

MONARCH CASINO & RESORT INC

Form 10-K

March 11, 2016

[Table of Contents](#)

**United States**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-K**

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

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

FOR THE TRANSITION PERIOD FROM      TO

Commission File No. 0-22088

# MONARCH CASINO & RESORT, INC.

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**88-0300760**  
(I.R.S. Employer  
Identification No.)

**3800 S. Virginia Street**  
**Reno, Nevada**  
(Address of Principal Executive Offices)

**89502**  
(ZIP Code)

Registrant's telephone number, including area code: **(775) 335-4600**

---

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
None	None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

**COMMON STOCK, \$0.01 PAR VALUE**

(Title of Class)

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

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

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The aggregate market value of voting and non-voting common equity held by nonaffiliates as of June 30, 2015, based on the closing price as reported on The Nasdaq Stock Market (SM) of \$20.56 per share, was approximately \$330.9 million.

As of March 5, 2016, Registrant had 16,827,047 shares of common stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2016 Annual Meeting of Stockholders, which Proxy Statement shall be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference into Part III.

Table of Contents

**Table of Contents**

<b>Item</b>	<b>Page Number</b>
<u>Forward Looking Statements</u>	3
<b><u>PART I</u></b>	
<u>Item 1. Business</u>	4
<u>Item 1A. Risk Factors</u>	18
<u>Item 1B. Unresolved Staff Comments</u>	28
<u>Item 2. Properties</u>	28
<u>Item 3. Legal Proceedings</u>	29
<u>Item 4. Mine Safety Disclosures</u>	29
<b><u>PART II</u></b>	
<u>Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	29
<u>Item 6. Selected Financial Data</u>	32
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	47
<u>Item 8. Financial Statements and Supplementary Data</u>	48
<u>Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013</u>	50
<u>Consolidated Balance Sheets at December 31, 2015 and 2014</u>	51
<u>Consolidated Statements of Stockholder's Equity for the years ended December 31, 2015, 2014 and 2013</u>	52
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013</u>	53
<u>Monarch Casino &amp; Resort, Inc. and Subsidiaries Notes to Consolidated Financial Statements</u>	54
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	75
<u>Item 9A. Controls and Procedures</u>	75
<u>Item 9B. Other Information</u>	75
<b><u>PART III</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	75
<u>Item 11. Executive Compensation</u>	76
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	76
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	76
<u>Item 14. Principal Accounting Fees and Services</u>	76

**PART IV**

Item 15. Exhibits, Financial Statement Schedules

77

Signatures

82

Table of Contents

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, market forces, corporate strategies, contractual commitments, legal matters, capital requirements and other matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. We note that many factors could cause our actual results and experience to change significantly from the anticipated results or expectations expressed in our forward-looking statements. When words and expressions such as believes, expects, anticipates, estimates, plans, intends, objectives, goals, aims, projects, forecasts, possible, seeks, may, could, should, similar words or expressions are used in this Form 10-K, as well as statements containing phrases such as in our view, there can be no assurance, although no assurance can be given, or there is no way to anticipate with certainty, forward-looking statements are being made.

Various risks and uncertainties may affect the operation, performance, development and results of our business and could cause future outcomes to change significantly from those set forth in our forward-looking statements, including the following factors:

- our growth strategies;
- our potential acquisitions and investments;
- successful integration of acquisitions;
- risks related to development and construction activities;
- anticipated trends in the gaming industries;
- patron demographics;
- general market and economic conditions, including but not limited to, the effects of local and national economic, housing and energy conditions on the economy in general and on the gaming and lodging industries in particular;
- access to capital and credit, including our ability to finance future business requirements;
- our dependence on key personnel;
- the availability of adequate levels of insurance;
- changes in federal, state, and local laws and regulations, including environmental and gaming licenses or legislation and regulations;
- ability to obtain and maintain gaming and other governmental licenses;
- regulatory approvals;

- impact of weather;
- competitive environment, including increased competition in our target market areas;
- increases in the effective rate of taxation at any of our properties or at the corporate level; and
- risks, uncertainties and other factors described from time to time in this and our other SEC filings and reports.

For a more detailed description of certain Risk Factors affecting our business, see Item 1A, Risk Factors.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risks emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.

Table of Contents

**PART I**

**ITEM 1. BUSINESS**

Monarch Casino & Resort, Inc., was incorporated in 1993 and through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis ). Monarch s wholly owned subsidiaries, High Desert Sunshine, Inc. ( High Desert ), Golden East, Inc. ( Golden East ) and Golden North, Inc. ( Golden North ), each own separate parcels of land located proximate to the Atlantis.

Monarch s wholly owned subsidiary Monarch Growth Inc. ( Monarch Growth ), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino on April 26, 2012. Riviera Black Hawk, Inc. was renamed Monarch Black Hawk, Inc. and Riviera Black Hawk Casino was renamed Monarch Casino Black Hawk in October 2013. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Monarch Casino Black Hawk. In addition to owning the Monarch Casino Black Hawk, Monarch Black Hawk, Inc. also wholly owns Chicago Dogs Eatery, Inc. and Monarch Promotional Association, both of which were formed in relation to extended licensure for extended hours of liquor operation in Black Hawk. The Company has included the results of Monarch Black Hawk, Inc. in its consolidated financial statements since the date of acquisition.

Monarch s wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company has decided to allow the current approval to lapse pending a change in market conditions that would support the Company s investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

Our operating assets are the Atlantis and the Monarch Casino Black Hawk. Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, food and beverage operations and at the Atlantis, our hotel operations. Monarch Casino Black Hawk does not yet have a hotel. We focus on delivering exceptional service and value to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

Unless otherwise indicated, Monarch , Company , we , our and us refer to Monarch Casino & Resort, Inc. and its subsidiaries. Our principal executive offices are located at 3800 S. Virginia Street, Reno, Nevada 89502; telephone (775) 335-4600.

**Available Information**

Our website address is [www.monarchcasino.com](http://www.monarchcasino.com). We make available on or through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.





Table of Contents

**The Atlantis Casino Resort Spa**

The Atlantis is located approximately three miles south of downtown in the generally more affluent area of Reno, Nevada. The Atlantis features approximately 61,000 square feet of casino space; 824 guest rooms and suites; eight food outlets; two espresso and pastry bars; a 30,000 square foot health spa and salon with an enclosed year-round pool; two retail outlets offering clothing and traditional gift shop merchandise; an 8,000 square-foot family entertainment center; and approximately 52,000 square feet of banquet, convention and meeting room space. The casino features approximately 1,450 slot and video poker machines; approximately 38 table games, including blackjack, craps, roulette, and others; a race and sports book; a 24-hour live keno lounge and a poker room.

Through an enclosed skywalk, Atlantis is the only hotel facility to be physically connected to the Reno-Sparks Convention Center. The Reno-Sparks Convention Center offers approximately 500,000 square feet of leasable exhibition, meeting room, ballroom and lobby space.

Operations at the Atlantis are conducted 24 hours a day, every day of the year. Business is seasonal in nature, with higher revenues during the summer months and lower revenues during the winter months.

*Atlantis Casino.* The Atlantis offers what we believe to be higher than average payout rates on slot machines relative to other northern Nevada casinos. We seek to attract high-end players through high quality amenities and services and by extension of gaming credit after a careful credit history evaluation.

*Hotel and Spa.* The Atlantis includes three contiguous, high-rise hotel towers with a total of 824 rooms and suites. The rooms on the top seven floors in the third tower are nearly 20% larger than the standard guest rooms and offer restricted elevator access, upscale accommodations and a private concierge service.

The Atlantis hotel rooms feature design and furnishings consistent with the highest quality in the Northern Nevada market as well as nine-foot ceilings, which create an open and spacious feel. The third hotel tower features a four-story waterfall with an adjacent year-round swimming pool in a climate controlled, five-story glass enclosure, which shares an outdoor pool deck with a seasonal outdoor swimming pool and year round whirlpool. The Salon at Atlantis is a full service salon overlooking the third floor sundeck and outdoor seasonal swimming pool and offers salon-grade products and treatments for hair, nails, skincare and body services for both men and women. Our Spa Atlantis is a high-end health spa located adjacent to the swimming area that offers treatments and amenities unique to our market. The hotel rooms on the spa floor feature décor that is themed consistent with the spa. Certain spa treatments are also available in spa floor hotel rooms. The hotel features glass elevators that rise the full 19 and 28 stories of the respective towers providing panoramic views of the Reno area and the Sierra Nevada mountain range. In 2012, our hotel was awarded with the prestigious AAA Four Diamond rating from the American Automobile Association, a rating we currently maintain.

The average occupancy rate and average daily room rate ( ADR ) at the Atlantis for the following periods were:

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

	Years ended December 31,			
	2015	2014	2013	
Occupancy rate	89.7%	89.1%	89.5%	
ADR	\$ 76.92	\$ 73.66	\$ 77.78	

We continually monitor and adjust hotel room rates based upon demand and other competitive factors.

*Restaurants and Dining.* The Atlantis has eight restaurants, two gourmet coffee bars and one snack bar as described below:

- The 550-seat Toucan Charlie's Buffet & Grill, which offers a wide variety of food selections from around the globe including a carving station, live action Asian and Salad stations for made-to-order items, and an extensive selection of desserts from our in-house bakery;

Table of Contents

- The 160-seat Atlantis Steakhouse, a fine dining destination featuring Allen Brothers Prime steaks from Chicago, fresh seafood, and numerous tableside presentations of classic Steakhouse dishes;
- The Bistro Napa, featuring creative wine country cuisine served in a 140-seat main dining room with a central wine cellar and an adjacent upscale 60-seat lounge;
- The Oyster Bar on the Sky Terrace offering pan roasts made-to-order, fresh seafood, cioppino, house made chowder and bisques.
- Sushi Bar serving creative, made-to-order sushi rolls with a wide variety of raw and cooked options, all offered in all-you-care-to-eat lunch and dinner settings. Combined, the Oyster Bar and Sushi Bar can accommodate up to 137 guests;
- The newly remodeled, 178-seat Purple Parrot coffee shop, which serves breakfast and American comfort food 24 hours a day;
- The 110-seat Café Alfresco featuring an Italian-inspired menu featuring pastas, wood-fired pizza and a variety of gelato desserts;
- The 170-seat Manhattan Deli featuring authentic New York Deli favorites like Matzo Ball Soup, piled high sandwiches, salads, house made soups, bagels and lox, and famous New York Cheesecake.
- Two gourmet coffee bars offering specialty coffee drinks, grab and go sandwiches, house made gelato and freshly baked pastries; and
- The Chicago Dogs Eatery, a snack bar, serving Chicago-style hot dogs, pizza, ice cream and arcade-style refreshments.

*The Sky Terrace.* The Sky Terrace is a unique structure with a diamond-shaped, blue glass body suspended approximately 55 feet, and spanning 160 feet across South Virginia Street, Reno's main thoroughfare. The Sky Terrace connects the Atlantis with parking on our 16-acre site across South Virginia Street. The structure rests at each end on two 100-foot tall Grecian columns with no intermediate support pillars. The interior of the Sky Terrace houses the Oyster Bar, the Sushi Bar, a video poker bar, banks of slot machines and a lounge area.

**The Monarch Casino Black Hawk**

The Monarch Casino Black Hawk is located approximately 40 miles west of Denver, Colorado and is the first casino encountered by visitors arriving from Denver, Colorado on Highway 119. The Monarch Casino Black Hawk features approximately 30,000 square feet of casino space, 700 slot machines, 14 table games, a 250 seat buffet-style restaurant, a snack bar and a parking structure with approximately 500 spaces. Monarch owns a 1.5 acre land parcel contiguous to the Monarch Casino Black Hawk which is zoned for gaming that we plan to utilize for future expansion.

Since the acquisition of Monarch Casino Black Hawk in April 2012, our focus has been to maximize casino and food and beverage revenues while upgrading the existing facility and laying the groundwork for the major expansion that we plan. There is currently no hotel on the property. In December 2013, we began a project to redesign and upgrade the existing Monarch Casino Black Hawk facility. To minimize disruption, we staged the work in three equal phases. The first phase was completed and opened in August 2014. The second phase was completed and opened in March 2015 and the final phase was completed and opened in August 2015. In the fourth quarter of 2013, we began work on a multi-phased expansion of the Monarch Casino Black Hawk which involves construction of a new parking structure, demolition of the existing parking structure followed by construction of a new hotel tower and casino expansion on the site where the existing parking structure currently sits. We expect to complete construction of the new parking structure in the second quarter of 2016. The planned nine-story parking structure will increase total parking on site from approximately 500 spaces to approximately 1,500 spaces. Monarch expects to begin construction of the new hotel tower and casino expansion in the fourth quarter of 2016. Upon completion of the new parking structure, the existing parking structure will be demolished to make space for the hotel tower and casino expansion. Once completed, the Monarch Casino Black Hawk expansion will nearly double the casino space and will add a 23-story hotel tower with approximately 500 guest rooms and suites, an upscale spa and pool facility, three additional restaurants (increasing the total to four), additional bars, a new parking structure and associated support facilities. We currently expect completion of the entire expansion in the third quarter of 2018.

Table of Contents

The Company's Master Planned Expansion of Monarch Casino Black Hawk is more fully discussed in the CAPITAL SPENDING AND DEVELOPMENT section.

**Acquisition, Improvements and Additional Expansion Potential**

We identify and evaluate strategic expansion and acquisition opportunities through market and detailed financial analyses. We develop overall master plans and then execute each phase of the master plan after re-evaluation of the current market conditions and comparison against other capital investment opportunities.

We have continuously invested in upgrading our facilities. Capital expenditures were \$38.1 million in 2015, \$19.9 million in 2014 and \$12.4 million in 2013. During 2015, 2014 and 2013, capital expenditures related primarily to the upgrade and master expansion plan of the Monarch Casino Black Hawk facility as well as acquisition of gaming equipment to upgrade and replace existing equipment at both of our properties.

Expansion potential at the Atlantis is twofold. First, we could further expand our existing hotel and casino, thereby providing more hotel rooms. Second, we could develop the 16-acre parcel we own across Virginia Street from the Atlantis. This site is connected to the Atlantis by the Sky Terrace and is currently used for surface parking and special events related to the Atlantis. Our 16-acre parcel meets all current Reno zoning requirements in the event we decide to build another resort casino or entertainment facility. We also own additional land adjacent to our two large sites that would facilitate expansion opportunities by allowing us to relocate certain of our administrative and other non-operational personnel and offices.

On August 28, 2015, the Company entered into a 20-year lease (the Parking Lot Lease) with Biggest Little Investments, L.P. with respect to a portion of the Shopping Center, adjacent to the Atlantis property. This lease gives the Atlantis the right to use a parcel, approximately 4.2 acres, comprised of commercial building and surrounding land. The primary purpose of the Parking Lot Lease is to provide additional, convenient, Atlantis surface parking. We have demolished the building and are in the process of converting the now vacant land into approximately 300 additional surface parking spaces for the Atlantis. We expect this work to be completed in the second quarter of 2016.

As discussed in the Monarch Casino Black Hawk section above, we own a 1.5 acre land parcel contiguous to the Monarch Casino Black Hawk which is zoned for gaming that we plan to utilize for expansion of that facility.

**Marketing Strategy**

**Reno/Sparks.** Our marketing efforts are directed toward three broad consumer groups: leisure travelers, conventioners and northern Nevada local residents.

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

The Reno/Sparks region is a major gaming and leisure destination with aggregate gaming revenues of approximately \$690 million (as reported by the Nevada State Gaming Control Board for the twelve months ended December 31, 2015).

Table of Contents

Our Atlantis revenues and operating income are principally dependent on the level of gaming activity at the Atlantis casino. Our predominant marketing goal is to utilize all of the Atlantis amenities to generate additional casino play. Our secondary goal is to maximize revenues from our hotel, food and beverage, spa, convention and meeting rooms, retail and other amenities.

We believe the Atlantis location south of downtown Reno (near the airport, near major freeway arteries and physically connected to the Reno-Sparks Convention Center) makes the facility appealing to all three groups.

*Leisure Travelers:* The Reno/Tahoe region is a popular gaming and vacation destination. The principal segments of Reno's leisure traveler market are independent travelers, package tour and travel guests, guests we reach through the internet and high-end players. We attempt to maximize our gaming revenues and hotel occupancy through a balanced marketing approach that addresses each market segment.

Independent travelers make reservations directly with hotels of their choice, through independent travel agents or through the internet. We strive to attract the middle to upper-middle income strata of this consumer segment through advertising and direct marketing. This segment represents a large portion of the Atlantis guests.

The package tour and travel segment consists of visitors who utilize travel packages offered by wholesale operators. We market to this segment through relationships with select wholesalers, primarily to generate guest visits and supplement mid-week occupancy.

We welcome domestic and international reservations on the Atlantis website [www.atlantiscasino.com](http://www.atlantiscasino.com) and we are featured on major package tour and travel websites.

We market to high-end players selectively through direct sales and hosts. We utilize complimentary rooms, food and beverage, special events and the extension of gaming credit to attract, and maintain patronage from, high-end players.

*Conventioners:* Convention business, like package tour and travel business, supplements occupancy during lower-demand periods. Conventioners also typically pay higher average room rates than non-conventioners. We selectively seek convention and meeting groups that we believe will materially enhance the Atlantis occupancy and daily room rates, as well as those we believe will be more likely to utilize our gaming products. As the only hotel-casino physically connected to the Reno-Sparks Convention Center, the Atlantis is, in our view, uniquely positioned to capitalize on this segment. We believe the Reno-Sparks Convention Center has created, and we expect will continue to create, additional guest traffic for the Atlantis within this market segment that is presently underserved in the Reno area.



## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

We market to all guest segments, including conventioneers, on the basis of the location, quality and ambiance of the Atlantis facility, gaming values, friendly, efficient service, and the quality and relative value of Atlantis rooms, food and beverage offerings, entertainment and promotions.

Our players club, Club Paradise, allows our guests to be eligible to receive rewards and privileges based on the amount of their play, while allowing us to track play patterns through a computerized system. We use this information to determine appropriate levels of complimentary awards and to guide our direct marketing efforts. We believe that Club Paradise significantly enhances our ability to build guest loyalty and generate repeat guest visits.

Table of Contents

*Northern Nevada Residents:* We market to northern Nevada residents (referred to as *Locals* ) on the basis of the Atlantis location and accessibility; convenient surface parking; gaming values; ambiance; friendly efficient service; quality and relative value of food and beverage offerings.

***Black Hawk.*** Our marketing efforts are directed toward patrons from the Denver metropolitan area and to Colorado mountain areas. Black Hawk is approximately 40 miles west of Denver.

Our Monarch Casino Black Hawk revenues and operating income are principally dependent on the level of gaming activity in the Black Hawk market. Our predominant marketing goal is to provide a desired mix of high quality gaming products in an attractive setting while providing superior food and beverage offerings. In August 2015 we completed the redesign and upgrade of the existing Monarch Casino Black Hawk, bringing to the facility's interior the same quality, ambiance and finishes of the ongoing master planned expansion that will transform Monarch Casino Black Hawk into a full-scale casino resort and satisfy all of our guests' requirements during their visit.

