

FULL HOUSE RESORTS INC
Form 10KSB
March 28, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

ý **Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended: December 31, 2002

o **Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 0-20630

FULL HOUSE RESORTS, INC.

(Name of Small Business Issuer in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or
Organization)

13-3391527

(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:

None

(Title of Each Class)

None

(Name of Each Exchange on Which Registered)

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.0001 per Share

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(Title of class)

Check whether the registrant: (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 No

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.

State issuer's revenues for its most recent fiscal year: \$4,817,681.

The aggregate market value of registrant's voting \$.0001 par value common stock held by non-affiliates of the registrant, as of June 30, 2002 was: \$1,717,549.

The number of shares outstanding of registrant's \$.0001 par value common stock, as of March 14 2003, was 10,340,380 shares.

Documents Incorporated By Reference

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The Registrant's Definitive Proxy Statement for its 2003 annual meeting of stockholders will be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-KSB pursuant to General Instruction E 3 of the Form 10-KSB. Information from such Definitive Proxy Statement will be incorporated by reference into Part III, items 9, 10, 11 and 12 hereof.

PART I

1. Description of Business.

BACKGROUND

Full House Resorts, Inc. develops and operates destination resorts and entertainment and gaming centers. We operate Midway Slots and Simulcast at the Delaware State Fairgrounds in Harrington, Delaware. Midway Slots and Simulcast has a total of approximately 1,400 gaming devices, a 450-seat buffet, a 50-seat diner and an entertainment lounge area. We also operated, until August 2002, the Mill Casino, which is located on Tribal Trust Lands of the Coquille Indian Tribe in North Bend, Oregon. We are also involved in the development of a Tribal project in Battle Creek, Michigan.

Our involvement with Indian Tribes began in May 1994 when Lee Iacocca, currently one of our directors, brought to us opportunities to become involved in the development of gaming projects in the Detroit, Michigan metropolitan area together with certain Indian tribes that we refer to as the Organized Tribes, a second project in Michigan with the Nottawaseppi Huron Band of Potawatomi, a project in southern California with the Torres Martinez Desert Cahuilla Indians and the Harrington, Delaware project.

We were incorporated in Delaware on January 5, 1987. Our executive offices are located at 4670 S. Fort Apache Rd., Suite 190, Las Vegas, Nevada 89147, telephone (702) 221-7800.

GTECH JOINT VENTURES

In April 1995, we entered into a series of agreements with GTECH Corporation, a wholly-owned subsidiary of GTECH Holdings Corporation, a leading supplier of computerized on-line lottery systems and services for government-authorized lotteries, to jointly pursue gaming opportunities. Excluded from these agreements was the Deadwood Gulch Resort, which we then owned. Pursuant to the agreements, joint venture companies equally owned by Dreamport, Inc., the gaming and entertainment subsidiary of GTECH, and Full House were formed. We contributed our gaming rights to the North Bend, Oregon facility and our gaming rights to develop the Torres Martinez, Nottawaseppi Huron Band of Potawatomi and Delaware State Fair projects to the joint venture companies.

In payment for our interest in the joint venture companies, we contributed cash and other intangible assets to the companies and committed to loan the joint venture companies up to \$16.4 million to complete the North Bend, Oregon and Delaware facilities. We agreed to guarantee one-half of the obligations of the joint venture companies to GTECH under these loans. The Delaware and Oregon loans have been repaid in full. GTECH also agreed to make loans to us for our portion of the financing of projects if we were unable to otherwise obtain financing. GTECH provided project management, technology and other expertise to analyze, develop and manage the implementation of opportunities developed by the joint venture companies. GTECH also loaned us \$3.0 million, with interest payable monthly at prime, and the principal balance originally due in January 2001. This note was paid in February 2002. Although the loan was convertible into 600,000 shares of our common stock, the loan conversion clause expired without exercise. As part of the GTECH relationship, Allen E. Paulson, William P.

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McComas and Lee Iacocca gave GTECH an option, which expired on December 29, 2000, to buy their shares should they have proposed to transfer them.

Acquisition of GTECH s Interest

On March 30, 2001, we bought GTECH s 50% interest in three joint venture projects that had been equally owned by GTECH and us:

Gaming Entertainment, LLC, owner of an agreement that continued through August 2002 with the Coquille Indian Tribe, which conducted gaming at The Mill Casino in North Bend, Oregon;

Gaming Entertainment (Michigan), LLC, owner of a management agreement with the Nottawaseppi Huron Band of Potawatomi to develop and manage a gaming facility near Battle Creek, Michigan; and

Gaming Entertainment (California), LLC, owner of a management agreement with the Torres Martinez Band of Desert Cahuilla Indians to manage a gaming facility near Palm Springs, California.

The purchase price was \$1.8 million, and was funded through our existing credit facility. As part of this transaction, GTECH extended the due date of our \$3.0 million promissory note until January 25, 2002, with interest at prime. This note was repaid in full in February 2002. Also, as part of this transaction, GTECH was no longer required to provide the necessary financing for the development projects in Michigan and California.

This transaction did not include our other joint venture with GTECH, Gaming Entertainment (Delaware), LLC, owner of a management agreement, continuing through 2011, to manage Midway Slots & Simulcast in Harrington, Delaware. We continue to own this joint venture with GTECH.

Below is a short description of our remaining joint venture with GTECH and the gaming projects and opportunities that we now own.

Project Currently Operating

Midway Slots and Simulcast Harrington, Delaware

We opened Midway Slots and Simulcast, owned by Harrington Raceway, Inc. on August 20, 1996. The original 35,000 square foot facility located near Dover, Delaware, was developed, financed and is managed by a Full House-Dreamport joint venture company. The joint venture provided over \$11 million in financing, developed the project and acts as manager of the gaming facility under a 15-year contract. The facility opened with 500 gaming devices, a simulcast parlor and a small buffet.

During 1998, the 150-seat simulcast parlor was moved to the Harrington Raceway Grandstand, the food and beverage operation in the Grandstand was improved and expanded, and additional gaming devices were added to the facility bringing the total to 742. Harrington Raceway, Inc. secured a bank loan to pay for these and other improvements and to pay off the development loan from the joint venture company.

In May 2000, the facility was expanded by an additional 35,000 square feet, the food service offerings were expanded to include a 450-seat buffet and a 50-seat diner, and an entertainment lounge area was added. The facility now accommodates 1,430 gaming devices. The cost of approximately \$6.5 million was funded by the owner.

Midway Slots and Simulcast is located in Harrington, Delaware on Route 13, approximately 20 miles south of Dover, Delaware between Philadelphia and Baltimore/Washington, D.C. Midway Slots and Simulcast is one of three facilities operating in Delaware. The closest competing casino is in Dover and operates 2,000 devices, the maximum number allowed in Delaware. The other facility is approximately 60 miles north of Harrington.

Under the 15 year management agreement, the venture receives a percentage of gross revenues and operating profits. The joint venture company changed its management fee structure for revenues and operating profits in excess of defined amounts, in recognition of the owner providing complete financing for the May 2000 expansion.

In November 2002, both Maryland and Pennsylvania elected governors supporting some type of gaming legalization. Our facility draws a significant number of customers from Maryland and we believe that competitive gaming in Maryland would have an impact on our facility. The magnitude would depend on both the form of gaming that is authorized, and the locations of competing facilities.

Project Operating During Part of 2002

The Mill Casino North Bend, Oregon

The Mill Casino opened on May 19, 1995 with 250 video lottery terminals, nine blackjack tables, three poker tables, a restaurant and buffet, a saloon, a bingo hall, a gift shop and a snack bar on Tribal Trust Lands of the Coquille Indian Tribe in North Bend, Oregon. We originally received 13% of gaming revenue, but that decreased to 10% under the terms of the agreement. Also, if gross gaming revenue for any twelve-month period exceeded \$20,000,000, then only 10% of amounts in excess of such threshold would be paid. No Fees were to be paid after August 19, 2002, the termination date of our agreement with the Tribe. The contract expired according to its terms in August 2002.

Projects in Development

Nottawaseppi Huron Band of Potawatomi Battle Creek, Michigan

We entered into a series of agreements in January 1995 with the Nottawaseppi Huron Band of Potawatomi, a Michigan Indian Tribe, to develop and manage gaming and non-gaming commercial opportunities for the Tribe. The Tribe's state reservation lands are in Southcentral Michigan. If developed, the facility will target the Ft. Wayne, Indiana and Lansing and Detroit, Michigan metropolitan areas.

The Tribe achieved final federal recognition as a tribe in April 1996. The Tribe obtained a Gaming Compact from Michigan's governor early in 1997 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. A lawsuit was filed in 1999 by Taxpayers of Michigan Against Casinos in Ingham County Circuit Court. The lawsuit challenged the constitutionality of the approval process of these gaming compacts. On January 18, 2000, Judge Peter D. Houk ruled that the compacts must be approved by a legislative bill rather than by resolution. The State of Michigan filed an appeal to the

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Michigan Court of Appeals on February 4, 2000. We joined in the appeal filing as an intervening defendant. On November 12, 2002, the Michigan Court of Appeals unanimously overturned the lower court decision; ruling that the compacts were valid. The plaintiff filed an appeal with the Michigan Supreme Court on December 3, 2002. The parties have filed their initial briefs.

In December 1999, the management agreements, along with the required licensing applications were submitted to the National Indian Gaming Commission, which we refer to as the NIGC. We met with the NIGC several times to review suggested revisions to the management agreements and, working with the Tribe, have incorporated all the appropriate changes.

In December 1999, the 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 parties selected a parcel of land for the gaming enterprise, which is under option, and completed a Fee-to-Trust application that was submitted to the Bureau of Indian Affairs in Washington, D.C. in February 2002. On August 9, 2002, the United States Department of Interior issued its notice to take the land into trust for the benefit of the Tribe. On August 30, 2002 Citizens Exposing Truth About Casinos filed a complaint in Federal District Court for the District of Columbia, seeking to prevent this land from being taken into trust. The parties have filed their initial briefs and are awaiting the scheduling of oral arguments.

A Full House-GTECH joint venture company had the exclusive right to provide financing and casino management expertise to the Tribe in exchange for a defined percentage of net profits and certain other considerations from any future gaming or related activities of the Tribe. If the project is developed, a third party will be paid a royalty fee in lieu of its original 15% ownership interest in earlier contracts with the Tribe.

We acquired GTECH's interest in this project in March 2001. On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC, a privately held investment company, whereby RAM will acquire a 50% interest in the California and Michigan projects and provide the necessary funding for their development. RAM loaned us \$2,381,260, which we used to retire our outstanding loan from GTECH. The loan is to be converted to a 50% equity position in these projects once our management contracts receive regulatory approval, and the gaming site is taken into trust for the Tribe. If these approvals were not received by February 15, 2003, then the loan was to be repaid and RAM would forfeit any interest in these ventures. However, we have entered into an agreement to extend this date to August 15, 2003.

