CENTURY CASINOS INC /CO/
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ___________

Commission file number 0-22900

CENTURY CASINOS, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(719) 527-8300

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

29,439,179 shares of common stock, $0.01 par value per share, were outstanding as of October 31, 2018.

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PART I – FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Amounts in thousands, except for share and per share information	September 30, 2018	December 31, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 46,818	$ 74,677
Receivables, net	7,029	6,281
Prepaid expenses	1,859	1,482
Inventories	803	740
Restricted cash	—	1,023
Other current assets	247	118
Total Current Assets	56,756	84,321
Property and equipment, net	185,548	152,778
Goodwill	14,607	15,162
Deferred income taxes	467	1,522
Casino licenses	15,455	15,065
Trademarks	1,784	1,859
Cost investment	1,000	1,000
Equity investment	432	—
Deposits and other	3,500	3,169
Total Assets	$ 279,549	$ 274,876
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 20,079	$ 5,697
Accounts payable	8,162	4,765
Accrued liabilities	16,002	10,434
Accrued payroll	6,866	6,894
Taxes payable	4,861	4,815
Contingent liability (Note 7)	830	1,833
Total Current Liabilities	56,800	34,438
Long-term debt, net of current portion and deferred financing costs (Note 6)	33,206	51,016
Taxes payable and other	1,785	2,104
Total Liabilities	91,791	87,558
Commitments and Contingencies (Note 7)		

See notes to unaudited condensed consolidated financial statements.

- Continued -

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (continued)

Amounts in thousands, except for share and per share information	September 30, 2018	December 31, 2017
Equity:		
Preferred stock; $0.01 par value; 20,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock; $0.01 par value; 50,000,000 shares authorized; 29,434,018 and 29,359,820 shares issued and outstanding	294	294
Additional paid-in capital	113,955	113,068
Retained earnings	75,549	72,662
Accumulated other comprehensive loss	(9,232)	(6,127)
Total Century Casinos, Inc. shareholders' equity	180,566	179,897
Non-controlling interests	7,192	7,421
Total Equity	187,758	187,318
Total Liabilities and Equity	$ 279,549	$ 274,876

See notes to unaudited condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands, except for per share information	2018	2017	2018	2017
Operating revenue:				
Gaming	$ 35,983	$ 36,914	$ 102,595	$ 102,814
Hotel	575	560	1,534	1,491
Food and beverage	4,290	3,868	11,630	10,622
Other	2,716	2,449	8,075	7,604
Operating revenue	43,564	43,791	123,834	122,531
Less: Promotional allowances (1)	—	(2,743)	—	(7,756)
Net operating revenue	43,564	41,048	123,834	114,775
Operating costs and expenses:				
Gaming	18,490	17,094	52,666	48,796
Hotel	197	171	551	468
Food and beverage	4,148	3,388	11,708	9,452
General and administrative	15,174	13,392	44,781	36,819
Depreciation and amortization	2,323	2,226	6,645	6,330
Total operating costs and expenses	40,332	36,271	116,351	101,865
Income from equity investment	2	—	1	—
Earnings from operations	3,234	4,777	7,484	12,910
Non-operating income (expense):				
Interest income	74	21	107	69
Interest expense	(904)	(829)	(3,023)	(2,667)
Gain on foreign currency transactions, cost recovery income and other	182	70	431	555
Non-operating (expense) income, net	(648)	(738)	(2,485)	(2,043)
Earnings before income taxes	2,586	4,039	4,999	10,867
Income tax (expense) benefit	(791)	3,913	(1,784)	2,054
Net earnings	1,795	7,952	3,215	12,921
Net earnings attributable to non-controlling interests	(155)	(322)	(328)	(1,329)
Net earnings attributable to Century Casinos, Inc. shareholders	$ 1,640	$ 7,630	$ 2,887	$ 11,592
Earnings per share attributable to Century Casinos, Inc. shareholders:				
Basic	$ 0.06	$ 0.31	$ 0.10	$ 0.47
Diluted	$ 0.05	$ 0.31	$ 0.10	$ 0.47
Weighted average shares outstanding - basic	29,425	24,470	29,388	24,464
Weighted average shares outstanding - diluted	29,987	24,891	29,986	24,905

See notes to unaudited condensed consolidated financial statements.

(1)

See Note 2 for a discussion of the impact of the adoption of ASU 2014-09 on the presentation of promotional allowances.

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands	2018	2017	2018	2017
Net earnings	$ 1,795	$ 7,952	$ 3,215	$ 12,921
Other comprehensive income (loss)				
Foreign currency translation adjustments	1,810	2,740	(3,535)	7,299
Other comprehensive income (loss)	1,810	2,740	(3,535)	7,299
Comprehensive income (loss)	$ 3,605	$ 10,692	$ (320)	$ 20,220
Comprehensive income (loss) attributable to non-controlling interests				
Net earnings attributable to non-controlling interests	(155)	(322)	(328)	(1,329)
Foreign currency translation adjustments	(216)	(238)	430	(1,185)
Comprehensive income (loss) attributable to Century Casinos, Inc. shareholders	$ 3,234	$ 10,132	$ (218)	$ 17,706

See notes to unaudited condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (Unaudited)

Amounts in thousands, except share information	Common Shares		Common Stock		Additional Paid-in Capital		Accumulated Other Comprehensive Income (Loss)		Retained Earnings		Total Century Casinos Shareholders' Equity		Noncontrolli Interests
BALANCE AT January 1, 2017	24,451,582	$	245	$	78,174	$	(12,609)	$	66,386	$	132,196	$	6,388
Cumulative effect of accounting change	—		—		(17)		—		17		—		—
Net earnings	—		—		—		—		11,592		11,592		1,329
Foreign currency translation adjustment	—		—		—		6,114		—		6,114		1,185
Amortization of stock-based compensation	—		—		419		—		—		419		—
Distribution to non-controlling interest	—		—		—		—		—		—		(1,457)
Exercise of stock options	20,738		—		32		—		—		32		—
BALANCE AT September 30, 2017	24,472,320	$	245	$	78,608	$	(6,495)	$	77,995	$	150,353	$	7,445
BALANCE AT January 1, 2018	29,359,820	$	294	$	113,068	$	(6,127)	$	72,662	$	179,897	$	7,421
Net earnings	—		—		—		—		2,887		2,887		328
Foreign currency translation adjustment	—		—		—		(3,105)		—		(3,105)		(430)
	—		—		613		—		—		613		—

Amortization of stock-based compensation							
Distribution to non-controlling interest	—	—	—	—	—	—	(572)
Fair value of non-controlling interest	—	—	—	—	—	—	445
Incremental direct costs of common stock issuance	—	—	(59)	—	—	(59)	—
Exercise of stock options	74,198	—	333	—	—	333	—
BALANCE AT September 30, 2018	29,434,018	$ 294	$ 113,955	$ (9,232)	$ 75,549	$ 180,566	$ 7,192

See notes to unaudited condensed consolidated financial statements.

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CENTURY CASINOS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Amounts in thousands	For the nine months ended September 30, 2018	2017
Cash Flows from Operating Activities:		
Net earnings	$ 3,215	$ 12,921
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,645	6,330
Loss on disposition of fixed assets	1,229	466
Adjustment of contingent liability (Note 7)	99	—
Unrealized gain on interest rate swaps	(51)	(366)
Amortization of stock-based compensation expense	613	419
Amortization of deferred financing costs	92	118
Deferred taxes	1,629	(5,273)
Income from unconsolidated subsidiary	(1)	—
Changes in Operating Assets and Liabilities, Net of Acquisition:		
Receivables, net	70	156
Prepaid expenses and other assets	(1,929)	(1,013)
Accounts payable	295	306
Accrued liabilities	3,919	1,455
Inventories	(86)	6
Other operating liabilities	1,348	100
Accrued payroll	162	296
Taxes payable	(1,647)	883
Contingent liability payment	(999)	(824)
Net cash provided by operating activities	14,603	15,980
Cash Flows used in Investing Activities:		
Purchases of property and equipment	(40,001)	(5,168)
Acquisition of Century Casino St. Albert (net of cash acquired)	—	(1,494)
Acquisition of Saw Close Casino, Ltd. licenses (Note 4)	—	(126)
Acquisition of Golden Hospitality Ltd., net of $0.2 million cash acquired (Note 3)	(337)	—
Investment in Minh Chau Ltd. (Note 3)	(445)	—
Proceeds from disposition of assets	6	1
Net cash used in investing activities	(40,777)	(6,787)

– Continued –

See notes to unaudited condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

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

Amounts in thousands	For the nine months ended September 30, 2018	2017
Cash Flows used in Financing Activities:		
Proceeds from borrowings	2,707	2,680
Principal payments	(4,326)	(4,312)
Payment of deferred financing costs	(92)	—
Distribution to non-controlling interest	(642)	(2,043)
Proceeds from exercise of stock options	333	32
Net cash used in financing activities	(2,020)	(3,643)
Effect of Exchange Rate Changes on Cash	$ (711)	$ 1,445
(Decrease) Increase in Cash, Cash Equivalents and Restricted Cash	$ (28,905)	$ 6,995
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	$ 76,444	$ 39,020
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 47,539	$ 46,015
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 3,336	$ 4,286
Income taxes paid	$ 2,605	$ 1,935
Non-Cash Investing Activities:		
Purchase of property and equipment on account	$ 8,395	$ 383
Non-Cash Financing Activities:		
Assets acquired under capital lease obligation	$ —	$ 105

See notes to unaudited condensed consolidated financial statements.

