

FULL HOUSE RESORTS INC
Form 10-K
March 17, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2016

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

Commission file number 1-32583

FULL HOUSE RESORTS, INC.
(Exact Name of Registrant as specified in Its Charter)

Delaware 13-3391527
(State or Other Jurisdiction (I.R.S. Employer
of Incorporation or Organization) Identification No.)
4670 S. Fort Apache Rd., Suite 190, Las Vegas, Nevada 89147
(Address and zip code of principal executive offices)
(702) 221-7800
(Registrant's Telephone Number, Including Area Code)
Securities registered under Section 12(b) of the Exchange Act:

Common Stock, \$0.0001 per Share The NASDAQ Stock Market LLC
(Title of Each Class) (Name of Each Exchange on Which Registered)
Securities registered under Section 12(g) of the Exchange Act:
None
(Title of class)

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 15(d) of the Exchange Act.

Indicate by check mark 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

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 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.

Edgar Filing: FULL HOUSE RESORTS INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non Accelerated Filer 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 Registrant’s voting \$0.0001 par value common stock held by non-affiliates of the Registrant, as of June 30, 2016, was: \$35.1 million. As of March 14, 2017, there were 22,864,963 shares of common stock, \$0.0001 par value per share, outstanding.

Documents Incorporated By Reference

The information required by Part III of this Form 10-K, to the extent not set forth herein, is incorporated by reference from the Registrant’s definitive proxy statement relating to the annual meeting of stockholders to be held in 2017, which definitive proxy statement is anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of the Registrant’s fiscal year.

FULL HOUSE RESORTS, INC.
TABLE OF CONTENTS
PART I

<u>Forward Looking Statements</u>	<u>3</u>
<u>Item 1. Business</u>	<u>5</u>
<u>Item 1A. Risk Factors</u>	<u>12</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>22</u>
<u>Item 2. Properties</u>	<u>23</u>
<u>Item 3. Legal Proceedings</u>	<u>24</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>24</u>

PART II

<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>25</u>
<u>Item 6. Selected Financial Data</u>	<u>25</u>
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>41</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>68</u>
<u>Item 9A. Controls and Procedures</u>	<u>68</u>
<u>Item 9B. Other Information</u>	<u>68</u>

PART III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>69</u>
<u>Item 11. Executive Compensation</u>	<u>69</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>69</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>69</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>69</u>

PART IV

Item 15. Exhibits, Financial Statement Schedules

70

SIGNATURES

75

2

PART I

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results 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,” “forecasts,” “po,” “may,” “could,” “should,” “might,” “likely,” “enable,” or similar words or expressions are used in this Form 10-K, as well as statements 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 matters 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 risks, uncertainties and other factors:

- indebtedness and projected borrowing risks;
- substantial dilution risks related to our outstanding warrants and options;
- growth strategies, including potential acquisitions and investments;
- challenges regarding the successful integration of acquisitions;
- development and construction activities risks;
- some of our casinos being on leased property;
- changes to anticipated trends in the gaming industries;
- changes in patron demographics;
- general market and economic conditions including, but not limited to, the effects of housing and energy conditions on the economy in general and on the gaming and lodging industries in particular;
- access to capital and credit, including our ability to finance future business requirements and to repay or refinance debt as it matures;
- dependence on key personnel;
- availability of adequate levels of insurance;
- changes to federal, state, and local taxation and tax rates, and gaming and environmental laws, regulations and legislation, including obtaining and maintaining gaming and other licenses and approvals;
- severe weather;
- lack of alternative routes to certain of our properties;
- competitive environment, including increased competition in our target market areas;
- other risks, uncertainties and factors described from time to time in this and our other SEC filings and reports.

For a more detailed description of certain Risk Factors affecting our business, see Item 1A, “Risk Factors.” We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risks 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 our 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.

Item 1. Business.

Introduction

Formed as a Delaware corporation in 1987, Full House Resorts, Inc. owns, leases, operates, develops, manages, and/or invests in casinos and related hospitality and entertainment facilities. References in this document to “Full House”, the “Company”, “we”, “our,” or “us” refer to Full House Resorts, Inc. and its subsidiaries, except where stated or the context otherwise indicates.

The following table presents selected statistical and other information concerning our properties as of December 31, 2016:

Property	Acquisition Date	Location	Slot Machines	Table Games	Hotel Rooms
Silver Slipper Casino and Hotel	2012	Hancock County, MS (near New Orleans)	955	28	129 ⁽¹⁾
Bronco Billy's Casino and Hotel	2016	Cripple Creek, CO (near Colorado Springs)	807	12	24
Rising Star Casino Resort	2011	Rising Sun, IN (near Cincinnati)	939	25	294 ⁽²⁾
Stockman's Casino	2007	Fallon, NV (one hour east of Reno)	232	4	—
Grand Lodge Casino (leased and part of the Hyatt Regency Lake Tahoe Resort)	2011	Incline Village, NV (North Shore of Lake Tahoe)	253	16	(3)

(1) Silver Slipper Casino and Hotel opened its newly-constructed hotel in phases from May 2015 through September 2015.

(2) Includes a 190-room hotel that we own and operate, and an adjacent 104-room hotel that we lease pursuant to a capital lease with a bargain purchase option.

(3) Under the Facilities Agreement with Hyatt Equities, L.L.C., we have the ability to provide rooms to our guests at the Hyatt Regency Lake Tahoe Resort upon mutually agreeable rates, as well as other amenities and services that cater to our guests and support our operations. We also have an agreement with Hyatt to rent a villa for use by our designated casino guests. Hyatt has approximately 422 guest rooms.

We manage our casinos based on geographic regions within the United States. Accordingly, Stockman's Casino and Grand Lodge Casino comprise a Northern Nevada business segment, while Silver Slipper Casino and Hotel, Bronco Billy's Casino and Hotel, and Rising Star Casino Resort are currently distinct segments. Our corporate headquarters are in Las Vegas, Nevada.

Our revenues are primarily derived from gaming sources, which include revenues from slot machines, table games and keno. Play at our slot machines accounts for most of our revenues, but we also offer a wide range of table games. We set minimum and maximum betting limits for our properties based on market conditions, customer demand and other factors. Our gaming revenues are derived from a broad base of guests that includes both high- and low-stakes players. We also derive a significant amount of revenues from our hotel rooms, food and beverage outlets, retail outlets, entertainment and our golf course at the Rising Star Casino Resort. Our financial results are dependent upon the number of patrons that we attract to our properties and the amounts those guests spend per visit. Additionally, our operating results may be affected by, among other things, overall economic conditions affecting the disposable income of our guests, weather conditions affecting access to our properties, achieving and maintaining cost efficiencies,

taxation and other regulatory changes, and competitive factors, including but not limited to, additions and improvement to the competitive supply of gaming facilities. We may experience significant fluctuations in our quarterly operating results due to seasonality, variations in gaming hold percentages and other factors.