On November 5, 1996, Michigan voters approved licenses for three gaming facilities within the City of Detroit, approximately 100 miles from the Battle Creek area. Two temporary facilities began operations in 1999, and the third opened in 2000. We do not believe that operation of three gaming facilities in Detroit will have a material adverse impact on the proposed Huron Potawatomi casino.

Torres Martinez Band of Desert Cahuilla Indians Thermal, California

In April 1995, we entered into a Gaming and Development Agreement and a Gaming Management Agreement with the Torres Martinez Desert Cahuilla Indians. The agreements give us certain rights to develop, manage, and operate gaming activities for the Tribe and the right to receive a defined percentage of the net revenues from gaming activities. Our right to receive a percentage of the revenues is subject to our obligation to arrange or provide financing for the development. The rights to these agreements were assigned to a Full House-GTECH joint venture company. In 1997, a new Gaming Management Agreement was signed, further defining the rights and obligations of the Tribe and Full House.

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In March 2001, we acquired GTECH's interest in this project.

During 1996, the Tribe reached a settlement in its litigation with the Department of Justice and two water districts, under which the Tribe will be paid \$14.0 million in compensation. Additionally, the Tribe will have the right to select up to 11,200 acres of new reservation land to be taken into trust in replacement for the same quantity of land, which was flooded by the rising level of the Salton Sea. That settlement, which required legislative enactment, was approved by the U. S. House of Representatives and the Senate in December 2000. The settlement allows the Tribe to acquire land in a specifically defined area (generally in the Palm Springs, California area) for purposes of conducting a gaming enterprise.

The Tribe asked the California governor to negotiate a compact allowing them to conduct gaming on their current reservation. To date the request has not been honored. In February 2001, an action was filed in U.S. District Court by several Card Club owners challenging the Tribal compacts. The litigation claims that awarding exclusive rights to Indian Tribes violates federal statutory and constitutional law. The court ruled in favor of the Tribal compacts. We understood that the governor was awaiting action by the courts before addressing any pending compact requests. The Tribe has been contacted by the governor's office indicating a willingness to discuss their compact request.

In August 2001, we received a notice from the Tribe purporting to sever our relationship. Our balance sheet includes as a receivable, a \$25,000 advance due from the Tribe. In addition, Gaming and Contract Rights includes approximately \$140,000 attributable to this contract. We have incurred an aggregate of approximately \$1 million in costs, including interest, on the Tribe's behalf. In June 2002, the Tribe requested additional documentation concerning these costs, which we have provided. We are discussing an appropriate resolution of this matter including reimbursement for costs that we incurred. While there can be no assurance, we believe

that we can recover the amounts carried on our balance sheet based upon the Tribes' expressed intentions as well as our contractual rights.

THEME HOTEL/CASINO BILOXI, MISSISSIPPI

We bought a one-acre parcel of land on the gulf coast in Biloxi, Mississippi in February 1998, for \$4,621,670 with the intent of developing a themed casino resort. The land is near the interchange of Beach Blvd. and Interstate 110, and next to the Beau Rivage Resort developed by Mirage Resorts, Inc. We later negotiated to buy and/or lease approximately six additional acres, which, together with the parcel already acquired, would constitute the project site.

In November 1998, we executed a series of agreements with Hard Rock Cafe International to develop the project in Biloxi, Mississippi. The agreements give us the right to develop and operate a Hard Rock Casino in Biloxi. We paid a territory fee of \$2,000,000. In September 1998, Full House and Allen E. Paulson formed a limited liability company, equally owned, for the purpose of developing this project. Mr. Paulson agreed to contribute a gaming vessel (the former Treasure Bay barge in Tunica, MS.), and we agreed to contribute our rights to the Hard Rock agreements. In June 2001, we agreed to dissolve this company with each party retaining their respective rights and assets.

Hard Rock was to be a partner with us in a Management and Development Agreement for an ongoing management fee. In February 1999, we entered into various option agreements with several owners of the adjacent properties needed for our project. We also started discussions with investment bankers concerning the financing for the project, and started preparing our offering materials. During those discussions, it became clear that the expected capital market requirements for the project financing were not acceptable to either Hard Rock or us.

By mutual agreement we ended the Management and Development Agreement which relieved Hard Rock of its obligation to co-manage the facility. We are still allowed to seek an equity partner to fill Hard Rock's role. Additionally, the parties amended certain portions of the Licensing Agreement. While negotiating to amend the agreements, we entered into discussions with potential equity partners. Discussions with potential partners ended in November 1999 without a definitive agreement.

After being unable to find an equity partner, we were faced with expiring, but extendible, purchase options and deposits. After analyzing the costs and risks of those options, we elected not to spend the necessary \$600,000 for additional extensions, since it was unlikely that we would be able to complete the transaction by the extended expiration date. As a result, the options expired and we forfeited our deposits, resulting in a write-off of \$1,350,000 in 1999. In addition in 1999, we also expensed the costs incurred for preparing the draft offering documents.

Although we no longer had agreements in place to control the development site, we continued communications with the various landowners and potential equity partners to assist in the development and management of the project. During the third quarter of 2001, our discussions with various potential partners for the development of the Hard Rock - Biloxi project concluded with no agreement. Because of the timing requirements in our agreements with Hard Rock, and the current conditions in the tourism industry, we do not believe we can develop this project as planned.

Since we will not be developing this project as planned, we reviewed the carrying values of our Mississippi investments which include a one acre parcel of land acquired for \$4,621,670, the Hard Rock license acquired for \$2,000,000, and development permits and plans carried at

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\$444,130. We recorded an impairment provision of \$4,593,800, to reduce the carrying value to \$2,472,000, which primarily represents the estimated fair value of our land parcel. We also expensed \$250,000 in the first quarter of 2001 related to the expiration of a land purchase option that we chose not to exercise or renew.

In November 2002, we entered into a termination agreement with Hard Rock with respect to the Licensing Rights, which were due to expire by contract on November 20, 2003. 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. Additionally, if Hard Rock executes 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.

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 mostly 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.

Neither Full House nor any subsidiary may own, manage or operate a gaming facility unless they 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 cannot guarantee that we will obtain any licenses, permits, or approvals, or if obtained, will be renewed or not 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.

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 Full House.

Certain specific provisions applicable to us are described below.

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, which we refer to as 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 Full House or its operations.

The terms and conditions of management contracts 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 Secretary of the U.S. Department of the Interior. The Regulatory Act is interpreted by the Secretary 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;
- do 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.

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Penalties for Regulatory Act violators 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.

The Regulatory Act also regulates Indian gaming and management contracts. The NIGC must approve management contracts and collateral agreements, including agreements like promissory notes, loan agreements and security agreements. A management contract 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 daily 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 if the Chairman of the NIGC determines 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 contract;

each of our directors; and

the ten persons who have the greatest direct or indirect financial interest in a management contract to which we are a party.

The NIGC will not approve a management company and may void an existing management contract 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 contract, 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 contract.

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 agreement 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.

The negotiation and adoption of tribal-state compacts is vulnerable to legal and political changes that may affect our future revenues and securities prices. Full House 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 Full House, are subject to the provisions of tribal ordinances and regulations on gaming.

Tribal-State Compacts have been litigated in several states, including California and Michigan. In addition, many bills have been introduced in Congress that would amend the Regulatory Act. If the Regulatory Act were amended, the governmental structure and requirements by which Indian tribes may perform gaming could be significantly changed.

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 and video poker in restaurants, bars and hotels; pari-mutuel betting on horse racing, dog racing and jai alai; sports bookmaking; and card rooms. The Indian-owned casinos that we developed and operate 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.

Midway Slots and Simulcast is one of three facilities currently operating in Delaware. In addition, in November 2002, both Maryland and Pennsylvania elected governors supporting some type of gaming legalization. Our facility draws a significant number of customers from Maryland and we believe that competitive gaming in Maryland would have an impact on our facility. The magnitude would depend on both the form of gaming that is authorized, and the locations of competing facilities.

The State of Michigan, a potential development site for Full House, currently has three gaming facilities operating in Detroit and numerous Indian casinos.

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

RISK FACTORS

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.

The Gaming Industry is Highly Regulated. 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. The change of these laws, regulations or ordinances could affect our performance.

We Are Currently a Defendant in Litigation Which Could Result in an Obligation to Pay Substantial Amounts. Full House and some of our current and former directors and officers are defendants in a lawsuit with Lone Star Casino regarding the potential acquisition of a riverboat casino on the Mississippi Gulf Coast. We cannot guarantee the results of such litigation.

We Will Need Additional Capital to Pursue Gaming Opportunities. We believe we have enough revenue to finance present operations. We will, however, need substantial additional funding to pursue gaming opportunities in Michigan and California. We may not be able to get such financing. If we get such financing, you should know that any additional equity financings may be dilutive to shareholders, and any debt financing may involve additional restrictions. An inability to raise such funds when needed might require us to delay, scale back or eliminate some of our expansion and development goals, and might require us to cease operations entirely.

We Have Numerous Competitors. 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; and card rooms. The Indian-owned casinos that we are trying to develop and operate compete 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 Management Contracts Are of Limited Duration. We are prohibited by law from having an ownership interest in any casino we manage for Indian tribes. The management contract for the Coquille Indian Tribe, which conducts the gaming at The Mill Casino, ended in August 2002. Our management contract for Midway Slots and Simulcast ends in August 2011. If a management contract is not renewed we will lose the revenues from such contract which would have a negative effect on our results of operations. There can be no assurance that our current management contracts will be renewed.

Our Management Contracts Are Subject to Governmental or Regulatory Modification. The NIGC has the power to require modifications to Indian management contracts under some circumstances or to void such contracts 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 contracts meet the applicable requirements, NIGC has the right to review each contract and has the authority to reduce the term of a management contract or the management fee or otherwise require modification of the contract. Such changes would have a negative effect on our profitability.

We Have Limited Recourses Against Tribal Assets. Development of our gaming opportunities will require us to make substantial loans to tribes for the construction, development, equipment and operations. Our only recourse for collection of indebtedness from a tribe or money damages for breach or wrongful termination of a management contract is from revenues, if any, from casino operations.

We Depend Heavily on Key Personnel. We currently have only four full time employees, and therefore we rely heavily on the efforts of each of these employees. The loss of any of our personnel would have a negative impact on Full House.

We Have a Limited Base of Operations. Our principal operations currently consist of the management of one facility (Midway Slots and Simulcast). This, 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 or non-opening of any future casinos could also significantly affect our profitability. Future growth in revenues and profits will depend on our ability to continue to increase the number of our managed casinos and facilities or develop new business opportunities. There is no guarantee that we will be able to increase the number of managed casinos.

Development of New Casinos is Subject to Many Risks, Some of Which We May Not Be Able to Control. The opening of each of the proposed facilities will depend on, among other things, the completion of construction, hiring and training of sufficient personnel and obtaining all regulatory licenses, permits, allocations and authorizations. The number of the approvals needed to construct and open new facilities is

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extensive, and the failure to obtain such approvals could prevent or delay the completion of construction or opening of all or part of such facilities or otherwise affect the design and features of the proposed casinos.

