

MONARCH CASINO & RESORT INC

Form 10-K

March 14, 2019

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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, 2018

OR

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

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

Indicate by check mark 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:

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 29, 2018, based on the closing price as reported on The Nasdaq Stock Market (SM) of \$44.05 per share, was approximately \$600.4 million.

As of March 8, 2019, Registrant had 17,949,886 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2019 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 for completion, cost, financing and impact of our Monarch Black Hawk Expansion; additional revenue opportunities as a result of project and budget modifications for our Monarch Black Hawk Expansion; additional capital projects; future expansion and acquisition opportunities; positioning of our properties to benefit from future macro and local economic growth; 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 debt obligations and 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,” “should,” “might,” “likely,” “enable,” or similar 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);
- we have not yet entered into a guaranteed maximum price (“GMP”) amendment to the construction contract with our Monarch Casino Black Hawk general contractor and negotiation of the GMP may involve disagreements between the parties, including potential disagreements over costs of and responsibility for delays and other construction related matters;
- components of our Monarch Casino Black Hawk construction project will be outside the scope of any GMP amendment to the construction contract;
- our ability to generate sufficient operating cash flow to help finance our expansion plans;

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- our ability to effectively manage expenses to optimize its margins and operating results;
- guest acceptance of our expanded facilities once completed and the resulting impact on our market position, growth and future financial results;
- 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;

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- our ability to generate sufficient operating cash flow to help finance our expansion plans and fund working capital;
- 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;
- 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 Securities and Exchange Commission (“SEC” or “Commission”) 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 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 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.

#### 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 1,412 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.

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

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

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

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

The Atlantis hotel rooms feature design and furnishings consistent with the highest quality in the Northern Nevada market as well as nine-foot ceilings, which create an open and spacious feel. The third hotel tower features a four-story waterfall with an adjacent year-round swimming pool in a climate controlled, five-story glass enclosure, which shares an outdoor pool deck with a seasonal outdoor swimming pool and year round whirlpool. The Salon at Atlantis is a full service salon overlooking the third floor sundeck and outdoor seasonal swimming pool and offers salon-grade products and treatments for hair, nails, skincare and body services for both men and women. Our Spa Atlantis is a high-end health spa located adjacent to the swimming area that offers treatments and amenities unique to our market. The hotel rooms on the spa floor feature décor that is themed consistent with the spa. 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.

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,					
	2018		2017		2016	
Occupancy rate	89.3	%	89.4	%	88.2	%
ADR	\$ 104.61		\$ 81.46		\$ 79.52	
REVPAR	\$ 101.40		\$ 82.40		\$ 77.50	

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

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

- The 475-seat, 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;

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- The 110-seat Café Alfresco featuring an Italian-inspired menu featuring pastas, wood-fired pizza and a variety of gelato desserts;
- The 170-seat Manhattan Deli featuring authentic New York Deli favorites like matzo ball soup, piled high sandwiches, salads, house made soups, bagels and lox, and famous New York cheesecake.
- Two gourmet coffee bars offering specialty coffee drinks, “grab and go” sandwiches, house made gelato and freshly baked pastries; and
- The Chicago Dogs Eatery, a snack bar, serving Chicago-style hot dogs, pizza, ice cream and arcade-style refreshments.

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

## The Monarch Casino Black Hawk

The Monarch Casino Black Hawk is located approximately 40 miles west of Denver, Colorado and is the first casino encountered by visitors arriving from Denver 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 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 was 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 the new expanded casino, hotel tower, restaurants and retail areas to be completed in the third quarter of 2019 and the upgraded amenities in the existing casino to be completed in the fourth 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 seek to identify and evaluate strategic expansion and acquisition opportunities through market and detailed financial analyses. We develop overall master plans and then aim to 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 \$125.7 million in 2018, \$46.8 million in 2017 and \$24.9 million in 2016. During 2018, 2017 and 2016, 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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We have two potential options for expansion at our Atlantis property. 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”). The Parking Lot Lease covering approximately 4.2 acres is used for 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 \$772 million (as reported by the Nevada Gaming Control Board for the twelve months ended December 31, 2018).

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-based marketing 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 marketing 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 gaming play and non-gaming spend, 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 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. As we transform the property into a luxurious full-scale resort destination, we will expand our marketing and broaden our targeted segments.

## Competition

Reno/Sparks. Gaming competition in the Reno area is intense. Based on information obtained from the December 31, 2018 Gaming Revenue Report published by the Nevada Gaming Control Board, there are approximately 15 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 and 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 and 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 local guests 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 local guests primarily on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly and 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 local guests.

