

CENTURY CASINOS INC /CO/  
Form 10-K  
March 11, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-22900

CENTURY CASINOS, INC.

(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| DELAWARE  | 84-1271317                              |
| (State or other jurisdiction of incorporation<br>or organization) | (I.R.S. Employer<br>Identification No.) |

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455 E. Pikes Peak Ave, Suite 210, Colorado Springs, Colorado 80903

(Address of principal executive offices) (Zip Code)

(719) 527-8300

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class                      | Name of Each Exchange on Which Registered |
|--|---|
| Common Stock, \$0.01 Per Share Par Value | NASDAQ Capital Market, Inc.               |

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

|                         |                   |   |                           |
|-------------------------|-------------------|---|---------------------------|
| Large accelerated filer | Accelerated filer | Non-accelerated filer                         | Smaller reporting company |
|                         |                   | (Do not check if a smaller reporting company) |                           |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, based upon the closing price of \$6.30 for the Common Stock on the NASDAQ Capital Market on that date, was \$133,840,400. For purposes of this calculation only, executive officers and directors of the registrant are considered affiliates.

As of March 2, 2016, the registrant had 24,423,172 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Part III incorporates by reference the registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and the Private Securities Litigation Reform Act of 1995 and, as such, may involve risks and uncertainties. All statements included or incorporated by reference in this report, other than statements that are purely historical, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “could,” “potential,” “continue” or similar terminology. statements are based on the beliefs and assumptions of the management of the Company based on information currently available to management. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements.

The forward-looking statements included or incorporated by reference in this report are subject to additional risks and uncertainties further discussed under Item 1A. “Risk Factors” and are based on information available to us on the filing date of this report. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to update any forward-looking statements.

PART I

As used in this report, the terms “Company,” “CCI,” “we,” “our,” or “us” refer to Century Casinos, Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

This report includes amounts translated into U.S. dollars from certain foreign currencies. For a description of the currency conversion methodology and exchange rates used for certain transactions, see Note 2 to the Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data” of this report. The following information should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Part II, Item 8, “Financial Statements and Supplementary Data” of this report.

Item 1. Business.

General

Century Casinos, Inc., a Delaware corporation founded in 1992, is an international casino entertainment company that develops and operates gaming establishments as well as related lodging, restaurant and entertainment facilities around the world. Our main goal is to grow our business worldwide by actively pursuing the development or acquisition of new gaming opportunities and reinvesting in our existing operations.

#### Overview of Operations

We view each casino property as a separate operating segment and aggregate all such properties into the following reportable segments:

- Canada
- United States
- Poland
- Corporate and Other

Canada

Net operating revenue from our Canada segment was \$45.9 million, or 34%, of our total net operating revenue.

- Century Casino & Hotel – Edmonton, Alberta, Canada. We opened this wholly-owned casino in November 2006 and the attached hotel in March 2007. Edmonton is the capital of the Canadian province of Alberta, serving a metropolitan population of over one million people. The facility has 777 ticket in/ticket out (“TITO”) slot machines, 35 tables (including a 24-hour poker room) and 17 video lottery terminals. In addition, the property has 26 hotel rooms, a 10,700 square foot showroom that can seat approximately 450 customers, a 3,000 square foot showroom that can seat approximately 200 customers, where we host Yuk Yuks Comedy Club comedic performances, four restaurants, 600 surface parking spaces and an underground heated parking garage with 300 additional spaces.
- Century Casino Calgary – Calgary, Alberta, Canada. We acquired this wholly-owned casino in January 2010. Calgary is the largest city in the province of Alberta, serving a metropolitan population of over one million people. The casino includes 504 TITO slot machines, 16 tables, 25 video lottery terminals and a full service off-track betting parlor. In addition, the property has a restaurant, a lounge, a 1,000 square foot showroom that can seat approximately 100 customers, a 4,500 square foot showroom that can seat approximately 500 customers, an 18,000 square foot showroom that can seat approximately 1,000 customers, a 30-lane bowling alley, 536 owned surface parking spaces and 262 leased surface parking spaces neighboring the casino.
- Century Downs Racetrack and Casino – Calgary, Alberta, Canada. Our subsidiary Century Casinos Europe GmbH (“CCE”) owns 75% of United Horsemen of Alberta Inc. dba Century Downs Racetrack and Casino (“CDR” or “Century Downs”), which in turn owns and operates a Racing and Entertainment Center (“REC”). The REC, which opened in April 2015, is located 17 miles from Century Casino Calgary and 4.5 miles from the Calgary International Airport. The casino includes 550 TITO slot machines and seven video lottery terminals. In addition, the property has a 5.5 furlong (0.7 mile) racetrack, a bar, a lounge, a restaurant facility, an off-track betting area, an entertainment area and 700 surface parking spaces. The horse racing season runs from February through November. CDR is consolidated as a majority-owned subsidiary for which we have a controlling financial interest.
- Century Bets! Inc. – Calgary, Alberta, Canada. Our subsidiary CCE formed Century Bets! Inc. (“CBS” or “Century Bets”) in January 2015 and owns 75% of its outstanding shares. CBS operates the southern Alberta pari-mutuel network consisting of the sourcing of common pool pari-mutuel wagering content for racetracks throughout North America and world-wide. CBS provides pari-mutuel wagering content and live video to 17 off-track betting parlors throughout southern Alberta and has agreements with over 90 racetracks world-wide to broadcast races through the off-track betting network. CBS is consolidated as a majority-owned subsidiary for which we have a controlling financial interest.



