

MONARCH CASINO & RESORT INC

Form 10-K

March 14, 2018

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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, 2017

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The Nasdaq Stock Market LLC  (Nasdaq-GS)

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer  
Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

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

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

The aggregate market value of voting and non-voting common equity held by nonaffiliates as of June 30, 2017, based on the closing price as reported on The Nasdaq Stock Market (SM) of \$30.25 per share, was approximately \$398.5 million.

As of March 9, 2018, Registrant had 17,775,111 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2018 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.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) regarding our expectations and beliefs concerning the timing, cost and impact of our Monarch Black Hawk Expansion and other projects; business prospects; business strategies and outlook; competitive advantages and sources of competition; marketing strategy; approvals and licensing requirements; employee relations; capital requirements; anticipated source of funds and adequacy of such funds to meet our capital requirements; financial condition, legal matters 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,” “sh,” “enable,” or similar words or expressions are used in this Form 10-K, as well as statements containing phrases such as “in our view,” “we cannot assure you,” “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 ability to successfully implement our business and growth strategies;
- our dependence on two resorts;
- our ability to successfully complete potential acquisitions and investments;
- successful integration of acquisitions;
- our ability to realize the anticipated benefits of our expansion and renovation projects, including the Monarch Black Hawk Expansion;
- risks related to development and construction activities (including disputes with and defaults by contractors and subcontractors; construction, equipment or staffing problems; shortages of materials or skilled labor; environment, health and safety issues; and unanticipated cost increases);
- risks related to our present indebtedness and future borrowings;
- adverse trends in the gaming industries;
- changes in 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 ability to meet our debt obligations;
- the impact of rising interest rates and our ability to refinance debt as it matures at commercially reasonable rates or at all;

our ability to continue to comply with the covenants and terms of our credit instruments;

- ability of large stockholders to influence our affairs;
- 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 and regulatory approvals;
- any violations by us of the anti-money laundering laws;
- cybersecurity risks, including misappropriation of customer information or other breaches of information security;
- impact of natural disasters, severe weather, terrorist activity and similar events;
- competitive environment, including increased competition in our target market areas;

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- increases in the effective rate of taxation at any of our properties or at the corporate level;
- our ability to successfully estimate the impact of accounting, tax and legal matters; 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, except as required by law. New risks emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements.

ITEM 1. BUSINESS

Monarch Casino & Resort, Inc. was incorporated in Nevada in 1993 and, along with its consolidated subsidiaries, is referred to collectively in this Annual Report on Form 10-K as “Monarch”, “we”, “our” and “us”. Monarch owns and operates the Atlantis Casino Resort Spa, a hotel and casino in Reno, Nevada (the “Atlantis”) and Monarch Casino Black Hawk, a casino in Black Hawk, Colorado. In addition, we own separate parcels of land located next to the Atlantis, a parcel of land located next to the Monarch Casino Black Hawk and a parcel of land with an industrial warehouse located between Denver, Colorado and Monarch Casino Black Hawk. We also own Chicago Dogs Eatery, Inc. and Monarch Promotional Association, both of which were formed in relation to extended licensure requirements for extended hours of liquor operation in Black Hawk, Colorado.

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. We focus on delivering exceptional service and value to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

Our principal executive offices are located at 3800 S. Virginia Street, Reno, Nevada 89502; telephone (775) 335-4600. Our website address is [www.monarchcasino.com](http://www.monarchcasino.com). We make available, free of charge, 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 Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

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 1,425 slot and video poker machines; approximately 37 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.

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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, average daily room rate (“ADR”) and revenue per available room (“REVPAR”), calculated by dividing total hotel revenue by total rooms available at the Atlantis for the following periods were:

	Year Ended December 31,					
	2017		2016		2015	
Occupancy rate	89.4	%	88.2	%	89.7	%
ADR	\$ 81.46		\$ 79.52		\$ 76.92	
REVPAR	\$ 82.40		\$ 77.50		\$ 75.24	

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:

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- The 475-seat, all new, Toucan Charlie's Buffet & Grill, which offers a wide variety of food selections from around the globe including a carving station, live action Pho and Mongolian Bar-b-que, made-to-order salads, artisan charcuterie with a variety of imported and domestic cheeses, and an expansive array of desserts from our in-house bakery including house made gelato;
- 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 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

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- 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 on Highway 119. The Monarch Casino Black Hawk features approximately 30,000 square feet of casino space, 740 slot machines, 14 table games, a 250-seat buffet-style restaurant, a snack bar and a nine-story parking structure with approximately 1,350 spaces, plus valet parking bringing total parking capacity to 1,500 spaces.

