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

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**FORM 10-K**

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

For the fiscal year ended December 31, 2014

Commission File Number 000-54085

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**Affinity Gaming**

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Nevada

State of Incorporation

02-0815199

IRS Employer Identification Number

3755 Breakthrough Way, Suite 300  
Las Vegas, Nevada 89135

Address, including zip code, of principal executive offices

702-341-2400

Registrant's telephone number, including area code

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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.001 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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.

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

Non-accelerated filer

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

As of June 30, 2014, the aggregate market value of voting and non-voting common equity held by non-affiliates of Affinity Gaming could not be calculated as no established public trading market for our equity exists.

**Applicable only to registrants involved in bankruptcy proceedings during the preceding five years**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

No established public trading market for our common stock currently exists. As of March 27, 2015, 20,320,464 shares of our common stock were outstanding.

**Documents Incorporated By Reference**

Information required by Part III of this Annual Report on Form 10-K is incorporated by reference to portions of our definitive proxy statement for our 2014 annual meeting of stockholders which we will file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2014.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. You can identify forward-looking statements by words such as “anticipates,” “intends,” “plans,” “seeks,” “believes,” “estimates,” “expects,” “projects,” “may,” “will” or “should,” or the negative or other variation of these or similar words, or by discussions of strategy or risks and uncertainties, and similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements we make regarding:

- our ability to attract and retain customers;
- our expectation that customers will continue to face economic uncertainty and that their discretionary spending will remain at reduced levels in the near term;
- expectations regarding the operation of slot machines and table games at our casino properties;
- our anticipation that growth will come from the improvement and expansion of our existing properties and through strategic acquisitions;
- our ability to stabilize or improve cash flows from our properties by making project investments;
- implementation of business initiatives, including mobile gaming, our player loyalty club and “A-Play” card, rebranding away from the “Terrible’s” trade name and our ability to leverage business intelligence;
- implementation and results of key cost controls and expense savings programs, including player loyalty club points refinements, minimum balances for redemptions, energy efficiency projects and outsourcing restaurants to strategically-branded third parties;
- competition, including our casinos’ competitive advantages, the threat of new market entrants in our existing locations, increases in popularity of internet gambling, the potential issuance of additional gaming licenses in Midwest Markets and potential introduction of video lottery terminals in Colorado;
- potential imposition by state and local licensing authorities of limits, conditions or suspension of gambling or liquor licenses for violations of laws or regulations;
- the potential need to make additional expenditures to remain in, or to achieve, compliance with environmental laws;
- the impact of new laws or regulations, or material differences in interpretations by courts or governmental authorities;

- estimated and projected costs, capital expenditures and expense savings;
- the adequacy of cash flows from operations, available cash and available amounts under our credit facility to meet future liquidity needs; and
- our continued viability, our operations and results of operations.

We base these and other forward-looking statements on our current expectations and assumptions regarding our business, the economy and other future conditions; however, our actual results may differ materially from those contemplated by the forward-looking statements. We caution you, therefore, that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. Forward-looking statements, which by their nature relate to the future, are subject to inherent uncertainties, risks and changes in circumstances which we cannot easily predict. Important factors that could cause actual results to differ materially and adversely from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions, as well as the following:

- our debt service requirements which may adversely affect our operations and ability to react to changes in our business;
- our ability to generate cash to service our substantial indebtedness which depend on many factors that we cannot control;
- the impact of restrictions under, and results of noncompliance with, the terms of our credit agreement;
- inherent construction project risks may hinder expansion and renovation projects;
- rising gasoline prices;
- intense competition;
- extensive regulation from gaming and other government authorities;
- changes to applicable gaming and tax laws;
- severe weather conditions and other natural disasters that affect visitation to our casinos;
- environmental contamination and remediation costs;
- pending and potential litigation;

- reductions in spending as a result of economic downturns and other factors;
- changes in income tax, payroll tax and health care benefits laws;
- additional gaming licenses being granted in or adjacent to jurisdictions where we operate;
- breaches of our information systems resulting in loss or compromise of customer data;
- changes in the smoking laws; and
- other factors as described in “Risk Factors” of this Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”).

Any forward-looking statement made by us in this report speaks only as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

## **PART I**

### **ITEM 1. BUSINESS.**

#### **OUR COMPANY**

We are a Nevada corporation, headquartered in Las Vegas, which owns and operates 11 casinos in four states—five in Nevada, three in Colorado, two in Missouri and one in Iowa. In addition to our diverse, multi-jurisdictional casino operations, we provide consulting services to the operator of the Rampart Casino at the JW Marriott Resort in Las Vegas, for which we receive a fixed monthly fee and are eligible to receive a percentage of revenue in excess of specified thresholds. That consulting arrangement expires April 1, 2015.

On December 20, 2012, we converted Affinity Gaming, LLC from a Nevada limited liability company into a Nevada corporation (the “Conversion”), and for purposes of Rule 12g-3(a), we are the successor issuer to Affinity Gaming, LLC. In relation to our emergence from Chapter 11 bankruptcy proceedings on December 31, 2010 we use the term “Successor” to refer to Affinity Gaming and the term “Predecessor” to refer to Herbst Gaming, Inc. and its subsidiaries. Each of these transactions is described further in our previous filings with the U.S. Securities and Exchange Commission.

#### **OUR BUSINESS STRATEGY**

We focus on earning the loyalty of our patrons, primarily local, value-oriented gaming customers who gamble frequently. Because such patrons represent a high potential for repeat visits, generating customer satisfaction and loyalty is a critical component of our strategy. We also cater to the drive-in tourist patrons whom we can entice to repeat their visits.

Local patrons are typically sophisticated gaming customers who seek convenient locations, high payouts, a good meal and a pleasant atmosphere. Although perceived value initially attracts a customer to our casino properties, actual value generates customer satisfaction and loyalty. We therefore seek to provide attentive customer service in a friendly, casual atmosphere, recognizing that consistent quality and a comfortable atmosphere stem from the collective care and friendliness of each employee.

During 2012 and the first month of 2013, we divested of a slot machine route operation and six Nevada casinos, while acquiring three casinos in Black Hawk, Colorado. Also in 2013, we closed Henderson Casino Bowl in Henderson, Nevada which was unprofitable. These acquisition and disposition transactions were consistent with our long-term strategic vision.

We anticipate that our growth will come from the improvement and expansion of our existing properties and through strategic acquisitions. Our key focus remains on expanding the operating margins of our existing properties through a combination of top-line revenue growth and stringent expense management. We continuously review the operating performance of each of our existing properties to assess the feasibility of enhancing their performance through targeted marketing campaigns designed to competitively reward our repeat customers and expense management programs. We also assess growth opportunities through capital investments in our properties. In doing so, we analyze the anticipated relative costs and benefits of the projects or capital expenditures under consideration against the availability of cash flows generated through operations and available debt financing along with competitive and other relevant factors.

## OUR PROPERTIES

### Casino Operations

The majority of our casino properties focus on local customers, with an emphasis on slot machine play. The following table summarizes our casino operations as of December 31, 2014:

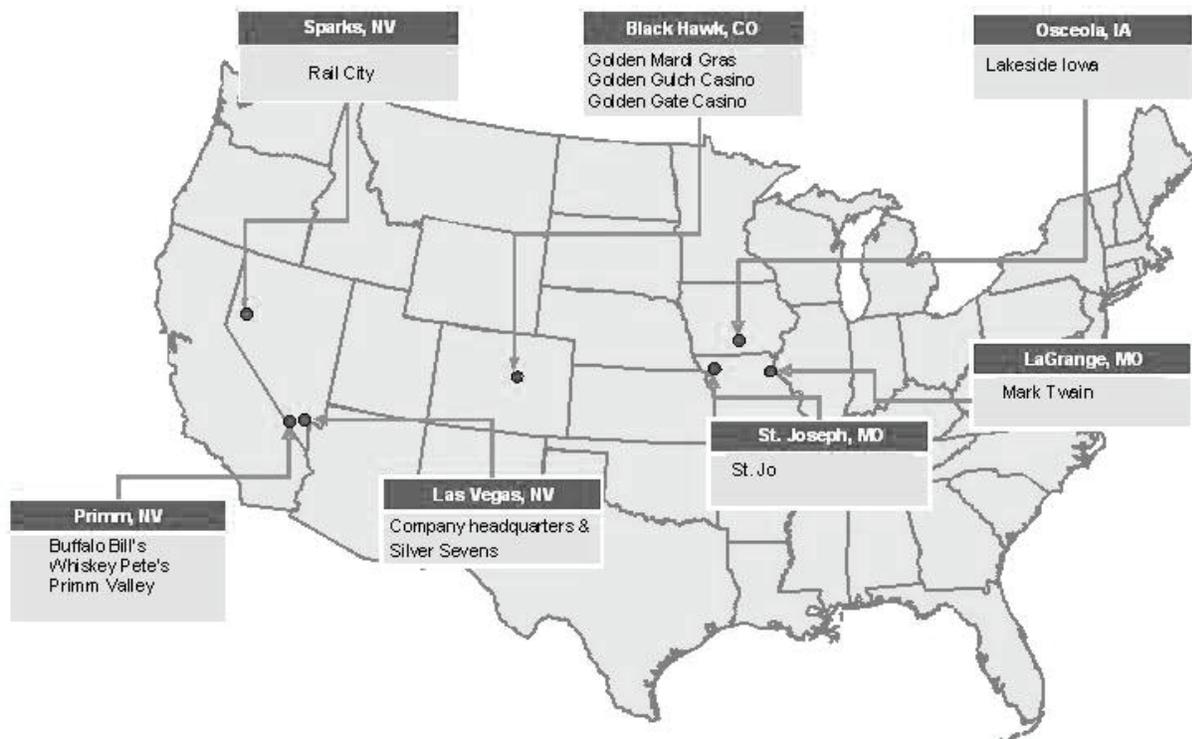
<b>Property</b>	<b>Location</b>	<b>Year Built<sup>1</sup></b>	<b>Gaming Square Feet</b>	<b>Slots</b>	<b>Table Games</b>	<b>Hotel Rooms</b>	<b>Additional Gaming Information</b>
<b>Nevada</b>							
Silver Sevens	Las Vegas	2006	25,000	834	8	327	Race and sports book; bingo; poker
Primm Valley	Primm	1990	38,000	789	26	626	Race and sports book; California lottery store
Buffalo Bill's	Primm	1994	62,000	888	28	1,243	Race and sports book
Whiskey Pete's	Primm	1977	36,000	562	10	779	Sports betting kiosk
Rail City	Sparks	2007	24,000	887	7	—	Sports book; keno
Total Nevada			<u>185,000</u>	<u>3,960</u>	<u>79</u>	<u>2,975</u>	
<b>Midwest</b>							
St Jo Frontier	St. Joseph, MO	2005	13,000	574	10	—	
Mark Twain <sup>2</sup>	LaGrange, MO	2001	18,000	650	12	—	
Lakeside <sup>2,3</sup>	Osceola, IA	2005	36,000	1,009	13	150	
Total Midwest			<u>67,000</u>	<u>2,233</u>	<u>35</u>	<u>150</u>	
<b>Colorado</b>							
Black Hawk Casinos	Black Hawk, CO	<sup>4</sup>	36,391	1,125	19	—	Poker
<b>Total</b>			<b><u>288,391</u></b>	<b><u>7,318</u></b>	<b><u>133</u></b>	<b><u>3,125</u></b>	

(1) This column presents the year the property was built or most recently remodeled.

(2) Mark Twain and Lakeside also have 8 and 47 RV spaces, respectively.

(3) In 2012, Lakeside expanded from 60 to 150 hotel rooms.

(4) Golden Mardi Gras Casino, Golden Gulch Casino and Golden Gate Casino were built or remodeled in 2000, 2003 and 1992, respectively.



## Nevada Casinos

### *Silver Sevens*

Silver Sevens Hotel & Casino in Las Vegas, Nevada (“Silver Sevens”), formerly known as Terrible’s Hotel & Casino, has approximately 25,000 square feet of gaming space with 834 slot machines, eight table games, a race and sports book operated by a third party, a 195-seat bingo facility, a buffet and a 24-hour café. The property currently operates 327 hotel rooms with standard amenities. Silver Sevens is conveniently located approximately one mile east of the Las Vegas Strip, which we believe appeals to locals who wish to avoid the congestion of the Strip. Silver Sevens’ favorable location also has made it popular with Strip casino employees. Although not a tourist destination due to the limited number of rooms, the property receives some tourist traffic through the casino due to its proximity to the airport, the Las Vegas Strip, the University of Nevada - Las Vegas and the Las Vegas Convention Center.

### *Primm Casinos*

Affinity Gaming owns the improvements and leases the real estate on which Primm Valley Resort & Casino (“Primm Valley”), Buffalo Bill’s Resort & Casino (“Buffalo Bill’s”) and Whiskey Pete’s Hotel & Casino (“Whiskey Pete’s” and together with Primm Valley and Buffalo Bill’s, the “Primm Casinos”) are located in Primm, Nevada. Primm is on the Nevada-California state line along Interstate 15, the major interstate route between Los Angeles and Las Vegas. The Primm Casinos collectively own and manage three gas station/convenience stores, which include two Starbucks Coffee outlets and other nationally-known quick-serve restaurants, as well as one California Lottery store. Two 18-hole, Tom Fazio-designed golf courses with a full-service restaurant and club house, leased and managed by a third-party, are located nearby.

**Primm Valley.** Primm Valley offers approximately 38,000 square feet of gaming space, with 789 slot machines, 26 table games and a race and sports book operated by a third party. Additionally, Primm Valley has a 626-room hotel and 21,000 square feet of convention space. Primm Valley has a full-service coffee shop operated by a third party, an Original House of Pancakes, a buffet and the GP Steakhouse. The resort has a swimming pool and a 13,000 square foot full-service spa. Primm Valley is connected to the “Fashion Outlets of Las Vegas,” a retail complex owned by a third party which houses over 100 designer outlet stores, including a Neiman Marcus “Last Call,” a Williams Sonoma Outlet store, Coach, Tommy Bahama, Banana Republic and Versace factory outlet stores. A Chevron gas station and convenience store is also located on site.

**Buffalo Bill's.** Buffalo Bill's offers approximately 62,000 square feet of gaming space, with 888 slot machines, 28 table games and a race and sports book operated by a third party. In addition to a 1,243 room hotel, Buffalo Bill's has a Denny's operated by a third party, a buffet and a Mexican restaurant. The western-themed property also has extensive entertainment amenities, including the 6,800 seat "Star of the Desert" arena, which features a variety of entertainment throughout the year. Buffalo Bill's has a roller coaster as well as water park log rides, a pool, a movie theater and a midway-style arcade.

**Whiskey Pete's.** Whiskey Pete's offers approximately 36,000 square feet of gaming space, with 562 slot machines, 10 table games and two full service bars. Additionally, Whiskey Pete's has a 779-room hotel, a travel center branded with Flying J diesel fuel and Chevron gasoline, a full service coffee shop operated by a third party, a weekend buffet, a McDonald's restaurant, an International House of Pancakes, an 8,000 square foot special events and concert venue with 650 seats, and a swimming pool.

### *Rail City*

Rail City Casino in Sparks, Nevada ("Rail City") has approximately 24,000 square feet of gaming space housing 887 slot machines, seven table games, keno, a sports book operated by a third party, a 24-hour family-style restaurant and an ale house and brew pub.

## **Midwest Casinos**

### *St Jo*

The St Jo Frontier Casino ("St Jo"), a riverboat casino located in a man-made basin adjacent to the Missouri River in St. Joseph, Missouri, offers approximately 13,000 square feet of gaming space, with 574 slot machines and 10 table games. St Jo also has a coffee-shop-style restaurant/buffet and lounge, as well as 2,400 total square feet of conference and meeting space. The casino and its amenities have a locally-popular western theme based on St. Joseph's heritage as the founding location and headquarters of the Pony Express. St Jo owns 54 acres of land, 32 acres of which are undeveloped.

### *Mark Twain*

Mark Twain Casino ("Mark Twain"), a riverboat casino located in a man-made basin adjacent to the Mississippi River in LaGrange, Missouri, offers approximately 18,000 square feet of gaming space, with 650 slot machines and 12 table games, as well as eight RV parking spots. Mark Twain also has a coffee shop style restaurant/bar and an additional bar in the casino. The casino has a locally popular theme based on Mark Twain, who grew up in and wrote about nearby Hannibal, Missouri.

### *Lakeside*

Lakeside Casino Resort ("Lakeside"), a riverboat casino located on West Lake in Osceola, Iowa, 40 miles southwest of Des Moines, offers approximately 36,000 square feet of gaming space, with 1,009 slot machines and 13 table games. Lakeside also offers a 150-room hotel, 10,000 square feet of conference and meeting facilities that may also be used for concerts, a fitness center, an outdoor concert/entertainment venue, an indoor pool and a gift shop. In addition, Lakeside has a coffee-shop-style restaurant/buffet and lounge located in the main lobby, two bars located in the casino, a convenience store and a Pilot truck stop and gas station located adjacent to the casino, and 47 RV spaces with utility hookups. Lakeside owns 109 acres of land, 75 acres of which are undeveloped.

## **Black Hawk Casinos**

The Golden Mardi Gras Casino, Golden Gates Casino and Golden Gulch Casino together, the ("Black Hawk Casinos") are located in close proximity to one another along a half-mile strip of casino and casino-hotel properties in the historic mining

town of Black Hawk, Colorado. The Black Hawk Casinos collectively offer approximately 36,391 square feet of gaming space, with 1,125 slot machines, 19 table games and 17 live poker games, as well as three restaurants, four bars, a Dunkin' Donuts kiosk and one of the only parking garages in the market, offering 693 spaces. The casinos are well-positioned within the market with their large parking garage located in the center of the main gaming district at a key intersection between other properties.

## **COMPETITION**

### **Nevada Market**

Silver Sevens primarily competes for local gaming customers with other locals-oriented casino/hotels in Las Vegas. Although Silver Sevens does not directly compete with many of the large resort/casino properties on the Las Vegas Strip, which focus primarily on attracting tourist players, we do believe Silver Sevens competes with the smaller, value-oriented Strip hotel/casino properties. Silver Sevens competes on the basis of desirability of location; payout rates; a more personalized approach to customer service; casino promotions; the availability, comfort and value of restaurants and hotel rooms; and the variety and value of entertainment.

Our properties in Primm compete for value-oriented customers with casinos in the Las Vegas market and outside of the Las Vegas market in places like Henderson, Jean, Laughlin and Mesquite, Nevada. The Primm casinos also compete with Native American properties in Southern California, which have become an increasingly attractive alternative for customers seeking Las Vegas style casinos. Our Primm casinos rely heavily upon the number of customers they can draw from Interstate 15, which stretches between Las Vegas, Nevada and Los Angeles, California. We compete with other gaming companies as well as other hospitality companies which provide accommodations and amenities for leisure and business travelers. In many cases, our competitors have greater name recognition and financial resources to reinvest in their properties; they offer similar restaurant, entertainment and other amenities and they target the same demographic group we target. The proximity of Native American casinos to our Primm properties, including the threat of new market entrants in areas such as Barstow, California, could significantly impact our business.

The Reno/Sparks market is characterized by intense competition among casinos. Rail City operates in the Reno/Sparks market, and it must compete for local gaming customers with other locals-oriented casinos, casino/hotels and with Native American gaming operations in Northern California. In addition, a new competitor recently opened in Sparks, further adding to the competition. Many of our direct competitors in the Reno market have greater financial and other resources than we do.

Our Nevada properties face increased competition from online poker services in Nevada, including mobile gaming applications for smart phones and tablet computers, which allow customers to wager via the Internet. In February 2013, Nevada, the first state in the U.S. to legalize online poker on an intrastate basis, expanded its existing interactive gaming laws which permit and regulate online gambling. Nevada's current interactive gaming laws allow the State to enter into agreements with other states which authorize online poker to increase player liquidity by facilitating games between players located inside and outside Nevada, and in February 2014, Delaware and Nevada entered into the first such agreement. The law in this area has been rapidly evolving and additional legislative developments, in Nevada and elsewhere, may accelerate the proliferation in Nevada and throughout the United States of certain forms of online gambling, including, but not limited to, poker. In addition, many of our competitors in the Nevada market have greater financial resources than we do and have already applied or been approved for interactive gaming licenses in Nevada to provide online poker services. Increases in the popularity of and competition from such services could negatively impact our results of operations and financial condition.

### **Midwest Market**

Each of Lakeside, Mark Twain and St Jo competes for local gaming customers with other casinos in their respective markets.

Lakeside is located along Interstate 35, approximately 40 miles southwest of Des Moines, Iowa. Its primary competitors are the Prairie Meadows Casino, the Riverside Casino and Golf Resort and the Meskwaki Bingo Casino Hotel. The Prairie Meadows Casino is located in the Altoona/Des Moines market approximately 60 miles from Lakeside, and approximately 10 miles northeast of Des Moines. Riverside Casino and Golf Resort is located in Riverside, Iowa, approximately 175 miles from Osceola. The Meskwaki Bingo Casino Hotel is located in Tama, Iowa and is approximately 110 miles from Lakeside. In

August 2015, a new Casino and Hotel will open in Jefferson, Iowa, approximately 62 miles from Lakeside, northwest of Des Moines.

Mark Twain, in LaGrange, Missouri, is the only casino in northeast Missouri and is approximately 15 miles from Quincy, Illinois and approximately 25 miles from Hannibal, Missouri. The closest casino to Mark Twain is the Catfish Bend Casino, located in Burlington, Iowa, which is approximately 75 miles from LaGrange. To a lesser extent, Mark Twain also competes with gaming operation in the St. Louis, Missouri market. Illinois has approved the addition of video lottery terminals (“VLTs”) in bars throughout the state. The competition and potential expansion of VLTs in Illinois could adversely affect the results of operations at Mark Twain.

St Jo is approximately 50 miles north of Kansas City, Missouri. St Jo primarily targets residents of St. Joseph, Missouri and is the only casino in St. Joseph. However, St Jo competes indirectly with five casinos in and around Kansas City, Missouri. To a lesser extent, St Jo also competes with several Native American casinos, the closest of which is approximately 45 miles from St. Joseph.

Certain states have recently legalized, and other states are considering legalizing, casino gaming in certain areas. In addition, states such as Illinois and Kansas have awarded additional gaming licenses or are considering expanding permitted gaming. The award of one or more additional licenses in Iowa or in other locations close to Lakeside, Mark Twain or St Jo would be expected to adversely affect our results of operations and financial condition.

## **Colorado Market**

Our Black Hawk casinos compete with approximately 25 other gaming operations located in the Black Hawk/Central City gaming market. The Black Hawk/Central City gaming market is insulated from other casino gaming markets, with no casinos within 50 miles. In the past, proposals have been made for the development of Native American, racetrack and video lottery terminal casinos throughout the state. Neither the state’s electorate nor the state’s legislature has adopted any of these proposals. Most recently, in March 2014, a ballot initiative was introduced in Colorado to amend the Colorado state constitution to allow VLTs at exclusive locations which include an existing racetrack in Arapahoe County and race tracks to be constructed in Pueblo and Mesa counties, and to allow expanded gaming, including table games, at those facilities. In each case, the number of VLTs in the facility would have been at least 2,500, and use of the VLT’s would have commenced no later than November 1, 2015. Arapahoe, Pueblo and Mesa counties are each suburbs of Denver, the key feeder market for the Black Hawk/Central City gaming market. The initiative was soundly defeated by Colorado voters in November 2014. Any form of additional gaming authorized in the Denver metropolitan area would adversely affect the Black Hawk Casinos.

## **INTELLECTUAL PROPERTY**

The development of intellectual property is part of our overall business strategy, and we regard our intellectual property as an important element of our success. While our business as a whole is not substantially dependent on any one mark or combination of our marks or other intellectual property, we seek to establish and maintain our proprietary rights in our business operations and technology through the use of trademarks and trade secret laws. We file applications for and obtain patents, copyrights and trademarks in the United States. We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality agreements.

We own or have applied for, among others, the following registered trademarks and respective design logos: “Affinity Gaming,” “Silver Sevens,” “Buffalo Bill’s Resort & Casino,” “A-Play,” “Desperado,” “Primm Center,” “Primm Valley Casino Resorts,” “Primm Valley Lotto Store,” “Primm Valley Resort & Casino,” “Star of the Desert Arena,” “Whiskey Pete’s,” “Whiskey Pete’s Hotel Casino,” “Rail City,” “Rail City Ale House,” “Golden Mardi Gras Casino,” “Golden Gates Casino,” and “Golden Gulch Casino.”

We consider all of these marks, and the associated name recognition, to be valuable to our business, and we are not aware of any third party claims against the use or registration of our trademarks at this time.

## **SEASONALITY**

Our casinos in Northern Nevada, the Midwest and Colorado experience extreme weather conditions that interrupt our operations. Additionally, our casinos in Missouri are subject to flooding depending on the water levels of the Missouri and Mississippi Rivers. Snow and other adverse weather resulted in a significant number of days with lost or reduced business at our Midwest and Colorado properties during the winter of 2013-2014. If there is a prolonged disruption at any of our properties or if there are a disproportionate number of weekends affected by extreme weather, our results of operations and financial condition could be materially adversely affected.

## **ENVIRONMENTAL LAWS**

During the excavation phase at the site of our new travel center in Primm, Nevada, we encountered several contaminated sites on the property which required soil remediation and groundwater testing. Much of the contamination resulted from underground fuel storage tanks which served a gas station operated more than 30 years ago, as well as from abandoned underground fuel lines. We also began testing at the direction of the Nevada Division of Environmental Protection to determine the extent to which the contamination has affected the groundwater, and we have agreed to continue monitoring the groundwater for a period of at least three years.

Through December 31, 2014, we have incurred approximately \$3.8 million on remediation work at the Whiskey Pete's site. We have an insurance policy which provides coverage for environmental remediation costs of up to \$5.0 million. We received \$1.0 million from our insurer in 2013, and \$0.6 million in 2014. Additionally, we may be required to make additional expenditures to remain in, or to achieve, compliance with environmental laws in the future and such expenditures may be material.

## **GOVERNMENTAL 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 where 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. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions.

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, tobacco, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. 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.

### **Nevada**

The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and the regulations promulgated thereunder, or the Nevada Act, and various local regulations.

Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board, the Clark County Liquor and Gaming Licensing Board, and other local regulatory authorities (collectively, the "Nevada Gaming Authorities").

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy which are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;

- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenue, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenue through taxation and licensing fees.

Any changes in Nevada’s gaming and liquor laws, regulations and procedures could have an adverse effect on our gaming operations in Nevada.

The Nevada Gaming Authorities require entities which operate casinos in Nevada to obtain a gaming license, which requires the periodic payment of fees and taxes and is not transferable. Affinity Gaming is registered by the Nevada Gaming Commission as a publicly-traded corporation (a “registered corporation”). As a registered corporation, we are required periodically to submit detailed financial and operating reports to the Nevada Gaming Commission and furnish any other information which the Nevada Gaming Commission may require. The Nevada Gaming Commission found Affinity Gaming suitable to own the membership interests of various licensed limited liability companies which own and operate casinos licensed by the Nevada Gaming Commission (all of which are collectively referred to as the “Gaming Subsidiaries”). No person may become a member of, or receive any percentage of the profits from, any of the Gaming Subsidiaries without first registering with or obtaining licenses and approvals from the Nevada Gaming Authorities. Additionally, the Clark County Liquor and Gaming License Board, which has jurisdiction over four of our five Nevada casinos, has taken the position that it has the authority to approve all persons owning or controlling the stock of any entity controlling a gaming license. Affinity Gaming and all of its Gaming Subsidiaries have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required to engage in the various gaming businesses which each respectively operates in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Affinity Gaming or any of the Gaming Subsidiaries to determine whether such individual is suitable or should be licensed as a business associate of a gaming license. Officers, directors, managers and certain key employees of Affinity Gaming or any of the Gaming Subsidiaries must file applications with the Nevada Gaming Authorities and are required to be licensed by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. Either the applicant or the gaming licensee with whom the applicant is employed or for whom the applicant serves bears all costs associated with the license, including investigative fees. Changes in licensed positions must be reported to the Nevada Gaming Authorities and, in addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities have jurisdiction to disapprove any change in corporate position.

If the Nevada Gaming Authorities were to find an officer, director, manager or key employee unsuitable for licensing or unsuitable to continue having a relationship with us, we would have to sever all relationships with that person. In addition, the Nevada Gaming Commission may require us to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

Affinity Gaming and the Gaming Subsidiaries are required to submit detailed financial and operating reports to the Nevada Gaming Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by Affinity Gaming and its Gaming Subsidiaries must be reported to and/or approved by the Nevada Gaming Commission.

If it were determined that Affinity Gaming or any of its Gaming Subsidiaries violated the Nevada gaming laws, our gaming licenses and registrations with the Nevada Gaming Commission could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, Affinity Gaming, the Gaming Subsidiaries and the persons involved could be subject to substantial fines for each separate violation of the Nevada laws at the discretion of the Nevada Gaming Commission. Further, the Nevada Gaming Commission could appoint a supervisor to operate our gaming properties and, under certain circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of our gaming properties) could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any

gaming license or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect our operations.

Any beneficial holder of Affinity Gaming's voting or non-voting securities, regardless of the number of shares owned, may be required to file an application, be investigated and have his or her suitability as a beneficial holder of Affinity Gaming's voting or non-voting securities determined if the Nevada Gaming Commission has reason to believe that such ownership would be inconsistent with the declared policies of the State of Nevada. If such beneficial holder who must be found suitable is a corporation, limited liability company, partnership or trust, it must submit detailed business and financial information including a list of its beneficial owners. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in connection with conducting such investigation.

The Nevada Act requires any person who acquires more than 5% of a registered corporation's voting securities to report the acquisition to the Nevada Gaming Commission. The Nevada Act requires beneficial owners of more than 10% of a registered corporation's voting securities apply to the Nevada Gaming Commission for a finding of suitability within 30 days after the Chairman of the Nevada State Gaming Control Board mails the written notice requiring such filing. However, an "institutional investor," as defined in the Nevada Act, which beneficially owns more than 10%, but not more than 11%, of a registered corporation's voting securities as a result of a stock repurchase by the registered corporation may not be required to file such an application. Further, an institutional investor which acquires more than 10%, but not more than 25%, of a registered corporation's voting securities may apply to the Nevada Gaming Commission for a waiver of a finding of suitability if that institutional investor holds the voting securities for investment purposes only. An institutional investor which has obtained a waiver may hold more than 25%, but not more than 29%, of a registered corporation's voting securities and maintain its waiver if the additional ownership results from a stock repurchase by the registered corporation. An institutional investor will not be deemed to hold voting securities for investment purposes unless the voting securities were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of the board of directors of the registered corporation, any change in the corporate charter, bylaws, management, policies or operations of the registered corporation, or any of its gaming affiliates or any other action which the Nevada Gaming Commission finds to be inconsistent with holding the registered corporation's voting securities for investment purposes only. Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- serving as a member of any committee of creditors or security holders formed in connection with a debt restructuring;
- accepting appointment or election as a member of the board of directors in connection with a debt restructuring and serving in that capacity until the conclusion of the member's term;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and
- other activities as the Nevada Gaming Commission may determine to be consistent with such investment intent.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or by the Chairman of the Nevada State Gaming Control Board, or who refuses or fails to pay the investigative fees incurred by the Nevada Gaming Authorities in connection with such person's application, may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a registered corporation beyond the period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a criminal offense. Affinity Gaming and the Gaming Subsidiaries may become subject to disciplinary action if, after receipt of notice that a person is unsuitable to be a stockholder or to have any other relationship with Affinity Gaming or the Gaming Subsidiaries, Affinity Gaming or the Gaming Subsidiaries:

- pays that person any dividend or interest upon voting securities;
- allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;

- pays remuneration in any form to that person for services rendered or otherwise; or
- fails to pursue all lawful efforts to require the unsuitable person to relinquish his voting securities including, if necessary, purchasing the voting securities for cash at fair market value.

Affinity Gaming may be required to disclose to the Nevada State Gaming Control Board and the Nevada Gaming Commission the identities of all holders of its debt securities. The Nevada Gaming Commission may, in its discretion, require the holder of any debt or similar security of a registered corporation to file applications, be investigated and be found suitable to own the debt or other security of a registered corporation. If the Nevada Gaming Commission determines that a person is unsuitable to own the security, then pursuant to Nevada law, the registered corporation can be sanctioned, including the loss of its approvals, if, without the prior approval of the Nevada Gaming Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution whatsoever;
- recognizes any voting right by the unsuitable person in connection with the debt securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

Affinity Gaming is required to maintain a current stock ledger in Nevada, which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial holder to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Gaming Commission has the power to require our securities to bear a legend indicating that the securities are subject to the Nevada Act.

Affinity Gaming may not make a public offering of securities without the prior approval of the Nevada Gaming Commission if the proceeds from the offering are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for those purposes or similar transactions. Furthermore, any such approval, if granted, does not constitute a finding, recommendation or approval by the Nevada Gaming Commission or the Nevada State Gaming Control Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in the control of Affinity Gaming through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby that person obtains control (including foreclosure on the pledged shares), may not occur without the prior approval of the Nevada Gaming Commission. Entities seeking to acquire control or ownership of a registered corporation must satisfy the Nevada State Gaming Control Board and Nevada Gaming Commission in a variety of stringent standards prior to assuming control of such registered corporation. The Nevada Gaming Commission may also require the stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada corporate gaming licensees and registered corporations which are affiliated with those operations may be injurious to stable and productive corporate gaming. The Nevada Gaming Commission has established regulations to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to: (1) assure the financial stability of corporate gaming licensees and their affiliates; (2) preserve the beneficial aspects of conducting business in the corporate form; and (3) promote a neutral environment for the orderly governance of corporate affairs. Approvals are, in certain circumstances, required from the Nevada Gaming Commission before the registered corporation can make exceptional repurchases of voting securities above the current market price and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the registered corporation's board of directors in response to a tender offer made directly to the registered corporation's stockholders for the purposes of acquiring control of the registered corporation.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Nevada licensee's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon either:

- a percentage of the gross revenue received;
- the number of gaming devices operated; or
- the number of table games operated.