CENTURY CASINOS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1.DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Century Casinos, Inc. (“CCI” or the “Company”) is an international casino entertainment company. As of September 30, 2018, the Company owned casino operations in North America and England; was developing a racetrack and entertainment center (“REC”) in Edmonton, Canada; had eight casino licenses in Poland, and held a majority ownership interest in seven casinos that were currently operating in Poland; held a majority ownership interest in a REC in Calgary, Canada, and the pari-mutuel off-track betting network in southern Alberta, Canada; managed cruise ship-based casinos on international waters; managed a hotel, international entertainment and gaming club in Vietnam through a majority-owned subsidiary, and provided gaming services in Argentina.

The Company currently owns, operates and manages the following casinos through wholly-owned subsidiaries in North America and England:

- The Century Casino & Hotel in Edmonton, Alberta, Canada (“Century Resorts Alberta” or “CRA”)
- The Century Casino St. Albert in Edmonton, Alberta, Canada (“CSA”)
- The Century Casino Calgary, Alberta, Canada (“CAL”)
- The Century Casino & Hotel in Central City, Colorado (“CTL”)
- The Century Casino & Hotel in Cripple Creek, Colorado (“CRC”); and
- The Century Casino Bath (formerly Saw Close Casino) in Bath, England (“CCB”)

The Company currently has a controlling financial interest through its wholly-owned subsidiary Century Resorts Management GmbH (formerly Century Casinos Europe GmbH) (“CRM”) in the following majority-owned subsidiaries:

- The Company owns 66.6% of Casinos Poland Ltd (“CPL” or “Casinos Poland”). As of September 30, 2018, CPL owned licenses for eight casinos throughout Poland, seven of which were operating. CPL is consolidated as a majority-owned subsidiary for which the Company has a controlling financial interest. Polish Airports Company (“Polish Airports”) owns the remaining 33.3% of CPL, which is reported as a non-controlling financial interest.

- The Company owns 75% of United Horsemen of Alberta Inc. dba Century Downs Racetrack and Casino (“CDR” or “Century Downs”). CDR operates Century Downs Racetrack and Casino, a REC in Balzac, a north metropolitan area of Calgary, Alberta, Canada. CDR is consolidated as a majority-owned subsidiary for which the Company has a controlling financial interest. The remaining 25% of CDR is owned by unaffiliated shareholders and is reported as a non-controlling financial interest.

- The Company owns 75% of Century Bets! Inc. (“CBS” or “Century Bets”). CBS operates the pari-mutuel off-track betting network in Southern Alberta, Canada. CBS is consolidated as a majority-owned subsidiary for which the Company has a controlling financial interest. Rocky Mountain Turf Club (“RMTC”) owns the remaining 25% of CBS, which is reported as a non-controlling financial interest.

The Company has the following concession, management and consulting service agreements:

- As of September 30, 2018, the Company operated 13 ship-based casinos through concession agreements with four cruise ship owners. The concession agreement to operate the ship-based casino onboard the Mein Schiff 1 ended in April 2018 when the ship was transferred from the TUI Cruises fleet to another cruise line. The concession agreements to operate the ship-based casinos onboard the Wind Star and Marella Discovery will end in the fourth quarter of 2018.

In March 2015, in connection with an agreement with Norwegian Cruise Line Holdings (“Norwegian”) to terminate the Company’s concession agreements with Oceania Cruises (“Oceania”) and Regent Seven Seas Cruises (“Regent”), the Company entered into a two-year consulting agreement, which became effective on June 1, 2015, under which the Company provided limited consulting services for the ship-based casinos of Oceania and Regent in exchange for receiving a consulting fee of $2.0 million, which was payable $250,000 per quarter through May 2017.

- The Company, through its subsidiary CRM, has a 7.5% ownership interest in Mendoza Central Entretenimientos S.A., an Argentina company (“MCE”). The shares are reported on the condensed consolidated balance sheet using the cost method of accounting. MCE has an exclusive concession agreement with Instituto Provincial de Juegos y Casinos to lease slot machines and provide related services to Casino de Mendoza, a casino located in Mendoza, Argentina and owned by the Province of Mendoza. In addition, CRM and MCE have entered into a consulting services agreement pursuant to which CRM provides advice on casino matters and receives a service fee consisting of a fixed fee plus a percentage of MCE’s earnings before interest, taxes, depreciation and amortization (“EBITDA”). See Note 3 for additional information related to MCE.

- On April 25, 2018, the Company’s subsidiary CRM entered into a Shareholder’s Agreement with Golden Hospitality Ltd. (“GHL”) and GHL’s shareholders, pursuant to which CRM purchased a 51% ownership interest in GHL. The Company consolidates GHL as a majority-owned subsidiary for which the Company has a controlling financial interest. The remaining 49% of GHL is owned by unaffiliated shareholders and is reported by the Company as a non-controlling financial interest. For its ownership interest in GHL, the Company recognized assets of $0.5 million, including $0.2 million in cash, and assumed liabilities of $0.1 million as of the date of acquisition. GHL is included in the Corporate and Other reportable segment.

GHL entered into an agreement with Minh Chau Ltd. (“MCL”) and MCL’s owners, pursuant to which GHL purchased an initial 6.36% ownership interest in MCL and agreed to purchase an additional ownership interest of up to a total of 51% of MCL over a three-year period for approximately $3.6 million. GHL has the option to purchase an additional 19% ownership interest in MCL for a total of 70% of MCL under certain conditions. MCL is the owner of a small hotel and international entertainment and gaming club in the Cao Bang province of Vietnam that is 300 feet from the Vietnamese – Chinese border station. The hotel offers 30 rooms, and the international entertainment and gaming club currently offers seven electronic table games for non-Vietnamese passport holders under a provincial investment certificate that allows for up to 26 electronic games. GHL and MCL also entered into a management agreement which provides that GHL will manage the operations at the hotel and international entertainment and gaming club in exchange for receiving a portion of MCL’s net profit. The Company accounts for GHL’s interest in MCL as an equity investment. The Company valued the management agreement with MCL at $0.1 million, which is recorded in deposits and other on its consolidated balance sheet as of the date of its acquisition of its ownership interest in GHL. See Note 3 for additional information related to GHL and MCL.

Additional Projects and Other Developments

The Company is building a horse racing facility in the Edmonton market area, which it is planning to operate as Century Mile Racetrack and Casino. Century Mile will be a one-mile horse racetrack and a multi-level REC. The project is located on Edmonton International Airport land close to the city of Leduc, south of Edmonton. The Company began construction on the Century Mile project in July 2017 and estimates that the casino will open in April 2019. On August 24, 2018, the Company’s borrowing capacity under its credit agreement with the Bank of Montreal (“BMO”) was increased by CAD 33.0 million ($25.5 million based on the exchange rate in effect on September 30, 2018) to provide additional funding for the Century Mile project.

In August 2017, the Company announced that, together with the owner of the Hamilton Princess Hotel & Beach Club in Hamilton, Bermuda, it had submitted a license application to the Bermudan government for a casino at the Hamilton Princess Hotel & Beach Club. The casino will feature approximately 200 slot machines, 17 live table games, one or more electronic table games and a high limit area and salon privé. In September 2017, the Bermuda Casino Gaming Commission granted a provisional casino gaming license, which is subject to certain conditions and approvals including the adoption of certain rules and regulations by the Parliament of Bermuda. The Company's subsidiary, CRM, entered into a long-term management agreement with the owner of the hotel to manage the operations of the casino and receive a management fee if a license is awarded. CRM will also provide a $5.0 million loan for the purchase of casino equipment if the license is awarded.

Preparation of Financial Statements

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

In the opinion of management, all adjustments considered necessary for the fair presentation of financial position, results of operations and cash flows of the Company have been included. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the quarter ended September 30, 2018 are not necessarily indicative of the operating results for the full year.

Presentation of Foreign Currency Amounts

The Company's functional currency is the U.S. dollar ("USD" or "$"). Foreign subsidiaries with a functional currency other than the U.S. dollar translate assets and liabilities at current exchange rates at the end of the reporting periods, while income and expense accounts are translated at average exchange rates for the respective periods. The Company and its subsidiaries enter into various transactions made in currencies different from their functional currencies. These transactions are typically denominated in the Canadian dollar ("CAD"), Euro ("EUR"), Polish zloty ("PLN") and British pound ("GBP"). Gains and losses resulting from changes in foreign currency exchange rates related to these transactions are included in income from operations as they occur.