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. 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. 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. In the fourth quarter of 2013, we began work on a multi-phased expansion of the Monarch Casino Black Hawk, which we refer to herein as the "Monarch Black Hawk Expansion Plan." The first phase of the Monarch Black Hawk Expansion Plan has been completed with the opening in November 2016 of our nine-story parking facility with about 1,350 spaces. Construction of a new hotel tower and casino expansion on the old parking structure site is under way (see CAPITAL SPENDING AND DEVELOPMENT – Monarch Black Hawk Expansion Plan). Once completed, the Monarch Black Hawk Expansion Plan 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 and associated support facilities. We currently expect completion of the entire expansion in the second quarter of 2019.

Our Monarch Black Hawk Expansion Plan 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 \$46.8 million in 2017, \$24.9 million in 2016 and \$38.1 million in 2015. During 2017, 2016 and 2015, capital expenditures related primarily to the redesign and upgrade of the existing Monarch Casino Black Hawk, the Monarch Black Hawk Expansion Plan, the acquisition of a parcel of land with an industrial warehouse in proximity to the Monarch Casino Black Hawk, the major redesign and upgrade of the Toucan Charlie's Buffet at Atlantis and the acquisition of gaming equipment to upgrade and replace existing equipment at both of our properties.

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Expansion potential at the Atlantis is twofold. First, we could further expand our existing hotel and casino, thereby providing more hotel rooms, casino floor space, restaurants and other amenities. Second, we could develop the 16-acre parcel of land that we own across South 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 of land 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 through administrative and other non-operational uses.

On August 28, 2015, we 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 (the "Shopping Center"). This lease gives the Atlantis the right to use a parcel, approximately 4.2 acres, comprised of a commercial building and surrounding land. We demolished the building and converted the land into approximately 300 additional convenient surface parking spaces for Atlantis guests.

## Marketing Strategy

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

The Reno/Sparks region is a major gaming and leisure destination with aggregate gaming revenues of approximately \$740 million (as reported by the Nevada Gaming Control Board for the twelve months ended December 31, 2017).

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.



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Conventioneers: Convention business, like package tour and travel business, supplements occupancy during lower-demand periods. Conventioneers also typically pay higher average room rates than non-conventioneers. 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.

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.

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 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 property, bringing to the facility's interior the same quality, ambiance and finishes to that of the ongoing master planned expansion. In November 2016, we opened our elegant new parking facility for guest use. The completion and opening of the new parking structure is an important milestone in the Black Hawk expansion project and towards transforming the property into a luxurious full-scale resort destination that will 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, 2017 Gaming Revenue Report published by the Nevada 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, 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, afford us a distinct competitive advantage in attracting conventioners.

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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.

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 21 casinos, which generated approximately \$690 million in gaming revenues for the twelve months ended December 31, 2017 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, and both 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 guests' 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.

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### Regulation and Licensing

We may not own, manage or operate a gaming facility unless we obtain proper licenses, permits and approvals. Applications for a license permit or approval may generally be denied for reasonable cause. Most regulatory authorities license, investigate, and determine the suitability of any person who has a material relationship with us. Persons having material relationships include officers, directors, employees, and certain security holders. We believe that we have obtained, applied for, or are in the process of applying for all necessary registrations, approvals, permits, licenses, and findings of suitability with respect to such persons affiliated with our licensed gaming operations, although the gaming authorities, in their discretion, may require additional persons to file applications for findings of suitability.

Licenses, permits, and approvals are revocable privileges, which are not transferable. Regulatory authorities may at any time revoke, suspend, condition, limit, or restrict a license for reasonable cause. License holders may be fined and, in some jurisdictions and under certain circumstances, gaming operation revenues can be forfeited. We may be unable to obtain any licenses, permits, or approvals, or if obtained, they may not be renewed or may be revoked in the future. In addition, a rejection or termination of a license, permit, or approval in one jurisdiction may have a negative effect in other jurisdictions. Some jurisdictions require gaming operators licensed in that state to receive their permission before conducting gaming in other jurisdictions.