United States

Net operating revenue from our United States segment totaled \$28.4 million, or 21%, of our total net operating revenue.

- Century Casino & Hotel – Central City, Colorado. We opened this wholly-owned casino and hotel in July 2006, as part of a joint venture in which we owned a 65% interest. On December 31, 2007, we acquired the remaining 35% interest in the joint venture. Central City is located approximately 35 miles west of Denver, serving a metropolitan population of over 3.0 million people. Century Casino & Hotel is located in Central City at the end of the Central City Parkway, a four lane highway that connects I-70, the main east/west interstate highway in Colorado, to Central City. The facility has 500 TITO slot machines, eight tables, 26 hotel rooms, a bar, two restaurants and a 500 space on-site covered parking garage.
- Century Casino & Hotel – Cripple Creek, Colorado. We have operated this wholly-owned casino and hotel since 1996. The town of Cripple Creek is located approximately 45 miles southwest of Colorado Springs, the second largest city in the state of Colorado, serving a metropolitan population of over 650,000 people. The facility has 443 TITO slot machines, six tables, 21 hotel rooms, two bars, a restaurant and 271 surface parking spaces neighboring the casino.

Poland

Net operating revenue from our Poland segment totaled \$52.2 million, or 39%, of our total net operating revenue.

- Casinos Poland – Poland. In March 2007, our subsidiary CCE acquired 33.3% of the outstanding shares of Casinos Poland Ltd. (“CPL” or “Casinos Poland”). In April 2013, CCE increased its ownership interest in CPL to 66.6%. As of the date of acquisition, we began consolidating CPL as a majority-owned subsidiary for which we have a controlling financial interest.

CPL has been in operation since 1989 and is the owner and operator of nine casinos throughout Poland with a total of 500 slot machines and 82 tables. The following table summarizes the Polish cities in which CPL operated as of December 31, 2015, each casino’s location and the number of slots and tables at each casino.

| City   | Population  | Location       | Number of Slots | Number of Tables |
|--------|-------------|----------------|-----------------|------------------|
| Warsaw | 1.7 million | Marriott Hotel | 70              | 24               |
| Warsaw | 1.7 million | LIM Center     | 63              | 4                |

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|            |         |                                   |    |    |
|------------|---------|-----------------------------------|----|----|
| Krakow     | 762,000 | Dwor Kosciuszko Hotel             | 54 | 8  |
| Lodz       | 730,000 | Manufaktura Entertainment Complex | 60 | 10 |
| Wroclaw    | 635,000 | HP Park Plaza Hotel               | 69 | 12 |
| Poznan     | 550,000 | Hotel Andersia                    | 56 | 9  |
| Katowice   | 307,000 | Altus Building                    | 70 | 9  |
| Sosnowiec* | 215,000 | Sosnowiec City Center             | 10 | 2  |
| Plock      | 126,000 | Hotel Plock                       | 48 | 4  |

\* Operations at the Sosnowiec casino were suspended as of June 30, 2014. The casino reopened on a limited basis in February 2015, and we expect the casino will continue limited operations until its gaming license expires in May 2017.

## Corporate and Other

Net operating revenue from our Corporate and Other segment totaled \$7.9 million, or 6%, of our total net operating revenue.