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

Ending Rates	September 30, 2018	December 31, 2017
Canadian dollar (CAD)	1.2945	1.2545
Euros (EUR)	0.8619	0.8334
Polish zloty (PLN)	3.6395	3.4841

British pound (GBP)	0.7671	0.7396

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

Average Rates	For the three months ended September 30, 2018	2017	% Change	For the nine months ended September 30, 2018	2017	% Change
Canadian dollar (CAD)	1.3068	1.2531	(4.3%)	1.2874	1.3072	1.5%
Euros (EUR)	0.8601	0.8512	(1.1%)	0.8377	0.8997	6.9%
Polish zloty (PLN)	3.6981	3.6219	(2.1%)	3.5581	3.8379	7.3%
British pound (GBP)	0.7676	0.7641	(0.5%)	0.7405	0.7845	5.6%

Source: Pacific Exchange Rate Service

2. SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842) ("ASU 2016-02"). The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous US GAAP. ASU 2016-02 requires lessees to account for leases as finance leases or operating leases. Both finance and operating leases will result in the lessee recognizing a right-of-use asset and corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset and, for operating leases, the lessee would recognize a straight-line lease expense. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2016-02 is permitted. The standard must be adopted by recognizing and measuring leases at the beginning of the earliest period being presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements ("ASU 2018-11"), which provides that entities may elect not to recast the comparative periods presented upon transition. The Company has elected to use the transition package of practical expedients permitted within the new standard, which among other things, allows the carryforward of historical lease classification. The Company expects the standard to have a material impact on its consolidated balance sheet upon recognition of the right-of-use asset and lease liability due to the significance of the Company's operating lease portfolio.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). The objective of ASU 2017-04 is to simplify the subsequent measurement of goodwill by entities performing their annual goodwill impairment tests by comparing the fair value of a reporting unit, including income tax effects from any tax-deductible goodwill, with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds fair value. ASU 2017-04 is effective for fiscal years beginning after December 31, 2021, and interim periods within those fiscal years. Early adoption of ASU 2017-04 is permitted on goodwill impairment tests performed after January 1, 2017. ASU 2017-04 should be applied on a prospective basis. The Company is currently evaluating the impact of adopting ASU 2017-04; however, the standard is not expected to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reporting Comprehensive Income ("ASU 2018-02"). The objective of ASU 2018-02 is to provide guidance on the impacts of the Tax Cuts and Jobs Act ("Tax Act"). The guidance permits the reclassification of certain income tax effects of the Tax Act from other comprehensive income to retained earnings (stranded tax effects). The guidance also requires certain new disclosures. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. Entities may adopt the guidance using one of two transition methods: retrospective to each period or periods in which the income tax effects of the Tax Act related to the items remaining in other comprehensive income are recognized, or at the beginning of the period of adoption. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740) ("ASU 2018-05"). The objective of ASU 2018-05 is to amend guidance on the Tax Act provided in Staff Accounting Bulletin No. 118. The guidance is effective immediately upon issuance. The Company reviewed the guidance and determined that it applied the guidance effectively in its Annual Report on Form 10-K for the year ended December 31, 2017.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820) ("ASU 2018-13"). The objective of ASU 2018-13 is to modify disclosure requirements on fair value measurements. The guidance is effective for fiscal years beginning after December 31, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be adopted using the prospective method for certain disclosures within the guidance and retrospectively upon the effective date. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) ("ASU 2018-15"). The objective of ASU 2018-15 is to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those incurred to develop or obtain internal-use software. The guidance is effective for fiscal years beginning after December 31, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments can be applied either retrospectively or prospectively. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

Changes Related to Adoption of ASU 2016-18

In November 2016, the FASB issued ASU 2016-18, Restricted Cash ("ASU 2016-18"). The objective of ASU 2016-18 is to require the statement of cash flows to include restricted cash in explaining the change during the period in the total of cash and cash equivalents. The Company adopted ASU 2016-18 in its consolidated financial statements for the year ended December 31, 2017. The standard impacts the presentation of the Company's condensed consolidated statement of cash flows in its condensed consolidated financial statements for the nine months ended September 30, 2018 and September 30, 2017, and the Company has added the following additional disclosures in this Note 2 about its restricted cash balances to its discussion of cash and cash equivalents.

Cash and Cash Equivalents

A reconciliation of cash, cash equivalents and restricted cash as stated in the Company's statement of cash flows is presented in the following table:

Amounts in thousands	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 46,818	$ 44,254
Restricted cash	—	1,013
Restricted cash included in deposits and other	721	748
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 47,539	$ 46,015

For the nine months ended September 30, 2018, restricted cash included $0.6 million in deposits and other related to a cash guarantee for the Company's CCB loan agreement and $0.1 million in deposits and other related to payments of prizes and giveaways for Casinos Poland.

The prior period amounts within the Company's condensed consolidated statement of cash flows have been revised to reflect the new presentation of restricted cash after the adoption of ASU 2016-18. The information below presents the impact of this presentation change on the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2017.

Condensed Consolidated Statement of Cash Flows

Amounts in thousands	As Previously Reported	Changes Related to Adoption of ASU 2016-18	Revised
For the nine months ended September 30, 2017			
Cash Flows from Operating Activities:			
Prepaid expenses and other assets	$ (2,512)	$ 1,499	$ (1,013)
Effect of Exchange Rate Changes on Cash	1,366	79	1,445
Increase in Cash, Cash Equivalents and Restricted Cash	5,417	1,578	6,995
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	38,837	183	39,020
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 44,254	$ 1,761	$ 46,015

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Changes Related to Adoption of ASU 2014-19

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The objective of ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard under US GAAP and International Financial Reporting Standards. The Company adopted ASU 2014-09 in its condensed consolidated financial statements for 2018 using the modified retrospective approach. The Company applied ASU 2014-09 to contracts that were not completed as of January 1, 2018. The Company determined that all contractual performance obligations were completed as of December 31, 2017 and that no adjustment to retained earnings was required. The Company determined there was no impact to its condensed consolidated balance sheet, condensed consolidated statement of comprehensive (loss) income or condensed consolidated statement of cash flows. The standard impacts the presentation of the Company's condensed consolidated statement of earnings in its condensed consolidated financial statements for the three and nine months ended September 30, 2018, and the Company has added the following additional disclosures in this Note 2 related to the impact of ASU 2014-09.

The most significant impacts of adoption of the new accounting standard were as follows:

- Promotional Allowances: The Company recognizes revenue for goods and services provided to customers for free, as an inducement to gamble, as gaming revenue with an offset to gaming revenue based on the stand-alone selling price rather than an offset to promotional allowances. This change primarily resulted in a reclassification between revenue line items.
- Loyalty Accounting: Complimentary points earned through game play at the Company's casinos are identified as separate performance obligations and recorded as a reduction in gaming revenue when earned at the retail value of the benefits owed to the customer (less estimated breakage) and an increase to the loyalty program liability representing outstanding performance obligations. Such amounts are recognized as revenue in the line item of the corresponding good or service provided when the performance obligation is fulfilled.
- Estimated Cost of Promotional Allowances: The Company no longer reclassifies the estimated direct cost of providing promotional allowances from other expense line items to the gaming expense line item. This change resulted in a reclassification between expense line items that reduced gaming expense and increased hotel and food and beverage expenses by $0.3 million and $0.9 million for the three and nine months ended September 30, 2018, respectively.

Revenue

The Company derives revenue from:

(1) contracts with customers,
(2) financial instruments,
(3) cost recovery payments, and
(4) dividends from its cost investment.

A breakout of the Company's derived revenue is presented in the table below.

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands	2018	2017	2018	2017
Revenue from contracts with customers	$ 43,564	$ 41,048	$ 123,834	$ 114,775
Interest income	74	21	107	69
Cost recovery income	—	—	—	—
Dividend revenue	—	—	—	—
Total revenue	$ 43,638	$ 41,069	$ 123,941	$ 114,844

The Company's performance obligations related to contracts with customers consist of the following:

Gaming

The majority of the Company's revenue is derived from gaming transactions involving wagers wherein, upon settlement, the Company either retains the customer's wager, or returns the wager to the customer. Gaming revenue is reported as the net difference between wins and losses. Gaming revenue is reduced by the incremental amount of unpaid progressive jackpots in the period during which the jackpot increases and the dollar value of points earned through tracked play. In Canada, gaming revenue is also reduced by amounts retained by the Alberta Gaming and Liquor Commission ("AGLC") and Horse Racing Alberta ("HRA"). Performance obligations are satisfied upon completion of the wager with liabilities recognized for points earned through play. The Company does not extend lines of credit to customers.