**Competition**

*Reno/Sparks.* Gaming competition in the Reno area is intense. Based on information obtained from the December 31, 2015 Gaming Revenue Report published by the Nevada State Gaming Control Board, there are approximately 14 casinos in the Reno-Sparks area which each generated more than \$12.0 million in annual gaming revenues.

We believe that the Atlantis' primary competition for leisure travelers comes from other large-scale casinos that offer amenities that appeal to middle to upper-middle income guests. We compete for leisure travelers on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly, efficient service, the quality and relative value of our rooms and food and beverage offerings, entertainment offerings, promotions and gaming values. We believe that our location away from downtown Reno is appealing to first-time and more affluent guests.

We believe that the Atlantis' primary competition for conventioners comes from other large-scale hotel casinos in the Reno area that actively target the convention market segment, and from other cities in the western United States with large convention facilities and substantial hotel capacity, including Las Vegas. We compete for conventioners based on the desirability of our location, the quality and ambiance of the Atlantis facility, meeting and banquet rooms designed to appeal to conventions and groups, friendly, efficient service, and the quality and relative value of our rooms and food and beverage offerings. We believe that the Atlantis' proximity to the Reno-Sparks Convention Center, and the enclosed pedestrian sky bridge that connects the Atlantis directly with the Reno-Sparks Convention Center facilities, affords us a distinct competitive advantage in attracting conventioners.

We believe that the Atlantis' competition for northern Nevada residents comes primarily from other large-scale casinos located outside of downtown Reno that offer amenities that appeal to middle to upper-middle income guests, and secondarily with those casinos located in downtown Reno that offer similar amenities. We compete for northern Nevada residents primarily on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly, efficient service, the quality and relative value of our food and beverage offerings, entertainment offerings, promotions and gaming values. We believe the Atlantis' proximity to residential areas in south Reno and its abundant

surface parking provide us an advantage over the casinos located in downtown Reno in attracting Locals.

The Atlantis also competes for gaming guests with hotel casino operations located in other parts of Nevada, especially Las Vegas and Lake Tahoe, and with hotel casinos, located elsewhere throughout the United States and the world. Major Native American owned facilities in central and northern California have been very successful, adversely impacting many hotel casinos in Reno. We believe that the Atlantis also competes to a lesser extent with state-sponsored lotteries, off-track wagering, card parlors and other forms of legalized gaming, particularly in northern California and the Pacific Northwest. We believe our numerous amenities, such as a wide array of restaurants, banquet facilities, spa and surface parking are key advantages in our ability to attract Locals that competitor facilities cannot easily match without significant capital expenditures.

Table of Contents

We also believe that the legalization of additional land-based casino gaming in or near any major metropolitan area in the Atlantis feeder markets, such as San Francisco or Sacramento, could have a material adverse impact on our business.

The legalization of internet poker and other forms of internet gaming in additional jurisdictions throughout the United States could create further competition for the Atlantis.

*Black Hawk.* There is strong competition in the concentrated Black Hawk/Central City area gaming market including approximately 24 casinos, which generated approximately \$620 million in annual gaming revenues for the twelve months ended December 31, 2015 according to the Colorado Division of Gaming.

The Black Hawk and Central City gaming market is geographically isolated. The only other non-tribal gaming market is Cripple Creek, seventy-five miles away. There are two federally recognized tribes in southwest Colorado, both with gaming facilities, more than 350 miles from Denver. There have been proposals for the development of Native American, racetrack and video lottery terminal casinos throughout the state over the years. None of the proposals has been adopted by the state's electorate or by the legislature. Should any form of additional gaming be authorized in the Denver metropolitan area, the Black Hawk and Central City market would be adversely affected.

We believe that the Monarch Casino Black Hawk's primary competition for visitors comes from larger-scale casinos in the market which offer amenities that appeal to the guest's entire vacation experience including hotel, broader dining choices as well as other amenities. We compete for patrons on the basis of the desirability of our location, which is the first casino encountered when entering the area on the main thoroughfare, as well as the attractive setting, friendly, efficient service, quality and relative value of our food and beverage offerings, promotions and gaming values.

**Financial Information about Segments and Geographic Areas**

For additional information regarding revenues, operating profit or loss and total assets, see Item 8, FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

**Regulation and Licensing**

*Nevada.* The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and the regulations promulgated thereunder, referred to as 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, and the Reno City Council, referred to collectively as the Nevada Gaming Authorities.



Table of Contents

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that 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 revenues, 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 revenues through taxation and licensing fees.

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

Golden Road, our subsidiary which operates the Atlantis, is required to be licensed by the Nevada Gaming Authorities. This gaming license requires the periodic payment of fees and taxes and is not transferable. We are registered by the Nevada Gaming Commission as a publicly traded corporation, or Registered Corporation. As such, we are required periodically to submit detailed financial and operating reports to the Nevada Gaming Commission and to furnish any other information that the Nevada Gaming Commission may require. No person may become a stockholder of, or receive any percentage of profits from Golden Road without first obtaining licenses and approvals from the Nevada Gaming Authorities. Golden Road and Monarch have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with Golden Road or Monarch in order to determine whether that individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and key employees of Golden Road must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in gaming activities of Golden Road may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensure on suitability for any cause that 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. Applicants for licensing or a finding of suitability must pay all costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities. In addition to their authority to deny an application for a finding of unsuitability or licensure requirements, the Nevada Gaming Authorities also have jurisdiction to disapprove a change in a corporate position.

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

We are required to submit detailed financial and operating reports to the Nevada Gaming Authorities. Substantially all material loans, leases, sales of securities and similar financing transactions by us must be reported to, or approved by, the Nevada Gaming Authorities.

Table of Contents

If it were determined that we violated the Nevada Act, 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, we and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act 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. The 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 gaming operations.

Any beneficial holder of our 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 our voting securities determined if the Nevada Gaming Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires more than 5% of Monarch's voting securities to report the acquisition to the Nevada Gaming Commission. The Nevada Act requires that beneficial owners of more than 10% of our voting securities apply to the Nevada Gaming Commission for a finding of suitability within 30 days after the Chairman of the Nevada Gaming Control Board mails the written notice requiring such filing. Under certain circumstances, an institutional investor, as defined in the Nevada Act, which acquires more than 10%, but not more than 25%, of our voting securities may apply to the Nevada Gaming Commission for a waiver of such finding of suitability if the institutional investor holds the voting securities for investment purposes only. If the acquisition is above 20% of the voting securities, the institutional investor may also apply for a waiver of the requirement for an approval of a change of control. An institutional investor is not deemed to hold voting securities for investment purposes unless the 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, any change in our corporate charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action that the Nevada Gaming Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- 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
- such other activities as the Nevada Gaming Commission may determine to be consistent with such investment intent.

If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.



Table of Contents

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 the Chairman of the Nevada State Gaming Control Board 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 such period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us, we:

- pay that person any dividend or interest upon voting securities;
- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities for cash at fair market value.

The Nevada Gaming Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Gaming Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, 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;
- recognizes any voting right by such unsuitable person in connection with such 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.

We are required to maintain a current stock ledger in Nevada, and the Nevada Gaming Authorities may examine the ledger at any time. If any securities are held in trust by an agent or a nominee, the record holder may be required to disclose the identity of the beneficial owner 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 may require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act.

We may not make a public offering of our securities without the prior approval of the Nevada Gaming Commission if the securities or proceeds therefrom are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for purposes of constructing, acquiring or financing gaming facilities. Any approval, if granted, does not constitute a finding, recommendation or

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

approval by the Nevada Gaming Authorities 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 our control 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 of a Registered Corporation must satisfy the Nevada Gaming Authorities in a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Gaming Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed or found suitable as part of the approval process relating to the transaction.

Table of Contents

The Nevada Legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Gaming Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;
- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

We are, in certain circumstances, required to receive approval from the Nevada Gaming Commission before we can make exceptional repurchases of voting securities above their current market price and before we can consummate a corporate acquisition opposed by management. The Nevada Act also requires prior approval of a plan of recapitalization proposed by the board of directors in response to a tender offer made directly to a Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

Licensee 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 respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly or annually and are based upon either:

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

A live entertainment tax is also paid where entertainment is furnished in connection with the selling of food or refreshments. Nevada licensees that hold a license as an operator of a slot route, a manufacturer or a distributor also pay certain fees and taxes to the State of Nevada.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons, referred to as Licensees, and who is or 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 expenses of investigation by the Nevada State Gaming Control Board of their participation in foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Gaming Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Gaming Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the 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 that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

*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 within the Colorado Department of Revenue to license, supervise and enforce the conduct of limited stakes gaming in Colorado.

Table of Contents

The Colorado Act declares public policy on limited stakes gaming to be that: (1) 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; (2) 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; (3) 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 (4) 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. Having the authority to impose fines, the Colorado Commission 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, retail gaming, support and key employee gaming licenses. With limited exceptions applicable to licensees that are publicly traded entities, no person may sell, lease, purchase, convey or acquire any interest in a retail gaming or operator license or business without the prior approval of the Colorado Commission. 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 on October 7, 1981, by Black Hawk on May 4, 1978, and by Cripple Creek on December 3, 1973. In addition, the Colorado Amendment restricts limited stakes gaming to structures that conform to the architectural styles and designs that 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 Constitution provides for a tax on the total amount wagered less all payouts to players at graduated annual rates. 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 that are retained by the licensee as compensation, which must be consistent with the minimum and maximum amounts established by the Colorado Commission. The graduated rates effective as of July 1, 2012 are:

- 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.

Table of Contents

The City of Black Hawk also assesses two monthly device fees that are based on the number of gaming devices operated. Those consist of a \$78.75 fee per device and a transportation device 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 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 that 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 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 and submit all requested information. Such persons 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.

## Table of Contents

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 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.

The sale of alcoholic beverages in gaming establishments is subject to strict licensing, control and regulation by State and local authorities. 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.

There are various classes of retail liquor licenses which may be issued under the Colorado Liquor Code. A gaming 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. Monarch Casino Black Hawk has been approved for a restaurant liquor license by both the local Black Hawk licensing authority and the State Division of Liquor Enforcement.

## **Compliance with Environmental Laws**

Requirements to comply with environmental laws may have an impact on capital expenditures, earnings, and our competitive position. See Item 1A, RISK FACTORS.

## **Employees**



As of February 9, 2016, we had approximately 2,100 employees. None of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good.

Table of Contents

**ITEM 1A. RISK FACTORS**

Our business prospects are subject to various risks and uncertainties that impact our business. You should carefully consider the following discussion of risks, and the other information provided in this annual report on Form 10-K. The risks described below are not the only ones facing us; however, they do represent all material risks currently known to us. Additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

**THE RECENT RECESSION MAY CONTINUE TO IMPACT OUR BUSINESS**

The recent global and U.S. recession has had and may continue to have an adverse impact on our business. The U.S. economy continues to experience some weakness following a severe recession, which resulted in increased unemployment, decreased consumer spending and a decline in housing values. While the U.S. economy has slowly emerged from the recession, high levels of unemployment have continued to persist. In addition, while the Federal Reserve took policy actions to promote market liquidity and encourage economic growth following the recession, such actions are now being curtailed as signs of improvement in the economy have emerged, and the impact of these monetary policy actions on the recovery is uncertain. If the economic recovery slows or stalls, or if the economy experiences another recession, we may experience a material adverse effect on our business, results of operations and financial condition. Declines in real estate values in Reno, Denver and the U.S. or elsewhere and continuing credit and liquidity concerns could have an adverse effect on our results of operations.

**OUR BUSINESS MAY BE ADVERSELY IMPACTED IF THE RENO OR DENVER METROPOLITAN ECONOMIES DECLINE OR STAGNATE**

We market to and rely upon business from the Reno and Denver metropolitan areas. Adverse changes in the business and employment conditions in Reno and Denver may adversely impact our business. There can be no guarantee that economic conditions will continue to improve or will not stagnate or worsen in our feeder markets, including Reno and Denver. Erosion in business and employment conditions in the Reno or Denver metropolitan areas could adversely impact our business.

**OUR BUSINESS MAY BE ADVERSELY IMPACTED BY WEAKENED ECONOMIC CONDITIONS IN CALIFORNIA AND THE PACIFIC NORTHWEST**

Because California and the Pacific Northwest are also significant markets for our leisure traveler and conventioner guests, our business may be adversely impacted in the event of weakened economic conditions in those geographical markets.

**OUR BUSINESS IS PARTICULARLY SENSITIVE TO WEAK DISCRETIONARY CONSUMER SPENDING**

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

Consumer demand for entertainment and other amenities at hotel-casino properties and casino properties, such as ours, are particularly sensitive to a weak economy and the corresponding impact on discretionary spending on leisure activities. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of the recession and economic slowdown, including the housing crisis and credit crisis, the impact of high energy and food costs, the increased cost of travel, the potential for continued bank failures, perceived or actual disposable consumer income and wealth, or fears of war and future acts of terrorism could further reduce customer demand for the amenities that we offer, thus imposing practical limits on pricing and negatively impacting our results of operations and financial condition.

Table of Contents

**CERTAIN OF OUR STOCKHOLDERS OWN LARGE INTERESTS IN OUR CAPITAL STOCK AND MAY SIGNIFICANTLY INFLUENCE OUR AFFAIRS**

John Farahi and Bob Farahi, officers and directors of the Company, together with their brother Ben Farahi, beneficially own approximately 36% of the Company's outstanding shares of common stock. As such, members of the Farahi family, if voting together, have the ability to significantly influence our affairs, including the election of members of the board of directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation, or sale of assets.

**TO SERVICE OUR INDEBTEDNESS, WE WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH. OUR ABILITY TO GENERATE CASH DEPENDS ON MANY FACTORS BEYOND OUR CONTROL**

Our ability to make payments on and to refinance our indebtedness and to fund future capital expenditures and expansion efforts will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. It is possible that our business will generate insufficient cash flows from operations, or that future borrowings will not be available to us under our Credit Facility (defined below), in amounts sufficient to enable us to pay our indebtedness as it matures and to fund our other liquidity needs. We believe that we will need to refinance all or a portion of our indebtedness at maturity, and cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. We may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be affected on satisfactory terms, if at all.

**LIMITATIONS OR RESTRICTIONS ON OUR CREDIT FACILITY COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR LIQUIDITY**

Any renegotiation or refinancing of our Credit Facility would likely result in the amendment of material provisions of the Credit Facility, such as the interest rate charged and other material covenants. Our Credit Facility is an important component of our liquidity. Any material restriction on our ability to use our Credit Facility or the failure to obtain a new credit facility upon either the maturity of the Credit Facility or the depletion of funds remaining under the Credit Facility could adversely impact our operations and future growth options.

**INTENSE COMPETITION EXISTS IN THE GAMING INDUSTRY, AND WE EXPECT COMPETITION TO CONTINUE TO INTENSIFY**

The gaming industry is highly competitive for both customers and employees, including those at the management level. We compete with numerous casinos and hotel-casinos of varying quality and size in our markets. We also compete with other non-gaming resorts and vacation destinations, and with various other casino and other entertainment businesses, and could compete with any new forms of gaming, including internet gaming, that has been or may be legalized in the future. The casino entertainment business is characterized by competitors that vary considerably in their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. We compete directly with other casino facilities operating in the immediate and surrounding market areas in which we operate. In some markets, we face competition from nearby markets in addition to direct

competition within our market areas.

Table of Contents

As competitive pressures increase, other casinos in our markets may intensify their marketing efforts. Increased competitive pressures in the local markets could adversely impact our ability to continue to attract local residents to the Atlantis and the Monarch Casino Black Hawk or require us to use more expensive, and therefore, less profitable promotions to compete more efficiently. Competitive pressures from internet gaming could also affect our future operations.

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. We have invested in expanding the Atlantis, and are in the process of renovating and expanding the Monarch Casino Black Hawk. Our competitors have also invested in expanding their existing facilities and developing new facilities. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors have increased competition in our markets, and this intense competition can be expected to continue. In addition, competition may intensify if our competitors commit additional resources to aggressive pricing and promotional activities in order to attract customers.

If our competitors operate more successfully than we do, if they attract customers away from us as a result of aggressive pricing and promotion, if they are more successful than us in attracting and retaining employees, if their properties are enhanced or expanded, if they operate in jurisdictions that give them operating advantages due to differences or changes in gaming regulations or taxes, or if additional hotels and casinos are established in and around our markets, we may lose market share or the ability to attract or retain employees. 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 significant adverse effect on our business, financial condition and results of operations.

We also believe that the legalization of additional casino gaming in or near any major metropolitan area in the Atlantis or Monarch Casino Black Hawk's key marketing areas could have a material adverse impact on our business.

In addition, Native American gaming facilities in some instances operate under regulatory requirements less stringent than those imposed on our properties, which could provide them a competitive advantage in our markets. Moreover, there is a possibility of competition from internet and other account wagering gaming services, which would allow their guests to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, and this could have a material adverse effect on our business, financial condition, operating results and prospects. The legalization of internet poker and other forms of internet gaming could create further competition for our operations.

**OUR BUSINESS MAY BE ADVERSELY IMPACTED IF WE ARE UNABLE TO ADEQUATELY STAFF OUR OPERATIONS**

From time to time, the competition for employees increases. During such times, new and growing business in the area may create job opportunities that at times have exceeded the area's supply of qualified employees. If we are unable to attract and retain qualified employees, or if competition for employees results in materially increased wages, our ability to maintain and grow our business could be adversely impacted.

**OUR BUSINESS MAY BE ADVERSELY IMPACTED BY DOMESTIC AND INTERNATIONAL EVENTS**

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

The terrorist attacks that took place in the United States on September 11, 2001, were unprecedented events that created economic and business uncertainties, especially for the travel and tourism industry. The potential for future terrorist attacks, the national and international responses, and other acts of war or hostility have created economic and political uncertainties that could materially adversely affect our business, results of operations and financial condition in ways we cannot predict.

Table of Contents

**AN OUTBREAK OF HIGHLY INFECTIOUS DISEASE COULD ADVERSELY AFFECT THE NUMBER OF VISITORS TO OUR FACILITIES AND DISRUPT OUR OPERATIONS, RESULTING IN A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS**

There have been recent fears concerning the spread of certain influenza or other diseases, as well as outbreaks on cruise ships. Potential future outbreaks of highly infectious diseases may adversely affect the number of visitors to our property and our business and prospects. Furthermore, a major outbreak might disrupt our ability to adequately staff our business and could generally disrupt our operations. If any of our guests or employees is suspected of having contracted certain highly contagious diseases, we may be required to quarantine these customers or employees or the affected areas of our facilities and temporarily suspend part or all of our operations at affected facilities. Any new outbreak of such a highly infectious disease could have a material adverse effect on our financial condition, results of operations and cash flows.

**FAILURE OF THE RENO-SPARKS CONVENTION CENTER TO BOOK AND ATTRACT CONVENTION BUSINESS COULD ADVERSELY IMPACT OUR BUSINESS AT THE ATLANTIS**

The Atlantis is the closest hotel-casino to the Reno-Sparks Convention Center. If the Reno-Sparks Convention Center does not succeed in booking the anticipated level of conventions, our future results of operations could be adversely impacted.