- **Cruise Ships.** Through concession agreements with TUI Cruises and Windstar Cruises, we operate 10 ship-based casinos. The concession agreement with Windstar Cruises also gives us the exclusive right to install and operate casinos onboard any new ships built or acquired by Windstar Cruises. We operate a total of 155 slot machines and 22 tables onboard the 10 ships. The following table summarizes the cruise lines with which we have agreements, the ships on which we operate ship-based casinos and the number of slots and tables at each casino.

| Cruise Line      | Ship          | Number of Slots | Number of Tables |
|------------------|---------------|-----------------|------------------|
| TUI Cruises      | Mein Schiff 1 | 19              | 5                |
| TUI Cruises      | Mein Schiff 2 | 20              | 0                |
| TUI Cruises      | Mein Schiff 3 | 20              | 1                |
| TUI Cruises      | Mein Schiff 4 | 17              | 1                |
| Windstar Cruises | Wind Surf     | 27              | 4                |
| Windstar Cruises | Wind Star     | 11              | 2                |
| Windstar Cruises | Wind Spirit   | 12              | 2                |
| Windstar Cruises | Star Pride    | 7               | 3                |
| Windstar Cruises | Star Breeze   | 11              | 2                |
| Windstar Cruises | Star Legend   | 11              | 2                |

In 2015, we began operating the ship-based casinos onboard three new ships: Windstar Cruises Star Breeze and Star Legend and TUI Cruises Mein Schiff 4. In September 2015, we amended our concession agreement with TUI Cruises to include our operation of the ship-based casinos onboard the Mein Schiff 5 and Mein Schiff 6, two new 2,500 passenger cruise ships that are scheduled to begin operations in the second quarter of 2016 and 2017, respectively. Our agreement with Nova Star Cruises Ltd. to operate a ship-based casino onboard the Nova Star, a round trip cruise ferry service connecting Portland, Maine to Yarmouth, Nova Scotia, ended in October 2015 after the 2015 sailing season.

In March 2015, we mutually agreed with Norwegian Cruise Line Holdings (“Norwegian”) to terminate our concession agreements with Oceania Cruises (“Oceania”) and Regent Seven Seas Cruises (“Regent”), indirect subsidiaries of Norwegian, effective June 1, 2015 (the “Termination Agreement”). We transitioned operations of the eight ship-based casinos that we operated onboard Oceania and Regent vessels to Norwegian in the second quarter of 2015. As consideration for the early termination of the concession agreements, we received \$4.0 million in June 2015, which we recorded as net operating revenue net of \$0.6 million in assets that were sold to Norwegian as part of the Termination Agreement.

In March 2015, we entered into a two-year consulting agreement with Norwegian, which became effective June 1, 2015. Under the consulting agreement, we are providing limited consulting services for the ship-based casinos of Oceania and Regent in exchange for receiving a consulting fee of \$2.0 million, which is payable \$250,000 per quarter.

- Hilton Aruba Caribbean Resort and Casino Management Agreement. In December 2010, we entered into a long-term management agreement to direct the operation of the casino at the Radisson Aruba Resort, Casino & Spa. In 2015, the Radisson Aruba Resort, Casino & Spa was sold and rebranded as the Hilton Aruba Caribbean Resort and Casino. Our management agreement was assumed by the new owners and no changes were made to the original agreement. The casino at the Hilton Aruba Caribbean Resort and Casino is centrally located within the hotel. The casino operates with approximately 200 TITO slot machines, 16 tables and a beverage outlet.

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- Mendoza Central Entretenimientos S.A. In October 2014, our subsidiary CCE purchased 7.5% of the shares of Mendoza Central Entretenimientos S.A. (“MCE”) for \$1.0 million. The shares are reported on our consolidated balance sheet using the cost method of accounting. In addition, CCE and MCE have entered into a Consulting Services Agreement pursuant to which CCE provides advice on casino matters and receives a service fee consisting of a fixed fee plus a percentage of MCE’s earnings before interest, taxes, depreciation and amortization (“EBITDA”). MCE has an exclusive agreement with the Instituto Provincial de Juegos y Casinos (“IPJC”) to lease slot machines and provide related services to Casino de Mendoza, a casino located in Mendoza, Argentina that is owned by the Province of Mendoza. MCE leases 600 TITO slot machines to Casino de Mendoza.

#### Additional Projects and Other Developments

We have additional potential gaming projects that we are currently exploring. Along with the capital needs of potential projects, there are various other risks which, if they materialize, could affect our ability to complete a proposed project or could eliminate its feasibility altogether. For more information on these and other risks related to our business, see Item 1A, “Risk Factors” below.