In each jurisdiction in which we have gaming operations, the following conditions and restrictions apply:

- Periodic license fees and taxes must be paid to state and local gaming authorities;
- Certain officers, directors, key employees, and gaming employees are required to be licensed or otherwise approved by the gaming authorities;
- Individuals who must be approved by a gaming authority must submit comprehensive personal disclosure forms and undergo an exhaustive background investigation, the costs for which must be borne by the applicant;
- Changes in any licensed or approved individuals must be reported to and/or approved by the relevant gaming authority;
- Failure to timely file the required application forms by any individual required to be approved by the relevant gaming authority may result in that individual's denial and the gaming licensee may be required by the gaming authority to disassociate with that individual; and
- If any individual is found unsuitable by a gaming authority, the gaming licensee is required to disassociate with that individual.

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 Gaming Control Board, and the Reno City Council, referred to collectively as the Nevada Gaming Authorities.

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
- the provision of 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.

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Golden Road Motor Inn, Inc. (“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.

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.



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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 Chair 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.

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 Chair of the Nevada 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.

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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 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.

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 on admission charges where entertainment is furnished. 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.

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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 Gaming Control Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada 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.

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.



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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.

The City of Black Hawk also assesses two monthly device fees that are based on the number of gaming devices operated. These consist of an \$87.50 fee per device and a transportation device fee of \$4.28 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.



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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.

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 20% 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 1, 2018, we had approximately 2,200 employees. None of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good.

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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.

OUR BUSINESS IS PARTICULARLY SENSITIVE TO WEAK DISCRETIONARY CONSUMER SPENDING

Consumer demand for entertainment and other amenities at hotel-casino properties and casino properties, such as ours, are particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. In particular, we market to and rely upon the patronage of customers from the Reno and Denver metropolitan areas, as well as leisure traveler and conventioner guests. Changes in discretionary consumer spending or consumer preferences in these, and other geographic markets, brought about by factors such as perceived or actual general economic conditions, the impact of high energy and food costs, the increased cost of travel, the potential for bank failures, decreased 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.

For example, following the recession that began in 2007, we experienced one of the toughest economic periods in Nevada history. The housing crisis and economic slowdown in the United States resulted in a significant decline in the amount of tourism and spending in Reno. While the economy has improved significantly since the end of the recent economic recession, our business continues to be impacted from changes in consumer spending habits due to the recession. If customers spend less per visit or customers prefer non-gaming amenities of our competitors, and we are unable to increase total visitation, our business may be adversely affected. Since our business model relies on consumer expenditures on entertainment, luxury and other discretionary items, a slowing or stoppage of the economic recovery or a return to an economic downturn will further adversely affect our results of operations and financial condition.

We are entirely dependent on TWO resorts for all of our cash flow, which subjects us to greater risks than a gaming company with more operating properties

We are currently entirely dependent upon our Atlantis Casino Resort and our Monarch Casino Black Hawk for all of our operating cash flow. As a result, we are subject to a greater degree of risk than a gaming company with more

operating properties or greater geographic diversification. The risks to which we have a greater degree of exposure include the following:

- changes in local economic and competitive conditions;
- changes in local and state governmental laws and regulations, including gaming laws and regulations, and the way in which those laws and regulations are applied;
- natural and other disasters, including the outbreak of infectious diseases;
- an increase in the cost of maintaining our properties;
- a decline in the number of visitors to Reno or Black Hawk; and
- a decrease in gaming and non-casino activities at our resorts.

Any of the factors outlined above could negatively affect our results of operations and our ability to generate sufficient cash flow to make payments or maintain our covenants with respect to our debt.

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

John Farahi and Bob Farahi, our officers and directors, together with their brother Ben Farahi, beneficially own in the aggregate approximately 39% of our outstanding shares of common stock, inclusive of options held by them which are exercisable within 60 days. 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, in amounts sufficient to enable us to pay our indebtedness as it matures and to fund our other liquidity needs. 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.