Our mission is to maximize shareholder value. We seek to increase revenues by providing our guests with their favorite games and amenities, high-quality customer service, and appropriate customer loyalty programs. Our customers include local gaming customers who represent a high potential for repeat visits along with drive-in tourist patrons. We continuously focus on improving the operating margins of our existing properties through a combination of revenue growth and expense management. We also assess the potential impact of growth and development opportunities, including capital investments at our existing properties, the development of new properties, and the acquisition of existing third-party properties.

All of our casino properties are operated by us 24 hours each day, every day of the year. We also operate the hotel and food and beverage operations at Silver Slipper, Bronco Billy's, Rising Star and Stockman's. At the Grand Lodge Casino, Hyatt Regency manages the hotel and food and beverage outlets.

2016 Highlights

Bronco Billy's Acquisition and Amended and Restated Credit Facilities

On May 13, 2016, we completed our acquisition of Bronco Billy's Casino and Hotel in Cripple Creek, Colorado for consideration of \$31.1 million. This acquisition diversifies our operations into a new geographical market.

Concurrent with the acquisition of Bronco Billy's, we entered into an amended and restated First Lien Credit Facility with a group of banks led by Capital One Bank, N.A., which includes a term loan of \$45 million and revolving loan of \$2 million. We also entered into an amended and restated Second Lien Credit Facility with ABC Funding, LLC which includes a term loan facility increase from \$20 million to \$55 million, of which the additional proceeds of \$35 million were primarily used to complete our acquisition of Bronco Billy's. As part of the amended and restated Second Lien Credit Facility, on May 13, 2016, the Company granted the second lien lenders 1,006,568 redeemable warrants.

Rights Offering

We completed a rights offering on November 10, 2016 and received a total of \$5 million of gross proceeds (\$4.64 million of net proceeds after offering costs) through the issuance of 3,846,154 shares of common stock at a price of \$1.30 per share. We intend to use the net proceeds from the rights offering to partially fund certain capital expenditure growth projects at our existing properties, as well as for general corporate purposes.

For further information on the above, see the consolidated financial statements set forth in "Item 8. Financial Statements and Supplementary Data".

Operating Properties

Silver Slipper Casino and Hotel

On October 1, 2012, we acquired all of the outstanding membership interests in Silver Slipper Casino Venture, LLC (which owned the Silver Slipper Casino and Hotel) for approximately \$72.2 million. The Silver Slipper Casino and Hotel is situated on the far west end of the Mississippi Gulf Coast near Bay St. Louis, Mississippi, and has approximately 37,000 square feet of gaming space, a fine-dining restaurant, a buffet, a quick-service restaurant and two casino bars. The property sits at the western end of an approximately eight-mile-long white sand beach, the closest such beach to the New Orleans and Baton Rouge metropolitan areas. The Silver Slipper Casino and Hotel currently generates the most revenue and operating income of any of our properties and its customers are primarily from communities in southern Louisiana, including the North Shore of Lake Pontchartrain and the New Orleans and Baton Rouge metropolitan areas, and southwestern Mississippi.

We lease approximately 38 acres, consisting of the seven-acre parcel on which the casino and hotel is situated and approximately 31 acres of marshlands. The lease term ends in April 2058. Between February 2019 and October 2027, we have the option to purchase the land. Management expects to exercise the buyout option depending on the Company's resources and future capital market conditions. During the third quarter of 2015, we completed the phased opening of our newly constructed 129-room hotel, which includes nine premium gaming customer suites. During 2017, we anticipate building a swimming pool and beach club, as well as a new food and beverage offering, at the property.

Bronco Billy's Casino and Hotel

Bronco Billy's Casino and Hotel was acquired in May 2016 for \$31.1 million and includes three adjoining licensed operations in Cripple Creek, Colorado known as Bronco Billy's Casino, Buffalo Billy's Casino and Billy's Casino (collectively referred to as "Bronco Billy's"). Bronco Billy's occupies a significant portion of the key city block of Cripple Creek's prime "casino strip" and contains approximately 17,000 square feet of gaming space, 24 hotel rooms, a steakhouse and four casual dining outlets. Bronco Billy's also leases certain parking lots and buildings, including a portion of the hotel and casino, under a long-term lease. The lease has six renewal options in three-year increments to 2035 and the Company has the right to buy out the lease at any time during its term. Bronco Billy's customers are primarily from the Colorado Springs metropolitan area, the second-

largest metropolitan area in Colorado with a population of approximately 700,000. Its population increased approximately 1.7% between 2015 and 2016.

Rising Star Casino Resort

On April 1, 2011, we acquired all of the operating assets of Grand Victoria Casino & Resort, L.P. through Gaming Entertainment (Indiana) LLC, our wholly-owned subsidiary. We paid approximately \$43 million for the property, including re-branding costs to rename the property Rising Star Casino Resort. The property is located on the banks of the Ohio River in Rising Sun, Indiana, approximately one hour from Cincinnati, Ohio, and within two hours of Indianapolis, Indiana, and Louisville and Lexington, Kentucky. Rising Star offers approximately 40,000 square feet of casino space, a contiguous 190-room hotel, an adjacent leased 104-room hotel, five dining outlets and an 18-hole Scottish links golf course. The 104-room hotel is leased pursuant to a capital lease agreement which expires in 2027 and contains a bargain purchase option. During recent years, this property was adversely affected by the legalization of gaming in Ohio where several new competitors are now located. All of such potential casinos in Ohio are now open.

We are making significant improvements to the Rising Star facilities including a partial hotel refurbishment, the creation of a new VIP gaming room, sense-of-arrival improvements in the main pavilion and on the casino boat, construction of a new restaurant on the casino floor, and construction of an RV park. We are also in the process of developing a 10-car ferry boat service across the river to Kentucky. Commencement of the ferry boat service is subject to approvals from various agencies, including the Army Corps of Engineers and the U.S. Coast Guard.

Under Indiana regulations, we are allowed to have significantly greater casino gaming capacity than we utilize today. The Company has been exploring the possibility of relocating this excess gaming capacity to another location in Indiana. This would require legislative approval and there is no certainty that such approval will be received or, even if any proposed legislation were to become law, that the Company would be successful in developing a new gaming, lodging and entertainment facility.

Northern Nevada

Stockman's Casino

We acquired Stockman's Casino in Fallon, Nevada on January 31, 2007, for approximately \$27 million. In 2008, we sold a Holiday Inn Express that was part of the original acquisition for approximately \$7.2 million. Stockman's Casino is located approximately one hour from Reno, Nevada and includes approximately 8,400 square feet of gaming space. The facility has a bar, a fine-dining restaurant and a coffee shop. Stockman's primarily serves the local market of Fallon and surrounding areas, including the nearby Naval Air Station, the United States Navy's premier air-to-air and air-to-ground training facility and home of the "Top Gun" school.

During the third quarter of 2016, we began construction on a number of exterior improvements to the property, including a new parking lot, a new digital marquee sign, lush landscaping surrounding the casino's main entrances, and new administrative offices connected directly to the casino. Construction work on the parking lot and new digital marquee sign was completed during the fourth quarter of 2016. We expect to complete the remaining enhancements during 2017.