#### Capital Needs, Uses and Cash Flow

As a gaming company, our operating results are highly dependent on the volume of customers at our casinos. Most of our revenue is essentially cash-based, through customers wagering with cash or paying for non-gaming services with cash or credit cards. Our industry is capital intensive, and we rely heavily on the ability of our casinos to generate operating cash flow to repay debt financing, fund maintenance capital expenditures and provide excess cash for future development.

#### Marketing and Competition

We face intense competition from other casinos in jurisdictions in which we operate and destination resorts. Many of our competitors are larger and have substantially greater name recognition and financial and marketing resources than we do. We seek to compete through promotion of our players’ clubs, enhancement of social networking initiatives and other marketing efforts. In addition to our players’ clubs, we also have various cash and prize promotions and market our casinos through a variety of media outlets including internet, television, radio, print and billboard advertising. Our marketing focuses on competition and other facts and circumstances of each market area in which we operate. Our primary marketing strategy centers on attracting new customers and rewarding repeat customers through our players’ club programs. All visitors to our properties are offered the opportunity to join our players’ club. We maintain a proprietary database that consists primarily of slot machine customers that allows us to create effective targeted marketing and promotional programs, cash and merchandise giveaways, coupons, downloadable promotional credits, preferred parking, food, lodging, game tournaments and other special events. Our players’ club cards allow us to update our database and track member gaming preferences, including, but not limited to, maximum, minimum, and total amounts wagered and frequency of visits. We have designed a multi-tiered reward program based on total amount wagered and frequency of visits to reward customer loyalty and attract new customers to our properties. Those

who qualify for VIP status receive additional benefits compared to regular club membership, such as invitations to exclusive VIP events.

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Canada

- Edmonton - The Century Casino & Hotel in Edmonton, Canada has seven competitors (six casinos and one REC) in the Edmonton market. Our casino is one of two casinos in Edmonton that have both a hotel and showrooms. Our showrooms allow the property to attract customers to the casino through live music concerts, private concerts, comedic performances, catering and banquet events. Our casino is the only casino in the Edmonton market to offer a heated parking garage. Our main marketing activity focuses on branding the casino, through various forms of media, as the ultimate entertainment destination and as a provider of a sophisticated, interactive and intimate gaming experience. The casino is located in a densely populated area with the closest competing casino approximately six miles away.
- Calgary - Century Casino Calgary and Century Downs have six competitors (two of which have a combination of hotel and casino) in the Calgary market. Unique to Century Casino Calgary is a 30-lane bowling alley, a lounge and two showrooms. Unique to Century Downs is a 5.5 furlong (0.7 mile) racetrack. Both casinos have off-track betting parlors, and there is only one other casino in the Calgary market with an off-track betting parlor. Using numerous forms of media, such as radio, television and billboards, we concentrate our marketing on the casino floor, the players' club, Century Casino Calgary's bowling center and Century Downs' racetrack. Century Casino Calgary is located in an industrial area approximately three miles from downtown Calgary with the closest competition located three blocks away. Century Downs is located 17 miles from Century Casino Calgary, one mile north of the city limits of Calgary and 4.5 miles from the Calgary International Airport with the closest competition located approximately 13 miles away.
- Century Bets - Century Bets is the exclusive operator of the southern Alberta pari-mutuel network. Century Bets competes with Northlands Park, the operator of the northern Alberta pari-mutuel network, for customers along the border between the northern and southern regions. In addition to placing wagers at off-track betting locations, each region offers advance deposit wagering for online wagering. Some customers in the southern Alberta network created accounts for advance deposit wagering with Northlands Park before we began operating Century Bets.

United States

Cripple Creek, Central City and Black Hawk are the only three cities in Colorado that allow gaming, exclusive of two Native American gaming operations in southwestern Colorado. Cripple Creek, located approximately 45 miles southwest of Colorado Springs, and Central City and Black Hawk, located approximately 35 miles west of Denver, are historic mining towns dating back to the late 1800's that have developed into tourist attractions. As of December 31, 2015, there were 12 active casino licensees operating in Cripple Creek, 6 active casino licensees operating in Central City and 17 active casino licensees operating in Black Hawk. Unlike other regions in which we operate, gaming in Colorado is "limited stakes," which restricts any single wager to a current maximum of one hundred dollars.