Even if approvals and financing are obtained, major construction projects entail significant risks, including a shortages of materials or skilled labor, unforeseen engineering, environmental and/or geological problems, work stoppages, weather interference, unanticipated cost increases and non-availability of construction equipment. Construction, equipment or stalling problems or difficulties in 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 or any of these planned casino developments or otherwise affect their design. In addition, once developed, we cannot guarantee that we will be able 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.

EMPLOYEES

As of March 15, 2003, we had four full time employees, three of whom are our executive officers. Our joint venture operations have approximately 420 full time employees, and 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.

2. Description of Property.

We leased approximately 12.5 acres of Tribal Trust Lands from an entity owned by the Coquille Indian Tribe on which the Mill Casino is located. We subleased the land on which the casino is located back to the Tribal entity. This lease and sublease expired on August 15, 2002.

A Full House-GTECH joint venture company has a fifteen-year lease and leaseback agreement with Harrington Raceway, Inc. The lease encumbers the revenues of the gaming facility. The lease is treated as a capital lease and payments began on August 20, 1996.

Full House owns a one-acre parcel of land in Biloxi, Mississippi, which was intended to be a portion of a future gaming development site.

3. Legal Proceedings.

In October 1994, we filed an action for declaratory relief in Mississippi, seeking a determination by the court that no relationship exists between us and Lone Star Casino Corporation regarding the potential acquisition of a riverboat casino on the Mississippi gulf coast (Full House Resorts, Inc. v. Lone Star Casino Corporation v. Allen E. Paulson, Second Judicial District of the Chancery Court of Harrison County, Mississippi). Lone Star filed a counterclaim alleging breaches of fiduciary duty, breach of contract, conspiracy to breach contract and to breach fiduciary duty and common law fraud. The trial court granted summary judgment in favor of all defendants on that counterclaim, and Lone Star appealed that judgment to the Mississippi appellate court. In April 1998, the Appeals Court affirmed the dismissal of all counts against all parties, excepting Lone Star's claim against us for breach of contract, which it remanded to the trial court for additional hearing. In January 2000, LS Capital, successor entity to Lone Star Casino Corporation, announced that it had retained counsel to pursue the two remaining claims it had alleged against us which were not already dismissed by the Mississippi appellate courts. In April 2000, the trial judge dismissed both counts for Lone Star's failure to prosecute its claims for nearly twenty months after their remand from the Court of Appeals. Lone Star appealed that ruling and the Mississippi State Court of Appeals reversed the dismissal, and in late 2001 again remanded the claims against the Company for breach of contract, back to the trial court for further proceedings.

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

None.

PART II

5. Market for Common Equity And Related Stockholder Matters.

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(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. Set forth below are the high and low sales prices of the common stock as reported on the Nasdaq SmallCap Market System and the OTC Bulletin Board for the periods indicated.

	High	Low
<u>Year Ended December 31, 2002</u>		
First Quarter	\$ 0.64	\$ 0.25
Second Quarter	0.70	0.33
Third Quarter	0.60	0.28
Fourth Quarter	0.70	0.42
<u>Year Ended December 31, 2001</u>		
First Quarter	\$ 1.22	\$ 0.56
Second Quarter	0.95	0.65
Third Quarter	0.83	0.51
Fourth Quarter	0.51	0.26

The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions. On March 14, 2003, the last sale price of the Common Stock as reported by the OTC Bulletin Board was \$0.46.

(b) Holders

As of March 14, 2003, we had approximately 133 holders of record of our common stock. We believe that there are over 1,000 beneficial owners.

(c) Dividends

We have never paid dividends on our common stock or Preferred Stock. Holders of common stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor.

Holders of our Series 1992-1 Preferred Stock are entitled to receive dividends, when, as and if declared by the Board of Directors out of funds legally available therefor, in the annual amount of \$.30 per share, payable in arrears semi-annually on the 15th day of December and June, in each year. Dividends on the Series 1992-1 Preferred Stock commenced accruing on July 1, 1992 and are cumulative. We have not declared or paid the accrued dividends on our Preferred Stock which were payable since issuance, totaling \$2,205,000 and, accordingly, are in default in regard thereto.

Since we are in default in declaring, setting apart for payment or paying dividends on the Preferred Stock, we are restricted from paying any dividend or making any other distribution or redeeming any stock ranking junior to the Preferred Stock.

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.

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, proposed acquisitions, market forces, corporate strategies, consumer preferences, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as: believes, expects, anticipates, estimates, plans, intends, objectives, goals, aims, projects, possible, seeks, may, could, should, might, likely, enable, or similar words or expressions are used in this Form 10-KSB, as well as

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containing phrases such as in our view, there can be no assurance, although no assurance can be given, or there is no way to anticipate with certainty, forward-looking statements are being made.

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

access to capital;

general market and economic conditions;

our ability to finance future business requirements;

the availability of adequate levels of insurance;

the ability to successfully integrate acquired companies and businesses;

management retention and development;

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.

Accounting Policies

Our accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements. As disclosed therein, the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with management's evaluation of the recoverability of intangibles. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, current and expected economic conditions. We constantly re-evaluate these significant factors and make adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

Results of Operations

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. As a result of the acquisition of GTECH's interest in three joint venture projects (Oregon, Michigan and California), our classification of revenues is not directly comparable to prior periods. The revenues related to our Delaware contract continue to be reported as joint venture revenue, but as of March 31, 2001, the revenue related to the Oregon contract is reported as management fees.

Total operating revenues decreased \$178,145 from the prior year period. This decrease is due to the termination, in August 2002, of the Oregon management agreement, partially offset by improved performance in Delaware. With the expiration of the Oregon contract, our Delaware joint venture is now our sole source of revenue. This revenue stream is being used to fund our ongoing operations and the pursuit of a successful development project in Michigan.

Delaware Joint Venture. Our share of income from the Delaware joint venture was \$3,288,122, an increase of \$313,448, or 10%, compared to \$2,974,674 in 2001. During 2002 we were able to increase the gaming capacity by approximately 150 machines bringing the total to 1,430 as of December 31, 2002. This increased capacity, coupled with continuing growth in the market, helped to drive a 16% increase in gaming win. In late November 2002, a non smoking law became effective in Delaware. This law, which prohibits smoking in enclosed public facilities, applies to our facility. We experienced a decline in revenue of approximately 14% during December, which was also negatively impacted by severe winter weather. However, we believe the smoking restrictions are having a significant impact on our revenues, and also at the competing facilities in Delaware.

Oregon. The total fees attributable to the Oregon contract were \$1,529,559 in 2002, compared to \$2,303,519 in 2001. This contract expired in August 2002 in accordance with its terms, and the reduction in fees is due to the contract termination.

Cost and Expenses. As a result of our acquisition of GTECH's interest in three joint venture projects, our classification of expenses is not directly comparable to prior periods. The expenses related to our California and Michigan projects, which had been reported as joint venture pre-opening costs, as of March 31, 2001, are reported as development costs.

Pre-opening and Development. Total development related costs (joint venture pre-opening costs and development costs) for the California and Michigan projects were \$954,063 in 2002, compared to \$955,441 for the prior year. The majority of these costs were due to increased activities related to the Michigan venture with the Huron Potawatomi Tribe in Battle Creek. These costs were primarily for legal and consulting fees to assist the Tribe in obtaining suitable land and complying with the requirements of the Indian Gaming Regulatory Act, as well as land option payments. We also increased our ownership in these projects to 100% in March 2001.

Pre-opening and development expenses in 2001 included \$250,000 related to the expiration of a land purchase option in Biloxi, Mississippi that we chose not to exercise or renew. No similar expense was incurred in 2002.

General and Administrative Expenses. General and administrative expenses increased by \$132,863 to \$1,776,059 in 2002 compared to \$1,643,196 in the prior year. This increase is primarily due to a litigation settlement of \$125,000 related to our intended Hard Rock Biloxi development.

Impairment. The Impairment provision of \$4,593,800, recorded in the third quarter of 2001, resulted from an assessment of the carrying values of our Mississippi assets as a result of the unsuccessful conclusion of discussions with potential partners. These assets totaled \$7,065,800, for land, licenses and permits. The reduction of the carrying value to \$2,472,000 represents the estimated fair value of the land parcel.

Depreciation and Amortization. Depreciation expense decreased from \$23,828 to \$16,258. Amortization of the acquired contract rights was \$200,292 compared to \$168,828 in the prior period. The increase is due to 12 months of amortization in 2002, compared to only nine months in the prior year. Our goodwill had been fully amortized as of September 30, 2001.

Interest Expense. Interest expense was \$146,067 in 2002 compared to \$286,745 in 2001. This decrease is due to a 30% reduction in the average debt outstanding, coupled with a reduction in our effective borrowing rate from 7% to 5.15%.

Interest and Other Income. In November 2002 we entered into a termination agreement with Hard Rock concerning our Biloxi, Mississippi licensing rights in exchange for a termination fee of \$100,000. Interest income is primarily due to earnings on invested cash balances and was slightly less than the prior year due to declining interest rates.

Income Tax Benefit (Provision). The income tax provision for the current year reflects an effective tax rate of 47.8%, which is a combination of state taxes on joint venture earnings combined with the tax effect of non-deductible amortization expenses. The income tax benefit recorded for 2001 is primarily a result of the expected tax benefit from the realization of the Impairment provision recorded in the third quarter of 2001. At December 31, 2002, we had net

operating loss carryforwards for federal income tax purposes of approximately \$464,000, which may be carried forward to offset future taxable income. The loss carryforwards expire in 2019. The availability of the loss carryforwards may be limited in the event of a significant change in ownership of Full House or our subsidiaries.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. As a result of the acquisition of GTECH's interest in three joint venture projects (Oregon, Michigan and California), our classification of revenues is not directly comparable to prior periods. The revenues related to our Delaware contract continue to be reported as joint venture revenue, but as of March 31, 2001, the revenue related to the Oregon contract is reported as management fees.

Total operating revenues increased \$1,072,497, or 27% from the prior year period. This increase is due to improved performance in Delaware and the acquisition of the additional 50% interest in the Oregon joint venture.

Delaware Joint Venture. Our share of income from the Delaware joint venture was \$2,974,674, an increase of \$191,031, or 7%, compared to \$2,783,643 in 2000. On May 11, 2000, we opened an expansion of the Harrington facility, and these revenue increases are primarily attributable to the increased gaming capacity, coupled with continuing growth in the market.

Oregon. The total fees attributable to the Oregon contract were \$2,303,519 in 2001 compared to \$2,279,372 in 2000. As a result of our March 2001 acquisition of GTECH's 50% interest, we received a total of \$2,021,152 of these fees during 2001. This compared to our joint venture share of revenues of \$1,139,686 in the prior year.

Cost and Expenses. As a result of our acquisition of GTECH's interest in three joint venture projects, our classification of expenses is not directly comparable to prior periods. The expenses related to our California and Michigan projects, which had been reported as joint venture pre-opening costs, as of March 31, 2001, are reported as development costs.

