



April 14, 2023

Dear Fellow Shareholders:

We had a busy year. We built and opened a temporary casino in Illinois in less than nine months. We continued construction of a major casino hotel in Colorado, set to open later this year. We did two add-on bond transactions under our principal debt agreement to fund our growth. We expanded our online sportsbook business. Meanwhile, our existing properties did well, with two key properties achieving some of their best results in many years.

We anticipate that each of our new properties is likely to earn more than our entire company earned previously. Our company is shifting from a low-profile microcap company to a respected regional casino owner and operator. We're focused on our long-term goal: generating industry-leading shareholder returns.

### **The Growth Opportunities**

In common with other real estate, our casinos typically generate value three ways:

- They produce operating income, which is well recognized and valued.
- They incur depreciation charges that often exceed the need for maintenance capital expenditures. This results in additional cash flow from operations that can be even better than "operating income," as the income taxes on such cash flow are deferred.
- Casinos often appreciate in value. This is beneficial, as taxes on the appreciated value are deferred until the property is sold. Even then, the gain often qualifies for favorable tax treatment.

Casinos are readily leveraged, so the returns on the equity investment can be large. There are also significant barriers to entry in most casino markets. Finally, of course, the gradual legalization of casino gaming over the past 45 years has created significant growth opportunities.

Structure matters. Many casino companies have sold much or all of their real estate, keeping management contracts or leases wherein they continue to operate the properties on behalf of third-party owners. This often makes it more complex to operate the properties, leaves the operator with the junior portion of the cash flow, and could limit the potential to develop new properties, as much of the cash flow is irreversibly diverted towards dividends to the property owners instead of being potentially reinvested in development of new properties. If new casinos can be developed at high equity returns, then shareholders could lose out on some or all of that opportunity.

We own most of our casinos. The only exception is the Grand Lodge Casino at the Hyatt Lake Tahoe, which is a relatively small part of our company. We have some land leases underlying a few of our properties, but we have options to buy out each lease at a stated price and subject to certain conditions. Such leases are a form of financing, rather than a strategic move to pay dividends through a REIT structure instead of developing new businesses.

We also see lots of opportunities to reinvest cash flows at high returns on behalf of shareholders. We can do so because we are a relatively small company that has identified large growth opportunities.

Finally, if our properties increase in value due to inflation or otherwise, that increase accrues to our shareholders, rather than to a third-party real estate owner.

We could potentially opt to convert to a different structure at some future date. Optionality, however, has value, and the retention of our real estate today helps us maintain that flexibility.

## Liquidity

At a time when the Federal Reserve is raising interest rates to fight inflation and amid the recent banking crisis, many investors are focused on liquidity. Capital markets tend to ebb and flow, with windows opening and closing and the cost of raising new capital adjusting accordingly.

Fortunately, we have excellent liquidity. We raised all the money to complete Chamonix in Colorado and The Temporary in Illinois in 2021 and 2022, before the current capital crunch. We recently did a small add-on bond issue, privately placed with a significant bondholder, to further ensure that our current liquidity covers our near- and mid-term needs.

Following a \$50 million upfront gaming tax payment required in Illinois, we currently have approximately \$136 million of cash and equivalents. Of this, approximately \$15 million is utilized in operations and \$93 million is in a restricted account to fund the completion of Chamonix's construction. Approximately \$28 million is unrestricted and otherwise not needed in operations. Note that our bond indenture requires a third-party construction expert to certify each month that the restricted fund has sufficient funds to complete the key elements of the project. The project is largely "bought out" at this point; if additional money must be used for completion, we expect that the amounts should be relatively minor.

Our existing operations, before The Temporary and Chamonix, generate enough cash flow to largely cover the interest expense on our debt, including the debt funding construction of the new properties. The Temporary is now open, with only one restaurant left to finish. Almost all its bills related to opening have been paid. While operations are still ramping up, we expect it to quickly become profitable and produce cash flows that can be used elsewhere. When construction is completed on Chamonix later this year, we believe our company will become a significant generator of free cash flow.



