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Dissidents pull a straight flush at Full House

By [Jaewon Kang](#) Updated 04:40 PM, Dec-01-2014 ET

A trio of dissident shareholders of [Full House Resorts Inc.](#) (FLL) scored a victory after a nearly three-month battle when the casinos operator agreed to add all five of their director nominees to its board Monday.

The settlement also hastened the retirement of the companies' top management.

Las Vegas-based Full House announced Monday that the board will be increased to nine members from six and that the company has accepted the resignations of CEO Andre Hilliou and COO [Mark Miller](#). [Daniel Lee](#), one of the dissidents who previously served as chairman and CEO of [Pinnacle Entertainment Inc.](#) (PNK), will replace Hilliou as the company's CEO.

The investor group — Lee, [Bradley Tirpak](#) and [Craig Thomas](#) — will formally withdraw their request for a special meeting either Monday or Tuesday, according to a source close to the matter.

The dissidents had been urging the company since early October to call a special meeting and add five of their nominees: Lee, Tirpak, Ellis Landau, Raymond Hemming and W.H. Baird Garret.

The settlement comes after the dissident shareholders delivered enough shareholder votes last Tuesday to call a special meeting. Though the investors needed only 40% of shareholders to vote in their favor of holding, requests for the meeting from about 63% of shareholders were delivered, the source said.

The activist had expected to call for a special meeting to be held within about 10 days, this person said.

But that turned out not to be needed. One thing that may have helped Full House see "the writing on the wall," that person said, was the support for the activist campaign from proxy advisory firms [Institutional Shareholder Services Inc.](#) and [Glass, Lewis & Co. LLC](#).

Hilliou had been thinking about retiring within the next year or two and will remain as large shareholders of the company, the person added. Miller holds 2.78% in the company, and Hilliou has a 3.67% stake, according to the company's April 15 proxy filed with the Securities Exchange Commission.

After the activist first called for a special meeting on Oct. 9, Full House said on Oct. 13 that it had been reviewing strategic options, including a potential sale of the company, for several months with its financial

adviser **Macquarie Capital** Inc. and legal counsel **Latham & Watkins LLP**. The company announced Oct. 22 that the board had decided to pursue a sale of the company after evaluating strategic options.

David Berman, Charles Protell and Dan Lee of Macquarie are providing financial advice while the Latham Watkins team includes Steven Stokdyk and David Zaheer.

The person explained that while the new board plans to continue working with Macquarie, Full House could attract better bids and have a more robust auction after its casinos are more stabilized.

Full House owns Rising Star Casino Resort in Rising Star, Ind.; Stockman's Casino in Fallon, Nev.; Grand Lodge Casino in Incline Village, Nev., and **Silver Slipper Casino** in Bay St. Louis, Miss.

"I'm only motivated to do what's in the shareholders' best interest," Lee said via phone Monday. "If we build up the company, that's great. If we sell the company in the near future, that's great, too."

The new CEO said he and the other dissidents "tried to take the high road," and Full House understood that shareholders themselves wanted change.

"Sometimes it works the way it's supposed to work, and I'm glad this one did," he said of the campaign.

"The company has been running poorly," said a shareholder who holds about 5% of the company and voted in favor of the special meeting.

That shareholder, who asked to remain unnamed, said Full House had made expensive acquisitions and hadn't made money from those investments.

The person added that the previous management team was getting paid too well in relation to the size of the company and its earnings.

"The old management was really in denial about what the problem was," the shareholder said, adding that the new CEO will "do really well in running the company with his experience. He knows gaming inside and out."

The shareholder added that while Lee has historically run "beautiful properties in good locations," Full House is too small a company to do so effectively.

While the board could sell the company if it received a bid of \$3 per share in the near term, it's much more likely that the new group would fix the company first and build it up for a sale.

It could eventually be worth "mid- to high-single digits" per share, that person said.

Sources have said winning casino licenses in New York could increase the value of Full House, but the shareholder said Full House may not have the capital to invest in such properties.

"I wouldn't put any value on it until they won it," the shareholder said, adding that its Rising Sun casino resort in Indiana especially needs to stabilize.

"The best thing that this new board can do is to figure out how to maximize cash flow," agreed Matt Sodl, managing director at boutique investment bank **Innovation Capital LLC**, via phone, adding that the new board is likely to put the sale process aside in the near term.

The mission of the new group will be to figure out ways to unlock value, grow the company and explore options at that point, he explained.

"I think he [Lee] is certainly a guy who's been able to work his magic in a lot of different places. I wouldn't bet against the guy," Sodl said of the new CEO, while also pointing out that Full House doesn't have the same asset base that Lee has had in the past.

Overall, the board change "gives the company the best chance to get back on its feet after some missteps," said an industry source familiar with the company, adding that its missteps are fixable.

"Some things haven't turned out exactly how they wanted."

The dissident shareholders were represented by proxy firm **Morrow & Co. LLC** and David Rosewater of law firm **Schulte Roth & Zabel LLP**.

Shares of Full House were up 16% Monday, closing at \$1.44. The company has a market capitalization of around \$24.4 million.

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