**COVENANT RESTRICTIONS UNDER OUR AMENDED CREDIT FACILITY MAY LIMIT OUR ABILITY TO OPERATE OUR BUSINESS AND ADVERSELY AFFECT OUR RESULTS OF OPERATIONS**

The agreement governing our Amended Credit Facility contains covenants that restrict our ability to, among other things, incur additional debt, make distributions, make investments, grant liens on our property to secure debt, enter into transactions with affiliates and effect mergers or acquisitions, as well as covenants that relate to our Monarch Black Hawk Expansion. Although the covenants in our Amended Credit Facility are subject to various exceptions, we cannot assure you that these covenants will not adversely affect our ability to finance future operations or capital needs or to engage in other activities that may be in our best interest. In addition, our long-term debt requires us to maintain specified financial ratios and satisfy certain financial condition tests, which may require that we take action to reduce our debt or to act in a manner contrary to our business objectives. A breach of any of the covenants in the agreement governing our Amended Credit Facility could result in a default under such agreement. Our ability to comply with these covenants may be affected by general economic conditions, industry conditions, and other events beyond our control, including difficulties or delay in the completion of our Monarch Black Hawk Expansion. As a result, we cannot assure you that we will be able to comply with these covenants. If an event of default under the

agreement governing our Amended Credit Facility occurs, the lenders thereunder could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. In addition, our Amended Credit Facility is secured by first priority security interests in substantially all of our assets. If we are unable to pay all amounts declared due and payable in the event of a default, the lenders could foreclose on these assets.

**OUR VARIABLE RATE INDEBTEDNESS SUBJECTS US TO INTEREST RATE RISK, WHICH COULD CAUSE OUR DEBT SERVICE OBLIGATIONS TO INCREASE SIGNIFICANTLY**

An increase in market interest rates would increase our interest expense arising on our indebtedness. The interest rate under our Amended Credit Facility is a base rate plus a margin ranging from 0.00% to 1.50%, the Prime Rate or LIBOR plus a margin ranging from 1.00% to 2.50%. As a result, we are exposed to interest rate risk. Interest rates, including LIBOR, have recently increased and are expected to continue to increase in future periods. If interest rates continue to increase, our debt service obligations under the Amended Credit Facility will increase even when the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

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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.

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 renovating Monarch Casino Black Hawk, and are in the process of 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, there have been proposals for the development of Native American, racetrack and video lottery terminal casinos throughout the state of Colorado over the years, although none of the proposals has been adopted by the state's

electorate or legislature. Should any form of additional gaming be authorized in the Denver metropolitan area, Monarch Casino Black Hawk could be adversely affected.

In addition, Native American gaming facilities in some instances operate under less stringent regulatory requirements than those imposed on our properties, which could provide them a competitive advantage in our markets. Moreover, we face 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.



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WE FACE RISKS ASSOCIATED WITH GROWTH

We intend to grow our operations through acquisitions, development and organic growth. However, this growth strategy could divert management's attention, disrupt our ongoing operations, result in inconsistencies in standards, controls and procedures and could also cause us to incur substantial costs, including legal, professional and consulting fees. We cannot assure you that we will be able to identify or acquire suitable companies or operations, develop or profitably manage our additional operations or successfully integrate such acquisitions or operations into our existing operations without substantial costs, delays or other difficulties. Additionally, we cannot assure you that we will receive the necessary licenses or approvals for currently contemplated or future expansion and development projects.

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. These risks may result in an adverse effect on our results of operations or financial condition or result in costs that outweigh the financial benefit of such opportunities. Furthermore, investments in our growth strategy may result in us incurring substantial additional indebtedness and other expenses or consummating potentially dilutive issuances of equity securities to fund the required capital investment. This could adversely affect the market price of our common stock, otherwise restrict our operations and adversely impact our financial condition.

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

Our Monarch Casino Black Hawk Expansion 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 are based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion.

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.

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**OUR CAPITAL EXPENDITURES MAY NOT RESULT IN THE EXPECTED IMPROVEMENTS IN OUR BUSINESS**

We have expended a significant amount of capital on our multi-phased Monarch Casino Black Hawk Expansion. In addition, we continuously invest in the upgrade and maintenance of our facilities to present a fresh, high quality product to our guests. Our ability to realize the expected returns on these capital investments depends on a number of factors, including, general economic conditions, changes to construction plans and specifications, delays in obtaining or inability to obtain necessary permits, licenses and approvals, disputes with contractors, disruptions to our business caused by construction and other unanticipated circumstances or cost increases.

While we believe that the overall budgets for our planned capital expenditures are reasonable, these costs are estimates and the actual costs may be higher than expected. In addition, we cannot assure you that these investments will be sufficient or that we will realize our expected returns on our capital investments, or any returns at all. If we fail to realize our expected returns on capital investments, it could materially adversely affect our business, financial condition and results of operations.