Pre-opening and Development. Total development related costs (joint venture pre-opening costs and development costs) for the California and Michigan projects were \$955,441 in 2001, compared to \$584,337 for the prior year. The majority of these costs

were due to increased activities related to the Michigan venture with the Huron Potawatomi Tribe in Battle Creek. These costs were primarily for legal and consulting fees to assist the Tribe in obtaining suitable land and complying with the requirements of the Indian Gaming Regulatory Act, as well as land option payments. We also increased our ownership in these projects to 100%.

We also expensed \$250,000 in the first quarter of 2001 related to the expiration of a land purchase option in Biloxi, Mississippi that we chose not to exercise or renew.

General and Administrative Expenses. General and administrative expenses decreased by \$202,508 to \$1,643,196 in 2001 compared to \$1,845,704 in the prior year. This decrease is primarily due to reduced payroll expenses and legal fees.

Impairment. The Impairment provision of \$4,593,800, recorded in the third quarter of 2001, resulted from an assessment of the carrying values of our Mississippi assets as a result of the unsuccessful conclusion of discussions with potential partners. These assets totaled \$7,065,800, for land, licenses and permits. The reduction of the carrying value to \$2,472,000 represents the estimated net realizable value of the land parcel.

Depreciation and Amortization. Although our goodwill had been fully amortized as of September 30, 2001, as a result of the acquired contract rights, our depreciation and amortization expense increased by \$41,326.

Interest Expense. Interest expense was \$286,745 in 2001 compared to \$328,379 in 2000. The decrease of \$41,634 is primarily due to the reductions in the prime interest rate during 2001.

Interest and Other Income. Interest and other income was comparable to the prior year and is primarily due to earnings on invested cash balances.

Income Tax Benefit (Provision). The income tax benefit for the current year period is primarily a result of the expected tax benefit from the realization of the Impairment provision recorded in the third quarter. The effective tax rate reflects a combination of state taxes on joint venture earnings combined with the tax effect of non-deductible amortization expenses. At December 31, 2001, we had net operating loss carryforwards for federal income tax purposes of approximately \$523,000, which may be carried forward to offset future taxable income. The loss carryforwards expire in 2019. The availability of the loss carryforwards may be limited in the event of a significant change in ownership of Full House or our subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

We held cash and cash equivalents of \$1,164,053 as of December 31, 2002. Net cash provided by operating activities was \$1,771,870 as compared to \$1,962,276 in the prior year. The decrease is primarily due to the decreased cash flow from Oregon as a result of the expiration of the contract, partially offset by improved performance in Delaware. Net cash used in investing activities was \$256,496, primarily to fund \$240,000 in advances to the Michigan Tribe pursuant to our agreements with them. In 2001 we used \$1,800,000 to fund the GTECH acquisition and \$200,000 for advances to the Michigan Tribe. Financing activities used \$1,218,740 in cash in 2002 as we repaid the \$3,000,000 GTECH note and \$600,000 outstanding on our bank line with the \$2,381,260 proceeds from the RAM note and cash provided by operations. Financing activities provided net cash of \$450,000 in 2001, as we drew \$1,800,000 on our credit line to fund the GTECH acquisition, and repaid \$1,350,000 during the year.

In 1998, we obtained a \$2,000,000 line of credit with Coast Community Bank of Mississippi with an initial maturity date of February 25, 1999. We have renewed this line on an annual basis. In February 2002, the renewal reduced the availability to \$1,000,000 and extended the maturity date to May 12, 2003. The line bears interest adjustable daily at one-half percent above prime (4.75% at December 31, 2002) and requires interest payments monthly on the outstanding balance with all principal and accrued interest due at maturity on May 12, 2003. At December 31, 2002, there was nothing outstanding on the bank line.

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC, a privately held investment company, whereby RAM may acquire a 50% interest in the California and Michigan projects and provide the necessary funding for their development. RAM advanced \$2,381,260 to us in the form of a loan, to be forgiven upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. The loan bears interest adjustable daily at prime and requires interest payments monthly. The principal was due at maturity on February 15, 2003 unless earlier forgiven pursuant to its terms. The anticipated approvals have not yet been received, and the parties have extended the maturity date to August 15, 2003.

As a result of our agreement with RAM, development funding cash needs for the Michigan project may be primarily provided by RAM. Therefore, our future cash requirements will primarily be to fund general and administrative expenses. Our Oregon contract expired in August 2002, leaving the Delaware joint venture as our sole source of operating cash flow. We believe that adequate financial resources will be available to execute our current business plan.

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On April 15, 2002 we announced the intent to hire an investment advisor to assist in enhancing shareholder value through the exploration of strategic alternatives. Although the process is ongoing, there can be no assurance that any substantive results will be achieved.

Full House was a party to a series of agreements with GTECH Corporation, a leading supplier of computerized systems and services for government-authorized lotteries, to jointly pursue certain gaming opportunities. Pursuant to the agreements, joint venture companies equally owned by GTECH and Full House were formed. Full House contributed its rights to the North Bend, Oregon facility and the rights to develop the Torres Martinez, Nottawaseppi Huron Band of Potawatomi and Delaware State Fair projects to the joint venture companies. GTECH contributed cash and other intangible assets and agreed to loan the joint venture entities up to \$16.4 million to complete the North Bend, Oregon and Delaware facilities. Full House agreed to guarantee one-half of the obligations of the joint venture companies to GTECH under these loans, all of which have been repaid. GTECH also provided project management, technology and other expertise to analyze and develop/manage the implementation of opportunities developed by the joint venture entities. GTECH also loaned Full House \$3.0 million, which loan was convertible into 600,000 shares of Full House Common Stock. The loan conversion clause expired without exercise. In addition, Full House has been reimbursed by one of the joint venture companies for certain advances and expenditures made by Full House relating to the gaming development agreements. As part of this transaction, Allen E. Paulson, William P. McComas and Lee Iacocca granted to GTECH an option, which expired December 29, 2000, to purchase their shares should they have proposed to transfer them. The parties are no longer required to present gaming opportunities to the other for joint development.

On March 30, 2001, we acquired GTECH's 50% interest in three joint venture projects that had been equally owned by the two companies: Gaming Entertainment, LLC, Gaming Entertainment (Michigan), LLC, and Gaming Entertainment (California), LLC. The purchase price was \$1.8 million, and was funded through Full House's existing credit facility. As part of this transaction, GTECH extended the due date of our \$3.0 million promissory note until January 25, 2002, with interest at prime. This note was paid in February 2002.

As a result of our agreement with GTECH, receipt by Full House of revenues from the Delaware venture is governed by the terms of the joint venture agreement. The contract provides that net cash flow (after certain deductions) is to be distributed monthly to Full House and GTECH. While Full House does not believe that this arrangement will adversely impact its liquidity, our continuing cash flow is dependent on the operating performance of this joint venture, and the ability to receive monthly distributions.

As part of the Michigan and California management agreements with the tribes, we have advanced funds for tribal operations and the construction of a tribal community center. The Receivable is attributable to this funding, and the repayment obligation is dependent on the future profitable operation of the tribes' gaming enterprises. In August 2001, we received a notice from the Torres-Martinez Tribe in California purporting to sever our relationship. Our balance sheet includes as a receivable a \$25,000 advance due from Torres-Martinez Tribe, and included in Gaming and Contract Rights is approximately \$140,000 attributable to this contact. We have incurred aggregate expenses of approximately \$1 million, including interest, on behalf of Torres-Martinez Tribe. In June 2002, the Tribe requested additional documentation concerning these costs, which we have provided. We are discussing an appropriate resolution of this matter including reimbursement for costs that we incurred. We believe that these amounts are recoverable based upon the expressed intentions of Torres-Martinez Tribe, as well as our contractual rights.

In November 1998, we executed a series of agreements with Hard Rock related to the proposed development project in Biloxi, Mississippi. Pursuant to a licensing agreement, Full House has the right to develop and operate a Hard Rock Casino in Biloxi. We have paid a territory fee of \$2,000,000. In September 1998, Full House and Allen E. Paulson formed a limited liability company, equally owned, for the purpose of developing this project. Mr. Paulson agreed to contribute a gaming vessel (the former Treasure Bay barge in Tunica, MS.), and we agreed to contribute our rights to the Hard Rock agreements. In June 2001, we agreed to dissolve this company with each party retaining their respective rights and assets.

In September 2001, our discussions with potential partners concluded with no agreements. Based upon the timing requirements in our agreements with Hard Rock, and the current conditions in the tourism industry we did not reasonably expect to be able to develop this project as planned. As a result of these circumstances, we have reviewed the carrying values of our Mississippi investments and recorded an Impairment provision of \$4,593,800.

In November 2002, we executed a termination agreement with respect to our Hard Rock licensing rights in Biloxi, Mississippi in exchange for a \$100,000 termination fee. Additionally, if Hard Rock executes 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.

As of December 31, 2002, we had cumulative undeclared and unpaid dividends in the amount of \$2,205,000 on the 700,000 outstanding shares of our 1992-1 Preferred Stock. Such dividends are cumulative whether or not declared, and are currently in arrears.

Quantitative Disclosure About Market Risk. Market risk is the risk of loss from changes in market rates or prices, such as interest rates and commodity prices. We are exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on our variable rate debt. We have not invested in derivative based financial instruments.

Our total outstanding short-term debt of \$2.4 million at December 31, 2002, is subject to variable interest rates, which averaged 4.68% during the current year. Our variable rate debt is based on the Prime lending rate and therefore, our interest rates on this variable rate debt will change as the Prime rate changes. Based on our \$2.4 million of outstanding variable rate debt at December 31, 2002, a hypothetical 100 basis point (1%) change in rates would result in an annual interest expense change of approximately \$24,000.

Recent Accounting Pronouncements. In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 prohibits the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS 142, which was effective for Full House in January 2002, requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing intangibles as goodwill, reassessment of the useful lives of existing intangibles, and ongoing assessments of potential impairment of existing goodwill.

Our goodwill, net of accumulated amortization, and the carrying value of the Hard Rock licensing and development rights have been reduced to zero. Other existing intangibles consist of net Gaming and Contract Rights of \$5,189,947.

In June 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and / or normal operation, except for certain obligations of lessees. This Statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of this Statement are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS No. 144 did not have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, and interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in these consolidated financial statements. The adoption of SFAS No. 148 is not expected to have a material effect on the Company's financial statements.

7. Financial Statements.

The following financial statements are filed as part of this Report:

Independent Auditors Report;

Consolidated Balance Sheets as of December 31, 2002 and 2001;

Consolidated Statements of Operations for the years ended December 31, 2002 and 2001;

Consolidated Statements of Stockholders Equity for the years ended December 31, 2002 and 2001;

Consolidated Statements of Cash Flows for the years ended December 31, 2002 and 2001;

Notes to Consolidated Financial Statements.

8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

(a) Directors of Full House

Documents Incorporated By Reference

The information required regarding the identification of our directors is incorporated by reference to the information in the Proxy Statement for the 2003 Annual Meeting of Stockholders.