Hotel accommodations and food and beverage furnished without charge, coupons and downloadable credits provided to customers to entice play are considered marketing incentives to induce play and are presented as a reduction to gaming revenue at the retail value on the date of redemption. Members of the Company's casinos' player clubs earn points based on, among other things, their volume of play at the Company's casinos. Players can accumulate points over time that they may redeem at their discretion under the terms of the program. The value of the points is offset against the revenue in the period in which the points were earned. The Company records a liability based on the redemption value of the points earned with an estimate for breakage, and records a corresponding reduction in gaming revenue. The value of unused or unredeemed points is included in accrued liabilities on the Company's consolidated balance sheets.

Hotel, Bowling, Food and Beverage and Other Sales

Goods and services provided include hotel room rentals, food and beverage sales, bowling lane rentals and retail sales. Revenue is recognized over time as specified in the contract, however, the majority of the contracts are satisfied on the same day and revenue is recognized on the date of the sale. Revenue that is collected before the date of sale is recorded as deferred revenue. In the normal course of business, the Company does not accept product returns. The Company has elected the practical expedient permitted under ASU 2014-09 and excludes taxes assessed by a governmental authority and collected by the Company from the transaction price.

Pari-Mutuel

Pari-mutuel revenue involves wagers on horse racing. The Company facilitates wagers on horse racing through live racing at the Company's racetrack, off-track betting parlors at the Company's casinos, and the operation of the Southern Alberta off-track betting network. The Company has determined that it is the principal in the performance obligations through which amounts are wagered on horse races run at the Company's racetrack. For these performance obligations, the Company records revenue as the commission retained on wagers with revenue recognized on the date of the wager. The Company has determined that it is acting as the agent for all wagers placed through the Company's off-track betting parlors and the off-track betting network. For these performance obligations, the Company records pari-mutuel revenue as the commission retained on wagers less the expense for host fees to the host racetrack with revenue recognized on the date of the wager. Expenses related to licenses and HRA levies are expensed in the same month as revenue is recognized. The Company takes future bets for the Kentucky Derby only and recognizes wagers on the Kentucky Derby as deferred revenue.

Management and Consulting Fees

Revenue from the Company’s consulting services agreement with MCE and the management agreement with MCL are recorded monthly as services are provided. Payments are typically due within 30 days of the month to which the services relate. The agreed upon price in the contract does not contain variable consideration. The Company did not incur any costs to obtain its current agreements with MCE or MCL.

The Company operates gaming establishments as well as related lodging, restaurant, horse racing (including off-track betting) and entertainment facilities around the world. The Company generates revenue at its properties by providing the following types of products and services: gaming, hotel, food and beverage, and pari-mutuel and other. Disaggregation of the Company’s revenue from contracts with customers by type of revenue and geographical location is presented in the tables below.

	For the three months ended September 30, 2018				
Amounts in thousands	Canada	United States	Poland	Corporate Other	Total
Gaming	$ 10,337	$ 7,615	$ 16,569	$ 1,462	$ 35,983
Hotel	129	446	—	—	575
Food and Beverage	2,691	1,194	205	200	4,290
Other	2,526	105	(27)	112	2,716
Net Operating Revenue	$ 15,683	$ 9,360	$ 16,747	$ 1,774	$ 43,564

	For the three months ended September 30, 2017				
Amounts in thousands	Canada	United States	Poland	Corporate Other	Total
Gaming	$ 10,764	$ 9,507	$ 15,659	$ 984	$ 36,914
Hotel	139	421	—	—	560
Food and Beverage	2,557	1,139	172	—	3,868
Other	2,146	79	25	199	2,449
Promotional Allowances (1)	(321)	(2,107)	(306)	(9)	(2,743)
Net Operating Revenue	$ 15,285	$ 9,039	$ 15,550	$ 1,174	$ 41,048

	For the nine months ended September 30, 2018				
Amounts in thousands	Canada	United States	Poland	Corporate Other	Total
Gaming	$ 30,190	$ 21,056	$ 48,010	$ 3,339	$ 102,595
Hotel	396	1,138	—	—	1,534
Food and Beverage	7,713	3,063	551	303	11,630
Other	7,391	285	134	265	8,075
Net Operating Revenue	$ 45,690	$ 25,542	$ 48,695	$ 3,907	$ 123,834

	For the nine months ended September 30, 2017				
Amounts in thousands	Canada	United States	Poland	Corporate Other	Total
Gaming	$ 29,535	$ 26,294	$ 44,566	$ 2,419	$ 102,814
Hotel	409	1,082	—	—	1,491
Food and Beverage	7,232	2,877	513	—	10,622
Other	6,182	252	126	1,044	7,604
Promotional Allowances (1)	(874)	(6,023)	(822)	(37)	(7,756)
Net Operating Revenue	$ 42,484	$ 24,482	$ 44,383	$ 3,426	$ 114,775

(1) With the adoption of ASU 2014-19, promotional allowances are presented as a reduction in gaming revenue for the three and nine months ended September 30, 2018.

For the majority of the Company’s contracts with customers, payment is made in advance of the services and contracts are settled on the same day the sale occurs with revenue recognized on the date of the sale. For contracts that are not settled, a contract liability is created. The expected duration of the performance obligation is less than one year.

The amount of revenue recognized that was included in the opening contract liability balance was $0.2 million for each of the three and nine months ended September 30, 2018 and 2017. This revenue consists primarily of the Company’s deferred gaming revenue from player points earned through play at the Company’s casinos located in the United States. Activity in the Company’s contract receivables and liabilities is presented in the tables below.

	For the three months ended September 30, 2018			For the three months ended September 30, 2017		
Amounts in thousands	Receivables	Contract Asset	Contract Liability	Receivables	Contract Asset	Contract Liability
Opening	$ 260	—	193	270	—	231
Closing	281	—	236	246	—	260
Increase/(Decrease)	$ 21	$ —	$ 43	$ (24)	$ —	$ 29

	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
Amounts in thousands	Receivables	Contract Asset	Contract Liability	Receivables	Contract Asset	Contract Liability
Opening	$ 266	$ —	$ 235	$ 270	$ —	$ 232
Closing	281	—	236	246	—	260
Increase/(Decrease)	$ 15	$ —	$ 1	$ (24)	$ —	$ 28

Receivables are included in accounts receivable and contract liabilities are included in accrued liabilities on the Company’s condensed consolidated balance sheets. There were no impairment losses for the Company’s receivables or contract liabilities recognized for the three and nine months ended September 30, 2018.

Substantially all of the Company’s contracts and contract liabilities have an original duration of one year or less. The Company applies the practical expedient for such contracts and does not consider the effects of the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize this revenue.

The current period amounts within the Company's condensed consolidated statement of earnings have been revised in the table below to provide a comparison of revenue and the direct cost of providing promotional allowances to the Company's condensed consolidated statement of earnings for the three and nine months ended September 30, 2018.

Condensed Consolidated Statement of Earnings

Amounts in thousands	As Reported	Changes Related to Adoption of ASU 2014-09	Revised
For the three months ended September 30, 2018			
Operating revenue:			
Gaming	$ 35,983	$ 3,152	$ 39,135
Operating revenue	43,564	3,152	46,716
Less: Promotional allowances	—	(3,152)	(3,152)
Net operating revenue	43,564	—	43,564
Operating costs and expenses			
Gaming	18,490	325	18,815
Hotel	197	(10)	187
Food and beverage	$ 4,148	$ (315)	$ 3,833
For the nine months ended September 30, 2018			
Operating revenue:			
Gaming	$ 102,595	$ 8,621	$ 111,216
Operating revenue	123,834	8,621	132,455
Less: Promotional allowances	—	(8,621)	(8,621)
Net operating revenue	123,834	—	123,834
Operating costs and expenses			
Gaming	52,666	915	53,581
Hotel	551	(36)	515
Food and beverage	$ 11,708	$ (879)	$ 10,829

3.INVESTMENTS

Cost Investment

Mendoza Central Entretenimientos S.A.

On October 31, 2014, CRM entered into an agreement (the "MCE Agreement") with Gambling and Entertainment LLC and its affiliates, pursuant to which CRM purchased 7.5% of the shares of MCE, a company formed in Argentina, for $1.0 million. Pursuant to the MCE Agreement, CRM is working with MCE to utilize MCE's exclusive concession agreement with Instituto Provincial de Juegos y Casinos to lease slot machines and provide related services to Casino de Mendoza, a casino located in Mendoza, Argentina, and owned by the Province of Mendoza. MCE may also pursue other gaming opportunities. Under the MCE Agreement, CRM has appointed one director to MCE's board of directors and had a three-year option through October 2017 to purchase up to 50% of the shares of MCE, which the Company did not exercise. The Company accounts for the $1.0 million investment in MCE using the cost method.

Equity Investment

Minh Chau Ltd.

