencement of gaming operations in Pennsylvania will have a material adverse effect on our operations.

The Maryland legislature has considered numerous gaming proposals over the past several legislative sessions, but none has been enacted. Certain groups believe the current administration is more favorably inclined toward gaming, which has led to increased pressure to allow some form of casino-type gaming in the state. There is currently pending in committee a House Bill to regulate video lottery terminals which is subject to a referendum in November 2008 for voter approval. We cannot gauge the impact of gaming in Maryland, if it is allowed, until the nature, type and extent of gaming is defined.

Stockman s Casino

Effective February 1, 2007, through our wholly-owned subsidiary Stockman s Casino, LLC, we began operating Stockman s Casino and Holiday Inn Express in Fallon, Nevada (Stockman s). Stockman s has approximately 8,400 square feet of gaming space with approximately 260 slot machines, four table games and keno. There is a bar, a fine dining restaurant and a coffee shop. In addition, the facility includes a Holiday Inn Express, which has 98 guest rooms, indoor and outdoor pools, sauna, fitness center, meeting room and a business center (see below). The acquisition was funded in part by a reducing revolving loan agreement from Nevada State Bank of $16.0 million and approximately $1.2 million of seller financing in the form of a promissory note and approximately $10.2 million in cash which was raised in an equity offering in December 2006.

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

Stockman s is located on the west side of Fallon on Highway 50, approximately 60 miles east of Reno and is the largest of several casinos in the area. The county s population is roughly 27,000 with a nearby naval air base which has a significant economic impact on our business. Of the nine casinos currently operating in the Fallon, Nevada market, our major competitors are three other casinos that are comparable to Stockman s in size and the number of gaming machines. Bonanza Inn and Casino has 5,400 square feet of gaming space, featuring approximately 228 gaming machines, keno, race and sports book, two restaurants and hotel with 77 rooms. The Depot Casino and Restaurant has 6,700 square feet of gaming space, featuring approximately 198 gaming machines, a 75-seat bingo parlor and two restaurants. The Fallon Nugget has 3,600 square feet of gaming space, featuring approximately 140 gaming machines and four table and poker games, and one restaurant. At December 31, 2007, Stockman s share of the Fallon casino market is approximately 23%. There can be no assurance that any growth in Fallon s current gaming capacity will not adversely affect our financial condition or results of operations.

Projects in Development

Nottawaseppi Huron Band of Potawatomi Battle Creek, Michigan

Through our 50%-owned Michigan joint venture, Gaming Entertainment (Michigan), LLC (GEM), with RAM Entertainment, LLC (RAM), a privately held investment company, we have a management agreement with the Nottawaseppi Huron Band of Potawatomi Indians (the Michigan tribe), for the development and management of a casino in the Battle Creek, Michigan area to be known as FireKeepers Casino, which is currently in the pre-development stage. Our controlling 50% interest in the Michigan project results from a series of agreements executed in January 1995 with the Michigan tribe to develop and manage gaming and non-gaming commercial opportunities on reservation lands in south central Michigan. The FireKeepers Casino development is for a first-class facility with over 2,500 slot machines, over 90 table games, 20 poker tables, various restaurants, a 2,078 parking garage and other amenities. Construction of the facility is expected to commence in the second quarter of 2008, with completion of the project expected during the second quarter of 2009. When developed, the FireKeepers Casino will target potential customers in the Battle Creek, Kalamazoo, and Lansing, Michigan metropolitan areas, as well as the Ft. Wayne, Indiana area.

The Michigan tribe achieved final federal recognition as a tribe in April 1996 and obtained a gaming compact from Michigan s governor in December 1998 to operate an unlimited number of electronic gaming devices as well as roulette, keno, dice and banking card games. The Michigan legislature ratified the compact by resolution in December 1998, along with compacts for three other tribes. The Compact became effective as of its approval by the Secretary of the Interior in February 1999 and remains in effect for 20 years thereafter.

A lawsuit was filed in 1999 by Taxpayers of Michigan Against Casinos, known as TOMAC, in Ingham County Circuit Court, Michigan. The lawsuit challenged the constitutionality of the approval process of four gaming compacts between the State of Michigan and Indian tribes, including the Michigan tribe. On May 30, 2007, the Michigan Supreme Court issued a final decision upholding the validity of the compacts and an amendment to one of the compacts by another tribe.

In December 1999, the management agreements with the Michigan tribe, along with the required licensing applications, were submitted to the National Indian Gaming Commission (NIGC). We met with the NIGC several times to review suggested revisions to the management agreements and, working with the Michigan tribe, have incorporated all the appropriate changes. In June 2006, we entered into a revised management agreement with the Michigan tribe, which was approved by the NIGC in December 2007.

Also in December 1999, the Michigan tribe applied to have its existing reservation lands, as well as additional land in its ancestral territory, taken into trust by the Bureau of Indian Affairs (the BIA). The parties selected a parcel of land for the gaming enterprise, which was purchased in September 2003, and completed a fee-to-trust application that was submitted to the BIA in February 2002. On August 9, 2002, the Department of Interior issued its notice to take the land into trust for the benefit of the Michigan tribe. On August 30, 2002, Citizens Exposing Truth About Casinos filed a complaint in United States District Court for the District of Columbia, seeking to prevent this land from being taken into trust. On July 3, 2007, the Court of Appeals for the DC Circuit ruled in our favor on the last remaining issue and dismissed the complaint. No further appeal was taken or is now allowed. Accordingly, the land for the casino site was taken into trust for the Michigan tribe in December 2006, and was designated its initial reservation under federal law by the Secretary of the Interior in October 2007.

In April 2007, IGT, the leading slot manufacturer, extended up to $5 million in interim financing to the Nottawaseppi Huron Band of Potawatomi for design and development costs of the casino project. This loan commitment was extended to $9.8 million on December 12, 2007. Merrill Lynch, Pierce, Fenner and Smith has also been engaged by the Tribe as the investment banking firm responsible for raising the funds for the construction and opening of the casino.

Effective May 15, 2007, GEM entered into an agreement with Green Acres Casino Management, Inc. (Green Acres) whereby GEM acquired all of Green Acres interests in the Nottawaseppi Huron Band of Potawatomi casino project in Michigan for $10 million. Prior to the execution of the agreement, Green Acres had a right to a royalty payment based on various operating metrics but which would approximate 15% of the total management fee received by GEM from the operation of the planned casino in Michigan. GEM s members equally funded an initial deposit of $500,000 and the remainder becomes due once project financing is obtained. If not paid by January 1, 2008, then payments of $25,000 per quarter are to be credited against the remaining unsecured commitment. Green Acres has no rights in or to GEM, its ownership, assets of income, except as may be allowed by judgment execution remedies. GEM has been in discussion with lenders to arrange an add-on financing security as part of the overall project financing transaction to fund the balance of the Green Acres purchase price. If obtained, the add-on debt security will be an obligation of GEM and will not be part of the overall casino development cost. A default of the agreement will include GEM s failure to make any payment when due, within the defined grace period. Upon default of payment by GEM, Green Acres is entitled to immediate payment of the balance due. The remaining obligation of $9.5 million, although unsecured, was recorded as a long-term liability once the management agreement between GEM and the Michigan tribe was approved in December 2007.

The closest competition to the proposed Michigan project is located in Detroit, approximately 100 miles from the Battle Creek area and the recently opened Four Winds Casino in the New Buffalo, Michigan area, approximately 100 miles south of the Huron location. The Gun Lake tribe is also planning a casino development in Wayland, Michigan, approximately 90 miles northwest of our site. The Gun Lake development lacks a gaming compact with the state, a requirement for conducting Las Vegas-style casino gaming, and is the subject of a court injunction prohibiting continued development until environmental impact concerns are addressed. FireKeepers Development Authority market studies and development efforts have taken into account the impact of the existing and proposed facilities.

In February 2002, following our acquisition of our then-partner s interest in the Michigan project, we entered into an investor agreement with RAM Entertainment, LLC, whereby RAM was admitted as a 50% member in our Michigan joint venture in exchange for providing a portion of the necessary funding for the development of the project. Accordingly, RAM loaned us $2,381,260, which we used to retire an outstanding loan. The loan is secured by our income from our Delaware joint venture.

As of December 31, 2007 total advances to or on behalf of the Michigan tribe, related to reimbursable development costs, were $14,250,814 ($11,461,399 funded by Full House Resorts and $2,789,415 by RAM). Effective December 14, 2007, following the land being taken into trust and final approval of the management contract from NIGC, RAM exercised its right to convert the aforementioned loan into a $2,000,000 capital contribution in, and a $381,260 loan to, GEM. In addition, interest payable in the amount of $611,718, previously due on the original promissory note, was also converted into a loan to GEM. Pursuant to the parties agreement, the balance of the original note payable ($992,979) is an obligation solely of GEM and will mature no sooner than two years after the opening of the casino.

Northern Cheyenne Tribe Decker, Montana

On March 7, 2005, we signed a letter of intent with the Northern Cheyenne Tribe of Montana to explore gaming and other economic development. In May 2005, we signed a development agreement and in January 2006 we signed a revised gaming management agreement for the development and management of a site held in trust for the tribe in the Tongue River Reservoir area. The management agreement provides for a management fee of 30% of revenues net of prizes and operating expenses. Plans are for a 25,000 square foot facility housing 250 gaming devices and related amenities. The proposed site for this project is on land, which although held in trust for the tribe, must be approved by the Secretary of the Interior and the Governor of Montana, pursuant to the Indian Gaming Regulatory Act. We commenced the environmental review to comply with the National Environmental Policy Act (NEPA) and have requested NIGC approval of the management agreement. The tribe is also holding discussions with the Governor of Montana to extend and expand the gaming compact existing with the State of Montana to include the Tongue River Reservoir site. The environmental assessment was completed in the second quarter of 2007 and submitted for approval. Following acceptance of the environmental assessment, the BIA will issue a Finding of No Significant Impact on the environment. We currently expect the casino to open in the third quarter of 2009.