**OUR BUSINESS IS SUBJECT TO RESTRICTIONS AND LIMITATIONS IMPOSED BY GAMING REGULATORY AUTHORITIES THAT COULD ADVERSELY AFFECT US**

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The State of Nevada, the State of Colorado and the applicable local authorities require various licenses, registrations, permits and approvals to be held by us and our subsidiaries. The Nevada Gaming Commission and the Colorado Commission may, among other things, limit, condition, suspend, revoke or decline to renew a license or approval to own the stock of our subsidiaries for any cause deemed reasonable by such licensing authority. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiaries and the persons involved, and we could be forced to forfeit a portion of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets would have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our current gaming activities. However, gaming licenses and related approvals are deemed to be privileges under Nevada and Colorado law. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended.



Table of Contents

**OUR INSURANCE COVERAGE MAY NOT BE ADEQUATE TO COVER ALL POSSIBLE LOSSES THAT OUR PROPERTIES COULD SUFFER. IN ADDITION, OUR INSURANCE COSTS MAY INCREASE AND WE MAY NOT BE ABLE TO OBTAIN THE SAME INSURANCE COVERAGE IN THE FUTURE**

Although we have general property insurance covering damage caused by a casualty loss (such as fire and natural disasters), each such policy has certain exclusions. In addition, our property insurance is in an amount that may be less than the expected replacement cost of rebuilding the applicable complex if there was a total loss. Our level of insurance coverage may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, insect or animal damage and pollution, might not be covered at all under our policies. Therefore, certain acts could expose us to heavy, uninsured losses.

In addition, although we currently have insurance coverage for occurrences of terrorist acts and for certain losses that could result from these acts, our terrorism coverage is subject to the same risks and deficiencies as those described above for our general property coverage. The lack of sufficient insurance for these types of acts could expose us to heavy losses in the event that any damages occur, directly or indirectly, as a result of terrorist attacks or otherwise, which could have a significant negative impact on our operations.

In addition to the damage caused to our property by a casualty loss (such as fire, natural disasters, acts of war or terrorism), we may suffer business disruption as a result of these events or be subject to claims by third parties injured or harmed. While we carry business interruption insurance and general liability insurance, this insurance may not be adequate to cover all losses in such event.

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, it is possible that homeland security concerns, other catastrophic events or any change in government legislation governing insurance coverage for acts of terrorism could materially adversely affect available insurance coverage and result in increased premiums on available coverage (which may cause us to elect to reduce our policy limits) and additional exclusions from coverage. Among other potential future adverse changes, in the future we may elect not to, or may not be able to, obtain any coverage for losses due to acts of terrorism.

Our debt instruments and other material agreements require us to maintain a certain minimum level of insurance. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements, which would have a material adverse effect on our financial condition, results of operations or cash flows.

**IF GAMING TAXES AND FEES ARE INCREASED, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED**

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes or other fees. If the state and/or local governments where our properties are located were to increase gaming taxes and fees, our results of operations could be adversely affected.

**IF WE LOSE OUR KEY PERSONNEL, OUR BUSINESS COULD BE MATERIALLY ADVERSELY AFFECTED**

We depend on the continued performances of John Farahi and Bob Farahi, our Chief Executive Officer and our President, respectively, and their management team. If we lose the services of the Farahi brothers, or other senior Atlantis management personnel, and cannot replace such persons in a timely manner, our business could be materially adversely affected.

Table of Contents

**CLAIMS HAVE BEEN BROUGHT AGAINST US AND OUR SUBSIDIARIES IN VARIOUS LEGAL PROCEEDINGS, AND ADDITIONAL LEGAL AND TAX CLAIMS ARISE FROM TIME TO TIME**

It is possible that our cash flows and results of operations could be affected by the resolution of legal and other claims. We believe that the ultimate disposition of current matters will not have a material impact on our financial condition or results of operations. Please see the further discussion under "Legal Proceedings" in Item 3 of this Form 10-K.

**WE OWN FACILITIES THAT ARE LOCATED IN AREAS THAT EXPERIENCE EXTREME WEATHER CONDITIONS**

Extreme weather conditions may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas. Snowstorms, other adverse weather conditions or forest or range fires may interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas. If there is a prolonged disruption at either our Atlantis or Monarch Casino Black Hawk properties due to extreme weather conditions, natural disasters, catastrophic events or other acts of God, our results of operations and financial condition could be materially adversely affected.

While we maintain insurance coverage that may cover certain of the costs and loss of revenue that we incur as a result of some extreme weather conditions, our coverage is subject to deductibles and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions. If any of our properties are damaged or if their operations are disrupted as a result of extreme weather in the future, or if extreme weather adversely impacts general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, our business, financial condition and results of operations could be materially adversely affected.

**WE ARE SUBJECT TO ENVIRONMENTAL LAWS AND POTENTIAL EXPOSURE TO ENVIRONMENTAL LIABILITIES**

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and nonhazardous substances and wastes. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. As we acquire properties, we may not know the full level of exposure that we may have undertaken despite appropriate due diligence.

We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to use, sell or rent property. The Monarch Casino Black Hawk is located within an area of historic mining activity and near superfund sites that have been the subject of state and federal clean-up actions. Although the Monarch Casino Black Hawk is not part of a superfund site, the fact that such sites are in the vicinity and that mining activities occurred throughout the area, it is possible that as a result of our ownership and operation of Monarch Casino Black Hawk (on which mining may have occurred in the past), we may incur costs related to this matter in the future. Furthermore, there may have been soil or groundwater contamination at certain of our properties resulting from current or former operations. None of these matters or other matters arising under environmental laws has had a

material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

Table of Contents

**ENERGY PRICE INCREASES MAY ADVERSELY AFFECT OUR COST OF OPERATIONS AND OUR REVENUES**

Our facilities use significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy or fuel have been experienced to date, increases in energy and fuel prices in the United States may negatively affect our operating results. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material. In addition, energy and gasoline price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation and spending at our properties, which would negatively impact revenues.

**CHANGES IN REGULATIONS ON LAND USE REQUIREMENTS COULD ADVERSELY IMPACT OUR BUSINESS**

A change in regulations on land use requirements with regard to development of new hotel casinos in the proximity of the Atlantis and the Monarch Casino Black Hawk could have an adverse impact on our business, results of operations, and financial condition. A relaxation in such regulations could make it easier for competitors to enter our immediate market. A tightening of such regulations could adversely impact our future expansion opportunities.

**OUR RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED BY HIGH-END PLAYERS' WINNINGS**

Although not the major focus of our marketing efforts, we have selectively targeted high-end players. Should one or more of these high-end players win large sums in our casino, or should a material amount of credit extended to such players not be repaid, our results of operations could be adversely impacted.

**OUR COMMON STOCK PRICE MAY FLUCTUATE SUBSTANTIALLY, AND A STOCKHOLDER'S INVESTMENT COULD DECLINE IN VALUE**

The market price of our common stock may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;

- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

Table of Contents

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to companies' operating performance. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, stockholder derivative lawsuits and/or securities class action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

**WE HAVE THE ABILITY TO ISSUE ADDITIONAL EQUITY SECURITIES, WHICH WOULD LEAD TO DILUTION OF OUR ISSUED AND OUTSTANDING COMMON STOCK**

The issuance of additional equity securities or securities convertible into equity securities would result in dilution of our existing stockholders' equity interests in us. Our board of directors has the authority to issue, without vote or action of stockholders, preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. If we issue convertible preferred stock, a subsequent conversion may dilute the current common stockholders' interest.

**WE DO NOT INTEND TO PAY CASH DIVIDENDS. AS A RESULT, STOCKHOLDERS WILL BENEFIT FROM AN INVESTMENT IN OUR COMMON STOCK ONLY IF IT APPRECIATES IN VALUE**

We have never paid a cash dividend on our common stock, and we do not plan to pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain any future earnings to finance our operations and further expansion and growth of our business, including acquisitions. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. We cannot guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

**WE FACE RISKS ASSOCIATED WITH GROWTH**

In April 2012, we acquired Monarch Casino Black Hawk. The expansion of our operations, whether through acquisitions, development or internal growth, could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees. There can be no assurance that we will be able to develop or profitably manage our additional operations or successfully integrate such operations into our existing operations without substantial costs, delays or other problems. Additionally, there can be no assurance that we will receive necessary licenses or approvals for expansion and development projects currently being contemplated.

Management of new properties, especially in new geographic areas, may require that we increase our management resources. Our ability to achieve our objectives in connection with our acquisition may be highly dependent on, among other things, our ability to retain or train capable executives. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions. We also cannot assure you that the acquired business will generate returns consistent with our expectations.

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



Table of Contents

**OUR EXPANSION AND RENOVATION PROJECTS MAY FACE SIGNIFICANT RISKS INHERENT IN CONSTRUCTION PROJECTS**

We expect to commence additional expansion and renovation projects at the Monarch Casino Black Hawk in the future.

Such projects and any other development projects we may undertake will be subject to the 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. Our current and future projects could also experience:

- delays and significant cost increases;
- shortages of materials;
- shortages of skilled labor or work stoppages;
- poor performance or nonperformance by any third parties on whom we place reliance;
- unforeseen construction scheduling, engineering, environmental, permitting, construction or geological problems; and
- weather interference, floods, fires or other casualty losses.

The completion dates of any of our projects could differ significantly from expectations for construction-related or other reasons.

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 will be 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.

The cost of any project may vary significantly from initial budget expectations and we may have a limited amount of capital resources to fund cost overruns. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. 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.

**OUR EXPANSION AND RENOVATION PROJECTS MAY FACE SIGNIFICANT RISKS INHERENT IN CONSTRUCTION PROJECTS OR IMPLEMENTING A NEW MARKETING STRATEGY, INCLUDING RECEIPT OF NECESSARY GOVERNMENT APPROVALS**

Certain permits, licenses and approvals necessary for some of our anticipated projects have not yet been obtained. The scope of the approvals required for expansion or renovation projects can be extensive and may include gaming approvals, state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. We may not obtain the necessary permits, licenses and approvals within the anticipated time frames, or at all.

In addition, although we will 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 conditions and results of operations.

Table of Contents

**IF WE ARE UNABLE TO FINANCE OUR EXPANSION AND RENOVATION PROJECTS, AS WELL AS OTHER CAPITAL EXPENDITURES, THROUGH CASH FLOW FROM OPERATIONS, BORROWINGS UNDER OUR CREDIT FACILITY AND ADDITIONAL FINANCINGS, OUR EXPANSION AND RENOVATION EFFORTS WILL BE JEOPARDIZED**

We intend to finance our future expansion and renovation projects, as well as our other capital expenditures, primarily with cash flow from operations, borrowings under our Credit Facility, and additional debt financings. If we are unable to finance our future expansion and renovation projects, or our other capital expenditures, we will have to adopt one or more alternatives, such as reducing, delaying or abandoning planned expansion and renovation projects as well as other capital expenditures, selling assets, restructuring debt, considering obtaining equity financing or joint venture partners, or modifying our Credit Facility. These sources of funds may not be sufficient to finance our expansion, development, investment and renovation projects, and other financing may not be available on acceptable terms, in a timely manner, or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness.

In the past few years there have been significant disruptions in the global capital markets that have adversely impacted the ability of borrowers to access capital. We anticipate that these disruptions may continue for the foreseeable future. We anticipate that funding for any of our expansion projects would come from cash flows from operations and availability under our Credit Facility (to the extent that availability exists under our Credit Facility, as applicable, after we meet our working capital needs).

If availability under our Credit Facility does not exist or we are otherwise unable to make sufficient borrowings thereunder, any additional financing that is needed may not be available to us or, if available, may not be on terms favorable to us. As a result, if we are unable to obtain adequate project financing in a timely manner, or at all, we may be forced to sell assets in order to raise capital for projects, limit the scope of, or defer such projects, or cancel the projects altogether. In the event that capital markets do not improve and we are unable to access capital with more favorable terms, additional equity and/or credit support may be necessary to obtain construction financing for the remaining cost of the project.

**OUR ABILITY TO OPERATE INTRASTATE INTERACTIVE POKER IN NEVADA IS SUBJECT TO A NUMBER OF FACTORS**

Monarch's wholly owned subsidiary Monarch Interactive received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company decided to allow the approval to lapse pending a change in market conditions that would support the Company's investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

Even with the approval that was allowed to lapse, our ability to offer interactive poker in the State of Nevada is subject to a number of preconditions, including payment of a \$500,000 license fee.

**WE FACE INFORMATION TECHNOLOGY RISKS, INCLUDING CYBER AND PHYSICAL SECURITY BREACHES**

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

We rely on information technology and other systems to maintain and transmit customer financial information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. The systems and processes we have implemented to protect customers, employees and company information are subject to the ever-changing risk of compromised security. These risks include cyber and physical security breaches, system failure, computer viruses, and negligent or intentional misuse by customers, company employees, or employees of third party vendors. The steps we take to deter and mitigate these risks may not be successful and our insurance coverage for protecting against cybersecurity risks may not be sufficient. Any disruption, compromise or loss of data or systems that results from a cybersecurity attack or breach could materially adversely impact operations or regulatory compliance and could result in remedial expenses, fines, litigation, and loss of reputation, potentially impacting our financial results.

Table of Contents

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

There were no unresolved comments from the SEC staff at the time of filing this Form 10-K.

**ITEM 2. PROPERTIES**

Our properties consist of:

*Reno, Nevada Properties:*

- (a) An approximately 13-acre site on which the Atlantis is situated, including the hotel towers, casino, restaurant facilities and surrounding parking.
  
- (b) An approximately 16-acre site, adjacent to the Atlantis and connected to the Atlantis by the Sky Terrace, which includes approximately 11 acres of paved parking used for customer, employee and valet parking. The remainder of the site is undeveloped. This site is compliant with all casino zoning requirements and is suitable and available for future expansion of the Atlantis facilities, parking, or complementary resort casino and/or entertainment amenities. We have not determined the ultimate use of this site.
  
- (c) An approximately 2.6-acre site across Virginia Street from the Atlantis which is utilized as administrative offices ( the Administrative Site ) for Atlantis staff.
  
- (d) Leased land consisting of approximately 37,400 square-feet adjacent to the Atlantis serving as a driveway entrance to the Atlantis. The lease term ends in 2019. For a further description of the lease terms, see Item 8, FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA, Notes to Consolidated Financial Statements, Note 5 .
  
- (e) Leased land consisting of approximately 4.2 acres adjacent to the Atlantis in the process of being converted to a surface parking lot for the Atlantis with completion expected in the second quarter of 2016. The lease term ends in 2035. For a further description of the lease terms, see Item 8, FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA, Notes to Consolidated Financial Statements, Note 5 .
  
- (f) An approximate 2.3-acre site adjacent to the Administrative Site which is currently unused.

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

(g) An approximate 5.3-acre site with a 14,376 square foot building across Coliseum Way from the Atlantis which is currently unused.

*Black Hawk, Colorado Properties:*

(a) An approximate 1.6 acre site on which the Monarch Casino Black Hawk is situated including the casino and parking structure.

(b) An approximate 1.8-acre site in contiguous to the Monarch Casino Black Hawk. A new parking structure is currently under construction on this land site.

Our Credit Facility is secured by liens on substantially all of our real and personal property.

Table of Contents

**ITEM 3. LEGAL PROCEEDINGS**

We are party to claims that arise in the normal course of business. Management believes that the outcomes of such claims will not have a material adverse impact on our financial condition, cash flows 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 common stock trades on The NASDAQ Stock Market under the symbol MCRI. The following table sets forth the high and low sales prices of our common stock, as reported by the NASDAQ Stock Market, during the periods indicated.

	2015		2014	
	High	Low	High	Low
First quarter	\$ 19.63	\$ 15.59	\$ 20.39	\$ 17.20
Second quarter	\$ 22.30	\$ 17.77	\$ 19.72	\$ 14.38
Third quarter	\$ 21.19	\$ 16.45	\$ 16.23	\$ 11.90
Fourth quarter	\$ 23.54	\$ 17.21	\$ 17.73	\$ 11.22

Stockholders. As of March 5, 2016, there were approximately 70 holders of record of our common stock, and approximately 2,000 beneficial stockholders.

Dividends. We have never paid dividends. We intend to retain earnings and use free cash flow to finance our operating activities, for capital expenditures and to pay down our debt. We do not anticipate declaring cash dividends in the foreseeable future. Our bank loan agreement also contains provisions that require the achievement of certain financial ratios before we can pay or declare dividends to our stockholders. See Item 8, FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA, Notes to Consolidated Financial Statements, Note 6.

Securities Authorized for Issuance under Equity Compensation Plans. For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12, SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

There have been no unregistered sales of equity securities in 2015.



Table of Contents**STOCK PERFORMANCE GRAPH**

The following chart reflects the cumulative total return (change in stock price plus reinvested dividends) of a \$100 investment in the Company's Common Stock from the five-year period from December 31, 2010 through December 31, 2015, in comparison to the Standard & Poor's 500 Composite Stock Index and an industry peer group index. The comparisons are not intended to forecast or be indicative of possible future performance of the Company's Common Stock.

Index	Period Ending					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Monarch Casino & Resort, Inc.	100.00	81.52	87.28	160.64	132.72	181.76
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75
MCRI Peer Group 2015 Index*	100.00	94.29	108.59	190.50	151.01	122.20

\*MCRI Peer Group 2015 comprised of: Boyd Gaming Corp (BYD); Isle of Capri Casinos, Inc. (ISLE); Las Vegas Sands Corp. (LVS);

MGM Resorts International (MGM); Nevada Gold & Casinos, Inc. (UWN); Penn National Gaming, Inc. (PENN);



Table of Contents

**Repurchases**

On October 22, 2014, the board of directors authorized a stock repurchase plan (the "Repurchase Plan"). Under the Repurchase Plan, the board of directors authorized a program to repurchase up to 3,000,000 shares of the Company's common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements and other factors. The Repurchase Plan does not obligate the Company to acquire any particular amount of common stock and the Repurchase Plan may be suspended at any time at our discretion, and it will continue until exhausted. The actual timing, number and value of shares repurchased under the Repurchase Program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's stock, general market economic conditions and applicable legal requirements. The Company has made no purchases under the Repurchase Plan.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

	Years ended December 31,					
	(Amounts in thousands, except per share amounts)					
	2015	2014	2013	2012	2011	
<b><u>OPERATING RESULTS</u></b>						
Casino revenues	\$ 156,843	\$ 145,134	\$ 149,916	\$ 128,831	\$ 92,420	
Other revenues	90,327	84,441	82,001	75,160	71,242	
Gross revenues	247,170	229,575	231,917	203,991	163,662	
Promotional allowances	(44,925)	(41,808)	(43,168)	(40,689)	(29,133)	
Net revenues	202,245	187,767	188,749	163,302	134,529	
Income from operations	32,555	22,219(F1)	30,455(F2)	15,983(F3)	9,770(F4)	
Income before income tax	31,876	21,115	28,595	13,959	8,856	
Net income	\$ 20,540	\$ 14,185	\$ 17,961	\$ 8,911	\$ 5,676	
<b><u>INCOME PER SHARE OF COMMON STOCK</u></b>						
Net income per common share						
Basic	\$ 1.21	\$ 0.85	\$ 1.10	\$ 0.55	\$ 0.35	
Diluted	\$ 1.19	\$ 0.83	\$ 1.06	\$ 0.55	\$ 0.35	
Weighted average number of common shares and potential common shares outstanding						
Basic	16,948	16,734	16,302	16,140	16,138	
Diluted	17,335	17,107	16,944	16,250	16,231	
<b><u>OTHER DATA</u></b>						
Depreciation and amortization	\$ 15,933	\$ 17,824	\$ 16,638	\$ 16,651	\$ 13,380	
Other expense	\$ (679)	\$ (1,104)	\$ (1,860)	\$ (2,024)	\$ (914)	
Capital expenditures (F5)	\$ 38,059	\$ 21,719	\$ 12,400	\$ 10,329	\$ 17,392	
<b><u>BALANCE SHEET DATA</u></b>						
Total assets	\$ 274,723	\$ 252,301	\$ 244,523	\$ 248,120	\$ 179,600	
Long-term debt, less current maturities	\$	\$ 46,300	\$ 53,800	\$ 81,100	\$ 24,680	
Stockholders' equity (F6)	\$ 203,796	\$ 176,951	\$ 163,880	\$ 140,848	\$ 130,516	

Footnotes to Selected Financial Data:

(F1) 2014 includes \$1.9 million of expense related to the campaign against the proposed 2014 ballot initiative to expand gaming in Colorado.