The tax on gross gaming revenue is generally 6.75%. A live entertainment tax is also paid by gaming operations where entertainment is furnished in connection with admission fees, the selling of food or refreshments, or the selling of merchandise. The live entertainment tax rate is 10% of all amounts paid for food, refreshment, merchandise, and admission or similar charges while the licensee is in live entertainment status.

Any person who is licensed, required to be licensed, registered, required to be registered or is under common control with such persons or licensees (collectively, "licensees"), and who is or who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada State Gaming Control Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expense of investigation by the Nevada State Gaming Control Board of the licensees' participation in foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Gaming Commission. Thereafter, licenses are also required to comply with certain reporting requirements imposed by the Nevada gaming laws. Licensees are also subject to disciplinary action by the Nevada Gaming Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to a foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities or enter into associations which are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ, contract with or associate with a person in the foreign operation who has been denied a license or a finding of suitability in Nevada on the ground of personal unsuitability or has been found guilty of cheating at gambling.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by local regulatory authorities. Affinity and the Gaming Subsidiaries have obtained the necessary liquor licenses to sell alcoholic beverages. Local regulatory authorities have full power to limit, condition, suspend or revoke any such licenses, and any such disciplinary action could, and revocation would, have a material adverse effect on our operations.

## **Missouri**

On November 3, 1992, a statewide referendum authorized gaming in the State of Missouri on the Missouri and the Mississippi Rivers. On April 29, 1993, Missouri enacted revised legislation (as amended, the "Missouri Gaming Law") which amended the existing legislation. In a decision handed down on January 25, 1994, the Missouri Supreme Court held that games of chance were prohibited under the Missouri constitution. In a statewide election held on November 8, 1994, Missouri voters approved the adoption of an amendment to the Missouri Constitution which permits the legislature to allow games of chance to be conducted on excursion boats and floating facilities on the Mississippi River and the Missouri River. As a result of the amendment, games of chance are also permitted, subject to Missouri Gaming Law. Pursuant to the Missouri Gaming Law, there are thirteen operating riverboat gaming facility sites in Missouri: one in Caruthersville; one in Boonville; four in the St. Louis area; four in the Kansas City area; one in LaGrange; one in St. Joseph and one in Cape Girardeau.

Opponents of gaming in Missouri have brought several legal challenges to gaming in the past and may possibly bring similar challenges in the future. On November 25, 1997, the Missouri Supreme Court overturned a state lower court and held that a portion of the Missouri Gaming Law which authorized excursion gaming facilities in "artificial basins" up to 1,000 feet from the Mississippi or Missouri rivers was unconstitutional. This ruling created uncertainty as to the legal status of several excursion gaming riverboat facilities in the state. On November 3, 1998, a statewide referendum was held, whereby the voters amended the constitution to allow "artificial basins" for existing facilities, effectively overturning the above Missouri Supreme Court decision. We cannot provide assurance that any future challenges, if brought, would not further interfere with gaming operations in Missouri, including the operations of Mark Twain in LaGrange and St. Jo in St. Joseph.

Under the Missouri Gaming Law, the ownership and operation of riverboat gaming facilities in Missouri are subject to extensive state and local regulation. Affinity Gaming; HGI-St Jo, LLC, our subsidiary which owns St Jo and the current licensee for that facility; and HGI-Mark Twain, LLC, our subsidiary which owns Mark Twain and the current licensee for that facility; any subsidiaries, and some of their officers and employees are and will be subject to specific regulations, including ongoing licensing requirements. As part of the application and licensing process for a gaming license, the applicant must submit detailed financial, operating and other reports to the Missouri Gaming Commission. Each applicant has an ongoing duty to update the information provided to the Missouri Gaming Commission in the application, usually within seven days of a material change in the information on file with the Missouri Gaming Commission. Each of St Jo and Mark Twain has frequently updated its application materials since it was initially licensed. In addition to the information required of the applicant, directors, officers, affiliated business entities and other defined "key persons" (which include individuals and companies designated by the Missouri Gaming Commission) must submit Personal Disclosure Forms, which include detailed financial information, and are subject to thorough investigations. In addition, some officers and directors of Affinity Gaming, as well as Affinity Gaming itself, have submitted Personal Disclosure Forms and applications to the Missouri Gaming Commission. All gaming employees must obtain an occupational license issued by the Missouri Gaming Commission. Suppliers are also subject to licensing requirements of the Missouri Gaming Commission. An institutional investor holding an interest of 20% or less in Affinity Gaming for only passive investment purposes, may be exempted from these licensure requirements by the Missouri Gaming Commission.

Effective May 30, 2008, certain amendments were made to Missouri's gaming regulations which provide for the division of Missouri gaming licenses into Class A and Class B Licenses. Affinity Gaming now holds a Class A License which allows Affinity Gaming to own and operate the HGI-St Jo and HGI-Mark Twain business entities. HGI-St Jo, LLC and HGI-Mark Twain, LLC now hold Class B Licenses allowing them to operate St Jo and Mark Twain, respectively.

In January 2013, following a full licensing investigation and hearing, the Class A and Class B licenses for Affinity Gaming, HGI-St Jo and HGI-Mark Twain were renewed for four-year terms by the Missouri Gaming Commission, which continues to require, among other things:

- suitability investigations into an applicant's character, financial responsibility, experience and qualifications;
- suitability investigations into each designated key person or affiliated business entity's character, financial responsibility, experience and qualifications;
- disclosure of required financial (see above) and other personal information on each key person or designated affiliated business entity;
- disclosure of detailed information about the applicant's history, business, affiliations, officers, directors and owners;
- an affirmative action plan for the (a) hiring and training of minorities and women, and (b) purchase of goods and services from businesses owned by minorities and women; and
- an economic development or impact report.

License fees cover all related costs of the Missouri Gaming Commission investigation and are a minimum of \$50,000 for the initial application and \$25,000 annually thereafter.

The Missouri Gaming Law and implementing regulations impose restrictions on the use of and do not permit the transfer of the gaming licenses, as well as limitations on transactions engaged in by licensees. The licenses issued by the Missouri Gaming Commission may not be transferred nor pledged as collateral. The Missouri Gaming Law regulations bar a licensee from taking any of the following actions without prior notice to the Missouri Gaming Commission, after which notice the Commission may reopen and reconsider the licensee's suitability under the Missouri Gaming Law:

- any transfer or issuance of an ownership interest in a gaming licensee that is not a publicly held company;
- any transfer or issuance of an ownership interest of five percent or more of the issued and outstanding ownership interest of Affinity Gaming which is publicly traded and is a holding company;

- any private incurrence of debt by the licensee or any holding company of \$1,000,000 or more;
- any public issuance of debt by a licensee or its holding company; and
- defined “significant related party transactions.”

Affinity Gaming must obtain advance approval of the Missouri Gaming Commission to enter into any contract or arrangement, whereby a person or group of persons acting in concert (a) owns, controls, or has power to vote 25 percent or more of the ownership interest its licensed entities, or (b) controls the election of a majority of the directors or managers of its licensed entities. A Missouri licensee must notify the Missouri Gaming Commission of other transactions which include the transfer of five percent or more of an ownership interest in the licensee or holding company if publicly held and any transaction of at least \$1,000,000. In Missouri, the granting of a security interest to a lender in the ownership of a Missouri licensee is subject to the approval of the Missouri Gaming Commission if the lender is not a financial institution.

The restrictions on transfer of ownership apply to Class A licensee, Affinity Gaming, as well as the direct Class B licensees, HGI-St Jo and HGI-Mark Twain. Gaming equipment may not be pledged except under very limited circumstances where possession is limited to defined licensed entities. Corporate stock and/or equity ownership of some licensees may not be pledged except in narrow circumstances and subject to regulatory conditions following notification to the Missouri Gaming Commission.

Missouri statutes and administrative rules contain detailed requirements and conditions concerning the operation of a licensed excursion gambling boat facility, including but not limited to the following:

- a charge of two dollars per gaming customer per excursion which licensees must either collect from each customer or pay itself to the Missouri Gaming Commission;
- minimum payouts;
- the payment of a 21% tax on adjusted gross receipts;
- strict regulation of the granting of credit to gaming customers by the Class B Licensee;
- the use of credit cards and cashing of checks by customers;
- providing security on the excursion gambling boat, including a requirement that each licensee reimburse the Missouri Gaming Commission for all costs of any Missouri Gaming Commission staff, including Missouri Highway Patrol Officers, necessary to protect the public on the licensee's riverboat;
- the receipt of liquor licenses from the Missouri Gaming Commission and local jurisdictions; and
- the adoption of minimum control standards for the conduct of gaming and the operation of the facility approved by the Missouri Gaming Commission.

The Missouri Gaming Commission has the power, as well as broad discretion in exercising this power, to revoke or suspend gaming or occupational licenses and impose other penalties for violations of the Missouri Gaming Law and the rules and regulations promulgated thereunder, including without limitation, forfeiture of all gaming equipment used for improper gaming and fines of up to three times a licensee's highest daily gross receipts during the preceding twelve months.

Although the Missouri Gaming Law provides no limit on the amount of riverboat space which may be used for gaming, the Missouri Gaming Commission is empowered to impose space limitations through the adoption of rules and regulations.

Previously, the Missouri Gaming Law imposed as to each customer a \$500 loss limit per two-hour period established by each licensee with the approval of the Missouri Gaming Commission. However, by vote of Missouri registered voters on November 8, 2008, the Missouri Gaming Law was amended to provide that the Missouri Gaming Commission shall not establish any regulations or policies which limit the amount of wagers, losses or buy-in amounts.

In addition, the Missouri Gaming Commission is empowered to determine on a city and county-specific basis where “dockside” or permanently-docked gaming is appropriate and may be permitted. The Missouri Gaming Commission has authorized all thirteen licensed sites to operate all or a portion of their facilities on a continuously docked basis.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by the Missouri Gaming Commission. The Missouri Gaming Commission has full power to limit, condition, suspend or revoke any such license. The Commission has also issued strict regulations concerning the sale and use of alcoholic beverages upon an excursion gambling boat or facility immediately adjacent to an excursion gambling boat.

An ordinance was adopted by Initiative Petition by the voters of the City of St. Joseph, Missouri on April 8, 2014, which modified the local health and sanitation code to provide smoke-free indoor workplaces and public places. The ordinance includes an exemption allowing smoking in casino gaming areas, which exemption, as applied, includes the casino at the St. Jo Frontier. The exemption, under the ordinance, will remain in place unless and until smoking in casino areas is prohibited in all non-Native American casinos located in the Missouri and Kansas counties of the Greater Kansas City area.

## **Iowa**

In 1989, the State of Iowa legalized riverboat gaming on the Mississippi River and other waterways located in Iowa. Under Iowa gaming law (“Iowa Gaming Law”), a license to conduct gaming may be issued in a county only if the county electorate has approved gaming. The electorate of Clarke County, Iowa, where Osceola is located, approved gaming on February 28, 1995 by referendum. Gaming conducted by Lakeside was approved by referendum on November 18, 1997. In addition, a referendum must be held every eight years in each of the counties where gambling games are conducted and the proposition to continue to allow gambling games in such counties must be approved by a majority of the county electorate voting on the proposition. Such referenda took place on November 5, 2002 and November 2, 2010, with the majority of the electorate voting each time in favor of continued gaming in Clarke County. The next referendum is scheduled for 2018. If any reauthorization referendum is defeated, Iowa Gaming Law provides that any previously issued gaming license will remain valid and subject to renewal for a total of nine years from the date of original issuance of the license, subject to earlier non-renewal or revocation under Iowa Gaming Law and regulations applicable to all licenses.

In addition, Iowa Gaming Law authorizes the granting of riverboat gaming licenses to non-profit corporations which, in turn, are permitted to enter into operating agreements with qualified persons who also actually conduct the gaming operations. Such operators must likewise be approved and licensed by the Iowa Racing and Gaming Commission (the “Iowa Gaming Commission”).

In July 1997, Clarke County Development Corporation (“CCDC”), a non-profit corporation organized for the purpose of facilitating riverboat gaming in Osceola, Iowa, entered into a management agreement, since amended, for Lakeside for a term of up to 50 years. Under the management agreement, as amended, CCDC is paid a monthly fee equal to 1.5% of the adjusted gross receipts from gaming (“AGR”) of Lakeside. In September 2004, HGI-Lakeside, LLC (the Company's subsidiary which owns and operates Lakeside, formerly HGI-Lakeside, Inc.) entered into an agreement whereby upon the later of Predecessor obtaining approval from the Iowa Gaming Commission or its closing the transactions then pending with Southern Iowa Gaming Company, Southern Iowa would immediately pay \$3.2 million to an escrow fund controlled by the City of Osceola. Beginning February 2013, and continuing for so long as the management agreement, remains in effect, we are required to pay into the escrow fund an additional 1% of annual AGR from Lakeside. We are entitled, however, to offset up to 50% of this additional 1% annual payment with any expenditures we have made for capital improvements (excluding gaming devices and improvements to the gaming facility, casino floor, development of a truck stop and general repairs and maintenance) (the “Offset”). Further, pursuant to a dock site lease agreement executed in August 1997 (which also has a term of up to 50 years) (the “Lakeside Lease”), Lakeside is required to pay a monthly fee to the City of Osceola and the Water Works Board of Trustees equal to 1.25% of the AGR of Lakeside plus an annual fee, to be paid in equal monthly installments, equal to approximately \$160,000, with such amount to increase each year by 1% until termination of the Lakeside Lease. Pursuant to a settlement agreement approved by the Iowa Gaming Commission at its March 2012 meeting, the annual fee under the Lakeside Lease was increased to \$245,000, with such amount to further increase each year by 1%, and Lakeside is required to employ no fewer than 290 full-time employees.

In March 2012, CCDC initiated legal proceedings against both us and the Iowa Racing Commission. In one case, CCDC sought a declaratory judgment ruling that the management agreement is non-assignable. We contested CCDC's position even

though there were no plans to seek to assign the agreement. In a separate case, CCDC also named both the Iowa Racing Commission and us in a petition for judicial review of the Commission's ruling in November 2010, approving Predecessor's creditors to become owners of Affinity Gaming, prior to our emergence from bankruptcy. We vigorously defended this lawsuit as well. In July and August 2013, CCDC dismissed both lawsuits without prejudice. CCDC's dismissals of the declaratory judgment action and petition for judicial review were based upon its filing in August 2013 in Iowa state court (later removed to federal court) of a third lawsuit in which it seeks to enforce a settlement agreement it alleges was reached with us during a non-binding mediation held in June 2013. The mediation had resulted in a written memorandum of understanding ("MOU") pursuant to which the declaratory judgment action and petition for judicial review were to be dismissed upon the following terms and conditions: (i) Lakeside was to pay \$600,000 to CCDC and \$2.5 million to an account controlled by the Clarke County Reservoir Commission; (ii) Lakeside was to incrementally reduce the Offset to zero over a period of ten years; and, (iii) for a period of five years, CCDC would not unreasonably withhold its consent to the assignment of the operator's contract to a third party, provided the assignee agreed to immediately eliminate the Offset and to pay the greater of 3% or the state minimum percentage of AGR. However, subsequent to the mediation, when the parties exchanged drafts of the formal written settlement agreement contemplated by the MOU, it became apparent that a meeting of the minds regarding settlement had not occurred, as CCDC took the position that any assignee of the management agreement would have to increase its percentage of AGR by 1.5%, rather than the 0.5% to which we believed we had agreed. As of March 2015, the dispute remains ongoing and an evaluation of the likelihood of an unfavorable outcome cannot be made at this time; however, we estimate the maximum potential loss to be the \$3.1 million in payments set forth in the MOU.

Iowa gaming law permits gaming licensees to offer unlimited stakes gaming on games approved by the Iowa Gaming Commission on a 24-hour basis. Dockside casino gaming is authorized by the Iowa Gaming Commission and the Iowa Legislature, subject to certain limitations not applicable to Lakeside, eliminated the requirement that gaming licensees cruise, effective May 6, 2004. The legal age for gaming is 21.

Lakeside's excursion gambling boat license was approved for renewal at a March 5, 2015 meeting of the Iowa Gaming Commission. This license is not transferable and will need to be renewed annually and prior to the commencement of each subsequent annual renewal period. Accordingly, Lakeside's excursion gambling boat license will be considered for renewal at the March 2016, meeting of the Iowa Gaming Commission. A limitation, condition or suspension of Lakeside's gaming license could (and revocation of its gaming license would) have a material adverse effect on operations. In connection with Lakeside's 2011 license renewal, the Iowa Gaming Commission required us to (i) appear at the June 2011 Iowa Gaming Commission meeting and present a detailed development plan for a hotel expansion project, which we represented would cost approximately \$10.0 million, and (ii) commence construction of the hotel expansion project by October 2011. We met both requirements and completed the hotel expansion during 2012.

The ownership and operation of gaming facilities in Iowa are subject to extensive state laws, regulations of the Iowa Gaming Commission and various county and municipal ordinances, concerning the responsibility, financial stability and character of gaming operators and persons financially interested or involved in gaming operations. Iowa Gaming Law seeks to:

- prevent unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity;
- establish and maintain responsible accounting practices and procedures;
- maintain effective control over the financial practices of licensees (including the establishment of minimum procedures for internal fiscal affairs, the safeguarding of assets and revenue, the provision of reliable record keeping and the filing of periodic reports with the Iowa Gaming Commission);
- prevent cheating and fraudulent practices; and
- provide a source of state and local revenue through taxation and licensing fees.

Changes in Iowa Gaming Law could have a material adverse effect on the Iowa gaming operations.

Gaming licenses granted to individuals must be renewed every year, and licensing authorities have broad discretion with regard to such renewals. Licenses are not transferable. The Iowa gaming operations must submit detailed financial and

operating reports to the Iowa Gaming Commission. Certain contracts of licensees in excess of \$100,000, which exceed three years in term or which involve related parties must be submitted to and approved by the Iowa Gaming Commission.

Officers, directors, managers and employees of the Iowa gaming operations are required to be licensed by the Iowa Gaming Commission. Employees associated with gaming must obtain a license and these licenses are subject to immediate suspension under specific circumstances. In addition, anyone having a material relationship or involvement with the Iowa gaming operations may be required to be found suitable or to be licensed, in which case those persons would be required to pay the costs and fees of the Iowa Gaming Commission in connection with the investigation. The Iowa Gaming Commission may deny an application for a license for any cause deemed reasonable. In addition to its authority to deny an application for license, the Iowa Gaming Commission has jurisdiction to disapprove a change in position by officers or key employees and the power to require the Iowa gaming operations to suspend or dismiss officers, directors or other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the Iowa Gaming Commission finds unsuitable to act in such capacities.

The Iowa Gaming Commission may revoke a gaming license if the licensee:

- has been suspended from operating a gaming operation in another jurisdiction by a board or commission of that jurisdiction;
- has failed to demonstrate financial responsibility sufficient to meet adequately the requirements of the gaming enterprise;
- is not the true owner of the enterprise;
- has failed to disclose ownership of other persons in the enterprise;
- is a corporation 10% of the stock of which is subject to a contract or option to purchase at any time during the period for which the license was issued, unless the contract or option was disclosed to the Iowa Gaming Commission and the Iowa Gaming Commission approved the sale or transfer during the period of the license;
- knowingly makes a false statement of a material fact to the Iowa Gaming Commission;
- fails to meet a monetary obligation in connection with an excursion gaming boat;
- pleads guilty to, or is convicted of, a felony;
- loans to any person, money or other thing of value for the purpose of permitting that person to wager on any game of chance;
- is delinquent in the payment of property taxes or other taxes or fees or a payment of any other contractual obligation or debt due or owed to a city or county; or
- assigns, grants or turns over to another person the operation of a licensed excursion boat (this provision does not prohibit assignment of a management contract approved by the Iowa Gaming Commission) or permits another person to have a share of the money received for admission to the excursion boat.

If it were determined that an Iowa Gaming Law was violated by a licensee, the gaming licenses held by a licensee could be limited, made conditional, suspended or revoked. In addition, the licensee and the persons involved could be subject to substantial fines for each separate violation of an Iowa Gaming Law in the discretion of the Iowa Gaming Commission. Limitations, conditioning or suspension of any gaming license could (and revocation of any gaming license would) have a material adverse effect on operations.

The Iowa Gaming Commission may also require any individual who has a material relationship with the Iowa gaming operations to be investigated and licensed or found suitable. The Iowa Gaming Commission, prior to the acquisition, must approve any person who acquires 5% or more of a licensee's equity securities in the event that approval by the Iowa Gaming

Commission is not otherwise contemplated by the operative acquisition document. The applicant stockholder is required to pay all costs of this investigation.

Iowa imposes a gaming tax on the AGR received by licensees each fiscal year at a rate of 5% for the first \$1,000,000 and 10% for AGR between \$2,000,000 and \$3,000,000. Gaming taxes approximating 22% of AGR above \$3,000,000 will be payable by each licensee on its operations to the State of Iowa. In addition, there was a prepaid assessment due on June 1, 2005 and another prepaid assessment paid on June 1, 2006, in an aggregate amount equal to 2.152% of each licensee's estimated adjusted gross receipts for fiscal year 2004. These assessments will be offset by future state gaming taxes paid by each licensee with a credit for 20% of the assessments paid allowed each year beginning July 1, 2010 for five consecutive years. The state of Iowa is also reimbursed by the licensees for all costs associated with monitoring and enforcement by the Iowa Gaming Commission and the Iowa Department of Criminal Investigation.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by the State. The State has full power to limit, condition, suspend or revoke any such licenses.

## **Colorado**

As prescribed by the Colorado Limited Gaming Act of 1991 (the "Colorado Act"), the ownership and operation of limited-stakes gaming facilities in Colorado are subject to the Colorado Gaming Regulations (the "Colorado Regulations") and final authority of the Colorado Limited Gaming Control Commission (the "Colorado Commission"). The Colorado Act also created the Colorado Division of Gaming (the "Division of Gaming") within the Colorado Department of Revenue to license, supervise and enforce the conduct of limited stakes gaming in Colorado.

On October 18, 2012, the Colorado Commission granted Affinity Gaming Black Hawk, LLC, our subsidiary which owns the Black Hawk Casinos (collectively with Affinity Gaming Black Hawk, LLC, referred to as the "Colorado Casinos"), retail gaming licenses for the Black Hawk Casinos and a manufacturer/distributor license for the Golden Mardi Gras casino. The licenses expire every two years from their date of issuance, and the Colorado Act requires that applications for renewal be filed with the Colorado Commission not less than 120 days prior to their expiration. No person may offer limited gaming to the public unless such person holds a valid retail gaming license. The licenses were renewed by the Colorado Commission most recently on October 16, 2014.

The Colorado Act declares public policy on limited stakes gaming to be that:

- the success of limited stakes gaming is dependent upon public confidence and trust that licensed limited stakes gaming is conducted honestly and competitively, the rights of the creditors of licensees are protected and gaming is free from criminal and corruptive elements;
- public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations and activities related to the operation of licensed gaming establishments and the manufacture or distribution of gaming devices and equipment;
- all establishments where limited gaming is conducted and where gambling devices are operated, and all manufacturers, sellers and distributors of certain gambling devices and equipment, must therefore be licensed, controlled and assisted to protect the public health, safety, good order and the general welfare of the inhabitants of the state to foster the stability and success of limited stakes gaming and to preserve the economy, policies and free competition in Colorado; and
- no applicant for a license or other affirmative Colorado Commission approval has any right to a license or to the granting of the approval sought; any license issued or other Colorado Commission approval granted pursuant to the Colorado Act is a revocable privilege, and no holder acquires any vested rights therein.

Pursuant to an amendment to the Colorado Constitution (the "Colorado Amendment"), limited-stakes gaming became lawful in the cities of Central City, Black Hawk and Cripple Creek on October 1, 1991. Currently, limited-stakes gaming means a maximum single bet of \$100 on slot machines and in the games of blackjack, poker, craps and roulette. Gaming is permitted to be conducted 24 hours each day.

Limited-stakes gaming is confined to the commercial districts of these cities as defined by Central City ordinance on October 7, 1981, by Black Hawk ordinance on May 4, 1978, and by Cripple Creek ordinance on December 3, 1973. In addition, the Colorado Amendment restricts limited-stakes gaming to structures which conform to the architectural styles and designs which were common to the areas prior to World War I and that conform to the requirements of applicable city ordinances regardless of the age of the structures. Under the Colorado Amendment, no more than 35% of the square footage of any building and no more than 50% of any one floor of any building may be used for limited-stakes gaming. Persons under the age of 21 cannot participate in limited-stakes gaming.

The Colorado Commission has the authority to impose fines, and has broad discretion to issue, condition, suspend for up to six months, revoke, limit or restrict at any time the following licenses: slot machine manufacturer or distributor, operator, associated equipment supplier, retail gaming, support and key employee gaming licenses. The Colorado Commission has delegated authority to the Division of Gaming to issue certain types of licenses and approve certain changes in ownership. The licenses are revocable and non-transferable. With limited exceptions applicable to licensees which are publicly traded entities, no person may sell, lease, purchase, convey or acquire any interest in a retail gaming, manufacturer or distributor, or operator license or business without the prior approval of the Colorado Commission or the Division of Gaming.

The failure or inability of the Colorado Casinos, or the failure or inability of others associated with the Colorado Casinos, including us, to maintain necessary gaming licenses or approvals would have a material adverse effect on our operations. All persons employed by any of the Colorado Casinos, and involved, directly or indirectly, in gaming operations in Colorado are required to obtain a Colorado support or key employee gaming license, which must be renewed every two years. As a general rule, the Colorado Act prohibits any person from having an "ownership interest" in more than three retail gaming licenses in Colorado. The Colorado Commission has ruled that a person does not have an ownership interest in a retail gaming licensee for purposes of the multiple license prohibition if any of the following apply:

- A person has less than a 5% ownership interest in an institutional investor that has an ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;
- A person has a 5% or more ownership interest in an institutional investor, but the institutional investor has less than a 5% ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;
- An institutional investor has less than a 5% ownership interest in a publicly traded licensee or publicly traded company affiliated with a licensee;
- An institutional investor possesses voting securities in a fiduciary capacity for another person and does not exercise voting control over 5% or more of the outstanding voting securities of a publicly traded licensee or of a publicly traded company affiliated with a licensee;
- A registered broker or dealer retains possession of voting securities of a publicly traded licensee or of a publicly traded company affiliated with a licensee for its customers and not for its own account, and exercises voting rights for less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee;
- A registered broker or dealer acts as a market maker for the stock of a publicly traded licensee or of a publicly traded company affiliated with a licensee and exercises voting rights in less than 5% of the outstanding voting securities of the publicly traded licensee or publicly traded company affiliated with a licensee;
- An underwriter is holding securities of a publicly traded licensee or publicly traded company affiliated with a licensee as part of an underwriting for no more than 90 days after the beginning of such underwriting if it exercises voting rights of less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee;
- A book entry transfer facility holds voting securities for third parties, if it exercises voting rights with respect to less than 5% of the outstanding voting securities of a publicly traded licensee or publicly traded company affiliated with a licensee; or

- A person's sole ownership interest is less than 5% of the outstanding voting securities of the publicly traded licensee or publicly traded company affiliated with a licensee.

Under state law, no manufacturer or distributor of slot machines, associated equipment, or related equipment may, without notifying the Division of Gaming within ten days, knowingly have an interest in any casino operator, allow any of its officers or any other person with a substantial interest in such business to have such an interest, employ any person if that person is employed by a casino operator, or allow any casino operator or person with a substantial interest therein to have an interest in manufacturer's or distributor's business.

The Colorado Constitution provides for a tax on the total amount wagered less all payouts to players. The gaming tax rates in effect as of July 1, 2008 can only be increased by amendment to the Colorado Constitution by voters in a statewide election. With respect to games of poker, the tax is calculated based on the sums wagered which are retained by the licensee as compensation, which must be consistent with the minimum and maximum amounts established by the Colorado Commission. Effective July 1, 2012, the Colorado Commission reinstated the annual tax rates which were in effect prior to July 1, 2011, increasing the rate tiers as follows:

- 0.25% up to and including \$2 million of the subject amounts;
- 2.0% on amounts from \$2 million to \$5 million;
- 9.0% on amounts from \$5 million to \$8 million;
- 11.0% on amounts from \$8 million to \$10 million;
- 16.0% on amounts from \$10 million to \$13 million; and
- 20.0% on amounts over \$13 million.

These rates were renewed effective July 1, 2013, and were valid until June 30, 2014. On May 15, 2014, the Colorado Commission voted unanimously to retain the current gaming tax rates, which were renewed effective July 1, 2014, and are valid until June 30, 2015. The City of Black Hawk has imposed an annual device fee of \$945 per gaming device, effective January 1, 2014, and may revise it from time to time. The City of Black Hawk also has imposed other fees, including a monthly transportation fee of \$6.42 per device. The Colorado Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term "publicly traded corporation" includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any ownership interest held by a publicly traded corporation, holding company or intermediary company thereof, where the ownership interest directly or indirectly is, or will be upon approval of the Colorado Commission, 5% or more of the entire licensee. In any event, if the Colorado Commission determines that a publicly traded corporation or a subsidiary, intermediary company or holding company has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by such entity, the Colorado Commission may require the entity to comply with the disclosure regulations and requirements contained in Rule 4.5.

Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Colorado Commission no later than 10 business days after the initial filing of a registration statement with the Securities and Exchange Commission. Licensed publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution. Licensees to whom Rule 4.5 applies must include in their charter documents provisions which restrict the rights of the licensees to issue voting interests or securities except in accordance with the Colorado Act and the Colorado Regulations; limit the rights of persons to transfer voting interests or securities of licensees except in accordance with the Colorado Act and the Colorado Regulations; and provide that holders of voting interests or securities of licensees found unsuitable by the Colorado Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a suitable person, as determined by the Colorado Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest,

the securities may not be voted and may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Pursuant to Rule 4.5, persons who acquire direct or indirect beneficial ownership of (a) 5% or more of any class of voting securities of a publicly traded corporation which is required to include in its articles of incorporation the Rule 4.5 charter language provisions; or (b) 5% or more of the beneficial interest in a gaming licensee directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee, referred to as “qualifying persons,” shall notify the Division of Gaming within 10 days of such acquisition, are required to submit all requested information and are subject to a finding of suitability as required by the Division of Gaming or the Colorado Commission. Licensees also must notify any qualifying persons of these requirements. A qualifying person other than an institutional investor whose interest equals 10% or more must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such securities. Licensees must also notify any qualifying persons of these requirements. Regardless of whether they have been notified, qualifying persons are responsible for complying with these requirements.

A qualifying person who is an institutional investor under Rule 4.5 and who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such interests.

The Colorado Regulations provide for exemption from the requirements for a finding of suitability when the Colorado Commission finds such action to be consistent with the purposes of the Colorado Act.

Pursuant to Rule 4.5, persons found unsuitable by the Colorado Commission must be removed from any position as an officer, director or employee of a licensee, or from a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Colorado Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interest. The Colorado Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license.

The Colorado Regulations require that every officer, director and stockholder of private corporations or equivalent office or ownership holders for non-corporate applicants, and every officer, director or stockholder holding either a 5% or greater interest or controlling interest of a publicly traded corporation or owners of an applicant or licensee, shall be a person of good moral character and submit to, and pay for, a full background investigation conducted by the Division of Gaming and the Colorado Commission. The Colorado Commission may require any person having an interest in a license to undergo a full background investigation and pay the cost of investigation in the same manner as an applicant.

Licensees are required to provide information and file periodic reports with the Division of Gaming, including identifying those who have a 5% or greater ownership, financial or equity interest in the licensee, or who have the ability to control the licensee, or who have the ability to exercise significant influence over the licensee, or who loan money or other things of value to a licensee, or who have the right to share in revenue derived from limited gaming, or to whom any interest or share in profits of limited gaming has been pledged as security for a debt or performance of an act. A licensee, and any parent company or subsidiary of a licensee, who has applied to a foreign jurisdiction for licensure or permission to conduct gaming operations, or who possesses a license to conduct foreign gaming, is required to notify the Division of Gaming. All persons licensed by the Colorado Commission and any associated person of a licensee must report criminal convictions and criminal charges to the Division of Gaming.

The Colorado Commission maintains the right to request information from any person directly or indirectly interested in, or employed by, a licensee, and to investigate the honesty, integrity, moral character, prior activities, criminal record, reputation, habits and associations of:

- all persons licensed pursuant to the Colorado Act;
- all officers, directors and stockholders of a licensed privately held corporation;

- all officers, directors and stockholders holding either a 5% or greater interest or a controlling interest in a licensed publicly traded corporation;
- all general and limited partners of a licensed partnership;
- all persons maintaining a position similar to that of an officer, director or stockholder of corporation, e.g., members and managers of a limited liability company;
- all persons providing financing or loaning money to any licensee in relation to the establishment or operation of limited gaming;
- all persons having a contract, lease or ongoing financial or business arrangement with any licensee which relates to limited gaming operations, equipment devices or premises; and
- all persons contracting with or supplying any goods and services to the Colorado Commission or the Division of Gaming.

Under the Colorado Regulations, every person who is a party to a “gaming contract,” as defined below, or a lease with an applicant for a license, or with a licensee, upon the request of the Colorado Commission or the Division of Gaming, must promptly provide the Colorado Commission or the Division of Gaming all information which may be requested regarding the financial history, financial holdings, real and personal property ownership, interests in other companies, criminal history, personal history and associations, character, reputation in the community and all other information which might be relevant to a determination of whether a person would be suitable to be licensed by the Colorado Commission. Failure to provide all information requested constitutes sufficient grounds for the Colorado Commission or the Division of Gaming to require a licensee or applicant to terminate its gaming contract or lease with any person who failed to provide the information requested. In addition, the Colorado Commission or the Division of Gaming may require changes to a gaming contract before an application is approved or participation in the contract is allowed. A “gaming contract” means an agreement in which a person does business with or on the premises of a licensed entity.