The cities of Central City and Black Hawk are adjoining small mountain tourist towns, located approximately one mile apart. Central City and Black Hawk compete with one another for market share, and we view the two cities as one combined market servicing the Denver area. Black Hawk, which we believe does not maintain the same rigorous historical preservation standards as Central City, has been able to successfully attract major casino industry leaders with the ability to offer larger hotels, upscale dining facilities, performance centers and spa facilities. The casino operations in Black Hawk constitute a significant portion of the overall casino gaming market in Colorado (exclusive of the Native American gaming operations), with 59% of the total gaming devices in Colorado in 2015 and

approximately 76% of total gaming revenues in Colorado in 2015.

Management believes that an integral component in attracting gaming patrons to our Colorado casinos is the availability of adequate, nearby parking and lodging. At our Cripple Creek property, we presently own a total of 271 surface parking spaces. We believe we have sufficient close proximity parking. However, covered parking garages provided by four of our competitors in Cripple Creek may negatively impact our casino, particularly during inclement weather. Our casino in Central City has a 500-space covered parking garage offering free public parking. Several other casinos in the Central City/Black Hawk market also have covered parking garages. In addition, three of our competitors in the Cripple Creek market and five of our competitors in the Central City and Black Hawk market have more hotel rooms, providing them with an advantage during inclement weather and the peak tourist season.

Our marketing objective for the casinos in Colorado is to create public awareness by positioning our casinos as the premier provider of personal service, convenient parking, the latest gaming products and superior food quality. In addition to our players' clubs, we also have various cash and prize promotions and market our casinos through a variety of media outlets including internet, television, radio, print and billboard advertising.



## Poland

CPL competes with 42 casinos located throughout Poland. The Polish government generally forbids the marketing of gaming activities outside of a casino, but the marketing of entertainment is permissible. Therefore, CPL's marketing focuses on advertising the entertainment possibilities at each casino, such as concerts and parties. CPL also relies on the locations of its casinos, which are in major cities throughout Poland, to attract customers. The Polish government issues casino licenses in Poland by district, and there are additional casinos in each district in which CPL operates. For example, five other casinos in the Warsaw district compete with our Warsaw casinos. The Polish Minister of Finance does not disclose individual casino data. All slot arcades operating slot machines outside of casinos were required to cease operations by the end of 2015. We anticipate this will positively benefit CPL's operations.

## Corporate and Other

- Cruise Ships – We have limited marketing opportunities on our ship-based casinos. We rely on each cruise ship's marketing efforts to attract onboard customers to our casinos. While we offer modern gaming products, we compete with other activities on the ship as well as onshore activities, including land-based casinos.
- Aruba – The Hilton Aruba Caribbean Resort and Casino, for which we hold the casino management agreement, has 12 competitors in the Aruba market. Our main marketing activity is focused on promotions to increase traffic at the casino with promotions such as mystery jackpots, players' club rewards and various events at the casino, including live music and bingo. Marketing efforts are targeted to hotel guests staying at the Hilton Aruba Caribbean Resort as well as tourists and locals from the island. The casino is located on the High Rise Strip on Palm Beach, which is the main tourist destination on the island.
- Argentina – The Casino de Mendoza has four competitors in the Mendoza market. The IPJC is responsible for the marketing efforts for the casino, which are targeted at local residents as well as tourists.

## Seasonality

Canada – Our Edmonton and Calgary casinos in Alberta, Canada attract more customers from September through April. During the remainder of the year, the casinos attract fewer customers because we compete with outdoor activities. Century Downs also attracts additional customers during the racing season from February through November. Century Bets attracts more customers to off-track betting during the peak racing season from May through August.

United States – Our casinos in Colorado attract more customers during the warmer months from May through September. We expect to attract fewer customers from October through April because weather conditions during this period are variable and can have a significant impact on daily business levels.

Poland – CPL generally attracts more customers from October through March because domestic customers generally vacation out of the country during the summer months.

#### Corporate and Other

- Cruise Ships -- Our business onboard cruise ships typically is not impacted by seasonality because the cruise ships generally operate year round. Our revenues from these operations fluctuate significantly with the volume and quality of the players onboard the ships. In addition, the cruise ships on which we conduct operations may be out of service from time to time for maintenance or based on the operating schedule of the cruise line, which may impact revenue from our cruise ship casinos.
- Aruba -- The Hilton Aruba Caribbean Resort and Casino, for which we hold the management agreement, is popular among tourists throughout the year, with the peak season being from the end of December through April.
- Argentina – The Mendoza market has a slight seasonal increase from January through March due to increased tourism.