(F2) 2013 includes \$0.6 million benefit from the reversal of sales tax expense accrual as a result of the State of Nevada Department of Taxation ruling on complimentary and employee meals.

(F3) 2012 includes \$2.2 million of non-recurring acquisition expense directly related to our acquisition of the Monarch Casino Black Hawk in April 2012.

(F4) 2011 includes a \$3.5 million one-time, non-cash charge related to the demolition of a free standing building on a parcel near the Atlantis and \$1.0 million of non-recurring acquisition expense related to our acquisition of the Monarch Casino Black Hawk in April 2012.

(F5) Includes amounts financed with debt or capitalized lease obligations.

(F6) We paid no dividends during the five year period ended December 31, 2015.

Table of Contents

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

The following discussion is intended to assist in the understanding of our results of operations and our present financial condition. The consolidated financial statements and the accompanying notes contain additional detailed information that should be referred to when reviewing this material. Statements in this discussion may be forward-looking. Such forward-looking statements involve risks and uncertainties that could cause actual results to differ significantly from those expressed. See FORWARD LOOKING STATEMENTS section preceding Item 1, Business.

**OVERVIEW OF OUR BUSINESS**

Monarch Casino & Resort, Inc., was incorporated in 1993 and through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis ). Monarch's wholly owned subsidiaries, High Desert Sunshine, Inc. ( High Desert ), Golden East, Inc. ( Golden East ) and Golden North, Inc. ( Golden North ), each own separate parcels of land located proximate to the Atlantis.

Monarch's wholly owned subsidiary Monarch Growth Inc. ( Monarch Growth ), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino on April 26, 2012. Riviera Black Hawk, Inc. was renamed Monarch Casino Black Hawk, Inc. and Riviera Black Hawk Casino was renamed Monarch Casino Black Hawk in October 2013. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Monarch Casino Black Hawk. In addition to owning the Monarch Casino Black Hawk, Monarch Black Hawk, Inc. also wholly owns Chicago Dogs Eatery, Inc. and Monarch Promotional Association both of which were formed related to extended licensure for extended hours of liquor operation in Black Hawk. The Company has included the results of Monarch Black Hawk, Inc. in its consolidated financial statements since the date of acquisition.

Monarch's wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company has decided to allow the current approval to lapse pending a change in market conditions that would support the Company's investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

Our operating assets are the Atlantis and the Monarch Casino Black Hawk. Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, food and beverage operations and at the Atlantis, our hotel operations. The Monarch Casino Black Hawk does not have a hotel; however, we are in the process of renovations that will include a hotel. See Item 1, BUSINESS - THE MONARCH CASINO BLACK HAWK. We focus on delivering exceptional service and value to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

Unless otherwise indicated, Monarch, Company, we, our and us refer to Monarch Casino & Resort, Inc. and its subsidiaries.

**OPERATING RESULTS SUMMARY**

Our operating results may be affected by, among other things, competitive factors, gaming tax increases, the commencement of new gaming operations, construction at our facilities, general public sentiment regarding travel, overall economic conditions and governmental policies affecting the disposable income of our patrons and weather conditions affecting our properties, as well as those matters discussed in Item 1A.

RISK FACTORS above.

Table of Contents

The following significant factors and trends should be considered in analyzing our operating performance:

*Atlantis:* Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, food and beverage operations and hotel operations. During the recessionary periods of 2008 and 2009, we expanded and upgraded the facility. With quality gaming, hotel and dining products, we believe the Atlantis is well positioned to benefit from future macro and local economic growth. Several national businesses have announced plans to expand or relocate operations to Northern Nevada. While such economic activity could ultimately drive additional revenue and profit at Atlantis, we are experiencing the more immediate effect of increased labor costs, which combined with continued aggressive marketing programs by our competitors have applied upward pressure on Atlantis operating costs.

*Monarch Casino Black Hawk:* Since the acquisition of Monarch Casino Black Hawk in April 2012, our focus has been to maximize casino and food and beverage revenues while upgrading the existing facility and laying the groundwork for the major expansion that we plan. There is currently no hotel on the property. In October 2012, we began a project to redesign and upgrade the existing Monarch Casino Black Hawk facility. In September 2013, we opened a new buffet, which was an important step in our ongoing process of redesigning and upgrading the existing Monarch Casino Black Hawk facility. In December 2013, we began a project to remodel and upgrade the casino. To minimize disruption, we staged the work in three equal phases. The first phase was completed and opened in August 2014. The second phase was completed and opened in March 2015 and the final phase was completed and opened in August 2015. In the fourth quarter of 2013, we began work on a multi-phased expansion of the Monarch Casino Black Hawk which involves construction of a new parking structure, demolition of the existing parking structure followed by construction of a new hotel tower and casino expansion on the site where the existing parking structure currently sits (see Master Planned Expansion of the Monarch Casino Black Hawk ). The planned nine-story parking structure will increase total parking on site from approximately 500 spaces to approximately 1,500 spaces. Once completed, the Monarch Casino Black Hawk expansion will nearly double the casino space and will add a 23-story hotel tower with approximately 500 guest rooms and suites, an upscale spa and pool facility, three additional restaurants (increasing the total to four), additional bars, a new parking structure and associated support facilities. We currently expect completion of the entire expansion in the third quarter of 2018.

**RESULTS OF OPERATIONS**

Comparison of Operating Results for the Years Ended December 31, 2015 and 2014

For the year ended December 31, 2015, our net income totaled \$20.7 million, or \$1.19 per diluted share, compared to net income of \$14.2 million, or \$0.83 per diluted share for the same period of 2014, reflecting a 45.6% increase in net income and a 43.4% increase in diluted earnings per share. Net revenue for the year ended December 31, 2015 and 2014, is \$202.2 million and \$187.8 million, respectively, reflecting an increase of \$14.5 million, or 7.7%. Income from operations for the year ended December 31, 2015 totaled \$32.5 million compared to \$22.2 million for the same period in 2014, representing an increase of \$10.3 million or 46.5%.



Casino revenues increased 8.1% in the year ended December 31, 2015 compared to the same period of 2014. Casino revenues increased at both the Monarch Casino Black Hawk and at the Atlantis. The increase in Monarch Casino Black Hawk revenues is primarily due to the completion of the casino floor upgrade and remodel which attracted more gaming customers. The increase in casino revenues at the Atlantis was driven primarily by the increased local patrons visitation. Casino operating expenses as a percentage of casino revenue decreased to 42.1% for the twelve months ended December 31, 2015, compared to 42.4% in 2014 due to the effect of higher casino revenues partially offset by higher casino expense.

Table of Contents

Food and beverage revenues for the twelve months ended December 31, 2015 increased 8.1% over the same period in 2014, due to a 5.4% increase in average revenue per cover, combined with a 2.5% increase in total covers served. Food and beverage operating expenses as a percentage of food and beverage revenues in the twelve months ended December 31, 2015 were 39.4% compared to 40.9% over the same period in 2014 due primarily to an increase in revenues related to menu price increases in anticipation of commodity price increases.

Hotel revenues increased 4.1% due to higher ADR of \$76.92 for the year ended December 31, 2015 compared to \$73.66 for the same period in 2014 and slightly higher hotel occupancy of 89.7% in 2015 compared to 89.1% in 2014. Revenue per Available Room ( REVPAR ), calculated by dividing total room revenue (less service charges, if any) by total rooms available, was \$75.24 and \$72.26 for years ended December 31, 2015 and 2014, respectively. Hotel operating expenses as a percent of hotel revenues for the twelve months ended December 31, 2015 was 30.0% compared to 27.6% for the same period in 2014. The increase is due primarily to higher payroll and related benefits expense, operating supplies expense and repair and maintenance expense.

Other revenues increased 7.7% in 2015 compared to 2014 driven primarily by increased Atlantis arcade revenue, Atlantis spa and salon revenue and commission revenue.

Promotional allowances as a percentage of gross revenues was flat at 18.2% for both years ended December 31, 2015 and 2014.

Selling, general and administrative ( SG&A Expense ) expense increased to \$54.8 million in the twelve months ended December 31, 2015 from \$53.0 million in the same period of 2014 primarily due to: i) higher salaries, wages and related benefits expenses by \$0.9 million; ii) higher repair and maintenance expense by \$0.6 million; iii) higher software maintenance expense by \$0.4 million; and iv) higher bad debt expense by \$0.2 million, all offset by a decrease in sales and marketing expense.

Depreciation and amortization expense decreased to \$15.9 million for the year ended December 31, 2015 as compared to \$17.8 million for the same period in 2014 as a result of: i) lower depreciation expense on the parking structure at the Monarch Casino Black Hawk by \$1.2 million; ii) lower depreciation expense at Atlantis by \$1.1 million due to assets becoming fully depreciated, all partially offset by the increase in depreciation expense from new assets related to the remodel and upgrade project at the Monarch Casino Black Hawk.

The Company incurred an approximately \$9 thousand and \$343 thousand net loss on disposal of slot machines and other equipment in the years ended December 31, 2015 and 2014, respectively. In 2014, the Company incurred \$1.9 million of expense related to the campaign against the proposed 2014 ballot initiatives to expand gaming in Colorado. The Company had no such expense in 2015.

During the year ended December 31, 2015, the Company paid down the principal balance on its Credit Facility by \$5.4 million, which decreased the outstanding balance of the Credit Facility to \$40.9 million at December 31, 2015 from \$46.3 million at December 31, 2014. Interest expense, net of amounts capitalized, decreased to \$0.7 million for the year 2015 from \$1.1 million for the year 2014 primarily as a result of a lower interest rate driven by our lower leverage ratio combined with lower average outstanding borrowings in 2015 compared to 2014. See further discussion of our Credit Facility in the LIQUIDITY AND CAPITAL RESOURCES section below.



Table of Contents

Comparison of Operating Results for the Years Ended December 31, 2014 and 2013

For the year ended December 31, 2014, our net income totaled \$14.2 million, or \$0.83 per diluted share, compared to net income of \$18.0 million, or \$1.06 per diluted share for the same period of 2013, reflecting a 21.1% decline in net income and a 21.7% decline in diluted earnings per share. Net revenues totaled \$187.8 million in the current year, reflecting a \$1.0 million, or 0.5% decline in net revenues compared to the same period in 2013. Income from operations for the year ended December 31, 2014 totaled \$22.2 million compared to \$30.5 million for the same period in 2013, representing a 27.2% decline in income from operations.

Casino revenues decreased 3.2% in the year ended December 31, 2014 compared to the same period of 2013 driven by lower casino revenues at both the Monarch Casino Black Hawk and the Atlantis. The decrease in Monarch Casino Black Hawk revenues is primarily due to disruption from the ongoing upgrade and remodel construction work combined with the effect of the substitution of cash voucher promotions for free play credits at the Monarch Casino Black Hawk. To accommodate construction at Black Hawk, we have had to reduce the number of slot machines on the gaming floor by approximately 13%. During a portion of the prior year we offered certain patrons cash voucher promotions which were recognized as promotional allowance while free play credits are recognized as a reduction of casino revenues. In August 2013, the Company discontinued the issuance of cash vouchers in favor of free play credits which were legalized in Colorado at that time. The decrease in casino revenues at the Atlantis was driven primarily by lower business volume. Casino operating expenses as a percentage of casino revenue increased to 42.4% in the twelve months ended December 31, 2014, compared to 39.8% in the same period of 2013 due to lower casino revenues combined with higher Complimentaries (defined in the CRITICAL ACCOUNTING POLICIES AND ESTIMATES section below) and payroll and related employee benefits expenses.

Food and beverage revenues for the twelve months ended December 31, 2014 increased 5.4% over the same period in 2013, due to a 2.7% increase in average revenue per cover, combined with a 2.6% increase in total covers served. Food and beverage operating expenses as a percentage of food and beverage revenues in the twelve months ended December 31, 2014 were 40.9% compared to 40.4% in the same period of 2013 due to an increase in cost of sales as a result of commodity price increases and an increase in payroll expense.

Hotel revenues decreased 4.2% due to lower ADR of \$73.66 for the year ended December 31, 2014 compared to \$77.78 for the same period in 2013 and slightly lower hotel occupancy of 89.1% in 2014 compared to 89.5% in 2013. Revenue per Available Room ( REVPAR ), calculated by dividing total room revenue (less service charges, if any) by total rooms available, was \$72.26 and \$75.41 for years ended December 31, 2014 and 2013, respectively. We believe fewer conventions and meetings in the city of Reno during 2014 compared to 2013 contributed to both the lower ADR and REVPAR. Hotel operating expenses as a percent of hotel revenues in the twelve months ended December 31, 2014 were 27.6% and are in line with the prior year same period.

Other revenues increased 7.4% in 2014 compared to 2013 driven primarily by increased Atlantis spa and salon revenue and commission revenue.

Promotional allowances as a percentage of gross revenues decreased to 18.2% during 2014 compared to 18.6% in 2013. This decrease was driven primarily by the substitution of cash voucher promotions for free play credits at the Monarch Casino Black Hawk as discussed above, partially offset by an increase in complimentary expense.



Table of Contents

Selling, general and administrative ( SG&A Expense ) expense increased to \$53.0 million in the twelve months ended December 31, 2014 from \$52.3 in the same period of 2013 primarily due to: i) higher salaries, wages and related taxes expenses by \$1.1 million, ii) higher sales tax expense by \$0.4 million due to the reversal of accumulated sales tax expense accrual in 2013 as a result of the Nevada Tax Commission ruling that complimentary and employee meals were no longer subject to sales taxation, and iii) higher bad debt expense due to a credit of \$0.3 million in 2013 resulted from an adjustment to reserve for accounts receivable, all partially offset by lower legal, accounting and other professional fees expense by \$0.6 million and lower employee benefit expense by \$0.5 million. As a percentage of net revenue, SG&A Expense increased to 28.2% in the year 2014 from 27.7% in the year 2013.

Depreciation and amortization expense increased to \$17.8 million for the year ended December 31, 2014 as compared to \$16.6 million for the same period in 2013 as a result of: i) accelerated depreciation on the parking structure at the Monarch Casino Black Hawk recognized in anticipation of its early removal from service as part of the expansion project, and ii) new assets related to the remodel and upgrade project at the Monarch Casino Black Hawk, all partially offset by lower depreciation expense at Atlantis due to assets from the 2008 Atlantis expansion and remodel becoming fully depreciated in July 2013.

The Company incurred an approximately \$0.3 million and \$0.2 million net loss on disposal of slot machines and other equipment in the years ended December 31, 2014 and 2013, respectively. In 2014 the Company incurred \$1.9 million of expense related to the campaign against the proposed 2014 ballot initiatives to expand gaming in Colorado. The Company had no such expense in 2013.

During the year ended December 31, 2014 the Company paid down the principal balance on its Credit Facility by \$7.5 million, which decreased the outstanding balance of the Credit Facility to \$46.3 million at December 31, 2014 from \$53.8 million at December 31, 2013. Interest expense, net of amounts capitalized, decreased to \$1.1 million for the year 2014 from \$1.9 million for the year 2013 primarily as a result of a lower interest rate driven by our lower leverage ratio combined with lower average outstanding borrowings in 2014 compared to 2013. See further discussion of our Credit Facility in the LIQUIDITY AND CAPITAL RESOURCES section below.

**CAPITAL SPENDING AND DEVELOPMENT**

We seek to continuously upgrade and maintain our facilities in order to present a fresh, high quality product to our guests. Capital expenditures during the years ended December 31, 2015 and 2014 were as follows (in thousands):

Capital Expenditures:

	2015		2014
Atlantis	\$ 7,382	\$	4,223
Monarch Casino Black Hawk	30,677		15,706
	\$ 38,059	\$	19,929

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

During the twelve months ended December 31, 2015 and 2014, capital expenditures related primarily to the redesign and upgrade of the Monarch Casino Black Hawk property and work for the facility's new parking structure, as well as acquisition of gaming equipment to upgrade and replace existing equipment in the Monarch Casino Black Hawk and the Atlantis.

Table of Contents

Master Planned Expansion of the Monarch Casino Black Hawk

The Company has completed a master plan to expand and convert the Monarch Casino Black Hawk into a full-scale casino resort (the Black Hawk Expansion Plan ).

In October 2012, we began an extensive redesign and upgrade of the existing facility at Monarch Casino Black Hawk. We have upgraded the property's food and beverage operations (including an all-new buffet) and completed the redesign and upgrade of the existing casino floor. Our plans also call for the exterior of the existing facility to be refinished to match the master planned expansion which is expected to cost approximately \$17-\$19 million and is expected to be funded primarily from operating cash flow.

We have also begun work on our master plan to expand and convert the Monarch Casino Black Hawk into a full-scale casino resort. The excavation and foundation work for the facility's new parking structure has been completed and construction of the new parking structure is well underway. The new 9-story parking structure will increase on-site parking from approximately 500 spaces to approximately 1,500 spaces. Construction of the new parking structure began in the first quarter of 2015 and construction is anticipated to be completed in the second quarter of 2016. Upon completion of the new parking structure, the existing parking structure will be razed to make room for the new hotel tower and casino expansion. The remaining cost of the parking structure-related work is expected to be approximately \$10-\$13 million, which we expect to fund primarily from operating cash flow and, to a lesser extent, from our Credit Facility.