The Colorado Commission and the Division of Gaming have interpreted the Colorado Regulations to permit the Colorado Commission to investigate and find suitable persons or entities providing financing to or acquiring securities from us. As previously noted, any person or entity required to file information, be licensed or be found suitable would be required to pay the costs thereof as well as the costs of the corresponding investigation. Although the Colorado Regulations do not require prior approval for the execution of credit facilities or issuance of debt securities, the Colorado Commission reserves the right to approve, require changes to or require the termination of any financing, including, but not limited to, situations where a person or entity is required to be found suitable and is not found suitable. In any event, note holders, lenders and others providing financing will not be able to exercise certain rights and remedies without the prior approval of the Colorado Commission or the Division of Gaming. Information regarding lenders and holders of securities will be periodically reported to the Colorado Commission or the Division of Gaming.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by State and local authorities. All persons who directly or indirectly hold a 10% or greater interest in, or 10% or more of the issued and outstanding capital stock of, the Colorado Casinos, through their ownership of us, must file applications and may possibly be investigated by the Colorado state and local liquor authorities. The Colorado liquor authorities also may investigate persons who, directly or indirectly, loan money to or have any financial interest in liquor licensees. In addition, there are restrictions on stockholders, directors and officers of liquor licensees preventing such persons from being a stockholder, director, officer or otherwise interested in certain persons who lend money to liquor licensees and from making loans to other liquor licensees. Persons directly or indirectly interested in any of the Colorado Casinos may be limited with regard to certain other types of liquor licenses in which they may have an interest, and specifically cannot have an interest in a retail liquor store license. No person can hold more than three retail gaming tavern liquor licenses. In addition, the remedies of certain lenders may be limited by applicable liquor laws and regulations. Alcoholic beverage licenses are revocable and nontransferable. State and local licensing authorities have full power to limit, condition, suspend for as long as six months or revoke any such licenses for violations of the liquor and regulatory requirements, which could have a material adverse effect upon our operations of us or the applicable Colorado Casino.

There are various classes of retail liquor licenses which may be issued under the Colorado Liquor Code. A retail gaming tavern licensee may sell malt, vinous or spirituous liquors only by the individual drink for consumption on the premises. An application for an alcoholic beverage license in Colorado requires notice, posting and a public hearing before the local liquor licensing authority prior to approval. The Colorado Department of Revenue's Liquor Enforcement Division must also approve the application on behalf of the state. Each Colorado Casino has been approved for and holds a retail gaming tavern liquor license for its casino, hotel and restaurant operations.

Under Colorado state law, smoking is not permitted in any indoor area, including limited gaming facilities and any other facilities in which any gaming or gambling activity is conducted.

## **COMPETITIVE STRENGTHS**

### **Diversified Asset Portfolio**

As previously noted, our casino operations consist of 11 casinos, five of which are located in Nevada, three in Colorado, two in Missouri and one in Iowa. As of December 31, 2014, our casinos offered 7,318 slot machines and 133 table games in four states.

### **Stabilized Portfolio**

We worked hard to manage our portfolio through the recent economic downturn, expending great effort to improve efficiency and increase profitability in markets which have experienced stagnant to decreasing total revenue. We have also focused on making modest investments in projects intended to stabilize or improve the cash flow from our properties.

## **STRATEGIC INVESTMENTS**

Our key focus remains on improving the operating margins of our existing properties through a combination of top-line revenue growth and disciplined expense management. Our properties are unique in their offerings and we undertook our recent initiatives, as summarized below, to realize what we believe are the greatest opportunities to improve profitability.

### **Primm**

- During 2013, we completed construction of a new travel center adjacent to the Whiskey Pete's hotel and casino. The travel center includes a Flying J-branded diesel fuel operation, full-service truck weight and maintenance station, Chevron-branded gasoline, a convenience store and several branded quick-serve restaurants, including a Q'doba, Subway, Starbucks and Dairy Queen. We designed the travel center to attract customers traveling South on the I-15 to Los Angeles.

### **Colorado**

- During 2013, we completed expansion and renovation of the Golden Mardi Gras, our largest property in Black Hawk. The expansion included the addition of approximately 7,000 square feet of gaming space and extended the main entry by approximately 75 feet, improving the ingress and egress to the properties and capitalizing on the pedestrian traffic accessing the property from the main strip. Our properties are situated directly across the street from the Ameristar on one corner and The Lodge on the other, in the heart of the casino corridor. We also added escalators, significantly improving access to the properties from the street. Additionally, we improved the food offerings by adding a combination buffet/cafe, and a Dunkin Donuts outlet, and we refreshed the casino floor by replacing the aged slot product with the latest, in-demand slot machines.

### **Rampart Consulting Contract**

- During 2012, we began providing consulting services to Hotspur, the operator of the JW Marriott Resort's Rampart Casino in Las Vegas, under a three-year contract which expires April 1, 2015.
- Annual minimum consulting fee of \$2.0 million, which is recorded as a credit against corporate expense, with potential increases based on a percentage of EBITDA achieved at the Rampart Casino above defined thresholds.

## **MARGIN-ENHANCEMENT PROGRAMS**

### **Payroll and Related**

- Full time employees and related payroll expense is closely monitored across the enterprise to minimize operating expenses and maximize operating margins
- Management incentive program has been revamped to include both cash and equity compensation, which ensures alignment of shareholder and management goals

### **Player Club Reinvestment Savings**

- Improved business intelligence has been implemented to enhance player reinvestment strategies and ensure a competitive level of promotional spend for each segment of the database
- Direct reinvestments into the player loyalty club has been re-evaluated to focus promotional spend on areas with the highest returns

### **Key Cost Controls**

- Player loyalty club point refinements to redemption periods, minimum balance for redemptions
- Cost of sales reduction
- Energy efficiency projects implemented across the portfolio to reduce energy costs
- Outsourced restaurants to strategically-branded third parties
- Payroll efficiencies

### **Mobile Gaming**

- Implemented A-Play for Fun, an on-line video gaming experience for A-Play customers, with a third-party partner
- Implemented A-Play Connect, a virtual gaming application for smart phones
- Implemented A-Play Sports, a real-money sports wagering application for smart phones in the State of Nevada, with a third-party partner

### **High-Level Business Strategy**

During 2012 and 2013, our management team executed a sound business plan to divest of non-core operations and invest in the strengths of the organization. The divestitures of six smaller Nevada casinos and slot route during that period freed up capital and management time to focus on the efficient operation of core assets and profitable growth opportunities. Management is committed to selectively seeking development and expansion opportunities, including entering into new markets, investing in existing operations where it sees opportunities to promote growth, and leveraging its established platform

to grow revenue through management and consulting contracts. We will continue to evaluate opportunities to further diversify our portfolio, maximize profits from existing operations, incorporate business intelligence, efficiently allocate capital and strategically hire skilled and experienced individuals for key positions.

Additionally, we have invested in a unified operating strategy, rebranding assets away from Predecessor's "Terrible's" trade name and repositioning them back to the casino brand name each local community is familiar with, as well as rolling out a singular player's club with our "A-Play" card.

## **REFINANCING TRANSACTIONS**

On May 9, 2012, we repaid all of the \$342.1 million debt then outstanding under the senior secured loans under our credit agreement dated December 31, 2010 (the "Old Credit Facility"). We obtained the funds used to repay the Old Credit Facility by (i) issuing \$200.0 million of 9.00% senior unsecured notes due 2018 (the "2018 Notes"), and (ii) borrowing under our new Credit Agreement, dated May 9, 2012 (the "Credit Agreement"), which provides for a \$200.0 million term loan (the "Initial Term Loan") due in 2017, the entirety of which the lenders disbursed to us on the closing date of the Credit Agreement, and a \$35.0 million revolving credit facility (the "Revolving Credit Facility" and, together with the Initial Term Loan, the "New Credit Facility") which remained undrawn on the closing date of the Credit Agreement. Approximately \$38.6 million of cash from the issuance of the 2018 Notes and our borrowings under the New Credit Facility remained after we paid related transaction expense and repaid our Old Credit Facility.

On December 13, 2013, we completed the first amendment to the Credit Agreement (the "First Amendment"), which among other things, changed the interest rates for the Initial Term Loan.

On July 22, 2014, we completed an amendment and waiver (the "Second Amendment") to the Credit Agreement. The Second Amendment increased the applicable LIBOR rate floor for the Initial Term Loan from 1.00% to 1.25% and increased the applicable margin from 3.25% to 4.00% in the case of Eurodollar term loans and from 2.25% to 3.00% in the case of base rate term loans. The Second Amendment also adjusted financial covenants by changing a maximum Total Net Leverage Ratio of 6.5x through June 30, 2014 (calculated using total leverage, net of \$25 million cash) to a maximum First Lien Net Leverage Ratio of 3.75x through March 31, 2016 (calculated using outstanding first lien senior secured debt, net of \$40 million cash); and by lowering the minimum required interest coverage ratio from 2.0x through December 31, 2014 and 2.15x thereafter to a constant minimum ratio of 1.5x.

## **CORPORATE INFORMATION**

Affinity Gaming is a Nevada corporation. Our principal executive offices are located at 3755 Breakthrough Way, Suite 300, Las Vegas, NV 89135 and our telephone number at that address is (702) 341-2400. Our website is located at <http://www.affinitygaming.com>.

### **ITEM 1A. RISK FACTORS**

#### **RISKS RELATED TO OUR INDEBTEDNESS**

*We have a substantial amount of indebtedness, which could have a material adverse effect on our financial condition and our ability to obtain financing in the future and to react to changes in our business.*

We have a substantial amount of debt, which requires significant principal and interest payments. As of December 31, 2014, we had approximately \$382.7 million of debt outstanding, excluding original issue discount and including approximately \$200 million outstanding under the 2018 Notes and \$182.7 million of secured debt outstanding under our Initial Term Loan.

Our significant amount of debt could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the instruments governing our then outstanding indebtedness;
- increase our vulnerability to adverse economic and general industry conditions, including interest rate fluctuations, because a portion of our borrowings, including those under our New Credit Facility, are and will continue to be at variable rates of interest;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce the availability of our cash flow from operations to fund working capital, capital expenditures, strategic acquisitions or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, competitive pressures and changes in the business and industry in which we operate;
- place us at a disadvantage compared to competitors that may have proportionately less debt;
- limit our ability to obtain additional debt or equity financing due to applicable financial and restrictive covenants in our debt agreements; and
- increase our cost of borrowing.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations, or that these actions would be permitted under the terms of our existing or future debt agreements. In the absence of such cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our debt instruments restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them, and any proceeds may not be adequate to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our New Credit Facility could terminate their commitments to loan us money and foreclose against the assets securing their borrowings; and
- we could be forced into bankruptcy or liquidation.

***The agreements and instruments governing our debt contain restrictions and limitations that impose significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.***

The New Credit Facility and the indenture governing the 2018 Notes impose significant operating and financial restrictions on us. These restrictions limit our ability, among other things, to:

- pay dividends or make certain redemptions, repurchases or distributions (other than customary tax distributions) or make certain other restricted payments or investments;
- incur or guarantee additional indebtedness or issue certain preferred stock, disqualified stock or create subordinated indebtedness that is not subordinated to the Notes or the guarantees;
- create liens;
- transfer and sell assets;
- merge, consolidate, or sell, transfer or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates;
- make certain investments; and
- create restrictions on dividends or other payments by our restricted subsidiaries.

In addition, the New Credit Facility contains certain financial covenants, including a minimum interest coverage ratio covenant, a first lien secured net leverage ratio covenant, a maximum capital expenditures covenant and a total secured leverage ratio covenant.

As a result of these covenants and restrictions, we are limited in how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The restrictions caused by such covenants could also place us at a competitive disadvantage to less leveraged competitors. The terms of any future indebtedness we may incur could include more restrictive covenants. Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants. Failure to comply with any of the covenants in our existing or future financing agreements could result in a default under those agreements and under other agreements containing cross default provisions. A default, if not cured or waived, would permit lenders to accelerate the maturity of the indebtedness under these agreements, terminate any funding commitments to extend future credit, require us to apply all available cash to repay the borrowings, and/or foreclose upon any collateral securing such indebtedness, including pledges of equity interests of entities owning our casino properties, which could result in the lenders owning, and controlling, the equity of certain of our casino properties. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations. We would, therefore, be required to seek alternative sources of funding, which may not be available on commercially reasonable terms, terms as favorable as our current agreements or at all, or face bankruptcy. If we are unable to refinance our indebtedness or find alternative means of financing our operations, we may be required to curtail our operations or take other actions that are inconsistent with our current business practices or strategy. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants.

***Despite our substantial indebtedness, we may still be able to incur significantly more debt, which could intensify the risks described above.***

Although the terms of the agreements governing our indebtedness contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. The terms of the indenture governing the 2018 Notes do not fully prohibit us or our subsidiaries from incurring such additional indebtedness. In addition, the indenture governing the 2018 Notes allows us to issue additional notes under the indenture and will allow us to incur certain other secured indebtedness. Our New Credit Facility allows us to incur capital lease obligations and purchase money indebtedness for fixed or capital assets in an aggregate amount not to exceed \$50 million (with such indebtedness being secured by the assets leased or acquired), and they allow us to incur other indebtedness in an amount not to exceed \$5 million, of which only \$1

million may be secured by a lien on our property or assets. If new debt is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

***The state of the financial markets may impact our ability to obtain sufficient financing and credit in the future.***

In addition to earnings and cash flows from operations, we may rely on borrowed money to finance our business, which may be constrained if we are unable to borrow additional capital or refinance existing borrowings on reasonable terms. Over the past several years, financial markets and banking systems experienced disruption which had a dramatic impact on the availability and cost of capital and credit. The United States and other governments have enacted legislation and taken other actions to help alleviate these conditions, although there is no assurance that such steps will have the effect of easing the conditions in credit and capital markets over the long term. Therefore, we have no assurance that such steps will facilitate us being able to obtain financing or access the capital markets for future debt or refinancing opportunities in a timely manner, or on acceptable terms, or at all. If we are unable to borrow funds, we may be unable to make the capital expenditures necessary for us to compete with other casino operators or take advantage of new business opportunities. As a result, the lack of such funding could have a material adverse effect on our business, results of operations and financial condition and our ability to service our indebtedness.

## **RISKS RELATED TO INVESTING IN OUR EQUITY**

***There is not currently, and may not be, a viable public market for our common stock.***

No established public trading market currently exists for our common stock, and aside from the Registration Rights Agreement described below, we have no plans, proposals, arrangements or understandings with any person with regard to developing such a market for our common stock.

On February 7, 2012, we entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with SPH Investment, LLC (“SPH”), in connection with the Conversion. Pursuant to the Registration Rights Agreement, among other things, we granted SPH and its transferees certain demand and piggyback registration rights relating to the resale of equity securities held by SPH and the right to demand the listing of any such securities on the NASDAQ Stock Market or the New York Stock Exchange within 365 days after receipt of the applicable listing demand notice. On October 1, 2012, we received a listing demand notice from SPH pursuant to section 4.2 of the Registration Rights Agreement requiring us to use our reasonable best efforts to consummate the listing of our equity securities on the NASDAQ Stock Market. However, given that our common stock is held of record, or beneficially, in the hands of a limited number of holders, we have not applied to list our common stock listed on the NASDAQ Stock Market or any other national securities exchange, and do not plan on doing so unless and until we can reasonably anticipate having an application approved.

***Issuance of equity interests to our executive officers and directors will dilute our equity holders.***

The Compensation Committee approved the Affinity Gaming Amended and Restated 2011 Long-Term Incentive Plan (the “2011 LTIP”). We grant awards of stock options, restricted common stock, or both, under the 2011 LTIP as incentive to employees, officers, directors and consultants. The issuance of restricted common stock shares or of common stock shares underlying exercised options will dilute the percentage ownership of any holders of our common stock shares. At December 31, 2014, 300,464 shares of restricted common stock shares and options to purchase 177,497 shares of our common stock shares remain outstanding under the 2011 LTIP and awards with respect to 1,522,039 shares remained available for future issuance.

## **RISKS RELATED TO OUR BUSINESS**

***The failure to maintain a regular schedule of capital improvements, whether that includes expansion or renovation projects, could put us at a competitive disadvantage, and our expansion and renovation projects may face significant risks inherent in construction projects.***

Our casino and casino/hotel properties have an ongoing need for renovations and other capital improvements, including the occasional replacement of furniture, fixtures and equipment, to remain competitive. Applicable laws and regulations may also require us to make capital expenditures.

Renovations and other capital improvements of the casino properties usually generate little or no cash flow while work is underway, but they require large capital expenditures. We may not be able to fund such projects solely from cash provided from operating activities; therefore, we may have to rely upon the availability of debt or equity financing for project funding. Project funding will be limited if we cannot obtain satisfactory debt or equity financing, which will depend upon market conditions, among other factors. We cannot provide assurance that we will be able to obtain debt or equity financing for project funding on favorable terms.

Further, any development projects we may undertake will be subject to many risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects. The occurrence of any of development and construction risks could increase the total costs of our construction projects or delay or prevent the construction or opening or otherwise affect the design and features of our construction projects, which could materially adversely affect our plan of operations, financial condition and ability to satisfy our debt obligations.

In addition, actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion. We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

Although we design our projects to minimize disruption of our existing business operations, expansion and renovation projects require, from time to time, all or portions of affected existing operations to be closed or disrupted. Any significant disruption in operations of a property could have a significant adverse effect on our business, financial condition and results of operations.

Other factors, such as when the bankruptcy of Predecessor delayed or canceled many capital improvement projects, may create deferred capital expenditure needs which we may not be able to fully address. Addressing deferred capital needs may adversely affect our ability to complete renovations and other capital improvements at our casino and casino/hotel properties. Our failure to maintain a regular schedule of capital improvements, whether the failure is caused by lack of financing or by other factors, may put us at a competitive disadvantage which would have an adverse effect on our results of operations.

***Our operations, and the gaming industry as a whole, are particularly sensitive to reductions in consumer spending as a result of downturns in the economy and other factors.***

The gaming industry as a whole is highly sensitive to consumers' disposable incomes, and a general decline in economic conditions, including businesses downsizing their workforces for various reasons, the 2013 repeal of the payroll tax reductions, and the increased cost of health insurance as a result of the Affordable Care Act may lead to our potential customers having less discretionary income with which to wager. Many of our customers have also experienced prolonged impact from persistently high unemployment rates and reduced housing values as a result of the Great Recession. The State of Nevada, one of our primary markets, has been among the highest in the nation in terms of the unemployment rate and has seen among the largest real estate declines and number of foreclosures in recent years. These developments lead to a reduction in revenue and materially adversely affected the operating results of our properties. Recently, we are seeing improving economies in our local and regional markets. However, we cannot say when, if ever, or to what extent, customer behavior in our various markets will fully-revert to pre-recession behavior trends. In addition, further reductions in discretionary spending could significantly harm our operations and we may not be able to lower our costs rapidly enough, or at all, to offset additional declines in revenue.

***We face intense competition from other gaming operations and Internet gaming, and may experience a loss of market share.***

The gaming industry is highly competitive. We compete for gaming customers with other locals-oriented casino-hotels, other casinos located in the vicinity of these properties, as well as competition from new forms of gaming which exist or may be legalized in the future, including Internet gaming. Our casino operations face competitors that include land-based casinos, dockside casinos, riverboat casinos, casinos located on Native American reservations, and racing and pari-mutuel operations.

Southern California provides the largest number of customers for the Primm Casinos, including a large number of customers who drive to Las Vegas from the San Bernardino and Barstow metropolitan areas. The expansion of Native

American casinos in California, Oregon and Washington continues to have an impact on casino revenue in Nevada in general, and such impact may be significant on the markets in which the Rail City and our Primm casinos operate.

In March 2014, ballot initiative petitions were introduced in Colorado which, should they survive legal challenges and a rigorous certification process, would allow the state's voters to decide in November 2014 whether amend the Colorado state constitution to allow video lottery terminals ("VLTs") at exclusive locations which include an existing racetrack in Arapahoe County and race tracks to be constructed in Pueblo and Mesa counties, and whether to allow expanded gaming, including table games, at those facilities. In each case, the number of VLTs in the facility would be at least 2,500, and use of the VLT's would commence no later than November 1, 2015. Arapahoe, Pueblo and Mesa counties are each suburbs of Denver, the key feeder market for the Black Hawk/Central City gaming market.

If our competitors operate more successfully, if their existing properties are enhanced or expanded, or if additional competitors are established in and around the locations in which we conduct business, we may lose market share. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a material adverse effect on our business, financial condition and results of operations.

Additionally, as a result of the United States Justice Department's December 2011 opinion concerning the applicability of the Wire Act to Internet gaming, certain states, including Nevada, have moved forward with legislation to authorize various forms of intrastate Internet gaming. Nevada's current Internet gaming laws permit Nevada-licensed Internet providers to commence Internet poker, and they allow the State to enter into agreements with other states to create multi-state poker wagering, and in February 2014, Delaware and Nevada entered into the first such agreement. Many of our competitors in the Nevada market have greater financial resources than we do and have already applied for, or been approved for, interactive gaming licenses in Nevada to provide online poker services. Our ability to compete in a marketplace containing multiple virtual casino platforms will depend on our ability to effectively market future Internet gaming products to our customers in face of stiff competition as well as the availability of Internet gaming in jurisdictions in which we operate casinos. We may not have the expertise or the financial resources which our competitors have with regard to interactive gaming via the Internet. In most markets, we compete directly with other casino facilities operating in the immediate and surrounding market areas. In some markets, we face competition from nearby markets in addition to direct competition within our market areas as well as the threat from new, emerging markets. With Internet gaming, our land based casinos will also potentially be competing in virtual markets that may not be constrained by geographical limitations. Increases in the popularity of, and competition from, interactive gaming services and daily fantasy sports contests, where permitted, could negatively impact our results of operations and financial condition.

***Some Native American casinos have a lower minimum age requirement for gambling, which may increase their market share at the expense of our market share.***

Some Native American casinos in Southern California and Iowa allow customers at least 18 years old to gamble, whereas our gambling establishments require our customers to be at least 21 years old. This could lead to a reduced market for us as those Native American casinos would have an earlier opportunity to create loyal customers. If our competitors are able to retain these customers after they turn 21, thereby causing them to continue gambling at those establishments rather than try our establishments, we may experience reduced market share.

***Any increase in the price of gasoline may have an adverse impact on the results of our operations.***

Most of our customers drive themselves to our properties; therefore, an increase in gasoline prices may adversely affect our customers' discretionary income and, ultimately, our revenue. In recent years, gasoline prices have increased at times, and we cannot assure you that gasoline prices will hold steady or decline.

***We may be subject to litigation which, if adversely determined, could expose us to significant liabilities, damage our reputation and result in substantial losses.***

During the ordinary course of operating our businesses, we will occasionally be subject to various litigation claims and legal disputes. Without limitation, such claims and legal disputes may include contract, lease, employment and regulatory claims, as well as claims made by visitors to our properties. Certain litigation claims may not be covered entirely or at all by our insurance policies or our insurance carriers may seek to deny coverage. In addition, litigation claims can be expensive to defend and may divert our attention from the operations of our businesses. Further, litigation involving visitors to our properties, even if without merit, can attract adverse media attention.

We evaluate all litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and/or disclose the relevant litigation claims or legal proceedings, as appropriate. Our assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. We caution you that actual outcomes or losses may differ materially from those envisioned by its current assessments and estimates. As a result, litigation can have a material adverse effect on our businesses and, because we cannot predict the outcome of any action, it is possible that adverse judgments or settlements could significantly reduce our earnings or result in losses.

***Acquisitions, new venture investments and divestitures may not be successful.***

As part of our strategy, we may seek to increase growth through strategic acquisitions and any such acquisition may be significant. Not only is the identification of good acquisition candidates difficult and competitive, but these transactions also involve numerous risks, including the inability to:

- successfully integrate acquired companies, properties, systems or personnel into our existing business;
- minimize any potential interruption to our ongoing business;
- successfully enter markets in which we may have limited or no prior experience;
- achieve expected synergies and obtain the desired financial or strategic benefits from acquisitions;
- retain key relationships with employees, customers, partners and suppliers of acquired companies; and
- maintain uniform standards, controls, procedures and policies throughout acquired companies.

Companies, businesses or operations acquired or joint ventures created may not be profitable, may not achieve revenue levels and profitability which justify the investments made or they may carry other risks associated with such transactions. For example, in connection with our acquisition of the land and buildings of the three Black Hawk Casinos on February 29, 2012, we simultaneously leased the casinos back to Golden Gaming through October 31, 2012, earning lease revenue while we waited for approval of our Colorado gaming licenses. We began operating the Black Hawk Casinos on November 1, 2012, after obtaining our Colorado gaming licenses.

Future acquisitions could result in the incurrence of indebtedness, the assumption of contingent liabilities, material expense related to certain intangible assets and increased operating expense, which could adversely affect our results of operations and financial condition. In addition, to the extent that the economic benefits associated with any of our acquisitions diminish in the future, we may be required to record additional write downs of goodwill, intangible assets or other assets associated with such acquisitions, which could adversely affect our operating results.

We may also decide to divest certain assets, businesses or brands which do not meet our strategic objectives or growth targets, such as with the sale of our slot route, two Pahrump, Nevada casinos and our Searchlight, Nevada casino in February 2012 and the sale of the Sands Regency, Gold Ranch and the Dayton Casino in January 2013. With respect to any divestiture, we may encounter difficulty finding potential acquirers or other divestiture options on favorable terms. Any divestiture could affect our profitability, either as a result of the gains or losses on such sale of a business or brand, the loss of the operating income resulting from such sale or the costs or liabilities which are not assumed by the acquirer which may negatively impact profitability subsequent to any divestiture. We may also be required to recognize impairment charges as the result of a divestiture.

Any potential future acquisitions, new ventures or divestitures may divert the attention of management and may divert resources from matters which are core or critical to the business.

***We may face potential successor liability.***

As the successor to Predecessor, we may be subject to certain liabilities of Predecessor not provided for in the joint plan of reorganization confirmed by order of the United States Bankruptcy Court for the District of Nevada, Northern Division on January 22, 2010 (the "Bankruptcy Plan"). Such liabilities may arise in a number of circumstances, including those where:

- a creditor of Predecessor did not receive proper notice of the pendency of the bankruptcy case relating to the Bankruptcy Plan or the deadline for filing claims therein;
- the injury giving rise to, or source of, a creditor's claim did not manifest itself in time for the creditor to file the creditor's claim;
- a creditor did not timely file the creditor's claim in such bankruptcy case due to excusable neglect;
- we are liable for Predecessor's tax liabilities under a federal and/or state theory of successor liability; or
- the order of confirmation for the Bankruptcy Plan was procured by fraud.

Although we have no reason to believe that we will become subject to liabilities of Predecessor which are not provided for in the Bankruptcy Plan, if we should become subject to such liabilities, it could materially adversely affect our business, financial condition and results of operations.

***The inability of the applicable parties under our recent acquisition and sale agreements to fulfill their indemnification obligations could affect our results of operations and financial position.***

On February 27, 2012, we sold our casino in Searchlight, Nevada, and the portion of our slot route operations relating solely to the Terrible Herbst convenience stores to JETT Gaming, LLC, a Las Vegas based slot route operator. On February 29, 2012, we sold the remainder of our slot route operations, as well as our two Pahrump, Nevada casinos, to Golden Gaming, LLC (formerly known as Golden Gaming, Inc), a Las Vegas based casino, tavern and slot route operator. In addition, as part of the transaction with Golden Gaming, we acquired the land and buildings of the Golden Mardi Gras Casino, Golden Gates Casino and Golden Gulch Casino—all located in Black Hawk, Colorado. On February 1, 2013, we completed the sale of the Sands Regency, Gold Ranch and the Dayton Casino to Truckee Gaming. In connection with the applicable acquisition and sale agreements, we, Golden Gaming and Truckee Gaming agreed to retain responsibility for and indemnify the purchasing party against damages resulting from certain third-party claims or other liabilities, such as workers' compensation liabilities and certain environmental liabilities. Our indemnification obligations with respect to breaches of our representations and warranties in the agreements related to the sale of our slot route and Pahrump, Nevada casinos and our Sands Regency, Gold Ranch and Dayton Casino will, in each case, terminate upon expiration of the applicable indemnification period, are generally subject to deductible amounts and will not cover damages in excess of applicable coverage limits. The indemnification obligations of Golden Gaming with respect to breaches of its representations and warranties in the agreement related to the sale of its Black Hawk, Colorado casinos will terminate upon expiration of the applicable indemnification period, are also generally subject to deductible amounts and will not cover damages in excess of applicable coverage limits. If claimants successfully assert, either before or after the expiration of the applicable indemnification period, that we are liable for claims and/or retained liabilities that arise under the relevant acquisition and sale agreements, or if Golden Gaming or Truckee Gaming fails to satisfy their indemnification obligations to us with respect to claims and/or retained liabilities covered by the relevant acquisition agreements, it could have an adverse effect on our results of operations and financial position.

***Several provisions of Nevada corporate law, our articles of incorporation, and our bylaws could discourage, delay or prevent a merger or acquisition, even in situations that may be viewed as desirable by our shareholders.***

The Nevada Revised Statutes, our articles of incorporation and our bylaws contain provisions which may make the acquisition of the Company more difficult without the approval of our board of directors. These provisions include (i) authorizing our Board of Directors to issue "blank check" preferred stock having superior rights without shareholder approval, (ii) advance notice requirements for shareholder proposals and nominations, (iii) limitations on the ability of shareholders to amend, alter or repeal our bylaws, (iv) prohibiting us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder unless certain requirements are met, and (v) requiring disinterested stockholder approval for certain "controlling interest" acquisitions.

***Our future financial results will be affected by the adoption of fresh-start reporting and may not reflect historical trends.***

We were formed to acquire substantially all of the assets of the Predecessor as a result of Predecessor's bankruptcy. As of December 31, 2010, we became a new reporting entity and adopted fresh-start accounting. Under fresh-start accounting, we adjusted Predecessor's assets and liabilities to measured value, and recognized certain assets and liabilities not previously recognized in Predecessor's financial statements. Accordingly, our financial condition and results of operations from and after

January 1, 2011 may not be comparable to the financial condition and results of operations reflected in Predecessor's historical consolidated financial statements.

***The bankruptcy filing has had a negative impact on Predecessor's image which may negatively impact our business going forward.***

As a result of the Chapter 11 cases, Predecessor was the subject of negative publicity which has had an impact on its image and the images of the operations we acquired. This negative publicity may have an effect on the terms under which some customers and suppliers are willing to continue to do business with us and could materially adversely affect our business, financial condition and results of operations.

***Our operations may be adversely impacted by increases in energy prices.***

The casino properties use significant amounts of electricity, natural gas and other forms of energy. Although no energy shortages have been experienced, any such occurrences or other events which cause energy price increases in the geographic areas in which we operate could result in a decline in the disposable incomes of potential customers and a corresponding decrease in visitation and spending at our casino operations, which could negatively impact revenue.

***A write-off of all or a part of our identifiable intangible assets or goodwill would hurt our operating results and reduce our net worth.***

Under generally accepted accounting principles, we review our identifiable intangible assets, including goodwill, for impairment at least annually or when events or changes in circumstances indicate their carrying value may not be recoverable. Factors which may be considered a change in circumstances, indicating that the carrying value of our goodwill or other identifiable intangible assets may not be recoverable, include a sustained decline in the value of shares of our common stock, reduced future cash flow estimates, a disposal of a portion of our business and slower growth rates in our industry. We may be required to record a significant non-cash impairment charge in our financial statements during the period in which any impairment of our goodwill or other identifiable intangible assets is determined, negatively impacting our results of operations and stockholders' equity.

As of December 31, 2014, we had approximately \$126.5 million of total identifiable intangible assets, as well as \$68.5 million of goodwill, which represented approximately 11% of our total assets. We amortize definite-lived intangible assets such as customer loyalty programs based on estimated useful lives. We do not amortize indefinite-lived intangible assets, such as gaming license rights in jurisdictions where a limited number of licenses are issued. As of December 31, 2014, definite-lived intangible assets totaled \$6.7 million and indefinite-lived intangible assets totaled \$119.9 million.

Because valuation methodologies used in impairment testing include forecast information and assumptions about future performance, the likelihood and severity of impairment charges increases during periods of market volatility, such as the one which recently occurred as a result of the general weakening of the global economy. If we are unable to retain our existing customers, or if average customer spending or customer traffic decreases, we may incur future impairment charges. In the event we identify an impairment of indefinite lived intangible assets or goodwill, we would record a charge to earnings. Although it would not affect our cash flow, a write-off in future periods of all or a part of our intangible assets could adversely affect our business, financial condition and results of operations.

***We depend upon our key employees and certain members of our management.***

Our success is substantially dependent upon the efforts and skills of our senior executives: Michael Silberling, our Chief Executive Officer joined us in August 2014 following the departure of our prior Chief Executive Officer, David D. Ross, in July 2014. In addition, Donna Lehmann, our Senior Vice President, Chief Financial Officer and Treasurer, has announced her resignation effective March 31, 2015, and she will be succeeded in that role by Walter Bogumil, and our Senior Vice President, General Counsel and Secretary, Marc H. Rubinstein, in February 2015 transitioned from an employment to a consultant relationship. The loss of the services rendered by any of these senior executives could adversely affect our operations. In addition, we compete with other potential employers for employees, and we may not succeed in hiring and retaining the executives and other employees that we need. A failure to hire quality employees could have a material adverse effect on our business, financial condition and results of operations.

***If we are unable to protect the security of confidential customer information, including credit card data, we could be exposed to data loss, litigation and liability and our reputation could be significantly harmed.***

We rely on information technology and other systems to maintain and transmit personal customer information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. In connection with credit card sales, we transmit confidential credit card information securely over public networks and store it in our data warehouse. Third parties may have the opportunity, technology or know-how to breach the security of this customer information, and our security measures may not effectively prohibit others from obtaining improper access to this information. If a person is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation and liability and could seriously disrupt our operations, and any resulting negative publicity could significantly harm our reputation. We maintain an insurance policy which provides \$5.0 million of coverage, subject to a \$250,000 deductible, for information system breaches; however, we cannot provide absolute assurance that the coverage will be sufficient to cover all claims arising from the recent breach of our systems, including any assessments imposed by the payment card industry.