We plan to build the permanent American Place to replace The Temporary at the same site. Accordingly, we put The Temporary in a relatively inexpensive “sprung structure,” with offices in leased construction trailers and kitchens in leased shipping containers. We have food and beverage kiosks operating out of Airstream trailers and a steakhouse soon to arrive that is actually a 175-seat diner, all of which can be relocated or sold when the permanent facility opens. The surface parking and site work for The Temporary is much of the same that will be used by the permanent American Place. The largest single cost of building The Temporary, apart from the upfront gaming taxes, was the investment of \$16 million in slot machines, all of which can be relocated into American Place.

It is important for us to complete the permanent casino within three years of the February 2023 opening of The Temporary. Illinois law allows temporary casinos to operate for two years and gives the Illinois Gaming Board the discretion to permit a third year, if necessary, to accommodate construction of a permanent casino. We believe the third year will be necessary to build American Place at the scale and quality previously approved by the Illinois Gaming Board. We intend to seek approval for that third year shortly. Such approval will allow us to shift our employees and customers seamlessly from The Temporary to American Place.



We expect the working designs for American Place to take six to 12 months to complete. We can readily fund design fees and initial construction with our existing resources. Within a year or two, we intend to arrange the permanent financing to complete American Place.

We have many alternatives to fund this, including:

- Replacing our existing bonds with a new, larger bond issue. Our existing bonds mature in 2028 and become callable in February 2024. Even if interest rates are a bit higher, the strong cash flows produced by our diverse group of casinos make us a better credit than we were in 2021, when our existing bonds were issued. That significant cash flow may also mean that any new bond that we may issue may only be outstanding for a few years.
- Our existing debt allows the issuance of subordinated debt. That could be expensive, but would avoid the call premium on the existing bonds.
- We have a standby financing arrangement with a large investment fund that we put in place during the competitive process for the license. This is still available.
- We could do a sale/leaseback arrangement, either for American Place itself or for a package of our properties.
- We could sell the opportunity. We don't think this would be in the best interests of our shareholders, but the possibility illustrates why American Place is a positive for shareholder interests.

### **Chicagoland**

Our project near Chicago reflects our development philosophy.

Chicagoland is a big place. It's somewhat of a mix of New York and Los Angeles, the other two of our country's three largest cities. Like New York, it has a densely populated urban area, with the urban core being second only to Manhattan for urban population and density. But like Los Angeles, Chicago also has sprawling suburbs that reach many miles from the heart of the city and have significantly more residents than the downtown area. Many of those suburban residents seldom travel downtown.

We believe this is an underserved market. The approximately 10 million people in the region gamble quite a bit less per capita than residents in other cities with casinos. We think that's because of the limitations and quality of existing properties.

In addition, there was a notable "hole" in the development of casinos around Chicago. There was no casino for an 80-mile stretch of suburban sprawl from the highly successful Rivers Casino near O'Hare International Airport to the Potawatomi tribal casino near downtown Milwaukee.

Just south of the center of this 80-mile stretch is Lake County, Illinois, with some 700,000 people. Home of Lake Forest, Lake Bluff and Libertyville, it is one of the wealthiest counties per capita in both Illinois and the U.S. The county seat is Waukegan, which for many years has been seeking jobs, tax revenues, and development to replace the old industrial businesses that once lined its lakefront. Our Waukegan casino site is ideally located in the heart of Lake County, between the area's two major highways and accessible to the county's wealthier townships as well as to Waukegan.

The Temporary has now been open for just over six weeks. In its first 45 full days of operations, it has generated \$10.9 million of casino revenues. That's a run rate of approximately \$90 million per year. In 2022, our entire company's gaming revenues from our five other casinos were \$114 million.