(b) Executive Officers of Full House

Our executive officers and their ages as of March 22, 2003 are as follows:

Name	Age	Positions
William P. McComas	76	Chairman, Chief Executive Officer
Michael P. Shaunnessy	49	Executive Vice President, Chief Financial Officer
Megan G. McIntosh	47	Secretary

William P. McComas became Chairman of the Board and Chief Executive Officer on March 5, 1998. Mr. McComas has been a Director of Full House since November 1992. Mr. McComas has been President of McComas Properties, Inc., a California real estate development company since January 1984. Mr. McComas and companies controlled by him have developed several hotels and resorts, including Marina Bay Resort, Fort Lauderdale, Florida; Ocean Colony Hotel and Resort, Half Moon Bay, California; Residence Inn by Marriott, Somers Point, New Jersey; and five Holiday Inns located in Des Moines, Iowa; San Angelo, Texas; Suffern, New York; Niagara Falls, New York; and Fort Myers, Florida.

Michael P. Shaunnessy became Executive Vice President and Chief Financial Officer in July 1998. Mr. Shaunnessy has over 15 years experience in the gaming industry. From 1995 to 1998, he was Vice President and Chief Accounting Officer of Primadonna Resorts, Inc., the developer of New York - New York in Las Vegas, Nevada. He was with Aztar Corporation from 1983 to 1995, serving in senior financial positions at properties in New Jersey and Nevada, most recently as Vice President-Finance for the Tropicana Resort in Las Vegas.

Megan G. McIntosh has been employed by Full House since December 1, 1994 and has been the Secretary of Full House since November 20, 1995. From April 1991 until she joined Full House, Ms. McIntosh was an administrative assistant for a civil engineering firm located in California. Prior to that time, Ms. McIntosh was an administrative assistant for a real estate development firm located in Southern California.

10. Executive Compensation.

The information required in response to this item is incorporated by reference to the information contained in the Proxy Statement for the 2003 Annual Meeting of Stockholders.

11. Security Ownership of Certain Beneficial Owners and Management.

The information required in response to this item is incorporated by reference to the information contained in the Proxy Statement for the 2003 Annual Meeting of Stockholders.

12. Certain Relationships and Related Transactions.

The information required in response to this item is incorporated by reference to the information contained in the Proxy Statement for the 2003 Annual Meeting of Stockholders of Full House.

13. Exhibits and Reports on Form 8-K.

(a) Exhibits

2.5 Assignment and Sale Agreement dated March 30, 2001 by and among GTECH Corporation, Dreamport, Inc., GTECH Gaming Subsidiary 2 Corporation, Full House Resorts, Inc., and Full House Subsidiary, Inc. (Incorporated by reference to Full House's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 12, 2001)

10.38 Gaming Management Agreement between Full House and the Torres Martinez Desert Cahuilla Indians dated April 23, 1993 (incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1995)

10.50 Agreement dated as of November 18, 1996 by and among Green Acres Casino Management Company, GTECH Corporation, Gaming Entertainment (Michigan) LLC and Full House (Incorporated by reference to Full House's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996)

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10.51 Amended and Restated Class III Management Agreement dated November 18, 1996 between Nottawaseppi Huron Band of Potawatomi and Gaming Entertainment (Michigan) LLC (Incorporated by reference to Full House's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996)

10.56 Investor Agreement by and between Full House Resorts, Inc. and RAM Entertainment, LLC, dated February 15, 2002 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002)

10.57 Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated January 31, 1996 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

10.58 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated March 18, 1998 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

10.59 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated July 1, 1999 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

10.60 Amendment to Management Agreement by and between Gaming Entertainment (Delaware), LLC and Harrington Raceway, Inc. dated February 4, 2002 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

10.61 Employment Agreement by and between Full House Resorts, Inc. and Michael P. Shaunnessy dated January 1, 2002 (Incorporated by reference to Full House's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002)

21 List of Subsidiaries of Full House Resorts, Inc.*

23.1 Consent of Deloitte & Touche LLP *

99.1 Certification of principal executive and financial officers pursuant to 18 U.S.C. section 1350 *

* Filed herewith.

(b) Reports on Form 8-K

None

14. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Full House's chief executive and financial officers, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934) as of a date (Evaluation Date) within 90 days before the filing of this annual report, have concluded that as of the Effective Date, the Company's disclosure controls and procedures were effective and designed to ensure that material information relating to the Company would be made known to them to allow timely decisions regarding disclosures.

Changes in Internal Controls. Full House does not believe that there are significant deficiencies in the design or operation of its internal controls that could adversely effect its ability to record, process, summarize and report financial data. There were no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the Evaluation Date.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

FULL HOUSE RESORTS, INC.

Date: March 25, 2003

By: /s/ WILLIAM P. MCCOMAS
William P. McComas, CEO

In accordance with the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name and Capacity	Date
/s/ WILLIAM P. MCCOMAS William P. McComas, Chairman of the Board and Chief Executive Officer	March 25, 2003
/s/ LEE A. IACOCCA Lee A. Iacocca, Director	March 25, 2003
/s/ MICHAEL P. SHAUNNESSY Michael P. Shaunnessy, Executive Vice President (Principal Financial and Accounting Officer)	March 25, 2003

CERTIFICATION

I, William P. McComas, certify that:

1. I have reviewed this annual report on Form 10 - K of Full House Resorts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based upon our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management of other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls, or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 24, 2003

By: /s/ William P. McComas
William P. McComas
Chief Executive Officer

CERTIFICATION

I, Michael P. Shaunnessy, certify that:

1. I have reviewed this annual report on Form 10-K of Full House Resorts, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based upon our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management of other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls, or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 24, 2003

By: /s/ Michael P. Shaunnessy
Michael P. Shaunnessy
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Full House Resorts, Inc.:

We have audited the accompanying consolidated balance sheets of Full House Resorts, Inc. and Subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Full House Resorts, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Las Vegas, Nevada
February 21, 2003

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,164,053	\$ 867,419
Receivables	186,969	209,992
Prepaid expenses	106,656	93,878
Total current assets	1,457,678	1,171,289
NON-OPERATING LAND		
	2,472,000	2,472,000
FIXTURES AND EQUIPMENT, net	23,612	23,374
INVESTMENTS IN JOINT VENTURES	27,876	
RECEIVABLES	1,257,291	1,017,291
GAMING AND CONTRACT RIGHTS, net	5,189,947	5,390,239
DEFERRED TAX ASSET	712,418	1,375,949
DEPOSITS AND OTHER ASSETS	6,382	14,782
TOTAL	\$ 11,147,204	\$ 11,464,924
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 13,426	\$ 21,468
Payable to joint ventures		48,033
Current portion of long-term debt	2,381,260	3,000,000
Accrued expenses	172,654	171,316
Total current liabilities	2,567,340	3,240,817
LONG-TERM DEBT, net of current portion		600,000
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS EQUITY:		
Cumulative preferred stock, par value \$.0001, 5,000,000 shares authorized; 700,000 shares issued and outstanding; aggregate liquidation preference of \$4,305,000 and \$4,095,000, respectively	70	70
Common stock, par value \$.0001, 25,000,000 shares authorized; 10,340,380 shares issued and outstanding	1,034	1,034
Additional paid in capital	17,429,889	17,429,889
Accumulated deficit	(8,851,129)	(9,806,886)
Total stockholders equity	8,579,864	7,624,107
TOTAL	\$ 11,147,204	\$ 11,464,924

See notes to consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
OPERATING REVENUES		
Joint venture revenue	\$ 3,288,122	\$ 3,257,041
Management fees	1,529,559	1,738,785
Total operating revenues	4,817,681	4,995,826
OPERATING COSTS AND EXPENSES		
Joint venture pre-opening costs		122,441
Development costs	954,063	1,083,000
General and administrative	1,776,059	1,643,196
Impairment		4,593,800
Depreciation and amortization	216,550	572,369
Total operating costs and expenses	2,946,672	8,014,806
INCOME (LOSS) FROM OPERATIONS	1,871,009	(3,018,980)
Interest expense	(146,067)	(286,745)
Interest and other income	104,346	9,067
INCOME (LOSS) BEFORE INCOME TAXES	1,829,288	(3,296,658)
INCOME TAX (PROVISION) BENEFIT	(873,531)	846,047
NET INCOME (LOSS)	955,757	(2,450,611)
Less, undeclared dividends on cumulative preferred stock	(210,000)	(210,000)
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES	\$ 745,757	\$ (2,660,611)
NET INCOME (LOSS) PER COMMON SHARE, basic and diluted	\$ 0.07	\$ (0.26)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	10,340,380	10,340,380

See notes to consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Deficit	
BALANCE							
JANUARY 1, 2001	700,000	\$ 70	10,340,380	\$ 1,034	\$ 17,429,889	\$ (7,356,275)	\$ 10,074,718
Net loss						(2,450,611)	(2,450,611)
BALANCE							
DECEMBER 31, 2001	700,000	70	10,340,380	1,034	17,429,889	(9,806,886)	7,624,107
Net income						955,757	955,757
BALANCE							
DECEMBER 31, 2002	700,000	\$ 70	10,340,380	\$ 1,034	\$ 17,429,889	\$ (8,851,129)	\$ 8,579,864

See notes to consolidated financial statements.

FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 955,757	\$ (2,450,611)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	216,550	572,369
Impairment		4,593,800
Expired purchase options		250,000
Equity in earnings of joint ventures	(3,288,122)	(3,134,600)
Distributions from joint ventures	3,212,213	3,438,348
Changes in operating assets and liabilities:		
Receivables	23,023	(209,992)
Prepaid expenses	(12,778)	(1,074)
Deposits and other assets	8,400	(7,568)
Deferred income taxes	663,531	(1,081,049)
Accounts payable and accrued expenses	(6,704)	(7,347)
Net cash provided by operating activities	1,771,870	1,962,276
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of 50% joint venture interests		(1,800,000)
Purchases of fixtures and equipment	(16,496)	
Advances on receivable	(240,000)	(200,000)
Net cash used in investing activities	(256,496)	(2,000,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from RAM note	2,381,260	
Repayment of GTECH note	(3,000,000)	
Proceeds from line of credit		1,800,000
Repayment of line of credit	(600,000)	(1,350,000)
Net cash (used in) provided by financing activities	(1,218,740)	450,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	296,634	412,276
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	867,419	455,143
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,164,053	\$ 867,419
Supplemental Cash Flow disclosure:		
Gaming and contract rights		\$ 5,559,067

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Receivable - joint ventures		(822,147)
Investments in joint ventures		(2,936,920)
Purchase of 50% joint venture interests	\$	1,800,000

See notes to consolidated financial statements.

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FULL HOUSE RESORTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

Full House Resorts, Inc. (Full House or the Company) was incorporated in the State of Delaware on January 5, 1987. We are currently pursuing various gaming opportunities throughout North America.

The consolidated financial statements include the accounts of Full House and all its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

Effective December 29, 1995, we entered into a series of agreements with GTECH Corporation (GTECH) to jointly pursue gaming opportunities. Pursuant to the agreements, four limited liability companies (Joint Ventures) were formed. We had a 50% interest in each joint venture, which was accounted for using the equity method. On March 30, 2001 we acquired the GTECH ownership in three of these joint ventures, Oregon, Michigan and California, which are now wholly-owned and consolidated. The Delaware venture was not included in this transaction and continues to be accounted for using the equity method.