**WE MAY BE UNABLE TO OBTAIN THE NECESSARY GOVERNMENT APPROVALS FOR OUR EXPANSION AND RENOVATION PROJECTS ON A TIMELY BASIS, OR AT ALL**

We have not yet obtained certain permits, licenses and approvals necessary for some of our anticipated projects. 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.

**OUR EXPANSION AND RENOVATION ACTIVITIES MAY DISRUPT OUR OPERATIONS**

Although we will plan our expansion and renovation projects to minimize disruption of our existing business operations, these 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.

**IF WE ARE UNABLE TO OBTAIN FINANCING FOR OUR EXPANSION AND RENOVATION PROJECTS AND OTHER CAPITAL EXPENDITURES, SUCH PROJECTS 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 Amended Credit Facility, and/or 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 Amended 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.

#### RISING OPERATING COSTS AT OUR GAMING PROPERTIES COULD HAVE A NEGATIVE IMPACT ON OUR BUSINESS

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

- changes in federal, state or local tax or regulations, including state gaming regulations or gaming taxes, could impose additional restrictions or increase our operating costs;

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- aggressive marketing and promotional campaigns by our competitors for an extended period of time could force us to increase our expenditures for marketing and promotional campaigns in order to maintain our existing customer base or attract new customers;
- increases in costs of labor
- expenditures for repairs, maintenance, and to replace equipment necessary to operate our business;
- our reliance on slot play revenues and any additional costs imposed on us from vendors;
- availability and cost of the products and services we provide our customers, including food, beverages, retail items, entertainment, hotel rooms and spa;
- availability and costs associated with insurance and;
- our properties use significant amounts of electricity, natural gas and other forms of energy, and energy price increases may adversely affect our cost structure.

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

**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 and the enclosed pedestrian sky bridge that connects the Atlantis directly with the Reno-Sparks Convention Center, has afforded us a distinct competitive advantage in attracting its conventioners, who typically pay higher average room rates than non-conventioners. However, if the Reno-Sparks Convention Center does not succeed in booking the anticipated level of conventions, we will not, in turn, benefit from the patronage of such conventioners. As a result, our results of operations could be adversely impacted.

**FAILURE TO MAINTAIN THE INTEGRITY OF OUR INFORMATION TECHNOLOGY SYSTEMS, PROTECT OUR INTERNAL AND CUSTOMER INFORMATION FROM CYBERSECURITY OR OTHER RISKS, OR COMPLY WITH APPLICABLE PRIVACY AND DATA SECURITY REGULATIONS COULD ADVERSELY AFFECT US**

We rely extensively on our computer systems to process customer transactions, manage customer data, manage employee data and communicate with third-party vendors and other third parties, and we may also access the internet to use our computer systems. Our operations require that we collect and store customer data, including credit card numbers and other personal information, for various business purposes, including marketing and promotional purposes. We also collect and store personal information about our employees. Threats to information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. Breaches of our security measures or information technology systems or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive personal information or confidential data about us, or our customers, or our employees including the potential loss or disclosure of such information as a result of hacking or other cyber-attack, computer virus, fraudulent use by customers, employees or employees of third party vendors,

trickery or other forms of deception or unauthorized use, or due to system failure, could expose us, our customers, our employees or other individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our casino or brand names and reputations or otherwise harm our business. We rely on proprietary and commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of customer information, such as payment card, employee information and other confidential or proprietary information. Our data security measures are reviewed and evaluated regularly, however they might not protect us against increasingly sophisticated and aggressive threats. The cost and operational consequences of implementing further data security measures could be significant.

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Additionally, the collection of customer and employee personal information imposes various privacy compliance related obligations on our business and increases the risks associated with a breach or failure of the integrity of our information technology systems. The collection and use of personal information is governed by privacy laws and regulations enacted in the United States and other jurisdictions around the world. Privacy regulations continue to evolve and on occasion may be inconsistent from one jurisdiction to another. Compliance with applicable privacy laws and regulations may increase our operating costs and/or adversely impact our ability to market our products, properties and services to our customers. In addition, non-compliance with applicable privacy laws and regulations by us (or in some circumstances non-compliance by third party service providers engaged by us) may also result in damage of reputation, result in vulnerabilities that could be exploited to breach our systems and/or subject us to fines, payment of damages, lawsuits or restrictions on our use or transfer of personal information.