The gaming commission has not yet approved us to operate 24 hours a day, so we are currently open from 8 a.m. to 4 a.m. As our cage operations improve in efficiency and accuracy, we expect to move to 24-hour operations. The gaming commission recently permitted us to open our table games earlier in the day, beginning at 10 a.m. versus 2 p.m., and operating until 2 a.m. We were also recently approved to increase our gaming limits from \$1,000 per wager to \$2,000. As we continue to hire and train more dealers, we will expand from 28 tables currently in operation to the 50 games that we are planning to operate, with extended hours of operations.

In the food and beverage area, we recently opened our second restaurant, a fusion of Mexican and Asian cuisines. In May, we expect to open our third restaurant, a high-end dinner venue.

Our customers to date are primarily from Lake County, with very few customers from Downtown Chicago. Most of our revenue seems to be coming from increased gaming by regional residents taking advantage of a casino now conveniently located near their homes. Therefore, when the casino opens eventually in Downtown Chicago, we think it will have very little effect on our operations in Waukegan.



Our permanent American Place will be significantly larger and offer far more amenities than The Temporary. Naturally, we expect that it will produce significantly higher revenues and income.



## **Colorado**

Colorado has a population of approximately 5.8 million, roughly half that of Chicagoland and nearly double that of Nevada. Over 85% of that population lives in the Rocky Mountain “Front Range.” We acquired a small casino in Cripple Creek, Colorado in 2016, which has a prominent location and controlled adjoining land. Cripple Creek is the closest gaming jurisdiction to the Southern Front Range, principally Colorado Springs, while Black Hawk is the principal gaming destination for the Northern Front Range, principally Denver. We now own, or lease with the right to purchase, the better part of three city blocks in the center of Cripple Creek.



Cripple Creek is a historical town with strict development restrictions. We designed a major casino that is intended to fit into the district, with brickwork on the lower floors and hotel towers largely hidden from street view by the historical buildings.

We began construction in earnest in early 2021 as the country was still recovering from the pandemic. We overcame supply-chain issues, construction employment challenges, tariffs on goods that historically were often imported, and other issues.

In many respects, the project is largely done. While it won't open for several more months, the outside structure is largely complete, cranes have been removed, and guest rooms are being outfitted. The furniture has been specified and purchased, and is generally either on site or being built and shipped.

We still have a lot of interior finishing work to complete. We need to hire and train hundreds of new employees. We also need to tell the world, and Denver and Colorado Springs in particular, that a high-quality casino is opening in Cripple Creek.

Once finished, however, we expect to generate high returns at this property for many years, like the casinos built in recent years in Black Hawk and other places that were previously underserved. It has been difficult to put together an appropriate site, to design to fit within the goals and restrictions of this historic place, and to build a large project in such a remote location. Now that much of this is behind us, we also know that it would be difficult for a competitor to build something comparable in scope and quality.

## **Our Other Properties**

In 2022, our Silver Slipper property in Waveland, Mississippi had the second-best year in its 16 years of operation. It fell short only from the 2021 results, mostly because of the absence of the government stimulus checks issued in the prior-year period. It was also affected by increases in certain costs, notably insurance in this hurricane-prone area, and competition for its small sportsbook operation from online sportsbooks in nearby Louisiana that began operating in January 2022.

We recently received an important approval from the Army Corps of Engineers that would permit us to create additional surface parking in our wetlands-dominated location, as well as to build a potential new guest room tower out over the Gulf of Mexico. We are a bit busy building Chamonix and preparing to build American Place, so this option is some distance down the road. Receipt of those approvals, however, increases the value of the property and extends our potential growth still further into the future.

Our Rising Star property near Cincinnati was similarly affected in 2022 by the absence of stimulus checks, as well as the opening of a competitor in Northern Kentucky in September 2022. Nevertheless, it too achieved its second-best level of profitability in recent years.

Our Northern Nevada operations had an increase in revenues and flat profits. The results reflected the Lake Tahoe region's continued tourism recovery from the pandemic restrictions. We recently extended the lease that allows us to operate the Grand Lodge Casino, which is one of the two casinos in this segment. The lease has always been a relatively short-term lease and has been extended in increments several times before.