Full House and its principal stockholder entered into an agreement to jointly pursue development of a themed casino resort in Biloxi, Mississippi and formed a limited liability company for such purpose, which was 50% owned by each member. In June 2001, this arrangement was terminated by mutual agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS - Cash in excess of daily requirements is invested in highly liquid short-term investments with maturities of three months or less when purchased. Such investments are stated at cost, which approximates market, and are deemed to be cash equivalents for purposes of the consolidated statements of cash flows.

CONCENTRATIONS OF CREDIT RISK - Full House's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and long-term receivables. A portion of Full House's cash equivalents is in high quality securities placed with major banks and financial institutions. Management does not believe that there is significant risk of loss associated with such investments. The receivable is related to the Michigan development and represents advances made to the Tribe to fund its operations. This amount is repayable from the operations of the gaming facility and although there can be no assurance that a facility will be opened, management does not believe that there is significant risk of loss

associated with such investment.

INVESTMENTS IN JOINT VENTURES - Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted by Full House's share of earnings, losses, and distributions of the joint ventures.

FIXTURES AND EQUIPMENT - Fixtures and equipment are stated at cost and consist primarily of office furniture and fixtures and computer equipment. Depreciation is computed by the straight-line method over periods of 3 to 7 years. Accumulated depreciation was \$124,475 and \$108,217 at December 31, 2002 and 2001, respectively.

GOODWILL - Goodwill represents the excess cost over the net assets of businesses acquired during 1995. Goodwill was being amortized on the straight-line basis over 6 years, and was fully amortized at December 31, 2001. Amortization expense was \$379,713 for 2001.

IMPAIRMENT OF LONG-LIVED ASSETS - Full House reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment, at least annually, or whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. During 2001, Full House recorded an impairment provision of \$4,593,800, as described in Note 3.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying value of Full House's cash and cash equivalents, receivables and accounts payable, approximates fair value because of the short maturity of those instruments. Full House estimates the fair value of its long-term debt based on the current rates offered to Full House for loans of the same remaining maturities. The estimated fair values of Full House's long-term debt approximate their recorded values at December 31, 2002.

INCOME TAXES - Full House accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events

that have been reflected in the financial statements or tax returns. Deferred income taxes reflect the net effect of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carryforwards.

EARNINGS PER COMMON SHARE - Basic earnings per share (*EPS*) is computed based upon the weighted average number of common shares outstanding during the year. Diluted *EPS* is computed based upon the weighted average number of common and common equivalent shares plus the weighted average number of options outstanding if their effect upon exercise would have been dilutive using the treasury stock method.

AWARDS OF STOCK-BASED COMPENSATION - Full House has adopted SFAS No. 123, *Accounting for Awards of Stock-Based Compensation* which establishes financial accounting and reporting standards for stock-based employee compensation plans and for transactions where equity securities are issued for goods and services. This statement defines a fair value based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Full House continues to apply APB Opinion No. 25 to its stock based compensation awards to employees and discloses the required pro forma effect on net income and net income per common share.

The Company has three stock-based employee compensation plans, which are described more fully in Note 13. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25 and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Since all options that are outstanding as of December 31, 2002 have vested, applying the fair value recognition provisions of SFAS No. 123 results in pro forma net income (loss) that is the same as historical reported net income (loss) during the years ended 2002 and 2001.

SEGMENT REPORTING - Full House has three business segments consisting of operations, development and a corporate overhead department. Full House evaluates performance primarily based upon operating income of the segment. The accounting policies of the segments are the same as those described in this summary of significant accounting policies.

RECENTLY ISSUED ACCOUNTING STANDARDS - In July 2001, the Financial Accounting Standards Board (*FASB*) issued Statement of Financial Accounting Standard (*SFAS*) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 prohibits the pooling of interests method of accounting for business combinations initiated after June 30, 2001. SFAS 142, which became effective for Full House in January 2002, requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing intangibles as goodwill, reassessment of the useful lives of existing intangibles, and ongoing assessments of potential impairment of existing goodwill.

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As of December 31, 2001, our goodwill, net of accumulated amortization, and the carrying value of the Hard Rock licensing and development rights have been reduced to zero. Other existing intangibles consist of net Gaming and Contract Rights of \$5,189,947.

In June 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and / or normal operation, except for certain obligations of lessees. This Statement is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 is not expected to have a material effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The provisions of this Statement are effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The adoption of SFAS No. 144 did not have a material effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 is not expected to have a material effect on the Company's financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, and interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or

modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in these consolidated financial statements. The adoption of SFAS No. 148 is not expected to have a material effect on the Company's financial statements.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used by Full House include estimated useful lives for depreciable and amortizable assets, valuation of current and long-term receivables, potential impairment of non-operating land and gaming and contract rights, and certain accrued liabilities. Actual results could differ from those estimates.

3. IMPAIRMENT

In November 1998, we executed a series of agreements with Hard Rock Cafe International (*Hard Rock*) related to the proposed development project in Biloxi, Mississippi. Pursuant to a licensing agreement, we paid a territory fee of \$2,000,000 for the right to develop and operate a Hard Rock Casino in Biloxi. Full House and Allen E. Paulson formed a limited liability company, equally owned, for the purpose of developing this project. Mr. Paulson agreed to contribute a gaming vessel (the former *Treasure Bay* barge in Tunica, MS.), and we agreed to contribute our rights to the Hard Rock agreements. In June 2001, we agreed to dissolve this company with each party retaining their respective rights and assets. We then entered negotiations with interested parties to develop this project in various alternative forms.

During the third quarter, our discussions with various potential partners for the development of the *Hard Rock - Biloxi* project concluded with no agreement. Based upon the timing requirements in our agreements with *Hard Rock*, and the current conditions in the tourism industry we do not reasonably expect to be able to develop this project as planned. As a result of these circumstances, we have reviewed the carrying values of our Mississippi investments which include a one acre parcel of land acquired for \$4,621,670, the *Hard Rock* license acquired for \$2,000,000, and development permits and plans carried at \$444,130. In September 2001, Full House, in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, recorded an impairment charge of \$4,593,800 to reduce the carrying value to \$2,472,000, which represents the estimated fair value of our land parcel based on management's best estimate, using an independent third-party appraisal conducted in September 2001.

4. RECEIVABLES

Full House has advanced funds to the Michigan and California Tribes to fund tribal operations and for development expenses related to these projects. The repayment of these amounts is dependent upon the development of the projects, and ultimately, the successful operation of the facilities. As of December 31, 2002 the net receivable represented \$1,232,291 due from the Michigan Tribe and \$25,000 due from the

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California Tribe. While there can be no assurance, we believe that we can recover the amounts carried on our balance sheet based upon the Tribe's expressed intentions as well as our contractual rights.

The current receivables include \$125,000 due from the Allen E. Paulson estate which represents their 50% share of a litigation settlement in Mississippi concerning our Hard Rock development, and \$50,000 due from Hard Rock pursuant to a termination agreement executed in November 2002. The Hard Rock payment was received in February 2003.

5. INVESTMENTS IN JOINT VENTURES

Full House entered into a series of agreements with GTECH in 1995 to jointly pursue gaming opportunities. Pursuant to the agreements, the following limited liability companies, each owned 50% by Dreamport, Inc. (Dreamport), a subsidiary of GTECH, and 50% by Full House were formed: Gaming Entertainment, LLC (Oregon), Gaming Entertainment (Delaware), LLC (Delaware), Gaming Entertainment (Michigan), LLC (Michigan), and Gaming Entertainment (California), LLC (California).

Full House contributed to the capital of the joint ventures its rights to agreements with the Oregon Tribe to finance and develop a gaming and entertainment facility in North Bend, Oregon and the rights to develop the California Tribe, Michigan Tribe and Delaware State Fair gaming projects. In payment for its interest in the joint ventures, GTECH contributed cash and other intangible assets and committed to loan the joint ventures up to \$16.4 million to complete the North Bend, Oregon and Delaware facilities

On March 30, 2001, we acquired GTECH's 50% interest in three of these joint venture projects that had been equally owned by the two companies: Gaming Entertainment LLC, Gaming Entertainment (Michigan), LLC, and Gaming Entertainment (California), LLC. (Note 6.)

This transaction did not include our other joint venture with GTECH, Gaming Entertainment (Delaware), LLC, owner of a management agreement, continuing through 2011, to manage Midway Slots & Simulcast in Harrington, Delaware. This joint venture continues to be equally owned by us and GTECH.

As a result of acquiring full ownership of three previous joint ventures, the classification of both revenue and expenses related to these projects has changed. The revenues related to the Delaware contract continue to be reported as joint venture revenue, but as of March 31, 2001, the revenues related to the Oregon contract are reported as management fees. The expenses related to the California and Michigan projects, which had been reported as joint venture pre-opening costs, are reported as development costs, as of March 31, 2001.

The Investments in Joint Ventures on the balance sheet now reflects only our ownership interest in the Delaware LLC, however, as of December 31, 2001 this investment was carried at zero because the aggregate cash distributions had exceeded the reported earnings of the joint venture by \$48,033. This amount is reflected on the 2001 balance sheet as Payable to Joint Ventures. The Delaware LLC earnings are reported on the accrual basis, while distributions are based on cash available. During fiscal year 2002, the reported earnings exceeded cash distributions.

6. JOINT VENTURE ACQUISITION

On March 30, 2001, we acquired GTECH's 50% interest in three joint venture projects that had been equally owned by the two companies: Gaming Entertainment, LLC, owner of an agreement continuing through August 2002, with the Coquille Indian Tribe (Oregon Tribe), which conducts gaming at The Mill Casino in Oregon; Gaming Entertainment (Michigan), LLC, owner of a Management Agreement with the Nottawaseppi Huron Band of Potawatomi (Michigan Tribe) to develop and manage a gaming facility near Battle Creek; and Gaming Entertainment (California), LLC owner of a Management Agreement with the Torres-Martinez Band of Desert Cahuilla Indians (California Tribe) to develop and manage a gaming facility near Palm Springs.

The purchase price was \$1,800,000, and was funded through our existing credit facility. As part of this transaction, GTECH extended the due date of our \$3,000,000 promissory note from January 25, 2001 until January 25, 2002, with interest at prime. The note was paid in February 2002. Also as part of this transaction, GTECH is no longer required to provide the necessary financing for the two development projects (Michigan and California) that we acquired.