**OUR GAMING OPERATIONS RELY HEAVILY ON TECHNOLOGY SERVICES AND AN UNINTERRUPTED SUPPLY OF ELECTRICAL POWER.**

Any unscheduled disruption in our technology services or interruption in the supply of electrical power could result in an immediate, and possibly substantial, loss of revenues due to a shutdown of our gaming operations. Such interruptions may occur as a result of, for example, a failure of our information technology or related systems, catastrophic events or rolling blackouts. Our systems are also vulnerable to damage or interruption from earthquakes, floods, fires, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks and similar events.

**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.

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, events or conditions could expose us to heavy, uninsured losses.



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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 INCREASE, 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.

**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.

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

Extreme weather or weather-related conditions, including snowstorms and 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 or weather-related conditions, our results of operations and financial condition could be materially adversely affected. For example, extreme snow in and around the Black Hawk area often leads to closure of US 6 and I-70, the roads between Denver and Black Hawk. An excessive number of snow days in a fiscal period has, in the past, and would, in the future, have a negative effect on our guest visitations and adversely affect our revenue, results of operation and financial results for the reporting period.

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 or weather-related conditions, our coverage is subject to deductibles and limits on maximum benefits. We cannot assure you that we will be able to fully collect, if at all, on any claims resulting from extreme weather or weather-related conditions. If any of our properties are damaged or if their operations are disrupted as a result of extreme weather or weather-related conditions in the future, or if extreme weather or weather-related conditions 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.

**NATURAL OR MAN-MADE DISASTERS, AN OUTBREAK OF HIGHLY INFECTIOUS DISEASE, TERRORIST ACTIVITY, GUN VIOLENCE OR WAR MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS AND CASH FLOWS**

Natural disasters, man-made disasters and outbreaks of highly infectious diseases may result in decreases in travel to and from, and economic activity in, areas in which we operate, and may adversely affect the number of visitors to our properties. In addition, catastrophic events, such as terrorist and war activities in the United States and elsewhere, have had a negative effect on travel and leisure expenditures, including lodging, gaming and tourism. Gun violence, involving a mass shooting, occurred at a Las Vegas casino in 2017, which negatively impacted businesses in the area. If any of the foregoing events occur in the future, they could disrupt our operations, including our ability to staff our business adequately, damage our reputation and have a material adverse effect on our business, results of operations and cash flows. Although we have insurance coverage with respect to some of these disasters or events, we cannot assure you that any such coverage will be sufficient to indemnify us fully against all direct and indirect costs, including any loss of business that could result from substantial damage to, or partial or complete destruction of, any of our properties.

**WE ARE OR MAY BECOME INVOLVED IN LEGAL PROCEEDINGS THAT, IF ADVERSELY ADJUDICATED OR SETTLED, COULD IMPACT OUR BUSINESS AND FINANCIAL CONDITION**

From time to time, we are named in lawsuits or other legal proceedings relating to our business. In particular, the nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors, business partners and others in the ordinary course of business. As with all legal proceedings, no assurances can be given as to the outcome of these matters. Moreover, legal proceedings can be expensive and time consuming, and we may not be successful in defending or prosecuting these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations.

#### 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.

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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, we cannot assure you that such matters will not have such an effect in the future.

**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. Furthermore, increases in fuel prices, and resulting increases in transportation costs, could discourage potential customers from travelling to our properties, which would, in turn, adversely affect our business and results of operations.

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

Changes 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 markets. 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 OR THEIR FAILURE TO REPAY FUNDS EXTENDED ON CREDIT**

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

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- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

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**

If we issue additional equity securities or securities convertible into equity securities, it 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.

If our holders of outstanding options and rights to purchase shares of our common stock exercise their options or rights, and sell the underlying shares of common stock we issue upon such exercise, our stockholders may experience substantial dilution and the market price of our shares of common stock could decline. Further, the perception that such securities might be exercised could adversely affect the trading price of our shares of common stock. In addition, during the time that such securities are outstanding, they may adversely affect the terms on which we could obtain additional capital.

**WE 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.

UNCERTAINTIES IN THE INTERPRETATION AND APPLICATION OF THE 2017 TAX CUTS AND JOBS ACT COULD MATERIALLY AFFECT OUR TAX OBLIGATIONS AND EFFECTIVE TAX RATE.