On April 25, 2018, the Company's subsidiary, CRM, acquired a 51% ownership interest in GHL for $0.6 million. GHL entered into an agreement with MCL and its owners, pursuant to which GHL purchased an initial 6.36% ownership interest in MCL for $0.4 million and agreed to purchase an additional ownership interest in MCL up to a total of 51% of MCL over a three-year period for approximately $3.6 million. GHL has the option to purchase an additional 19% ownership interest in MCL for a total of 70% of MCL under certain conditions. GHL and MCL also entered into a management agreement, which provides that GHL will manage the operations at MCL's hotel and international entertainment and gaming club in exchange for receiving a portion of MCL's net profit. The Company accounts for GHL's interest in MCL as an equity investment. The Company excluded the presentation of MCL's financial information after it determined that it is not significant compared to the Company's consolidated results. At September 30, 2018, the Company's maximum exposure to losses based on the value of the equity investment and GHL's 51% purchase commitment in MCL was $3.6 million.

GHL purchased an additional 2.85% ownership interest in MCL on October 4, 2018, for $0.2 million.

4.GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company tests goodwill for impairment as of October 1 each year, or more frequently as circumstances indicate it is necessary. Testing compares the estimated fair values of our reporting units to the reporting units' carrying values. The reporting units with goodwill balances as of September 30, 2018 include the operations at CRA, CDR, CSA and CPL. The Company considers a variety of factors when estimating the fair value of its reporting units, including estimates about the future operating results of each reporting unit, multiples of earnings, various market analyses, and recent sales of comparable businesses, if such information is available. The Company makes a variety of estimates and judgments about the relevance and comparability of these factors to the reporting units in estimating their fair values. If the carrying value of a reporting unit exceeds its estimated fair value, the fair value of each reporting unit is allocated to the reporting unit's assets and liabilities to determine the implied fair value of the reporting unit's goodwill and whether impairment is necessary. There have been no indications of impairment at CRA, CDR, CSA or CPL since the Company's last annual analysis that would necessitate additional impairment testing by the Company.

Changes in the carrying amount of goodwill related to CRA, CDR, CSA and CPL are as follows:

Amounts in thousands	Canada Century Resorts	Century Downs	Century Casino	Poland Casinos Poland	Total

	Alberta		St. Albert		
Balance – December 31, 2017	$ 3,919	$ 151	$ 3,747	$ 7,345	$ 15,162
Effect of foreign currency translation	(120)	(5)	(116)	(314)	(555)
Balance -- September 30, 2018	$ 3,799	$ 146	$ 3,631	$ 7,031	$ 14,607

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Intangible Assets

Trademarks

The Company currently owns two trademarks, the Century Casinos trademark and the Casinos Poland trademark, which are reported as intangible assets on the Company's condensed consolidated balance sheets. Changes in the carrying amount of the trademarks are as follows:

Amounts in thousands	Century Casinos	Casinos Poland	Total
Balance – December 31, 2017	$ 108	$ 1,751	$ 1,859
Effect of foreign currency translation	—	(75)	(75)
Balance -- September 30, 2018	$ 108	$ 1,676	$ 1,784

The Company has determined both trademarks have indefinite useful lives and therefore the Company does not amortize the trademarks. Rather, the Company tests its trademarks for impairment as of October 1 each year, or more frequently as circumstances indicate it is necessary. The Company tests trademarks for impairment using the relief-from-royalty method. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, the Company would recognize an impairment charge equal to the difference. There have been no indications of impairment related to the Century Casinos and Casinos Poland trademarks since the Company's last annual analysis that would necessitate additional impairment testing by the Company.

Casino Licenses

Casino licenses consist of the following:

Amounts in thousands	September 30, 2018	December 31, 2017
Finite-lived		
Casino licenses	$ 2,979	$ 2,992
Less: accumulated amortization	(608)	(1,434)
Total finite-lived casino licenses, net	2,371	1,558
Infinite-lived		
Casino licenses	13,084	13,507
Total infinite-lived casino licenses	13,084	13,507
Casino licenses, net	$ 15,455	$ 15,065

Poland

As of September 30, 2018, Casinos Poland had eight casino licenses, each with an original term of six years, which are finite-lived intangible assets and are amortized over their respective useful lives. Changes in the carrying amount of the Casinos Poland licenses are as follows:

Amounts in thousands	Casinos Poland
Balance – December 31, 2017	$ 1,558
New casino licenses	1,151
Amortization	(307)
Effect of foreign currency translation	(31)
Balance -- September 30, 2018	$ 2,371

As of September 30, 2018, estimated amortization expense for the CPL casino licenses over the next five years was as follows:

Amounts in thousands	
2018	$ 124
2019	457
2020	443
2021	443
2022	428
Thereafter	476
	$ 2,371

These estimates do not reflect the impact of future foreign exchange rate changes or the continuation of the licenses following their expiration. The weighted average period before the current CPL casino licenses expire is 4.6 years. In Poland, gaming licenses are not renewable. Once a gaming license has expired, any gaming company can apply for the license. During the second quarter of 2018, CPL was awarded casino licenses in Krakow and Lodz, which had expired in early 2018. The casino in Krakow reopened in July 2018 and the casino in Lodz reopened in August 2018. In addition, in July 2018, CPL was awarded another casino license at the Marriott Hotel in Warsaw. The Company anticipates that this casino will open in the first quarter of 2019. The Company was not awarded the licenses in Poznan and Plock, which expired and were fully amortized. No impairment charges related to the loss of the license tenders was recorded relating to the licenses.

Canada and Corporate and Other

The licenses at CDR, CSA and CCB are infinite-lived intangible assets that are not amortized. CDR holds licenses from the AGLC and HRA. CSA holds a license from the AGLC. CCB holds licenses from the Great Britain Gambling Commission. No impairment charges related to the licenses have been recorded. Changes in the carrying amount of the licenses are as follows:

	Canada		Corporate and Other
Amounts in thousands	Century Downs	Century Casino St. Albert	Century Casino Bath
Balance – December 31, 2017	$ 2,536	$ 9,744	$ 1,227
Effect of foreign currency translation	(78)	(301)	(44)
Balance -- September 30, 2018	$ 2,458	$ 9,443	$ 1,183

5.PROMOTIONAL ALLOWANCES

Hotel accommodations and food and beverage furnished without charge and coupons and downloadable credits provided to customers to entice play are considered marketing incentives to induce play and are presented as a reduction to gaming revenue at the retail value on the date of redemption. The costs of providing promotional allowances were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands	2018	2017	2018	2017
Hotel	$ 10	$ 11	$ 36	$ 36
Food and beverage	315	318	879	857
	$ 325	$ 329	$ 915	$ 893

See Note 2 for a discussion of the impact of the adoption of ASU 2014-09 on the presentation of promotional allowances.

Members of the Company’s casinos’ player clubs earn points based on, among other things, their volume of play at the Company’s casinos. Players can accumulate points over time that they may redeem at their discretion under the terms of the program. The value of the points is offset against the revenue in the period in which the points were earned. The Company records a liability based on the redemption value of the points earned with an estimate for breakage, and records a corresponding reduction in casino revenue. The value of unused or unredeemed points is included in accrued liabilities on the Company’s condensed consolidated balance sheets. As of September 30, 2018 and December 31, 2017, the outstanding balance of this liability was $0.7 million.

6. LONG-TERM DEBT

Long-term debt and the weighted average interest rates as of September 30, 2018 and December 31, 2017 consisted of the following:

Amounts in thousands	September 30, 2018		December 31, 2017	
Credit agreement - Bank of Montreal	$ 33,323	4.43%	$ 38,203	4.19%
Credit facilities - CPL	2,291	2.42%	—	—
Credit agreement - CCB	2,607	2.32%	2,704	4.94%
Financing obligation - CDR land lease	15,061	13.63%	15,541	13.44%
Capital leases	253	6.95%	523	6.89%
Total principal	$ 53,535	6.78%	$ 56,971	6.67%
Deferred financing costs	(250)		(258)	
Total long-term debt	$ 53,285		$ 56,713	
Less current portion	(20,079)		(5,697)	
Long-term portion	$ 33,206		$ 51,016	

Credit Agreement - Bank of Montreal

In May 2012, the Company, through its Canadian subsidiaries, entered into the CAD 28.0 million credit agreement with BMO. In August 2014, the Company, through its Canadian subsidiaries, entered into an amended and restated credit agreement with BMO that increased the Company’s borrowing capacity to CAD 39.1 million. In September 2016, the Company, through its Canadian subsidiaries, entered into a second amended and restated credit agreement with BMO that increased the borrowing capacity to CAD 69.2 million. On August 24, 2018, the Company, through its Canadian subsidiaries, entered into a third amended and restated credit agreement with BMO (the “BMO Credit Agreement”) to provide additional financing for the Century Mile project and a leasing credit facility. Under the BMO Credit Agreement, the Company’s borrowing capacity was increased to CAD 102.2 million with an interest rate of BMO’s floating rate plus a margin, except for the rates for Credit Facility H, which will be determined upon execution of a lease agreement. As discussed further below, the Company has entered into interest rate swap agreements to fix the interest rate paid related to a portion of the outstanding balance on the BMO Credit Agreement. As of September 30, 2018, the Company had borrowed CAD 63.9 million, of which the outstanding balance was CAD 43.1 million ($33.3 million based on the exchange rate in effect on September 30, 2018) and the Company had approximately CAD 39.8 million ($30.8 million based on the exchange rate in effect on September 30, 2018) available under the BMO Credit Agreement. In addition, the Company is using CAD 3.0 million ($2.3 million based on the exchange rate in effect on September 30, 2018) from Credit Facility E for the interest rate swap agreements discussed below.