Table of Contents

Discontinued Projects

Nambé Pueblo Indian Tribe Santa Fe, New Mexico

In January 2008, we became aware that the Nambé Pueblo tribal council received a presentation from another developer for the development of a multi-use economic development including a truck stop, convenience store and retail space, which would also include a small slot parlor. In February 2008, we received notice that the Nambé Pueblo tribal council had formally approved the smaller development, effectively terminating the business relationship with Full House. As a result, the Company has recorded an impairment loss of $207,534 related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of $655,178, but no formal agreement has been reached.

Hard Rock Casino, Biloxi, Mississippi

In November 2002, we entered into a termination agreement with Hard Rock Café International with respect to licensing the rights to develop a Hard Rock Café-themed casino and hotel in Biloxi, Mississippi. We received $100,000 in exchange for relinquishing any right we had to prevent Hard Rock from entering into any other licensing agreements in Mississippi prior to the original contract termination date of November 20, 2003, and we also sold the land we previously acquired in connection with the proposed development. Additionally, if Hard Rock executed a new licensing agreement for Biloxi within one year of the termination agreement, we agreed to provide consulting services to Hard Rock for a two year period for annual fees of $100,000 or 10% of the licensing fees, whichever is greater. During 2003, and within the one-year period, Hard Rock executed a new licensing agreement and our consulting fees become payable upon opening of the facility, which was originally scheduled for September 1, 2005. However, on August 29, 2005, Hurricane Katrina devastated the Mississippi Gulf Coast, causing substantial damage to the Hard Rock Casino facility. The Hard Rock casino project eventually opened in the summer of 2007, and accordingly, we recognized one-time revenues of $283,554 related to the termination of the consulting agreement in the second quarter of 2007.

Navajo Nation New Mexico

Discussions with the executive director of the Navajo Nation during the fourth quarter of 2007 have indicated that our site is not one currently being considered by the Nation for gaming activities, and the Nation intends to develop its gaming operations without the services of a gaming developer. As a result, we have discontinued our pursuit of this project and we have recorded an impairment loss of $200,000 related to previously capitalized contract rights. The land held for the development of this project is now included in other assets as of December 31, 2007, and it is management s intention to sell the land as soon as possible.

Government Regulation

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

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

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

6

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

Delaware Regulatory Matters

As the owner of at least 10% of the management company operating video lottery machines in Delaware, we are subject to approval under the Delaware Video Lottery Code in order for our Delaware joint venture to maintain its license to manage the video lottery location of the Harrington Casino. That law authorized the ownership and operation of video lottery machines, as defined in the law and commonly known as slot machines, by the State Lottery Office through certain licensed agents, including our Delaware joint venture.

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

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

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

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

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

Table of Contents

Nevada Regulatory Matters

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

Any person who is licensed, required to be licensed, registered, required to be registered, or who is under common control with those persons, collectively, licensees, and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Gaming Control Board, and thereafter maintain, a revolving fund in the amount of $10,000 to pay the expenses of investigation by the Nevada Gaming Control Board of the licensee s participation in foreign gaming. We currently comply with this requirement. The revolving fund is subject to increase or decrease at the discretion of the Nevada Gaming Commission. Licensees are required to comply with the reporting requirements imposed by the Nevada Gaming Control Act. A licensee is also subject to disciplinary action by the Nevada Gaming Commission if it:

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

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

Indian Gaming

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

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

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

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

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

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

ownership;

security;

personnel background;

record keeping and auditing of the tribe s gaming enterprises;

use of the revenues from gaming; and

protection of the environment and the public health and safety.

Table of Contents

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

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

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

- each person with management responsibility for a management agreement;
- each of our directors; and
- the ten persons who have the greatest direct or indirect financial interest in a management agreement to which we are a party.

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

- is an elected member of the Indian tribal government that owns the facility being managed;
- has been or is convicted of a felony or misdemeanor gaming offense;
- has knowingly and willfully provided materially false information to the NIGC or a tribe;
- has refused to respond to questions from the NIGC;
- is a person whose prior history, reputation and associations pose a threat to the public interest or to effective gaming regulation and control, or create or enhance the chance of unsuitable, unfair or illegal activities in gaming or the business and financial arrangements incidental thereto; or
- has tried to influence any decision or process of tribal government relating to gaming.

Contracts may also be voided if:

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

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

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

Class III Gaming is permitted on Indian Land if the same conditions that apply to Class II Gaming are met and if the gaming is performed according to the terms of a written gaming compact between the tribe and the host state. The Regulatory Act requires states to negotiate in good faith with Indian tribes that seek to enter into tribal-state compacts, and gives Indian tribes the right to get a federal court order to force negotiations.

Table of Contents

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

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

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

Tribal-State compacts have been litigated in several states, including Michigan. In addition, many bills have been introduced in Congress that would amend the Regulatory Act, including bills introduced in 2005 that seek to limit off reservation gaming by Indian tribes. If the Regulatory Act were amended, then the governmental structure and requirements by which Indian tribes may perform gaming could be significantly changed, which could have an impact on our future operations and development of tribal gaming opportunities.

During the 109th Congress, bills were introduced in both the Senate and House of Representatives which, if enacted, substantially curtail the ability of Indian tribes to conduct gaming on lands which were not held in trust as of the date of passage of the Indian Gaming Regulatory Act (IGRA), October 17, 1988. While neither bill passed, the Secretary of the Interior has recently announced his intention to review the regulations applicable to that section of the IGRA. Any change in such regulations may restrict, further limit or increase the costs and timing of finding land suitable for Indian gaming.

Costs and Effects of Compliance with Environmental Laws

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

As previously reported, an environmental impact statement was prepared by the BIA reviewing the impacts caused by the proposed Nottawaseppi Huron Band of Potawatomi casino project in Michigan. This effort is conducted by environmental engineers and those in related fields whose services are compensated by the proponent of the project. In this case, pursuant to our agreement with the Michigan tribe, we are advancing these costs subject to the tribe s agreement to reimburse these and other costs related to the development project from the proceeds of the casino once open. The environmental impact statement was finalized in August 2006 and the BIA issued a record of decision in September 2006.

During 2005 and 2006, we also funded environmental assessments related to the casino development project for the Nambé Pueblo and for the Northern Cheyenne Tribe. The environmental assessment related to the Northern Cheyenne

Tribe is on behalf of the BIA in conjunction with its approval of the land chosen by the tribe for its casino site for use for gaming. While we are unable to predict the determination to be made by the BIA in Montana, to date we have no reason to believe that there are significant impacts to the environment caused by the Northern Cheyenne development project.

COMPETITION

The gaming industry is highly competitive. Gaming activities include traditional land-based casinos; river boat and dockside gaming, casino gaming on Indian land, state-sponsored lotteries, video poker in restaurants, bars and hotels, pari-mutuel betting on horse racing, dog racing and jai alai, sports bookmaking, card rooms, and casinos at racetracks. The Indian-owned casinos that we are developing and plan to manage compete with all these forms of gaming, and will compete with any new forms of gaming that may be legalized in additional jurisdictions, as well as with other types of entertainment.

Table of Contents

Of the nine casinos currently operating in the Fallon, Nevada market, we compete principally with three other casinos that are comparable to Stockman s in size and the number of gaming machines. At December 31, 2007, Stockman s share of the Fallon casino market is approximately 23%. There can be no assurance that any growth in Fallon s current gaming capacity will not adversely affect our financial condition or results of operations.

The closest competition to the proposed Michigan project is located in Detroit, approximately 100 miles from the Battle Creek area and the recently opened Four Winds Casino in the New Buffalo, Michigan area, approximately 100 miles south of the Huron location. The Gun Lake tribe is planning a casino development in Wayland, Michigan, approximately 90 miles northwest of our site. The Gun Lake development lacks a gaming compact with the state, a requirement for conducting Las Vegas-style casino gaming, and is the subject of a court injunction prohibiting continued development until environmental impact concerns are addressed. FireKeepers Development Authority market studies and development efforts have taken into account the impact of the existing and proposed facilities.

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

The Maryland legislature has considered numerous gaming proposals over the past several legislative sessions, but none has been enacted. Certain groups believe the current administration is more favorably inclined toward gaming, which has led to increased pressure to allow some form of casino-type gaming in the state. There is currently pending in committee a House Bill to regulate video lottery terminals which is subject to a referendum in November 2008 for voter approval. We cannot gauge the impact of gaming in Maryland, if it is allowed, until the nature, type and extent of gaming is defined.

In 2004, the Pennsylvania legislature passed a law authorizing gambling. Included in the authorized types of games are slot machines similar to those operated in Delaware to be conducted at racetracks, selected stand-alone facilities and selected resort hotel sites. During 2006 and in January 2007, the Pennsylvania Gaming Control Board issued licenses for operators and gaming equipment suppliers. Several of the racino licensed facilities have subsequently opened. Harrington Raceway is located the furthest south of the three authorized gaming locations in Delaware and does not attract a substantial patronage from Pennsylvania. We have not seen and do not anticipate that the commencement of gaming operations in Pennsylvania has or will have a material adverse effect on our operations.