We expect to begin construction of the new hotel tower and casino expansion during the fourth quarter of 2016. The new 23-story tower will nearly double the existing casino space and will include approximately 500 hotel rooms, an upscale spa and pool facility, three additional restaurants and additional bars. Tower floors will be opened as they are finished beginning with the casino expansion and additional restaurants. We currently expect completion of the entire tower in the third quarter of 2018 at a total cost of approximately \$229-\$234 million. The cost is expected to be financed through a combination of operating cash flow and an expansion or replacement of our Credit Facility. The Company's current Credit Facility will mature in November 2016, and before that time, we expect to negotiate a new or amended credit facility with sufficient borrowing capacity to complete the expansion. We can provide no assurance that any project will be completed on schedule, if at all, or within established budgets, or that any project will result in increased earnings to us. In addition, no assurance can be given that we will be able to enter into a new or amended credit facility on a timely basis, if at all, or upon terms favorable to us.

**LIQUIDITY AND CAPITAL RESOURCES**

For the year ended December 31, 2015, net cash provided by operating activities totaled \$38.2 million, an increase of approximately \$7.0 million, or 22.4%, compared to the same period of the prior year. This increase was primarily the result of an increase in net income of \$6.5 million combined with changes in ordinary working capital accounts, partially offset by a decrease in depreciation expense.

Net cash used in investing activities totaled \$38.0 million and \$19.8 million in the years ended December 31, 2015 and December 31, 2014, respectively. Net cash used in investing activities during 2015 and 2014 consisted primarily of net cash used for redesigning and upgrading the Monarch Casino Black Hawk property and for acquisition of gaming equipment and general upgrades at the Atlantis property.





Table of Contents

During the year ended December 31, 2015, net cash used in financial activities of \$0.6 million resulted from 5.4 million payment made on our Credit Facility offset by \$4.8 million proceeds from exercise of stock options, including tax benefits. During the year ended December 31, 2014, net cash used in financing activities of \$9.1 million represented \$7.5 million of payments made on our Credit Facility and \$1.9 million in proceeds from the exercise of stock options, including tax benefit and net of \$3.5 million in income taxes paid to satisfy minimum tax withholdings.

As of December 31, 2015, our credit facility ( Credit Facility ) had total availability of \$48.5 million of which \$40.9 million was outstanding. The proceeds from the Credit Facility were utilized to finance the acquisition of Monarch Casino Black Hawk and availability under the Credit Facility may be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements.

Borrowings are secured by liens on substantially all of our real and personal property.

The Credit Facility contains customary covenants for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of our assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets and make certain investments. The Credit Facility contains covenants requiring that we maintain certain financial ratios and achieve a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization and other non-cash charges ( Adjusted EBITDA ) on a trailing four-quarter basis. It also contains provisions that restrict cash transfers between Monarch and its affiliates and contains provisions requiring the achievement of certain financial ratios before the Company can repurchase common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

As of December 31, 2015, we were required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 2.0:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of December 31, 2015, the Company's leverage ratio was 0.8:1, and the fixed charge coverage ratio was 42.0:1.

The maximum principal available under the Credit Facility is reduced by \$1.5 million per quarter. We may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$0.5 million and in multiples of \$50,000. During the second quarter of 2015, we permanently reduced the amount available under the Credit Facility by \$20 million and in the fourth quarter of 2015 by an additional \$15 million.

The maturity date of the Credit Facility is November 15, 2016. As such, the entire amount outstanding under the Credit Facility at December 31, 2015 of \$40.9 million is classified as a current liability in the Consolidated Balance Sheet as of December 31, 2015. Before the Credit Facility matures, based on the relationship with our current lenders and our recent and projected financial performance, we expect to negotiate a new or amended credit facility with sufficient borrowing capacity to refinance the outstanding balance and to complete the Black Hawk Expansion Plan. However, no assurance can be given that we will be able to enter into a new or amended credit facility on a timely basis, if at all, or upon terms favorable to us.

We may prepay borrowings under the Credit Facility without penalty (subject to certain charges applicable to the prepayment of LIBOR borrowings prior to the end of the applicable interest period). Amounts prepaid may be reborrowed so long as the total borrowings outstanding do not exceed the maximum principal available.

We paid various one-time fees and other loan costs which totaled \$1.5 million upon the closing of the Credit Facility that are being amortized over the term of the Credit Facility using the straight-line method which approximates the effective interest method.

Table of Contents

At December 31, 2015, our leverage ratio was such that pricing for borrowings under the Credit Facility was LIBOR plus 1.25%. At December 31, 2015, the one-month LIBOR interest rate was 0.43%. The carrying value of the debt outstanding under the Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

Subject to entering into a new or amended credit facility with sufficient borrowing capacity to refinance the outstanding balance and to complete the Black Hawk Expansion Plan, we believe, based on the relationship with our current lenders and our recent and projected financial performance, that our existing cash balances, cash flow from operations and borrowings available under the existing, new or amended credit facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital.

**OFF-BALANCE SHEET ARRANGEMENTS**

A driveway (the Driveway Project) was completed and opened on September 30, 2004, that is being shared between the Atlantis and the Shopping Center, directly adjacent to the Atlantis. The Shopping Center is controlled by the Biggest Little Investments, L.P. (BLI)

John Farahi and Bob Farahi, Co-Chairmen of the Board and executive officers of the Company, and Ben Farahi are the three largest stockholders of Monarch and each also beneficially own limited partnership interests in BLI. Maxum LLC is the sole general partner of BLI, and Ben Farahi is the sole managing member of Maxum LLC. Neither John Farahi nor Bob Farahi has any management or operational control over BLI or the Shopping Center. Until May 2006, Ben Farahi formerly held positions of Co-Chairman of the Board, Secretary, Treasurer and Chief Financial Officer of the Company.

As part of the Driveway Project, in January 2004, we leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300 thousand, subject to a cost of living increase on each five year anniversary of the driveway lease. As of December 31, 2015, the annual rent is \$377 thousand. In August 2015, we exercised our option to extend the lease for three individual five-year terms in addition to the 15 year initial term. At the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million. We were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the 15-year expected economic useful life of the asset; some components of the new driveway are being depreciated over a shorter period of time. We paid approximately \$377 thousand in lease payments for the leased driveway space and \$84 thousand in operating expenses for the Shopping Center during the year ended December 31, 2015.

Table of Contents

In response to customer demand for more convenient surface parking at the Atlantis, and after detailed analysis, on August 28, 2015, the Company, through its subsidiary Golden Road, entered into a 20-year lease (the Parking Lot Lease ) with BLI with respect to a portion of the Shopping Center. This lease gives the Atlantis the right to use a parcel, approximately 4.2 acres, comprised of commercial building and surrounding land adjacent to the Atlantis. The primary purpose of the Parking Lot Lease is to provide additional, convenient, Atlantis surface parking. We have demolished the commercial building and are in the process of converting the now vacant land into approximately 300 additional surface parking spaces for the Atlantis. Completion of this work is expected in the second quarter of 2016. The minimum annual rent under the Parking Lot Lease is \$695 thousand, commencing on November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five year anniversary. We have an option to renew the Parking Lot Lease for an additional 10-year term. If we elect not to exercise its renewal option, we will be obligated to pay BLI \$1.6 million.

**COMMITMENTS AND CONTINGENCIES**

Our contractual cash obligations as of December 31, 2015 and the next five years and thereafter are as follows (in millions):

	Total	Payments due by period (1)			
		Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years
Operating Leases (2)	\$ 28.9	\$ 1.1	\$ 2.2	\$ 2.2	\$ 23.4
Purchase Obligations (3)	11.7	11.7			
Construction Contracts (4)	11.6	11.6			
Borrowings Under Credit Facility (5)	40.9	40.9			
Total Contractual Cash Obligations	\$ 93.1	\$ 65.3	\$ 2.2	\$ 2.2	\$ 23.4

(1) Because interest payments under our Credit Facility are subject to factors that in our judgment vary materially, the amount of future interest payments is not presently determinable. These factors include: i) future short-term interest rates; ii) our future leverage ratio which varies with EBITDA and our borrowing levels; and iii) the rate at which we deploy capital and other spending which in turn impacts the level of future borrowings. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the Credit Facility agreement), plus an interest rate margin ranging from 1.25% to 2.50% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. Based on our leverage ratio, at December 31, 2015 pricing was LIBOR plus 1.25% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At December 31, 2015, the one-month LIBOR rate was 0.43%.

(2) Operating leases include the leased driveway pursuant to the Driveway Project , the Parking Lot Lease and executive housing in Colorado.

(3) Purchase obligations represent approximately \$7.1 million of commitments related to capital projects and approximately \$4.6 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$11.7 million are cancelable by us upon providing a 30-day notice.

(4) Construction contracts obligations represent commitments related to the expansion projects in Monarch Casino Black Hawk. The \$11.6 million of the commitment relates to construction of the new garage building.

(5) The amount represents outstanding draws against the Credit Facility as of December 31, 2015.

Table of Contents

As described in the CAPITAL SPENDING AND DEVELOPMENT section above, we have begun commencement of a substantial expansion of our Monarch Casino Black Hawk facility starting in 2014. While we have disclosed the estimated cost of that expansion, we have not entered into contracts for substantial portions of the work. For this reason, we have included in the table above only the amounts for which we have contractual commitments.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States ( GAAP ). Certain of our policies, including the estimated useful lives assigned to our assets, the determination of the allowance for doubtful accounts and allowance for unredeemed gift certificates, self-insurance reserves, the calculation of income tax liabilities and the calculation of stock-based compensation, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on historical experience, terms of existing contracts, observation of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. To provide an understanding of the methodologies applied, our significant accounting policies are discussed where appropriate in this discussion and analysis and in the Notes to Consolidated Financial Statements.

The consolidated financial statements include the accounts of Monarch and its subsidiaries. Intercompany balances and transactions are eliminated.

Allowance for Doubtful Accounts

The Company extends short-term credit to its gaming customers. Such credit is non-interest bearing and is due on demand. In addition, the Company also has receivables due from hotel guests which are primarily secured with a credit card at the time a customer checks in. An allowance for doubtful accounts is established for all Company receivables based upon the Company's historical collection and write-off experience, unless situations warrant a specific identification of a necessary reserve related to certain receivables. The Company charges off its uncollectible receivables once all efforts have been made to collect such receivables. The book value of receivables approximates fair value due to the short-term nature of the receivables.

Self-insurance Reserves

We are currently self-insured up to certain stop loss amounts for Atlantis workers' compensation and certain medical benefit costs provided to all of our employees. As required by the state of Colorado, we are fully-insured for Monarch Casino Black Hawk workers' compensation costs. The Company reviews self-insurance reserves at least quarterly. The reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reports prepared by the third party plan administrator for any significant unpaid claims. The company engages a third party actuarial at least once per year for a more precise reserves review and calculation. The reserve is an amount estimated to pay both reported and unreported claims as of the balance sheet date. We believe changes in medical costs, trends in claims of our employee base, accident frequency and severity and other factors could materially affect the estimate for this reserve. Unforeseen developments in existing claims, or the possibility that our estimate of unreported claims differs materially from the actual amount of unreported claims, could result in the over or

under estimation of our self-insurance reserve.



## Table of Contents

### Capitalized Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average borrowing cost. Interest capitalization is ceased when the project is substantially complete. The Company capitalized \$533 thousand and \$152 thousand of interest during the years ended December 31, 2015 and 2014, respectively. There was no capitalized interest recorded in 2013.

### Casino Revenues

Casino revenues represent the net win from gaming activity, which is the difference between the amounts won and lost. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts. Progressive jackpot provisions are recognized in two components: 1) as wagers are made for the share of player's wagers that are contributed to the progressive jackpot award and 2) as jackpots are won for the portion of the progressive jackpot award contributed the Company.

### Promotional Allowances

Our player program allows members, through the frequency of their play at the casino, to earn and accumulate points which may be redeemed for a variety of goods and services ( Complimentaries ). Points may be applied toward hotel room stays, food and beverage consumption at the food outlets, gift shop items as well as goods and services at the spa and beauty salon and for cash in our Monarch Casino Black Hawk property. Points earned may also be applied toward off-property events such as concerts, shows and sporting events.

We recognize Complimentaries expense at the time points are earned, which occurs commensurate with casino patron play. The amount of expense recognized is based on the estimated cost of the Complimentaries expected to be redeemed.

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The cost of the products and services earned is reported as casino operating expense.

### Income Taxes

Income taxes are recorded in accordance with the liability method pursuant to authoritative guidance. Under the asset and liability approach for financial accounting and reporting for income taxes, the following basic principles are applied in accounting for income taxes at the date of the financial statements: (a) a current liability or asset is recognized for the estimated taxes payable or refundable on taxes for the current year; (b) a deferred income tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards;

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

(c) the measurement of current and deferred tax liabilities and assets is based on the provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated; and (d) the measurement of deferred income taxes is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

Our income tax returns are subject to examination by tax authorities. We assess potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes. Under the accounting guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50.0% likelihood of being realized upon ultimate settlement. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure.

## Table of Contents

### Stock-based Compensation

We account for stock-based compensation in accordance with authoritative guidance which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services or incurs a liability in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. It requires an entity to measure the costs of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognize that cost over the service period. We calculate the grant-date fair value using the Black-Scholes valuation model.

The Black-Scholes valuation model requires the input of highly subjective assumptions which include the expected term of options granted, risk-free interest rates, expected volatility, and expected rates of dividends. We estimate an expected term for each stock option grant based on the weighted-average time between grant date and exercise date and the risk-free interest rate assumption was based on U.S. Treasury rates appropriate for the expected term. We use historical data and projections to estimate expected volatility and expected employee behaviors related to option exercises and forfeitures.

### Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments has been determined by the Company, using available market information and valuation methodologies. However, considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. Additionally, the carrying value of our long-term debt approximates fair value due to the variable nature of applicable interest rates and short-term maturity.

### Goodwill

The Company accounts for goodwill in accordance with ASC Topic 350, Intangibles-Goodwill and Other (ASC Topic 350). ASU No. 2011-08, Intangibles- Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08) gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test as appropriate. The Company tests its goodwill for impairment annually during the fourth quarter of each year, or whenever events or circumstances make it more likely than not that impairment may have occurred. Impairment testing for goodwill is performed at the reporting unit level, and each of the Company's casino properties is considered to be a reporting unit. We perform qualitative analysis to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount by assessing the relevant events and circumstances. If that is the case, the Company utilizes two-step testing process. In the first step, the estimated fair value of each reporting unit is compared with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its estimated fair value, then the goodwill of the reporting unit is considered to be impaired, and impairment is measured in the second step of the process. In the second step, the Company estimates the implied fair value of the reporting unit's goodwill by allocating the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit, as if the reporting unit had been acquired in a business combination. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess. Goodwill consists of the excess of the acquisition cost over the fair value of

the net assets acquired in business combinations. As of December 31, 2015, we had goodwill totaling \$25.1 million related to the purchase of Monarch Casino Black Hawk.

Table of Contents

Finite-Lived Intangible Assets

Our finite-lived intangible assets include assets related to customer relationships acquired in our acquisition of Monarch Casino Black Hawk. That asset is amortized over its estimated useful life using the straight-line method. We periodically evaluate the remaining useful lives of our finite-lived intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The customer relationship intangible asset represents the value associated with Monarch Casino Black Hawk rated casino guests. The initial fair value of the customer relationship intangible asset was estimated based on the projected net cash flows associated with these casino guests. The recoverability of our customer relationship intangible asset could be affected by, among other things, increased competition within the gaming industry, a downturn in the economy, declines in customer spending which would impact the expected future cash flows associated with the rated casino guests, declines in the number of visitations which could impact the expected attrition rate of the rated casino guests, and erosion of operating margins associated with rated casino guests. Should events or changes in circumstances cause the carrying value of the customer relationship intangible asset to exceed its estimated fair value, an impairment charge in the amount of the excess would be recognized.

Fair Value Measurement

ASC 820 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for various valuation techniques e.g. market value, income approach and cost approach. The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities;
  
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
  
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The fair value measurements relating to the acquired assets of Monarch Casino Black Hawk was determined using inputs within Level 2 and Level 3 of ASC 820's hierarchy.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

In May 2014, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update that amends the FASB Accounting Standards Codification and creates a new topic for Revenue from Contracts with Customers. The new guidance is expected to clarify the principles for revenue recognition and to develop a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance also provides substantial revision of interim and annual disclosures. The update allows for either full retrospective adoption, meaning the guidance is applied for all periods presented, or modified retrospective adoption, meaning the guidance is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the guidance recognized at the date of initial application. In July 2015, FASB voted to delay the effective date of the new revenue standard by one year. The new effective date is for the annual and interim periods beginning after December 15, 2017. Reporting entities may choose to adopt the standard as of the original effective date. The Company plans to adopt this standard effective January 1, 2018. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

Table of Contents

In August 2014, FASB issued an accounting standard update that requires management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Substantial doubt about an entity's ability to continue as a going concern exist when relevant conditions and events, consolidated and aggregated, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statement are issued. Currently, there is no guidance in U.S. GAAP for management's responsibility to perform an evaluation. Under the update, management's evaluation is to be performed when preparing financial statements for each annual and interim reporting period and based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The effective date for this update is for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Company will adopt this standard effective January 1, 2017. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In April 2015, FASB issued an accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, FASB issued an accounting standards update which clarifies that the guidance issued in April 2015 does not apply to line-of-credit arrangements. According to the additional guidance, line-of-credit arrangements will continue to present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the arrangement. The effective date for this update is for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company will adopt this standard effective January 1, 2016. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In July 2015, FASB issued an accounting standards update which changes the measurement principle for inventories valued under the first-in, first-out or weighted-average methods from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The effective date for this guidance is for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

Table of Contents

In February 2016, the FASB issued an accounting standards update which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off-balance sheet financing. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

A variety of proposed or otherwise potential accounting standards are currently under review and study by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, the implementation of any such proposed or revised standards would have on the Company's consolidated financial statements.

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

Market risk is the risk of loss arising from adverse changes in market risks and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of December 31, 2015 subject to market risk. As of December 31, 2015, we had \$40.9 million of outstanding debt under our Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the Credit Facility at December 31, 2015 would result in a change in our annual interest cost of approximately \$0.4 million.



Table of Contents

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Monarch Casino & Resort, Inc. and subsidiaries:

We have audited the accompanying consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 Monarch Casino & Resort, Inc. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Monarch Casino & Resort, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Las Vegas, Nevada  
March 11, 2016

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Monarch Casino & Resort, Inc. and subsidiaries:

We have audited Monarch Casino & Resort, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Monarch Casino & Resort, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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 that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Monarch Casino & Resort, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries as of December 31, 2015 and 2014, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the three years in the period ended

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

December 31, 2015 of Monarch Casino & Resort, Inc. and subsidiaries and our report dated March 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
Las Vegas, Nevada  
March 11, 2016

Table of Contents

## MONARCH CASINO &amp; RESORT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	2015	2014	2013
<b>Revenues</b>			
Casino	\$ 156,843	\$ 145,134	\$ 149,916
Food and beverage	56,500	52,314	49,642
Hotel	22,629	21,733	22,679
Other	11,198	10,394	9,680
Gross revenues	247,170	229,575	231,917
Less promotional allowances	(44,925)	(41,808)	(43,168)
Net revenues	202,245	187,767	188,749
<b>Operating expenses</b>			
Casino	65,970	61,583	59,646
Food and beverage	22,249	21,410	20,077
Hotel	6,787	5,992	6,241
Other	3,963	3,545	3,260
Selling, general and administrative	54,779	52,987	52,256
Depreciation and amortization	15,933	17,824	16,638
Loss on disposition of assets	9	343	176
Colorado ballot initiative costs		1,864	
Total operating expenses	169,690	165,548	158,294
Income from operations	32,555	22,219	30,455
<b>Other expenses</b>			
Interest expense, net of amounts capitalized	(679)	(1,104)	(1,860)
Total other expense	(679)	(1,104)	(1,860)
Income before income taxes	31,876	21,115	28,595
Provision for income taxes	(11,217)	(6,930)	(10,634)
Net income	\$ 20,659	\$ 14,185	\$ 17,961
<b>Earnings per share of common stock</b>			
Net income			
Basic	\$ 1.22	\$ 0.85	\$ 1.10
Diluted	\$ 1.19	\$ 0.83	\$ 1.06
<b>Weighted average number of common shares and potential common shares outstanding</b>			
Basic	16,948	16,734	16,302
Diluted	17,335	17,107	16,944

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.