Grand Lodge Casino

On June 28, 2011, we entered into a lease with Hyatt Equities, L.L.C. ("Hyatt") to operate the Grand Lodge Casino at the Hyatt Regency Lake Tahoe Resort and entered into an agreement with HCC Corporation to acquire the operating

assets and certain liabilities related to the Grand Lodge Casino for approximately \$1.4 million. The Grand Lodge Casino is located within the Hyatt Regency in Incline Village, Nevada on the north shore of Lake Tahoe and includes approximately 18,900 square feet of casino space. The Hyatt Regency is one of three AAA Four Diamond hotels in the Lake Tahoe area, and is one of only three AAA Four Diamond hotels in northern Nevada. Its customers consist of both locals and tourists visiting the Lake Tahoe area.

On November 25, 2015, the lease was amended to extend our relationship and refurbish and improve the casino facility. The amendment included (i) an agreement for Hyatt to renovate the casino up to a maximum cost of \$3.5 million and for the Company to purchase up to \$1.5 million of new gaming devices, equipment or other capital expenditures, and (ii) an increase in monthly rent from \$125,000 to \$145,833 commencing on January 1, 2017 (or the date which Hyatt's renovations are completed, whichever is later), and \$166,667 commencing on January 1, 2018. The Company and Hyatt are working together on the refurbishment, which began in February 2017 and is currently scheduled to be completed in June 2017.

The lease amendment also included, among other obligations, a five-year extension of the initial term of the lease to August 31, 2023 and deferral of Hyatt's option to purchase our leasehold interest and related operating assets to January 1, 2019.

Board and Executive Transition

On November 28, 2014, Full House, and Daniel R. Lee, Bradley M. Tirpak and Craig W. Thomas (jointly and severally, the "Shareholder Group"), entered into a Settlement Agreement (the "Settlement Agreement") to resolve actions taken by the Shareholder Group to call a special meeting of the Company's shareholders for the purpose of, among other things, nominating certain individuals to our board of directors and amending the Company's by-laws (the "Solicitation").

The Settlement Agreement, and later the Amended Settlement Agreement, resulted in, among other items, the increase of our board of directors from five to eight members and related appointments, the resignation of Andre M. Hilliou and Mark J. Miller as directors, the Shareholder Group's irrevocable withdrawal of its Solicitation, and agreement to certain customary standstill restrictions, a mutual release of claims between the Company and the Shareholder Group, and certain reimbursements. On January 9, 2015, Mr. Hilliou's employment as Chief Executive Officer and Mr. Miller's employment as Chief Operating Officer were terminated.

On November 28, 2014, we entered into an Employment Agreement with Mr. Lee (the "Employment Agreement") pursuant to which Mr. Lee serves as our President and Chief Executive Officer. The Employment Agreement was effective as of November 28, 2014 and expires on November 30, 2018, unless earlier terminated.

Prior Projects, Proposals and Terminations

American Place

In August 2015, we responded to a "request for proposal" ("RFP") by the Indianapolis Airport Authority ("Airport Authority") with a proposal for a \$650 million lifestyle complex, anchored by a modest-sized casino, known as "American Place". Under our proposal, we would act as the "master developer" (as such term is used in the RFP) of the project and plan to seek partners for many of its aspects. The project was contingent, among other things, on being selected by the Airport Authority; on changes in the state gaming laws and other regulatory approvals that would allow the relocation to Indianapolis of approximately half of the gaming devices that are licensed to operate in Rising Sun, Indiana; and on obtaining financing for the proposed project. In March 2016, the Airport Authority canceled the RFP process.

Terre Haute

In January 2017, State Senator Ford of Terre Haute, Indiana introduced legislation that would allow Full House to relocate half of its permitted gaming capacity to a new casino to be developed in Terre Haute. Such development requires approval of both houses of the state legislature and the approval or acquiescence of the governor. On February 16, 2017, the Public Policy Committee of the Indiana State Senate voted 5-5 on Senator Ford's bill; it required a majority vote to proceed to the Senate floor. There are other methods whereby the proposal could be considered by the broader legislature, although the Public Policy Committee is the normal and most expedient route. The legislature meets annually and is currently in session, with adjournment anticipated at the end of April. There is no certainty at this time that such legislation will ever become law or that such casino will ever be developed.

Buffalo Thunder Casino and Resort

From September 2011 to September 2014, we advised the Pueblo of Pojoaque on the operations of Buffalo Thunder Casino and Resort in Santa Fe, New Mexico, along with the Pueblo's Cities of Gold and other gaming facilities.

Majestic Star Agreement Termination

On March 21, 2014, we entered into an agreement with The Majestic Star Casino LLC to acquire all of the outstanding membership interests of Majestic Mississippi, LLC, which operates a casino located in Tunica, Mississippi commonly known as the Fitz Tunica Casino & Hotel. On June 23, 2014, the agreement was terminated and on August 21, 2014, we settled all disputes related to this unconsummated matter by forfeiting \$1.7 million in deposits. We also incurred additional acquisition-related fees for this transaction, including \$0.6 million of costs associated with the potential financing of the purchase.

Government Regulation

The gaming industry is highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our casinos is subject to extensive regulation under the laws, rules, and regulations of the jurisdiction in which it is located. These laws, rules, and regulations generally concern the responsibility, financial stability, and character of the owners, managers, and persons with financial interests in the gaming operations and include, without limitation, the following conditions and restrictions:

- Periodic license fees and taxes must be paid to state and local gaming authorities;

- Certain officers, directors, key employees, and gaming employees are required to be licensed or otherwise approved by the gaming authorities;

- Individuals who must be approved by a gaming authority must submit comprehensive personal disclosure forms and undergo an exhaustive background investigation, the costs for which must be borne by the applicant;

- Changes in any licensed or approved individuals must be reported to and/or approved by the relevant gaming authority;

- Failure to timely file the required application forms by any individual required to be approved by the relevant gaming authority may result in that individual's denial and the gaming licensee may be required by the gaming authority to disassociate with that individual; and

- If any individual is found unsuitable by a gaming authority, the gaming licensee is required to disassociate with that individual.

Violations of gaming laws in one jurisdiction could result in disciplinary action in other jurisdictions. A summary of the governmental gaming regulations to which we are subject is filed as Exhibit 99.1 and is herein incorporated by reference.

Our businesses are subject to various federal, state, and local laws and regulations, in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, smoking, environmental matters, employees, currency transactions, taxation, zoning and building codes, construction, land use, and marketing and advertising. We also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results. See Item 1A - "Risk Factors" for additional discussion.