Additionally, we are in constant competition with other companies in the industry to acquire other legal gaming sites and for opportunities to develop and manage casinos on Indian land. Many of our competitors are larger in terms of potential resources and personnel. Competition in the gaming industry could adversely affect our ability to attract customers and thus, adversely affect future operating results. In addition, further expansion of gaming into new jurisdictions could also adversely affect our business by diverting customers from our managed casinos to competitors in those jurisdictions.

FACTORS THAT MAY AFFECT OUR FUTURE PERFORMANCE

In addition to factors discussed elsewhere in this Form 10-KSB, the following are important factors that could cause actual results or events to differ materially from those contained in any forward-looking statement made by or on behalf of Full House.

Development of new casinos is subject to many risks, some of which we may not be able to control The opening of our proposed gaming facilities will depend on, among other things, obtaining adequate financing, the completion of construction, hiring and training of sufficient personnel and obtaining all regulatory licenses, permits, allocations and authorizations. The number of the approvals by federal and state regulators and other authorities needed to construct and open new gaming facilities is extensive, and any delay in obtaining or the failure to obtain these approvals could prevent or delay the completion of construction or opening of all or part of the gaming facilities or otherwise adversely affect the design and features of the proposed casinos.

Even if approvals and financing are obtained, building a new casino is a major construction project that entails significant risks. These risks include, but are not limited to:

- shortages of materials or skilled labor;

unforeseen engineering, environmental and/or geological problems;

work stoppages;

weather interference;

unanticipated cost increases; and

unavailability of construction equipment.

Table of Contents

Obtaining any of the requisite licenses, permits, allocations and authorizations from regulatory authorities could increase the total cost, delay or prevent the construction or opening of any of these planned casino developments or otherwise affect their design. In addition, once developed, we may be unable to manage these casinos on a profitable basis or to attract a sufficient number of guests, gaming customers and other visitors to make the various operations profitable independently.

We have a limited base of operations Our principal operations currently consist of the Stockman s Casino and the management of one facility in Delaware, the Harrington Casino. These limited sources of income, combined with the potentially significant investment associated with any new managed facilities, may cause our operating results to fluctuate significantly. Additionally, delays in the opening of any future casinos or our failure to open a new casino could also significantly adversely affect our profitability. Future growth in revenues and profits will depend on our ability to increase the number of our owned and managed casinos and facilities or develop new business opportunities. We may be unable to successfully acquire, develop or manage any additional casinos or facilities.

We will need additional capital to fund development projects and pursue additional gaming opportunities We are obligated to arrange for up to $18 million in financing in connection with the Northern Cheyenne Tribe project and additional financing for the Michigan tribe project. We may be unable to arrange the required additional financing on acceptable terms or at all. An inability to raise funds when needed might require us to delay, scale back or eliminate some of our planned expansion and development goals, and might require us to cease operations entirely.

We have limited recourse against tribal assets Development of our gaming opportunities will require us to make, arrange or guarantee substantial loans to tribes for the construction, development, equipment and operations of the relevant casino. We also make advances to tribes in connection with our development and management agreements. Our only recourse for collection of indebtedness from, and repayment of advances to, a tribe or money damages for breach or wrongful termination of such agreements is from revenues, if any, from prospective casino operations. Under our management agreements, the repayment of our loans made to a tribe and other distributions due from a tribe (including management fees) is subordinated in favor of other obligations of the tribe to other parties related to the casino operations. Accordingly, in the event of a default by a tribe under such obligations, our loans and other claims against the tribe will not be repaid until such default has been cured or the tribe s senior casino-related creditors have been repaid in full. In addition, because we have not yet filed financing statements to perfect our security interest in the net revenues from the proposed casinos, the repayment of our loans and advances made to a tribe and other distributions due to us from a tribe may also be subordinated in favor of other creditors.

The Indian tribes have sovereign powers and we may be unable therefore to enforce remedies against them The tribes with which we have agreements are independent governments that have rights to tax persons and enterprises conducting business on their lands. They also have the right to require licenses and to impose other forms of regulation and regulatory fees on persons and businesses operating on their tribal lands. As a sovereign power, Indian tribes are generally subject only to federal regulation. States do not have the authority to regulate them, unless such authority has been specifically granted by the U.S. Congress. Thus, state laws generally do not apply to tribes or to activities taking place on tribal lands. In the absence of a conflicting federal or properly authorized state law, tribal law governs. Unless another law is specified, contracts with the tribes are governed by tribal law (and not state or federal law). In our agreements with these tribes, we generally have agreed that state law will govern the rights and obligations under these agreements. However, such provisions may be unenforceable particularly with respect to remedies against collateral located on tribal lands and they offer no protection against third-party claims against the collateral. If such provisions are determined to be unenforceable, then we may be unable to recover any amounts loaned or advanced to the tribes.

The waiver of sovereign immunity and jurisdiction provisions in our agreements may not be enforceable and thus we may be further limited in recourse with respect to Indian tribes and their assets Indian tribes enjoy sovereign immunity from un-consented suit similar to that of the states and the United States. In order to sue them (or one of their agencies or instrumentalities), the tribe must have clearly and explicitly waived its sovereign immunity with respect to the matter in dispute. The various Indian tribes that are parties to our management, development and related agreements have granted a limited waiver of their sovereign immunity only to the extent of providing for binding arbitration, judicial review, and enforcement of any arbitration award in any court of competent jurisdiction. In the event that the waiver of sovereign immunity is held to be ineffective, we could be precluded from judicially enforcing any rights or remedies against the tribes.

Table of Contents

Assuming that the tribes have clearly and explicitly waived their sovereign immunity, the question remains as to the forum in which a lawsuit or other action can be brought against them, particularly with respect to the enforcement of any arbitration award generally provided for under our agreements with the tribes. Since the parties to a transaction cannot confer jurisdiction on a court which does not otherwise have jurisdiction, it is possible that neither a federal nor a state court would have jurisdiction over a case relating to them. Federal courts are courts of limited jurisdiction and generally do not have jurisdiction to hear civil cases relating to Indians. Federal courts may have jurisdiction if a federal question is raised by the suit, which is unlikely in a typical contract suit or other enforcement action. Diversity of citizenship, another common basis for federal court jurisdiction, is not generally present in a suit against an Indian tribe because the tribe would not be considered a citizen of any state. Accordingly, in most commercial disputes with Indian tribes, the jurisdiction of the federal courts, which are courts of limited jurisdiction, may be difficult or impossible to obtain. State courts may also lack jurisdiction over suits brought by us against a tribe in the states in which we operate casinos.

The remedies available against the tribes also depend, at least in part, upon the rules of comity requiring initial exhaustion of remedies of tribal tribunals and, as to some judicial remedies, the tribe s consent to jurisdictional provisions contained in the disputed agreements. The U.S. Supreme Court has held that where a tribal court exists, the jurisdiction in that forum must first be exhausted before any dispute can be properly heard by federal courts which would otherwise have jurisdiction. Where a dispute as to the existence of jurisdiction in the tribal forum exists, the tribal court must first rule as to the limits of its own jurisdiction. In this event, we could be subjected to substantial delay, cost and expense while seeking such remedies pursuant to the relevant tribe s procedures of which currently there may be none and they are not obligated to create any. In addition, unless the decisions of the tribunals of the specific tribe violate applicable state or federal law, there might be no effective right to appeal such decisions in state or federal court. Many tribes have established tribal courts to hear cases relating to their tribes or arising on their reservations. Although a tribe s constitution may permit the establishment of a tribal court system, they may not have one nor are they obligated to establish one.

The tribes with which we have agreements have agreed to binding arbitration with respect to disputes arising from our agreements with them and have consented to the enforcement of any arbitration award in any court of competent jurisdiction which, as described above, may be a tribal court, pursuant to a limited waiver of their sovereign immunity. However, enforcement of an arbitration award against the tribes could be affected by disputes over the waiver of their sovereign immunity and will be subject to limitations imposed by federal law as described above.

We are dependent on our key employees and may not find suitable replacements if our key personnel are no longer available to us If any or all of our key employees were to terminate their relationship with us then we may be unable to find suitable replacements to manage our operations. We entered into employment agreements with certain key employees. We entered into two-year agreements with Andre Hilliou, Chief Executive Officer and Mark Miller, CFO; and entered into a one-year agreement with Wes Elam, Sr. VP of Operations. We also have a consulting agreement with Lee Iacocca, one of our directors. However, if we were to lose the services of Mr. Iacocca, our marketing and development efforts may be adversely affected. The loss of the services of any of our key personnel or our inability to hire or retain qualified personnel would make it difficult for us to implement our business plan.

The gaming industry is subject to many risks, including adverse economic and political conditions and changes in the legislative and land use regulatory climate Similar to investment in other entertainment enterprises, adverse changes in general and local economic conditions may adversely impact investments in the gaming industry. Examples of economic conditions subject to change include, among others:

- competition in the form of other gaming facilities and entertainment opportunities;
- changes in regional and local population and disposable income;
- unanticipated increases in operating costs;
- restrictive changes in zoning and similar land use laws and regulations, or in health, safety and environmental laws, rules and regulations;

risks inherent in owning, financing and developing real estate as part of our casino operations;

the inability to secure property and liability insurance to fully protect against all losses, or to obtain such insurance at reasonable costs;

inability to hire trained and knowledgeable managers and supervisors;

inability to hire a sufficient number of employees to maintain our desired level of operations;

seasonality;

changes or cancellations in local tourist, recreational or cultural events; and

changes in travel patterns or preferences (which may be affected by increases in gasoline prices, changes in airline schedules and fares, strikes, weather patterns or relocation or construction of highways).