For example, in late 2013, we learned that our payment processing system had become infected by malware, which resulted in a compromise of credit card and debit card information belonging to individuals who used their cards at restaurants, hotels and gift shops at our facilities between March 14 and October 16, 2013. As of November 14, 2013, our forensics expert advised us that our credit card processing systems were free of functioning malware. In April 2014, we learned that another unauthorized intrusion and installation of malware compromising the credit card processing environment had occurred. We then hired a different professional forensics investigation firm to conduct a thorough investigation of the more recently discovered event, and the security of our information technology environment as it relates to both incidents. As a result of the investigation, we have reason to believe that credit card and debit card information from individuals who used their cards at restaurants, hotels and gift shops at our properties between December 7, 2013 and April 28, 2014, may have been compromised. We have encouraged our patrons to protect against possible identity theft or other financial loss by reviewing account statements for potential fraudulent activity during the period of exposure.

As of December 31, 2014, we have incurred \$1.2 million in expense, including deductibles, for the two security breaches. We do not expect to incur additional material expenses that are not covered by insurance. However, we cannot estimate the total amount which we will ultimately incur and be reimbursed by insurance carriers because, although the investigation has concluded, we have not received all of the assessments and evaluations from the credit card processors and issuing banks seeking to recover the cost of replacement cards and a portion of fraudulent charges, nor have we received any third-party claims as of this date. Various states attorneys general also continue to investigate the incidents.

***We face extensive regulation from gaming and other government authorities.***

As owners and operators of gaming facilities, we are subject to extensive state and local regulations in Nevada, Iowa and Missouri and Colorado. Certain approvals from gaming authorities must be obtained before we can take certain actions with respect to our properties in these jurisdictions. In addition, the Nevada Gaming Commission, the Iowa Racing and Gaming Commission, the Missouri Gaming Commission and the Colorado Limited Gaming Control Commission require us and our subsidiaries to obtain gaming licenses and require our officers, key employees and business entity affiliates to demonstrate suitability to hold gaming licenses. Such state and local government authorities may limit, condition, suspend or revoke a license for any cause deemed reasonable by the respective licensing agency. They may also levy substantial fines against us or our subsidiaries or the entities or individuals involved in violating any gaming laws or regulations. The violation of any such state and local regulations could have a material adverse effect on our business, financial condition and results of operations.

In Nevada, the Nevada Gaming Commission could request that a state court appoint a supervisor to operate any non-restricted gaming establishment operated by us if the licenses held by us are revoked, suspended or otherwise lapse. In such extraordinary circumstances, earnings generated by gaming operations during a supervisor's appointment (except for reasonable rental value) could be forfeited to the State of Nevada. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

On February 28, 1995, the electorate of Clarke County, Iowa (the county in which the Lakeside Casino is located) approved an excursion boat gambling referendum permitting such gaming operations in Clarke County. Every eight years a majority of the Clarke County electorate must reauthorize the excursion boat gambling referendum to allow gambling games to continue in Clarke County. Such a referendum took place on November 2, 2010, with the electorate voting on the proposition favoring continued gaming on riverboats in Clarke County. The next referendum is scheduled for November 2018. If the reauthorization referendum is defeated it would have a material adverse effect on our operations and financial condition.

In addition, Lakeside's excursion gambling boat license was approved for renewal at a March 5, 2015 meeting of the Iowa Racing and Gaming Commission. This license is not transferable and will need to be renewed annually and prior to the

commencement of each subsequent annual renewal period. The Class A and Class B licenses in Missouri were renewed for a four-year term in January 2013. The Black Hawk Casinos had their retail operator's licenses renewed in October 2014 for two-year terms.

Any future public offering of debt or equity securities by us will require review of and prior approval by the Nevada Gaming Commission, the Iowa Racing and Gaming Commission, the Missouri Gaming Commission and the Colorado Limited Gaming Control Commission. The Missouri Gaming Commission also requires notice of the intended incurrence of any private debt exceeding \$1 million and reserves the right to elect to have prior review and approval.

***State gaming laws and regulations may require holders of our debt or equity securities to undergo a suitability investigation, which may result in redemption of their securities.***

Many jurisdictions require any person who acquires beneficial ownership of debt or equity securities of a casino gaming company to apply for qualification or a finding of suitability. Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised by gaming authorities that it is required to do so may be denied a license or found unsuitable or unqualified, as applicable. Any holder of securities that is found unsuitable or unqualified or denied a license, and who holds, directly or indirectly, any beneficial ownership of a gaming entity's securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, a gaming entity may be subject to disciplinary action if such gaming entity, after receiving notice that a person is unsuitable to be a holder of securities or to have any other relationship with such gaming entity or any of its subsidiaries:

- pays that person any dividend or interest upon the securities;
- allows that person to exercise, directly or indirectly, any voting ownership right conferred through securities held by that person;
- pays remuneration in any form to that person for services rendered or otherwise; or
- fails to pursue all lawful efforts to require such unsuitable person to relinquish the securities including, if necessary, the immediate purchase of such securities for the lesser of fair value at the time of repurchase or fair value at the time of acquisition by the unsuitable holder.

In the event that disqualified holders fail to divest themselves of such securities, gaming authorities have the power to revoke or suspend the casino license or licenses related to the regulated entity that issued the securities. In addition, the Articles of Incorporation of Affinity Gaming provide that we may redeem our stock from an Unsuitable Person (as such term is defined in the Articles of Incorporation).

***The approval of the Nevada Gaming Commission, Iowa Racing and Gaming Commission, Missouri Gaming Commission and Colorado Limited Gaming Control Commission is required for change of control transactions and certain acquisitions of equity interests in the Company.***

Changes in the control of Affinity Gaming through merger, consolidation, equity or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby that person obtains control, may not occur without the approval of the Nevada Gaming Commission, the Iowa Racing and Gaming Commission, the Missouri Gaming Commission and the Colorado Limited Gaming Control Commission. The Nevada Gaming Commission, the Iowa Racing and Gaming Commission, the Missouri Gaming Commission and the Colorado Limited Gaming Control Commission may also require the equity holders, officers, directors and other persons having a material relationship or involvement with the entity acquiring control to be investigated and licensed as part of the approval process relating to the transaction.

Under Nevada law, any person who acquires more than 5% of our voting securities will be required to report such acquisition to the Nevada Gaming Commission. Any beneficial owner of more than 10% of our voting securities will be required to apply to the Nevada Gaming Commission for a finding of suitability. Under certain circumstances, an "institutional investor" as defined under the regulations of the Nevada Gaming Commission, which acquires beneficial ownership of more than 10%, but not more than 25%, of our voting securities (subject to certain additional holdings as a result of certain debt restructurings or stock repurchase programs under the Nevada Act), may apply to the Nevada Gaming Commission for a waiver of such finding of suitability requirement if the institutional investor holds our voting securities only for investment purposes. In addition, any beneficial owner of our voting securities, regardless of the number of shares beneficially owned, may be

required at the discretion of the Nevada Gaming Commission to file an application for a finding of suitability as such. In either case, a finding of suitability is comparable to licensing and the applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting the investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or by the Chair of the Nevada State Gaming Control Board may be found unsuitable. Any equity holder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the equity of a registered corporation beyond the period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a criminal offense and the Company and the gaming subsidiaries may become subject to disciplinary action if, after receipt of notice that a person is unsuitable to be an equity holder or to have any other relationship with the Company or the gaming subsidiaries, the Company pays that person any dividend or interest upon voting securities, allows that person to exercise, directly or indirectly, any voting right conferred through securities held by that person, pays remuneration in any form to that person for services rendered or otherwise; or fails to pursue all lawful efforts to require the unsuitable person to relinquish his voting securities for cash at fair market value.

Under Missouri law, institutional and passive investors that do not take an active role in management and own less than a 20% ownership interest and more than a 5% ownership interest in the Company may either file for a key person license or seek a waiver of licensure. However, a passive investor owning more than a 5% ownership interest in the Company that desires to take an active role in the management or operations of the Company, or any investor that owns more than a 20% ownership interest in the Company, will be required to file an application for key person licensure. In addition, any investor wishing to acquire more than a 25% ownership interest in the Company will be required to apply for approval of the acquisition as a change in control; failure to obtain such approval before a change in control may result in immediate and automatic loss of the license to conduct gaming. If the investor is not found suitable, the investor will be required to divest its interest in the Company. In addition, we will be required to provide the Missouri Gaming Commission with prior notice if we intend to transfer, issue, grant a security interest in, or pledge 5% or more of our equity.

Under Iowa law, any person who intends to acquire 5% or more of the equity securities of a licensed entity must, prior to such acquisition, obtain approval from the Iowa Racing and Gaming Commission. As a matter of policy, the Iowa Racing and Gaming Commission has granted institutional investor waivers.

Under Colorado law, persons who acquire direct or indirect beneficial ownership of (a) 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of incorporation the Rule 4.5 charter language provisions; or (b) 5% or more of the beneficial interest in a gaming licensee directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee, referred to as “qualifying persons,” shall notify the Division of Gaming within 10 days of such acquisition, are required to submit all requested information and are subject to a finding of suitability as required by the Division of Gaming or the Colorado Commission. Licensees also must notify any qualifying persons of these requirements. A qualifying person other than an institutional investor whose interest equals 10% or more must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such securities. Licensees must also notify any qualifying persons of these requirements. Whether or not notified, qualifying persons are responsible for complying with these requirements.

A qualifying person who is an institutional investor under Rule 4.5 and who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities must apply to the Colorado Commission for a finding of suitability within 45 days after acquiring such interests.

Such requirement to be found suitable to hold our voting securities may discourage or delay trading of our securities and, in particular, change of control transactions.

***Changes to applicable gaming laws could have a material adverse effect on our operations and financial condition.***

Gaming laws are generally based upon declarations of public policy which are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;

- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenue, providing reliable record keeping and requiring the filing of periodic reports;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenue through taxation and licensing fees.

Changes in these laws, regulations and procedures could have an adverse effect on our proposed gaming operations.

***Our operations are subject to numerous laws and regulations resulting from our diverse operating activities***

We are subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws, regulations and permits that govern the serving of alcoholic beverages and the smoking of tobacco products. Any changes to these laws could have a material adverse effect on our business, financial condition and results of operations.

***Potential changes in legislation and regulation could negatively impact our gaming operations.***

From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. Any such change to the regulatory environment or the adoption of new federal, state or local government legislation could have a material adverse effect on our business.

***Our operations could be adversely affected due to the adoption of certain anti-smoking regulations.***

Although, not permitted at casino locations in Colorado, smoking is currently permitted at casino locations in Nevada, Missouri, and Iowa. From time to time, bills which would restrict or ban smoking in casinos are introduced in state legislatures and in city/town councils. For example, a proposed ordinance was approved by the voters of the City of St. Joseph, Missouri in April 2014, which amended the local health and sanitation code to provide smoke-free indoor workplaces and public places. The ordinance includes an exemption allowing smoking in casino gaming areas, which exemption includes the casino at the St. Jo Frontier and will remain in place unless and until smoking in casino areas is prohibited in all non-Native American casinos located in the Missouri and Kansas counties of the Greater Kansas City area. This ordinance currently is undergoing legal challenges by local tavern owners. We cannot determine the manner, nature or likelihood of changes in the current laws relating to smoking in public places or the effect of regulations regarding secondhand smoke. New anti-smoking laws, if adopted, could have a material adverse effect on our business, financial condition and results of operations.

***Changes to applicable tax laws could have a material adverse effect on our financial condition.***

We expect to pay substantial taxes and fees in connection with our operations as a gaming company. From time to time, federal, state and local legislators and other government officials have proposed and adopted changes in tax laws, or in the administration of those laws affecting the gaming industry. For example, in 2011, legislation was introduced in Iowa to increase the gross gaming revenue tax in that state from 22% to 36%. In 2012, the Colorado Limited Gaming Control Commission voted to reduce the gross gaming revenue tax in that state from 20% to 19%, causing the Governor of Colorado to replace the commissioners; the replacement commissioners reinstated the tax at 20%. In 2014, Nevada voters defeated a referendum to impose a 2% gross margins tax on all businesses, including casinos. In 2015, the Governor of Nevada has proposed the implementation of a broad business license fee that would impact all of our non-gaming operations. The Governor's bill is currently under consideration by the Nevada Legislature. It is not possible to determine the likelihood of changes in tax laws or in the administration of those laws. If adopted, changes to applicable tax laws could have a material adverse effect on our business, financial condition and results of operations. Due to the continued pressures on the state legislatures to address shortfalls in their budgets associated with the global financial crisis, there may be more support to look to increased taxation which could affect all of our gaming properties directly, or indirectly by taxing our customers. Any increase in taxes would have a material adverse effect on our business, financial condition and results of operations.

***Environmental legislations or regulations, if enacted, could lead to an adverse impact on our results of operations and financial condition if such legislations or regulations result in a smaller drive-in tourist market.***

Global climate change issues have received an increased focus on the federal and state government levels, which could potentially lead to additional environmental rules and regulations that impact how our drive-in tourist market is able to come to our facilities. The ultimate impact on our business would be dependent upon the specific rules and regulations adopted and we

cannot predict the effects of any such legislation at this time. However, if such legislations or regulations result in increased costs to motor vehicle drivers, then we may as a result see fewer drive-in tourists, which could adversely impact our operations and financial condition.

***The business of the Primm Casinos may be adversely impacted if their use of water exceeds allowances permitted by federal and local governmental agencies or if such governmental agencies impose additional requirements in connection with such use of water, which in each case could lead to an adverse impact on our operations and financial condition.***

The Primm Casinos are not served by a municipal water system. As a result, the water supply of such casinos is dependent on rights they have been granted to water in various wells located on federal land in the vicinity of the Primm Casinos and permits that allow the delivery of water to the Primm Casinos. These permits and rights are subject to the jurisdiction and ongoing regulatory authority of the U.S. Bureau of Land Management, the States of Nevada and California and local governments. While we believe that adequate water for the Primm Casinos is available, the future water needs of the Primm Casinos may exceed the permitted allowance. In such an event, future requests for additional water may not be approved or may be approved with terms or conditions that are more onerous. Any such denial or any such additional terms and conditions may have a material adverse effect on the results of operations of the Primm Casinos, thereby adversely affecting our results of operations and financial condition.

***Compliance with environmental laws and other government regulations could impose material costs.***

We are subject to numerous environmental laws and regulations that impose various environmental controls on our business operations, including, among other things, the discharge of pollutants into the air and water and the investigation and remediation of soil and groundwater affected by hazardous substances. Such laws and regulations may otherwise relate to various health and safety matters that impose burdens upon our operations. These laws and regulations govern actions that may have adverse environmental effects and also require compliance with certain practices when handling and disposing of hazardous wastes. These laws and regulations also impose strict, retroactive and joint and several liability for the costs of, and damages resulting from, cleaning up current sites, past spills, disposals and other releases of hazardous substances. Additionally, as an owner or operator, we could also be held responsible to a governmental entity or third parties for property damage, personal injury and investigation and cleanup costs incurred by them in connection with any contamination.

For example, we recently completed construction of and opened a new travel center at Whiskey Pete's in Primm, Nevada. In connection with the construction, we encountered contaminated soil requiring remediation. Much of the contamination resulted from a gas station operated more than 30 years ago, and from abandoned underground fuel lines. We also began testing at the direction of the Nevada Division of Environmental Protection to determine the extent to which the contamination has affected the groundwater, and we have agreed to continue monitoring the groundwater for a period of at least three years. From the beginning of construction through December 31, 2014, we have incurred approximately \$3.8 million on remediation work at the Whiskey Pete's site. We have an insurance policy which provides coverage for environmental remediation costs of up to \$5.0 million. We received \$1.0 million from our insurer in 2013, and \$0.6 million in 2014. We may be required to make additional expenditures to remain in, or to achieve, compliance with environmental laws in the future and such expenditures may be material.

We cannot assure you that we have been or will be in compliance with environmental and health and safety laws at all times. If we violate these laws, we could be fined, criminally charged or otherwise sanctioned by regulators. We may be required to incur further costs to comply with current or future environmental and safety laws and regulations. In addition, in the event of accidental contamination or injury from these materials, we could be held liable for any damages that result and any such liability could exceed our resources. We believe that our expenditures related to environmental matters have not had, and are not currently expected to have, a material adverse effect on our business, financial condition or results of operations. However, the environmental laws under which we operate are complicated and often increasingly more stringent, and may be applied retroactively. Accordingly, we may be required to make additional expenditures to remain in, or to achieve, compliance with environmental laws in the future and such additional expenditures may have a material adverse effect on our business, financial condition or results of operations.

***Adverse winter weather conditions in Colorado, the Midwest, the Sierra Nevada Mountains and Reno-Lake Tahoe area have and could continue to have a material adverse effect on the results of operations and financial condition of our casinos, which could lead to an adverse impact on our results of operation and financial condition.***

Adverse winter weather conditions, particularly snowfall, can deter customers of Rail City, the Midwest casinos and Colorado casinos from traveling or make it difficult for them to frequent our facilities. If these locations were to experience

prolonged adverse winter weather conditions, the results of operations and financial condition of these casinos could also be materially adversely affected, thereby adversely affecting our overall results of operations and financial condition. We experienced severe weather conditions in the winter of 2013 which continued through first quarter 2014. The prolonged snowfall and record low temperatures negatively impacted visitation and results of operations at our facilities. Continued adverse weather may have a greater negative effect on our operations.

***Riverboats and dockside facilities are subject to risks relating to weather and must comply with applicable regulations.***

We own and operate riverboat and dockside casino facilities, which are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, extended or extraordinary maintenance, flood or other severe weather. Reduced patronage and the loss of a dockside or riverboat casino from service for any period of time could adversely affect our results of operations. We experienced a flood at our St. Joseph, Missouri riverboat which resulted in the facility being closed for nearly all of the third quarter of 2011. Additionally, we have experienced road closures related to flooding that have restricted access to our riverboats at intermittent periods. The riverboats are subject to inspection every year and were inspected in November 2013 in Missouri. Our only vessel is the boat located in Lakeside, Iowa, and this boat had its turbines removed in late 2008, as riverboats in Iowa are no longer required to cruise.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

Our principal properties consist of the following:

### **NEVADA**

#### **Corporate Office**

We lease our corporate office space. The five-year lease commenced on May 1, 2012.

#### **Silver Sevens**

We own the ten-acre site in Las Vegas on which Silver Sevens is located.

#### **Rail City**

We own the land and building on which Rail City is located in Sparks, Nevada. The Rail City Casino sits on approximately 7.5 acres.

#### **Buffalo Bill's, Whiskey Pete's and Primm Valley**

We lease approximately 170 acres of land on which Buffalo Bill's, Whiskey Pete's and Primm Valley are located in Primm, Nevada. The lease ends on June 30, 2043, with an option to renew the lease for one additional 25-year term. An independent third party leases and manages two 18-hole Tom Fazio golf courses with a full-service restaurant and club house near our properties. Another third party leases and manages a retail outlet mall adjacent to the Primm Valley Resort. Additionally, we own approximately 16 acres of land adjacent to the leased parcels.

## **MIDWEST**

### **St Jo**

We own a total of 72 acres of land in St. Joseph, Missouri. We also own the building and improvements on the developed portion of this land where certain facilities of St Jo are located.

### **Mark Twain**

We own a total of 122 acres of land in LaGrange, Missouri. We also own the building and improvements on the developed portion of this land where certain facilities of Mark Twain are located. We lease a very small parcel of land adjacent to the property from the city of LaGrange.

### **Lakeside**

We own a total of 121 acres of land in Osceola, Iowa, which includes the land on which certain facilities of Lakeside are located, including the hotel, convention facilities, and RV park. We lease the use of West Lake and certain real estate surrounding West Lake from the City of Osceola, Iowa and its water works board. The lease expires on May 19, 2019, and we have an option to extend for six additional successive terms of five years each. We lease 11 acres of the land we own adjacent to our facility, to Pilot for operation of a Pilot branded truck stop and gas station.

## **COLORADO**

### **Black Hawk Casinos**

We own approximately 1.5 acres in Black Hawk, Colorado on which the Golden Mardi Gras Casino, Golden Gates Casino and Golden Gulch Casino—all in close proximity to one another—operate. We also own 1.9 acres of land adjacent to the properties which contain a parking structure and surface parking lot.

## **ITEM 3. LEGAL PROCEEDINGS**

For a brief description of material pending legal proceedings, refer to Note 13 to the accompanying consolidated financial statements.

We are party to other ordinary and routine litigation incidental to our business. We do not expect the outcome of any pending litigation to have a material adverse effect on our consolidated financial position or results of operations.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

## **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

### **MARKET INFORMATION**

Our outstanding common stock is privately held. No established public trading market exists for our common stock, and, aside from the Registration Rights Agreement (described in "Risk Factors"), we have no plans, proposals, arrangements or understandings with any person with regard to developing such a market for our common stock.

At December 31, 2014, 177,497 shares of our common stock were subject to options related to our share-based compensation plan. Each option is convertible into one share of our common stock upon exercise, and the holder could sell each such share of common stock pursuant to Rule 144 of the Securities Act of 1933.

## HOLDERS OF COMMON STOCK

We had 67 holders of record of our common stock as of March 27, 2015.

## DIVIDENDS

We have never declared or paid dividends or distributions on our common equity. We currently intend to retain all available funds and any future consolidated earnings to fund our operations and the development and growth of our business; therefore, we do not anticipate paying any cash dividends.

Restrictions imposed by our debt instruments significantly restrict us from making dividends or distributions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources.”

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS AS OF DECEMBER 31, 2014

The following table presents certain information as of December 31, 2014 regarding the Affinity Gaming Amended and Restated 2011 Long Term Incentive Plan (“2011 LTIP”). Our shareholders authorized our Board to design a plan under which the Board can issue equity awards collectively representing as many as 2,000,000 shares of our common stock to our officers, directors, employees and consultants. The Board approved such a plan, our 2011 LTIP, in March 2011, as amended in November 2014. As of December 31, 2014, the Board had only issued stock options and restricted stock shares under our 2011 LTIP.

<b>Plan category</b>	<b>Restricted Stock Shares Awarded and Outstanding</b>	<b>Number of Common Stock Shares to be Issued upon Exercise of Outstanding Options</b>	<b>Weighted Average Exercise Price of Outstanding Options</b>	<b>Number of Securities Remaining Available for Future Issuance under 2011 LTIP</b>
Approved by security holders	300,464	177,497	\$ 10.99	1,522,039
Not approved by security holders	—	—	\$ —	—

As of December 31, 2014, 68,182 options and 230,403 restricted stock shares had vested.

## ISSUER SALES OF EQUITY SECURITIES

During 2014, we did not conduct any unregistered sales of our equity securities, nor did we have any repurchase plan or program under which shares may yet be purchased.

## ISSUER PURCHASES OF EQUITY SECURITIES

We neither purchased any shares of our common stock during the fourth quarter nor have we made any plans or established any programs to purchase any shares of our common stock.

## ITEM 6. SELECTED FINANCIAL DATA

The following tables set forth a summary of our selected consolidated historical financial data from continuing operations as of and for the periods presented (in thousands). We derived the summary consolidated historical balance sheet data as of December 31, 2014 and 2013, and the summary historical consolidated data for results of operations for the years ended December 31, 2014, 2013 and 2012, from our audited consolidated financial statements included elsewhere in this 2014 Form 10-K. We derived the summary consolidated historical balance sheet data as of December 31, 2012, 2011 and 2010, and the summary historical consolidated data for results of operations for our year ended December 31, 2011, and for Predecessor's year ended December 31, 2010, from audited consolidated financial statements not included in this 2014 Form 10-K.

We adjusted certain amounts in the prior years' financial information from the amounts originally reported in the respective Forms 10-K to account for discontinued operations and to account for the reclassification of unamortized debt issuance costs incurred with lenders to conform to the 2014 presentation.

You should read this information together with the information included under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our historical consolidated financial statements and related notes included elsewhere in this 2014 Form 10-K. For a discussion of matters affecting comparability of our results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Executive Overview."

	Successor				Predecessor
	Year Ended December 31,				
	2014	2013	2012	2011	2010
Net revenue	\$ 387,991	\$ 390,488	\$ 403,176	\$ 378,587	\$ 380,392
Income (loss) from continuing operations	\$ (23,677)	\$ (991)	\$ 4,634	\$ 7,872	\$ 419,185

	December 31,				
	2014	2013	2012	2011	2010
Cash and cash equivalents	\$ 135,175	\$ 140,857	\$ 126,873	\$ 45,956	\$ 59,781
Total assets	614,178	637,944	651,922	603,740	589,237
Total debt <sup>1</sup>	374,701	383,999	396,716	348,400	350,000
Stockholders' equity (deficit)	\$ 182,455	\$ 204,519	\$ 207,130	\$ 206,235	\$ 198,033

<sup>1</sup> Net of original issue discount and unamortized debt issuance costs incurred with lenders.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## EXECUTIVE OVERVIEW

Headquartered in Las Vegas, Nevada, Affinity Gaming (together with its subsidiaries, “Affinity” or “we”) is a diversified, multi-jurisdictional Nevada corporation which operates casinos through wholly-owned subsidiaries in Nevada, Missouri, Iowa and Colorado. Casino operations as of December 31, 2014 included the following wholly-owned casinos (by segment):

### Nevada

Silver Sevens Hotel & Casino	Las Vegas, NV	(“Silver Sevens”)
Primm Valley Casino, Resort & Spa	Primm, NV	(“Primm Valley”)
Buffalo Bill’s Resort & Casino	Primm, NV	(“Buffalo Bill’s”)
Whiskey Pete’s Hotel & Casino	Primm, NV	(“Whiskey Pete’s”)
Rail City Casino	Sparks, NV	(“Rail City”)

### Midwest

St Jo Frontier Casino	St. Joseph, MO	(“St Jo”)
Mark Twain Casino	La Grange, MO	(“Mark Twain”)
Lakeside Hotel & Casino	Osceola, IA	(“Lakeside”)

### Colorado

Golden Mardi Gras Casino	Black Hawk, CO	(“Golden Mardi Gras”)
Golden Gulch Casino	Black Hawk, CO	(“Golden Gulch”)
Golden Gate Casino	Black Hawk, CO	(“Golden Gate”)

As of December 31, 2014, casino operations collectively offered approximately 288,400 square feet of gaming space with approximately 7,318 slot machines and 133 table games, while lodging operations offered approximately 3,125 hotel rooms.

We also provide consulting services to Hotspur Casinos Nevada, Inc. (“Hotspur”), the operator of the Rampart Casino at the JW Marriott Resort in Las Vegas. Under the terms of the consulting agreement, which will terminate on April 1, 2015, Hotspur pays us a fixed annual fee in monthly installments. In addition to the monthly installments, we are entitled to an incentive fee in any year in which EBITDA (as defined in the consulting agreement) equals or exceeds the threshold EBITDA for that year.

### Seasonality

Our casinos in Northern Nevada, the Midwest and Colorado experience extreme weather conditions which occasionally interrupt our operations. Additionally, our casinos in Missouri are subject to flooding depending on the water levels of the Missouri and Mississippi Rivers. Snow and other adverse weather resulted in a significant number of days with lost or reduced business at our Midwest and Colorado properties during the winter of 2013-2014. If there is a prolonged disruption at any of our properties or if there are a disproportionate number of weekends affected by extreme weather, our results of operations and financial condition could be materially adversely affected.

### Outlook

Recent improvement in consumer confidence, employment data and other macroeconomic indicators are viewed as positive for regional gaming operations. However, potential changes to federal and state tax rates, payroll taxes, the cost of

health care, and other uncertainty related to ongoing political deadlock on fiscal issues are expected to continue to affect our business. Many of our customers continue to face uncertainty, and we expect that discretionary spending will remain at reduced levels over the near term. However, we believe that our strategy of offering value-oriented, friendly, convenient locations with consistent marketing programs and service supports our business growth efforts. Perceived value, customer satisfaction and loyalty are critical to our success.

Should the economic recovery continue, we believe we are well-positioned to capitalize on high repeat patronage from our local and drive-in tourist gaming markets. Our business strategy focuses on attracting and fostering repeat business from our local gaming patrons. Local gaming patrons are typically sophisticated gaming customers who seek convenient locations, high payouts and a pleasant atmosphere. We believe our continued commitment to providing a value-oriented, quality casino entertainment experience for our customers will allow us to gain market share and improve profitability.

### **Matters Affecting Comparability of Results**

Significant factors or events have had a material impact on our results of operations for the periods discussed below and affect the comparability of our results of operations from period to period.

**Debt and Interest Expense.** On December 13, 2013, we completed the First Amendment to the Credit Agreement, which, among other things, reduced the interest rate applicable to our Initial Term Loan, which as of June 30, 2014 was 1.25% less than prior to the First Amendment.

On July 22, 2014, we completed the Second Amendment to the Credit Agreement (“Second Amended Credit Agreement”). In addition to other changes, the Second Amendment increased the interest rate applicable to our Initial Term Loan, which as of September 30, 2014 was 1% more than that specified in the First Amendment and 0.25% less than prior to the First Amendment. The Second Amendment also adjusted the financial covenants by changing a maximum Total Net Leverage Ratio of 6.5x through June 30, 2014 (calculated using total leverage, net of \$25 million cash) to a maximum First Lien Net Leverage Ratio of 3.75x through March 31, 2016 (calculated using outstanding first lien senior secured debt, net of \$40 million cash) and by lowering the minimum required interest coverage ratio from 2.0x through December 31, 2014 and 2.15x thereafter to a constant minimum ratio of 1.5x.

**Discontinued Operations.** On February 1, 2013, we completed the sale to Truckee Gaming, LLC (“Truckee Gaming”) of the Sands Regency Casino Hotel in Reno, Nevada, the Gold Ranch Casino & RV Resort in Verdi, Nevada, and the Dayton Depot Casino in Dayton, Nevada (“Truckee Disposition”). In February 2012, we completed the sale of our slot route, two Pahrump, Nevada casinos and our Searchlight, Nevada casino. The results of operations of each of the properties sold is presented in discontinued operations for the years presented. Results of operations for the properties sold were previously reported in the Nevada Segment results.

**Acquisition.** On February 29, 2012, we acquired three casinos located in Black Hawk, Colorado, which we leased from the previous owners until we obtained our Colorado gaming licenses. On November 1, 2012, we began operating the casinos in Black Hawk. We recorded rental income in our consolidated results of operations beginning March 1, 2012 pursuant to the terms of the lease agreement until such time as we obtained gaming approval and began operating the casinos on November 1, 2012.

### **Key Performance Indicators**

We assess a variety of financial and operational performance indicators to manage our business, but the key performance indicators which we use include gross gaming revenue, promotional allowances and marketing expense, net revenue and controllable operating costs.

Key volume indicators such as slot machine win per unit per day, table games win per unit per day, and promotional allowances as a percentage of gross gaming revenue are analyzed in connection with our casino operations. In addition to the volume indicators, we also analyze the number of patron trips and the amount of money spent per patron trip. The industry uses the term “average daily rate” (“ADR”) to define the average amount of hotel revenue per occupied room per day, and the term “occupancy percentage” to define the total percentage of rooms occupied (i.e., the number of rooms occupied divided by the total number of rooms available). We use ADR and occupancy percentage to analyze the performance of our hotel

operations. Fuel and retail operations include revenue from gas stations and convenience stores which we own and operate. Management measures the performance of fuel operations based on gallons sold and profit margin per gallon.

We use earnings before interest expense; income tax; depreciation and amortization; share-based compensation expense; pre-opening costs; write offs, reserves and recoveries; loss on extinguishment or modification of debt; loss on impairment of assets; gains or losses on the disposition of assets; and restructuring and reorganization costs (“Adjusted EBITDA”) as a measure of profit and loss to manage the operational performance of each geographical region in which we operate, and to discuss our results with the investment community.

Adjusted EBITDA is a measure which does not conform to generally accepted accounting principles in the United States (“GAAP”). You should not consider this information as an alternative to any measure of performance as promulgated under GAAP, such as operating income and net income. Our calculation of Adjusted EBITDA may be different from the calculations used by other companies; therefore, comparability may be limited. We have included a reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, which in our case is operating income from continuing operations.

## RESULTS OF OPERATIONS

### Reportable Segment Results

The following tables present financial information by reportable segment and by corporate and other (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net revenue			
Nevada	227,516	230,840	262,585
Midwest	122,064	122,292	127,893
Colorado	38,411	37,356	12,698
Total net revenue	<u>\$ 387,991</u>	<u>\$ 390,488</u>	<u>\$ 403,176</u>
Adjusted EBITDA			
Nevada	\$ 26,182	\$ 28,609	\$ 32,784
Midwest	34,130	37,041	40,820
Colorado	4,593	8,322	7,718
Corporate and other	(14,359)	(11,064)	(10,651)
Total Adjusted EBITDA	<u>\$ 50,546</u>	<u>\$ 62,908</u>	<u>\$ 70,671</u>

The following tables reconcile Adjusted EBITDA to operating income (in thousands):

**Year Ended December 31, 2014**

	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 26,182	\$ (14,650)	\$ —	\$ 448	\$ 11,980
Midwest	34,130	(7,582)	—	—	26,548
Colorado	4,593	(5,124)	—	—	(531)
Corporate and other	(14,359)	(1,223)	(455)	(24)	(16,061)
Continuing operations	<u>\$ 50,546</u>	<u>\$ (28,579)</u>	<u>\$ (455)</u>	<u>\$ 424</u>	<u>\$ 21,936</u>

**Year Ended December 31, 2013**

	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Loss on Impairment of Assets</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 28,609	\$ (14,729)	\$ —	\$ (3,125)	\$ (165)	\$ 10,590
Midwest	37,041	(7,023)	—	(3,100)	—	26,918
Colorado	8,322	(5,058)	—	—	—	3,264
Corporate and other	(11,064)	(999)	(1,169)	1,459	—	(11,773)
Continuing operations	<u>\$ 62,908</u>	<u>\$ (27,809)</u>	<u>\$ (1,169)</u>	<u>\$ (4,766)</u>	<u>\$ (165)</u>	<u>\$ 28,999</u>

**Year Ended December 31, 2012**

	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Pre-Opening Expense</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 32,784	\$ (14,150)	\$ —	—	\$ —	\$ 18,634
Midwest	40,820	(6,663)	—	—	78	34,235
Colorado	7,718	(2,042)	—	—	—	5,676
Corporate and other	(10,651)	(411)	(2,075)	(421)	707	(12,851)
Continuing operations	<u>\$ 70,671</u>	<u>\$ (23,266)</u>	<u>\$ (2,075)</u>	<u>(421)</u>	<u>\$ 785</u>	<u>\$ 45,694</u>

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

**Overall.** We recorded net revenue from continuing operations of \$388.0 million, compared to net revenue from continuing operations of \$390.5 million during the prior year, a decrease of \$2.5 million, or 0.6%. Adjusted EBITDA was \$50.5 million, compared to \$62.9 million during the prior year, a decrease of \$12.4 million, or 19.7%. Adjusted EBITDA, excluding corporate expense, decreased \$9.1 million, or 12.3%.