Costs and Effects of Compliance with Environmental Laws

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and non-hazardous substances and wastes. For example, our Indiana property is subject to the Indiana Department of Environmental Management for its riverboat and golf club operations, and our Mississippi property is located near environmental wetlands and discharges wastewater. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of the property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owners or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to use, sell or rent the property. To date, none of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

Competition

The gaming industry is highly competitive. Gaming activities include traditional commercial casinos and casino resorts in various states including on tribal lands and at racetracks, riverboat and dockside gaming, state-sponsored lotteries, video poker in restaurants, bars and hotels, pari-mutuel betting on horse and dog racing and jai alai, sports betting and card rooms. Furthermore, competition from internet lotteries, sweepstakes, and other internet wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home or in non-casino settings, could divert customers from our properties and thus adversely affect our business. All of our casinos, as well as other casinos that we may develop or acquire, compete with all these forms of gaming. We also will compete with any new forms or jurisdictions of gaming that may be legalized, as well as with other types of entertainment. Some of our competitors have more personnel and

greater financial or other resources than we do. The principal methods of competition are: location, with casinos located closer to their feeder markets at an advantage; casino, lodging, entertainment and other hospitality product quality in terms of facilities, customer service and ease of access; breadth of offerings, including the types of casino games and other non-gaming amenities; and marketing, including the amount and frequency of promotions offered to guests.

Silver Slipper Casino and Hotel

Silver Slipper Casino and Hotel is the western-most casino on the Mississippi Gulf Coast and competes with several larger casinos located nearby in Hancock County, Mississippi, casinos in Gulfport and Biloxi, Mississippi and with casinos in New Orleans and Baton Rouge, Louisiana. Gulfport and Biloxi are 45 minutes and one hour east, respectively, of the Silver Slipper along Interstate 10. New Orleans and Baton Rouge are one and two hours, respectively, west of Silver Slipper.

Silver Slipper is the closest casino to most of St. Tammany Parish, one of the most affluent and fastest-growing parishes in Louisiana. Louisiana law permits 15 riverboat casinos, one land-based casino, four casinos at racetracks, and in certain areas, a limited number of slot machines at qualifying truck stops. The legislation permitting riverboat and truck stop casinos requires a local referendum and, at the time such legislation occurred, the legalization was rejected by St. Tammany Parish voters. At this time, all licenses for riverboat casinos in Louisiana have been granted and are in operation. Mississippi, which has lower gaming tax rates than Louisiana, does not have a limitation on the number of casino licenses, but requires casinos in certain southern counties to be within 800 feet of the shoreline, as defined by state law.

Bronco Billy's Casino and Hotel

Bronco Billy's is located in Cripple Creek, Colorado, which is a former gold mining town located approximately one hour southwest of Colorado Springs near the base of Pikes Peak. Cripple Creek is now considered a gambling and tourist destination and is one of only three cities in Colorado where commercial gaming is permitted. The other two cities are near Denver. Additionally, two Native American gaming operations exist in southwestern Colorado and there are tribal casinos in Oklahoma, but these are much further from Colorado Springs than Cripple Creek. As of December 31, 2016, there were eight other gaming facilities operating in Cripple Creek. Gaming in Colorado is "limited stakes," which restricts any single wager to a current maximum of \$100.

Rising Star Casino Resort

The Rising Star Casino Resort in Rising Sun, Indiana is one of three riverboat casinos located on the Ohio River in southeastern Indiana, approximately one hour from Cincinnati, Ohio and within two hours of Indianapolis, Indiana and Louisville and Lexington, Kentucky. Its closest competitors are each approximately 15 miles away, near bridges crossing the Ohio River. Rising Star also competes with casinos in Ohio; a casino-resort in French Lick, Indiana; and two racetrack casinos near Indianapolis, Indiana.

A Kentucky Supreme Court decision in 2014 may permit a horse racing track in northern Kentucky to install slot machine-like devices, although it has not yet done so. The Indiana legislature also passed legislation in 2015 to allow table games at racetracks (which are now limited to slot machines) beginning in 2021.

Northern Nevada

Stockman's Casino

We believe Stockman's Casino is the largest of several casinos in Churchill County, which has a population of approximately 25,000. A nearby source of additional customers is Naval Air Station Fallon, the United States Navy's premier air-to-air and air-to-ground training facility and home of the "Top Gun" school. While we are not aware of any significant planned expansion to gaming capacity in the Churchill County area, additional competition may adversely affect our financial condition or results of operations. Furthermore, while the Navy seems to be currently expanding its base in Fallon, were it to reduce its activities at the base, it would likely have an adverse effect on Stockman's results of operations.

Grand Lodge Casino

Grand Lodge Casino is one of four casinos located within a five-mile radius in the North Lake Tahoe area. A fifth casino, scheduled to re-open in 2016 after a refurbishment, has not yet re-opened. Its opening date has been postponed several times and the project entered bankruptcy proceedings in 2016.

Grand Lodge Casino also competes with casinos in South Lake Tahoe and Reno. There are also numerous Native American casinos in California serving the Northern California market.

Marketing

Our marketing efforts are conducted through various means, including our customer loyalty programs and specialized marketing campaigns, such as our seasonal "Christmas Casino" event at the Rising Star Casino Resort. We advertise through various channels, including radio, television, internet, billboards, newspapers and magazines, direct mail, email and social media. We also maintain websites to inform customers about our properties and utilize social media sites to promote our brands, unique events, and special deals. Our customer loyalty programs include the Silver Slipper Casino Players Club, Bronco Billy's MVP "Most Valuable Players" Club, the Rising Star Rewards Club™, the Grand Lodge Players Advantage Club® and the Stockman's Winner's Club. Under these programs, customers earn points based on their volume of wagering that may be redeemed for various benefits, such as free play, cash back, complimentary dining, or hotel stays.

Our properties do not have coordinated loyalty programs. We do not currently believe that it would be economically advantageous given the disparate locations of our properties. Instead, our loyalty programs focus on providing each casino's customers the amenities they most prefer.

Employees

As of March 14, 2017, we had 13 full-time corporate employees, three of whom are executive officers and two additional senior management employees. Our casino properties had 1,319 full-time and 360 part-time employees as follows:

	Full-time	Part-time
Silver Slipper Casino and Hotel	455	95
Bronco Billy's Casino and Hotel	253	56
Rising Star Casino Resort	431	161
Grand Lodge Casino	97	44
Stockman's Casino	83	4

We believe that our relationship with our employees is excellent. None of our employees are currently represented by labor unions.

Item 1A. Risk Factors.

An investment in our securities is subject to risks inherent to our business. We have described below what we currently believe to be the material risks and uncertainties in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K.

We also face other risks and uncertainties beyond what is described below. This Annual Report on Form 10-K is qualified in its entirety by these risk factors. If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of securities, including our common stock, could decline significantly. You could lose all or part of your investment.

Our present indebtedness, projected future borrowings, possible fluctuating interest rates, required repayment schedule, and redeemable common stock warrants could adversely affect our financial health; future cash flows may not be sufficient to satisfy our obligations when due; and/or we may have difficulty obtaining additional financing or refinancing in the future.