Table of Contents

Our management agreements for gaming facilities are of limited duration We currently have management agreements with two tribes and one commercial entity to operate gaming facilities. Our management agreement for the Harrington Casino in Delaware ends in August 2011. With respect to our management agreements for the proposed Indian gaming facilities, we are prohibited by law from having an ownership interest in any casino we manage for an Indian tribe. Federal law limits the term of management agreements with Indian tribes to seven years. If a management agreement is not renewed, then we will lose the revenues from that agreement which would negatively affect our results of operations.

We may be unable to successfully compete with other gaming activities The gaming industry is highly competitive. Gaming activities include traditional land-based casinos; river boat and dockside gaming; casino gaming on Indian land; state-sponsored lotteries and video poker in restaurants, bars and hotels; pari-mutuel betting on horse racing, dog racing and jai alai; sports bookmaking; Internet gaming; and card rooms. Our Delaware operations, Stockman s Casino and the Indian-owned casinos that we are trying to develop and operate, compete or will compete, as the case may be, with all these forms of gaming, and any new forms of gaming that may be legalized in additional jurisdictions, as well as with other types of entertainment. Our operations may be unable to successfully compete with new or existing gaming operations within the vicinity of our operations or with gaming operations available on the Internet.

We have pledged some of our assets as collateral In connection with our acquisition of Stockman s Casino, we pledged all of the capital stock and assets of Stockman s Casino to the Nevada State Bank in connection with $16 million of debt financing. If we are unable to generate sufficient cash flow to make payments under one or both of these loans, then the lender or lenders will be able to foreclose on these assets, and we may be required to scale back or curtail operations. In the event of liquidation, these lenders would have priority over our stockholders.

Our current and future credit agreements impose restrictions on us which may prevent us from engaging in transactions that might benefit us, including responding to changing business and economic conditions or securing additional financing, if needed Our reducing revolving loan agreement with Nevada State Bank contains customary events of default and restrictive covenants that require us to maintain specified levels of performance and financial ratios at our Stockman s subsidiary and prohibit us from taking certain actions without satisfying the financial tests or obtaining the consent of the lenders. Additionally, the obligations are secured by all of the capital stock and assets of our Stockman s subsidiary. The prohibited actions for Stockman s include, among other things:

- making investments in excess of specified amounts;
- incurring additional indebtedness in excess of a specified amount;
- paying cash dividends;
- making capital expenditures in excess of a specified amount;
- creating certain liens;
- prepaying our other indebtedness;
- engaging in certain mergers or combinations; and
- engaging in transactions that would result in a change of control of our company.

Any future credit agreements in connection with other projects may contain similar restrictions. Should we be unable to comply with the terms and covenants of our credit agreements, we would be required to obtain modifications of the terms of these agreements or secure another source of financing to continue to operate our business. A default could result in the acceleration of our obligations under the credit agreements. In addition, these covenants may prevent us from engaging in transactions that benefit us, including responding to changing business and economic conditions or securing additional financing, if needed. Our business is capital intensive and, to the extent we need additional financing, we may not be able to obtain such financing at all or on favorable terms, which may decrease our profitability and liquidity.

Adverse changes in discretionary consumer spending would decrease our gaming revenues The gaming industry is heavily dependent on discretionary consumer spending patterns. Our business is sensitive to numerous factors that affect discretionary consumer income, including adverse general economic conditions, changes in employment trends and levels of unemployment, increases in interest rates, acts of war, terrorist or political events, a significant rise in energy prices or other events or actions that may lead to a decrease in consumer confidence or a reduction in discretionary income. Declines in consumer spending within the gaming industry, especially for extended periods, could have a material adverse effect on our business, financial condition and results of operations.

Naval Air Station Fallon is a significant part of the economy of Fallon, Nevada, the site of Stockman s Casino Stockman s Casino is located in Fallon, Nevada, which is the location of Naval Air Station Fallon, the home of the Naval Strike and Air Warfare Center. The naval base is an important employer in the region and accounts for a significant part of the economy. Any future decrease of operations or closure of the naval base would have a negative impact on the region s economy, and in turn the future financial performance of Stockman s Casino and our results of operations.

Table of Contents

We will need to make substantial financial and manpower investments in order to assess our internal controls over financial reporting, and our internal controls over financial reporting may be found to be deficient Section 404 of the Sarbanes-Oxley Act of 2002 requires management to assess its internal controls over financial reporting and requires auditors to attest to that assessment. Current regulations of the Securities and Exchange Commission require us to include a management assessment in our Annual Report on this Form 10-KSB for our fiscal year ended December 31, 2007 and an auditor attestation beginning the following fiscal year.

We have incurred costs of $304,062 in partially implementing and responding to these requirements through December 31, 2007. In particular, the rules governing the standards that must be met for management to assess its internal controls over financial reporting under Section 404 are complex and require significant documentation, testing and, if necessary, possible remediation. Our process of reviewing, documenting and testing our internal controls over financial reporting may cause a significant strain on our management, information systems and resources. We have incurred additional costs in order to implement new accounting and software systems during the first quarter of 2008. We may be required to hire additional personnel and to use outside legal, accounting, and advisory services as we pursue completion of this effort. In addition, we will incur additional fees from our auditors as they perform the additional services necessary for them to provide their attestation. If we are unable to favorably assess the effectiveness of our internal controls over financial reporting when we are required to, or if our independent auditors are unable to provide an unqualified attestation report on such assessment, then we may be required to change our internal controls over financial reporting to remediate deficiencies. In addition, investors may lose confidence in the reliability of our financial statements, causing our stock price to decline. We currently have four persons in our finance department. This limited number of staff will make it harder for us to comply with Section 404 and consequently a loss of any of our finance staff members will adversely affect our ability to comply with Section 404.

Inability to obtain and maintain necessary approvals from various gaming regulators will limit our expansion and our operations Our operations and proposed expansion depend on our ability to obtain and maintain regulatory approvals with various gaming regulators. We must maintain licenses from the Nevada Gaming Commission in connection with our Stockman s Casino. Our management agreements with the Michigan tribe and the Northern Cheyenne Tribe and any future management agreements we enter into with Indian tribes are subject to approval by the NIGC. In addition, in order to conduct Class III Gaming, which includes typical Las Vegas style games, as defined by the Indian Gaming Regulatory Act, a tribe must have entered into a gaming compact with the state in which the casino is to operate, which has been approved by the NIGC. The Northern Cheyenne Tribe s gaming compact with the State of Montana was set to expire in June 2007. In April 2007, the tribe extended the existing agreement with the State of Montana, while continuing negotiations on a new Class III Gaming compact, which shall continue in effect until June 3, 2017, or until a new Class III compact is signed by the State and the tribe, whichever comes first. Since the existing Compact does not apply to our site, if the Northern Cheyenne Tribe is not able to successfully negotiate a Class III Gaming compact with the State of Montana, we will be unable to develop the proposed casino and recover the expenses we have already incurred in pursuing this project.

Gaming facility ownership, management and operation is subject to many federal, state, provincial, tribal and/or local laws, regulations, and ordinances which are administered by particular regulatory agency or agencies in each jurisdiction. These laws, regulations and ordinances are different in each jurisdiction but generally deal with the responsibility, financial stability and character of the owners and managers of gaming operations and persons financially interested or involved in gaming operations. Our inability to obtain or maintain required gaming regulatory approvals and licenses, including from the Nevada Gaming Commission and the NIGC, would materially adversely affect our business and financial condition. Changes in these laws, regulations or ordinances could adversely affect our future performance.

The proposed site for the Northern Cheyenne Tribe project requires approvals before development on the land can begin The site for the Northern Cheyenne Tribe project must be approved for gaming by the Secretary of the Interior with the consent of the Governor of Montana. If the Northern Cheyenne Tribe s gaming compact with the State of Montana is not extended to include the site or a satisfactory site for the project is not approved, then we will be unable to develop the proposed casino and recover the expenses we have already incurred pursuing this project.

Our management agreements with the various tribes are subject to governmental or regulatory modification

The NIGC has the power to require modifications to Indian management agreements under some circumstances or to void such agreements or secondary agreements, including loan agreements, if we fail to obtain the required approvals or to comply with the necessary laws and regulations. While we believe that our management agreements and related secondary documents meet the applicable requirements, the NIGC has the right to review each of these agreements and has the authority to reduce the term of a management agreement or the management fee or otherwise require modification of the management agreements and secondary agreements. Such changes would negatively affect our profitability.

Table of Contents

The rate of taxation on gaming profits may not be predictable The legislatures in the various states in which we operate commercial casinos have the authority to set gaming tax rates. These state legislatures may revise their gaming taxes at any time and increase the tax rates applicable to our casinos. The compacts between the states and the tribes contain provisions with respect to fees due to the state from gaming facilities and these fees may be increased upon renewal of the compact. Additionally, from time to time, certain federal legislators have proposed the imposition of federal tax on gaming revenues. Any increase in tax rates or imposition of new taxes on gaming operations applicable to our casinos either at the state or federal level, or both, could materially adversely affect our financial condition or results of operations.