The BMO Credit Agreement consists of the following credit facilities:

1.

Credit Facility A is a CAD 1.1 million revolving credit facility with a term of five years that expires in August 2019. Credit Facility A may be used for general corporate purposes, including for the payment of costs related to the BMO Credit Agreement, ongoing working capital requirements and operating regulatory requirements. As of September 30, 2018, the Company had CAD 1.1 million ($0.8 million based on the exchange rate in effect on September 30, 2018) available for borrowing under Credit Facility A.

2. Credit Facility B is an approximately CAD 24.1 million committed, non-revolving, reducing standby facility with a term of five years that expires in August 2019. The Company used borrowings under Credit Facility B primarily to repay the Company's mortgage loan related to CRA, pay for the additional 33.3% investment in CPL, pay for development costs related to CDR and for working capital and general corporate purposes. Once the principal amount of an advance has been repaid, it cannot be re-borrowed. As of September 30, 2018, the Company had no additional available borrowings under Credit Facility B.

3. Credit Facility C is a CAD 11.0 million revolving credit facility with a term of five years that expires in August 2019. Credit Facility C may be used as additional financing for the development of CDR. The Company may re-borrow the principal amount within the limits described in the BMO Credit Agreement. As of September 30, 2018, the Company had CAD 5.7 million ($4.4 million based on the exchange rate in effect on September 30, 2018) available for borrowing under Credit Facility C.

4. Credit Facility D is an approximately CAD 30.0 million committed, reducing term credit facility with a term of five years that expires in September 2021. The Company used the entire amount of the facility to pay for the Company's acquisition of CSA in September 2016. Once the principal amount of an advance has been repaid, it cannot be re-borrowed. As of September 30, 2018, the Company had no additional available borrowings under Credit Facility D.

5. Credit Facility E is a CAD 3.0 million treasury risk management facility. The Company may use this facility to hedge interest rate risk or currency exchange rate risk. Credit Facility E has a term of five years mirroring the interest rate swap agreements discussed below. The Company is currently utilizing Credit Facility E to hedge interest rate risk as discussed below.

6. Credit Facility F is a CAD 33.0 million demand, non-revolving, construction credit facility for use for the construction and development of the Century Mile project. Upon the maturity of Credit Facility F on the facility termination date (which is the earliest of (i) the date on which demand for the payment is made by BMO; (ii) August 24, 2019; (iii) the Project Construction Completion Date, as defined in the BMO Credit Agreement; or (iv) the occurrence of event of default), the principal balance will be converted to Credit Facility G. Once funds are advanced from Credit Facility F, they cannot be re-borrowed. As of September 30, 2018, the Company had CAD 33.0 million ($25.5 million based on the exchange rate in effect on September 30, 2018) available for borrowing under Credit Facility F.

7. Credit Facility G is a committed, non-revolving, term credit facility that the Company will utilize at the maturity of Credit Facility F. Credit Facility G has a term of five years from the date of conversion of Credit Facility F. The Company cannot re-borrow funds that have been repaid under Credit Facility G.

8. Credit Facility H is a CAD 2.0 million equipment leasing credit facility for use for the Century Mile project pursuant to the Interim Funding Agreement and Master Lease Agreement described in the BMO Credit Agreement. The Company may re-borrow the principal amount within the limits described in the BMO Credit Agreement pursuant to the Interim Funding Agreement and Master Lease Agreement. Maturity dates will be set once the facility is utilized. As of September 30, 2018, the Company had CAD 2.0 million ($1.5 million based on the exchange rate in effect on September 30, 2018) available for borrowing under Credit Facility H.

Any funds not drawn down under specified facilities in the BMO Credit Agreement are subject to standby fees ranging from 0.50% to 0.75% payable quarterly in arrears. Standby fees of less than CAD 0.1 million (less than $0.1 million based on the exchange rates in effect on September 30, 2018 and 2017) were recorded as interest expense in the condensed consolidated statements of earnings for each of the three and nine months ended September 30, 2018 and 2017. The shares of the Company's Canadian subsidiaries that own CRA, CAL, CSA and Century Mile and the Company's 75% interest in CDR are pledged as collateral for the BMO Credit Agreement. The BMO Credit Agreement contains a number of covenants applicable to the Canadian subsidiaries, including covenants restricting their incurrence of additional debt, a debt to EBITDA ratio less than 4:1, a fixed charge coverage ratio greater than 1:1, maintenance of a CAD 50.0 million equity balance and a capital expenditure limit of CAD 4.0 million for 2018. The Company was in compliance with all financial covenants of the BMO Credit Agreement as of September 30, 2018.

The Company has entered into interest rate swap agreements to partially hedge the risk of future increases in the variable rate debt under the BMO Credit Agreement. The interest rate swap agreements are not designated as hedges for accounting purposes. As a result, changes in fair value of the interest rate swaps are recognized in interest expense on the Company's condensed consolidated statements of earnings. As of September 30, 2018, the Company had the following interest rate swap agreements set at a Canadian Dollar Offered Rate ("CDOR"):

- Notional amount of CAD 6.8 million ($5.3 million based on the exchange rate in effect on September 30, 2018) with a rate of 3.92% expiring in August 2019;
- Notional amount of CAD 6.8 million ($5.3 million based on the exchange rate in effect on September 30, 2018) with a rate of 3.89% expiring in August 2019; and
- Notional amount of CAD 12.0 million ($9.3 million based on the exchange rate in effect on September 30, 2018) with a rate of 4.08% expiring in December 2021.

Deferred financing costs consist of the Company's costs related to the financing of the BMO Credit Agreement. Amortization expenses relating to deferred financing charges were $0.1 million for each of the nine months ended September 30, 2018 and 2017. These costs are included in interest expense in the condensed consolidated statements of earnings.

Casinos Poland

As of September 30, 2018, CPL had a short-term line of credit with Alior Bank (formerly BPH Bank) used to finance current operations. The line of credit bears an interest rate of one-month WIBOR plus 1.85% with a borrowing capacity of PLN 13.0 million, of which PLN 2.0 million may only be used to secure bank guarantees. The credit facility terminates on March 20, 2019. As of September 30, 2018, the credit facility had an outstanding balance of PLN 5.0 million ($1.4 million based on the exchange rate in effect on September 30, 2018), Alior Bank had secured bank guarantees of PLN 3.1 million ($0.9 million based on the exchange rate in effect on September 30, 2018) and approximately PLN 4.9 million ($1.4 million based on the exchange rate in effect on September 30, 2018) was available for borrowing. The credit facility contains a number of covenants applicable to CPL, including covenants that restrict the incurrence of additional debt and require CPL to maintain certain debt to EBITDA ratios. CPL was in compliance with all financial covenants of this credit facility as of September 30, 2018.

As of September 30, 2018, CPL also had a short-term line of credit with mBank used to finance current operations that was entered into on April 9, 2018. The line of credit bears an interest rate of overnight WIBOR plus 1.40% with a borrowing capacity of PLN 5.0 million. The credit facility terminates on March 28, 2019. As of September 30, 2018, the credit facility had an outstanding balance of PLN 3.3 million ($0.9 million based on the exchange rate in effect on September 30, 2018) and approximately PLN 1.7 million ($0.5 million based on the exchange rate in effect on September 30, 2018) was available for additional borrowing as of September 30, 2018. The credit facility contains a number of covenants applicable to CPL, including covenants that require CPL to maintain certain liquidity and liability to asset ratios. CPL was in compliance with all financial covenants of this credit facility as of September 30, 2018.

In addition, under Polish gaming law, CPL is required to maintain PLN 6.0 million in the form of deposits or bank guarantees for payment of casino jackpots and gaming tax obligations. mBank issued guarantees to CPL for this purpose totaling PLN 6.0 million ($1.7 million based on the exchange rate in effect on September 30, 2018). The mBank guarantees are secured by land owned by CPL in Kolbaskowo, Poland as well as a deposit of PLN 1.7 million ($0.5 million based on the exchange rate in effect on September 30, 2018) with mBank that terminates on October 31, 2019. In addition, CPL is required to maintain deposits or provide bank guarantees for payment of additional prizes and giveaways at the casinos. The amount of these deposits varies depending on the value of the prizes. CPL maintained PLN 0.4 million ($0.1 million based on the exchange rate in effect on September 30, 2018) in deposits for this purpose as of September 30, 2018. These deposits are included in deposits and other on the Company's condensed consolidated balance sheets.