## Governmental Regulation and Licensing

The ownership and operation of casino gaming facilities are subject to extensive state, local, foreign, provincial or federal regulations. We are required to obtain and maintain gaming licenses in each of the jurisdictions in which we conduct gaming operations. The limitation, conditioning, suspension, revocation or non-renewal of gaming licenses, or the failure to reauthorize gaming in certain jurisdictions, would materially adversely affect our gaming operations in that jurisdiction. In addition, changes in law that restrict or prohibit gaming operations in any jurisdiction could have a material adverse effect on our financial position, results of operations and cash flows.

Statutes and regulations can require us to meet various standards relating to, among other matters, business licenses, registration of employees, floor plans, background investigations of licensees and employees, historic preservation, building, fire and accessibility requirements, payment of gaming taxes, and regulations concerning equipment, machines, chips, gaming participants, and ownership interests. Civil and criminal penalties, including shutdowns or the loss of our ability to operate gaming facilities in a particular jurisdiction, can be assessed against us and/or our officers to the extent of their individual participation in, or association with, a violation of any of the state or local gaming statutes or regulations. Such laws and regulations apply in all jurisdictions in which we may do business. Management believes that we are in compliance with all applicable gaming and non-gaming regulations as described below.

### Canada

Alberta Gaming and Liquor Commission (“AGLC”) - Gaming in Alberta is governed by the provincial government. The AGLC administers and regulates the gaming industry in Alberta. The AGLC operates in accordance with the Gaming and Liquor Act, the Gaming and Liquor Regulation and the Criminal Code of Canada.

The AGLC requires all gaming operations to be licensed but only allows a certain number of licenses to be granted. All available licenses have currently been granted and the AGLC has an indefinite moratorium on new casinos and RECs. If the AGLC increases the number of licenses available in the future, applicants for a gaming license must submit an application and run through a detailed approval process. Following the approval of the board of the AGLC, the applicant may operate the casino applied for in accordance with federal and provincial legislation, regulation, and policies as well as the municipal requirements, permits, licenses and authorization relating to the casino. At Edmonton and Calgary, our licenses must be renewed every five years, with the next renewals scheduled for 2018 for both casinos. At Century Downs, our license must be renewed every two years, with the next renewal scheduled for 2016. The AGLC monitors the casino operator and its compliance with all requirements. In the event of a violation of such requirements, civil and criminal charges can be assessed.

The AGLC allows casinos to operate slot machines and table games a maximum of 17 consecutive hours commencing at 10:00 a.m. and ending no later than 3:00 a.m. and to operate casino poker rooms 24 hours a day. Casinos and RECs may permit only individuals 18 or older to gamble in the casino. The AGLC permits slot machines, video lottery terminals, baccarat, blackjack, poker, craps and roulette with a maximum single bet of \$1,000 and a maximum single bet of \$5 for slot machines.

The AGLC provides casinos with slot machines, slot technicians and personnel to administer table game counts. In return, casino licensees provide the AGLC with a place to operate slot machines, market the casinos, and provide table game dealers, slot attendants, security and surveillance. Casino licensees do not incur lease expenditures to the AGLC. In lieu of these lease expenses and other expenses associated with operating slot machines (i.e. equipment and personnel), casino licensees retain only a portion of net sales. Net sales, as defined by the AGLC, are calculated as cash played, less cash won, less the cost to lease the equipment, if applicable. At our Edmonton and Calgary casinos, the AGLC retains 85% of slot machine net sales, of which it allocates 15% to licensed charities and 70% to the Alberta Lottery Fund. At the REC, the AGLC retains 33% of slot machine net sales, which are allocated to the Alberta Lottery Fund. For all table games, excluding poker and craps, we are required to allocate 50% of our net win to a charity designated by the AGLC. For poker and craps, we are required to allocate 25% of our net win to the charity. We record our revenue net of the amounts retained by the AGLC or allocated to the AGLC-designated charity.

Horse Racing Alberta (“HRA”) - HRA was formed in June 2002 to facilitate long term industry renewal for horse racing. The objectives of HRA are to govern, direct, control, regulate, manage, market and promote horse racing in any or all of its forms; to protect the health, safety and welfare of racehorses and, with respect to horse racing, the safety and welfare of racing participants and racing officials; and to safeguard the interest of the general public in horse racing.