As of December 31, 2016, we had gross indebtedness of \$98.3 million, including \$43.3 million of variable interest first lien debt and \$55 million of second lien debt. Interest rates on the second lien debt can range from 12.5% to 13.5%. Our first lien debt matures in May 2019, and includes monthly interest payments plus quarterly principal payments of \$562,500 until May 13, 2018 and \$843,750 through its maturity in May 2019. Our second lien debt matures upon the earlier of May 2022 or six months following the maturity of our first lien debt, and includes monthly interest payments with the principal due in its entirety at maturity.

Additionally, in connection with the refinanced second lien debt, we granted warrants to the second lien lenders representing 5% of the outstanding common equity of the Company, as determined on a fully-diluted basis. Among other items, the warrants provide the second lien lenders with registration rights and certain redemption rights. The redemption rights allow the second lien lenders, at their option, to require the Company to repurchase all or a portion of all of the warrants under certain conditions.

There can be no assurance that, in the future, we will be successful in refinancing our debt or that we will be able to generate sufficient cash flow from operations or through asset sales to meet our long-term debt service obligations. Our present indebtedness and projected future borrowings could have important adverse consequences to us, such as:

- making it more difficult for us to satisfy our obligations with respect to our existing indebtedness;
- limiting our ability to obtain additional financing without restructuring the covenants in our existing indebtedness to permit the incurrence of such financing;
- requiring a substantial portion of our cash flow to be used for payments on debt and related interest, thereby reducing our ability to use cash flow to fund other working capital, capital expenditures and general corporate requirements;
- limiting our ability to respond to changing business, industry and economic conditions and to withstand competitive pressures, which may affect our financial condition;
- causing us to incur higher interest expense, either in the event of increases in interest rates on our borrowings that have variable interest rates, or in the event of refinancing existing debt at higher interest rates;
- limiting our ability to make investments, dispose of assets, pay cash dividends or repurchase stock;
- increasing our vulnerability to downturns in our business, our industry or the general economy and restricting us from making improvements or acquisitions or exploring business opportunities;
- placing us at a competitive disadvantage to competitors with less debt or greater resources; and
- subjecting us to financial and other restrictive covenants in our indebtedness, the non-compliance with which could result in an event of default.

There can be no assurance that our business will generate sufficient cash flow from operations, our anticipated growth in operations will be realized, or future borrowings will be available to us under our credit facilities in amounts sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. In addition, as we undertake

substantial new developments or facility renovations or if we consummate significant acquisitions in the future, our cash requirements and our debt service requirements may increase significantly.

We may need or opt to refinance all or a portion of our debt on or before maturity. There can be no assurance that we will be able to refinance any of our debt on either attractive terms or commercially reasonable terms, or at all. Our future operating performance and our ability to service, extend or refinance our indebtedness will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Certain borrowings under our credit facilities are at variable rates of interest, and to the extent not protected with interest rate hedges, could expose us to market risk from adverse changes in interest rates. If interest rates increase, our debt service obligations on the variable-rate indebtedness could increase significantly even though the amount borrowed would remain the same.

Our indebtedness imposes restrictive covenants on us.

Our credit facilities impose various customary covenants on us and our subsidiaries. The restrictions that are imposed under these debt obligations include, among other obligations, limitations on our and our subsidiaries' ability to:

- incur additional debt;
 - make payments on subordinated obligations;
 - make dividends or distributions and repurchase stock;
 - make investments;
 - grant liens on our property to secure debt;
 - sell assets or enter into mergers or consolidations;
 - sell equity interest in our subsidiaries;
 - make capital expenditures;
 - amend or modify our subordinate indebtedness without obtaining consent from the holders of our senior indebtedness.
- Our credit facilities impose various customary affirmative covenants on us and our restricted subsidiaries, including, among others, reporting covenants, covenants to maintain insurance, compliance with laws, maintenance of properties and other covenants customary in financings of this type. In addition, our credit facilities require that we comply with various restrictive maintenance financial covenants, including a maximum total leverage ratio and maximum first lien leverage ratio (a ratio of debt to LTM Adjusted EBITDA, as defined in our credit facilities), and a fixed-charge coverage ratio.

Our ability to comply with the covenants governing our indebtedness may be affected by general economic conditions, industry conditions, and other events beyond our control, including delay in the completion of new projects under construction. As a result, there can be no assurance that we will be able to comply with these covenants. Our failure to comply with the covenants contained in the instruments governing our indebtedness, including failure to comply as a result of events beyond our control, could result in an event of default, which could materially and adversely affect our operating results and our financial condition.

If there were an event of default under one of our credit facilities and it is not waived (at their option) by the requisite lenders, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable, subject to applicable grace periods. This could trigger cross-defaults under our other debt obligations. There can be no assurance that our assets or cash flow would be sufficient to repay borrowings under our outstanding credit facilities if accelerated upon an event of default, or that we would be able to repay, refinance or restructure the payments on any of those debt instruments.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, and to fund planned capital expenditures and expansion efforts, will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

There can be no assurance that our business will generate sufficient cash flows from operations, or that future borrowings will be available to us under our credit facilities in amounts sufficient to enable us to pay our indebtedness as such indebtedness matures, and to fund our other liquidity needs. In such circumstances, we may need to refinance all or a portion of our indebtedness at or before maturity, and cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. We may have to adopt one or more

alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be completed on satisfactory terms, if at all. In addition, certain states' laws to undertake certain financing transactions require approval of gaming regulatory authorities. Some requirements may prevent or delay us from obtaining necessary capital.

Our ability to obtain additional financing on commercially reasonable terms may be limited.

Although we believe that our cash, cash equivalents and working capital, as well as future cash from operations and availability under the revolving term loan, will provide adequate resources to fund ongoing operating requirements over the next 12 months, we may need to refinance or seek additional financing to compete effectively or grow our business. Management is reviewing market conditions and exploring financing or refinancing alternatives. No assurance can be given that we will be able to obtain any additional financing or to refinance our existing debt, or to fund our growth efforts. If we are unable to obtain financing on commercially reasonable terms, it could:

- reduce funds available to us for purposes such as working capital, capital expenditures, strategic acquisitions and other general corporate purposes;
- restrict our ability to capitalize on business opportunities;
- increase our vulnerability to economic downturns and competitive pressures in the markets in which we operate; and
- place us at a competitive disadvantage.

The exercise of outstanding warrants and options may result in substantial dilution and may depress the trading price of our common stock.

If our outstanding warrants and options to purchase shares of our common stock are exercised and the underlying shares of common stock are issued upon such exercise are sold, our stockholders may experience substantial dilution and the market price of our shares of common stock could decline. Further, the perception that such securities might be exercised could adversely affect the trading price of our shares of common stock. In addition, during the time that such securities are outstanding, they may adversely affect the terms on which we could obtain additional capital. We may face disruption and other difficulties in integrating and managing facilities we have recently developed or acquired, or may develop or acquire in the future.