Century Casino Bath

In August 2017, the Company's subsidiary CCB entered into a GBP 2.0 million term loan with UniCredit Bank Austria AG ("UniCredit"). The loan matures in September 2023 and bears interest at the London Interbank Offered Rate ("LIBOR") plus 1.625%. Proceeds from the loan were used for construction and fitting out of CCB. As of September 30, 2018, the amount outstanding on the loan was GBP 2.0 million ($2.6 million based on the exchange rate in effect on September 30, 2018). CCB has no further borrowing availability under the loan agreement. Repayment of the loan will begin in December 2018. The loan is guaranteed by a $0.6 million cash guarantee by CRM. The amount of this guarantee is included in deposits and other on the Company's condensed consolidated balance sheets.

Century Downs Racetrack and Casino

CDR's land lease is a financing obligation of the Company. Prior to the Company's acquisition of its ownership interest in CDR, CDR sold a portion of the land on which the REC project is located and then entered into an agreement to lease back a portion of the land sold. The Company accounts for the lease using the financing method by accounting for the land subject to lease as an asset and the lease payments as interest on the financing obligation. Under the land lease, CDR has four options to purchase the land. The first option date is July 1, 2023. Due to the nature of the CDR land lease financing obligation, there are no principal payments due until the Company exercises its option to purchase the land. Lease payments are applied to interest only, and any change in the outstanding balance of the financing obligation relates to foreign currency translation. As of September 30, 2018, the outstanding balance on the financing obligation was CAD 19.5 million ($15.0 million based on the exchange rate in effect on September 30, 2018).

Century Resorts Management

On August 13, 2018, the Company's subsidiary, CRM, entered into a loan agreement with UniCredit (the "UniCredit Agreement") for a revolving line of credit of up to EUR 7.0 million ($8.1 million based on the exchange rate in effect on September 30, 2018) to be used for acquisitions and capital expenditures at the Company's existing operations or new operations. The borrowings may be denominated in EUR, bearing an interest rate of EURIBOR plus a margin of 1.5%, or USD, bearing an interest rate of LIBOR plus a margin of 1.5%. The line of credit is available until terminated by either party. Funds can be borrowed with terms of 1, 3, 6, 9 or 12 months. The UniCredit Agreement is secured by a EUR 7.0 million guarantee by the Company. The UniCredit Agreement contains customary events of default, including the failure to make required payments. Upon a failure to make required payments following a grace period, amounts due under the UniCredit Agreement may be accelerated.

Capital Lease Agreements

As of September 30, 2018, the Company had the following capital leases:

- CRA had two capital lease agreements for surveillance and general equipment with an outstanding balance of CAD 0.1 million ($0.1 million based on the exchange rate in effect on September 30, 2018);
- CAL had two capital lease agreements for general equipment with an outstanding balance of CAD 0.1 million (less than $0.1 million based on the exchange rate in effect on September 30, 2018);
- CDR had three capital lease agreements for racing-related equipment with an outstanding balance of CAD 0.1 million ($0.1 million based on the exchange rate in effect on September 30, 2018);
- CSA had a capital lease agreement for general equipment with an outstanding balance of less than CAD 0.1 million (less than $0.1 million based on the exchange rate in effect on September 30, 2018); and
- the Century Mile project had a capital lease agreement for trailers with an outstanding balance of CAD 0.1 million (less than $0.1 million based on the exchange rate in effect on September 30, 2018).

As of September 30, 2018, scheduled maturities related to long-term debt were as follows:

Amounts in thousands	Bank of Montreal	Casinos Poland Credit Facilities	Century Casino Bath Credit Agreement	Century Downs Land Lease	Capital Leases	Total
2018	$ 1,382	$ 2,291	$ 130	$ —	$ 56	$ 3,859
2019	16,299	—	521	—	128	16,948
2020	2,317	—	521	—	50	2,888
2021	13,325	—	521	—	18	13,864
2022	—	—	521	—	1	522
Thereafter	—	—	393	15,061	—	15,454
Total	$ 33,323	$ 2,291	$ 2,607	$ 15,061	$ 253	$ 53,535

There is no set repayment schedule for the CPL credit facilities, and the Company classifies them as short-term debt due to the nature of the agreements. The UniCredit Agreement is not included in the table above because no amounts were borrowed as of September 30, 2018.

7.COMMITMENTS AND CONTINGENCIES

Litigation

Since 2011, the Polish Internal Revenue Service ("Polish IRS") has conducted a series of tax audits of CPL to review the calculation and payment of personal income tax by CPL employees for periods ranging from 2007 to 2013. The Polish IRS has asserted that CPL should calculate, collect and remit to the Polish IRS personal income tax on tips received by CPL employees from casino customers and has prevailed in several court challenges by CPL. Through September 30, 2018, CPL has paid PLN 14.3 million ($4.2 million) related to these audits. In April 2018, a Polish appeals court issued a verbal decision on the 2009 tax audit, ruling in favor of the Polish IRS. The Company previously paid the amount owed related to this audit. In May 2018, the Polish IRS issued an official decision on the 2012 and 2013 tax audits. As a result of this decision, CPL paid PLN 4.9 million ($1.3 million) in May 2018 related to the 2012 and 2013 tax audits and has filed an appeal of the decision.

The balance of the potential liability on the Company's condensed consolidated balance sheet for all open periods as of September 30, 2018 is PLN 3.0 million ($0.8 million based on the exchange rate in effect on September 30, 2018). The Company has evaluated the contingent liability recorded on its condensed consolidated balance sheet as of September 30, 2018 and has concluded that it is properly accrued in light of the Company's estimated obligation related to personal income tax on tips as of September 30, 2018. Additional court decisions and other proceedings by the Polish IRS may expose the Company to additional employment tax obligations in the future. Any additional tax obligations are not probable or estimable and the Company has not recorded any additional obligation related to such taxes as of September 30, 2018. Additional tax obligations assessed in the future as a result of these matters, if any, may be material to the Company's financial position, results of operations and cash flows.

In October 2016, the Company filed a motion for arbitration in Poland against LOT Polish Airlines pursuant to an agreement with LOT Polish Airlines under which the Company acquired the additional 33.3% interest in CPL in 2013. The Company was awarded PLN 1.2 million ($0.3 million based on the exchange rate in effect on September 30, 2018) in amounts owed by LOT Polish Airlines in connection with the payments made to the Polish IRS for the tax periods December 1, 2007 to December 31, 2008 and January 1, 2011 to January 31, 2011. LOT Polish Airlines paid this amount, plus accrued interest, in July 2018.

8.INCOME TAXES

Income tax expense is recorded relative to the jurisdictions that recognize book earnings. For the nine months ended September 30, 2018, the Company recognized an income tax expense of $1.8 million on pre-tax income of $5.0 million, representing an effective income tax rate of 35.7% compared to an income tax benefit of $2.1 million on pre-tax income of $10.9 million, representing an effective income tax rate of (18.9%) for the same period in 2017.

A number of items caused the reported income tax expense for the nine months ended September 30, 2018 to exceed the U.S. federal statutory income tax rate of 21%. During the first quarter of 2018, CRM received an intercompany dividend, which increased income tax expense by $0.3 million for the nine months ended September 30, 2018 and caused a 12% increase to the current period's effective income tax rate. The Company's effective tax rate also is higher than the U.S. federal statutory income tax rate because there is a 27% statutory tax rate in Canada where the Company earns a significant portion of its income. In addition, nondeductible stock compensation expense in the United States and certain nondeductible business expenses in Poland contribute to the increased effective income tax rate as compared to the U.S. federal statutory income tax rate.

During the third quarter of 2017, the Company released its $5.1 million U.S. valuation allowance on its U.S. deferred tax assets, resulting in a tax benefit. The Company analyzed the likelihood of future realization of the U.S. deferred tax assets, including recent cumulative earnings by taxing jurisdiction, expectations of future taxable income or loss, the amount of net operating loss carryforwards not subject to limitations, the number of periods necessary to realize the net operating loss carryforwards and other relevant factors. Based on this analysis, the Company concluded that its operations in the U.S. had attained a sustained level of profitability sufficient to realize its deferred tax assets in the U.S., and thus reduce its valuation allowance.

The Tax Act, which was enacted on December 22, 2017, made significant changes to the Internal Revenue Code effective for 2018, although certain provisions affected the Company's 2017 financial results. The changes impacting 2018 results are from the reduction in the U.S. federal corporate income tax rate from 35% to 21% and the tax on Global Intangible Low-Taxed Income ("GILTI"). Due to the complexities involved in accounting for the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which was followed by ASU 2018-05. SAB 118 and ASU 2018-05 provide guidance on accounting for the income tax effects of the Tax Act. The issued guidance provides a measurement period that may not extend beyond one year from the Tax Act enactment date to complete the accounting for the impact of the Tax Act. This guidance allows the Company to provide provisional estimates of the impact of the Tax Act in its financial statements. The Company has not completed its analysis of the tax impact resulting from the enactment of the Tax Act, and the provisional amounts will be refined as needed during the measurement period allowed by SAB 118 and ASU 2018-05. While the Company believes that it has made reasonable estimates of the impact of the U.S. corporate income tax rate reduction and GILTI, these estimates could change as the Company continues to analyze IRS guidance related to the Tax Act as it is released. In addition to the Tax Act changes impacting the Company's 2018 results, further changes could result as the Company refines its calculations surrounding the changes that impacted its 2017 results, including the remeasurement of its deferred tax balances, as well as its calculations of earnings and profits used in the computation of the transition tax.