**Nevada.** Nevada operations include Rail City, Silver Sevens and our three Primm casinos. In addition to casino, lodging and food and beverage operations, our results from Primm include the operation of three gas station/convenience stores and a California lottery outlet. Nevada operations accounted for approximately 60% of our gross revenue from continuing operations during the years ended December 31, 2014 and 2013.

In our Nevada segment, net revenue decreased \$3.3 million, or 1.4%, primarily as a result of a decline in gross casino revenue and an increase in promotional allowances offered to casino patrons. Nevada Adjusted EBITDA declined \$2.4 million, or 8.5% when compared to the prior year. The Adjusted EBITDA contribution from casino operations decreased \$5.6 million, or 10.8%, offset primarily by an increase in the Adjusted EBITDA contribution from fuel and retail operations of \$2.2 million, or 22.5%. 2014 operating results were most significantly impacted by declines in revenue and increased marketing expenses seen in the first half of the year. During the latter half of the year, we analyzed the effectiveness of our promotional campaigns and refined marketing programs, resulting in fourth quarter improvement in year-over-year performance which offset some of the declines seen earlier in the year.

**Midwest.** Midwest operations include St Jo and Mark Twain in Missouri, and Lakeside in Iowa. Midwest operations accounted for approximately 30% of our gross revenue from continuing operations during the years ended December 31, 2014 and 2013.

Net revenue from our Midwest segment decreased \$0.2 million, or 0.2%. Adjusted EBITDA from our Midwest segment decreased \$2.9 million, or 7.9%. Results in the Midwest were primarily impacted by severe winter weather seen in the first quarter of 2014 and the constrained discretionary spending of our customers. We are encouraged by our Midwest properties' performance as gross gaming revenue outperformed the markets in which we operate in each jurisdiction. Reducing marketing and other operating expenses lead to an increase in both Adjusted EBITDA and the Adjusted EBITDA operating margin during the fourth quarter of 2014, reversing the trends seen in the first three quarters of the year.

**Colorado.** Colorado operations include the Golden Gates, the Golden Gulch and the Golden Mardi Gras casinos in Black Hawk. Colorado operations accounted for approximately 10% of our gross revenue from continuing operations during the years ended December 31, 2014 and 2013.

Net revenue from our Colorado segment increased \$1.1 million, or 2.8%, primarily due to aggressive promotional offers and free slot play initiatives which increased visitation to the newly renovated properties. Colorado Adjusted EBITDA decreased \$3.7 million, or 44.8%. The declines in Colorado Adjusted EBITDA were mainly driven by an increase in operating expenses, including increased marketing expenses, as the property completed its first full year of operations post acquisition and renovation impact. Operating results were negatively impacted as marketing expenses, including promotional free play, were increased to re-attract and retain patrons that had not visited the property during the nearly two year period since the properties were acquired.

*Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

**Overall.** We recorded net revenue from continuing operations of \$390.5 million, compared to net revenue from continuing operations of \$403.2 million during 2012, a decrease of \$12.7 million, or 3.1%. Adjusted EBITDA was \$62.9 million, compared to \$70.7 million during 2012, a decrease of \$7.8 million, or 11.0%. Adjusted EBITDA, excluding corporate expense, decreased \$7.4 million, or 9.0%.

**Nevada.** Nevada operations accounted for approximately 60% and 66% of our gross revenue from continuing operations during the years ended December 31, 2013 and 2012, respectively.

Gross revenue from our Nevada segment declined \$34.1 million, or 11.3%, led by the decline of \$16.0 million in fuel and retail revenue at Whiskey Pete's. The decline in fuel and retail revenue resulted from the new equipment leasing agreement related to diesel fuel and the maintenance station. Despite the revenue decline, the Adjusted EBITDA contribution from fuel and retail operations remained essentially comparable to the prior year. Casino revenue decreased \$10.3 million, or 6.7%, primarily due to declines in visitation and slot revenue at our Primm casinos. We experienced declines in unrated, or "transient", play and declines in rated play which we attribute to macroeconomic factors which impact discretionary income and the gaming budgets of our customers. Additionally, we continue to see intense competition in the Las Vegas locals market. Our Nevada casinos cater to locals and drive-in traffic, including Las Vegas visitors who typically visit our casinos for an

experience which they consider a value in comparison to the Las Vegas Strip. During periods of intense promotion in the Las Vegas market, we experience declines in visitation at Primm and Silver Sevens as customers take advantage of values offered by higher-end Las Vegas properties with which we compete. Declines in occupancy, primarily at Primm, drove a decrease in lodging revenue of \$3.4 million, or 12.6%. Food and beverage revenue also decreased \$2.8 million, or 8.2%, as a result of the decreased occupancy and visitation. Other revenue declined \$1.6 million, or 12.3%, due to reduced revenue from entertainment offerings at Primm.

Nevada Adjusted EBITDA decreased \$4.2 million, or 12.7%. The Adjusted EBITDA contribution from casino operations declined by \$4.4 million, or 7.9%, as a result of the factors discussed above which lead to a decline in the number of trips and spend per trip by our patrons. The Adjusted EBITDA contribution from lodging operations decreased \$2.8 million, or 28.1%, primarily due to reduced room occupancy at Primm. The loss of a significant group of lodgers which contributed to Primm's 2012 occupancy, coupled with the intense competition for the value-driven Las Vegas tourist, contributed to the decreased room occupancy. The contributions to Adjusted EBITDA from food and beverage operations and fuel and retail operations did not show significant fluctuation. Additional cost reductions, including payroll efficiencies, resulted in general and administrative expense reductions of \$2.7 million, or 5.6%.

**Midwest.** Midwest operations accounted for approximately 30% and 31% of our gross revenue from continuing operations during the years ended December 31, 2013 and 2012, respectively.

Gross revenue from our Midwest segment decreased \$5.8 million, or 4.1%, almost entirely in the casino division. Revenue from our Midwest segment declined due to the slow economic recovery and the adverse effect it had on our customers' discretionary spending. During 2013, we saw a decline in the number of admissions at each of our properties and a consistent spend per trip. We primarily attribute the decline in admissions to fewer unrated, or transient, customers visiting our properties. Gross revenue from hotel operations at our Lakeside property, and food and beverage operations across all three properties, remained relatively flat compared to 2012.

The decline in revenue from unrated slot play was almost entirely responsible for the decrease of \$3.8 million, or 9.3%, in Midwest Adjusted EBITDA. An increase in general and administrative expense totaling \$0.6 million, primarily due to increased marketing efforts targeting new or transient customers, also contributed to the decline. Modest increases in the Adjusted EBITDA contributions from food and beverage operations (approximately \$0.3 million) and from lodging operations (approximately \$0.3 million) partially offset the decreased contribution from casino operations and the increase in general and administrative expense.

**Colorado.** Colorado operations accounted for approximately 10% of our gross revenue from continuing operations during the year ended December 31, 2013. We did not operate the Black Hawk casinos prior to November 1, 2012, while our gaming licenses were pending approval.

The Colorado segment earned Adjusted EBITDA totaling \$8.3 million, compared to Adjusted EBITDA of \$7.7 million during 2012, which included \$6.5 million of rental income we collected from the prior owner of the properties and Adjusted EBITDA of \$1.2 million earned during November and December 2012, once we were licensed and began operating the properties. We completed renovations at the Golden Mardi Gras, our largest property, and held a grand re-opening on August 3, 2013. Renovations at the Golden Mardi Gras had the most significant effect on Colorado Adjusted EBITDA, as access to the property was restricted while we constructed the new front entrance. During the renovation period, we also operated fewer slot machines while the casino floor and food outlets were remodeled. Although we completed the remodel and grand re-opening in early August, statewide flooding which occurred in September and a disproportionate number of weekend days affected by the extreme snowy weather in December caused visitation and revenue declines, negatively impacting our operating results.

## Revenue and Expense by Category

The following table presents detail of our consolidated continuing operations gross revenue and expense by category (in thousands):

	Year Ended December 31,			Percent Change	
	2014	2013	2012	Current Year	Prior Year
<b>Total revenue</b>					
Casino	\$ 298,275	\$ 301,134	\$ 285,169	(0.9)%	5.6 %
Food and beverage	49,029	45,494	45,784	7.8 %	(0.6)%
Lodging	26,302	26,166	29,227	0.5 %	(10.5)%
Fuel and retail	58,893	59,011	74,971	(0.2)%	(21.3)%
Other	14,482	13,775	21,210	5.1 %	(35.1)%
Total revenue	446,981	445,580	456,361	0.3 %	(2.4)%
Promotional allowances	(58,990)	(55,092)	(53,185)	7.1 %	3.6 %
Net revenue	\$ 387,991	\$ 390,488	\$ 403,176	(0.6)%	(3.1)%
<b>Departmental cost and expense</b>					
Casino	\$ 123,803	\$ 119,357	\$ 110,267	3.7 %	8.2 %
Food and beverage	48,137	45,375	46,395	6.1 %	(2.2)%
Lodging	16,281	17,551	18,006	(7.2)%	(2.5)%
Fuel and retail	46,825	49,094	64,707	(4.6)%	(24.1)%
Other	7,921	7,704	9,649	2.8 %	(20.2)%
General and administrative	80,119	77,435	72,830	3.5 %	6.3 %
Depreciation and amortization	28,579	27,809	23,266	2.8 %	19.5 %
Corporate	14,814	12,233	12,726	21.1 %	(3.9)%
Write downs, reserves and recoveries	(424)	4,766	(785)	(108.9)%	(707.1)%
Departmental cost and expense	\$ 366,055	\$ 361,324	\$ 357,061	1.3 %	1.2 %
<b>Departmental Adjusted EBITDA Margins</b>					
Gaming	58.5%	60.4%	61.3 %		
Food and beverage	1.8%	0.3%	(1.3)%		
Lodging	38.1%	32.9%	38.4 %		
Fuel and retail	20.5%	16.8%	13.7 %		
Other	45.3%	44.1%	54.5 %		

**Gross Revenue.** Generally, the industry defines gaming revenue as gaming wins less gaming losses. We derive the majority of our gaming revenue, which we report in the Casino line item, from slot machines. Casino revenue also includes table game revenue and bingo, keno and poker revenue, where offered. Our gross revenue also includes:

- food and beverage revenue, which we earn from sales in restaurants and outlets we own and operate at our casinos and from room service sales;
- lodging revenue, which we earn from rooms we provide to customers;
- fuel and retail revenue, which we earn from sales of fuel, food and beverage items at franchised food outlets, lottery tickets and other retail items at facilities we own at the Primm Casinos, and at facilities we own and lease to third-parties at the Primm Casinos and Lakeside; and
- other revenue, which we earn from sources such as consulting agreements, leasing agreements, entertainment services, and ATMs at our casino properties.

We recognize revenue at the time we provide the product, room or service to the guest or the third-party.

Promotional allowances consist primarily of free play and promotional credits redeemed at our slot machines, as well as food, beverage, lodging and entertainment furnished gratuitously to customers. We include the retail value of items or services furnished gratuitously to customers in the respective revenue classifications, then we deduct the total amount of promotional allowances from total revenue. The cost of complimentary items or services is recorded as a casino expense.

**Cost and Expense.** We aggregate our direct costs and expense, including selling, general and administrative expense for each of our operations, and include them in the expense of our reportable segments, as discussed in “Reportable Segment Results.”

Corporate expense represents unallocated payroll, professional fees and other expense which we do not directly attribute to our reportable segments, as well as share-based compensation. We present corporate expense net of management fees or expense charged to our properties and cash fees earned under our consulting agreement with the operator of the Rampart Casino at the JW Marriott Resort in Las Vegas, from which we collected \$2.0 million, \$2.0 million and \$1.8 million in management fees during the years ended December 31, 2014, 2013 and 2012, respectively.

*Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

Corporate expense, excluding share-based compensation, increased by \$3.3 million, or 29.8%, primarily as a result of unusual expense we incurred as part of activities that we do not consider part of regular operations. During 2014, such activities included evaluating strategic initiatives, searching for a new CEO and reconstituting our Board of Directors, remediating the recent data breach, and incurring lobbying expenses in connection with the casino industry’s opposition to the Colorado racing initiative. We are permitted to add back such unusual expense to EBITDA, as defined in the Second Amended Credit Agreement, when determining compliance with our debt covenants. We incurred \$4.1 million of unusual expense, compared to unusual expense of \$1.1 million during the prior year. Excluding the unusual expense items and share-based compensation, we incurred \$10.3 million and \$9.9 million of corporate expense during the years ended December 31, 2014 and 2013, respectively.

Depreciation and amortization expense increased \$0.8 million or 2.8% when compared to prior year primarily due to asset additions which include the completion of the Primm travel center and Colorado renovations.

Net interest expense attributable to continuing operations decreased \$0.6 million, or 2.0%, primarily as a result of the reduced interest rate on our New Credit Facility. Previously capitalized fees were expensed to the debt modification line in connection with the second amendment to the New Credit Facility and the modification of the indenture governing the 2018 Notes which occurred in July, 2014. In connection with the modifications to the New Credit Facility and the indenture governing the 2018 Notes, we incurred consent fees totaling \$0.9 million, and expensed third party and other fees of \$0.8 million and \$2.0 million, respectively.

In the prior-year period, the line item write-downs, reserves and recoveries included an accrual of \$3.1 million for our estimated exposure in relation to settlement of the CCDC litigation (as described in Note 11), the write off of \$2.7 million of previously-capitalized environmental remediation costs, and the reversal of the remaining \$1.5 million we had accrued for IRS-imposed taxes, penalties and interest originating from the bankruptcy estate. In the current-year period, the same line item reflects the net effect of our receipt of \$0.4 million from our insurers related to our environmental remediation work at Primm (as described in Note 11).

During 2014, we evaluated our deferred tax assets and concluded that it is more likely than not that we will be unable to realize all of our net deferred tax assets and, as a result, recorded a valuation allowance of \$18.0 million. Establishing the valuation allowance caused our effective income tax rate for 2014 to vary significantly from the federal statutory rate and from our effective income tax rate for 2013 and 2012. Our income tax provision for the year ended December 31, 2014 and income tax benefit for the year ended December 31, 2013 were approximately \$15.5 million and \$0.5 million, respectively. The provision in 2014 was primarily due to the establishment of the valuation allowance. Income tax receivable as of December 31, 2014 consists primarily of estimated tax payments which we expect to be refunded.

#### *Year Ended December 31, 2013 Compared to Year Ended December 31, 2012*

Depreciation and amortization expense increased during 2013 by \$4.5 million, or 19.5%, primarily due to the addition of depreciation for our Colorado properties, which we acquired on November 1, 2012.

Inclusive of share-based compensation expense, corporate expense decreased \$0.5 million, or 3.9%, in 2013. Share-based compensation expense declined \$0.9 million primarily due to a decline in performance-based vesting of common stock and options granted to our CEO. Excluding share-based compensation expense, corporate expense increased \$0.4 million, primarily related to unusual expense we incurred as part of activities that we do not consider part of regular operations. During 2013, such activities included executing strategic initiatives, including the recent asset acquisitions and dispositions, as well as defending against the shareholder litigation and addressing the effects of the data security breach which occurred during 2013. We incurred unusual expense of this nature totaling approximately \$1.1 million during the year ended December 31, 2013.

Write downs, reserves and recoveries during 2013 represented a net expense of \$4.8 million, as compared to the recovery of \$0.8 million during 2012. As described in the previous section, during 2013 we made a litigation accrual, wrote off previously-capitalized environmental remediation costs, and reversed the accrual of certain expense that originated during the Predecessor's bankruptcy.

Net interest expense attributable to continuing operations increased \$0.7 million, or 2.3%, primarily as a result of the increased interest rate pursuant to the Second Amended Credit Agreement compared to the First Amendment. In July, 2014, we completed the Second Amendment which, among other things, increased the interest rate applicable to our Initial Term Loan by 1%, effective September 1, 2014.

The income tax benefit attributable to continuing operations during 2013 was approximately \$0.5 million, while the income tax benefit attributable to discontinued operations was \$0.1 million. Income tax receivable as of December 31, 2013 consisted primarily of estimated tax payments which we expect to be refunded.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

We rely on cash flows from operations as our primary source of liquidity. The New Credit Facility (described in "Business—Refinancing Transactions") permits us to incur limited indebtedness for trade payables and capital leases in the ordinary course of business and provides an accordion feature, whereby we may borrow up to an additional \$80.0 million subject to certain terms and conditions, including compliance with a maximum leverage ratio (as defined in the Second Amended Credit Agreement). We cannot assure you that, if required, we will be able to obtain the necessary approval for additional borrowing under our New Credit Facility.

We incur and pay interest on the Initial Term Loan under the Second Amended Credit Agreement at an uncommitted floating rate of LIBOR plus 4.00%, subject to a LIBOR floor of 1.25%. The Second Amended Credit Agreement also requires us to pay commitment fees related to the Revolving Credit Facility equal to an annualized rate of 0.50% on undrawn amounts when the net leverage ratio is greater than 3.50 to 1.00, or equal to an annualized rate of 0.375% on undrawn amounts when the net leverage ratio is less than or equal to 3.50 to 1.00. Unamortized loan fees, which we are amortizing over the life of the 2018 Notes and the Initial Term Loan, totaled \$9.0 million at December 31, 2014, inclusive of both the amount we report in Other assets and the amount we report as an offset to the related debt. As of December 31, 2014, we remained in compliance with all covenants specified in the Second Amended Credit Agreement.

As more fully described in Note 8, the Second Amended Credit Agreement requires us to make a mandatory repayment of amounts outstanding under certain circumstances. The agreement also requires that we deposit proceeds from the sale of non-core assets into an account subject to an account control agreement.

The New Credit Facility and the 2018 Notes contain various covenants which limit our ability to take certain actions including, among other things, our ability to:

- incur additional debt;
- issue preferred stock;
- pay dividends or make other restricted payments;
- make investments;
- create liens;
- allow restrictions on the ability of restricted subsidiaries to pay dividends or make other payments;
- sell assets; merge or consolidate with other entities; and
- enter into transactions with affiliates.

Our primary cash needs for the next twelve months of operation include interest payments on our debt and capital expenditures. Our capital expenditure needs include maintenance capital and capital for the acquisition of slot machines and of other equipment required to keep our facilities competitive. The Second Amended Credit Agreement potentially requires an annual principal prepayment based on excess cash flow (as defined in such agreement) calculated at the end of each calendar year. For the year ended December 31, 2014, we were not required to make an excess cash flow repayment. The most significant components of our working capital are current accounts receivable, accounts payable and other current liabilities. Our liquidity position benefits from the fact that we generally collect cash from transactions with customers the same day or, in the case of credit or debit card transactions, within a few days of the related transaction.

A variety of factors, many of which are outside of our control, affect our cash flow; those factors include litigation, regulatory issues, competition, financial markets and other general business conditions. We believe that we will have sufficient liquidity through available cash which, as of December 31, 2014, was \$135.2 million, the \$35 million Revolving Credit Facility (described in “Business—Refinancing Transactions”), trade credit and cash flow to fund our cash requirements and maintenance capital expenditures for at least the next twelve months. However, we cannot assure you that we will generate sufficient income and cash flow to meet all of our liquidity requirements.

### **Cash Flows from Operating Activities**

Operating activities provided \$22.8 million through December 31, 2014, compared to \$36.8 million provided through December 31, 2013. The decrease in cash provided by operating activities was driven by the decline in net income and payment timing related to the elements of working capital. Net income during 2014 included income tax expense related to the deferred tax asset valuation allowance, which has no net effect on cash flow.

## **Cash Flows from Investing Activities**

Investing activities used \$16.9 million through December 31, 2014, compared to using \$14.2 million through December 31, 2013. Net cash used in investing activities is primarily comprised of capital expenditures, which were \$17.2 million and \$31.7 million during the years ended December 31, 2014 and 2013, respectively. Cash flows used in investing activities during 2013 include proceeds from the Truckee Disposition, which partially offset capital expenditures.

## **Cash Flows from Financing Activities**

Financing activities used \$11.6 million and \$8.6 million during the years ended December 31, 2014 and 2013, respectively, which primarily represented repayments of long-term debt. The current period also included approximately \$2.9 million of fees paid in connection with the second amendment to the New Credit Facility and the consent obtained under the 2018 Notes.

## **Off-Balance Sheet Arrangements**

We currently have no material off-balance sheet arrangements.

## **Critical Accounting Policies**

Management's discussion and analysis of our results of operations and liquidity and capital resources is based upon our financial statements. We prepare our financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"). Certain of our accounting policies require that we apply significant judgment in determining the estimates and assumptions for calculating estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. We use, in part, our historical experience, terms of existing contracts, observance of trends in the gaming industry and information obtained from independent valuation experts or other outside sources to make our judgments. We cannot assure you that our actual results will conform to our estimates. We regularly evaluate these estimates and assumptions, particularly in areas we consider to be critical accounting estimates, where changes in estimates and assumptions could have a material impact on our results of operations, financial position and, generally to a lesser extent, cash flows.

Senior management and the Audit Committee of the Board of Directors have reviewed the disclosures included herein about our critical accounting estimates, and have reviewed the processes to determine those estimates.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Estimates incorporated into our consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated cash flows we use in assessing the recoverability of long-lived assets, as well as contingencies and litigation reserves, reserves for claims and assessments, and the estimated fair values we use to test certain assets for impairment. Actual results could differ from those estimates.

### *Long-Lived Assets*

When events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, we evaluate long-lived assets for potential impairment, basing our testing method upon whether the assets are held for sale or held for use. For assets classified as held for sale, we recognize the asset at the lower of carrying value or fair market value less costs of disposal, as estimated based on comparable asset sales, offers received, or a discounted cash flow model. For assets held and used, we estimate the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, we recognize an impairment loss for the difference between the carrying value of the asset and its fair value.

We must make several estimates, assumptions and decisions when testing long-lived assets for impairment. First, management must determine the usage of the asset. Because we must test assets at the lowest level for which identifiable cash flows exist, some assets must be grouped, and management has some discretion when choosing how to group assets. Also, we must estimate future cash flows which, by their nature, are subjective and could lead to actual results that differ materially from our estimates.

On a quarterly basis, we review our major long-lived assets to determine if events have occurred or circumstances exist that indicate a potential impairment. Potential factors which could trigger an impairment include poor performance compared to historical or projected operating results, negative industry or economic factors, or significant changes to our operating environment. We estimate future cash flows using our internal budgets. When appropriate, we discount future cash flows using a weighted-average cost of capital which we develop using a standard capital asset pricing model based on an industry peer group.

### *Goodwill and Intangible Assets*

In the fourth quarter of each year, we test goodwill and other indefinite-lived intangible assets for impairment. We also conduct tests between our annual tests if events occur or circumstances change which would, more likely than not, indicate a reduction in the fair values of the indefinite-lived intangible assets below their carrying values. When testing for impairment, we may choose to evaluate qualitative factors first to determine whether events and circumstances indicate that, more likely than not, an indefinite-lived intangible asset is impaired. If, after evaluating the totality of events and circumstances and their potential effect on significant inputs to the fair value determination, we determine that, more likely than not, an indefinite-lived intangible asset is impaired, we then quantitatively test for impairment.

Indefinite-lived intangible assets consist primarily of license rights, which we test for impairment using a discounted cash flow approach, and trademarks, which we test for impairment using the relief-from-royalty method. Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. We test goodwill for relevant reporting units for impairment using a discounted cash flow analysis based on our budgeted future results which are discounted using a weighted average cost of capital. The weighted average cost of capital is developed using a standard capital asset pricing model, based on guideline companies in our industry and market indicators of terminal year capitalization rates.

We make several estimates when evaluating indefinite-lived intangible assets for impairment. In particular, future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. In addition, the determination of capitalization rates and the discount rates used in the impairment tests are highly judgmental and dependent in large part on expectations of future market conditions.

### *Accounting for Share-Based Compensation*

We grant share-based awards to employees and non-employees in exchange for services; we have neither made share-based payments in exchange for goods nor do we currently have plans to do so. For share-based payments to employees and non-employees, we recognize compensation expense over the vesting period during which the employee or non-employee provides services in exchange for the award and, in the case of share-based payments to non-employees, we recognize a prepaid asset representing the portion of total estimated compensation expense for which the non-employee has not yet provided services.

To measure compensation expense related to stock options awarded, we use information available as of the reporting date to estimate the fair value of awards. We estimate the fair value of stock options using the Black-Scholes-Merton option pricing model, which requires estimates for expected volatility, expected dividends, the risk-free interest rate and the expected term of the share-based award. To measure compensation expense related to restricted stock shares awarded to employees, we use an estimate of the fair market value of our common stock on the grant date, while we use an estimate of the fair market value of our common stock on the reporting date for awards granted to non-employees. We include an estimate of the number of awards which we expect will be forfeited, and we update that number based on actual forfeitures.

During the fourth quarter of 2013, we changed our accounting for stock options from classifying them as equity instruments to classifying them as liabilities.

## Contractual Obligations

The following table presents our contractual obligations as of December 31, 2014 (in thousands):

	Payments Due In:				
	Less Than One Year	One to Three Years	Three to Five Years	After Five Years	Total
Long-term debt	\$ —	\$ 182,745	\$ 200,000	\$ —	\$ 382,745
Interest payments on long-term debt	25,767	50,433	6,750	—	82,950
Operating leases	7,928	15,616	15,059	169,483	208,086
Purchase obligations	13,514	9,495	1,999	3,604	28,612
Total contractual obligations	<u>\$ 47,209</u>	<u>\$ 258,289</u>	<u>\$ 223,808</u>	<u>\$ 173,087</u>	<u>\$ 702,393</u>

## Recently Issued Accounting Pronouncements

Please refer to Note 2 in the Notes to Consolidated Financial Statements included elsewhere in this report for a discussion regarding recently issued accounting pronouncements which may affect us.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, primarily related to interest rate exposure of our debt obligations that bear interest based on floating rates. None of our cash or cash equivalents as of December 31, 2014 are subject to market risk based on changes in interest rates. We are exposed to market risk due to floating or variable interest rates on our indebtedness under the New Credit Facility. Both the Initial Term Loan and the Revolving Credit Facility bear interest at an uncommitted floating rate of LIBOR plus 4.00%, subject to a LIBOR floor of 1.25%. At December 31, 2014, the principal amount of the related borrowings under our New Credit Facility was \$182.7 million. A hypothetical 1.0% increase in LIBOR (or base rate) above the current floor would result in an approximately \$1.8 million annual increase in interest expense.

The carrying values of our cash, trade receivables, and trade payables approximate their fair value primarily because of the short maturities of these instruments. We estimate the fair value of our long-term debt based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities. Based on the borrowing rates currently available to us for debt with similar terms and average maturities, we estimated the fair value of current debt outstanding at approximately \$364.4 million as of December 31, 2014.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

We have included the required financial statements and schedules in this 2014 Form 10-K beginning on page F-1.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain a set of disclosure controls and procedures designed to ensure that the information we must disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Internal control over financial reporting includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, our management believes that as of December 31, 2014, our internal control over our financial reporting is effective.

### **Changes in Internal Control over Financial Reporting**

We made no change in our internal control over financial reporting during the fiscal quarter ended December 31, 2014 which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Limitations on Controls**

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process which involves human diligence and compliance, and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting may also be circumvented by collusion or improper management override. The inherent limitations pose a risk that internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or the risk that the degree of compliance with the policies or procedures may deteriorate. Because inherent limitations are known features of the financial reporting process, it is possible to design the process with safeguards which reduce, though not eliminate, the risk posed by inherent limitations.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth under the captions “Proposal One-Election of Directors,” “Corporate Governance,” “Executive Officers” and “Beneficial Ownership Reporting Compliance” in our definitive proxy statement to be filed in connection with our 2015 annual stockholders’ meeting (“2015 Proxy Statement”) and is incorporated herein by reference.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the captions “Director Compensation,” “Compensation Discussion and Analysis” and “Compensation Committee Report” in our 2015 Proxy Statement and is incorporated herein by reference.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is set forth under the captions “Securities Authorized for Issuance Under Compensation Plans” and “Security Ownership” in our 2015 Proxy Statement and is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the captions “Certain Relationships and Related Parties” and “Director Independence” in our 2015 Proxy Statement and is incorporated herein by reference.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth under the caption “Principal Accountant Fees and Services” in our 2015 Proxy Statement and is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this 2014 Form 10-K:

#### **Consolidated Financial Statements**

In Part II, Item 8, we have included our consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm.

#### **Financial Statement Schedules**

We have omitted schedules required by applicable SEC accounting regulations because they are either not required under the related instructions, are inapplicable, or we present the required information in the financial statements or notes thereto.

## Exhibits

We hereby file as part of this 2014 Form 10-K the exhibits listed on the attached Exhibit Index. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the SEC, 100 F Street, N.E., Room 1580, Washington D.C. 20549, at prescribed rates, or on the SEC website at [www.sec.gov](http://www.sec.gov).