HRA requires all horse racing operators to be licensed. A licensed operator is responsible for the general supervision of horse races at its facilities but must not interfere with the proper performance of the functions and responsibilities of racing officials. Only individuals 18 or older may place a bet on horse races. HRA also prohibits racing officials, HRA employees, jockeys, drivers of horses and any employee of any of them from betting on a race, encouraging others to bet on a race on their behalf or owning a pari-mutuel ticket. A licensed owner of a horse, its trainer and any authorized agent or employee of such owner or trainer may not bet or encourage others to place a bet on their behalf on a horse other than the horse owned or trained by such licensed owner or trainer.

A licensed operator must also provide and maintain a suitable racetrack, file with HRA a certificate of measurement of the track and provide services at race meetings, including first aid and ambulance facilities. HRA must approve the equipment, facility and any services the operator will provide. HRA also requires a licensed operator to establish and maintain complete records of each horse race conducted by the operator.

During the first five years of CDR's operation beginning in 2015, HRA retains 23.25% of slot machine net sales at CDR to fund animal welfare programs, purses, breed improvement programs, marketing, and administration and backstretch programs. After the first five years of operation of CDR, HRA will retain 26.25% of slot machine net sales at CDR. Approximately 15.4% of each horse racing bet will be retained by the HRA, of which 10.0% will be returned to the REC. We record our revenue net of the amounts retained by HRA.

#### United States

The ownership and operation of gaming facilities in Colorado are subject to extensive state and local regulations. Licenses must be obtained from the Colorado Limited Gaming Control Commission (the "Gaming Commission") prior to offering limited gaming to the public in the State of Colorado. In addition, the Division of Gaming (the "DOG") within the Colorado Department of Revenue, licenses, implements, regulates, and supervises the conduct of limited stakes gaming. The Director of the DOG, under the supervision of the Gaming Commission, has been granted broad powers to ensure compliance with the laws and regulations. The Gaming Commission, DOG and DOG Director are collectively referred to as the "Colorado Gaming Authorities."

The laws, regulations, and internal control minimum procedures of the Colorado Gaming Authorities seek to maintain public confidence and trust that licensed limited gaming is conducted honestly and competitively, that the rights of the creditors of licensees are protected, and that gaming is free from criminal and corruptive elements. The Colorado Gaming Authorities' stated policy is that public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations, and activities related to the operation of the licensed gaming establishments and the manufacture and distribution of gaming devices and equipment.

The Gaming Commission is empowered to issue six types of gaming and related licenses. In order to operate a casino, an operator is required to obtain a retail gaming license. Further, under Colorado gaming regulations, no person or entity can have an ownership interest in more than three retail licenses. We currently operate under the maximum of three retail gaming licenses in Colorado (Century Casino & Hotel in Cripple Creek operates under two gaming licenses). Licenses must be renewed every two years, with the next renewals scheduled for 2017 for our casinos in

Central City and Cripple Creek. In addition, the Gaming Commission has broad discretion to revoke, suspend, condition, limit or restrict the licensee at any time. The failure or inability of the Century Casino & Hotel in Central City or Cripple Creek, or the failure or inability of others associated with these casinos to maintain necessary gaming licenses or approvals would have a material adverse effect on our operations.

Our Colorado casinos must meet specified architectural requirements and must not exceed specified gaming square footage limits as a total of each floor and the full building. Colorado casinos may operate 24-hours a day, and may permit only individuals 21 or older to gamble in the casino. Colorado law permits slot machines, blackjack, poker, craps and roulette with a maximum single bet of \$100. Colorado casinos may not provide credit to gaming patrons.

The Colorado constitution permits a gaming tax of up to 40% on adjusted gross proceeds (“AGP”), and voter approval is required for any increase to this gaming tax rate. The current gaming tax in Colorado established by the Gaming Commission is a graduated rate of 0.25% to 20% on AGP, where casinos pay a higher percentage as their AGP increase.

Colorado law requires that every officer, director or stockholder holding a 5% or greater interest or controlling interest of a publicly traded corporation, or owner of an applicant or licensee, shall be a person of good moral character and submit to and pay the cost of a full background investigation conducted by the Gaming Commission. Persons found unsuitable by the Gaming Commission may be required to immediately terminate any interest in, association or agreement with, or relationship to, a gaming licensee. A finding of unsuitability with respect to any officer, director, employee, associate, lender or beneficial owner of a licensee or applicant may also jeopardize the licensee's retail license or applicant's license application. Licenses may, however, be conditioned upon termination of any relationship with unsuitable persons.