Provisional amounts

- Global Intangible Low-Taxed Income: The Tax Act creates a new requirement that certain income, such as GILTI, earned by a controlled foreign corporation ("CFC") must be included currently in the gross income of the CFC's U.S. shareholder, effective in 2018. The Company is allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current period expense when incurred (the "period cost method") or (2) factoring such amounts into the Company's measurement of its deferred taxes (the "deferred method"). The Company has selected the period cost method and recorded a provisional amount of less than $0.1 million for the GILTI tax. Because the Tax Act does not address certain aspects of the calculation of the GILTI tax, leaving them open to interpretation, the U.S. Treasury Department is expected to issue regulations to provide clarification on calculating the GILTI tax. As the Company finalizes its analysis of the tax law changes in the Tax Act related to GILTI, the Company will update provisional amounts for this remeasurement.

- Deferred tax assets and liabilities: During 2017, the Company remeasured deferred tax assets and liabilities using the rates at which the deferred taxes are expected to reverse in the future, which would be a blended rate of 24.66%, comprised of a 21% federal rate and a 3.66% state income tax rate net of federal benefit. The Company continues to use this blended tax rate of 24.66% for 2018. No updates have been made to the provisional amounts recorded for the remeasurement of the Company's deferred tax assets and liabilities in 2017. However, as the Company finalizes its analysis of the tax law changes in the Tax Act, including the impact on its tax return filing positions, the Company will update provisional amounts for this remeasurement. Additionally, due to the size and nature of the one-time transition tax discussed below, any change in the one-time transition tax provisional estimate could directly impact the remeasurement of deferred tax assets and liabilities.

- U.S. taxation on foreign earnings: A key component of the Tax Act includes a one-time transition tax applied to foreign earnings that were not previously subject to U.S. tax. This one-time transition tax is based on total post-1986 foreign earnings and profits that were previously deferred from U.S. income taxes. During 2017, the Company recorded a provisional amount for the one-time transition tax liability based on its estimates of post-1986 foreign earnings and profits. Previously, the Company had not recorded a deferred tax liability related to these post-1986 foreign earnings because management did not expect to repatriate these earnings and subject them to U.S. taxation due to the nature of the Company's foreign operations. Because the Tax Act does not address certain aspects of the calculation of the transition tax, leaving them open to interpretation, the U.S. Treasury Department is expected to issue regulations to provide clarification on calculating the transition tax. Additionally, the Company continues to gather post-1986 foreign earnings and profits support as well as substantiation for historical tax pool data, which will impact the provisional amount. No updates have been made to the provisional amounts recorded in 2017 at this time, but the Company expects to update its provisional amount following the issuance of regulations on the Tax Act by the U.S. Treasury Department and additional data gathering efforts.

The Company will continue to analyze the effects of the Tax Act on its financial statements and on its future results of operations. Certain aspects of the Tax Act, such as the reduction of the U.S. statutory rate to 21%, will lower the Company's future effective tax rate. In contrast, other aspects of the Tax Act, such as GILTI, will increase the Company's future effective tax rate. The Company will continue to disclose details of the future impact of Tax Act changes on its results of operations, and additional impacts from the enactment of the Tax Act will be recorded as they are identified during the measurement period as allowed by SAB 118 and ASU 2018-05.

9.EARNINGS PER SHARE

The calculation of basic earnings per share considers only weighted average outstanding common shares in the computation. The calculation of diluted earnings per share gives effect to all potentially dilutive stock options. The calculation of diluted earnings per share is based upon the weighted average number of common shares outstanding during the period, plus, if dilutive, the assumed exercise of stock options using the treasury stock method. Weighted average shares outstanding for the three and nine months ended September 30, 2018 and 2017 were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands	2018	2017	2018	2017
Weighted average common shares, basic	29,425	24,470	29,388	24,464
Dilutive effect of stock options	562	421	598	441
Weighted average common shares, diluted	29,987	24,891	29,986	24,905

The following stock options are anti-dilutive and have not been included in the weighted average shares outstanding calculation:

	For the three months ended September 30,		For the nine months ended September 30,	
Amounts in thousands	2018	2017	2018	2017
Stock options	102	—	60	—

10. FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS REPORTING

Fair Value Measurements

The Company follows fair value measurement authoritative accounting guidance for all assets and liabilities measured at fair value. That authoritative accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Market or observable inputs are the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The fair value hierarchy for grouping these assets and liabilities is based on the significance level of the following inputs:

- Level 1 – quoted prices in active markets for identical assets or liabilities
- Level 2 – quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable
- Level 3 – significant inputs to the valuation model are unobservable

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level.

Recurring Fair Value Measurements

The estimated fair value and basis of valuation of the Company’s financial liabilities that are measured at fair value on a recurring basis were as follows:

Amounts in thousands	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Interest rate swap asset (1)	$ —	$ 315	$ —	$ —	$ 275	$ —

(1) See “Derivative Instruments Reporting” below for detailed information regarding the Company's interest rate swap agreements.

The Company determines the fair value of its interest rate swap agreements based on the notional amount of the swaps and the forward rate CAD-CDOR curve provided by Bloomberg and zero-coupon Canadian spot rates as of the valuation date. The Company classifies these instruments as Level 2 because the inputs into the valuation model can be corroborated utilizing observable benchmark market rates at commonly quoted intervals.

Non-Recurring Fair Value Measurements

The Company applies the provisions of the fair value measurement standard to its non-recurring, non-financial assets and liabilities measured at fair value. There were no assets or liabilities measured at fair value on a non-recurring basis as of September 30, 2018.

Long-Term Debt – The carrying value of the BMO Credit Agreement approximates fair value based on the variable interest paid on the obligations and the recent negotiation of additional borrowing capacity for the BMO Credit Agreement. The carrying value of the CPL credit facilities approximates fair value based on the short term nature of the facilities and the variable interest paid on the Alior Bank facility. The carrying value of the CCB loan agreement approximates fair value based on the variable interest paid on the obligation. The estimated fair values of the outstanding balances under the BMO Credit Agreement, CPL credit facilities and CCB loan agreement are designated as Level 2 measurements in the fair value hierarchy based on quoted prices in active markets for similar liabilities. The fair values of the Company’s capital lease obligations approximate fair value based on the similar terms and conditions currently available to the Company in the marketplace for similar financings. The fair value of the CDR land lease was CAD 28.6 million ($21.9 million based on the exchange rate in effect on September 30, 2018) as of September 30, 2018. The estimated fair values of the outstanding balances related to the Company’s capital lease obligations and the CDR land lease are designated as Level 3 measurements based on the unobservable nature of the inputs used to evaluate such liabilities. The Company entered into a line of credit agreement with UniCredit in August 2018. The Company had not borrowed against this line of credit as of September 30, 2018.

Other Estimated Fair Value Measurements – The estimated fair value of the Company’s other assets and liabilities, such as cash and cash equivalents, accounts receivable, inventory, accrued payroll and accounts payable, have been determined to approximate carrying value based on the short-term nature of those financial instruments. As of September 30, 2018 and December 31, 2017, the Company had no cash equivalents.

Derivative Instruments Reporting

As of April 2015, the Company began using interest rate swaps to mitigate the risk of variable interest rates under its BMO Credit Agreement. The interest rate swaps were not designated as accounting hedges. These interest rate swaps reset monthly, and the difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and is recognized as an adjustment to interest expense for the related debt. See Note 6 for details of the Company’s three interest rate swap agreements.

Changes in the variable interest rates to be paid or received pursuant to the terms of the interest rate swap agreements are recognized in interest expense on the Company's condensed consolidated statement of earnings. The location and effects of derivative instruments on the condensed consolidated statements of earnings were as follows:

Amounts in thousands

Derivatives not designated as ASC 815 hedges	Income Statement Classification	For the three months ended September 30, 2018	2017	For the nine months ended September 30, 2018	2017
Interest Rate Swaps	Interest Expense	$ 171	$ (87)	$ 624	$ 294

The location and fair value amounts of the Company's derivative instruments in the condensed consolidated balance sheets were as follows:

Amounts in thousands		As of September 30, 2018			As of December 31, 2017		
Derivatives not designated as ASC 815 hedges	Balance Sheet Classification	Gross Recognized Assets (Liabilities)	Gross Amounts Offset	Net Recognized Fair Value Assets (Liabilities)	Gross Recognized Assets (Liabilities)	Gross Amounts Offset	Net Recognized Fair Value Assets (Liabilities)
Derivative assets:							