Our controlling stockholder has significant influence over management Mr. Michael Paulson, our controlling stockholder, beneficially owns (individually and as trustee of the Allen E. Paulson Living Trust) approximately 17% of our outstanding shares of common stock and our other executive officers and directors collectively beneficially own an additional 10.2% of our outstanding shares of common stock. As a result, our controlling stockholder and our other executive officers and directors are able to exercise significant influence over our company, including, but not limited to, any stockholder approvals for the election of our directors and, indirectly, the selection of our senior management, new securities issuances, mergers and acquisitions and any amendments to our by-laws or charter. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company. Our stockholders may be deprived of an opportunity to receive a premium for their shares as part of a sale of our company and it may negatively affect the market price of our common stock. When voting on such matters, our controlling stockholders interests may conflict with that of other stockholders.

We have the right under our amended and restated charter to redeem our capital stock under certain circumstances One of the requirements of gaming licenses in Nevada is that our directors, officers and those who own specified percentages of our capital stock must meet eligibility requirements for licenses. In order to ensure compliance with regulatory requirements in Nevada, our amended and restated certificate of incorporation allows us to repurchase shares of our capital stock from any stockholder if continued ownership of those shares by that stockholder would jeopardize any gaming license, approval, franchise, consent or management agreement held by us or any of our subsidiaries. Payment of the redemption price may be made by an unsecured promissory note. This redemption will apply even if the stockholder would not have chosen to sell the stock at such time.

There are trading risks for low priced stocks The Securities Enforcement and Penny Stock Reform Act of 1990 requires additional disclosure, relating to the market for penny stocks, in connection with trades in any stock defined as a penny stock. The Securities and Exchange Commission has adopted regulations that generally define a penny stock to be any equity security that has a market price of less than $5.00 per share, subject to certain exceptions. Unless an exception is available, the regulations require the delivery, prior to any transaction involving a penny stock, of a disclosure schedule explaining the penny stock market and the risks associated therewith.

If our common stock is delisted from the American Stock Exchange, then trading in our common stock will be covered by Rules 15-g-1 through 15-g-6 promulgated under the Securities Exchange Act of 1934, as amended. Under such rules, broker-dealers who recommend such securities to persons other than established customers and accredited investors must make a special written suitability determination that the penny stock is a suitable investment for the purchaser and receive the purchaser s written agreement to this transaction. Securities are exempt from these rules if the market price of the common stock is at least $5.00 per share.

Our stock price may be volatile because of factors beyond our control and you may lose all or a part of your investment The market price of our common stock has been volatile in recent years. The market price of our common stock could be subject to significant fluctuations after this offering and may decline below the offering price. Any of the following factors could affect the market price of our common stock:

- our failure to meet financial analysts performance expectations;
- changes in earnings estimates and recommendations by financial analysts;
- actual or anticipated variations in our quarterly results of operations;

changes in market valuations of similar companies;

announcements by us or our competitors of significant contracts, acquisitions, renovations, joint ventures or capital commitments;

regulatory action or changes; or

general market, political and economic conditions.

Our common stock is thinly-traded For most of our history our common stock has been thinly-traded, both privately and on the various exchanges on which it has been listed, making it difficult for stockholders to sell shares of our common stock at a predictable price or at all. The volatility in the market price of our common stock may cause stockholders to encounter significant short term variations in the market price of the stock on account of factors beyond our control.

Table of Contents

EMPLOYEES

As of January 1, 2008, we have ten full-time corporate employees, four of whom are executive officers and an additional two are senior management. Our Delaware joint venture has approximately 478 full-time employees, and our Stockman s Casino has approximately 140 full-time employees. Management believes that its relationship with its employees is good. None of our employees are currently represented by a labor union, although such representation could occur in the future.

Item 2. Description of Property.

Stockman s, a wholly owned subsidiary, owns the site on which Stockman s Casino operates in Fallon, Nevada. Stockman s has approximately 8,400 square feet of gaming space with approximately 260 slot machines, four table games and keno. There is a bar, a fine dining restaurant and a coffee shop. Until February 20, 2008, the facility included a Holiday Inn Express, which has 98 guest rooms, indoor and outdoor pools, sauna, fitness center, meeting room and a business center. Management considers Stockman s Casino to be in good condition and well maintained. The loan agreement is guaranteed by Stockman s and is secured by a pledge of the stock and the assets of Stockman s. The loan from the Seller is secured by a second interest in the real estate of Stockman s Casino

Until December 2006, when the land was taken into trust by the United States for the benefit of the Nottawaseppi Huron Band of Potawatomi, our Michigan joint venture owned an eighty-acre parcel of land outside Battle Creek, Michigan which is intended to be a future gaming development site for the Michigan project.

Full House Resorts owns a twelve-acre parcel in McKinley County, New Mexico which was previously intended to be a future gaming development site for the Manuelito project. Since this project has been discontinued, it is management s intention to sell the land.

We lease the office space in Las Vegas, Nevada pursuant to a lease which has recently been amended. Effective April 1, 2007, we occupy approximately 3,600 square feet of office space in the same location we have occupied for the past several years. The lease agreement expires April 1, 2010.

Item 3. Legal Proceedings.

We have a management agreement with the Michigan tribe for the development and operation of a casino which was approved by the NIGC on December 14, 2007. As described below there were two appellate court rulings decided in our favor during 2007.

A lawsuit was filed in 1999 by Taxpayers of Michigan Against Casinos or TOMAC in Ingham County Circuit Court, Michigan. The lawsuit challenged the constitutionality of the approval process of four gaming compacts between the State of Michigan and Indian tribes, including the Michigan tribe. On May 30, 2007, the Michigan Supreme Court issued a final decision upholding the validity of the compacts and an amendment to one of the compacts by another tribe.

On August 30, 2002 Citizens Exposing Truth About Casinos or CETAC filed a complaint in United States District Court for the District of Columbia, seeking to prevent the part of land selected for the Michigan project from being taken into trust. Following a settlement of all but one of the issues in the case in September 2006, on July 3, 2007, the Court of Appeals for the DC Circuit ruled in our favor on the last remaining issue and dismissed the complaint. No further appeal was taken or is now allowed.

Accordingly, as of December 31,2007, there are no legal proceedings currently pending or threatened involving the Company or any subsidiary.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of our security holders during the fourth quarter.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

(a) Market Information

Our common stock was listed by The Nasdaq SmallCap Market under the symbol FHRI until April 17, 2001. Thereafter, the stock began trading on the OTC Bulletin Board. On July 28, 2005, our stock began trading on the American Stock Exchange under the symbol FLL. In conjunction with the purchase of Stockman s we issued 7,100,000 shares of common stock and raised $23,075,000 in December 2006. The total number of shares increased from 11,008,380 to 18,108,380 as a result of this fund-raising. The proceeds were used to partially fund the acquisition of Stockman s, to pay an accrued dividend to holders of the Series 1992-1 Preferred stock and for general corporate purposes. Subsequently the holders of the Series 1992-1 Preferred converted the security into common shares. Set forth below are the high and low sales prices of the common stock as reported on the OTC Bulletin Board and the American Stock Exchange for the periods indicated:

	High	Low
Year Ended December 31, 2007		
First Quarter	$ 4.70	$ 3.40
Second Quarter	4.10	3.35
Third Quarter	4.00	2.75
Fourth Quarter	3.21	2.00
Year Ended December 31, 2006		
First Quarter	$ 3.70	$ 2.55
Second Quarter	3.60	3.10
Third Quarter	3.92	3.05
Fourth Quarter	3.86	3.10

The OTC Bulletin quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. On March 25, 2008, the last sale price of the Common Stock as reported by the American Stock Exchange was $1.39.

(b) Holders

As of December 31, 2007, we had approximately 140 holders of record of our common stock. We believe that there are over 800 beneficial owners.

(c) Dividends

On December 18, 2006, we declared the accrued dividends on our preferred stock which were payable since issuance, and paid the dividend totaling $3,042,084 in January 2007. In conjunction with the equity offering in December 2006, the holders of the outstanding shares of our Series 1992-1 Preferred Stock converted all of the shares into shares of our common stock in January 2007 on a one share-for-one share basis in accordance with their conversion right. As of December 31, 2007 there were no preferred shares issued or outstanding.

We intend to retain future earnings, if any, to provide funds for the operation of our business, retirement of our debt and payment of preferred stock dividends and, accordingly, do not anticipate paying any cash dividends on our common stock in the near future.

(d) Securities authorized for issuance under equity compensation plans

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2007 with respect to compensation plans (including individual compensation arrangements) which were approved by our stockholders and under which our equity securities are authorized for issuance. We do not have any equity compensation plans which were not approved by our stockholders.

Equity Compensation Plan Information

Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
75,000	$ 2.25	2,000

Table of Contents

Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

This Annual Report on Form 10-KSB 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 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, possi should, might, likely, enable, or similar words or expressions are used in this Form 10-KSB, as well as statem containing phrases such as in our view, there can be no assurance, although no assurance can be given, or there is way to anticipate with certainty, forward-looking statements are being made.

In addition to the risks discussed in Item 1 Factors That May Affect Our Future Performance , various other risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following factors:

- our growth strategies;
- our development and potential acquisition of new facilities;
- risks related to development and construction activities;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions;
- access to capital, including our ability to finance future business requirements;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming license legislation and regulations;
- regulatory approvals;
- competitive environment;
- risks, uncertainties and other factors described from time to time in this and our other SEC filings and reports.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.