Table of Contents

## MONARCH CASINO &amp; RESORT, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 21,164	\$ 21,583
Receivables, net	3,729	3,047
Income taxes receivable	611	1,139
Inventories	2,881	2,846
Prepaid expenses	3,402	4,021
Deferred income taxes		1,626
Total current assets	31,787	34,262
Property and equipment		
Land	29,549	29,415
Land improvements	6,701	6,701
Buildings	150,966	150,821
Buildings improvements	23,255	18,142
Furniture and equipment	134,704	125,671
Construction in progress	37,424	15,672
Leasehold improvements	1,347	1,347
	383,946	347,769
Less accumulated depreciation and amortization	(180,792)	(167,498)
Net property and equipment	203,154	180,271
Other assets		
Goodwill	25,111	25,111
Intangible assets, net	6,200	7,366
Deferred income taxes	7,415	4,682
Other assets, net	1,179	609
Total other assets	39,905	37,768
Total assets	\$ 274,846	\$ 252,301
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Current portion of long-term debt	\$ 40,900	\$
Accounts payable	6,747	7,933
Construction accounts payable	1,407	1,790
Accrued expenses	21,873	19,327
Total current liabilities	70,927	29,050
Long - term debt		46,300
Total liabilities	70,927	75,350
Stockholders equity		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued		
Common stock, \$.01 par value, 30,000,000 shares authorized; 19,096,300 shares issued; 17,202,699 outstanding at December 31, 2015; 16,812,794 outstanding at December 31, 2014	191	191
Additional paid-in capital	22,728	22,985
Treasury stock, 1,893,601 shares at December 31, 2015; 2,283,506 shares at December 31, 2014	(26,404)	(32,970)
Retained earnings	207,404	186,745
Total stockholders equity	203,919	176,951

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

Total liabilities and stockholders' equity	\$	274,846	\$	252,301
--------------------------------------------	----	---------	----	---------

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*

Table of Contents**MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands, except shares)

	Common Stock			Additional		Retained	Treasury	
	Shares	Amount		Paid-in		Earnings	Stock	Total
	Outstanding			Capital				
Balance, December 31, 2012	16,147,324	\$ 191	\$	34,364	\$	154,599	\$ (48,306)	\$ 140,848
Exercise of stock options	335,444			(5,071)			8,509	3,438
Excess tax benefit from stock-based compensation				413				413
Stock-based compensation expense				1,220				1,220
Net income						17,961		17,961
Balance, December 31, 2013	16,482,768	\$ 191	\$	30,926	\$	172,560	\$ (39,797)	\$ 163,880
Net exercise of stock options	330,026			(9,553)			6,827	(2,726)
Excess tax benefit from stock-based compensation				386				386
Stock-based compensation expense				1,226				1,226
Net income						14,185		14,185
Balance, December 31, 2014	16,812,794	\$ 191	\$	22,985	\$	186,745	\$ (32,970)	\$ 176,951
Net exercise of stock options	389,905			(2,666)			6,566	3,900
Excess tax benefit from stock-based compensation				865				865
Stock-based compensation expense				1,544				1,544
Net income						20,659		20,659
Balance, December 31, 2015	17,202,699	\$ 191	\$	22,728	\$	207,404	\$ (26,404)	\$ 203,919

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*



Table of Contents**MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year Ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
Net income	\$ 20,659	\$ 14,185	\$ 17,961
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization	15,933	17,824	16,638
Amortization of deferred loan costs	338	305	305
Stock-based compensation	1,544	1,226	1,220
Excess tax benefit from stock-based compensation	(865)	(1,079)	(413)
Provision (recoveries) for bad debts	240	51	(230)
(Gain) loss on disposition of assets	(9)	343	176
Deferred income taxes	(241)	336	795
<b>Changes in operating assets and liabilities:</b>			
Receivables	(922)	(470)	59
Inventories	(35)	(171)	(293)
Prepaid expenses	(289)	(1,191)	(194)
Accounts payable	(1,186)	(733)	604
Accrued expenses	2,546	1,150	342
Income taxes receivable	528	(531)	(882)
Net cash provided by operating activities	38,241	31,245	36,088
<b>Cash flows from investing activities:</b>			
Proceeds from sale of assets	34	84	48
Change in construction payable	(383)	1,790	
Acquisition of property and equipment	(37,676)	(21,719)	(12,400)
Net cash used in investing activities	(38,025)	(19,845)	(12,352)
<b>Cash flows from financing activities:</b>			
Net exercise of stock options	3,900	(2,726)	3,438
Excess tax benefit from stock-based compensation	865	1,079	413
Principal payments on long-term debt	(5,400)	(7,500)	(27,300)
Net cash used in financing activities	(635)	(9,147)	(23,449)
Net (decrease) increase in cash	(419)	2,253	287
Cash and cash equivalents at beginning of year	21,583	19,330	19,043
Cash and cash equivalents at end of year	\$ 21,164	\$ 21,583	\$ 19,330
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest, net of amounts capitalized	\$ 374	\$ 853	\$ 1,472
Cash paid for income taxes	\$ 10,930	\$ 7,300	\$ 10,690
Conversion of short term deposit to long term deposit	\$ 908	\$	\$

*The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.*



Table of Contents

**MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

Monarch Casino & Resort, Inc., was incorporated in 1993 and through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis ). Monarch's wholly owned subsidiaries, High Desert Sunshine, Inc. ( High Desert ), Golden East, Inc. ( Golden East ) and Golden North, Inc. ( Golden North ), each own separate parcels of land located proximate to the Atlantis.

Monarch's wholly owned subsidiary Monarch Growth Inc. ( Monarch Growth ), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino on April 26, 2012. Riviera Black Hawk, Inc. was renamed Monarch Black Hawk, Inc. and Riviera Black Hawk Casino was renamed Monarch Casino Black Hawk in October 2013. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Monarch Casino Black Hawk. In addition to owning the Monarch Casino Black Hawk, Monarch Black Hawk, Inc. also wholly owns Chicago Dogs Eatery, Inc. and Monarch Promotional Association both of which were formed related to extended licensure for extended hours of liquor operation in Black Hawk. The Company has included the results of Monarch Black Hawk, Inc. in its consolidated financial statements since the date of acquisition.

Monarch's wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company has decided to allow the current approval to lapse pending a change in market conditions that would support the Company's investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

The consolidated financial statements include the accounts of Monarch and its subsidiaries. Intercompany balances and transactions are eliminated. Certain amounts in the consolidated financial statements for the previous periods have been reclassified to be consistent with the current period presentation. These reclassifications had no effect on the previously reported net income. Reference to the number of square feet or acreage are unaudited and considered outside the scope of our independent registered public accounting firm's audit of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

Unless otherwise indicated, Monarch, Company, we, our and us refer to Monarch Casino & Resort, Inc. and its subsidiaries.

**Use of Estimates**

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

Table of Contents

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, as well as investments purchased with an original maturity of 90 days or less.

Allowance for Doubtful Accounts

The Company extends short-term credit to its gaming customers. Such credit is non-interest bearing and is due on demand. In addition, the Company also has receivables due from hotel guests which are primarily secured with a credit card at the time a customer checks in. An allowance for doubtful accounts is set up for all Company receivables based upon the Company's historical collection and write-off experience, unless situations warrant a specific identification of a necessary reserve related to certain receivables. The Company charges off its uncollectible receivables once all efforts have been made to collect such receivables. The book value of receivables approximates fair value due to the short-term nature of the receivables. In December 2013, the Company recorded an adjustment to reduce its reserve for casino accounts receivable based on the results of historical collection patterns and current collection trends. For the year ended December 31, 2013, this adjustment benefitted income from operations by \$0.3 million and net income by \$0.2 million (or \$0.01 per share on a fully diluted basis). No material adjustments were made during the years ended December 31, 2014 and 2015.

Casino Jackpots

The Company does not accrue a liability for base jackpots because it has the ability to avoid such payment as gaming devices can legally be removed from the gaming floor without payment of the base amount. When the Company is unable to avoid payment of a jackpot such as the incremental jackpot amounts of progressive-type slot machines, due to legal requirements, the jackpot is accrued as the obligation becomes unavoidable. This liability is accrued over the time period in which the incremental progressive jackpot amount is generated commensurate with a corresponding reduction in casino revenue.

Inventories

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost or market. Cost is determined based on the weighted average, which approximates a first-in, first out method.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Property and equipment is depreciated principally on a straight line basis over the estimated useful lives as follows:

Land improvements	15-40 years
Buildings	30-40 years
Building improvements	5-40 years
Furniture	5-10 years
Equipment	3-20 years

The Company evaluates property and equipment and other long-lived assets for impairment in accordance with the guidance for accounting for the impairment or disposal of long-lived assets. For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair value less costs of disposal. Fair value for assets to be disposed of is generally estimated based on comparable asset sales, solicited offers or a discounted cash flow model. For assets to be held and used, the Company reviews fixed assets for impairment annually during the fourth quarter of each year or whenever indicators of impairment exist. If an indicator of impairment exists, we compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model or market comparables, when available. For the years ended December 31, 2015, 2014 and 2013, there were no impairment charges.

Table of Contents

Change in Accounting Estimate of Depreciable Life of Monarch Casino Black Hawk Parking Structure

In December 2013, the Company began construction of a new parking facility at the Monarch Casino Black Hawk. Upon completion of that new structure, the Company plans to demolish the existing parking structure. At December 31, 2013, the existing parking structure had a net book value of approximately \$4.8 million and a remaining depreciable life of approximately 37 years. The new parking facility was estimated to be completed on March 31, 2015. In accordance with ASC 250-10-45-17, effective January 1, 2014, the Company modified the estimated depreciable life of the existing parking structure to 15 months; the period from January 1, 2014 through the estimated demolition commencement date of March 31, 2015. As a result of this modification to the estimated depreciable life, depreciation expense of the existing parking structure increased by approximately \$0.3 million per month (approximately \$0.2 million net of tax). In July 2014, because of a delayed construction schedule, the Company revised the new parking facility completion date to December 31, 2015. At this time, the existing parking structure had a net book value of approximately \$2.9 million. The Company modified the estimated depreciable life of the existing parking structure to 18 months; the period from July 1, 2014 through the revised estimated demolition commencement date of December 31, 2015. In October 2015, the general contractor notified the Company that further delay is expected and completion is now expected in the second quarter of 2016 at which time demolition of the existing structure will commence. At September 30, 2015, the existing parking structure had a net book value of approximately \$0.4 million. Beginning in October 2015, the Company reduced the monthly depreciation expense to \$0.04 million to reflect the revised depreciable life of the existing parking structure. For the twelve months ended December 31, 2015, the effect of the change in estimate was an increase of depreciation expense by \$1.4 million, a decrease of net income by \$0.9 million and a decrease of basic and diluted earnings per share by \$0.05. For the twelve months ended December 31, 2014, the effect of the change in estimate was an increase of depreciation expense by \$2.9 million, a decrease of net income by \$1.9 million and a decrease of basic and diluted earnings per share by \$0.11.

Goodwill

The Company accounts for goodwill in accordance with ASC Topic 350, Intangibles-Goodwill and Other ( ASC Topic 350 ). ASC Topic 350 gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test as appropriate. The Company tests its goodwill for impairment annually during the fourth quarter of each year, or whenever events or circumstances make it more likely than not that impairment may have occurred. Impairment testing for goodwill is performed at the reporting unit level, and each of the Company's casino properties is considered to be a reporting unit. We perform qualitative analysis to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount by assessing the relevant events and circumstances. If that is the case, the Company utilizes two-step testing process. In the first step, the estimated fair value of each reporting unit is compared with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its estimated fair value, then the goodwill of the reporting unit is considered to be impaired, and impairment is measured in the second step of the process. In the second step, the Company estimates the implied fair value of the reporting unit's goodwill by allocating the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit, as if the reporting unit had been acquired in a business combination. If the carrying value of the reporting unit's goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to that excess.

Table of Contents

Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations in April 2012. As of December 31, 2015 and 2014, we had goodwill totaling \$25.1 million related to the purchase of Black Hawk, Inc. (see NOTE 3).

Finite-Lived Intangible Assets

The Company's finite-lived intangible assets include assets related to its customer relationships which are amortized over its estimated useful life using the straight-line method. The Company periodically evaluates the remaining useful lives of its finite-lived intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The customer relationship intangible asset represents the value associated with Monarch Casino Black Hawk's rated casino guests. The initial fair value of the customer relationship intangible asset was estimated based on the projected net cash flows associated with these casino guests. The recoverability of the Company's customer relationship intangible asset could be affected by, among other things, increased competition within the gaming industry, a downturn in the economy, declines in customer spending which would impact the expected future cash flows associated with the rated casino guests, declines in the number of visitations which could impact the expected attrition rate of the rated casino guests, and erosion of operating margins associated with rated casino guests. Should events or changes in circumstances cause the carrying value of the customer relationship intangible asset to exceed its estimated fair value, an impairment charge in the amount of the excess would be recognized. As of December 31, 2015 and December 31, 2014, the customer relationships net intangible asset balance was \$6.2 million and \$7.4 million, respectively.

The trade name, related to the Riviera Black Hawk name was fully amortized by October 2013 when Riviera Black Hawk was renamed Monarch Casino Black Hawk.

Fair Value Measurement

ASC 820 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for various valuation techniques e.g. market value, income approach and cost approach. The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and



- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The fair value measurements relating to the acquired assets of Monarch Casino Black Hawk were determined using inputs within Level 2 and Level 3 of ASC 820's hierarchy.

Table of Contents

Segment Reporting

The accounting guidance for disclosures about segments of an enterprise and related information requires separate financial information to be disclosed for all operating segments of a business. The Company determined that two of the Company's operating segments, Atlantis and Monarch Casino Black Hawk, meet all of the aggregation criteria stipulated by ASC 280-10-50-11. The Company views each property as an operating segment and the two operating segments have been aggregated into one reporting segment. The December 31, 2013 financial information has been reclassified to be consistent with the current year presentation.

Self-insurance Reserves

We are currently self-insured up to certain stop loss amounts for Atlantis workers' compensation and certain medical benefit costs provided to all of our employees. As required by the state of Colorado, we are fully-insured for Monarch Casino Black Hawk workers' compensation costs. The Company reviews self-insurance reserves at least quarterly. The reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reports prepared by the third party plan administrator for any significant unpaid claims. The company engages a third party actuarial at least once per year for a more precise reserves review and calculation. The reserve is an amount estimated to pay both reported and unreported claims as of the balance sheet date, which management believes is adequate.

Capitalized Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average borrowing cost. Interest capitalization is ceased when the project is substantially complete. The Company capitalized \$533 thousand and \$152 thousand of interest during the years ended December 31, 2015 and 2014, respectively. There was no capitalized interest recorded in 2013.

Revenue Recognition

Casino revenues represent the net win from gaming activity, which is the difference between wins and losses. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts. Food and beverage, hotel, and other operating revenues are recognized as products are delivered or services are performed.

Promotional Allowances

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

The Company's player program allows members, through the frequency of their play at the Company's casino, to earn and accumulate points which may be redeemed for a variety of goods and services. Points may be applied toward room stays at the hotel, food and beverage consumption at the food outlets, gift shop items as well as goods and services at the spa and beauty salon and for cash at our Monarch Casino Black Hawk property. Points earned may also be applied toward off-property events such as concerts, shows and sporting events.

Table of Contents

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The estimated departmental costs of providing such promotional allowances are primarily included in casino operating expenses and are as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Food and beverage	\$ 23,761	\$ 22,855	\$ 21,713
Hotel	3,157	2,893	2,622
Other	2,070	1,732	1,777
	\$ 28,988	\$ 27,480	\$ 26,112

Advertising Costs

All advertising costs are expensed as incurred. Advertising expense, which is included in selling, general and administrative expense, was \$5.2 million, \$5.2 million and \$5.2 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Income Taxes

Income taxes are recorded in accordance with the liability method pursuant to authoritative guidance. Under the asset and liability approach for financial accounting and reporting for income taxes, the following basic principles are applied in accounting for income taxes at the date of the financial statements: (a) a current liability or asset is recognized for the estimated taxes payable or refundable on taxes for the current year; (b) a deferred income tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards; (c) the measurement of current and deferred tax liabilities and assets is based on the provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated; and (d) the measurement of deferred income taxes is reduced, if necessary, by the amount of any tax benefits that, based upon available evidence, are not expected to be realized.

Under the accounting guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50.0% likelihood of being realized upon ultimate settlement. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure.

Gaming Taxes

The Company is subject to taxes based on gross gaming revenue in the jurisdictions in which it operates, subject to applicable jurisdictional adjustments. These gaming taxes are an assessment on the Company's gaming revenue and are recorded as casino expense in the accompanying Consolidated Statements of Income. These taxes totaled \$18.2 million, \$16.0 million and \$16.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with the authoritative guidance requiring that compensation cost relating to stock-based payment transactions be recognized in the Company's consolidated statements of income. The cost is measured at the grant date, based on the calculated fair value of the award using the Black-Scholes option pricing model for stock options, and based on the closing share price of the Company's stock on the grant date for restricted stock awards. The cost is recognized as an expense over the employee's requisite service period (the vesting period of the equity award). The Company's stock-based employee compensation plan is more fully discussed in NOTE 9.

Table of ContentsEarnings Per Share

Basic earnings per share are computed by dividing reported net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution for all potentially dilutive securities such as stock options.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations (in thousands, except per share data):

	2015		Years ended December 31, 2014		2013	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,948	\$ 1.22	16,734	\$ 0.85	16,302	\$ 1.10
Effect of dilutive stock options	387	(0.03)	373	(0.02)	642	(0.04)
Diluted	17,335	\$ 1.19	17,107	\$ 0.83	16,944	\$ 1.06

The following options were not included in the computation of diluted earnings per share because the options exercise prices were greater than the December 31, 2015 closing market price of the common shares and their inclusion would be antidilutive:

	Years ended December 31,		
	2015	2014	2013
Options to purchase shares of common stock	115,536	563,633	418,071
Exercise prices	\$23.09-\$29.00	\$16.66-\$29.00	\$21.65-\$29.00
Expiration dates (month/year)	05/16-12/25	05/15-11/24	05/16-10/23

Fair Value of Financial Instruments

The estimated fair value of the Company's financial instruments has been determined by the Company, using available market information and valuation methodologies. However, considerable judgment is required to develop the estimates of fair value; thus, the estimates provided herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash, account receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. Additionally, the carrying value of our long-term debt approximates fair value due to the variable nature of applicable interest rates and relative short-term maturity.