We may not issue any voting securities except in accordance with the provisions of the Colorado Limited Gaming Act (the "Act") and the regulations promulgated thereunder. The issuance of any voting securities in violation of the Act will be void, and the voting securities will be deemed not to be issued and outstanding. No voting securities may be transferred, except in accordance with the provisions of the Act and the regulations promulgated thereunder. Any transfer in violation of these provisions will be void. If the Gaming Commission at any time determines that a holder in excess of 5% of our voting securities is unsuitable to hold the securities, then we may, within sixty (60) days after the finding of unsuitability, purchase the voting securities of the unsuitable person at the lesser of (a) the cash equivalent of such person's investment, or (b) the current market price as of the date of the finding of unsuitability, unless such voting securities are transferred to a suitable person within sixty (60) days after the finding of unsuitability. Until our voting securities are owned by persons found by the Gaming Commission to be suitable to own them, (a) we are not permitted to pay any dividends or interest with regard to the voting securities, (b) the holder of such voting securities will not be entitled to vote, and the voting securities will not for any purposes be included in the voting securities entitled to vote, and (c) we may not pay any remuneration in any form to the holder of the voting securities, except in exchange for the voting securities.

## Poland

Gaming in Poland is governed by the Minister of Finance, who operates in accordance with Polish gaming law and has the authority to grant casino licenses. Polish gaming law was enacted in 1992. Key items included in Polish gaming law include the following requirements:

- All slot arcades were phased out and ceased operations in 2015. As a result, effective in 2016, the operation of slot machines is permitted in casinos only;
- A maximum of 70 slot machines are allowed per casino;
- All licensees must go through a renewal process once their current six year license has expired;
- The gaming tax rate assessed on gross gaming revenue is 50%; and
- Poker cash games are prohibited in Poland, except for authorized poker tournaments.

Casino licenses in Poland are limited to 52 and are subject to regional limitations. The Minister of Finance periodically notifies the public of license availability, and those interested can submit an application. Applicants for a gaming license must complete a detailed approval process. Following approval from the Minister of Finance, the applicant may operate the casino applied for in accordance with Polish gaming legislation and policies for six years, subject to renewal. Our next renewals are scheduled for 2016 for both the LIM Center casino in Warsaw and the Katowice casino. The Minister of Finance monitors the casino operator and its compliance with all requirements. In the event of a violation, the Minister of Finance can assess charges and, in certain cases, withdraw casino licenses.

Corporate and Other

- Cruise Ships -- The casinos onboard the cruise ships operate in international waters and are not regulated by any national or local regulatory body. However, we follow standardized rules and practices in the daily operation of the casinos.
- Aruba -- The Minister of Justice governs gaming in Aruba. The Minister of Justice has the authority to grant a casino license, and a casino license will only be granted to the holder of a hotel license with a minimum of 250 rooms. As a result, the Hilton Aruba Caribbean Resort and Casino, which has 355 hotel rooms, holds the casino license and we operate the casino under a management agreement. The casino must be a facility belonging to the hotel but separated from the normal hotel business matters. Gaming applicants must be in good standing and reputation as determined by the Minister of Justice. Games permitted include craps, bingo, keno, card games, roulette, wheel of fortune and slot machines. Casinos must be in compliance with conditions and rules and regulations set forth by the Minister of Justice, subject to penalties of closure, fines and/or withdrawal of license.



- Argentina – The Casino de Mendoza is owned and operated by the Province of Mendoza. To retain the exclusive agreement with the IPJC, MCE must remain in good standing and operate ethically and without fault. In addition, any changes to the slot machines leased by MCE to Casino de Mendoza require approval from the IPJC.

#### Other Regulation

We are subject to certain foreign, federal, state, provincial and local safety and health, employment and environmental laws, regulations and ordinances that apply to our non-gaming operations. We have not made, and do not anticipate making, material expenditures with respect to these laws, regulations and ordinances. However, the coverage of, and attendant compliance costs associated with, such laws, regulations and ordinances may result in future additional costs to our operations.

Rules and regulations regarding the service of alcoholic beverages are strict. The loss or suspension of a liquor license could significantly impair our operations. Local building, parking and fire codes and similar regulations also could impact our operations and any proposed development of our properties.

#### Employees

As of December 31, 2015, we had approximately 1,324 full-time employees and 314 part-time employees. During busier months, a casino may supplement its permanent staff with seasonal employees. Approximately 152 employees at our CPL casinos in Poland belong to trade unions. The trade unions do not currently have any collective bargaining agreements with CPL.

#### Executive Officers of the Company

Name