Overview

On January 31, 2007, we acquired all of the outstanding shares of capital stock of Stockman s Casino, a Nevada corporation, which operates Stockman s Casino and, until February 21, 2008 (see below), Holiday Inn Express in

Fallon, Nevada. The purchase price of $28.1 million (including acquisition costs of $659,846 and $730,812 for the right to adjust the tax basis of the assets acquired) was funded, with a combination of cash on hand, proceeds from our December 2006 equity offering, a $16 million reducing revolving loan from Nevada State Bank and a promissory note to the seller in the approximate amount of $1.25 million. We borrowed $16,000,000, the maximum amount permitted to be outstanding under the reducing revolving loan, which now decreases by $312,000 semiannually on January 1 and July 1 of each year and any outstanding amounts above such reduced maximum must be repaid on each such date. The reducing revolving loan is payable over 15 years at a variable interest rate based on the five year LIBOR/Swap rate plus 2.1%. This rate, which is 7.41% per annum as of the purchase date, adjusts annually based on the funded debt to EBITDA ratio of our Stockman s subsidiary with adjustments based on the five year LIBOR/Swap rate occurring every five years. The loan agreement is guaranteed and secured by a pledge of the stock and the assets of our Stockman s subsidiary. The loan from the seller is payable in monthly installments for 60 months, bears interest at 7.44% per annum and is secured by a second interest in the real estate of Stockman s Casino.

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

In April 2004, the Nambé Pueblo signed a letter of intent to negotiate a management agreement with us for a proposed casino to be built approximately 15 miles north of Santa Fe, New Mexico. In January 2008, we became aware that the Nambé Pueblo tribal council received a presentation from another developer for the development of a multi-use economic development including a truck stop, convenience store and retail space, which would also include a small slot parlor. In February 2008, we received notice that the Nambé Pueblo tribal council had formally approved the smaller development, effectively terminating the business relationship with Full House. As a result, the Company has recorded an impairment loss of $207,534 related to capitalized contract rights during the fourth quarter of 2007. We are in discussions with the Pueblo and the developer to determine the method and timing of the reimbursement of our advances to date of $655,178, but no formal agreement has been reached.

On February 20, 2005, the Manuelito Chapter of the Navajo Nation selected us to develop and manage a gaming facility near Gallup, New Mexico. Discussions with the executive director of the Navajo Nation during the fourth quarter of 2007 have indicated that our site is not one currently being considered by the Nation for gaming activities, and the Nation intends to develop its gaming operations without the services of a gaming developer. As a result, we have discontinued our pursuit of this project and have written off our capitalized expenditures to date of approximately $200,000. The land held for the development of this project is now included in other assets as of December 31, 2007, and it is management s intention to sell the land as soon as possible.

Critical Accounting Estimates and Policies

Although our financial statements necessarily make use of certain accounting estimates by management, we believe that, except as discussed below, no matters that are the subject of such estimates are so highly uncertain or susceptible to change as to present a significant risk of a material impact on our financial condition or operating performance.

The significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management s fair value estimates related to notes receivable from tribal governments, and the related evaluation of the recoverability of our investments in contract rights. Various assumptions, principally affecting the timing and, to a lesser extent, the probability of completing our various projects under development and getting them open for business, and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact and project specific and takes into account factors such as historical experience and current and expected legal, regulatory and economic conditions. We regularly evaluate these estimates and assumptions, particularly in areas, if any, where changes in such estimates and assumptions could have a material impact on our results of operations, financial position and, generally to a lesser extent, cash flows. Where recoverability of these assets or planned investments are contingent upon the successful development and management of a project, we evaluate the likelihood that the project will be completed and the prospective market dynamics and how the proposed facilities should compete in that setting in order to forecast future cash flows necessary to recover the recorded value of the assets or planned investment. In most cases, we engage independent experts to prepare and periodically update market and/or feasibility studies to assist in the preparation of forecasted cash flows. Our conclusions are reviewed as warranted by changing conditions.

Long-term assets related to Indian casino projects

We account for the estimated fair value of advances made to tribes as in-substance structured notes in accordance with the guidance contained in Emerging Issues Task Force Issue No. 96-12*, Recognition of Interest Income and Balance Sheet Classification of Structure Notes.*

Because our right to recover our advances and development costs with respect to Indian gaming projects is limited to the future net revenues of the proposed gaming facilities, we evaluate the financial opportunity of each potential service arrangement before entering into an agreement to provide financial support for the development of an Indian project. This process includes (1) determining the financial feasibility of the project assuming the project is built, (2) assessing the likelihood that the project will receive the necessary regulatory approvals and funding for construction and operations to commence, and (3) estimating the expected timing of the various elements of the project including commencement of operations. When we enter into a service or lending arrangement, management has concluded, based on feasibility analyses and legal reviews, that there is a high probability (typically 90%) that the project will be completed and that the probable future economic benefit is sufficient to compensate us for our efforts in relation to the perceived financial risks. In arriving at our initial conclusion of probability, we consider both positive and negative evidence. Positive evidence ordinarily consists not only of project-specific advancement or progress, but the advancement of similar projects in the same and other jurisdictions, while negative evidence ordinarily consists primarily of unexpected, unfavorable legal, regulatory or political developments such as adverse actions by legislators, regulators or courts. Such positive and negative evidence is reconsidered at least quarterly. No asset, including notes receivable or contract rights, related to an Indian casino project is recorded unless it is considered probable that the project will be built and will result in an economic benefit sufficient for us to recover the asset.

In initially determining the financial feasibility of the project, we analyze the proposed facilities and their location in relation to market conditions, including customer demographics and existing and proposed competition for the project. Typically, independent consultants are also hired to prepare market and financial feasibility reports. These reports are reviewed by management and updated periodically as conditions change.

We also consider the status of the regulatory approval process including whether:

- the federal Bureau of Indian Affairs, or BIA, recognizes the tribe;
- the tribe has the right to acquire land to be used as a casino site;
- the Department of the Interior has put the land into trust as a casino site;
- the tribe has a gaming compact with the state government;
- the National Indian Gaming Commission has approved a proposed management agreement; and
- other legal or political obstacles exist or are likely to occur.

The development phase of each relationship commences with the signing of the development and management agreements and continues until the casinos open for business. Thereafter, the management phase of the relationship, governed by the management contract, continues for a period of up to seven years. We make advances to the tribes, which are recorded as notes receivable, primarily to fund certain portions of the projects, which bear no interest or below market interest until operations commence. Repayment of the notes receivable and accrued interest is only required if the casino is successfully opened and distributable profits are available from the casino operations. Under the management agreement, we typically earn a management fee calculated as a percentage of the net operating income of the gaming facility. In addition, repayment of the loans and our management fees are subordinated to certain other financial obligations of the respective operations. Generally, the order of priority of payments from the casinos cash flows is as follows:

- a certain minimum monthly priority payment to the tribe;
- repayment of various senior debt associated with construction and equipping of the casino with interest accrued thereon;
- repayment of various debt with interest accrued thereon, if any, due to us;
- management fee to us;
- other obligations; and
- the remaining funds distributed to the tribe.

Notes receivable

We account for our notes receivable from and management agreements with the tribes as separate assets. Under the contractual terms, the notes do not become due and payable unless and until the projects are completed and operational. However, if our development activity is terminated prior to completion, we generally retain the right to collect our reimbursable advances in the event of completion by another developer. Because the stated rate of the notes receivable alone is not considered commensurate with the risk inherent in these projects (at least prior to commencement of operations), the estimated fair value of the notes receivable is generally less than the amount advanced. At the date of each advance, the difference between the estimated fair value of the note receivable and the actual amount advanced is bifurcated and either recorded as an intangible asset (contract rights) or expensed as period costs of retaining such rights if the rights were acquired in a separate unbundled transaction.

Subsequent to its effective initial recording at estimated fair value, the note receivable portion of the advance is adjusted to its current estimated fair value at each balance sheet date, using typical market discount rates for prospective Indian casino operations, and expected repayment terms as may be affected by estimated future interest rates and opening dates, with the latter affected by changes in project-specific circumstances such as ongoing litigation, the status of regulatory approvals and other factors previously noted. The notes receivable will not be adjusted to an estimated fair value that exceeds the face value of the note plus accrued interest, if any. Due to the uncertainties surrounding the projects, no interest income is recognized during the development period, but changes in estimated fair value of the notes receivable are recorded as unrealized gains or losses in our statement of operations.

Upon opening of the casino, the difference, if any, between the then recorded estimated fair value of the notes receivable, subject to any appropriate impairment adjustments pursuant to Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan,* and the amount contractually due under the notes would be amortized into income using the effective interest method over the remaining term of the note.

Contract rights

Intangible assets related to the acquisition of the management agreements are periodically evaluated for impairment based on the estimated cash flows from the management agreement on an undiscounted basis and amortized using the straight-line method over the lesser of seven years or contractual lives of the agreements, typically beginning upon commencement of casino operations. In the event the carrying value of the intangible assets were to exceed the undiscounted cash flow, the difference between the estimated fair value and carrying value of the assets would be charged to operations.