Table of Contents

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of bank deposits and trade receivables. The Company maintains its surplus cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and accounts receivable. Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded when received. An allowance for doubtful accounts is determined to reduce the Company's receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit-related losses.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by the Nevada and Colorado gaming regulatory bodies. The loss of a license could have a material adverse effect on future results of operations.

The Company is dependent on the northern Nevada and Denver, Colorado markets for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded, the Company's results of operations could be adversely affected.

The Company is dependent on the U.S. economy in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

The Company is dependent upon a stable gaming and admission tax structure in the locations in which it operates. Any change in the tax structure could have a material adverse effect on future results of operations.

Impact of Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update that amends the FASB Accounting Standards Codification and creates a new topic for Revenue from Contracts with Customers. The new guidance is expected to clarify the principles for revenue recognition and to develop a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance also provides substantial revision of interim and annual disclosures. The update allows for either full retrospective adoption, meaning the guidance is applied for all periods presented, or modified retrospective adoption, meaning the guidance is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the guidance recognized at the date of initial application. In July 2015, FASB voted to delay the effective date of the new revenue standard by one year. The new effective date is for the annual and interim periods beginning after



Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

December 15, 2017. Reporting entities may choose to adopt the standard as of the original effective date. The Company plans to adopt this standard effective January 1, 2018. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

Table of Contents

In August 2014, FASB issued an accounting standard update that requires management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Substantial doubt about an entity's ability to continue as a going concern exist when relevant conditions and events, consolidated and aggregated, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statement are issued. Currently, there is no guidance in U.S. GAAP for management's responsibility to perform an evaluation. Under the update, management's evaluation is to be performed when preparing financial statements for each annual and interim reporting period and based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The effective date for this update is for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early application is permitted. The Company will adopt this standard effective January 1, 2017. The adoption of this standard is not expected to not have a material impact on our Consolidated Financial Statements.

In April 2015, FASB issued an accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. In August 2015, FASB issued an accounting standards update which clarifies that the guidance issued in April 2015 does not apply to line-of-credit arrangements. According to the additional guidance, line-of-credit arrangements will continue to present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the arrangement. The effective date for this update is for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company will adopt this standard effective January 1, 2016. The adoption of this standard is not expected to have a material impact on our Consolidated Financial Statements.

In July 2015, FASB issued an accounting standards update which changes the measurement principle for inventories valued under the first-in, first-out or weighted-average methods from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The effective date for this guidance is for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

In November 2015, the FASB issued an accounting standards update which will require entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. Noncurrent balance sheet presentation of all deferred taxes eliminates the requirement to allocate a valuation allowance on a pro rata basis between gross current and noncurrent deferred tax assets. The new guidance may be applied either on prospective or retrospective basis. The effective date for this update was for the annual and interim periods beginning after December 15, 2016 with early adoption permitted. The Company elected to early adopt this guidance during the fourth quarter of 2015 and it did not have a material impact on our Consolidated Financial Statements. We elected to apply the guidance on a prospective basis. Thus, the Consolidated Balance Sheet as of December 31, 2014 was not retrospectively adjusted.

Table of Contents

In February 2016, the FASB issued an accounting standards update which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off-balance sheet financing. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

A variety of proposed or otherwise potential accounting standards are currently under review and study by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, the implementation of any such proposed or revised standards would have on the Company's consolidated financial statements.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	December 31,	
	2015	2014
Casino	\$ 3,317	\$ 2,034
Hotel	599	476
Other	264	854
	4,180	3,364
Less allowance for doubtful accounts	(451)	(317)
	\$ 3,729	\$ 3,047

The Company calculates an allowance for doubtful accounts by applying a percentage, estimated by management based on historical aging experience, to the accounts receivable balance. The Company recorded bad debt expense of \$240 thousand and \$51 thousand in 2015 and 2014, respectively. The Company did not record bad debt expense in 2013 because of the allowance for doubtful accounts percentage resulted in a reduction of the allowance.

NOTE 3. GOODWILL AND INTANGIBLE ASSETS

Goodwill of \$25.1 million at December 31, 2015 represents the excess of total acquisition costs over the fair market value of net assets acquired and liabilities assumed in a business combination. To assist in the Company's determination of the purchase price allocation for the Monarch Casino Black Hawk, the Company engaged a third-party valuation firm regarding the assets acquired and liabilities assumed in its acquisition.

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

Intangible assets consist of the following at December 31, (in thousands except years):

	<b>2015</b>	<b>2014</b>
Customer list	\$ 10,490	\$ 10,490
Trade name	1,590	1,590
<b>Total intangible assets</b>	<b>12,080</b>	<b>12,080</b>
Less accumulated amortization:		
Customer list	(4,290)	(3,124)
Trade name	(1,590)	(1,590)
<b>Total accumulated amortization</b>	<b>(5,880)</b>	<b>(4,714)</b>
Intangible assets, net	\$ 6,200	\$ 7,366
Weighted-average life in years	5.3	6.3

Table of Contents

Amortization expense of \$1.2 million and \$1.2 million was recognized for the years ended December 31, 2015 and 2014, respectively. Estimated amortization expense for the years ending December 31, 2016 through 2020 and thereafter is as follows (in thousands):

Year	Expense
2016	\$ 1,165
2017	1,165
2018	1,165
2019	1,165
2020	1,165
Thereafter	375
Total	\$ 6,200

In connection with business combination accounting, the Company recognized \$1.6 million in a trade name related to the Riviera name. The trade name intangible asset was fully amortized by October 2013 at which time the Company renamed Riviera Black Hawk Casino to Monarch Casino Black Hawk. Customer lists were valued at \$10.5 million, representing the value associated with the future potential customer revenue production and are being amortized on a straight-line basis over nine years.

Intangible assets were valued using the income approach. The Multi-Period Excess Earning Method was used to value the customer list by capitalizing the future cash flows attributable to the customers based upon their expected future mortality dispersion function. The expected revenue from the existing client was estimated by applying a 24.0% attrition rate. To calculate excess earnings attributable to the customer list, the required return on other contributory assets such as tangible assets and identified intangible assets were deducted to estimate income associated with the customer list. The future excess earnings were discounted to the present value by a risk-adjusted discount rate of 12.0%, in order to determine the fair value of the customer list.

The Relief-from-Royalty Method was used to determine the fair value of the trade name. Considering comparable companies and the Company's operation, a 1.0% royalty rate was applied in order to calculate the expected revenue attributable to the trade name. The future cash flows were discounted to the present value by a risk-adjusted discount rate of 11.0% in order to determine the fair value of the trade name.

All goodwill and intangible assets relate to our Black Hawk property. Upon completion of the preliminary purchase price allocation for the Company's acquisition of Monarch Casino Black Hawk, the Company decreased goodwill by \$1.4 million related primarily to modification to the value of certain deferred tax assets in 2012. No changes were made to the carrying amount of goodwill during 2013 and thereafter.

Table of ContentsNOTE 4. ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

	December 31,	
	2015	2014
Accrued salaries, wages and related benefits	\$ 7,756	\$ 5,813
Progressive slot machine and other gaming accruals	9,654	8,457
Accrued gaming taxes	2,396	2,198
Accrued interest	2	2
Other accrued liabilities	2,065	2,857
	\$ 21,873	\$ 19,327

NOTE 5. LEASE COMMITMENTS

A driveway (the Driveway Project ) was completed and opened on September 30, 2004, that is being shared between the Atlantis and the Shopping Center, directly adjacent to the Atlantis. The shopping Center is controlled by the Biggest Little Investments, L.P. ( BLI ).

John Farahi and Bob Farahi, Co-Chairmen of the Board and executive officers of the Company, and Ben Farahi are the three largest stockholders of Monarch and each also beneficially own limited partnership interests in BLI. Maxum LLC is the sole general partner of BLI, and Ben Farahi is the sole managing member of Maxum LLC. Neither John Farahi nor Bob Farahi has any management or operational control over BLI or the Shopping Center. Until May 2006, Ben Farahi formerly held positions of Co-Chairman of the Board, Secretary, Treasurer and Chief Financial Officer of the Company.

As part of the Driveway Project, in January 2004, we leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300 thousand, subject to a cost of living increase on each five year anniversary of the driveway lease. The annual rent for the years 2015, 2014 and 2013 was \$377 thousand, \$350 thousand and \$340 thousand, respectively. In addition, we paid \$84 thousand, \$119 thousand and \$159 thousands respectively for operating expenses to this lease. In August 2015, we exercised our option to extend the lease for three individual five-year terms in addition to the 15 year initial term. At the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the improvements was \$2.0 million of which \$1.35 million was paid by the Company. The cost of the driveway improvements is being depreciated over the 15-year expected economic life of the asset; some components of the driveway are being depreciated over a shorter period of time.

On August 28, 2015, the Company, through its subsidiary Golden Road, entered into a 20-year lease (the Parking Lot Lease) with BLI, L.P. with respect to a portion of the Shopping Center. This lease gives the Atlantis the right to use a parcel, approximately 4.2 acres, comprised of commercial building and surrounding land adjacent to the Atlantis. The primary purpose of the Parking Lot Lease is to provide additional, convenient, Atlantis surface parking. We have demolished the commercial building and are in the process of converting the now vacant land into approximately 300 additional surface parking spaces for the Atlantis. The minimum annual rent under the Parking Lot Lease is \$695 thousand,

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

commencing on November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five year anniversary. We have an option to extend the Parking Lot Lease for an additional 10-year term. If we elect not to exercise the renewal option, we will be obligated to pay BLI \$1.6 million.

Table of Contents

The Company accounts for its rental expense using the straight-line method over the original lease term. Rental increases based on the change in the CPI are contingent and accounted for prospectively.

Following is a summary of future minimum payments under operating leases that have initial or remaining non-cancelable lease terms for the next five years (in thousands):

Year ending December 31,	<b>Operating Leases</b>	
2016	\$	1,071
2017		1,071
2018		1,071
2019		1,071
2020		1,071
<b>Total minimum lease payments</b>	<b>\$</b>	<b>5,355</b>

Rental expense for operating leases amounted to \$1,039 thousand, \$889 thousand and \$907 thousand in 2015, 2014 and 2013, respectively, as reported in selling, general and administrative expenses in the Consolidated Statements of Income.

NOTE 6. LONG-TERM DEBT

On November 15, 2011, we amended and restated our \$60.0 million Credit Facility with a new facility (as amended, the Credit Facility ). We utilized the Credit Facility to finance the acquisition of the Monarch Casino Black Hawk and the Credit Facility is available to be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements.

Borrowings are secured by liens on substantially all of the Company's real and personal property.

The Credit Facility contains customary covenants for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of the Company's assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets and make certain investments. The Credit Facility contains covenants requiring that the Company maintain certain financial ratios and achieves a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization and other non-cash charges ( Adjusted EBITDA ) on a trailing four-quarter basis. It also contains provisions that restrict cash transfers between Monarch and its affiliates and contains provisions requiring the achievement of certain financial ratios before the Company can repurchase common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

In addition to other customary covenants for a facility of this nature, as of December 31, 2015, we are required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 2.0:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of December 31, 2015, the Company's leverage ratio and fixed charge coverage ratios were



0.8:1 and 42.0:1, respectively.

The Credit Facility is structured to reduce the maximum principal available by \$1.5 million each quarter. The Credit Facility also allows us to permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$0.5 million and a multiple of \$50,000. During the second quarter of 2015 we exercised this option and permanently reduced the amount available under the credit facility by \$20 million and in the fourth quarter of 2015 by an additional \$15 million. As of December 31, 2015 the maximum principle available under the credit facility is \$48.5 million.

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

### Table of Contents

The maturity date of the Credit Facility is November 15, 2016. As such, the entire amount outstanding under the credit facility at December 31, 2015 of \$40.9 million is classified as a current liability in the Consolidated Balance Sheet as of December 31, 2015.

At December 31, 2014, our leverage ratio was such that pricing for borrowings under the Credit Facility was LIBOR plus 1.5%. At December 31, 2014, the one-month LIBOR interest rate was 0.17%. The carrying value of the debt outstanding under the Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

Subject to entering into a new or amended credit facility with sufficient borrowing capacity to refinance the outstanding balance and to complete the Black Hawk Expansion Plan, we believe, based on the relationship with our current lenders and our recent and projected financial performance, that our existing cash balances, cash flow from operations and borrowings available under the existing, amended or new Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital.

### NOTE 7. TAXES

#### Income Taxes

The Company's income tax provision (benefit) consists of the following (in thousands):

	Years ended December 31,		
	2015	2014	2013
Federal	\$ 11,968	\$ 6,935	\$ 9,856
State	359	46	396
Current tax provision	12,327	6,981	10,252
Federal	(1,117)	637	(108)
State	7	(688)	490
Deferred tax (benefit) provision	(1,110)	(51)	382
Total tax provision	\$ 11,217	\$ 6,930	\$ 10,634

The income tax provision differs from that computed at the federal statutory rate as follows:

	Years ended December 31,		
	2015	2014	2013
Federal tax at the statutory rate	35.00%	35.00%	35.00%
State tax (net of federal benefit)	0.72%	(1.84)%	1.33%
Permanent items	0.34%	3.49%	0.45%

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

Tax credits	(0.73)%	(1.03)%	(0.77)%
Other	(0.14)%	(2.80)%	1.18%
	35.19%	32.82%	37.19%

Table of Contents

The effective tax rate increased in 2015 compared to 2014 because of the effect of tax planning strategies implemented in 2014. Tax planning strategies implemented during 2014 resulted in an decrease of the effective tax rate when compared to 2013.

The Company recorded \$865 thousand, \$386 thousand and \$413 thousand as increases to contributed capital from certain tax benefits for employee stock-based compensation for the years ended December 31, 2015, 2014 and 2013, respectively.

The components of the deferred income tax assets and liabilities at December 31, 2015 and 2014, as presented in the consolidated balance sheets, are as follows (in thousands):

	2015	2014
<b>DEFERRED TAX ASSETS</b>		
Stock-based compensation	\$ 2,039	\$ 2,156
Compensation and benefits	1,033	744
Bad debt reserves	163	114
Accrued expenses	1,695	1,663
Fixed assets and depreciation	2,626	1,615
Base stock	10	1
State Taxes	133	
NOLs & credit carry-forwards	3,831	4,322
Deferred income tax asset	\$ 11,530	\$ 10,615
<b>DEFERRED TAX LIABILITIES</b>		
Intangibles and amortization	\$ (2,235)	\$ (2,649)
Prepaid expenses	(1,279)	(984)
Real estate taxes	(150)	(290)
Other Reserves	(95)	(24)
Federal deduction on deferred state taxes	(356)	(360)
Deferred income tax liability	\$ (4,115)	\$ (4,307)
<b>NET DEFERRED INCOME TAX ASSET</b>	<b>\$ 7,415</b>	<b>\$ 6,308</b>

The Company early adopted ASU No. 2015-17, at December 31, 2015 which simplifies presentation of the deferred tax assets and liabilities by allowing all such balances to be treated as noncurrent. The Company reclassified \$2.8 million of current net deferred tax asset as noncurrent. The 2014 deferred tax assets have not been reclassified to conform to this presentation.

As of December 31, 2015 the Company had \$7.4 million of federal net operating loss ( NOL ) carryforwards, general business credit ( GBC ) carryforwards of \$0.3 million and \$19.5 million of state NOL carryforwards, acquired as part of the Monarch Casino Black Hawk (formerly Rivera Black Hawk) acquisition. The federal NOL carryforwards expire in 2020 through 2031. The federal GBC carryforwards expire in 2022 through 2031. The state NOL carryforwards expire in 2022 through 2032.

Table of Contents

The acquired federal and state NOL and federal GBC carryforwards are subject to Internal Revenue Code change of ownership limitations. Accordingly, future utilization of the carryforwards is subject to an annual base limitation of \$1.25 million that can be applied against future taxable income.

The Company acquired NOLs of Monarch Black Hawk generated in tax years 2000 through 2012. The statute of limitation for assessment for these NOL years is determined by reference to the year the NOL is used to reduce taxable income. Consequently, the separate returns that included Monarch Black Hawk remain subject to examination by the Internal Revenue Service (the IRS). The Company's income tax returns from 2012 forward are subject to examination by the IRS.

Accounting standards require that tax positions be assessed for recognition using a two-step process. A tax position is recognized if it meets a more likely than not threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts. The Company's policy regarding interest and penalties associated with uncertain tax positions is to classify such amounts as income tax expense.

No uncertain tax positions were recorded as of December 31, 2015, 2014 and 2013. No change in uncertain tax positions is anticipated over the next twelve months.

No interest expense or penalties for uncertain tax positions were recorded for years ended December 31, 2015, 2014 and 2013.

Sales and Use Tax on Complimentary Meals

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the Department), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals were exempt from use tax. As a result of this decision, refund claims were filed for use taxes paid over the period April 1997 through March 2000 and the period February 2005 through June 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino property. We requested refunds totaling approximately \$1.6 million, excluding interest (the Refunds). We have not recognized any of these amounts.

In February 2012, the Department issued a policy directive, requesting that affected taxpayers begin collecting and remitting sales tax on complimentary meals and employee meals effective February 2012 and on June 25, 2012, the Nevada Tax Commission adopted regulations providing for a similar requirement. Subject to these regulations we accrued \$0.6 million through June 2013 related to this directive.

The Department policy directive was challenged by several affected parties and in June 2013, the Nevada Tax Commission issued a ruling that complimentary and employee meals were no longer subject to sales taxation. Associated with the ruling, the Nevada hotel-casino industry, including the Company, agreed to forego and cause to be withdrawn certain pending use tax refund requests. Pursuant to that agreement, we withdrew our request for the Refunds. As a result of the ruling, we reversed the accumulated sales tax expense accrual totaling \$0.6 million in the second quarter of 2013.



Table of ContentsNOTE 8. BENEFIT PLANS

Savings Plan - Effective November 1, 1995, the Company adopted a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating employees may defer up to 100% of their pre-tax compensation, but not more than statutory limits. The Company's matching contributions were approximately \$318 thousand, \$283 thousand, and \$283 thousand for years ended December 31, 2015, 2014 and 2013, respectively.

NOTE 9. STOCK-BASED COMPENSATION

On May 21, 2014, we adopted the 2014 Equity Incentive Plan (the 2014 Plan). The purposes of the 2014 Plan are to attract and retain the best available personnel, to provide additional incentives to employees, directors and consultants and to promote the success of the Company's business. The 2014 Plan is an omnibus plan under which stock options, stock appreciation rights, performance awards, dividend equivalents, restricted stock, and restricted stock units can be awarded to employees, directors and consultants of the Company. The 2014 Plan serves as the successor to our 1993 Employee Stock Option Plan, 1993 Executive Long-Term Incentive Plan and 1993 Directors' Stock Option Plan (which plan terminated on June 13, 2013) (the Predecessor Plans). The 2014 Plan became effective as of May 21, 2014 and the remaining two Predecessor Plans terminated on that date (except with respect to awards previously granted under the Predecessor Plans that remain outstanding).