During 2016, we acquired Bronco Billy's. We may face certain challenges as we integrate these operational and administrative systems into our business. As a result, the realization of anticipated benefits may be delayed or substantially reduced. Events outside of our control, including changes in state and federal regulations and laws as well as economic trends, also could adversely affect our ability to realize the anticipated benefits from the acquisition or future development.

We expect to continue pursuing expansion opportunities. We regularly evaluate opportunities for acquisition and development of new properties, which evaluations may include discussions and the review of confidential information after the execution of nondisclosure agreements with potential acquisition candidates, some of which may be potentially significant in relation to our size. We could face significant challenges in managing and integrating our expanded or combined operations and any other properties we may develop or acquire, particularly in new competitive markets. The integration of properties we may develop or acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating properties that we may acquire also could interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the development of new properties may involve construction, local opposition, regulatory, legal and competitive risks, as well as the risks attendant to partnership deals on these development opportunities. In particular, in projects where we team up with a joint venture partner, if we cannot reach agreement with such partners, or our relationships otherwise deteriorate, we could face significant increased costs and delays. Local opposition can delay or increase the anticipated cost of a project. Finally, given the competitive nature of these types of limited license opportunities, litigation is possible.

Management of new properties, especially in new geographic areas, may require that we increase our management resources. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions. We also cannot assure you that if acquisitions are completed, that the acquired businesses will generate returns consistent with our expectations.

Our ability to achieve our objectives in connection with any acquisition we may consummate may be highly dependent on, among other things, our ability to retain the senior-level property management teams of such acquisition candidates. If, for any reason, we are unable to retain these management teams following such acquisitions or if we fail to attract new capable executives, our operations after consummation of such acquisitions could be materially adversely affected.

If we make new acquisitions or new investments, we may face additional risks related to our business, results of operations, financial condition, liquidity, ability to satisfy financial covenants and comply with other restrictive covenants under our debt agreements, and ability to pay or refinance our credit facilities and other indebtedness.

The occurrence of some or all of the above described events could have a material adverse effect on our business, financial condition and results of operations.

We may face reductions in discretionary consumer spending as a result of an economic downturn.

Our net revenues are highly dependent upon the volume and spending levels of customers at our properties and, as such, our business has been adversely impacted by economic downturns. Decreases in discretionary consumer spending brought about by weakened general economic conditions such as, but not limited to, lackluster recoveries from recessions, high unemployment levels, higher income taxes, low levels of consumer confidence, weakness in the housing market, cultural and demographic changes, and increased stock market volatility may negatively impact our revenues and operating cash flow.

We face significant competition from other gaming and entertainment operations.

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, racetrack casinos, video lottery, poker machines not located in casinos, Native American gaming, social gaming and other forms of gaming. Furthermore, competition from internet lotteries, sweepstakes, and other internet wagering gaming services, which allow their customers to wager on a wide variety of sporting events and play Las Vegas-style casino games from home or in non-casino settings, could divert customers from our properties and thus adversely affect our business. Such internet wagering services are often illegal under federal law but operate from overseas locations and are nevertheless sometimes accessible to domestic gamblers. Currently, there are proposals that would legalize internet poker and other varieties of internet gaming in a number of states and at the federal level. Several states, including Nevada, New Jersey, and Delaware, have enacted legislation authorizing intrastate internet gaming and internet gaming operations have begun in these states. Expansion of internet gaming in other jurisdictions (both legal and illegal) could further compete with our traditional operations, which could have an adverse impact on our business and results of operations.

In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, athletic events, television and movies, concerts, and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions that border our operational locations, such as Ohio, have recently legalized and implemented gaming. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons could increase competition for our gaming operations and could have a material adverse impact on us. Gaming competition is intense in most of the markets where we operate. As competing properties and new markets are opened, our operating results may be negatively impacted. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. We expect each existing or future market in which we participate to be highly competitive. The competitive position of each of our casino properties is discussed in "Item 1. Business – Competition".

We face extensive regulation from gaming and other regulatory authorities.

Licensing. The ownership, management and operation of gaming facilities are subject to extensive state and local regulation. See "Item 1. Business – Government Regulation."

Taxation and fees. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant revenue-based taxes and fees in addition to normal federal, state, local and provincial income and employment taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes and/or property taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our business, financial condition and results of operations.

Compliance with other laws. We are also subject to a variety of other rules and regulations, including zoning, environmental, employment, construction and land-use laws, and regulations governing the serving of alcoholic beverages. If we

are not in compliance with these laws, it could have a material adverse effect on our business, financial condition and results of operations.

We are a significant employer.

While the vast majority of our employees earn more than the minimum wage in the relative jurisdictions, increases in the minimum wage could have an impact on our expenses and results of operations. We also provide medical plan benefits for a majority of our employees and many of their families. The cost of providing such benefits has risen significantly more than inflation in recent years and is encumbered by numerous regulations.

We are subject to certain federal, state and other regulations.

We are subject to certain federal, state and local environmental laws, regulations and ordinances that apply to businesses generally. The Bank Secrecy Act, enforced by the Financial Crimes Enforcement Network (“FinCEN”) of the U.S. Treasury Department, requires us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the guest by name and social security number, to the Internal Revenue Service (“IRS”). This regulation also requires us to report certain suspicious activity, including any transaction that exceeds \$5,000 that we know, suspect or have reason to believe involves funds from illegal activity or is designed to evade federal regulations or reporting requirements. Periodic audits by the IRS and our internal audit department assess compliance with the Bank Secrecy Act, and substantial penalties can be imposed against us if we fail to comply with this regulation. In recent years, the U.S. Treasury Department has increased its focus on Bank Secrecy Act compliance throughout the gaming industry. Recent public comments by FinCEN suggest that casinos should obtain information on each customer’s sources of income. This could impact our ability to attract and retain casino guests.

Our riverboat at Rising Star must comply with certain federal and state laws and regulations with respect to boat design, on-board facilities, equipment, personnel and safety. In addition, we are required to have third parties periodically inspect and certify our casino riverboat for safety, stability and single compartment flooding integrity. All of our casinos also must meet local fire safety standards. We would incur additional costs, if any, if our gaming facilities were not in compliance with one or more of these regulations.

We are also subject to various federal, state, and local laws and regulations affecting businesses in general. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, smoking, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising.

We also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violations of anti-money laundering laws or regulations by any of our properties could have an adverse effect on our financial condition, results of operations or cash flows. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted.

The imposition of a substantial penalty could have a material adverse effect on our business.

Our business may be adversely affected by legislation prohibiting tobacco smoking.

Legislation in various forms to ban indoor tobacco smoking has been enacted or introduced in jurisdictions in which we operate. The gaming areas of our properties are not currently subject to tobacco restrictions. While gaming areas have generally been exempted from these restrictions, if additional restrictions on smoking are enacted in jurisdictions in which we operate, we could experience a significant decrease in gaming revenue and particularly, if such restrictions are not applicable to all competitive facilities in that gaming market, our business could be materially

adversely affected.