The cash flow estimates for each project were developed based upon published and other information gathered pertaining to the applicable markets. We have many years of experience in making these estimates and also utilize independent appraisers and feasibility consultants in developing our estimates. The cash flow estimates are initially prepared (and periodically updated) primarily for business planning purposes with the tribes and are secondarily used in connection with our impairment analysis of the carrying value of contract rights, land held for development, and other capitalized costs, if any, associated with our Indian casino projects. The primary assumptions used in estimating the undiscounted cash flow from the projects include the expected number of Class III Gaming devices, table games, and poker tables, and the related estimated win per unit per day. We estimate an average daily win per unit of $326 on approximately 2,610 units for the first year of operation for our Michigan project. For the second through fifth year of operations, we estimate that our cash flow from management fees from the Michigan project will increase 4% to 10% annually. Generally, within reasonably possible operating ranges, our impairment decisions are not particularly sensitive to changes in these assumptions because estimated cash flow greatly exceeds the carrying value of the related intangibles and other capitalized costs. We believe that the primary competitors to our Michigan project are five Northern Indiana riverboats whose published win per device per day has consistently averaged above $300, as compared to $210 used in our undiscounted cash flow analysis. Our Michigan project is also located approximately 120 miles west of Detroit and 100 miles northeast of another Michigan Indian casino project which is under construction near New Buffalo. Both were considered but not thought to be as directly competitive to our Michigan project as the northern Indiana riverboats.

Summary of long-term assets related to Indian casino projects

At December 31, 2007 and 2006, long-term assets associated with Indian casino projects stated at their estimated fair value are summarized as follows:

	2007	2006
Michigan project:		
Notes receivable, tribal governments	$ 11,189,359	$ 10,258,202
Contract rights, net	14,625,969	4,687,997
	25,815,328	14,946,199
Other projects:		
Notes receivable, tribal governments	$ 989,122	$ 737,580
Contract rights, net	135,164	472,188
Land held for development		130,000
	1,124,286	1,339,768

	$ 26,939,614	$ 16,285,967

As noted above, the Michigan project comprises the majority of long-term assets related to Indian casino projects. We have a management agreement with the Michigan tribe for the development and operation of a casino resort near Battle Creek, Michigan which provides that we will receive, only from the operations and financing of the project, reimbursement for all advances we have made to the tribe (without interest until the opening of the project and thereafter with interest at prime plus 5%) and a management fee equal to 26% of the net revenues of the casino (defined effectively as net income prior to management fees)) for a period of seven years. The terms of the management agreement were approved by the NIGC in December 2007. While the notes receivable may be repaid prior to commencement of operations which is our current expectation, if they are not, the repayment term is seven years, commencing 30 days from the opening of the project.

Table of Contents

In arriving at the estimated opening date for the Michigan project, we considered the status of the following conditions and estimated the time necessary to obtain the required approvals, secure financing and complete the construction:

- the tribe is federally recognized;
- adequate land for the proposed casino resort has been placed in trust;
- the tribe has a valid gaming compact with the State of Michigan;
- the National Indian Gaming Commission has approved the management agreement;
- the Bureau of Indian Affairs issued a record of decision approving the final environmental impact statement in September 2006; and
- proposals for approximately $330 million of construction financing have been obtained and the completion of financing documentation is expected in mid 2008.

During the fourth quarter of 2007, we extended the estimated opening date for the Michigan casino from the first quarter of 2009 to the second quarter of 2009, based on unanticipated delays in the approval of GEM s management agreement by the NIGC and revisions to the development schedule resulting from finalization of the construction manager s contract. These estimates include a construction period of approximately 15 months (previously 12 months), which is based on the actual construction schedule contained in the construction manager s gross maximum price contracts executed by the FireKeepers Development Authority in January. Also during the fourth quarter of 2007, the discount rate used in the determination of the fair value of the notes receivable related to the Michigan project was reduced from 18.5% in the third quarter of 2007, to 17.5%. The revised discount rate is based on the capital asset pricing model, and was adjusted to account for changes in current market conditions and a reduction in project-specific risk. The estimated inherent risk of the project has decreased due to the favorable resolution of the legal challenges that had resulted in significant previous delays and progress made in completing design drawings, and finalizing and executing the construction manager contracts. The combined impact of the changes in estimated opening date and change in the discount rate reduced the estimated fair value of the notes receivable related to the Michigan project by $337,533 in the fourth quarter.

During the third quarter of 2007, the estimated opening date for the Montana casino was extended from the fourth quarter of 2008 to the third quarter of 2009. There were no changes to the estimated opening date during the fourth quarter of 2007; however, the discount rate was increased from 20.0% in the third quarter of 2007, to 22.5%, due to an increase in project specific risk related to political volatility at the Tribal level during the quarter. The impact of the change in the discount rate decreased the estimated fair value of the notes receivable related to the Montana project by $21,286 in the fourth quarter.

On March 19, 2008, we announced that we are no longer pursuing the Nambé Pueblo project. Pursuant to the terms of the Development Agreement, the Pueblo has recognized the obligation to reimburse all of the Company s development advances for the project. Full House currently has advanced approximately $655,000 for the development of the project, all of which is expected to be reimbursed by the Pueblo on yet to be negotiated terms. In addition, the Company will negotiate payment from the Pueblo or its new developer for the value of the exclusive gaming rights granted to the Company by the Pueblo. However, the Company reserved for an impairment loss of $207,534 as of December 31, 2007 on the development contract rights pending a resolution with the Nambé Pueblo. The receivable from the Nambé tribe is now valued based on the present value of a five year collection period and a 21% discount rate. The collectability ultimately depends on what project the tribe develops. However, it appears the tribe would have the ability to pay based on the 200 slot travel center discussed.

Selected key assumptions and information used to estimate the fair value of the notes receivable for all projects at December 31, 2007 and 2006, are as follows:

	2007	2006

Aggregate face amount of the notes receivable	$ 14,084,100	$ 13,652,328
Estimated years until opening of casino:		
Michigan	1.50	1.75
Montana	1.75	1.75
Discount rate:		
Michigan	17.5%	20.0%
Montana	22.5%	20.0%
Estimated probability rate of casino opening:		
Michigan	96%	90%
Montana	80%	90%

If these notes are not repaid as expected prior to commencement of operations, the Montana loans have interest rates of prime plus 1% and Michigan is prime plus 5% during the repayment period. The Nambé Pueblo loans have interest rates of prime plus 2% during the repayment period.

Factors that we consider in arriving at a discount rate include discount rates typically used by gaming industry investors and appraisers to value individual casino properties outside of Nevada and discount rates produced by the widely accepted Capital Asset Pricing Model, or CAPM, using the following key assumptions:

S&P 500, average benchmark investment returns (medium-term horizon risk premiums);

Risk-free investment return equal to the 10-year average for 90-day Treasury Bills;

Investment beta factor equal to the average of a peer group of similar entities in the hotel and gaming industry; and

Project specific adjustments based on typical size premiums for micro-cap and low-cap companies.

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

At December 31, 2007 and 2006, the sensitivity of changes in the key assumptions related to the Michigan project are illustrated by the following increases (decreases) in the estimated fair value of the note receivable:

	2007	2006
Discount rate increases 2.5%	$ (347,790)	$ (363,556)
Discount rate decreases 2.5%	366,793	384,996
Forecasted opening date delayed one quarter	(442,085)	(446,848)
Forecasted opening date accelerated one quarter	460,273	467,687
Forecasted opening date delayed one year	(1,666,260)	(1,709,700)

Amortization of gaming and contract rights is, or is expected to be provided on a straight-line basis over the contractual lives of the assets. The contractual lives may include, or not begin until after a development period and/or the term of the subsequent management agreement. Because the development period may vary based on evolving events, the estimated contractual lives may require revision in future periods. Accordingly, we extended the amortization period in 2007 to reflect the revised anticipated opening date for the Michigan casino. These gaming and contract rights are held by us and are to be assigned to the appropriate operating subsidiary when the related project is operational and, therefore, they are not included in the calculation of the non-controlling interest in the subsidiaries.

Advances to tribes are expected to be repaid prior to commencement of operations, or within the repayment term of seven years, commencing 30 days from the opening of the project. As of December 31, 2007, we estimate the potential exposure resulting from a project never reaching completion is as follows:

December 31, 2007	Michigan	New Mexico	Montana	Other	Total
Notes receivable	$ 11,189,359	$ 487,270	$ 501,852	$	$ 12,178,481
Contract rights	14,625,969		135,164		14,761,133
Land held for development					
Total	$ 25,815,328	$ 487,270	$ 637,016	$	$ 26,939,614

Table of Contents

Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51,* which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary or variable interest entity requiring consolidation and for the deconsolidation thereof. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008, and early adoption is prohibited. Since we do not now have and do not contemplate acquiring any interests in subsidiaries or variable interest entities with noncontrolling interests, or deconsolidation thereof, we currently expect that SFAS No. 160 will not have an impact on our future financial position, results of operations and operating cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition-related items including: (1) expensing acquisition-related costs as incurred; (2) valuing non-controlling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company expects SFAS No. 141(R) will have an impact on its accounting for future business combinations, if any, once adopted.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 will become effective for financial statements issued for fiscal years beginning after November 15, 2007, except for non-financial assets as to which the effective date is delayed one year. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which will permit the option of choosing to measure certain eligible items at fair value at specified election dates and report unrealized gains and losses in earnings. SFAS No. 159 will become effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the effect that SFAS No. 157 and SFAS No. 159 will have on our future financial position, results of operations and operating cash flows.

Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Operating revenues from continuing operations. For the year ended December 31, 2007, total operating revenues from continuing operations increased by $9,564,411 due to revenues generated by Stockman s, which was acquired on January 31, 2007. In addition, Full House recognized one-time revenues of $283,554 in the second quarter of 2007, related to the termination of a consulting agreement with the Hard Rock casino in Biloxi.