### EXHIBIT INDEX

Exhibit Number	Description
2.1	Asset and Equity Purchase Agreement, dated as of September 20, 2011, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Golden Gaming, Inc. (incorporated by reference from Exhibit 2.1 to Affinity Gaming's Quarterly Report on Form 10-Q (File No. 000-54085) dated November 14, 2011)
2.2	First Amendment and Waiver to Asset and Equity Purchase Agreement, dated as of November 17, 2011, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Golden Gaming, Inc. (incorporated by reference from Exhibit 2.2 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 30, 2012)
2.3	Asset Purchase Agreement, dated as of September 20, 2011, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Golden Mardi Gras, Inc. (incorporated by reference from Exhibit 2.2 to Affinity Gaming's Quarterly Report on Form 10-Q (File No. 000-54085) dated November 14, 2011)
2.4	First Amendment and Waiver to Asset Purchase Agreement, dated as of November 17, 2011, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Golden Mardi Gras, Inc. (incorporated by reference from Exhibit 2.4 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 30, 2012)
2.5	Second Amendment to Asset Purchase Agreement, dated as of February 29, 2012, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Golden Mardi Gras, Inc. (incorporated by reference from Exhibit 2.5 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 30, 2012)
3.1	Articles of Incorporation of Affinity Gaming and the Addendum thereto (incorporated by reference from Exhibit 3.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated December 20, 2012)
3.2	Amended and Restated Bylaws of Affinity Gaming (incorporated by reference from Exhibit 3.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated March 29, 2013)
3.3	Certificate of Designation of Series A Preferred Stock of Affinity Gaming, as filed with the Secretary of State of the State of Nevada on December 21, 2012 (incorporated by reference from Exhibit 3.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated December 21, 2012)
3.4	Certificate of Withdrawal of Series A Preferred Stock of Affinity Gaming, as filed with the Secretary of State of the State of Nevada on August 15, 2014 (incorporated by reference from Exhibit 3.3 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated August 13, 2014)
4.1	Registration Rights Agreement, dated February 7, 2012, by and among Affinity Gaming (formerly Affinity Gaming, LLC) and SPH Investment, LLC (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated February 13, 2012).
4.2	Registration Rights Agreement, dated May 9, 2012, among Affinity Gaming (formerly Affinity Gaming, LLC), Affinity Gaming Finance Corp., the guarantors party thereto and Deutsche Bank Securities Inc., acting on behalf of itself and as representative of the several initial purchasers party thereto (incorporated by reference from Exhibit 4.2 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 10, 2012)

Exhibit Number	Description
4.3	Indenture, dated May 9, 2012, relating to Affinity Gaming and Affinity Gaming Finance Corp.'s 9% Senior Notes due 2018, by and among Affinity Gaming (formerly Affinity Gaming, LLC), Affinity Gaming Finance Corp., the guarantors party thereto, U.S. Bank, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, registrar, transfer agent and authenticating agent (incorporated by reference from Exhibit 4.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 10, 2012)
4.4	Form of 9% Senior Note due 2018 (included in Exhibit 4.3)
4.5	Supplemental Indenture, dated July 25, 2014, by and between Affinity Gaming, Affinity Gaming Finance Corp., the guarantors party thereto, U.S.
10.1	Credit Agreement, dated as of December 31, 2010, by and among Affinity Gaming (formerly Affinity Gaming, LLC), Wilmington Trust Company, as administrative agent, and the lenders party thereto (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.2	Credit Agreement, dated May 9, 2012, among Affinity Gaming (formerly Affinity Gaming, LLC), as borrower, Deutsche Bank Trust Company Americas, as administrative agent and as collateral agent, the other agents party thereto and the lenders party thereto (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 10, 2012)
10.3	Security Agreement, dated as of December 31, 2010, by and among Affinity Gaming (formerly Affinity Gaming, LLC), the subsidiary guarantors party thereto and Wilmington Trust Company, as administrative agent under the Credit Agreement, dated as of December 31, 2010 (incorporated by reference from Exhibit 10.2 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011)
10.4	Amended and Restated Ground Lease Agreement, dated as of July 1, 1993, by and between Primm South Real Estate Company and The Primadonna Corporation (incorporated by reference from Exhibit 10.2 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.5	First Amendment to the Amended and Restated Ground Lease Agreement and Consent and Waiver, dated as of August 25, 1997, by and between Primm South Real Estate Company and The Primadonna Corporation (incorporated by reference from Exhibit 10.3 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.6	Second Amendment to the Amended and Restated Ground Lease Agreement, dated as of July 1, 2002, by and between Primm South Real Estate Company and The Primadonna Company, LLC (incorporated by reference from Exhibit 10.4 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.7	Third Amendment to the Amended and Restated Ground Lease Agreement, dated as of September 14, 2004, by and between Primm South Real Estate Company and The Primadonna Company, LLC (incorporated by reference from Exhibit 10.5 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.8	Fourth Amendment to the Amended and Restated Ground Lease Agreement, dated as of September 14, 2004, by and between Primm South Real Estate Company and The Primadonna Company, LLC *
10.10	Lease Agreement dated July 1, 1997 by and between The Herbst Family Limited Partnership II and E-T-T Enterprises, L.L.C (incorporated by reference from Exhibit 10.7 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.11	Amendment to Lease Agreement dated December 31, 2010 by and between The Herbst Family Limited Partnership II and E-T-T, Inc. (incorporated by reference from Exhibit 10.8 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.12	Lease Agreement dated July 1, 1996 by and between The Herbst Family Limited Partnership and E-T-T, Inc. (incorporated by reference from Exhibit 10.9 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.13	Assignment and Assumption of Lease dated July 1, 2010 by E-T-T, Inc. and E-T-T Enterprises L.L.C. (incorporated by reference from Exhibit 10.10 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)

Exhibit Number	Description
10.14	Lease extension dated April 30, 2001 between The Herbst Family Limited Partnership and E-T-T, Inc. (incorporated by reference from Exhibit 10.11 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.15	Lease Agreement dated November 27, 2002 by and between Herbst Grandchildren's Trust and Herbst Gaming, Inc. (incorporated by reference from Exhibit 10.12 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.16	Amendment to Lease Agreement dated December 31, 2010 by and between Herbst Grandchildren's Trust and Herbst Gaming, Inc. (incorporated by reference from Exhibit 10.13 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.17	Lease Agreement dated July 1, 2002 by and between Terrible Herbst, Inc. and E-T-T, Inc. (incorporated by reference from Exhibit 10.14 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.18	Gold Ranch Casino Lease, dated as of December 27, 2001, by and between Last Chance, Inc., Prospector Gaming Enterprises, Inc. and Target Investments, L.L.C. (incorporated by reference from Exhibit 10.15 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.19	Option to Purchase the Gold Ranch Casino Property and Improvements, The Leach Field Property, the Frontage Parcel, the California Lottery Station and the California Lottery Property, and the Right of First Refusal, dated as of December 27, 2001, by and among Prospector Gaming Enterprises, Inc., Target Investments, L. L. C. and Last Chance, Inc. (incorporated by reference from Exhibit 10.16 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011)
10.20	Form of Indemnification Agreement for Directors and Executive Officers (incorporated by reference from Exhibit 10.18 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 3, 2011) †
10.22	Letter Agreement regarding offer of employment, dated as of January 11, 2011, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, David D. Ross (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.23	Letter Agreement regarding offer of employment, dated as of January 12, 2011, from Affinity Gaming, LLC to, and acknowledged by, Donna Lehmann (incorporated by reference from Exhibit 10.2 to Affinity Gaming, LLC's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.24	Letter Agreement regarding offer of employment, dated as of February 4, 2011, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Marc H. Rubinstein (incorporated by reference from Exhibit 10.23 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011) †
10.25	Letter Agreement regarding offer of employment, dated as of January 21, 2011, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, John Christopher Krabel (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 9, 2011) †
10.26	Executive Severance Agreement, dated as of January 11, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and David D. Ross (incorporated by reference from Exhibit 10.3 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.28	Executive Severance Agreement, dated as of January 11, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Donna Lehmann (incorporated by reference from Exhibit 10.4 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.29	Executive Severance Agreement, dated as of February 4, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Marc H. Rubinstein (incorporated by reference from Exhibit 10.26 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011) †
10.30	Executive Severance Agreement, dated as of January 21, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Chris Krabel (incorporated by reference from Exhibit 10.2 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 9, 2011) †

Exhibit Number	Description
10.31	Duty of Loyalty Agreement, dated as of January 11, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and David D. Ross (incorporated by reference from Exhibit 10.5 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.33	Duty of Loyalty Agreement, dated as of January 11, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Donna Lehmann (incorporated by reference from Exhibit 10.6 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated January 12, 2011) †
10.34	Duty of Loyalty Agreement, dated as of February 4, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Marc H. Rubinstein (incorporated by reference from Exhibit 10.29 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011) †
10.35	Duty of Loyalty Agreement, dated as of January 21, 2011, between Affinity Gaming (formerly Affinity Gaming, LLC) and Chris Krabiell (incorporated by reference from Exhibit 10.3 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 9, 2011) †
10.36	Amendment to Letter Agreement regarding offer of employment, dated as of May 6, 2011, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Donna Lehmann (incorporated by reference from Exhibit 10.4 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated May 9, 2011) †
10.37	Amendment to Letter Agreement regarding offer of employment, dated as of December 27, 2012, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Donna Lehmann † (incorporated by reference from Exhibit 10.37 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated April 1, 2013)
10.38	Amendment to Executive Severance Agreement, dated as of December 27, 2012, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Donna Lehmann † (incorporated by reference from Exhibit 10.38 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated April 1, 2013)
10.39	Amendment to Duty of Loyalty Agreement, dated as of December 27, 2012, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Donna Lehmann † (incorporated by reference from Exhibit 10.39 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated April 1, 2013)
10.40	Asset Purchase Agreement, dated September 7, 2012, by and among The Sands Regent, LLC, Truckee Gaming, LLC, Affinity Gaming (formerly Affinity Gaming, LLC), Dayton Gaming, LLC and California Prospectors, Ltd. (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated September 10, 2012)
10.41	Agreement for Consulting Services, dated November 11, 2012, by and between Affinity Gaming (formerly Affinity Gaming, LLC) and Ferenc B. Szony † (incorporated by reference from Exhibit 10.41 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated April 1, 2013)
10.42	Consulting Agreement, dated as of May 1, 2011, by and between Affinity Gaming (formerly Herbst Gaming, LLC) and Hotspur Casinos Nevada, Inc. (incorporated by reference from Exhibit 10.5 to Affinity Gaming's Quarterly Report on Form 10-Q (File No. 000-54085) dated August 12, 2011)
10.43	Herbst Gaming, LLC 2011 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.30 to Affinity Gaming's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011) †
10.44	Affinity Gaming 2011 Long-Term Incentive Plan, as amended and restated † (incorporated by reference from Exhibit 10.41 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated November 4, 2014)
10.45	Amendment to Letter Agreement regarding offer of employment, dated March 20, 2013, from Affinity Gaming to, and acknowledged by, Marc H. Rubinstein (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated March 25, 2013)†
10.46	First Amendment, dated December 13, 2013, to the Credit Agreement, dated May 9, 2012, among Affinity Gaming (formerly Affinity Gaming, LLC), as borrower, Deutsche Bank Trust Company Americas, as administrative agent and as collateral agent, the other agents party thereto and the lenders party thereto*
10.47	Executive Agreement, dated as of February 7, 2014, between Affinity Gaming and David D. Ross (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated February 13, 2014) †

Exhibit Number	Description
10.48	Amendment, dated as of February 25, 2014, to Letter Agreement regarding offer of employment, the Executive Severance Agreement, and the Duty of Loyalty agreement, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Donna Lehmann †*
10.49	Amendment, dated as of February 25, 2014, to Letter Agreement regarding offer of employment, the Executive Severance Agreement, and the Duty of Loyalty agreement, from Affinity Gaming (formerly Affinity Gaming, LLC) to, and acknowledged by, Marc H. Rubinstein †*
10.50	Settlement Agreement, dated July 28, 2014, by and between Affinity Gaming, Z Capital Partners, L.L.C. and the other parties thereto (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated July 22, 2014)
10.51	Second Amendment and Waiver to Credit Agreement, dated July 22, 2014, by and between Affinity Gaming, Deutsche Bank Trust Company Americas and the other parties thereto (incorporated by reference from Exhibit 10.2 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated July 22, 2014)
10.52	Agreement for Consulting Services, dated as of August 25, 2014, by and between Affinity Gaming and David D. Ross (incorporated by reference from Exhibit 10.1 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated August 26, 2014) †
10.53	Executive Employment Agreement, dated August 25, 2014, by and between Affinity Gaming and Michael Silberling (incorporated by reference from Exhibit 10.2 to Affinity Gaming's Current Report on Form 8-K (File No. 000-54085) dated August 26, 2014) †
14.1	Affinity Gaming (formerly Affinity Gaming, LLC) Code of Business Conduct and Ethics (incorporated by reference from Exhibit 14.1 to Affinity Gaming 's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011).
14.2	Affinity Gaming (formerly Affinity Gaming, LLC) Code of Ethics for Senior Financial Officers. (incorporated by reference from Exhibit 14.2 to Affinity Gaming 's Annual Report on Form 10-K (File No. 000-54085) dated March 31, 2011)
21.1	List of subsidiaries (incorporated by reference from Exhibit 21.1 to Affinity Gaming 's Annual Report on Form 10-K (File No. 000-54085) dated April 1, 2013)
23.1	Consent of PricewaterhouseCoopers LLP*
23.2	Consent of Ernst & Young LLP*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
99.1	Audit Committee Charter *
99.2	Compensation Committee Charter *
99.3	Governance and Nominating Committee Charter *
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

Exhibit Number	Description
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**
*	Filed herewith.
**	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.
†	Indicates a Management Contract or Compensation Plan or Arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### AFFINITY GAMING

(Registrant)

**Date:** March 27, 2015

**By:** /s/ Michael Silberling

Michael Silberling

*Chief Executive Officer*

(principal executive officer)

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Marc H. Rubinstein and Michael Silberling and each of them as his or her lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute and all instruments that such attorney-in-fact may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission in connection with this report and any and all amendments hereto, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael Silberling</u> Michael Silberling	CEO (principal executive officer)	March 27, 2015
<u>/s/ Donna Lehmann</u> Donna Lehmann	SVP, CFO and Treasurer (principal financial and accounting officer)	March 27, 2015
<u>/s/ Richard S. Parisi</u> Richard S. Parisi	Director, Chairman	March 27, 2015
<u>/s/ James A. Cacioppo</u> James Cacioppo	Director	March 27, 2015
<u>/s/ Matthew A. Doheny</u> Matthew A. Doheny	Director	March 27, 2015
<u>/s/ Andrei Scrivens</u> Andrei Scrivens	Director	March 27, 2015
<u>/s/ Eric V. Tanjeloff</u> Eric V. Tanjeloff	Director	March 27, 2015
<u>/s/ James J. Zenni, Jr.</u> James J. Zenni, Jr.	Director	March 27, 2015

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## FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firms	<u>F - 2</u>
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Consolidated Statements of Owners' Equity	<u>F - 6</u>
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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Affinity Gaming

We have audited the accompanying consolidated balance sheets of Affinity Gaming and its subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statement of operations, owners’ equity, and cash flows for each of the two years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Affinity Gaming and its subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
Las Vegas, Nevada  
March 27, 2015

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Affinity Gaming  
Las Vegas, Nevada

In our opinion, the consolidated statements of operations, owners' equity (deficit) and cash flows for the year ended December 31, 2012 present fairly, in all material respects, the results of Affinity Gaming and its subsidiaries (the "Company") operations and their cash flows for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*/s/ PricewaterhouseCoopers LLP*

Las Vegas, Nevada

April 1, 2013, except for the condensed consolidated guarantor data described in Note 18, as to which the date is April 17, 2013

**AFFINITY GAMING**  
Consolidated Balance Sheets  
(in thousands)

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 135,175	\$ 140,857
Restricted cash	608	608
Accounts receivable, net of reserve of \$159 and \$537, respectively	3,516	3,371
Income tax receivable	171	420
Prepaid expense	10,134	9,858
Inventory	2,666	2,977
Deferred income taxes	—	3,640
Total current assets	152,270	161,731
Property and equipment, net	261,111	271,729
Other assets, net	5,738	6,924
Intangibles, net	126,543	129,044
Goodwill	68,516	68,516
Total assets	\$ 614,178	\$ 637,944
<b>LIABILITIES AND OWNERS' EQUITY</b>		
Accounts payable	\$ 12,902	\$ 15,825
Accrued interest	2,353	2,468
Accrued expense	22,510	22,141
Deferred income taxes	1,438	—
Current maturities of long-term debt	—	9,961
Other current liabilities	30	187
Total current liabilities	39,233	50,582
Long-term debt	374,701	374,038
Other liabilities	1,708	3,232
Deferred income taxes	16,081	5,573
Total liabilities	431,723	433,425
 Commitments and contingencies (Note 13)		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.001 par value; 200,000,000 shares authorized; 20,300,464 and 20,243,262 shares issued and outstanding for 2014 and 2013, respectively	20	20
Additional paid-in-capital	207,339	205,726
Accumulated deficit	(24,904)	(1,227)
Total owners' equity	182,455	204,519
Total liabilities and owners' equity	\$ 614,178	\$ 637,944

*See notes to consolidated financial statements*

**AFFINITY GAMING**  
Consolidated Statements of Operations  
(in thousands)

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>REVENUE</b>			
Casino	\$ 298,275	\$ 301,134	\$ 285,169
Food and beverage	49,029	45,494	45,784
Lodging	26,302	26,166	29,227
Fuel and retail	58,893	59,011	74,971
Other	14,482	13,775	21,210
Total revenue	<u>446,981</u>	<u>445,580</u>	<u>456,361</u>
Promotional allowances	(58,990)	(55,092)	(53,185)
Net revenue	<u>387,991</u>	<u>390,488</u>	<u>403,176</u>
<b>EXPENSE</b>			
Casino	123,803	119,357	110,267
Food and beverage	48,137	45,375	46,395
Lodging	16,281	17,551	18,006
Fuel and retail	46,825	49,094	64,707
Other	7,921	7,704	9,649
General and administrative	80,119	77,435	72,830
Depreciation and amortization	28,579	27,809	23,266
Pre-opening expense	—	—	421
Corporate	14,814	12,233	12,726
Write downs, reserves and recoveries	(424)	4,766	(785)
Loss on impairment of assets	—	165	—
Total expense	<u>366,055</u>	<u>361,489</u>	<u>357,482</u>
Operating income from continuing operations	<u>21,936</u>	<u>28,999</u>	<u>45,694</u>
<b>Other expense</b>			
Interest expense, net	(29,827)	(30,428)	(29,731)
Loss on extinguishment (or modification) of debt	(240)	(81)	(8,842)
Total other expense, net	<u>(30,067)</u>	<u>(30,509)</u>	<u>(38,573)</u>
Income (loss) from continuing operations before income tax	(8,131)	(1,510)	7,121
Benefit from (provision for) income taxes	(15,546)	519	(2,487)
Income (loss) from continuing operations	<u>\$ (23,677)</u>	<u>\$ (991)</u>	<u>\$ 4,634</u>
<b>Discontinued operations (Note 16):</b>			
Loss from discontinued operations before income tax	—	(369)	(9,085)
Benefit from income taxes	—	133	3,271
Loss from discontinued operations	<u>\$ —</u>	<u>\$ (236)</u>	<u>\$ (5,814)</u>
Net loss	<u>\$ (23,677)</u>	<u>\$ (1,227)</u>	<u>\$ (1,180)</u>

*See notes to consolidated financial statements*

**AFFINITY GAMING**  
Consolidated Statements of Owners' Equity (Deficit)  
(in thousands, except number of shares)

	<u>Common Stock</u>		<u>Members' Capital</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings (Accum. Deficit)</u>	<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>				
Balance December 31, 2011	—	—	\$ 198,033	\$ 1,680	\$ 6,522	\$ 206,235
Net loss	—	—	—	—	(1,180)	(1,180)
Share-based compensation	—	—	—	2,075	—	2,075
Conversion from LLC to Corporation	20,257,625	\$ 20	(198,033)	203,355	(5,342)	—
Balance December 31, 2012	20,257,625	\$ 20	\$ —	\$ 207,110	\$ —	\$ 207,130
Net loss	—	—	—	—	(1,227)	(1,227)
Share-based compensation	—	—	—	1,169	—	1,169
Repurchase of vested share-based awards	—	—	—	(318)	—	(318)
Conversion to accounting for stock option awards as liabilities	—	—	—	(2,235)	—	(2,235)
Shares issued under share-based compensation plans	31,374	—	—	—	—	—
Shares forfeited, canceled or expired	(45,737)	—	—	—	—	—
Balance December 31, 2013	20,243,262	\$ 20	\$ —	\$ 205,726	\$ (1,227)	\$ 204,519
Net loss	—	—	—	—	(23,677)	(23,677)
Share-based compensation	—	—	—	455	—	455
Canceled liability stock option awards	—	—	—	1,158	—	1,158
Shares issued under share-based compensation plans	60,455	—	—	—	—	—
Shares forfeited, canceled or expired	(3,253)	—	—	—	—	—
Balance December 31, 2014	20,300,464	\$ 20	\$ —	\$ 207,339	\$ (24,904)	\$ 182,455

**AFFINITY GAMING**  
Consolidated Statements of Cash Flows  
(in thousands)

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (23,677)	\$ (1,227)	\$ (1,180)
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations, before income taxes	—	369	9,085
Depreciation and amortization	28,579	27,809	23,266
Amortization of debt costs and discounts	2,203	2,209	1,522
Gain on sale of property and equipment	1	(42)	(18)
Unamortized loan fees related to extinguishment (or modification) of debt	240	81	1,250
Loss on impairment of assets	—	165	—
Insurance proceeds St Jo flood	—	—	1,005
Share-based compensation	455	1,169	2,075
Environmental remediation costs	—	3,185	—
Deferred income taxes	15,586	(265)	(1,301)
Changes in operating assets and liabilities:			
Accounts receivable	(145)	1,738	(446)
Prepaid expense	(275)	(1,252)	(720)
Inventory	311	(142)	19
Other assets	783	1,092	883
Accounts payable	(1,698)	1,886	315
Accrued interest	(115)	(113)	2,484
Accrued expense	369	1,119	(21)
Income tax payable/receivable	249	(936)	332
Other liabilities	(95)	(58)	(52)
<b>Net cash provided by operating activities</b>	<b>22,771</b>	<b>36,787</b>	<b>38,498</b>
<b>Cash flows from investing activities:</b>			
Restricted cash	—	—	8,629
Excess cash from discontinued operations	—	—	23,892
Proceeds from sale to Truckee Gaming, LLC	—	17,447	—
Cash paid for business acquisition	—	—	(4,305)
Insurance proceeds St Jo flood	—	—	3,045
Proceeds from sale of property and equipment	365	70	66
Purchases of property and equipment	(17,241)	(31,720)	(26,425)
<b>Net cash (used in) provided by investing activities</b>	<b>(16,876)</b>	<b>(14,203)</b>	<b>4,902</b>
<b>Cash flows from financing activities:</b>			
Payment on long-term debt	(8,717)	(11,744)	(349,900)
Proceeds from long term debt	—	4,314	398,000
Loan origination fees	(2,860)	(852)	(10,583)
Repurchases of vested share-based awards	—	(318)	—
<b>Net cash (used in) provided by financing activities</b>	<b>(11,577)</b>	<b>(8,600)</b>	<b>37,517</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(5,682)</b>	<b>13,984</b>	<b>80,917</b>
<b>Cash and cash equivalents:</b>			
Beginning of period	140,857	126,873	45,956
End of period	<b>\$ 135,175</b>	<b>\$ 140,857</b>	<b>\$ 126,873</b>

**AFFINITY GAMING**  
Consolidated Statements of Cash Flows  
(in thousands)

	<b>Year Ended December 31,</b>		
Cash flows from discontinued operations:			
Cash flows from operating activities	\$ —	\$ 36	\$ (1,493)
Cash flows from investing activities	—	(4,695)	(1,300)
Cash flows from discontinued operations	\$ —	\$ (4,659)	\$ (2,793)
Supplemental cash flow information:			
Cash paid during the period for interest	\$ 27,920	\$ 28,867	29,171
Supplemental schedule of non-cash investing and financing activities:			
Purchase of property and equipment financed through accounts payable	\$ 2,580	\$ 3,779	3,781
Acquisition of property and equipment under capital lease	82	363	—
Non-cash disposition of assets	—	—	29,993
Non-cash purchase of Colorado assets	—	—	67,078
Non-cash loan origination fees	—	—	62

*See notes to consolidated financial statements.*

## **NOTE 1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS**

### **Organization and Business**

Affinity Gaming (together with its subsidiaries, “Affinity” or “we”) is a Nevada corporation, headquartered in Las Vegas, which owns and operates 11 casinos, five of which are located in Nevada, three in Colorado, two in Missouri and one in Iowa. We also provide consulting services to Hotspur Casinos Nevada, Inc. (“Hotspur”), the operator of the Rampart Casino at the JW Marriott Resort in Las Vegas. Under the terms of the consulting agreement, which expires on April 1, 2015, Hotspur pays us a fixed annual fee in monthly installments. In addition to the monthly installments, we are entitled to an incentive fee in any year in which EBITDA (as defined in the consulting agreement) equals or exceeds the threshold EBITDA for that year.

On February 27, 2012, we sold our casino in Searchlight, Nevada and the portion of our slot route operations relating solely to the Terrible Herbst convenience stores to JETT Gaming, LLC (“JETT”), a Las Vegas based slot route operator (the “JETT Transactions”). On February 29, 2012, we sold the remainder of our slot route operations, as well as our casinos in Pahrump, Nevada, to Golden Gaming, LLC, f/k/a Golden Gaming, Inc. (“Golden Gaming”), a Las Vegas-based casino, tavern and slot route operator (the “Golden Gaming Disposition”). In addition, as part of the transaction with Golden Gaming, we acquired the land and buildings of the Golden Mardi Gras Casino, Golden Gates Casino and Golden Gulch Casino (together, the “Black Hawk Casinos”)—all located in Black Hawk, Colorado (the “Golden Gaming Acquisition” and together with the Golden Gaming Disposition and the JETT Transactions, the “Golden Gaming Transactions”). We leased the Black Hawk Casinos back to Golden Gaming through October 31, 2012, earning lease revenue while we waited for approval of our Colorado gaming licenses. We began operating the Black Hawk Casinos on November 1, 2012, after obtaining our Colorado gaming licenses.

On February 1, 2013, we completed the sale to Truckee Gaming, LLC (“Truckee Gaming”) of the Sands Regency Casino Hotel in Reno, Nevada, the Gold Ranch Casino & RV Resort in Verdi, Nevada, and the Dayton Depot Casino in Dayton, Nevada (“Truckee Disposition”).

In December 2013, we closed our casino property in Henderson, Nevada. The financial position and results of operations of the Henderson casino are not material, during any period presented, either to our consolidated financial position and results of operations or to the financial position and results of operations of our Nevada segment. As a result, we have neither reported any assets held for sale nor any discontinued operations related to the closure. We have recorded the loss on Henderson’s impaired asset in the line item Loss on impairment of assets, while we reflected all other expense related to the closure in the line item Write downs, reserves and recoveries.

### **Consolidation**

We include all of our subsidiaries in our consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

### **Basis of Presentation**

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”). While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenue and expense during the reporting period. Accordingly, actual results could differ from those estimates. Reported amounts that require us to make extensive use of estimates include the fair values of assets and liabilities related to depreciation and amortization, the estimated allowance for doubtful accounts receivable and the estimated cash flows we use in assessing the recoverability of long-lived assets, as well as the estimated fair values of certain assets related to write downs and impairments, contingencies and litigation, and claims and assessments.

The term Predecessor, as used throughout these financial statements and related disclosures, refers to Herbst Gaming, Inc and its subsidiaries.

We reclassified certain amounts in the 2013 financial statements to conform to the 2014 presentation. The reclassification, which consisted of reporting a portion of unamortized debt issuance costs as an offset against the related debt rather than reporting it as part of Other assets (see Note 8 for more information), had no impact on our results of operations, cash flows or owners' equity as previously reported.

## **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Cash and Cash Equivalents**

Our cash and cash equivalents include demand deposits with financial institutions and short-term, highly-liquid instruments with original maturities of three months or less when purchased. The carrying value of the deposits and instruments approximates their fair value due to their short-term maturities.

### **Fair Value of Financial Instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (an exit price). When reporting the fair values of our financial instruments, we prioritize those fair value measurements into one of three levels based on the nature of the inputs, as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets and liabilities;
- Level 2 – Valuations based on observable inputs that do not meet the criteria for Level 1, including quoted prices in inactive markets and observable market data for similar, but not identical instruments; and
- Level 3 – Valuations based on unobservable inputs, which are based upon the best available information when external market data is limited or unavailable.

The fair value hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. For some products or in certain market conditions, observable inputs may not be available.

### **Accounts Receivable**

We periodically perform credit evaluations of our customers to minimize the risk of credit losses. To determine an allowance for potential credit losses related to our accounts receivable, we review accounts receivable balances based on our collections experience and the age of the receivables.

### **Inventory**

We record our inventory, which includes food, beverage, retail items and gasoline, at the lower of cost or market value. We determine cost using the first-in, first-out method.

### **Property and Equipment**

We state property and equipment at cost and depreciate such assets using the straight-line method over the estimated useful lives of each assets category. For leasehold improvements, we determine amortization using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

### **Debt Issuance Costs**

We capitalize all direct, incremental costs we pay to parties other than the creditor(s) in connection with the issuance of long-term debt and amortize such costs to interest expense using the effective interest method over the terms of the related debt agreements. Any amounts we pay to the creditor(s) are recorded as a component of the premium or discount associated with the debt.

With regard to transactions for which we apply modification accounting, we capitalize any new amounts paid to the creditor(s) whose debt is modified, adding it to the unamortized debt issuance cost balance of such creditor(s), and we amortize such costs to interest expense using the effective interest method over the terms of the new debt agreement(s). We expense any costs we incur with third parties.

With regard to transactions for which we apply extinguishment accounting, we include the unamortized debt issuance cost related to the extinguished creditor(s) plus any new amounts paid to the extinguished creditor(s) as a component of the gain or loss on the transaction. We associate any costs we incur with third parties with the new debt, and amortize such costs to interest expense using the effective interest method over the terms of the new debt agreement(s).

### **Self-Insurance Reserves**

We are self-insured up to certain stop loss amounts for costs associated with general liability claims and workers' compensation claims arising from our operations in Nevada and Colorado. To estimate our accruals related to claims reserves, we consider historical loss experience and make judgments about the expected levels of costs per claim. We believe our estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity, and other factors could materially affect the estimate for these liabilities. We include self-insurance reserves in Accrued expense on our consolidated balance sheets in the amounts of \$1.1 million and \$0.9 million at December 31, 2014 and 2013, respectively.

### **Long-Lived Assets**

When events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, we evaluate long-lived assets for potential impairment, basing our testing method upon whether the assets are held for sale or held for use. For assets classified as held for sale, we recognize the asset at the lower of carrying value or fair market value less costs of disposal, as estimated based on comparable asset sales, offers received, or a discounted cash flow model. For assets held and used, we estimate the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, we recognize an impairment loss for the difference between the carrying value of the asset and its fair value.

During 2013, we recognized an immaterial loss on impairment of a fixed asset related to the closure of the Henderson casino.

### **Goodwill and Intangible Assets**

In the fourth quarter of each year, we test goodwill and other indefinite-lived intangible assets for impairment. We also conduct tests between our annual tests if events occur or circumstances change which would, more likely than not, indicate a reduction in the fair values of the indefinite-lived intangible assets below their carrying values. When testing for impairment, we may choose to evaluate qualitative factors first to determine whether events and circumstances indicate that, more likely than not, an indefinite-lived intangible asset is impaired. If, after evaluating the totality of events and circumstances and their potential effect on significant inputs to the fair value determination, we determine that, more likely than not, an indefinite-lived intangible asset is impaired, we then quantitatively test for impairment.

Indefinite-lived intangible assets consist primarily of license rights, which we test for impairment using a discounted cash flow approach, and trademarks, which we test for impairment using the relief-from-royalty method. Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. We test goodwill for relevant reporting units for impairment using a discounted cash flow analysis based on our budgeted future results which are discounted

using a weighted average cost of capital. The weighted average cost of capital is developed using a standard capital asset pricing model, based on guideline companies in our industry and market indicators of terminal year capitalization rates.

We make several estimates when evaluating indefinite-lived intangible assets for impairment. In particular, future cash flow estimates are, by their nature, subjective and actual results may differ materially from our estimates. In addition, the determination of capitalization rates and the discount rates used in the impairment tests are highly judgmental and dependent in large part on expectations of future market conditions.

During our regular annual testing in 2014 and 2013, the estimated fair values of our reporting units with associated goodwill exceeded their carrying values for all our reporting units, so we did not record impairment charges.

### Revenue and Promotional Allowances

We recognize casino revenue equal to the amounts wagered by patrons less the amounts we pay to winning patrons. Additionally, we recognize lodging revenue at the time guests occupy hotel rooms, and all other revenue at the time we provide the good or service to the patron. We present revenue from retail sales net of sales tax. Revenue from casino operations includes the retail value of food, beverage, goods and services we provide to customers on a complimentary basis; such complimentary amounts are then deducted as promotional allowances. The estimated cost of providing these promotional allowances, which we include primarily in casino expense, is as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Lodging	\$ 13,797	\$ 12,891	\$ 12,462
Food and Beverage	15,587	13,639	13,166
Other	12,049	12,398	11,663
Total	\$ 41,433	\$ 38,928	\$ 37,291

### *Guest Rewards Programs*

Our guest rewards programs allow guests to earn certain point-based cash rewards or complimentary goods and services based on the volume of the guests' gaming activity. Guests can accumulate reward points over time which they may redeem at their discretion under the terms of the programs. If a guest does not earn any reward credits over the subsequent 12- to 18-month period, depending upon the casino, that guest forfeits their reward credit balance. Because guests can accrue the reward points, we expense those reward points, after giving effect to estimated forfeitures, as the guests earn them. We base our accruals on historical data, estimates and assumptions regarding the mix of rewards that guests will redeem and the costs of providing those rewards. We record the retail value of the point-based rewards, cash-back rewards or complimentary goods and services as promotional allowance, and we include the estimated costs of providing those rewards in the *Casino* line item in the expense section of our statement of operations.

### *Cash, Hotel and Food Coupons*

On a discretionary basis, we may award cash, lodging and food coupons to our gaming patrons, based in part on their play volume, to induce future play. The coupons are redeemable within a short time period (generally seven days for cash coupons and one month for lodging and food coupons), and guest cannot renew or extend the offer. We record the retail value of the good or service underlying the coupons as promotional allowance when guests redeem these coupons.

## **Share-Based Compensation**

We grant share-based awards to employees and non-employees in exchange for services; we have neither made share-based payments in exchange for goods nor do we currently have plans to do so. For share-based payments to employees and non-employees, we recognize compensation expense over the vesting period during which the employee or non-employee provides services in exchange for the award and, in the case of share-based payments to non-employees, we recognize a prepaid asset representing the portion of total estimated compensation expense for which the non-employee has not yet provided services.

To measure compensation expense related to stock options awarded, we use information available as of the reporting date to estimate the fair value of awards. We estimate the fair value of stock options using the Black-Scholes-Merton option pricing model, which requires estimates for expected volatility, expected dividends, the risk-free interest rate and the expected term of the share-based award. To measure compensation expense related to restricted stock shares awarded to employees, we use an estimate of the fair market value of our common stock on the grant date, while we use an estimate of the fair market value of our common stock on the reporting date for awards granted to non-employees. We include an estimate of the number of awards which we expect will be forfeited, and we update that number based on actual forfeitures.

During the fourth quarter of 2013, we changed our accounting for stock options from classifying them as equity instruments to classifying them as liabilities. See Note 10 for more information.

## **Income Taxes**

We recognize deferred tax assets and liabilities, which result from temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, using enacted tax rates expected to apply to taxable income in the years in which we expect those temporary differences to be recovered or settled. Any effect on deferred tax assets or liabilities resulting from a change in enacted tax rates is included in income during the period that includes the enactment date.

We reduce the carrying amounts of deferred tax assets by a valuation allowance if we determine that, more likely than not, we will be unable to realize such assets. Such assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, our forecasts of future profitability, the duration of statutory carryforward periods, and our experience with the utilization of operating loss and tax credit carryforwards before expiration.

## **Concentrations of Credit Risk**

We maintain cash balances at certain financial institutions located in the states in which we operate. The balances are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. At times, cash balances may be in excess of FDIC limits. As of December 31, 2014, we do not believe we have any significant concentrations of credit risk.

## **Recently Issued Accounting Pronouncements**

In August 2014, the Financial Accounting Standards Board modified the Accounting Standards Codification by issuing Accounting Standards Update (“ASU”) 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)*. The amendments in ASU 2014-15 place responsibility on management to determine whether substantial doubt exists regarding the entity’s ability to continue as a going concern. The amendments state that for each annual and interim reporting period, management should evaluate whether conditions or events, considered in the aggregate, raise doubt about the entity’s ability to continue as a going concern for one year after the financial statements are issued. If management determines that substantial doubt exists regarding the entity’s ability to continue as a going concern, the amendments require disclosure of the conditions or events that led to such determination, management’s evaluation of the significance of such conditions or events, and management’s plans to mitigate such conditions or events, including whether the plans alleviated substantial doubt. The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The amendments in ASU 2014-15 will not have a material effect on our financial condition, results of operations, cash flows or the reporting thereof.

