CENTURY CASINOS INC /CO/
Form 10-Q
May 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

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 or organization)	(I.R.S. Employer Identification No.)

2860 South Circle Drive, Suite 350, Colorado Springs, Colorado 80906

(Address of principal executive offices, including zip code)

(719) 527-8300

(Registrant's telephone number, including area code)

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 þ 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 þ No ¨

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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

24,128,114 shares of common stock, $0.01 par value per share, were outstanding as of April 26, 2013.

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PART I – FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except for share and per share information	March 31, 2013	December 31, 2012
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 32,106	$ 24,747
Receivables, net	888	700
Prepaid expenses	573	608
Inventories	292	311
Other current assets	87	86
Deferred income taxes	224	83
Total current assets	34,170	26,535
Property and equipment, net	97,785	99,526
Goodwill	4,840	4,941
Equity investment	3,092	3,346
Deferred income taxes	2,021	2,145
Notes receivable	500	0
Other assets	546	582
Restricted cash	254	261
Total assets	$ 143,208	$ 137,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,173	$ 372
Accounts payable and accrued liabilities	6,596	6,379
Accrued payroll	2,273	2,806
Taxes payable	2,165	3,413
Deferred income taxes	101	101
Total current liabilities	12,308	13,071
Long-term debt, less current portion	9,446	3,192
Taxes payable	237	237
Deferred income taxes	2,610	2,680
Total liabilities	24,601	19,180
Commitments and Contingencies		

Shareholders' equity:		
Preferred stock; $0.01 par value; 20,000,000 shares authorized; no shares issued or outstanding	0	0
Common stock; $0.01 par value; 50,000,000 shares authorized; 24,243,926 shares issued; 24,128,114 shares outstanding	243	243
Additional paid-in capital	75,390	75,388
Accumulated other comprehensive earnings	3,356	4,569
Retained earnings	39,900	38,238
	118,889	118,438
Treasury stock – 115,812 shares at cost	(282)	(282)
Total shareholders' equity	118,607	118,156
Total liabilities and shareholders' equity	$ 143,208	$ 137,336

See notes to condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	For the three months ended March 31,	
Amounts in thousands, except for per share information	2013	2012
Operating revenue:		
Gaming	$ 15,696	$ 15,259
Hotel, bowling, food and beverage	3,252	3,321
Other	947	943
Gross revenue	19,895	19,523
Less: Promotional allowances	(1,904)	(1,954)
Net operating revenue	17,991	17,569
Operating costs and expenses:		
Gaming	6,932	7,233
Hotel, bowling, food and beverage	2,450	2,437
General and administrative	5,274	5,304
Depreciation	1,191	1,178
Total operating costs and expenses	15,847	16,152
Earnings from equity investment	(96)	155
Earnings from operations	2,048	1,572
Non-operating income (expense):		
Interest income	6	6
Interest expense	(82)	(148)
Gains (losses) on foreign currency transactions and other	7	(5)
Non-operating income (expense), net	(69)	(147)
Earnings before income taxes	1,979	1,425
Income tax provision	317	292
Net earnings	$ 1,662	$ 1,133
Earnings per share:		
Basic	$ 0.07	$ 0.05
Diluted	$ 0.07	$ 0.05
Number of shares - basic	24,128	23,877

Number of shares - diluted	24,154	24,011

See notes to condensed consolidated financial statements.

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CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (Unaudited)

	For the three months ended March 31,	
Amounts in thousands	2013	2012
Net earnings	$ 1,662	$ 1,133
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments	(1,213)	1,067
Other comprehensive income	(1,213)	1,067
Comprehensive earnings	$ 449	$ 2,200

See notes to condensed consolidated financial statements.

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CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Amounts in thousands	For the three months ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net earnings	$ 1,662	$ 1,133
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	1,191	1,178
Loss on disposition of fixed assets	1	6
Amortization of stock-based compensation	2	4
Amortization of deferred financing costs	21	24
Deferred tax expense	(88)	72
Earnings from equity investment	96	(155)
Changes in Operating Assets and Liabilities:		
Receivables	(195)	71
Prepaid expenses and other assets	28	(162)
Accounts payable and accrued liabilities	204	(696)
Inventories	9	(33)
Other operating assets	3	(42)
Accrued payroll	(518)	(58)
Taxes payable	(1,229)	(578)
Net cash provided by operating activities	1,187	764
Cash Flows used in Investing Activities:		
Purchases of property and equipment	(336)	(644)
Proceeds from disposition of assets	12	1
Funds advanced for projects	(500)	0
Net cash used in investing activities	(824)	(643)
Cash Flows used in Financing Activities:		
Proceeds from borrowings	7,249	0
Principal repayments	(60)	(2,511)
Net cash provided by (used in) financing activities	$ 7,189	$ (2,511)

See notes to condensed consolidated financial statements.