Our Bronco Billy's casino in Cripple Creek was severely affected by construction, both of neighboring Chamonix and refurbishments within Bronco Billy's itself. Unlike previous years, it had no on-site parking, no on-site lodging, significantly less gaming capacity, and fewer restaurant offerings in 2022. As a result, Bronco Billy's was not profitable during the year. This should change in the coming year as the Bronco Billy's refurbishments are completed and the much larger Chamonix casino opens. Chamonix will offer significant on-site parking and hotel accommodations, which should also benefit Bronco Billy's.

Our contracted sportsbook wagering segment continued to evolve and be a significant profit contributor. We are allowed to operate three websites, or "skins," in each of Indiana and Colorado. We have chosen to allow others to operate those sites under our licenses, whereby we received upfront "market access fees" and will receive a percentage of their revenues, subject to certain minimums. Early in 2022, all six skins were in operation. In May 2022, the company that operated under two of those skins abandoned its operations, foregoing the unamortized portion of the market access fees. In December 2022, we entered into a replacement arrangement with a different company for one of those two skins, and we continue to evaluate the opportunities for the other skin. Meanwhile, in May 2022, we entered into an agreement for the one Internet sportsbook license that we are entitled to operate in Illinois. Because Illinois has a larger population with far fewer sportsbook licenses than either Colorado or Indiana, we believe this is a more valuable license. When it begins operations later this year, the minimum payments under the Illinois agreement will approximately equal the minimum payments of all five of our other agreements combined.

I would like to thank our investors, lenders, regulators, employees and customers for their continued support. We will continue to work hard on everyone's behalf.

A handwritten signature in black ink, appearing to read 'D. R. Lee', with a stylized flourish at the end.

Daniel R. Lee  
President and Chief Executive Officer

*Note: This letter supplants the glossy annual reports that are still prepared by some companies; such a report would not be economical for our small company. For a full description of our financial results, please see our Annual Report on Form 10-K for the year ended December 31, 2022 that was filed with the Securities and Exchange Commission and that is available on our website, at [www.fullhouserestorts.com](http://www.fullhouserestorts.com).*

*This letter and the accompanying Notice and proxy statement contain statements that are “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are neither historical facts nor assurances of future performance. These forward-looking statements can be identified by use of terms such as “believes,” “expects,” “anticipates,” “plans,” “intends,” “potential,” “may,” “could,” “would,” “will,” “might,” and similar references to future periods. Some of these forward-looking statements include, but are not limited to, our expected operating results, such as future cash flow or EBITDA; our plans, beliefs or expectations regarding our growth strategies; our expected construction budgets, estimated costs, estimated commencement and completion dates, expected amenities, and our expected operational performance for Chamonix and American Place; our expectations regarding approval by the Illinois Gaming Board to operate The Temporary for a third year during construction of American Place; our expectations regarding our ability to operate The Temporary 24 hours a day; our investments in capital improvements, renovations and other projects, including the amounts of such investments, the timing of commencement or completion of such capital improvements, renovations and other projects and the resulting impact on our financial results; our sports wagering contracts with third-party providers, including the expected revenues and expenses from such contracts and the expected timing for the launch of our Illinois skin; adequacy of our financial resources to fund operating requirements and planned capital expenditures and development costs and to meet our debt and contractual obligations; our expectations regarding the arrangement of permanent financing to complete American Place; anticipated sources of funds; our expectations regarding regulatory and business conditions in the gaming industry, including the possible authorization or expansion of gaming in the states we operate or nearby states; factors that affect the financial performance of our properties; and our competitive outlook, among others. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements are included in the reports we file with the Securities and Exchange Commission, including, but not limited to, Part I, Item 1A. Risk Factors and Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the most recently completed fiscal year and our other periodic and current reports filed with the Securities and Exchange Commission. We are under no obligation to (and expressly disclaim any such obligation to) update or revise our forward-looking statements as a result of new information, future events or otherwise. Actual results may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements.*