Operating costs and expenses from continuing operations. For the year ended December 31, 2007, total operating costs and expenses increased $8,064,568 from $4,383,803 compared to the prior year, primarily as a result of Stockman s operating expenses from continuing operations of $6,698,179 and an increase in employee-related expenses at the corporate level of $1,330,725 (See G&A below).

Project development costs. Project development costs decreased by $81,744 or 16.0% due to lower expenses related to new business development, and reduced expenses for the tribal projects primarily due to the bridge financing facility obtained by the Michigan tribe in the second quarter of 2007, which enabled the Michigan tribe to fund the majority of its project costs.

Selling, general and administrative expense. Selling, general and administrative expenses increased by $3,015,779 or 79.5% as compared to 2006. The increase is primarily due to $1,562,807 in expenses attributable to Stockman s. In addition, employee-related expenses at the corporate level increased $1,330,725 from prior year primarily due to an increase in headcount, which resulted in a $166,141 or 17.5% increase in salaries, an increase of $563,743 or 55.7% in stock compensation, an increase of $411,747 or 126.7% in bonus expense, and an increase of $110,056 in vacation expense. Non-employee expenses at the corporate level increased $386,079 over prior year primarily due to an increase in accounting and auditing fees of $417,318, which included Sarbanes-Oxley project costs of $304,063.

Depreciation and amortization. Depreciation expense increased by $1,196,349 from $75,080 in the prior year primarily due to the acquisition of Stockman s. Amortization of intangible contract rights decreased slightly from prior year due to an extension of the expected amortization period due to the revised estimated opening date of the Michigan project.

Operating gains (losses). For the year ended December 31, 2007, operating gains decreased by $836,108 or 15.1%. The decrease is primarily due to the net impact of the change in the discount rates and the estimated opening dates of the tribal projects which resulted in a decrease in unrealized gains of $838,281 or 50.0% from the prior year, primarily due to the Michigan project, compared to the same period in 2006 primarily. The decrease is also attributable to impairment losses related to the Navajo and Nambé gaming rights in the amount of $200,000 and $207,534 respectively. The decreases were partially offset by an increase in our share of income from the Delaware joint venture which increased $409,707 or 10.6%, over the prior year due, in part, to our restructured management contract with HRI.

Other income (expense). For the year ended December 31, 2007, other expenses increased by $423,991 from $101,210 as compared to 2006 due to interest expense related to the debt utilized to fund the Stockman s acquisition. This increase was partially offset by the assumption of a $272,137 liability by the Michigan tribe under an amendment to the design contract.

Income taxes. For the year ended December 31, 2007, the effective income tax rate is approximately 40%, compared to 46% for the same time period in 2006. The decrease in the effective tax rate from the prior year is due primarily to share-based compensation expense related to restricted stock grants in 2007 and state income tax.

Income from discontinued operations. For the eleven months ended December 31, 2007, income from discontinued operations related to the Holiday Inn Express operation, which we contracted to sell on October 1, 2007. Net income from discontinued operations, net of tax, was $286,294 for the year.

Liquidity and Capital Resources

The Delaware joint venture and Stockman s Casino operation are currently our primary sources of recurring income and significant positive cash flow. Distributions from the Delaware operation are governed by the terms of the applicable joint venture agreement and management reorganization agreement. We will continue to receive management fees as currently prescribed under the management agreement, with a minimum guaranteed growth factor of 5% per year over the previous year, with 2006 as the base. However, the minimum guaranteed growth factor in 2008 will be 8% to account for the opening of the facility expansion recently completed.

On a consolidated basis, for the fiscal year ended December 31, 2007, cash provided by operations increased $4,226,150 over the same period in 2006, primarily due to positive cash flows generated by the Stockman s operation. Cash used in investing activities increased $7,854,489 from prior year primarily due to the acquisition of Stockman s on January 31, 2007, partially offset by a reduction in advances to tribal governments. Cash used in financing activities increased $29,355,495 primarily due to an equity offering in 2006, which provided cash flow of approximately $21.5 million. In addition, during 2007 we had repayments of long-term debt of $4,794,378 and we paid preferred stock dividends of $3,042,084 in 2007.

At December 31, 2007, we had cash balances of $8.0 million and have prepaid our future debt requirements by approximately $4.1 million. As a result, we have availability on our Nevada State Bank credit facility of approximately $4.1 million. Our future cash requirements will include funding the remaining near and long-term cash requirements of our development expenses for the Huron, Northern Cheyenne and other projects, our selling, general and administrative expenses, capital expenditures primarily at Stockman s and debt service. 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. A decrease in our cash receipts or the lack of available funding sources would limit our development.

On January 31, 2007, we acquired all of the outstanding shares of capital stock of Stockman s for $28.1 million, which included $659,846 of capitalized costs, plus $730,812 for the right to adjust the tax basis of the assets acquired. Stockman s owns and operates Stockman s Casino and, until February 20, 2008, the Holiday Inn Express in Fallon, Nevada. The transaction was financed with a portion of the net proceeds from our December 2006 stock offering, cash on hand, $16 million of debt secured by the capital stock and assets of Stockman s and a $1.25 million promissory note to the seller of Stockman s.

Long-term debt consists of a reducing revolving loan from Nevada State Bank. The maximum amount permitted to be outstanding under the reducing revolving loan decreases $312,000 semiannually on January 1 and July 1, and any outstanding amounts above such reduced maximum must be repaid on each such date. The reducing revolving loan is payable over 15 years at a variable interest rate based on the five-year LIBOR/Swap rate plus 2.1%. This rate, which was 7.41% per annum as of December 31, 2007, adjusts annually based on the funded debt to EBITDA ratio of Stockman s, with adjustments based on the five-year LIBOR/Swap rate occurring every five years.

The loan agreement with Nevada State Bank also contains customary financial representations and warranties and requires that Stockman s maintain specified financial covenants, including a fixed charge coverage ratio, a funded debt to EBITDA ratio and a minimum tangible net worth. In addition, the loan agreement limits the amount of distributions from and capital expenditures by Stockman s. The loan agreement also provides for customary events of default including payment defaults and covenant defaults.

The promissory note payable to the seller of Stockman s bears interest at 7.44% per annum, is payable in 60 monthly installments of principal and interest and is secured by a second interest in the real estate of Stockman s.

On February 20, 2008, we completed the sale of the Holiday Inn Express in Fallon, Nevada, for $7.2 million. Net proceeds from the sale were approximately $7.0 million which were applied to our revolving loan with Nevada State Bank, which reduced the balance on the loan to $3.9 million and increased our availability under the facility to approximately $4.8 million. In addition, future amortization requirements on the Nevada State Bank loan were reduced on a pro-rata basis and we have no required payments until January 2016.

Effective May 15, 2007, GEM acquired all of Green Acres interests in the casino project in Michigan for $10 million. GEM s members equally funded an initial deposit of $500,000 and the remainder becomes due once project financing is obtained. If obtained, the add-on debt security will be an obligation of GEM and will not be part of the overall casino development cost. GEM will make quarterly payments of $25,000 to Green Acres, as defined in the agreement, beginning on January 1, 2008. A default of the agreement will include GEM s failure to make any payment when due, within the defined grace period. Upon default of payment by GEM, Green Acres is entitled to immediate payment of the balance due. The remaining obligation of $9.5 million, although unsecured, was recorded as a long-term liability once the management agreement between GEM and the Michigan tribe was approved in December 2007.

In December 2007, RAM exercised its conversion option on its $2,381,260 loan to the Company. As a result, $2.0 million of the loan was converted to a capital contribution to the Michigan joint venture, and the loan balance of $381,260, plus $611,718 of accrued interest on the original loan, became a liability of GEM.

Additional projects are considered based on their forecasted profitability, development period and ability to secure the funding necessary to complete the development, among other considerations. As part of our agreements for tribal developments, we typically fund costs associated with projects which may include legal, civil engineering, environmental, design, training, land acquisition and other related advances while assisting the tribes in securing financing for the construction of the project. A majority of these costs are advances to the tribes and are reimbursable to us, as documented in our management and development agreements, as part of the financing of the project s development. The development and other costs that we fund for Indian tribes are only reimbursable from net revenues from the proposed gaming facilities, if any, and are not general obligations of the tribes. While each project is unique, we forecast these costs when determining the feasibility of each opportunity. Such agreements to finance costs associated with the development and furtherance of projects are typical in this industry and have become expected of Indian gaming developers.

Indian casino projects

Because we have received proposals from several funding sources for our Indian casino projects, we expect to successfully arrange on behalf of the tribe third party funding for the construction stage of our Indian casino projects. However, if none of these proposals result in funding on acceptable terms, we believe that we could either sell our rights to one or more projects and land held, find a partner with funding, or abandon the project and have our receivables reimbursed from future tribal gaming operations, if any, developed by another party.

Presently, we do not generate sufficient internal cash flow to fund the construction phase of our Indian casino projects. If we were to discontinue development activities related to any or all of these projects, the related receivables and intangibles would then be evaluated for impairment. The December 2007 balance of notes receivable from Indian advances have been discounted approximately $1.9 million below the contractual value of the notes (including accrued interest) and the related contract rights are valued below the anticipated undiscounted cash flows from the management fees of the projects. Therefore, although the actual amount cannot be estimated at this time, we currently do not believe that the carrying value of our long-term assets related to tribal casinos has been impaired.

Table of Contents