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CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (continued)

	For the three months ended March 31,	
Amounts in thousands	2013	2012
Effect of Exchange Rate Changes on Cash	($193)	$ 69
Increase (Decrease) in Cash and Cash Equivalents	$ 7,359	($2,321)
Cash and Cash Equivalents at Beginning of Period	$ 24,747	$ 25,192
Cash and Cash Equivalents at End of Period	$ 32,106	$ 22,871
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 62	$ 137
Income taxes paid	$ 745	$ 27

See notes to condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Century Casinos, Inc. (“CCI” or the “Company”) is an international casino entertainment company. As of March 31, 2013, the Company owned casino operations in North America, managed cruise ship-based casinos on international waters, and had a management contract to manage the casino in the Radisson Aruba Resort, Casino & Spa.

On April 8, 2013, the Company’s subsidiary Century Casinos Europe GmbH (“CCE”) signed the final share sale agreement with LOT Polish Airlines to complete the purchase of an additional 33.3% ownership interest in Casinos Poland Ltd (“CPL”). The Company now owns a 66.6% ownership interest in CPL.

The Company also continues to pursue other projects in various stages of development.

The accompanying condensed consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial reporting, the rules and regulations of the Securities and Exchange Commission which apply to interim financial statements and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. The accompanying condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated.

In the opinion of management, all adjustments considered necessary for fair presentation of financial position, results of operations and cash flows of the Company have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012. The results of operations for the period ended March 31, 2013 are not necessarily indicative of the operating results for the full year.

Presentation of Foreign Currency Amounts

Dollar amounts reported in this quarterly report are in U.S. dollars (“USD”) unless otherwise indicated. Transactions that are denominated in a foreign currency, which include the Canadian dollar (“CAD”), Euro (“€”) and Polish zloty (“PLN”) are translated and recorded at the exchange rate in effect on the date of the transaction. Commitments that are denominated in a foreign currency and all balance sheet accounts other than shareholders’ equity are translated and presented based on the exchange rate between such foreign currency and the U.S. dollar at the end of the reported periods. Current period transactions affecting the profit and loss of operations conducted in foreign currencies are valued at the average exchange rate between such foreign currency and the U.S. dollar for the period in which they are incurred.

The exchange rates to the U.S. dollar used to translate balances at the end of the reported periods are as follows:

Ending Rates	March 31 2013	December 31 2012	March 31 2012
Canadian dollar (CAD)	1.0156	0.9949	0.9991
Euros (€)	0.7787	0.7584	0.7500
Polish zloty (PLN)	3.2541	3.0996	3.1191

Source: Pacific Exchange Rate Service

The average exchange rates to the U.S. dollar used to translate balances during each reported period are as follows:

	For the three months ended March 31,		
Average Rates	2013	2012	% Change
Canadian dollar (CAD)	1.0084	1.0015	(0.7%)
Euros (€)	0.7574	0.7627	0.7%
Polish zloty (PLN)	3.1443	3.2268	2.6%

Source: Pacific Exchange Rate Service

2. EQUITY INVESTMENT

Following is the summarized financial information of CPL as of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012:

Amounts in thousands (in USD):	March 31, 2013	December 31, 2012
Balance Sheet:		
Current assets	$ 4,202	$ 4,716
Noncurrent assets	$ 14,480	$ 14,876
Current liabilities	$ 9,450	$ 9,697
Noncurrent liabilities	$ 2,147	$ 2,255

	For the three months ended March 31,	
	2013	2012
Operating Results		
Net operating revenue	$ 12,168	$ 10,445
Net earnings	($287)	$ 464

The Company's maximum exposure to losses at March 31, 2013 was $3.1 million, the value of its equity investment in CPL.