On December 22, 2017, the U.S. enacted comprehensive tax legislation, commonly referred to as the 2017 Tax Cuts and Jobs Act, which significantly affected U.S. tax law by, among other things, reducing the U.S. corporate income tax rate, limiting interest deductions, permitting immediate expensing of certain capital expenditures, revising the rules governing net operating losses and eliminating the deductibility of certain fringe benefits. The Tax Cuts and Jobs Act requires complex computations not previously required by U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the Tax Cuts and Jobs Act and the accounting for such provisions require preparation and analysis of information not previously required or regularly produced. In addition, the U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in future periods. Accordingly, while we have provided a provisional estimate on the effect of the Tax Cuts and Jobs Act in our financial statements, further regulatory or GAAP accounting guidance for the Tax Cuts and Jobs Act, our further analysis on the application of the law, and refinement of our initial estimates and calculations could materially change our current provisional estimates. Ultimately, interpretations and regulations related to this new law could affect our tax obligations and effective tax rate.



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THE CONCENTRATION AND EVOLUTION OF THE SLOT MACHINE MANUFACTURING INDUSTRY  
COULD IMPOSE ADDITIONAL COSTS ON OUR OPERATIONS

A majority of our gaming revenue is attributable to slot machines operated at our gaming facilities. It is important, for competitive reasons, that we offer popular and technologically advanced slot machine games to our customers.

In recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participation lease arrangements. Participation slot machine leasing arrangements typically often require the payment of a fixed daily rental or a percentage payment of coin-in or net win. Generally, a participation lease is substantially more expensive over the long term than the cost to purchase a new machine.

For competitive reasons, we may be forced to purchase new slot machines or enter into participation lease arrangements that are more expensive than our current costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participation lease costs, it could hurt our profitability.

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 serving as a surface parking lot for the Atlantis. 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.

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

Black Hawk, Colorado Properties:

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(a) An approximate 1.6 acre site on which the Monarch Casino Black Hawk is situated including the casino and construction site where the Monarch Casino Black Hawk expansion is under way.

(b) An approximate 1.8-acre site contiguous to the Monarch Casino Black Hawk on which the newly built 9-story parking structure is situated.

(c) An approximate 9.0-acre parcel of land with an industrial building, located between Denver and Monarch Casino Black Hawk, in Clear Creeks County, Colorado, which is used as a warehouse.

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

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.

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## 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.

	2017		2016	
	High	Low	High	Low
First quarter	\$ 30.09	\$ 23.10	\$ 23.09	\$ 17.29
Second quarter	\$ 32.55	\$ 28.47	\$ 23.22	\$ 18.50
Third quarter	\$ 39.79	\$ 29.37	\$ 25.43	\$ 20.94
Fourth quarter	\$ 47.92	\$ 39.31	\$ 27.16	\$ 21.13

Stockholders. As of March 9, 2018, there were approximately 79 holders of record of our common stock, and approximately 2,700 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 SUPPLEMENTARY 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 AND RELATED STOCKHOLDER MATTERS."

There have been no unregistered sales of equity securities in 2017.



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## STOCK PERFORMANCE GRAPH

The following chart reflects the cumulative total shareholder return (change in stock price plus reinvested dividends) of a \$100 investment in our common stock from the five-year period from December 31, 2012 through December 31, 2017, 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 our common stock.

Index	Period Ending					
	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Monarch Casino & Resort, Inc.	100.00	184.05	152.06	208.25	236.30	410.82
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
MCRI Peer Group 2017 Index*	100.00	174.96	138.45	111.49	142.33	204.61

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\*MCRI Peer Group 2017 comprised of: Boyd Gaming Corp (BYD); Eldorado Resorts Inc. (ERI); Las Vegas Sands Corp. (LVS); MGM Resorts International (MGM); Nevada Gold & Casinos, Inc. (UWN); Penn National Gaming, Inc. (PENN); Pinnacle Entertainment, Inc. (PNK); Red Rock Resorts Inc. (RRR) and Wynn Resorts, Ltd (WYNN)

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Repurchases

On October 22, 2014, the board of directors of Monarch 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 our 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, as amended, subject to market conditions, applicable legal requirements and other factors. The Repurchase Plan does not obligate us 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 our common stock, general market economic conditions and applicable legal requirements. We have made no purchases under the Repurchase Plan.

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## ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	(Amounts in thousands, except per share amounts)				
	2017	2016	2015	2014	2013
<b>OPERATING RESULTS</b>					
Casino revenues	\$ 178,585	\$ 168,861	\$ 156,843	\$ 145,134	\$ 149,916
Other revenues	100,667	95,283	90,327	84,441	82,001
Gross revenues					