We derive a significant amount of our revenues and operating income from our properties located in Mississippi, Colorado, Indiana and Nevada, and are especially subject to certain risks, including economic and competitive risks, associated with the conditions in those areas and in the states from which we draw patrons.

Because we derive a significant amount of revenues and operating income from properties concentrated in four states, we are subject to greater risks from regional conditions than a gaming company with operating properties in a greater number of different geographies. A decrease in revenues from or increase in costs for one of these locations is likely to have a proportionally greater impact on our business and operations than it would for a gaming company with more geographically diverse operating properties. Risks from regional conditions include the following:

• regional economic conditions;

- regional competitive conditions, including legalization or expansion of gaming in Mississippi, Colorado, Indiana, Nevada, or in neighboring states;
- allowance of new types of gaming, such as the introduction of live table games at Indiana racinos;
- reduced land and air travel due to increasing fuel costs or transportation disruptions; and,
- increase in our vulnerability to economic downturns and competitive pressures in the markets in which we operate.

Some of our casinos are located on leased property. If lessor buyout rights are exercised or if we default on one or more leases, the applicable lessors could terminate the affected leases and we could lose possession of the affected casino.

We lease certain parcels of land at our Silver Slipper Casino and Hotel in Mississippi, both land and buildings at Bronco Billy's Hotel and Casino in Colorado, and one of the two hotels at our Rising Star Casino Resort in Indiana. We also lease casino space at our Grand Lodge Casino in Nevada. As a lessee, we have the right to use the leased land, hotel or space as applicable; however, we do not hold fee ownership. Accordingly, unless we have a purchase option and exercise such option, we will have no interest in the improvements thereon at the expiration of the leases. We have such purchase options on the leased property at the Silver Slipper, Bronco Billy's and for the leased hotel at Rising Star, but it is generally more advantageous to the Company to continue to lease rather than exercise the buyout option. Under certain circumstances and at the expirations of the underlying leases, the Company might be forced to exercise its buyout options in order to continue to operate those properties. There is no certainty that the funds could be raised at that time at a reasonable cost, or at all, to exercise some or all of the buyout options. The operating lease at the Grand Lodge Casino includes certain lessor buyout rights based upon a multiple of EBITDA that, if exercised, could result in the lessor purchasing our leasehold interest and the operating assets on terms that are less than fair market value or that are financially unfavorable to us. Since we do not completely control the land, buildings, hotel and space underlying our leased properties, a lessor could take certain actions to disrupt our rights under the long-term leases which are beyond our control. If the entity owning any leased land, buildings, hotel or space chose to disrupt our use either permanently or for a significant period of time, then the value of our assets could be impaired and our business and operations could be adversely affected. If we were to default on the lease, the lessor could terminate the affected lease and we could lose possession of the affected land, buildings, hotel or space and any improvements thereon. The loss of the lease through exercise of buyout rights or through termination upon default would have a significant adverse effect on our business, financial condition and results of operations as we would then be unable to operate all or portions of the affected facilities, which, in turn, may result in a default under our credit facilities. We are engaged from time to time in one or more construction and development projects, and many factors could prevent us from completing them as planned.

Construction of major buildings has certain inherent risks, including the risks of fire, structural collapse, human error and electrical, mechanical and plumbing malfunction. In addition, projects entail additional risks related to structural heights and the required use of cranes. Our development and expansion projects also entail significant risks, including:

- shortage of materials;
- shortage of skilled labor or work stoppages;
- unforeseen construction scheduling, engineering, excavation, environmental or geological problems;
- natural disasters, hurricanes, weather interference, changes in river levels, floods, fires, earthquakes or other casualty losses or delays;
- unanticipated cost increase or delays in completing the project;
- delays in obtaining or inability to obtain or maintain necessary license or permits;
- changes to plans or specifications;
- performance by contractors and subcontractors;
- disputes with contractors;
- disruption of our operations caused by diversion of management's attention to new development projects and construction at our existing properties;

- remediation of environmental contamination at some of our proposed construction sites, which may prove more difficult or expensive than anticipated in our construction budgets;
- failure to obtain and maintain necessary gaming regulatory approvals and licenses, or failure to obtain such approvals and licenses on a timely basis;
- requirements or government-established “goals” concerning union labor or requiring that a portion of the project expenditures be through companies controlled by specific ethnic or gender groups, goals that may not be obtainable, or may only be obtainable at additional project cost; and

increases in the cost of raw materials for construction, driven by demand, higher labor and construction costs and other factors, may cause price increases beyond those anticipated in the budgets for our development projects.

Escalating construction costs may cause us to modify the design and scope of projects from those initially contemplated or cause the budgets for those projects to be increased. We generally carry insurance to cover certain liabilities related to construction, but not all risks are covered, and it is uncertain whether such insurance will provide sufficient payment in a timely fashion even for those risks that are insured and material to us.

Construction of our development projects exposes us to risks of cost overruns due to typical construction uncertainties associated with any project or changes in the designs, plans or concepts of such projects. For these and other reasons, construction costs may exceed the estimated cost of completion, notwithstanding the existence of any guaranteed maximum price construction contracts.

We face a number of challenges prior to opening new or upgraded facilities.

We have several development and improvement projects planned in the near future. No assurance can be given that, when we endeavor to open new or upgraded facilities, the expected timetables for opening such facilities will be met in light of the uncertainties inherent in the development of the regulatory framework, construction, the licensing process, legislative action and litigation. Delays in opening new or upgraded facilities could lead to increased costs and delays in receiving anticipated revenues with respect to such facilities and could have a material adverse effect on our business, financial condition and results of operations.

Subsequent phases to certain of our existing projects and potential enhancements at our properties may require us to raise additional capital.

We may need to access the capital markets or otherwise obtain additional funds to complete subsequent phases of our existing projects and to fund potential enhancements we may undertake at our facilities there. We do not know when or if the capital markets will permit us to raise additional funds for such phases and enhancements in a timely manner, on acceptable terms, or at all. Inability to access the capital markets, or the availability of capital only on less-than-favorable terms, may force us to delay, reduce or cancel our subsequent phases and enhancement projects.

Our ability to obtain bank financing or to access the capital markets for future offerings may also be limited by our financial condition, results of operations or other factors, such as our credit rating or outlook at the time of any such financing or offering and the covenants in our existing debt agreements, as well as by general economic conditions and contingencies and uncertainties that are beyond our control. As we seek additional financing, we will be subject to the risks of rising interest rates and other factors affecting the financial markets.

The casino, hotel and resort industry is capital intensive and we may not be able to finance expansion and renovation projects, which could put us at a competitive disadvantage.

Our properties have an ongoing need for renovations and other capital improvements to remain competitive, including replacement, from time to time, of furniture, fixtures and equipment. We may also need to make capital expenditures at our casino properties to comply with our debt covenants, lease agreements and applicable laws and regulations.