Changes in the carrying amount of the investment in CPL during the three months ended March 31, 2013 are as follows:

Amounts in thousands (in USD)	Total
Balance – January 1, 2013	$ 3,346
Equity earnings	(96)
Effect of foreign currency translation	(158)
Balance – March 31, 2013	$ 3,092

On April 8, 2013, CCE signed a final share sale agreement with LOT Polish Airlines to complete the purchase of an additional 33.3% ownership interest in CPL. The Company now owns a 66.6% ownership interest in CPL. As of the second quarter of 2013, the Company will begin consolidating CPL as a majority-owned subsidiary for which the Company has a controlling financial interest rather than reporting as an equity investment. The Company will account for and report the 33.3% Polish Airports ownership interest as a non-controlling financial interest.

3. GOODWILL

Changes in the carrying amount of goodwill related to our Edmonton property for the three months ended March 31, 2013 are as follows:

Amounts in thousands	
Balance – January 1, 2013	$ 4,941
Effect of foreign currency translation	(101)
Balance – March 31, 2013	$ 4,840

4. PROMOTIONAL ALLOWANCES

Hotel accommodations, bowling and food and beverage furnished without charge to customers are included in gross revenue at a value which approximates retail and are then deducted as complimentary services to arrive at net operating revenue.

The Company issues coupons for the purpose of generating future revenue. The cost of the coupons redeemed is applied against the revenue generated on the day of the redemption. In addition, members of the Company’s casinos’ player clubs earn points based on, among other things, their volume of play at the Company’s casinos. Players can accumulate points over time that they may redeem at their discretion under the terms of the program. Points can be redeemed for cash and/or various amenities at the casino, such as meals, hotel stays and gift shop items. The cost of the points is offset against the revenue in the period in which the points were earned. The value of unused or unredeemed points is included in accounts payable and accrued liabilities on the Company’s condensed consolidated balance sheets. The expiration of unused points results in a reduction of the liability. As of March 31, 2013 and 2012, the outstanding balance of this liability was $1.0 million.

Promotional allowances presented in the condensed consolidated statements of earnings include the following:

	For the three months ended March 31	
	2013	2012
Amounts in thousands		
	$	$
Hotel, bowling, food & beverage	888	914
Coupons	517	454
Player points	499	586
Total promotional allowances	$ 1,904	$ 1,954

5. LONG-TERM DEBT

On May 23, 2012, the Company through its Canadian subsidiaries entered into a CAD 28.0 million ($27.5 million) credit agreement with the Bank of Montreal (the “BMO Credit Agreement”). Proceeds from the BMO Credit Agreement were used to repay the Company’s mortgage loan related to the Edmonton property (the “Edmonton Mortgage”). The company will also use the proceeds to pursue the development or acquisition of new gaming opportunities and for general corporate purposes. The BMO Credit Agreement has a term of five years and is guaranteed by the Company. On May 23, 2012, we borrowed $3.7 million to repay the Edmonton Mortgage. On February 21, 2013, we borrowed an additional $7.3 million to pay for the additional 33.3% investment in CPL. The BMO Credit Agreement contains a number of financial covenants applicable to the Canadian subsidiaries, in addition to covenants restricting their incurrence of additional debt. The Company was in compliance with all covenants of the BMO Credit Agreement as of March 31, 2013. As of March 31, 2013, the amount outstanding was $10.6 million and we had approximately $14.9 million available under the BMO Credit Agreement. The $10.6 million we have borrowed cannot be re-borrowed once it is repaid.

Long-term debt at March 31, 2013 and December 31, 2012 consisted of the following:

Amounts in thousands	March 31, 2013	December 31, 2012
Credit Agreement - Bank of Montreal	$ 10,619	$ 3,564
Total long-term debt	$ 10,619	$ 3,564
Less current portion	($1,173)	($372)
Long-term portion	$ 9,446	$ 3,192

Deferred financing charges, which are reported as a component of other assets, are summarized as follows:

Credit agreement - Bank of Montreal Amounts in thousands	March 31, 2013	December 31, 2012
	$	$
Deferred financing charges - current	83	85
Deferred financing charges - long-term	261	288
Total	$ 344	$ 373

Amortization expenses relating to deferred financing charges was less than $0.1 million for the three months ended March 31, 2013 and 2012, respectively, and are included in interest expense in the accompanying condensed consolidated statements of earnings.

The consolidated weighted average interest rate on all borrowings for the Company was 4.25% for the three months ended March 31, 2013. The Company currently pays a floating interest rate on its borrowings under the BMO Credit Agreement. The current interest rate is approximately 4.0%.