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

In May 2014, the Financial Accounting Standards Board modified the Accounting Standards Codification by issuing ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in ASU 2014-09 stipulate that an entity should recognize revenue in an amount which reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to customers, and they provide a five-step process to assist entities with achieving that core principle. The ASU also specifies the accounting for some costs to obtain or fulfill a contract with a customer. With regard to disclosures, ASU 2014-09 states that entities should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and it requires qualitative and quantitative disclosures concerning contracts with customers, significant judgments and changes therein, and assets recognized from the costs incurred to obtain or fulfill a contract. For us, the amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods therein, and they permit either retrospective application to all prior periods or retrospective application with the cumulative effect of application recognized on the initial application date. We are currently evaluating what effect(s) the ASU will have.

We have reviewed all other recently issued accounting pronouncements and, other than those we have disclosed above or in previous filings with the SEC, we do not believe any of such pronouncements will have a material effect on our operations.

**NOTE 3. RESTRICTED CASH**

Restricted cash balances at December 31, 2014 and 2013 include cash or certificates of deposit required for gaming activity in certain jurisdictions in which we operate, and for self-insured retention obligations under some of our workers compensation insurance policies.

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following (in thousands, except estimated lives):

	Estimated Life (Years)	December 31,	
		2014	2013
Building and improvements	7 - 40	\$ 183,457	\$ 180,333
Gaming equipment	3 - 10	64,826	55,277
Furniture, fixtures, and equipment	3 - 10	45,302	40,183
Leasehold improvements	7	196	196
Land	—	39,493	39,848
Barge	30	15,019	15,019
Construction-in-progress		3,815	5,964
Total property and equipment		352,108	336,820
Less accumulated depreciation		(90,997)	(65,091)
Total property and equipment, net		\$ 261,111	\$ 271,729

We recorded depreciation expense on the above assets totaling \$26.1 million, \$24.9 million, and \$21.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS**

We determine the fair value of the indefinite-lived intangible assets other than goodwill using the discounted cash flow method, a form of the income approach. In determining the fair values, we make significant assumptions relating to variables based on past experiences and judgments about future performance. These variables include, but are not limited to: (1) the

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

forecast earnings growth rate of each market, (2) risk-adjusted discount rate and (3) expected growth rates in perpetuity to estimated terminal values.

The following table summarizes intangible assets by category (in thousands):

	<b>December 31, 2014</b>			<b>December 31, 2013</b>		
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
<b>Finite-lived intangible assets</b>						
Customer loyalty programs	\$ 12,164	\$ (6,581)	\$ 5,583	\$ 12,164	\$ (4,580)	\$ 7,584
Trademarks	2,982	(1,899)	1,083	2,982	(1,399)	1,583
	<u>\$ 15,146</u>	<u>\$ (8,480)</u>	<u>\$ 6,666</u>	<u>\$ 15,146</u>	<u>\$ (5,979)</u>	<u>\$ 9,167</u>
<b>Indefinite-lived intangible assets</b>						
Gaming license rights	\$ 110,646		\$ 110,646	\$ 110,646		\$ 110,646
Local tradenames	9,231		9,231	9,231		9,231
	<u>\$ 119,877</u>		<u>\$ 119,877</u>	<u>\$ 119,877</u>		<u>\$ 119,877</u>
Total intangible assets	<u>\$ 135,023</u>		<u>\$ 126,543</u>	<u>\$ 135,023</u>		<u>\$ 129,044</u>

The following table summarizes the changes in goodwill by reportable segment during the quarter ended December 31, 2014:

	<b>Nevada</b>	<b>Midwest</b>	<b>Colorado</b>	<b>Total</b>
Balance at December 31, 2013	\$ 33,665	\$ 14,622	\$ 20,229	\$ 68,516
Impairment of goodwill	—	—	—	—
Balance at December 31, 2014	<u>\$ 33,665</u>	<u>\$ 14,622</u>	<u>\$ 20,229</u>	<u>\$ 68,516</u>

We amortize definite-lived intangible assets ratably over their expected lives which, for customer loyalty programs, approximate seven years and, for trademarks, approximate 3.75 years. Overall, we are amortizing definite-lived intangible assets over a weighted-average expected life of approximately 6.5 years.

We obtain gaming license rights when we acquire gaming entities that operate in gaming jurisdictions where competition is limited, such as states where the law only allows a certain number of operators. We do not currently amortize gaming license rights and local tradenames because we have determined they have an indefinite useful life.

We recorded total amortization expense for continuing operations of \$2.5 million, \$2.9 million and \$2.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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The following table presents the future amortization expense related to definite-lived intangible assets (in thousands):

2015	\$	2,501
2016		2,501
2017		975
2018		689
2019		—
Thereafter		—

**NOTE 6. OTHER ASSETS**

Other assets consist of the following (in thousands):

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Capitalized debt issuance cost, net	\$ 2,081	\$ 2,484
Long-term deposits	3,172	3,855
Other assets	485	585
Total	<u>\$ 5,738</u>	<u>\$ 6,924</u>

**NOTE 7. ACCRUED EXPENSE**

Accrued expense consists of the following (in thousands):

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
Progressive jackpot liabilities	\$ 3,271	\$ 3,294
Accrued payroll and related	7,530	7,353
Slot club point liability	3,353	3,574
Litigation reserve	3,100	3,100
Other accrued expense	5,256	4,820
Total	<u>\$ 22,510</u>	<u>\$ 22,141</u>

**NOTE 8. LONG-TERM DEBT**

The following table presents long-term debt balances (in thousands):

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
9% Senior Unsecured Notes due 2018	\$ 200,000	\$ 200,000
Unamortized debt issuance cost, net	(2,986)	(2,970)
Unamortized discount	(1,148)	(1,452)
9% Senior Unsecured Notes due 2018, net	195,866	195,578
Term loan due 2017	182,745	191,246
Unamortized debt issuance cost, net	(3,933)	(2,825)
Term loan due 2017, net	178,812	188,421
Total debt, including current portion	374,678	383,999
Less: current maturities	—	(9,961)
Plus: long-term portion of capital leases	23	—
Total long-term debt	<u>\$ 374,701</u>	<u>\$ 374,038</u>

On May 9, 2012, we repaid all of the \$342.1 million debt then outstanding under the senior secured loans under our credit agreement dated December 31, 2010 (the “Old Credit Facility”). We obtained the funds used to repay the Old Credit Facility by (i) issuing \$200.0 million of 9.00% senior unsecured notes due 2018 (the “2018 Notes”), and (ii) borrowing under our new Credit Agreement, dated May 9, 2012, which provides for a \$200.0 million term loan (the “Initial Term Loan”) due in 2017, the entirety of which the lenders disbursed to us on the closing date of the Credit Agreement, and a \$35.0 million revolving credit facility (the “Revolving Credit Facility” and, together with the Initial Term Loan, the “New Credit Facility”) which remained undrawn on the closing date of the Credit Agreement. Approximately \$38.6 million of cash from the issuance of the 2018 Notes and our borrowings under the New Credit Facility remained after we paid related transaction expense and repaid our Old Credit Facility.

On December 13, 2013, we completed the first amendment to the Credit Agreement. The first amendment made several changes to the Credit Agreement (see Exhibit 10.46 to our 2013 Form 10-K), including changes to interest rates. With our completion of the second amendment, the first amendment’s changes regarding interest rates were superseded.

On July 22, 2014, we completed the second amendment to the Credit Agreement (the “Second Amended Credit Agreement”) governing our New Credit Facility. We incur and pay interest on the Initial Term Loan under the Second Amended Credit Agreement at an uncommitted floating rate of LIBOR plus 4.00%, subject to a LIBOR floor of 1.25%. The Second Amended Credit Agreement also requires us to pay commitment fees related to the Revolving Credit Facility equal to an annualized rate of 0.50% on undrawn amounts when the Total Net Leverage Ratio is greater than 3.50 to 1.00, or equal to an annualized rate of 0.375% on undrawn amounts when the Total Net Leverage Ratio is less than or equal to 3.50 to 1.00. The New Credit Facility provides an accordion feature which allows us to seek additional borrowings of up to \$80.0 million subject to certain customary terms and conditions, including pro forma compliance with a maximum leverage ratio, as defined in the Second Amended Credit Agreement.

During the years ended December 31, 2014, 2013, and 2012, we recorded losses on modification of debt of \$0.2 million, \$0.1 million and \$8.8 million, respectively.

In the table above, unamortized debt issuance cost represents payments made to entities which purchased our debt, and we reclassified the December 31, 2013 amount from Other assets to conform to the current-year presentation. Unamortized debt issuance cost, which we are amortizing over the life of the 2018 Notes and the Initial Term Loan, totaled \$9.0 million and \$8.3 million at December 31, 2014 and 2013, respectively, inclusive of both the amount we report in Other assets and the amount we

report as an offset to the related debt. The amounts of unamortized debt issuance cost at December 31, 2014 and 2013, were net of accumulated amortization totaling \$5.0 million and \$3.1 million, respectively.

Under the Second Amended Credit Agreement, we must make a mandatory repayment of amounts outstanding under the Initial Term Loan in an amount equal to the net cash proceeds from any asset sale within five business days after receipt of such proceeds. However, we do not have to make such mandatory prepayment if (i) no event of default or specified default (each as defined in the Second Amended Credit Agreement) then exists and (ii) such net cash proceeds are used to purchase assets (other than working capital) used or useful in the business (x) within 548 days following receipt of the net cash proceeds or (y) if a legally binding commitment to purchase assets is entered into within such 548 day period, within 180 days after the end of such 548 day period. In the case of non-core asset sales (as defined in the Second Amended Credit Agreement), any resulting net cash proceeds must be deposited into an account subject to an account control agreement.

Under the Second Amended Credit Agreement, a change of control would occur in certain circumstances, including (i) when any person or group acquires 50% or more on a fully diluted basis of our voting equity interests, or (ii) when there is a change in the majority of continuing directors, but excluding (i) the entry into or performance of the Settlement Agreement (as described in our Current Report on Form 8-K, filed on July 28, 2014), or (ii) the formation of a “group” among all or some of the parties to the Settlement Agreement or their affiliates in connection with the performance of the Settlement Agreement or any other agreement in existence on July 14, 2014. A continuing director, as defined in the Second Amended Credit Agreement, is a director on the date of borrowing, a director nominated by a majority of directors which existed on the date of borrowing, and any directors appointed in accordance with the Settlement Agreement or by any Stockholder (as defined in the Settlement Agreement) party to the Settlement Agreement. A change of control would constitute an event of default under the Second Amended Credit Agreement and permit the acceleration by the lenders of all outstanding borrowings thereunder.

The Second Amended Credit Agreement contains customary covenants including, but not limited to, a maximum total net leverage ratio, a maximum secured leverage ratio, a minimum interest coverage ratio and maximum total annual capital expenditures. Additionally, the Initial Term Loan is subject to mandatory annual prepayments based on generation of excess cash flow (as defined), equal to 50% of excess cash flow when the Total Net Leverage Ratio is greater than 4.00 to 1.00, equal to 25% of excess cash flow when the Total Net Leverage Ratio is greater than 3.00 to 1.00, but less than or equal to 4.00 to 1.00, and equal to zero when the Total Net Leverage Ratio is less than or equal to 3.00 to 1.00. We are not required to make an excess cash flow payment for the year ended December 31, 2014. At December 31, 2014, the First Lien Senior Secured Net Leverage Ratio was 2.61 to 1.00, and the Interest Expense Coverage Ratio was 1.96 to 1.00. As of December 31, 2014, we remained in compliance with all debt covenants.

We issued the 2018 Notes pursuant to an indenture dated May 9, 2012 (“2018 Notes Indenture”). Under the 2018 Notes Indenture, we may choose to redeem some or all of the 2018 Notes at any time prior to May 15, 2015, upon providing notice to holders of the 2018 Notes, at a price equal to 100% of the principal amount of the 2018 Notes redeemed plus a “make-whole” premium as of the applicable redemption date, plus accrued interest. Additionally, at any time prior to May 15, 2015, upon providing notice to holders of the 2018 Notes, Affinity Gaming and Affinity Gaming Finance Corp. (collectively, the “Issuers”) may choose to redeem up to 35% of the 2018 Notes with the net cash proceeds from one or more equity offerings at a redemption price equal to 109% of the principal amount of the 2018 Notes to be redeemed, plus accrued and unpaid interest to the redemption date, as long as at least 65% of the aggregate principal amount of the 2018 Notes originally issued remains outstanding immediately after giving effect to any such redemption and the redemption occurs not more than 180 days after the date of the closing of the equity offering. On and after May 15, 2015, the Issuers are entitled to redeem all or a portion of the 2018 Notes upon providing not less than 30 nor more than 60 days’ notice, at the redemption prices (expressed as a percentage of principal amount on the redemption date), plus accrued and unpaid interest, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on May 15 of the years set forth in the table below.

<b>Year</b>	<b>Percentage</b>
2015	104.50%
2016	102.25%
2017 and thereafter	100.00%

All of our current and future domestic subsidiaries that guarantee the New Credit Facility also fully and unconditionally guarantee the Issuers' payment obligations under the 2018 Notes on a senior unsecured basis.

The terms of the 2018 Notes Indenture, among other things, limit our ability to incur additional debt, issue preferred stock, pay dividends or make other restricted payments, make certain investments, create liens, allow restrictions on the ability of restricted subsidiaries to pay dividends or make other payments, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates.

If we experience certain kinds of changes in control, the Issuers must make an offer to purchase the 2018 Notes at a price equal to 101% of the aggregate principal amount of the 2018 Notes plus accrued and unpaid interest, if any, to but excluding the date of repurchase. A change of control, as defined in the 2018 Notes Indenture (as amended on July 24, 2014), specifically excludes certain actions taken as a result of the Settlement Agreement, and occurs when we become aware of (i) any person or group becoming the beneficial owner of more than 50% of the total voting power of our voting stock, or (ii) the sale or other disposition of all or substantially all of our assets. In addition, the Issuers, under certain circumstances, must make an offer to repurchase 2018 Notes with the proceeds of certain asset sales that they do not use to purchase new assets or otherwise apply in accordance with the terms of the 2018 Notes Indenture.

The 2018 Notes Indenture further provides that if any gaming authority requires a holder of the 2018 Notes to be licensed, qualified or found suitable under any applicable gaming law and such holder fails to apply for, or is denied, such license, qualification or not found suitable, the Issuers have the right, at their option, to (i) require such holder to dispose of its 2018 Notes or (ii) redeem such 2018 Notes at the applicable redemption price specified in the 2018 Notes Indenture. The Issuers will not be required to pay or reimburse any holder of the 2018 Notes who is required to apply for such license, qualification or finding of suitability.

We based the estimated fair value of the 2018 Notes and the New Credit Facility on Level 2 inputs using quoted prices in inactive markets and observable market data for similar, but not identical, instruments. The following table presents the carrying values and estimated fair values of our long-term debt at December 31, 2014 (in thousands):

	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
9% Senior Unsecured Notes due 2018	\$ 195,866	\$ 188,031
Term loan due 2017	178,812	176,362
Total	<u>\$ 374,678</u>	<u>\$ 364,393</u>

## NOTE 9. INCOME TAXES

### Deferred Tax Assets and Liabilities

We record deferred tax assets and liabilities to account for the effects of temporary differences between the tax basis of an asset or liability and its amount as reported in our consolidated balance sheets. The temporary differences result in taxable or deductible amounts in future years.

Deferred tax assets and liabilities presented on the consolidated balance sheets are as follows (in thousands):

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current deferred tax asset (liability)	\$ (1,438)	\$ 3,640
Non-current deferred tax liability	(16,081)	(5,573)
Net deferred tax liability	<u>\$ (17,519)</u>	<u>\$ (1,933)</u>

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Notes to Consolidated Financial Statements

The following table details the components of our deferred tax assets and liabilities (in thousands):

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Deferred Tax Assets</b>		
Reserve for employee benefits	\$ 715	\$ 798
Provision for doubtful accounts	57	193
Deferred compensation	608	454
Asset retirement obligation	180	278
Progressive slot and players' club liabilities	2,595	2,637
Tax benefit of current year NOL	13,834	8,699
Equity compensation	927	928
General business credits	837	300
AMT credit	213	429
Litigation reserve	1,116	1,116
Gaming taxes	765	637
Accrued expenses	200	—
Other	208	193
Gross deferred tax assets	22,255	16,662
Valuation allowance	(17,992)	—
Deferred tax assets, net of valuation allowance	4,263	16,662
<b>Deferred Tax Liabilities</b>		
Depreciation and amortization	(18,715)	(16,308)
Debt issuance costs	(453)	—
Prepaid services and supplies	(2,614)	(2,287)
Gross deferred tax liabilities	(21,782)	(18,595)
Net deferred tax liability	\$ (17,519)	\$ (1,933)

We have assessed the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2014. Such objective evidence limits the ability to consider other subjective evidence such as our projections for future growth. On the basis of this evaluation, as of December 31, 2014, a valuation allowance of \$18.0 million has been recorded to reflect only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as our projections for growth.

At December 31, 2014, we had a gross federal net operating loss carryforward of approximately \$38.3 million. In addition, we have deferred tax assets of approximately \$0.2 million related to Alternative Minimum Tax credits and \$0.8 million related to general business credits. The net operating losses and general business credits can be carried forward and applied to offset taxable income for 20 years; they will begin to expire in 2031. We can carry forward the Alternative Minimum Tax credit and apply it to offset regular tax liabilities indefinitely; it will not expire.

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On September 13, 2013, the U.S. Treasury Department released final income tax regulations on the deduction and capitalization of expenditures related to tangible property. These final regulations apply to tax years beginning on or after January 1, 2014. Several of the provisions within the regulations will require a tax accounting method change to be filed with the IRS, resulting in a cumulative effect adjustment. To account for the adoption of these regulations, for the year ended December 31, 2014, long-term deferred tax liabilities increased by \$1.1 million, with the offsetting increase to noncurrent deferred income tax assets. Before these regulations were issued, this \$1.1 million would have been recovered over 39 years through tax depreciation deductions.

We have analyzed our filing positions in each jurisdiction where we are required to file income tax returns. We believe our income tax filing positions and deductions will be sustained on audit and we do not anticipate any adjustments that will result in a material change to our financial position.

We filed income tax returns in the United States federal jurisdiction and in several state jurisdictions. A federal tax examination for 2011 and 2012 was closed during the year ended December 31, 2014. The final examination determination resulted in no material changes to our financial position and deferred tax assets and liabilities.

**Provision for Income Taxes**

The following table presents the components of our income tax provision attributable to pre-tax income from continuing operations, as well as the income tax benefit attributable to pre-tax income from discontinued operations (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>CURRENT</b>			
Federal	\$ —	\$ —	\$ 1,917
State	—	—	(438)
Total current tax expense	—	—	1,479
<b>DEFERRED</b>			
Federal	(14,682)	694	(3,746)
State	(864)	(175)	(220)
Total deferred tax expense	(15,546)	519	(3,966)
Benefit from (provision for) income taxes related to continuing operations	(15,546)	519	(2,487)
Benefit from income taxes related to discontinued operations	—	133	3,271
Total benefit from (provision for) income tax	\$ (15,546)	\$ 652	\$ 784

The following table presents a reconciliation between the federal statutory rate and the effective income tax rate, expressed as a percentage of pre-tax income:

	December 31,	
	2014	2013
Tax at federal statutory rate	34.0 %	34.0 %
State income tax	2.0 %	2.0 %
Lobbying costs (non-deductible expense)	(6.0)%	— %
Other non-deductible expense	(3.3)%	(6.0)%
Other, net	(0.5)%	— %
State provision adjustment	— %	(14.3)%
Valuation allowance	(221.3)%	— %
General business credit	3.9 %	18.6 %
Effective tax rate related to continuing operations	(191.2)%	34.3 %
Effective tax rate related to discontinued operations	— %	36.0 %
Total effective tax rate	(191.2)%	34.7 %

#### **NOTE 10. SHARE-BASED COMPENSATION**

We designed our share-based compensation arrangements to advance our long-term interests; for example, by allowing us to attract employees and directors, to retain them and by aligning their interests with those of our stockholders. The amount, frequency, and terms of share-based awards may vary based on competitive practices, our operating results, government regulations and availability under our equity incentive plans. Depending upon the form of the share-based award, new shares of our common stock may be issued upon grant, option exercise or vesting of the award.

The Affinity Gaming Amended and Restated 2011 Long-Term Incentive Plan (“LTIP”), which the Compensation Committee of our Board of Directors approved, allows us to issue up to 2,000,000 shares of common stock, subject to stock options, or as restricted stock, to employees, officers, directors and consultants. Awards vest upon the passage of time, the attainment of performance criteria, or both. Stock options awarded under the LTIP expire five years from the grant date. Awards granted to management generally vest ratably over three years from the date of the grant, and those granted to directors generally vest in two equal tranches, the first upon issuance and the second during January of the calendar year following the year of grant. Holders of restricted stock may vote their shares and receive their proportionate share of any dividends. Restricted stock remains subject to the terms and conditions contained in the applicable award agreement and our LTIP until the recipient vests in the award.

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The following table summarizes the activity related to our outstanding and non-vested stock options and restricted stock for the period ended December 31, 2014:

	<b>Stock Options</b>				<b>Restricted Stock</b>	
	<b>Outstanding</b>		<b>Non-Vested</b>		<b>Non-Vested</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Shares</b>	<b>Weighted Average Fair Value Per Share</b>	<b>Shares</b>	<b>Weighted Average Fair Value Per Share</b>
December 31, 2013	348,399	\$ 10.05	44,171	\$ 4.88	52,361	\$ 11.86
Granted	109,315	11.61	109,315	3.31	60,455	11.31
Vested	—	—	(31,501)	5.56	(39,502)	11.71
Canceled	(263,324)	10.04	—	—	—	—
Forfeited	(12,670)	10.25	(12,670)	5.92	(3,253)	10.25
Expired	(4,223)	\$ 10.25	—	\$ —	—	\$ —
December 31, 2014	<u>177,497</u>	<u>\$ 10.99</u>	<u>109,315</u>	<u>\$ 3.31</u>	<u>70,061</u>	<u>\$ 11.54</u>

As of December 31, 2014, awards representing 477,961 shares or potential shares of our common stock (including 230,403 vested shares) awarded under the LTIP were outstanding and, awards representing 1,522,039 shares or potential shares of our common stock remained available for issuance under the LTIP.

We account for stock option awards as liabilities. As of December 31, 2014, we have reported a \$1.0 million share-based compensation liability in the Other liabilities line item.

The following table lists certain information related to stock options awarded under the LTIP which had vested as of December 31, 2014:

Number of vested stock options	68,182
Weighted-average exercise price per share	\$ 10.00
Aggregate intrinsic value (in thousands)	\$ —
Weighted-average remaining contractual term (in years)	1.3

At December 31, 2014, our outstanding stock options had an aggregate intrinsic value of zero, and had a weighted-average remaining contractual term of 3.2 years.

We estimate the fair value of stock option awards at each reporting date using a Black-Scholes-Merton option-pricing model. As of December 31, 2014, we applied the following weighted-average assumptions:

	<b>Month of Award</b>			
	<b>September 2014</b>	<b>February 2014</b>	<b>February 2012</b>	<b>March 2011</b>
Expected term in years	4.7	4.2	2.1	1.3
Expected volatility	46.71%	46.61%	45.18%	47.94%
Expected dividends	—%	—%	—%	—%
Risk-free interest rates	1.51%	1.1%	0.67%	0.36%

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We determined the expected option term using the contractual term. Because we are closely held and, therefore, do not have equity listed on a public exchange, we based expected volatility on the historical volatility associated with an average of the stocks of our peer group, which we determined to be publicly-traded, U.S.-based regional casino operators. The risk-free interest rate is based on U.S. Treasury rates appropriate for the expected term. Actual compensation, if any, ultimately realized may differ significantly from the amount estimated using an option-pricing model.

Since inception of the LTIP, no stock options have been exercised.

The following tables present certain information related to compensation cost:

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Compensation cost included in operating expense (in thousands)			
Stock options	\$ 61	\$ 338	\$ 1,102
Restricted stock	394	831	973
Total	\$ 455	\$ 1,169	\$ 2,075
			<b>December 31, 2014</b>
Unrecognized compensation cost for non-vested awards (in thousands)			
Stock options			\$ 279
Restricted stock			434
Total			\$ 713
Weighted-average years to be recognized			
Stock options			1.7
Restricted stock			1.4

**NOTE 11. WRITE DOWNS, RESERVES AND RECOVERIES**

Our operating results include various pretax charges to record contingent liability reserves, recoveries of previously recorded reserves and other non-routine transactions. The following table presents the components of write downs, reserves and recoveries for continuing operations (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
1. CCDC litigation reserve	\$ —	\$ 3,100	\$ —
2. Tax penalties and interest related to bankruptcy estate	—	(1,459)	—
3. Write off of capitalized environmental remediation costs	(448)	2,649	—
4. Amounts related to closure of Henderson Casino Bowl	—	476	—
5. Litigation settlements, net	—	—	(707)
6. Settlement with insurance carriers	—	—	(78)
7. Other	24	—	—
Write downs, reserves and recoveries	<u>\$ (424)</u>	<u>\$ 4,766</u>	<u>\$ (785)</u>

1. As discussed in Note 13, we are party to ongoing litigation with our non-profit partner, CCDC, in Lakeside, Iowa. We have accrued this amount based upon the amount stipulated in the memorandum of understanding we discussed with CCDC in contemplation of settling this litigation. Although we did not ultimately agree to the settlement and the litigation remains open, the accrual represents our best estimate of anticipated expense to settle the litigation. We recorded the expense in our Midwest segment.
2. During 2013, we resolved outstanding issues related to disputed claims filed by the IRS related to the Predecessor's bankruptcy case and reversed the accrual, recording accrual, recording write downs, reserves and recoveries income at the corporate level.
3. During the quarter ended December 31, 2013, we recorded a correction in our Nevada segment which expensed previously-capitalized costs related to the environmental remediation work performed during the construction of our new travel center at Whiskey Pete's Hotel & Casino. Expense (income) recorded for the years ended December 31, 2014 and 2013, are presented net of insurance recoveries.
4. We closed the Henderson casino on December 11, 2013. This amount represents asset write offs and other expense related to the closing.
5. These amounts represent insurance recoveries and adjustments to legal reserves for claims against Predecessor.
6. The amount represents the final payment we received from our insurance carriers in settlement of the St Jo flood claim. We recorded the income in our Midwest segment.
7. 2010/2012 Colorado tax settlement.

**NOTE 12. RELATED PARTY TRANSACTIONS**

**General**

Edward Herbst, Timothy Herbst and Troy Herbst are brothers and are officers and directors of Predecessor. In addition, they are officers and directors of Terrible Herbst, Inc. and Berry-Hinckley Industries. There is no cross ownership between Predecessor and either Terrible Herbst, Inc. or Berry-Hinckley Industries. Terrible Herbst, Inc. is owned solely by Jerry and Maryanna Herbst, the parents of the Herbst brothers. Sean Higgins, Predecessor's General Counsel, is also the general counsel of Berry-Hinckley Industries.

*Slot route contract with Terrible Herbst, Inc.*

Until the contract was terminated in February 2012 in connection with the sale of the Herbst Slot Route to JETT, we rented space for the exclusive placement of certain slot machines (route operations) in convenience stores owned by Terrible Herbst, Inc. We incurred rent expense of \$1.8 million under this agreement for the year ended December 31, 2012.

*Other arrangements with Terrible Herbst, Inc.*

Until the contract was terminated in February 2012 in connection with the sale of the Herbst Slot Route to JETT, we provided accounting and administrative services related to the collection of daily deposits from Terrible Herbst convenience stores pursuant to a service agreement with Terrible Herbst, Inc. Pursuant to providing our services under the contract, Terrible Herbst paid us approximately \$45,000 during the year ended December 31, 2012.

We entered into a nonexclusive trademark license agreement with Terrible Herbst for the use of the Terrible Herbst brand name and its cowboy logo which extended through June 2013. Pursuant to this trademark license agreement, we incurred expense totaling approximately \$0.3 million and \$0.7 million to Terrible Herbst in the years ended December 31, 2013 and 2012, respectively.

**Lease agreements**

Pursuant to an amended lease agreement that expired on April 30, 2012, we leased from The Herbst Family Limited Partnership II, or Herbst FLP II, the real property on which our former corporate headquarters was located. The general partners of Herbst FLP II are Jerry and Maryanna Herbst. We paid \$58,000 under this lease during the year ended December 31, 2012.

Pursuant to an amended lease agreement that expired on April 30, 2012, we leased from the Herbst's Grandchildren's Trust a warehouse located in Las Vegas, Nevada for our employment center and purchasing departments. We paid \$0.2 million under this lease during the year ended December 31, 2012.

We leased from the Herbst Family Limited Partnership the land on which the Terrible's Town Casino in Pahrump, NV is located. Golden Gaming assumed this lease in connection with their purchase of the Pahrump casinos. We paid \$35,000 under this lease during the year ended December 31, 2012.

We leased from Terrible Herbst the real property on which the Searchlight Casino in Searchlight, NV is located. Terrible Herbst leases that real property from an unrelated third party. JETT assumed this lease in connection with their purchase of the Searchlight casino. We paid \$30,000 under this lease during the year ended December 31, 2012.

We leased land and office space in certain of our facilities to Terrible Herbst under various lease agreements with terms ranging from month-to-month to 20 years. We received rental income of \$58,000 under this lease during the year ended December 31, 2012. Either we have terminated these leases or Golden Gaming assumed them in connection with the sale of the slot route and Pahrump casinos.

**Related-party transactions**

Effective September 2014, we entered into an agreement with David Ross, our former Chief Executive Officer, whereby Mr. Ross provided consulting services to Affinity to assist us in fulfilling obligations under the JW Marriott consulting agreement. We paid Mr. Ross \$20,000 monthly for his consulting services.

Beginning February 1, 2013, we paid Ferenc Szony, our former Chief Operating Officer, a \$12,500 monthly fee for consulting services to assist Affinity in fulfilling its obligations under the JW Marriott consulting agreement.

In September 2012, we entered into an agreement to divest non-core assets in the Truckee Disposition. Our former Chief Operating Officer, Ferenc Szony, became a managing principal at Truckee Gaming, LLC. One of our directors at the time we entered into the agreement, Thomas M. Benninger, serves as a managing general partner of Global Leveraged Capital, LLC

("GLC"), a private investment and advisory firm. In connection with the Truckee Disposition, funds managed by affiliates of GLC provided mezzanine financing for Truckee Gaming and acquired warrants, which can be exercised under certain conditions, to obtain equity interests of Truckee Gaming. The Truckee Disposition closed on February 1, 2013.

In 2003, we entered into a slot route contract to install, operate and service slot machines at a tavern owned by HIGCO, Inc., a company owned and operated by Mr. Higgins and two of his brothers, G. Michael Higgins and Kevin J. Higgins. Pursuant to this revenue-sharing contract, HIGCO, Inc. paid us \$25,000 during the year ended December 31, 2012. Golden Gaming assumed this slot route contract as part of the slot route operations they acquired from us.

In 2004, ETT entered into a slot route contract with SamCon, Inc., a company owned and operated by Mr. Higgins, to install, operate and service slot machines at a new location. Terms of this revenue-sharing contract were similar to the terms of the contract we entered into with HIGCO in 2003. Pursuant to this revenue-sharing contract, SamCon, Inc. paid us \$17,000 during the year ended December 31, 2012. Golden Gaming assumed this slot route contract as part of the slot route operations they acquired from us.

### **NOTE 13. COMMITMENTS AND CONTINGENCIES**

#### **Data Security Event**

In late October 2013, Affinity was contacted by law enforcement regarding fraudulent credit and debit card charges which may have been linked to a data security breach in Affinity's information technology system. We immediately initiated a thorough investigation, supported by an independent professional forensic investigative firm, to determine the nature and scope of the compromise. In December 2013, we issued a press release advising that our payment processing system had become infected by malware, which resulted in a compromise of credit card and debit card information belonging to individuals who used their cards at restaurants, hotels and gift shops at our facilities between March 14 and October 16, 2013. As of November 14, 2013, our forensics expert advised us that our credit card processing systems were free of functioning malware. We encouraged our patrons to protect against possible identity theft or other financial loss by reviewing account statements for potential fraudulent activity during the period of exposure. In April 2014, we again learned that an unauthorized intrusion and installation of malware compromising the credit card processing environment had occurred. We then hired a different professional forensics investigation firm to conduct a thorough investigation of the more recently discovered event, and the security of our information technology environment as it relates to both incidents. As a result of the investigation, we have reason to believe that credit card and debit card information from individuals who used their cards at restaurants, hotels and gift shops at our properties between December 7, 2013 and April 28, 2014, may have been compromised. In May 2014, we issued another press release and encouraged our patrons to protect against possible identity theft or other financial loss by reviewing account statements for potential fraudulent activity during the period of exposure.

Affinity carries insurance coverage of \$5.0 million for liability resulting from network security events. As of December 31, 2014, we have incurred \$1.2 million in expense, including deductibles, for the two security breaches. We do not expect to incur additional material expenses that are not covered by insurance. However, we cannot estimate the total amount which we will ultimately incur and be reimbursed by insurance carriers because, although the investigation has concluded, we have not received all of the assessments and evaluations from the credit card processors and issuing banks seeking to recover the cost of replacement cards and a portion of fraudulent charges, nor have we received any third-party claims as of this date. Various states attorneys general also continue to investigate the incidents.