Renovations and other capital improvements at our properties require significant capital expenditures. In addition, renovations and capital improvements usually generate little or no cash flow until the projects are completed. We may not be able to fund such projects solely from existing resources and cash provided from operating activities. Consequently, we may have to rely upon the availability of debt or equity capital to fund renovations and capital improvements, and our ability to carry them out will be limited if we cannot obtain satisfactory debt or equity

financing, which will depend on, among other things, market conditions. There can be no assurance that we will be able to obtain additional equity or debt financing or that we will be able to obtain such financing on favorable terms. Our failure to renovate our properties may put us at a competitive disadvantage.

Adverse weather conditions, road construction, gasoline shortages and other factors affecting our facilities and the areas in which we operate could make it more difficult for potential customers to travel to our properties and deter customers from visiting our properties.

Our continued success depends upon our ability to draw customers from each of the geographic markets in which we operate. Adverse weather conditions or road construction can deter our customers from traveling to our facilities or make it difficult for them to frequent our properties. In 2014, there were severe cold temperatures that we believe adversely affected our Indiana

and Mississippi properties' financial performance. Additionally, we believe historically low snow levels in early 2015 in the Lake Tahoe region adversely affected visitation and financial performance at the Grand Lodge Casino. Bronco Billy's was adversely affected by nearby fires, as well as the subsequent flooding of its access roads in 2012 and 2013, and road construction in 2014. Moreover, gasoline shortages or fuel price increases in regions that constitute a significant source of customers for our properties could make it more difficult for potential customers to travel to our properties and deter customers from visiting. Our dockside gaming facility in Indiana, as well as any additional riverboat or dockside casino properties that might be developed or acquired, are also subject to risks, in addition to those associated with land-based casinos, which could disrupt our operations. Although our Indiana vessel does not leave its moorings in normal operations, there are risks associated with the movement or mooring of vessels on waterways, including risks of casualty due to river turbulence, flooding, collisions with other vessels and severe weather conditions.

Our results of operations and financial condition could be materially adversely affected by the occurrence of natural disasters, such as hurricanes, or other catastrophic events, including war and terrorism.

Natural disasters, such as major hurricanes, tornados, typhoons, floods, fires and earthquakes, could adversely affect our business and operating results. Hurricanes are common in the areas in which our Mississippi property is located and the severity of such natural disasters is unpredictable. In 2005, Hurricanes Katrina and Rita caused significant damage in the Gulf Coast region and damaged a casino that previously existed at our Mississippi site. Additionally, our Indiana property is at risk of flooding due to its proximity to the Ohio River.

Catastrophic events, such as terrorist and war activities in the United States and elsewhere, have had a negative effect on travel and leisure expenditures, including lodging, gaming and tourism. We cannot accurately predict the extent to which such events may affect us, directly or indirectly, in the future. There also can be no assurance that we will be able to obtain or choose to purchase any insurance coverage with respect to occurrences of terrorist acts and any losses that could result from these acts. If there is a prolonged disruption at our properties due to natural disasters, terrorist attacks or other catastrophic events, our results of operations and financial condition would be materially adversely affected.

Several of our properties, including Silver Slipper, Bronco Billy's and, to a lesser extent, Rising Star, are accessed by our customers via routes that have few alternatives.

The Silver Slipper is located at the end of a dead-end road, with no other access. Bronco Billy's is accessed by most guests via a mountain pass; if that pass is closed for any reason, the alternatives take much longer. Rising Star's primary access from Cincinnati is via a road alongside the Ohio River; if this road were to close, the alternative routes involve more winding roads through the rolling hills inland from the river. If access to any of these roads is blocked for any significant period, our results of operations and financial condition would be materially affected.

We may incur property and other losses that are not adequately covered by insurance, including adequate levels of Weather Catastrophe Occurrence/Named Windstorm, Flood and Earthquake insurance coverage for our properties.

Although we maintain insurance that our management believes is customary and appropriate for our business, there can be no assurance that insurance will be available at reasonable costs in any given year or adequate to cover all losses and damage to which our business or our assets might be subjected. The lack of adequate insurance for certain types or levels of risk could expose us to significant losses in the event that a catastrophe occurred for which we are uninsured or under-insured. Any losses we incur that are not adequately covered by insurance may decrease our future operating income, require us to find replacements or repairs for destroyed property, and reduce the funds available for payments of our obligations.

Because of significant loss experience caused by hurricanes and other natural disasters over the last several years, a number of insurance companies have stopped writing insurance in Class 1 hurricane areas, including Mississippi. Others have significantly limited the amount of coverage they will write in these markets and increased the premiums

charged for this coverage. Additionally, uncertainty can occur as to the viability of certain insurance companies. While we believe that the insurance companies from which we have purchased insurance policies will remain solvent, there is no certainty that this will be the case.

We may face risks related to our ability to receive regulatory approvals required to complete certain acquisitions, mergers, joint ventures, and other developments, as well as other potential delays in completing certain transactions.

Our growth may be fueled, in part, by the acquisition of existing gaming and development properties. In addition to standard closing conditions, our material transactions, including but not limited to acquisitions, are often conditioned on the receipt of regulatory approvals and other hurdles that create uncertainty and could increase costs. Such delays could significantly reduce the benefits to us of such transactions and could have a material adverse effect on our business, financial condition and results of operations.

Insufficient or lower-than-expected results generated from our new developments and acquired properties may negatively affect our operating results and financial condition.

There can be no assurance that the revenues generated from our new developments and acquired properties will be sufficient to pay related expenses if and when these developments are completed; or, even if revenues are sufficient to pay expenses, that the new developments and acquired properties will yield an adequate return or any return on our significant investments. Our projects, if completed, may take significantly longer than we expect to generate returns, if any. Moreover, lower-than-expected results from the opening of a new facility may negatively affect our operating results and financial condition and may make it more difficult to raise capital.

Rising operating costs at our gaming properties could have a negative impact on our business.

The operating expenses associated with our gaming properties could increase due to, among other reasons, the following factors:

- changes in federal, state or local tax or regulations, including state gaming regulations or gaming taxes, could impose additional restrictions or increase our operating costs;
- aggressive marketing and promotional campaigns by our competitors for an extended period of time could force us to increase our expenditures for marketing and promotional campaigns in order to maintain our existing customer base or attract new customers;
- as our properties age, we may need to increase our expenditures for repairs, maintenance, and to replace equipment necessary to operate our business in amounts greater than what we have spent historically;
- an increase in the cost of health care benefits for our employees could have a negative impact on our financial results;
- our reliance on slot play revenues and any additional costs imposed on us from vendors;
- availability and cost of the many products and service we provide our customers, including food, beverages, retail items, entertainment, hotel rooms, spa and golf services;
- availability and costs associated with insurance;
- increase in costs of labor;
- our properties use significant amounts of electricity, natural gas and other forms of energy, and energy price increases may adversely affect our cost structure; and
- our properties use significant amounts of water, and a water shortage may adversely affect our operations.

If our operating expenses increase without any offsetting increase in our revenues, our results of operations would suffer.