In addition to the gaming and contract rights, we acquired the other 50% interest in a note receivable from the Michigan Tribe in the amount of \$396,146. The excess purchase price over the fair value of assets acquired was allocated to the gaming and contract rights acquired based on the discounted present value of expected future cash flows. The excess purchase price of \$1,403,854 was allocated as follows:

		Value	Amortization Term
Michigan contract	\$	1,141,682	8.0 years

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California contract	182,776	8.0 years
Oregon Contract	79,396	1.4 years
	\$ 1,403,854	

The following summary pro forma results of operations assume that the acquisition occurred as of the beginning of the period ended December 31, 2001:

	2001	
Operating revenues	\$	5,278,193
Income (loss) before income taxes		(3,229,008)
Net income (loss)		(2,425,095)
Net loss applicable to common shares		(2,635,095)
Net loss per common share		(0.25)

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GAMING ENTERTAINMENT, LLC

Oregon leased approximately 12.5 acres of tribal trust lands from an entity owned by the Oregon Tribe on which the gaming facility is located and subleased a portion of the land back to the same entity. The master lease expires in 2019 and the sublease expired in August 2002 with options to renew. The sublease was not renewed, and this served to automatically terminate the master lease. During 1995, the facility began operations.

Lease and debt payments started in 1995. In 1996, the Tribe received a new \$17.5 million loan to refinance certain outstanding indebtedness and finance the acquisition of gaming equipment and improvements to the gaming facility. The initial development loan was repaid 100% from the refinancing. Rental payments for the sublease were originally 13% of gaming revenue, but have decreased to 10% under the terms of our agreement. Also, if gross gaming revenue for any twelve-month period exceeds \$20,000,000, then only 10% of amounts in excess of such threshold will be paid as rent under the sublease. No Fees were paid after August 19, 2002 when the contract expired according to its terms.

GAMING ENTERTAINMENT (MICHIGAN), LLC

In late 1996, we renegotiated the management contract with the Michigan Tribe and with the 15% owner of the interests in the agreements. Under the new contract, the joint venture will finance, develop and manage gaming operations on reservation lands to be acquired near Battle Creek, Michigan. The 15% owner will be paid a royalty fee in lieu of its original 15% ownership in earlier contracts.

The Tribe achieved final federal recognition as a tribe in April 1996. The Tribe obtained a Gaming Compact from Michigan's governor early in 1997 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. A lawsuit was filed in 1999 by Taxpayers of Michigan Against Casinos in Ingham County Circuit Court. The lawsuit challenged the constitutionality of the approval process of these gaming compacts. On January 18, 2000, Judge Peter D. Houk ruled that the compacts must be approved by a legislative bill rather than by resolution. The State of Michigan filed an appeal to the Michigan Court of Appeals on February 4, 2000. We joined in the appeal filing as an intervening defendant. On November 12, 2002, the Michigan Court of Appeals unanimously overturned the lower court decision; ruling that the compacts were valid. The plaintiff filed an appeal with the Michigan Supreme Court on December 3, 2002. The parties have filed their initial briefs.

In December 1999, the management agreements, along with the required licensing applications were submitted to the National Indian Gaming Commission, which we refer to as the NIGC. We met with the NIGC several times to review suggested revisions to the management agreements and, working with the Tribe, have incorporated all the appropriate changes.

The parties selected a parcel of land for the gaming enterprise, which is under option, and completed a Fee-to-Trust application that was submitted to the Bureau of Indian Affairs in Washington, D.C. in February 2002. On August 9, 2002, the United States Department of Interior issued its notice to take the land into trust for the benefit of the Tribe. On August 30, 2002 Citizens Exposing Truth About Casinos filed a complaint in Federal District Court for the District of Columbia, seeking to prevent this land from being taken into trust. The parties have filed their initial briefs and are awaiting the scheduling of oral arguments.

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GAMING ENTERTAINMENT (CALIFORNIA), LLC

Pursuant to an agreement with the California Tribe, we have certain rights to develop, manage and operate gaming activities for them.

During 1996, the Tribe reached a settlement in its litigation with the Department of Justice and two water districts, pursuant to which the Tribe will be paid \$14.0 million in compensation, and will have the right to select up to 11,200 acres of new reservation land to be taken into trust in replacement for the same quantity of land which was flooded by the rising level of the Salton Sea. That settlement, which required legislative enactment, was approved by the U. S. House of Representatives and the Senate in December 2000. Under the settlement, the Tribe may acquire land in a specifically defined area (generally in the Palm Springs, California area) for purposes of conducting a gaming enterprise.

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The Tribe requested that the California governor negotiate a compact to allow them to conduct gaming on their current reservation. To date the request has not been honored. In February 2001, an action was filed in U.S. District Court by several Card Club owners that challenges the Tribal compacts. The litigation claims that awarding exclusive monopoly rights to Indian Tribes violates federal statutory and constitutional law. The governor has indicated that he will await action by the courts before taking any further action with respect to pending compact requests.

In August 2001, we received a notice from the California Tribe purporting to sever our relationship. We are in the process of discussing an appropriate resolution of this matter that includes reimbursement for costs that we incurred on their behalf. The Notes Receivable on the balance sheet includes a \$25,000 advance due from the California Tribe and Gaming and Contract Rights include approximately \$140,000 attributable to this contract. We have incurred an aggregate of approximately \$1 million, including interest, on behalf of this Tribe. We believe that the balance sheet amounts are recoverable based upon the expressed intentions of the Tribe, as well as the contractual rights that we continue to hold.

The following is a summary of condensed financial information for the joint ventures as of December 31, 2002 and 2001 and for the years then ended:

2002

CONDENSED BALANCE SHEET INFORMATION

	DELAWARE	OREGON	MICHIGAN	CALIFORNIA	TOTAL
Total assets	\$ 760,455	\$	\$	\$	\$ 760,455
Total liabilities	704,702				704,702
Members' capital	55,753				55,753

CONDENSED STATEMENT OF OPERATIONS INFORMATION

Revenues	\$ 19,671,970	\$	\$	\$	\$ 19,671,970
Income from operations	6,576,244				6,576,244
Net income	6,576,244				6,576,244
Company's equity in net income	3,288,122				3,288,122

2001

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CONDENSED BALANCE SHEET INFORMATION

	DELAWARE	OREGON	MICHIGAN	CALIFORNIA	TOTAL
Total assets	\$ 667,264	\$	\$	\$	\$ 667,264
Total liabilities	763,328				763,328
Members' capital	(96,064)				(96,064)

CONDENSED STATEMENT OF OPERATIONS INFORMATION

Revenues	\$ 18,407,301	\$ 570,137	\$	\$	\$ 18,977,438
Income (loss) from operations	5,949,348	564,734	(197,522)	(47,360)	6,269,200
Net income (loss)	5,949,348	564,734	(197,522)	(47,360)	6,269,200
Company's equity in net income (loss)	2,974,674	282,367	(98,761)	(23,680)	3,134,600

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The joint venture entities are treated as partnerships for tax purposes and consequently, no tax provision or tax benefit is recognized at the venture level.

7. GAMING AND CONTRACT RIGHTS

As a result of the GTECH acquisition, the three joint ventures that had previously been accounted for using the equity method are now wholly-owned consolidated entities. A substantial portion of our investment in these joint ventures was comprised of previously contributed Michigan gaming rights of \$4,155,213 that we acquired in 1995 and which represent the Company's acquisition of a 50% ownership of the right to manage the planned facility through the management agreement held by the joint ventures. Amortization of the contributed Michigan gaming rights asset will commence when the associated facility is developed and becomes operational and will be on a straight-line basis over seven years, or the term of the related management contract. Now that these are wholly-owned consolidated entities, these previously contributed rights are reflected in Gaming and Contract Rights, along with the contract rights acquired in the GTECH acquisition of \$1,403,854. The contract rights acquired in the GTECH acquisition represent the Company's acquisition of 100% ownership and management's ability to control the operations of these three entities. Therefore, amortization of the acquired contract rights commenced as of April 1, 2001. Gaming and contract rights, net, as of December 31, 2002 is comprised of the following:

Contributed Michigan gaming rights	\$	4,155,213
Acquired contract rights		1,403,854
Less accumulated amortization		(369,120)
Gaming and Contract Rights, net	\$	5,189,947

Amortization expense related to the acquired contract rights for 2002 was \$200,292. The annual amortization expense will be \$165,560 through 2008, with the then remaining balance of \$41,374 expensed in 2009. The decrease from 2002 is attributable to the termination of the Oregon contract in August 2002 according to its terms. As of December 31, 2002, the weighted average amortization period for acquired contract rights is 6.25 years.

The Michigan and California ventures are in the development stage. Successful development and, ultimately, sustaining profitable operations is dependent on future events, including appropriate regulatory approvals and adequate market demand. These two ventures have not generated any revenues, and the costs incurred to date relate to pre-opening expenses such as payroll, legal and consulting.

8. LONG-TERM DEBT

	2002	2001
Long-term debt consists of the following:		
Note payable to RAM Entertainment, LLC; interest at the prime rate (4.25% at December 31, 2002) due monthly through August 15, 2003, at which time principal will be due or waived.	\$	2,381,260 \$

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Unsecured note payable to GTECH Corporation; interest at the prime rate due monthly through January 25, 2002, at which time all unpaid principal and interest was due. 3,000,000

Line of credit; interest at prime plus ½% (4.75% at December 31, 2002), payable monthly, principal due May 12, 2003. Amount represents the balance outstanding at December 31, under a \$1,000,000 line of credit from Coast Community Bank, which provided the initial loan for the acquisition of Land in Biloxi, Mississippi. 600,000

Total		2,381,260	3,600,000
Less current portion		2,381,260	3,000,000
Long-term portion	\$	\$	600,000

The scheduled maturities of debt are as follows:

2003	\$	2,381,260
2004		
Total	\$	2,381,260

On February 15, 2002, we entered into an agreement with RAM Entertainment, LLC (RAM), a privately held investment company, whereby RAM will acquire a 50% interest in the California and Michigan projects and provide the necessary funding for their development. RAM advanced \$2,381,260 to us in the form of a loan, to be forgiven upon receipt by the Huron Potawatomi Tribe of federal approvals for its proposed casino near Battle Creek, Michigan. The loan bears interest adjustable daily at prime and requires interest payments monthly. The principal is due at maturity on February 15, 2003

unless earlier forgiven pursuant to its terms. On February 15, 2003, we entered into an agreement with RAM Entertainment, LLC to extend the due date until August 15, 2003 for the receipt of regulatory approvals, or the repayment of the \$2,381,260 note. The loan continues to bear interest adjustable daily at prime and requires interest payments monthly, with the principal now due at the extended maturity date of August 15, 2003 unless earlier forgiven pursuant to its terms, or extended by mutual agreement of the parties.

The proceeds of this loan, together with cash on hand, were used to repay the \$3,000,000 GTECH note.

9. STOCKHOLDERS EQUITY

Options to purchase 150,000 shares of common stock at \$3.69 per share (market value on date of grant) were issued in 1994 to a consultant. These options were repriced in June 1998 at \$2.25 per share (market value on the repricing date). The fair value of \$43,410 for the options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 97 percent, risk-free interest rate of 5.0 percent, and expected life of 2.0 years. As the options were granted to a nonemployee in return for services, consulting expense of \$43,410 was recognized in 1998, along with an equivalent increase in paid in capital. All of these options were exercisable at December 31, 2002.