The share reserve under the 2014 Plan includes 1,000,000 new shares and the shares available for grant or subject to outstanding awards under the Predecessor Plans, for an aggregate amount of up to 2,453,506 common shares as of December 31, 2015. By its terms, the 2014 Plan will expire in May 2024 after which no options may be granted unless the 2014 Plan is amended or replaced.

Pursuant to the terms of the 2014 Plan, either the Board or a committee designated by the Board is authorized to administer the plan. The administrator has the authority, in its discretion, to select employees, consultants and directors to whom awards under the 2014 Plan may be granted from time to time, to determine whether and to what extent awards are granted, to determine the number of shares or the amount of other consideration to be covered by each award (subject to certain limitations), to approve award agreements for use under the 2014 Plan, to determine the terms and conditions of any award (including the vesting schedule applicable to the award), to amend the terms of any outstanding award granted under the 2014 Plan (subject to certain limitations), to construe and interpret the terms of the 2014 Plan and awards granted, and to take such other action not inconsistent with the terms of the 2014 Plan as the administrator deems appropriate.

A summary of the stock option activity as of and for the year ended December 31, 2015 is presented below:

Options	Shares	Exercise Price	Weighted Average	Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	2,002,203	\$	13.73		
Granted	492,957		18.94		
Exercised	(389,905)		10.00		
Forfeited	(66,668)		14.81		

Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

Expired					
Outstanding at end of period	2,038,587	\$	15.66	7.1 yrs.	\$ 15,080,254
Exercisable at end of period	798,583	\$	14.08	4.8 yrs.	\$ 7,592,610



## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

### Table of Contents

A summary of the status of the Company's nonvested shares as of, and for the year ended, December 31, 2015 is presented below:

Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2015	1,173,143	\$ 3.91
Granted	492,957	5.87
Vested	(359,428)	2.90
Forfeited	(66,668)	4.05
Nonvested at December 31, 2015	1,240,004	\$ 4.97

### Expense Measurement and Recognition:

The Company recognizes stock-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Unrecognized costs related to all stock-based awards outstanding at December 31, 2015 totaled approximately \$4.2 million and is expected to be recognized over a weighted average period of 2.6 years.

The Company uses historical data and projections to estimate expected employee, executive and director behaviors related to option exercises and forfeitures.

The Company estimates the fair value of each stock option award on the grant date using the Black-Scholes valuation model incorporating the assumptions noted in the following table. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimate. Option valuation assumptions for options granted during each year were as follows (in thousands, except per share amounts and percentages):

	Years ended December 31,		
	2015	2014	2013
Expected volatility	39.10%	34.95%	37.03%
Expected dividends			
Expected life (in years)			
Directors' plan	3.97	3.59	3.32
Executives plan	4.28	4.31	4.48
Employees plan	3.97	3.59	3.32
Weighted average risk free rate	1.14%	1.06%	0.85%
Weighted average grant date fair value per share of options granted	\$ 5.90	\$ 4.02	\$ 5.38
Total fair value of shares vested	\$ 1,041	\$ 913	\$ 1,123
Total intrinsic value of options exercised	\$ 4,321	\$ 8,921	\$ 2,737
Cash received for all stock option exercises	\$ 3,900	\$ 12,595	\$ 3,438
Tax benefit realized from stock awards exercised	\$ 1,512	\$ 3,122	\$ 958



Table of Contents

The risk-free interest rate is based on the U.S. treasury security rate in effect as of the date of grant. The expected lives of options are based on historical data of the Company. The Company has determined that an implied volatility is more reflective of market conditions and a better indicator of expected volatility as compared to the Company's experience.

Reported stock-based compensation expense was classified as follows (in thousands):

	For the years ended December 31,		
	2015	2014	2013
Casino	\$ 58	\$ 45	\$ 20
Food and beverage	85	68	33
Hotel	21	11	3
Selling, general and administrative	1,380	1,102	1,164
Total stock-based compensation, before taxes	1,544	1,226	1,220
Tax benefit	(540)	(429)	(427)
Total stock-based compensation, net of tax	\$ 1,004	\$ 797	\$ 793

NOTE 10: STOCK REPURCHASE PLAN

On October 22, 2014, the board of directors authorized a stock repurchase plan (the Repurchase Plan). Under the Repurchase Plan, the board of directors authorized a program to repurchase up to 3,000,000 shares of the Company's common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements and other factors. The Repurchase Plan does not obligate the Company to acquire any particular amount of common stock and the plan may be suspended at any time at our discretion, and it will continue until exhausted. The actual timing, number and value of shares repurchased under the Repurchase Program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's stock, general market economic conditions and applicable legal requirements. The Company has made no purchases under the Repurchase Plan.

NOTE 11. COMMITMENTS AND CONTINGENCIES

*Self-Insurance:* The Company is self-insured for health care claims for eligible active employees. Benefit plan administrators assist the Company in determining its liability for self-insured claims, and such claims are not discounted. Black Hawk's health plan has stop-loss insurance whereby the Company retains the first \$250,000 of liability for individual health care claims. The Company's liability on the Atlantis health plan is limited to the first \$250,000 of claims plus 10% of claims above \$250,000.

The Company is also self-insured for Atlantis workers' compensation. The maximum liability for workers' compensation under the Atlantis stop-loss agreement is \$500,000 per claim. The Company is fully-insured for Monarch Casino Black Hawk workers' compensation claims.

We are party to other claims that arise in the normal course of business. Management believes that the outcomes of such claims will not have a material adverse impact on our financial condition, cash flows or results of operations.

Table of Contents

NOTE 12. RELATED PARTY TRANSACTIONS

The shopping center adjacent to the Atlantis (the Shopping Center ) is owned by Biggest Little Investments, L.P. ( BLI ). John Farahi and Bob Farahi, Co-Chairmen of the Board and executive officers of the Company, and Ben Farahi are the three largest stockholders ( Farahi Family Stockholders ) of Monarch and each also beneficially own limited partnership interests in BLI. Maxum LLC is the sole general partner of BLI, and Ben Farahi is the sole managing member of Maxum LLC. Neither John Farahi nor Bob Farahi has any management or operational control over BLI or the Shopping Center. Until May 2006, Ben Farahi formerly held positions of Co-Chairman of the Board, Secretary, Treasurer and Chief Financial Officer of the Company.

On August 28, 2015, Monarch, through its subsidiary Golden Road, entered into a 20-year lease agreement with BLI for a portion of the Shopping Center (the Parking Lot Lease ) consisting of an approximate 46,000 square-foot commercial building on approximately 4.15 acres of land adjacent to the Atlantis (the Leased Property ). We have demolished the building and are in the process of converting the now vacant land into approximately 300 additional surface parking spaces for the Atlantis. The minimum annual rent under the Parking Lot Lease is \$695 thousand commencing on November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five year anniversary. In addition, we are responsible for payment of property taxes, utilities and maintenance expenses related to the Leased Property. We have an option to renew the Parking Lot Lease for an additional 10-year term. If we elect not to exercise its renewal option, we will be obligated to pay BLI \$1.6 million. For the years ended December 31, 2015, the Company paid \$85 thousand in rent, plus \$12 thousand for operating expenses to this lease.

In addition, we share a driveway with and lease approximately 37,000 square-feet from BLI (the Driveway Lease ) for an initial lease term of 15 years, which commenced on September 30, 2004, at an original annual rent of \$300 thousand plus common area expenses. The annual rent is subject to a cost of living adjustment increase on each five year anniversary of the Driveway Lease. Effective August 28, 2015, in connection with the Parking Lot Lease, the Driveway Lease was amended to: (i) make the Company solely responsible for the operation and maintenance costs of the shared driveway (including the fountains thereon); (ii) eliminate the Company's obligation to reimburse the Shopping Center for its proportionate share of common area expenses; and (iii) exercise the three successive five-year renewal terms beyond the initial 15 year term in the existing Driveway Lease Agreement. At the end of the renewal terms, we have the option to purchase the leased driveway section of the Shopping Center. As of December 31, 2015, the annual rent is \$377 thousand. For the years ended December 31, 2015, 2014 and 2013, the Company paid \$377 thousand, \$350 thousand and \$340 thousands respectively in rent, plus \$84 thousand, \$119 thousand and \$159 thousands respectively for operating expenses to this lease.

We occasionally lease billboard advertising, storage space and parking lot space from affiliates controlled by Farahi Family Stockholders and paid \$142 thousand, \$125 thousand and \$123 thousand for the years ended December 31, 2015, 2014 and 2013, respectively.

Table of ContentsNOTE 13. SUBSEQUENT EVENTS

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the consolidated financial statements.

NOTE 14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents selected quarterly financial information for 2015 and 2014 (in thousands, except per share amounts):

	2015		2015		2015		2015		2015	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total					
Net revenues	\$ 47,171	\$ 50,013	\$ 53,576	\$ 51,485	\$ 202,245					
Operating expenses	40,700	41,965	43,527	43,498	169,690					
Income from operations	6,471	8,048	10,049	7,987	32,555					
Net income	4,043	5,099	6,394	5,123	20,659					
Income per share of common stock										
Basic	\$ 0.24	\$ 0.30	\$ 0.38	\$ 0.30	\$ 1.22					
Diluted	\$ 0.24	\$ 0.29	\$ 0.37	\$ 0.29	\$ 1.19					

	2014		2014		2014		2014		2014	
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total					
Net revenues	\$ 45,508	\$ 47,803	\$ 48,597	\$ 45,859	\$ 187,767					
Operating expenses	40,177	42,335	41,931	41,105	165,548					
Income from operations	5,331	5,468	6,666	4,754	22,219					
Net income	3,276	3,024	4,074	3,811	14,185					
Income per share of common stock										
Basic	\$ 0.20	\$ 0.18	\$ 0.24	\$ 0.23	\$ 0.85					
Diluted	\$ 0.19	\$ 0.18	\$ 0.24	\$ 0.22	\$ 0.83					

Table of Contents

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K (the Evaluation Date ), an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the evaluation date. No changes were made to our internal control over financial reporting (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears in Item 8 of this Form 10-K.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

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

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 8, 2016. We expect to file the Company's Proxy Statement with the Commission not later than April 29, 2016.



Table of Contents**ITEM 11. EXECUTIVE COMPENSATION**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 8, 2016. We expect to file the Company's Proxy Statement with the Commission not later than April 29, 2016.

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

Following is information related to the Company's equity compensation plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (F1)	2,038,587	\$ 15.66	414,919
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>2,038,587</b>	<b>\$ 15.66</b>	<b>414,919</b>

(F1) Includes the 1993 Directors' Stock Option Plan, 1993 Employee Stock Option Plan and 1993 Executive Long-Term Incentive Plan, as amended, and the 2014 Equity Incentive Plan.

Additional information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 8, 2016. We expect to file the Company's Proxy Statement with the Commission not later than April 29, 2016.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 8, 2016. We expect to file the Company's Proxy Statement with the Commission not later than April 29, 2016.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 8, 2016. We expect to file the Company's Proxy Statement with the Commission not later than April 29, 2016.

Table of Contents

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a)(1). Financial Statements

Included in Part II, Item 8 of this report:

a) Report of Independent Registered Public Accounting Firm

b) Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013.

c) Consolidated Balance Sheets at December 31, 2015 and 2014.

d) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013.

e) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013.

f) Notes to Consolidated Financial Statements.

(a)(2). Financial Statements Schedules (in thousands)

Table of Contents

## Schedule II. - VALUATION AND QUALIFYING ACCOUNTS

<b>Year ended December 31,</b>	<b>Balance at beginning of year</b>	<b>Charged to costs and expenses (F1)</b>	<b>Deductions (F1)</b>	<b>Other</b>	<b>Balance at end of year</b>
<u>2013</u>					
Allowance for doubtful accounts	\$ 729	\$ (230)	\$ (128)	\$	\$ 371
<u>2014</u>					
Allowance for doubtful accounts	\$ 371	\$ 51	\$ (105)	\$	\$ 317
<u>2015</u>					
Allowance for doubtful accounts	\$ 317	\$ 240	\$ (106)	\$	\$ 451

(F1) The Company reviews receivables monthly and, accordingly, adjusts the allowance for doubtful accounts monthly. The Company records write-offs annually. The amount charged to costs and expenses reflects the bad debt expense recorded in the consolidated statements of income, while the amount recorded for deductions reflects the adjustment to actual allowance for doubtful accounts reserve at the end of the period.

Table of Contents

(a)(3) **Exhibits**

Number	Exhibit Description
2.01	Stock Purchase Agreement dated as of September 29, 2011 by and between Monarch Casino & Resort, Inc., Monarch Growth Inc. (a wholly owned subsidiary of Monarch Casino and Resort, Inc.), Riviera Operating Corporation, Riviera Holdings Corporation and Riviera Black Hawk, Inc. is incorporated herein by reference to Exhibit 2.1 to the Company's Form 8-K/A (SEC File 0-22088) filed on October 4, 2011.
3.01	Articles of Incorporation of Monarch Casino & Resort, Inc., filed June 11, 1993 are incorporated herein by reference to Exhibit 3.01 to the Company's Form S-1 registration statement (SEC File 33-64556).
3.02	Bylaws of Monarch Casino & Resort, Inc., adopted June 14, 1993 and amended January 24, 1995, and March 27, 2009 and June 1, 2012 are incorporated herein by reference to Exhibit 3.02 to the Company's Form 10-K (SEC 0-22088) for the year ended December 31, 2012.
4.01	Specimen Common Stock Certificate for the Common Stock of Monarch Casino & Resort, Inc. is incorporated herein by reference to Exhibit 4.01 to the Company's Form S-1 registration statement (SEC File 33-64556).
4.02+	Amended and Restated Monarch Casino & Resort, Inc. 1993 Directors' Stock Option Plan is incorporated herein by reference to Exhibit 4.02 to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 1998.
4.03+	First Amendment to the Amended and Restated 1993 Directors' Stock Option Plan is incorporated herein by reference to Exhibit 10.5 to the Company's Form 10-Q (SEC File 0-22088) for the quarterly period ended September 30, 2013.
4.04+	Monarch Casino & Resort, Inc. 1993 Executive Long-Term Incentive Plan, as amended, is incorporated herein by reference to Appendix B to the Company's Proxy Statement (SEC File 0-22088) filed on March 25, 2011.
4.05+	Seventh Amendment to the 1993 Executive Long Term Incentive Plan is incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-Q (SEC File 0-22088) for the quarterly period ended September 30, 2013.
4.06+	Monarch Casino & Resort, Inc. 1993 Employee Stock Option Plan, as amended, is incorporated herein by reference to Appendix A to the Company's Proxy Statement (SEC File 0-22088) filed on March 25, 2011.
4.07+	Eighth Amendment to the 1993 Employee Stock Option Plan is incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q (SEC File 0-22088) for the quarterly period ended September 30, 2013.

## Edgar Filing: MONARCH CASINO & RESORT INC - Form 10-K

### Table of Contents

- 4.08+ 2014 Equity Incentive Plan is incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K (SEC File 0-22088) filed on May 23, 2014.
- 10.1+ Non-standardized 401(k) Plan Adoption Agreement between Monarch Casino & Resort, Inc. and Smith Barney Shearson dated November 7, 1995 is incorporated herein by reference to Exhibit 10.21 to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995.
- 10.02 Trademark Agreement between Golden Road Motor Inn, Inc. and Atlantis Lodge, Inc., dated February 3, 1996 is incorporated herein by reference to Exhibit 10.23 to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995.
- 10.03 Lease Agreement and Option to Purchase dated as of January 29, 2004, between Golden Road Motor Inn, Inc. as Lessee and Biggest Little Investments, L.P. as Lessor is incorporated herein by reference to Exhibit 10.18 to the Company's Form 10-K (SEC File 0-22088) dated March 11, 2004.
- 10.04 First Amendment to Lease Agreement and Option to Purchase dated as of August 25, 2015, between Golden Road Motor Inn, Inc. as Lessee and Biggest Little Investments, L.P. as Lessor is incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K (SEC File 0-22088) filed September 3, 2015
- 10.05 Lease Agreement dated as of August 28, 2015, between Golden Road Motor Inn, Inc. as Lessee and Biggest Little Investments, L.P. as Lessor is incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (SEC File 0-22088) filed September 3, 2015.
- 10.06 Second Amended and Restated Credit Agreement, dated as of November 15, 2011, among Monarch Casino & Resort, Inc., Golden Road Motor Inn, Inc. and Monarch Growth Inc., as Borrowers, the Lenders named therein, and Wells Fargo Bank, National Association, as Administrative Agent, L/C Issuer, Swing Line Lender and Lead Arranger and Wells Fargo Securities, LLC, as Lead Arranger and Sole Book runner, Bank of America N.A., as Syndication Agent as incorporated herein by reference to Exhibit 10.04 to the Company's Form 10-K (SEC File 0-22088) dated March 13, 2012.
- 10.07+ Agreement to pay severance to Ronald Rowan as described under the heading "Executive Compensation - Other Employment Related Agreements" in the Company's Proxy Statement (SEC File 0-22088) filed on March 28, 2013.
- 10.08+ Agreement to pay severance to Ronald Rowan as described under Item 5.02 of the Company's Form 8-K (SEC File 0-22088) filed February 8, 2016.
- 21.01 List of Subsidiaries of Monarch Casino & Resort, Inc. is incorporated herein by reference to Exhibit 21.01 to the Company's Form 10-K (SEC File 0-22088) for the year ended December 31, 2012.
- 23.1 Consent of Independent Registered Public Accounting Firm\*
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

Table of Contents

31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*
101.INS	XBRL Instance*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Labels*
101.PRE	XBRL Taxonomy Extension Presentation*

---

\* filed herewith.

+ denote management contracts or compensatory plans or arrangements.

Table of Contents

**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.

MONARCH CASINO & RESORT, INC.

(Registrant)

Date: March 11, 2016

By: */s/ RONALD ROWAN*  
 Ronald Rowan, Chief Financial Officer  
 (Principal Financial Officer and Duly Authorized Officer)

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 and in the capacities and on the dates indicated.

Signature	Title	Date
<i>/S/ JOHN FARAHI</i> John Farahi	Co-Chairman of the Board of Directors Chief Executive Officer (Principal Executive Officer) and Director	March 11, 2016
<i>/S/ BOB FARAHI</i> Bob Farahi	Co-Chairman of the Board of Directors, President, Secretary and Director	March 11, 2016
<i>/S/ RONALD ROWAN</i> Ronald Rowan	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 11, 2016
<i>/S/ PAUL ANDREWS</i> Paul Andrews	Director	March 11, 2016
<i>/S/ YVETTE E. LANDAU</i> Yvette E. Landau	Director	March 11, 2016
<i>/S/ CRAIG F. SULLIVAN</i> Craig F. Sullivan	Director	March 11, 2016