As of March 31, 2013, scheduled maturities of the long-term debt are as follows:

Amounts in thousands	CAD	USD
2013	1,192	1,173
2014	1,100	1,083
2015	1,100	1,083
2016	1,100	1,083
2017 and thereafter	6,293	6,197
Total	$ 10,785	$ 10,619

6. FINANCING ARRANGEMENTS

Calgary

On November 30, 2012, CCE signed credit and management agreements with United Horsemen of Alberta Inc. (“UHA”) in connection with the development of a proposed Racing Entertainment Center (“REC”) in Balzac, north metropolitan area of Calgary, Alberta, Canada. We would manage the REC upon completion. Both the credit and management agreements are subject to development approvals and licensing from the Alberta Gaming and Liquor Commission (“AGLC”) as discussed below.

The REC project is subject to development approvals and licensing from the AGLC. UHA and CCE have submitted the relevant applications, but there is no assurance that the needed approvals will be obtained or as to the timing of such approvals. Horse Racing Alberta, the governing authority for horseracing in Alberta, has already approved the REC project and issued a license. We anticipate that the REC would be completed 12 to 18 months following completion of the approval process. There is no assurance that the needed approvals will be obtained or as to the timing of such approvals.

CCE has agreed to loan to UHA up to CAD 13 million ($13 million) for the exclusive use of developing the REC project. The loan has an interest rate of LIBOR plus 800 basis points and a term of five years and is convertible at CCE’s option once the project becomes operational into an ownership position in UHA of up to 60%. The loan is secured by a leasehold mortgage on the REC property and a pledge of UHA's stock by the majority of UHA shareholders. We intend to fund the loan with borrowings under our BMO Credit Agreement. We have paid $0.1 million in deferred financing costs related to legal fees incurred for the UHA loan. In addition, we have placed $0.3 million in escrow related to the UHA loan. No amounts have been advanced as of March 31, 2013. Once the REC is developed and operational and for as long as CCE has not converted the UHA loan into a majority ownership position in UHA, CCE will receive 60% of UHA's net profit before tax as a management fee.

Since the agreements between UHA and CCE were entered into, litigation was brought by another party against UHA relating to prior business arrangements between that party and UHA. CCE is not a party to the litigation and is presently considering its position and alternative strategies to address this situation.

Southeast Asia

On February 5, 2013, the Company signed a credit agreement and loaned $0.5 million to an Asian company in connection with a proposed casino project in Southeast Asia. The project consists of developing a casino with 30 gaming tables, 100 slot machines and other facilities. The credit agreement makes available to the borrower up to a maximum of $1.1 million on a non-revolving basis. The credit agreement has an interest rate of LIBOR plus 8% and a term of 3 years. Interest is payable quarterly with the first payment due on June 30, 2013. Principal payments are payable quarterly with the first payment due on June 30, 2014. The $0.5 million loan is included in notes receivable on the condensed consolidated balance sheets. The Company is currently completing due diligence on the project.

7. INCOME TAXES

The Company records deferred tax assets and liabilities based on the difference between the financial statement and income tax basis of assets and liabilities using the enacted statutory tax rate in effect for the year these differences are expected to be taxable or reversed. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period. The recorded deferred tax assets are reviewed for impairment on a quarterly basis by reviewing the Company's internal estimates for future taxable income.

As of March 31, 2013, the Company had a valuation allowance for its U.S. deferred tax assets of $5.0 million, a $0.9 million valuation allowance on its Calgary property and a $0.9 million valuation allowance on the CCE deferred tax assets due to the uncertainty of future taxable income. The Company assesses the continuing need for a valuation allowance that results from uncertainty regarding its ability to realize the benefits of the Company's deferred tax assets. The ultimate realization of deferred income tax assets depends on generation of future taxable income during the periods in which those temporary differences become deductible. If the Company concludes that its prospects for the realization of its deferred tax assets changes, the Company will then adjust its valuation allowance as appropriate after considering the following factors:

- The level of historical taxable income and projections for future taxable income over periods in which the deferred tax assets would be deductible;
- Accumulation of net income before tax utilizing a look-back period of three years, and
- Implementation of all tax planning strategies.

The Company's provision for income taxes from operations consists of the following:

	For the three months ended March 31,	
Amounts in thousands	2013	2012
	$	
U.S. Federal - Current	0	($19)
U.S. Federal - Deferred	0	0
Provision for U.S. federal income taxes	0	