On December 20, 1996, a consultant, who is also a principal stockholder, was granted an option to purchase 250,000 common shares at \$3.69 in return for consulting services to be provided over an approximate three-year period. The options vested immediately. The fair value of \$302,826 for the options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 80 percent, risk-free interest rate of 6.0 percent, and expected life of 2.0 years. As the options were granted to a non-employee in return for services, consulting expense was recognized ratably over the three-year service period commencing in 1997.

Full House's preferred stock has a \$.30 per share cumulative dividend rate, and has a liquidation preference equal to \$3.00 per share plus all unpaid dividends. If Full House is in default in declaring or setting apart for payment of dividends on the preferred stock, it is restricted from paying any dividend, making any other distribution, or redeeming any stock ranking junior to the preferred stock. The stockholders' right to the \$.30 per share cumulative dividends on the preferred stock commenced as of June 30, 1992 and totaled \$2,205,000 and \$1,995,000 at December 31, 2002 and 2001, respectively. Through December 31, 2002, no dividends have been declared or paid.

10. INCOME TAX PROVISION

The income tax benefit (provision) recognized in the consolidated financial statements consists of the following:

		2002	2001
Current:	Federal	\$	\$ (20,000)
	State	(210,000)	(215,000)
	Total current	(210,000)	(235,000)
Deferred:	Federal	(638,964)	1,020,961

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	State	(24,567)	60,086
	Total deferred	(663,531)	1,081,047
Total (Provision)	Benefit	\$ (873,531)	\$ 846,047

A reconciliation of the income tax provision with amounts determined by applying the statutory U.S. Federal income tax rate of 34% to consolidated income before income taxes is as follows:

	2002	2001
Tax (provision) benefit at U.S. statutory rate	\$ (621,958)	\$ 1,120,864
State taxes	(153,981)	(102,234)
Amortization	(68,099)	(186,504)
Other	(29,493)	13,921
Total	\$ (873,531)	\$ 846,047

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Full House's deferred tax items as of December 31, are as follows:

	2002	2001
Deferred tax assets:		
Net operating loss carryforward	\$ 157,883	\$ 58,855
Tax credit carryforwards	51,706	51,706
Intangibles	1,038,854	1,097,772
Accrued expenses	10,668	7,609
Stock option plans	121,182	165,332
Asset impairment	787,385	1,452,386
Total deferred tax assets	2,167,678	2,833,660
Deferred tax liabilities:		
Difference between book and tax basis of gaming rights	(1,454,325)	(1,454,325)
Other	(935)	(3,386)
Total deferred tax liabilities	(1,455,260)	(1,457,711)
Net	\$ 712,418	\$ 1,375,949

At December 31, 2002, Full House had net operating loss carryforwards for federal income tax purposes of approximately \$464,000, which may be carried forward to offset future taxable income. The loss carryforwards expire in 2019. The availability of the loss carryforwards may be limited in the event of a significant change in ownership of Full House or our subsidiaries.

11. SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

Cash payments for interest for the years ended December 31, 2002 and 2001 were \$144,973 and \$286,939, respectively.

Income taxes paid for the years ended December 31, 2002 and 2001 were \$173,010 and \$291,422, respectively.

12. COMMITMENTS AND CONTINGENCIES

Full House leases office space under a noncancellable lease expiring on March 31, 2007. Future minimum lease obligations are \$36,233 in 2003, and increase 4% each January 1st, thereafter.

Rent expense pertaining to operating leases was \$56,575 and \$79,920 for the years ended December 31, 2002 and 2001, respectively.

In October 1994, we filed an action for declaratory relief in Mississippi, seeking a determination by the court that no relationship exists between us and Lone Star Casino Corporation regarding the potential acquisition of a riverboat casino on the Mississippi gulf coast (Full House Resorts, Inc. v. Lone Star Casino Corporation v. Allen E. Paulson, Second Judicial District of the Chancery Court of Harrison County, Mississippi). Lone Star filed a counterclaim alleging breaches of fiduciary duty, breach of contract, conspiracy to breach contract and to breach fiduciary duty and common law fraud. The trial court granted summary judgment in favor of all defendants on that counterclaim, and Lone Star appealed that judgment to the Mississippi appellate court. In April 1998, the Appeals Court affirmed the dismissal of all counts against all parties, excepting Lone Star's claim against us for breach of contract, which it remanded to the trial court for additional hearing. In January 2000, LS Capital, successor entity to Lone Star Casino Corporation, announced that it had retained counsel to pursue the two remaining claims it had alleged against us which were not already dismissed by the Mississippi appellate courts. In April 2000, the trial judge dismissed both those counts for Lone Star's failure to prosecute its claims for nearly twenty months after their remand from the Court of Appeals. Lone Star appealed that ruling and the Mississippi State Court of Appeals reversed the dismissal, and in late 2001 again remanded the claims against the Company for breach of contract, back to the trial court for further proceedings.

Management is unable to determine the outcome of this litigation, but does not believe the outcome will have a material adverse effect on Full House's consolidated financial condition.

13. STOCK-BASED COMPENSATION PLANS

At December 31, 2002, Full House had three stock-based compensation plans that are described below. The ability to issue option grants under these plans expired on June 30, 2002. Full House applies APB Opinion No. 25 and related interpretations in accounting for these plans. Because options have been granted with exercise prices equal to market value

on the grant date, no compensation cost has been recognized for options granted under the non-employee Director Stock Plan, Incentive Stock Plan (except as disclosed below related to options granted under the Incentive Stock Plan to a consultant/principal shareholder) and an informal director stock plan. Since all options that are outstanding as of December 31, 2002 have vested, applying the fair value recognition provisions of SFAS No. 123 results in pro forma net income (loss) that is the same as historical reported net income (loss) during the years ended 2002 and 2001.

Full House had reserved 300,000 shares of its common stock for issuance under the non-employee Director Stock Plan. The ability to issue options under this Plan expired on June 30, 2002. No options were issued under this Plan in 2002, and as of December 31, 2002, there were no outstanding options under this Plan.

Full House has reserved 3,000,000 shares of its common stock for issuance under the 1992 Incentive Plan as amended in June 1999. The ability to issue options under this Plan expired on June 30, 2002. The Plan allowed for the issuance of options and other forms of incentive awards, including qualified and non-qualified incentive stock options. Incentive stock options may be granted at prices not less than fair market value on the date of grant, while non-qualified incentive stock options may be granted at a price less than fair market value on the date of grant. The persons eligible for such plan included employees and officers of Full House (whether or not such officers are also directors of Full House) and consultants and advisors to Full House, who are largely responsible for the management, growth and protection of the business of Full House. Options issued under the Incentive Plan are generally exercisable over a term of ten years. There were no options issued under this plan during either 2002 or 2001.

On March 3, 1997 (the Grant Date), the Board of Directors approved a grant of an option (Option) to each of Full House's three directors, to purchase 250,000 shares of common stock at an exercise price per share equal to the fair market value. The Options were granted in consideration of the fact that services to Full House by such directors have exceeded and are expected to continue to exceed the duties of a typical corporate director. The Options became exercisable in 50,000 share increments commencing April 9, 1997 and on each anniversary thereafter. In addition, the Options for two of the directors provide that a 50,000 share increment became exercisable on the Grant Date. In March 1998, 250,000 of these shares were forfeited, and in 2002, another 250,000 of these options were forfeited. As of December 31, 2002, 250,000 of these options are outstanding at an exercise price of \$2.25 per share.

The total options outstanding under the 1992 Incentive Plan, including the consulting options at December 31, 2002 and 2001 were 586,000. The total options outstanding under the non-employee Director Stock Plan at December 31, 2002 and 2001 were zero and 50,000, respectively. The total options outstanding under the Director Stock Plan at December 31, 2002 and 2001 were 325,000 and 575,000, respectively.

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A summary of the status of Full House's stock option plans, including consultant options, as of December 31, 2002 and 2001, and changes during the years then ended is presented below:

	2002 WEIGHTED-AVERAGE EXERCISE		2001 WEIGHTED-AVERAGE EXERCISE	
	SHARES	PRICE	SHARES	PRICE
Outstanding at beginning of year	1,211,000	\$ 2.54	1,231,000	\$ 2.54
Granted			10,000	0.90
Exercised				
Forfeited	300,000	2.22	30,000	2.04
Outstanding at end of year	911,000	2.65	1,211,000	2.54
Exercisable at year-end	911,000	2.65	1,211,000	2.54
Weighted-average fair value of options granted during the year		\$		\$ 0.42

As of December 31, 2002, the 911,000 options outstanding and exercisable have exercise prices ranging between \$2.25 and \$3.69, and a weighted average remaining contractual life of 3 years.

14. SEGMENT REPORTING

Since the GTECH acquisition transaction, we now view our business in three primary business segments. The Operations segment includes the performance of the Delaware and Oregon projects. The Development segment includes costs associated with our activities in Michigan, California, and Mississippi. The Corporate segment reflects the management and administrative expenses of the business. The prior year amounts have been reclassified to conform with the current year presentation.

SUMMARY INFORMATION FOR THE YEARS ENDED DECEMBER 31,

2002

	Operations	Development	Corporate	Consolidated
Revenues	\$ 4,817,681	\$	\$	\$ 4,817,681
Development costs		954,063		954,063
Income (loss) from operations	4,782,947	(1,244,622)	(1,667,316)	1,871,009

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Interest expense	(117,068)	(28,999)		(146,067)
Other income		100,000	4,346	104,346
Tax (provision) benefit	(1,795,672)	400,881	565,410	(829,381)
Net income (loss)	2,870,207	(772,740)	(1,097,560)	999,907
Approximate Identifiable assets	40,000	9,632,000	1,475,000	11,147,000

2001

	Operations	Development	Corporate	Consolidated
Revenues	\$ 4,995,826	\$	\$	\$ 4,995,826
Development / Impairment		5,799,241		5,799,241
Income (loss) from operations	4,826,353	(6,237,895)	(1,607,438)	(3,018,980)
Interest expense	(218,872)	(67,873)		(286,745)
Other income			9,067	9,067
Tax (provision) benefit	(1,814,341)	2,119,081	541,307	846,047
Net income (loss) (a)	2,793,140	(4,186,687)	(1,057,064)	(2,450,611)
Approximate Identifiable assets	245,000	10,220,000	1,000,000	11,465,000

(a) The operating results of our Development segment were significantly impacted in 2001, primarily as a result of the Impairment provision of \$4,593,800 discussed in Note 3.

15. SUBSEQUENT EVENT

On February 15, 2003, we entered into an agreement with RAM Entertainment, LLC to extend the due date until August 15, 2003 for the receipt of regulatory approvals for our proposed casino near Battle Creek, Michigan, or the repayment of the \$2,381,260 note. The loan continues to bear interest adjustable daily at prime and requires interest payments monthly. The principal is due at the extended maturity date of August 15, 2003 unless earlier forgiven pursuant to its terms, or extended by mutual agreement of the parties.

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EXHIBIT INDEX

EXHIBIT	DESCRIPTION
21	List of Subsidiaries of Full House Resorts, Inc.
23.1	Consent of Deloitte & Touche LLP
99.1	Certification of principal executive and financial officers pursuant to 18 U.S.C. section 1350

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