#### **Litigation**

In March 2012, the Clarke County Development Corp. ("CCDC"), the local non-profit Iowa licensee for which we manage the Lakeside Hotel & Casino ("Lakeside") in Osceola, Iowa, filed an action in Iowa state court against Affinity and Lakeside, seeking a declaratory judgment that the management contract between CCDC and Lakeside is non-assignable. We removed the case to federal court and contested CCDC's position even though we had no plans to assign the agreement. CCDC also named Lakeside, Affinity and the Iowa Racing & Gaming Commission ("IRGC") in a separate petition in Iowa state court seeking judicial review of the IRGC's ruling, in November 2010, which approved the Predecessor's creditors to become the owners of Affinity Gaming, LLC, and thereby the indirect owners of Lakeside, prior to our emergence from bankruptcy and notwithstanding CCDC's objection that an assignment of the management agreement had occurred which required its consent. On July 29, 2013, just two weeks before the hearing on judicial review, CCDC filed a voluntary dismissal without prejudice of

the petition for judicial review. On July 30, 2013, CCDC filed a motion to dismiss the federal court action without prejudice, which was granted. CCDC's dismissal of the state court petition and the federal court action was based upon its filing in Iowa state court on August 5, 2013 of a third lawsuit in which it seeks to enforce a settlement agreement it alleges was reached with us during a non-binding mediation held in June 2013. The mediation resulted in a written memorandum of understanding ("MOU") pursuant to which the state court petition and federal court action were to be dismissed upon Lakeside's payments of \$0.6 million to CCDC and \$2.5 million to an account controlled by the Clarke County Reservoir Commission; Lakeside was to incrementally reduce to zero over a period of ten years a 0.5% capital improvement set-off against the 2.5% of adjusted gross revenue ("AGR") the casino pays to CCDC and its local government affiliates; and, for a period of five years, CCDC would not unreasonably withhold its consent to the assignment of the management agreement to a third party, provided the assignee agrees to immediately eliminate the capital improvement set-off and to pay the greater of 3% or the state maximum percentage of AGR. However, subsequent to the mediation, when the parties exchanged drafts of the formal written settlement agreement contemplated by the MOU, it became apparent that a meeting of the minds regarding settlement had not occurred, as CCDC took the position that any assignee of the management agreement would have to increase its percentage of AGR payment by 1.5% more than what Lakeside pays, rather than the 0.5% to which we believed we had agreed. Discovery in the case has concluded and the parties have filed and fully briefed motions for summary judgment, and a trial date of May 11, 2015 has been set in the event summary judgment is not granted. Should CCDC prevail on summary judgment or at trial, we estimate the potential loss to be the \$3.1 million in payments set forth in the MOU.

In March 2013, shareholder Z Capital Partners, L.L.C. and certain of its affiliates (collectively "Z Capital"), individually as well as derivatively on behalf of Affinity Gaming, filed a complaint (the "Complaint") against us as a nominal party and our directors as defendants in the District Court, Clark County, Nevada (the "District Court"). In July 2014, representatives of Z Capital, shareholder SPH Manager, LLC ("SPH Manager") and certain other large shareholders reached an agreement with us to settle and dismiss with prejudice the Complaint (see our Current Report on Form 8-K, filed on July 28, 2014, for more information).

In November 2013, Chartwell Advisory Group, Ltd. ("Chartwell"), a professional services firm that facilitated filing refund requests with the Nevada Tax Commission for sales and use tax paid by certain casinos on the cost of complimentary meals for periods beginning in 2004, has filed a lawsuit against numerous Nevada casino operators, including one of our subsidiaries, alleging that it is owed a percentage of the tax casinos did not have to pay as a result of the 2012 regulation and related settlement agreement. Our subsidiary had entered into an agreement with this firm prior to the bankruptcy whereby Chartwell would receive a percentage of any refund we received from the state of sales tax previously paid by our subsidiary. Although Chartwell asserts that we owe them approximately \$0.3 million, we do not believe any amounts are due to Chartwell and accordingly, we have not recorded an accrual. We intend to vigorously defend the lawsuit and our subsidiary has recently filed a motion to dismiss the claims against it, which motion is pending.

We are party to certain other claims, legal actions and complaints arising in the ordinary course of business or asserted by way of defense or counterclaim in actions we filed. We believe that our defenses are substantial in each of these matters and that we can successfully defend our legal position without material adverse effect on our consolidated financial statements.

## Leases

We are party to contracts which we enter into in the ordinary course of our business, including leases for real property and operating leases for equipment. The following table presents future minimum lease payments under non-cancelable leases (in thousands):

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>	<u>Total</u>
Lease payments	7,928	7,927	7,688	7,746	7,313	169,483	208,085

We incurred rent expense totaling \$7.6 million, \$8.0 million and \$7.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### Environmental Remediation

During the excavation phase at the site of our new travel center in Primm, Nevada, we encountered several contaminated sites on the property which required soil remediation and groundwater testing. Much of the contamination resulted from underground fuel storage tanks related to a gas station operated more than 30 years ago, as well as from abandoned underground fuel lines. We also began testing at the direction of the Nevada Division of Environmental Protection (the “NDEP”) to determine the extent to which the contamination has affected the groundwater, and we have agreed to continue monitoring the groundwater for a period of at least three years.

Through December 31, 2014, we have incurred approximately \$3.8 million on remediation work at the Whiskey Pete’s site. We have an insurance policy which provides coverage for environmental remediation costs of up to \$5.0 million. We received \$1.0 million from our insurer in 2013, and \$0.6 million in 2014.

Although we believe that incurring additional cost related to the testing and ongoing monitoring of groundwater for contamination is probable, we cannot reasonably estimate an amount to accrue at this time because the NDEP has not told us what additional work, if any, it will require us to perform. Additionally, we believe some or all of the ongoing monitoring costs will be reimbursed by insurance as part of our initial claim. We also intend to pursue a claim for partial recovery against the environmental consultant that managed the initial remediation. The ultimate cost to us will depend on the extent of contamination found, if any, as a result of our ongoing testing, the amount of remediation we are required to perform, and the amount we are reimbursed. As we complete our ongoing monitoring obligation, we intend to analyze any cost incurred, and we will expense or capitalize it as necessary.

### Asset Retirement Obligation

During the quarter ended December 31, 2014, we re-estimated the asset retirement obligation associated with a lease for real property at our Primm, Nevada location. The lease expires on June 30, 2043 and has a 25 year extension period which, for purposes of the asset retirement obligation, we assume will be exercised extending the term through June 30, 2068. First, we estimated the costs required to return the leased land to its original state using current cost data. We then used the current cost amount to estimate the cost we would incur at the end of the lease, assuming an inflation rate of 2.4%. Finally, we used a 6.7% discount rate to estimate the liability as of the current date. As a result of our re-estimation, we reduced the asset retirement obligation, as well as the fixed asset to which the obligation is associated, in the amount noted in the table below.

The following table reconciles the value of the asset retirement obligation for the periods presented.

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Balance at beginning of period	\$ 773	\$ 724
Adjustment due to re-estimate	(319)	—
Accretion expense	47	49
Balance at end of period	<u>\$ 501</u>	<u>\$ 773</u>

### NOTE 14. EMPLOYEE BENEFIT PLANS

We maintain retirement savings plans under Section 401(k) of the Internal Revenue Code for eligible employees. The plans allow employees to defer, within prescribed limits, up to 30% of their income on a pre-tax basis through contributions to the plans. We provide limited matches of a portion of eligible employees’ contributions. For the years ended December 31, 2014, 2013 and 2012, we recorded contribution expense related to our 401(k) plans of \$0.2 million, \$0.3 million and \$0.1 million, respectively.

**NOTE 15. SEGMENT INFORMATION**

The following table presents the components of net revenue by segment (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Gross revenue			
Nevada	\$ 266,880	\$ 267,826	\$ 301,971
Midwest	134,762	134,249	140,035
Colorado	45,339	43,505	14,355
Total gross revenue	<u>446,981</u>	<u>445,580</u>	<u>456,361</u>
Promotional allowances			
Nevada	(39,364)	(36,986)	(39,386)
Midwest	(12,698)	(11,957)	(12,142)
Colorado	(6,928)	(6,149)	(1,657)
Total promotional allowances	<u>(58,990)</u>	<u>(55,092)</u>	<u>(53,185)</u>
Net revenue			
Nevada	227,516	230,840	262,585
Midwest	122,064	122,292	127,893
Colorado	38,411	37,356	12,698
Total net revenue	<u>\$ 387,991</u>	<u>\$ 390,488</u>	<u>\$ 403,176</u>

We use earnings before interest expense; income tax; depreciation and amortization; share-based compensation expense; pre-opening costs; write offs, reserves and recoveries; loss on extinguishment or modification of debt; loss on impairment of assets; gains or losses on the disposition of assets; and restructuring and reorganization costs (“Adjusted EBITDA”) as a measure of profit and loss to manage the operational performance of our segments.

The following table presents Adjusted EBITDA by segment and by corporate and other (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Adjusted EBITDA			
Nevada	\$ 26,182	\$ 28,609	\$ 32,784
Midwest	34,130	37,041	40,820
Colorado	4,593	8,322	7,718
Corporate and other	(14,359)	(11,064)	(10,651)
Total Adjusted EBITDA	<u>\$ 50,546</u>	<u>\$ 62,908</u>	<u>\$ 70,671</u>

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

The following tables reconcile Adjusted EBITDA to operating income (in thousands):

	<b>Year Ended December 31, 2014</b>				
	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 26,182	\$ (14,650)	\$ —	\$ 448	\$ 11,980
Midwest	34,130	(7,582)	—	—	26,548
Colorado	4,593	(5,124)	—	—	(531)
Corporate and other	(14,359)	(1,223)	(455)	(24)	(16,061)
Continuing operations	\$ 50,546	\$ (28,579)	\$ (455)	\$ 424	\$ 21,936

	<b>Year Ended December 31, 2013</b>					
	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Loss on Impairment of Assets</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 28,609	\$ (14,729)	\$ —	\$ (3,125)	\$ (165)	\$ 10,590
Midwest	37,041	(7,023)	—	(3,100)	—	26,918
Colorado	8,322	(5,058)	—	—	—	3,264
Corporate and other	(11,064)	(999)	(1,169)	1,459	—	(11,773)
Continuing operations	\$ 62,908	\$ (27,809)	\$ (1,169)	\$ (4,766)	\$ (165)	\$ 28,999

	<b>Year Ended December 31, 2012</b>					
	<b>Adjusted EBITDA</b>	<b>Depreciation and Amortization</b>	<b>Share-Based Compensation</b>	<b>Pre-Opening Expense</b>	<b>Write Downs, Reserves and Recoveries</b>	<b>Operating Income from Continuing Operations</b>
Nevada	\$ 32,784	\$ (14,150)	\$ —	—	\$ —	\$ 18,634
Midwest	40,820	(6,663)	—	—	78	34,235
Colorado	7,718	(2,042)	—	—	—	5,676
Corporate and other	(10,651)	(411)	(2,075)	(421)	707	(12,851)
Continuing operations	\$ 70,671	\$ (23,266)	\$ (2,075)	(421)	\$ 785	\$ 45,694

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

The following table presents total assets by reportable segment (in thousands):

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Total assets by reportable segment		
Nevada	\$ 226,897	\$ 228,956
Midwest	209,897	213,671
Colorado	78,766	83,149
Reportable segment total assets	515,560	525,776
Corporate and other	98,618	112,168
Total assets	<u>\$ 614,178</u>	<u>\$ 637,944</u>

Total assets in the Corporate and other line consist primarily of cash at the corporate entity.

The following table presents capital expenditures by reportable segment (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Capital expenditures by reportable segment			
Nevada	\$ 7,542	\$ 14,810	\$ 12,952
Midwest	4,729	6,378	10,737
Colorado	2,909	9,650	1,565
Reportable segment capital expenditures	15,180	30,838	25,254
Corporate	1,162	1,003	2,857
Total capital expenditures	<u>\$ 16,342</u>	<u>\$ 31,841</u>	<u>\$ 28,111</u>

**NOTE 16. DISCONTINUED OPERATIONS**

On September 7, 2012, we entered into an Asset Purchase Agreement (“Agreement”) with Truckee Gaming regarding the Truckee Disposition. The transaction closed on February 1, 2013. Truckee Gaming paid a base purchase price of \$19.2 million less a \$1.7 million credit for deferred maintenance capital plus an adjustment related to EBITDA through the closing date of the transaction of \$1.4 million. Truckee Gaming received \$2.9 million in cash as part of the assets transferred, which consisted of \$2.5 million in cage cash and \$0.4 million transferred as a purchase price adjustment. The Agreement also includes a contractual purchase price adjustment based on the working capital balances, exclusive of cash, with a payment to either Truckee Gaming or us, pegging the working capital balances at zero. Based on the preliminary working capital balances and purchase price adjustments, we received proceeds of \$17.5 million from Truckee Gaming which we deposited into an account subject to a control agreement. During the quarter ended March 31, 2013, we recorded the final adjustments related to the purchase price, including final working capital adjustments, and recorded a gain, net of selling expense, of \$21,000. Including the impairment losses we recognized in the second half of 2012 related to this transaction, we recognized an overall loss, net of selling expense, of \$14.8 million on the Truckee Disposition. We have presented the operating results for the casinos subject to the Truckee Disposition in discontinued operations in the accompanying consolidated statements of operations for all periods presented, and we have reclassified their assets and liabilities as held-for-sale for the year ended December 31, 2012.

On February 27, 2012, we consummated the JETT Transactions. Pursuant to the Asset Purchase and Sale Agreement with JETT, upon the terms and subject to the conditions thereof, we agreed to sell the assets of our Searchlight Casino, in Searchlight, Nevada and our Terrible Herbst convenience store slot machine route operations (“Herbst Slot Route”) to JETT. We also agreed to terminate certain agreements with parties affiliated with both JETT and the former owners of the Predecessor.

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

In consideration for the Searchlight Casino and the Herbst Slot Route, JETT agreed to (i) assume certain liabilities related to the Searchlight Casino and the Herbst Slot Route, (ii) pay an amount in cash for certain equipment used in the Herbst Slot Route, and (iii) enter into an agreement not to compete with our other slot route operations and not to solicit any of our employees engaged in the operation of our other businesses for a period of time.

On February 29, 2012, we substantially consummated the Golden Gaming Transactions. Pursuant to the Asset and Equity Purchase Agreement, upon the terms and subject to the conditions thereof, we sold the assets of our Terrible's Town Casino and our Terrible's Lakeside Casino & RV Park, both located in Pahrump, Nevada (the "Pahrump Casinos"), and our slot route operations (other than the Herbst Slot Route) (the "Slot Route") to Golden Gaming, which also assumed certain liabilities related to the Pahrump Casinos and Slot Route.

Pursuant to the Asset Purchase Agreement with an affiliate of Golden Gaming known as Golden Mardi Gras, Inc, upon the terms and subject to the conditions thereof, we agreed to purchase the assets and assume certain liabilities of the Black Hawk Casinos. We acquired the land and buildings of the Black Hawk Casinos which we leased back to Golden Gaming until we obtained our Colorado gaming licenses on October 18, 2012. We recorded lease revenue of \$6.5 million from Golden Gaming during the year ended December 31, 2012. On November 1, 2012, we began operating the Black Hawk Casinos.

The agreements with Golden Gaming required us to pay a contractual purchase price adjustment based on the estimated values at closing of the Pahrump Casinos and Slot Route, on the one hand, and the Black Hawk Casinos on the other hand. For purposes of the purchase price adjustment, we determined the estimated values of the Pahrump Casinos and Slot Route and the Black Hawk casinos based on multiples of their trailing-twelve-month EBITDA as of their respective closing dates in February. We paid the purchase price adjustment of \$4.3 million in cash.

In connection with the Golden Gaming Transactions, we recorded a gain as further described below. The fair value of the Searchlight Casino, the Pahrump Casinos and the Slot Route at the closing of the transactions was estimated to be \$67.1 million, which we used in the calculation of the gain.

During the first quarter of 2012, we recorded a gain of \$3.4 million on the properties sold to JETT and Golden Gaming, net of selling expense of approximately \$2.8 million. Selling expense primarily consisted of legal fees related to the purchase and sale agreements.

For each of the properties we sold or that we have contracted to sell, we classified their results of operations as discontinued operations for all periods presented in the accompanying consolidated statements of operations. Discontinued operations for the year ended December 31, 2013 reflect one month of operating results of the properties we sold in the Truckee Disposition, discontinued operations for the year ended December 31, 2012 reflect two months of operating results of the properties we sold to JETT and Golden Gaming plus the operating results of the properties we sold in the Truckee Disposition.

The following table summarizes operating results for discontinued operations (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net revenue	\$ —	\$ 3,289	\$ 82,145
Pretax income (loss) from discontinued operations	\$ —	\$ (369)	\$ (9,085)
Discontinued operations, net of tax	\$ —	\$ (236)	\$ (5,814)

**NOTE 17. SELECTED QUARTERLY FINANCIAL INFORMATION**

	UNAUDITED (in thousands)				
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>	<u>Total</u>
<b>December 31, 2014</b>					
Net revenue	\$ 96,570	\$ 99,621	\$ 99,462	\$ 92,338	\$ 387,991
Operating income	6,846	5,943	5,210	3,937	21,936
Income (loss) from continuing operations	47	(14,367)	(3,685)	(5,672)	(23,677)
<b>December 31, 2013</b>					
Net revenue	\$ 101,046	\$ 100,312	\$ 99,123	\$ 90,007	\$ 390,488
Operating income	10,941	9,074	5,653	3,331	28,999
Income (loss) from continuing operations	2,216	1,124	(1,206)	(3,125)	(991)

**NOTE 18. CONDENSED CONSOLIDATED GUARANTOR DATA**

All of our current and future domestic subsidiaries which guarantee the New Credit Facility also fully and unconditionally guarantee our payment obligations under the 2018 Notes on a senior unsecured basis (see Note 8 for more information regarding our debt). All of the guarantees are joint and several, and all of the guarantor subsidiaries are wholly-owned by us.

We prepared and are presenting the condensed consolidating financial statements in this footnote using the same accounting policies which we used to prepare the financial information located elsewhere in our condensed consolidated financial statements and related footnotes. Although Affinity Gaming Finance Corp. (“AG Finance”) is a co-issuer of the 2018 Notes, we present our indebtedness as an obligation of Affinity Gaming, only. AG Finance reflects no activity during any period presented, and we did not have any non-guarantor subsidiaries during any period presented.

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidating Balance Sheet  
December 31, 2014  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 88,737	\$ —	\$ 46,438	\$ —	\$ 135,175
Restricted cash	469	—	139	—	608
Accounts receivable, net	916	—	2,600	—	3,516
Income tax receivable	171	—	—	—	171
Prepaid expense	1,086	—	9,048	—	10,134
Inventory	—	—	2,666	—	2,666
Total current assets	<u>91,379</u>	<u>—</u>	<u>60,891</u>	<u>—</u>	<u>152,270</u>
Property and equipment, net	3,016	—	258,095	—	261,111
Intercompany receivables	—	—	82,764	(82,764)	—
Investment in subsidiaries	548,541	—	—	(548,541)	—
Other assets, net	4,223	—	1,515	—	5,738
Intangibles	—	—	126,543	—	126,543
Goodwill	—	—	68,516	—	68,516
Total assets	<u>\$ 647,159</u>	<u>\$ —</u>	<u>\$ 598,324</u>	<u>\$ (631,305)</u>	<u>\$ 614,178</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Accounts payable	\$ 1,737	\$ —	\$ 11,165	\$ —	\$ 12,902
Intercompany payables	82,764	—	—	(82,764)	—
Accrued interest	2,353	—	—	—	2,353
Accrued expense	1,152	—	21,358	—	22,510
Deferred income taxes	108	—	1,330	—	1,438
Other current liabilities	—	—	30	—	30
Total current liabilities	<u>88,114</u>	<u>—</u>	<u>33,883</u>	<u>(82,764)</u>	<u>39,233</u>
Long-term debt, less current portion	374,678	—	23	—	374,701
Other liabilities	1,207	—	501	—	1,708
Deferred income taxes	705	—	15,376	—	16,081
Total liabilities	<u>464,704</u>	<u>—</u>	<u>49,783</u>	<u>(82,764)</u>	<u>431,723</u>
Common stock	20	—	—	—	20
Other equity	182,435	—	548,541	(548,541)	182,435
Total owners' equity	<u>182,455</u>	<u>—</u>	<u>548,541</u>	<u>(548,541)</u>	<u>182,455</u>
Total liabilities and owners' equity	<u>\$ 647,159</u>	<u>\$ —</u>	<u>\$ 598,324</u>	<u>\$ (631,305)</u>	<u>\$ 614,178</u>

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidating Balance Sheet  
December 31, 2013  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 98,296	\$ —	\$ 42,561	\$ —	\$ 140,857
Restricted cash	469	—	139	—	608
Accounts receivable, net	510	—	2,861	—	3,371
Income tax receivable	420	—	—	—	420
Prepaid expense	586	—	9,272	—	9,858
Inventory	—	—	2,977	—	2,977
Deferred income taxes	267	—	3,373	—	3,640
Total current assets	<u>100,548</u>	<u>—</u>	<u>61,183</u>	<u>—</u>	<u>161,731</u>
Property and equipment, net	3,395	—	268,334	—	271,729
Intercompany receivables	—	—	36,129	(36,129)	—
Investment in subsidiaries	523,859	—	—	(523,859)	—
Other assets, net	4,853	—	2,071	—	6,924
Intangibles	—	—	129,044	—	129,044
Goodwill	—	—	68,516	—	68,516
Total assets	<u>\$ 632,655</u>	<u>\$ —</u>	<u>\$ 565,277</u>	<u>\$ (559,988)</u>	<u>\$ 637,944</u>
<b>LIABILITIES AND OWNERS' EQUITY</b>					
Accounts payable	\$ 2,097	\$ —	\$ 13,728	\$ —	\$ 15,825
Intercompany payables	36,129	—	—	(36,129)	—
Accrued interest	2,468	—	—	—	2,468
Accrued expense	832	—	21,309	—	22,141
Current maturities of long-term debt	9,961	—	—	—	9,961
Other current liabilities	—	—	187	—	187
Total current liabilities	<u>51,487</u>	<u>—</u>	<u>35,224</u>	<u>(36,129)</u>	<u>50,582</u>
Long-term debt, less current portion	374,038	—	—	—	374,038
Other liabilities	2,459	—	773	—	3,232
Deferred income taxes	152	—	5,421	—	5,573
Total liabilities	<u>428,136</u>	<u>—</u>	<u>41,418</u>	<u>(36,129)</u>	<u>433,425</u>
Common stock	20	—	—	—	20
Other equity	204,499	—	523,859	(523,859)	204,499
Total owners' equity	<u>204,519</u>	<u>—</u>	<u>523,859</u>	<u>(523,859)</u>	<u>204,519</u>
Total liabilities and owners' equity	<u>\$ 632,655</u>	<u>\$ —</u>	<u>\$ 565,277</u>	<u>\$ (559,988)</u>	<u>\$ 637,944</u>

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidating Statement of Operations  
Year ended December 31, 2014  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Total</b>
<b>REVENUE</b>					
Casino	\$ —	\$ —	\$ 298,275	\$ —	\$ 298,275
Food and beverage	—	—	49,029	—	49,029
Lodging	—	—	26,302	—	26,302
Fuel and retail	—	—	58,893	—	58,893
Other	—	—	14,482	—	14,482
Total revenue	—	—	446,981	—	446,981
Promotional allowances	—	—	(58,990)	—	(58,990)
Net revenue	—	—	387,991	—	387,991
<b>EXPENSE</b>					
Casino	—	—	123,803	—	123,803
Food and beverage	—	—	48,137	—	48,137
Lodging	—	—	16,281	—	16,281
Fuel and retail	—	—	46,825	—	46,825
Other	—	—	7,921	—	7,921
General and administrative	—	—	80,119	—	80,119
Depreciation and amortization	1,223	—	27,356	—	28,579
Corporate	14,814	—	—	—	14,814
Write downs, reserves and recoveries	24	—	(448)	—	(424)
Total expense	16,061	—	349,994	—	366,055
Operating income (loss) from continuing operations	(16,061)	—	37,997	—	21,936
<b>Other income (expense)</b>					
Interest expense, net	(29,827)	—	—	—	(29,827)
Intercompany interest income	29,996	—	—	(29,996)	—
Intercompany interest expense	—	—	(29,996)	29,996	—
Loss on extinguishment (or modification) of debt	(240)	—	—	—	(240)
Income from equity investments in subsidiaries	23,298	—	—	(23,298)	—
Total other expense, net	23,227	—	(29,996)	(23,298)	(30,067)
Income (loss) from continuing operations before income tax	7,166	—	8,001	(23,298)	(8,131)
Benefit from (provision for) income taxes	(30,843)	—	15,297	—	(15,546)
Net loss	\$ (23,677)	\$ —	\$ 23,298	\$ (23,298)	\$ (23,677)

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidating Statement of Operations  
Year ended December 31, 2013  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminating Entries</b>	<b>Total</b>
<b>REVENUE</b>					
Casino	\$ —	\$ —	\$ 301,134	\$ —	\$ 301,134
Food and beverage	—	—	45,494	—	45,494
Lodging	—	—	26,166	—	26,166
Fuel and retail	—	—	59,011	—	59,011
Other	—	—	13,775	—	13,775
Total revenue	—	—	445,580	—	445,580
Promotional allowances	—	—	(55,092)	—	(55,092)
Net revenue	—	—	390,488	—	390,488
<b>EXPENSE</b>					
Casino	—	—	119,357	—	119,357
Food and beverage	—	—	45,375	—	45,375
Lodging	—	—	17,551	—	17,551
Fuel and retail	—	—	49,094	—	49,094
Other	—	—	7,704	—	7,704
General and administrative	—	—	77,435	—	77,435
Depreciation and amortization	999	—	26,810	—	27,809
Corporate	12,233	—	—	—	12,233
Write downs, reserves and recoveries	(1,459)	—	6,225	—	4,766
Loss on impairment of assets	—	—	165	—	165
Total expense	11,773	—	349,716	—	361,489
Operating income (loss) from continuing operations	(11,773)	—	40,772	—	28,999
<b>Other income (expense)</b>					
Interest expense, net	(30,589)	—	—	161	(30,428)
Intercompany interest income	30,595	—	—	(30,595)	—
Intercompany interest expense	—	—	(30,595)	30,595	—
Loss on extinguishment (or modification) of debt	(81)	—	—	—	(81)
Income from equity investments in subsidiaries	6,604	—	—	(6,604)	—
Total other income (expense), net	6,529	—	(30,595)	(6,443)	(30,509)
Income from continuing operations before income tax	(5,244)	—	10,177	(6,443)	(1,510)
Benefit from (provision for) income taxes	4,017	—	(3,498)	—	519
Income from continuing operations	\$ (1,227)	\$ —	\$ 6,679	\$ (6,443)	\$ (991)
<b>Discontinued operations</b>					
Loss from discontinued operations before tax	—	—	(369)	—	(369)
Benefit for income taxes	—	—	133	—	133
Loss from discontinued operations	\$ —	\$ —	\$ (236)	\$ —	\$ (236)
Net income (loss)	\$ (1,227)	\$ —	\$ 6,443	\$ (6,443)	\$ (1,227)

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidating Statement of Operations  
Year ended December 31, 2012  
(000s)

	Affinity Gaming (Co-Issuer)	AG Finance (Co-Issuer)	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminating Entries	Total
<b>REVENUE</b>						
Casino	\$ —	\$ —	\$ 285,169	\$ —	\$ —	\$ 285,169
Food and beverage	—	—	45,784	—	—	45,784
Lodging	—	—	29,227	—	—	29,227
Fuel and retail	—	—	74,971	—	—	74,971
Other	—	—	21,210	—	—	21,210
Total revenue	—	—	456,361	—	—	456,361
Promotional allowances	—	—	(53,185)	—	—	(53,185)
Net revenue	—	—	403,176	—	—	403,176
<b>EXPENSE</b>						
Casino	—	—	110,267	—	—	110,267
Food and beverage	—	—	46,395	—	—	46,395
Lodging	—	—	18,006	—	—	18,006
Fuel and retail	—	—	64,707	—	—	64,707
Other	—	—	9,649	—	—	9,649
General and administrative	—	—	72,830	—	—	72,830
Depreciation and amortization	411	—	22,855	—	—	23,266
Pre-opening expense	421	—	—	—	—	421
Corporate	12,726	—	—	—	—	12,726
Write downs, reserves and recoveries	(707)	—	(78)	—	—	(785)
Total expense	12,851	—	344,631	—	—	357,482
Operating income (loss) from continuing operations	(12,851)	—	58,545	—	—	45,694
Other income (expense)						
Interest expense, net	(32,753)	—	—	—	3,022	(29,731)
Intercompany interest income	29,848	—	—	—	(29,848)	—
Intercompany interest expense	—	—	(29,848)	—	29,848	—
Loss on extinguishment (or modification) of debt	(8,842)	—	—	—	—	(8,842)
Income from equity investments in subsidiaries	15,884	—	—	—	(15,884)	—
Total other income (expense), net	4,137	—	(29,848)	—	(12,862)	(38,573)
Income from continuing operations before income tax	(8,714)	—	28,697	—	(12,862)	7,121
Benefit from (provision for) income taxes	7,534	—	(10,021)	—	—	(2,487)
Income (loss) from continuing operations	\$ (1,180)	\$ —	\$ 18,676	\$ —	\$ (12,862)	\$ 4,634
<b>Discontinued operations</b>						
Income (loss) from discontinued operations before income tax	—	—	(14,205)	5,120	—	(9,085)
Benefit from (provision for) income taxes	—	—	5,114	(1,843)	—	3,271
Loss from discontinued operations	\$ —	\$ —	\$ (9,091)	\$ 3,277	\$ —	\$ (5,814)
Net income (loss)	\$ (1,180)	\$ —	\$ 9,585	\$ 3,277	\$ (12,862)	\$ (1,180)

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidated Statements of Cash Flows  
Year Ended December 31, 2014  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Total</b>
Net cash (used in) provided by operating activities	\$ (74,174)	\$ —	\$ 96,945	\$ 22,771
Cash flows from investing activities:				
Proceeds from sale of property and equipment	—	—	365	365
Purchases of property and equipment	(973)	—	(16,268)	(17,241)
Net cash used in investing activities	\$ (973)	\$ —	\$ (15,903)	\$ (16,876)
Cash flows from financing activities:				
Change in intercompany accounts	76,949	—	(76,949)	—
Payments on long-term debt	(8,501)	—	(216)	(8,717)
Loan origination fees	(2,860)	—	—	(2,860)
Net cash provided by (used in) financing activities	\$ 65,588	\$ —	\$ (77,165)	\$ (11,577)
Net decrease in cash and cash equivalents	(9,559)	—	3,877	(5,682)
Cash and cash equivalents				
Beginning of year	98,296	—	42,561	140,857
End of period	\$ 88,737	\$ —	\$ 46,438	\$ 135,175

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidated Statements of Cash Flows  
Year Ended December 31, 2013  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Total</b>
Net cash (used in) provided by operating activities	\$ (30,366)	\$ —	\$ 67,153	\$ 36,787
Cash flows from investing activities:				
Proceeds from sale to Truckee Gaming, LLC	17,447	—	—	17,447
Proceeds from sale of property and equipment	20	—	50	70
Purchases of property and equipment	(1,127)	—	(30,593)	(31,720)
Net cash provided by (used in) investing activities	\$ 16,340	\$ —	\$ (30,543)	\$ (14,203)
Cash flows from financing activities:				
Change in intercompany accounts	31,683	—	(31,683)	—
Payment on long-term debt	(11,568)	—	(176)	(11,744)
Proceeds from long term debt	4,314	—	—	4,314
Loan origination fees	(852)	—	—	(852)
Repurchases of vested share-based awards	(318)	—	—	(318)
Net cash provided by (used in) financing activities	\$ 23,259	\$ —	\$ (31,859)	\$ (8,600)
Net increase (decrease) in cash and cash equivalents	9,233	—	4,751	13,984
Cash and cash equivalents				
Beginning of year	89,063	—	37,810	126,873
End of period	\$ 98,296	\$ —	\$ 42,561	\$ 140,857
Cash flows from discontinued operations:				
Cash flows from operating activities	—	—	36	\$ 36
Cash flows from investing activities	—	—	\$ (4,695)	(4,695)
Cash flows from discontinued operations	\$ —	\$ —	\$ (4,659)	\$ (4,659)

**AFFINITY GAMING**  
Notes to Consolidated Financial Statements

Affinity Gaming and Subsidiaries  
Consolidated Statements of Cash Flows  
Year Ended December 31, 2012  
(000s)

	<b>Affinity Gaming (Co-Issuer)</b>	<b>AG Finance (Co-Issuer)</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Total</b>
Net cash (used in) provided by operating activities	\$ (22,686)	\$ —	\$ 61,184	\$ —	\$ 38,498
Cash flows from investing activities:					
Restricted cash	8,636	—	(7)	—	8,629
Excess cash from discontinued operations	—	—	—	23,892	23,892
Cash paid for business acquisition	(4,305)	—	—	—	(4,305)
Insurance proceeds St Jo flood	—	—	3,045	—	3,045
Proceeds from sale of property and equipment	—	—	66	—	66
Purchases of property and equipment	(2,723)	—	(23,702)	—	(26,425)
Net cash provided by (used in) investing activities	\$ 1,608	\$ —	\$ (20,598)	\$ 23,892	\$ 4,902
Cash flows from financing activities:					
Change in intercompany accounts	67,559	—	(43,667)	(23,892)	—
Payment on long-term debt	(349,900)	—	—	—	(349,900)
Proceeds from long term debt	398,000	—	—	—	398,000
Loan origination fees	(10,583)	—	—	—	(10,583)
Net cash provided by (used in) financing activities	\$ 105,076	\$ —	\$ (43,667)	\$ (23,892)	\$ 37,517
Net increase (decrease) in cash and cash equivalents	83,998	—	(3,081)	—	80,917
Cash and cash equivalents					
Beginning of year	5,065	—	40,891	—	45,956
End of period	\$ 89,063	\$ —	\$ 37,810	\$ —	\$ 126,873
Cash flows from discontinued operations:					
Cash flows from operating activities	—	—	(1,447)	(46)	\$ (1,493)
Cash flows from investing activities	—	—	\$ (1,317)	\$ 17	(1,300)
Cash flows from discontinued operations	\$ —	\$ —	\$ (2,764)	\$ (29)	\$ (2,793)

**NOTE 19. SUBSEQUENT EVENTS**

We have evaluated all events or transactions that occurred during the period from December 31, 2014 through the filing date. We did not identify any subsequent events the effects of which would require disclosure in our financial statement footnotes or adjustment to our financial position or results of operations.

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