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 local guests 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 \$702 million in gaming revenues for the twelve months ended December 31, 2018 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 and efficient service, quality and relative value of our food and beverage offerings, promotions and gaming values.

## 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.

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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.

Golden Road Motor Inn, Inc. (“Golden Road”), our subsidiary which operates the Atlantis, is required to be licensed by the Nevada Gaming Authorities. 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. 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. 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.

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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. The Nevada Gaming Commission may also, in its discretion, require any other holders of our debt or equity securities to file applications to be found suitable to own the debt or equity securities. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any investigation.

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.

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.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or the Chairman of the Nevada Gaming Control Board may be found unsuitable.

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.

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;



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- 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.

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. 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.

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

Limited stakes gaming is confined to the commercial districts of these cities as defined by Central City on October 7, 1981, by Black Hawk on May 4, 1978, and by Cripple Creek on December 3, 1973. In addition, the Colorado Amendment restricts limited stakes gaming to structures that conform to the architectural styles and designs that were common to the areas prior to World War I and that conform to the requirements of applicable city ordinances regardless of the age of the structures. Under the Colorado Amendment, no more than 35% of the square footage of any building and no more than 50% of any one floor of any building may be used for limited stakes gaming. Persons under the age of 21 cannot participate in limited stakes gaming. The Colorado Constitution provides for a tax on the total amount wagered less all payouts to players at graduated annual rates. The gaming tax rates in effect as of July 1, 2008 can only be increased by amendment to the Colorado Constitution by voters in a statewide election. With respect to games of poker, the tax is calculated based on the sums wagered that are retained by the licensee as compensation, which must be consistent with the minimum and maximum amounts established by the Colorado Commission. The graduated rates effective as of July 1, 2012 are:

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

The City of Black Hawk also assesses monthly device fees that are based on the number of gaming devices operated. These consist of an \$87.50 fee per slot device, \$350.00 per table device, and a transportation fee of \$3.39 for each slot and table 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. 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 SEC. 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.

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 20, 2019, 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.

## Available Information

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.

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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, 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 35% 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 amended and restated credit facility agreement, dated July 20, 2016 (the “Amended 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.

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**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. In addition, on July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to phase out LIBOR by the end of 2021. It is unclear if LIBOR will cease to exist at that time or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. If LIBOR ceases to exist, we may need to renegotiate our debt agreements. This could have an adverse effect on our financing costs.

**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. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, athletic events, television, movies, concerts, and travel.

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.

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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.

## 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 an 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.

We have not yet entered into a guaranteed maximum price (“GMP”) amendment to the construction contract with our Monarch Casino Black Hawk Expansion general contractor and negotiation of the GMP may involve disagreements between the parties, including potential disagreements over costs of and responsibility for delays and other construction related matters.

In addition, 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;

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- 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.

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

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 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 condition and results of operations.



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**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 and borrowings under our Amended Credit Facility. 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;
- 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.

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**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.

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.

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**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.

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.

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**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, an economic downturn 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.

**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.



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**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.

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.

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**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.

**WE FACE THE RISK OF FRAUD AND CHEATING**

Our gaming customers may attempt or commit fraud or cheat in order to increase winnings. Acts of fraud or cheating could involve the use of counterfeit chips or other tactics, possibly in collusion with our employees. Internal acts of cheating could also be conducted by employees through collusion with dealers, surveillance staff, floor managers or other casino or gaming area staff. Failure to discover such acts or schemes in a timely manner could result in losses in our gaming operations. In addition, negative publicity related to such schemes could have an adverse effect on our

reputation, potentially causing a material adverse effect on our business, financial condition, results of operations and cash flows.

**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, such as those described in the Risk Factors described herein and others, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- trading volume of our common stock;
  - conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

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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. For a further description of the lease terms, see Item 8, “FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA, Notes to Consolidated Financial Statements, Note 6.”

(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 6.”

(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 Amended 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.

Stockholders. As of March 4, 2019, there were approximately 61 holders of record of our common stock, and approximately 3,520 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 7."

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 2018.

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, 2013 through December 31, 2018, in comparison to the Standard & Poor's 500 Composite Stock Index and the Standard & Poor's 1500 Casinos & Gaming Index. The comparisons are not intended to forecast or be indicative of possible future performance of our common stock.

The following performance graph shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into a filing.

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Index	Period Ending					
	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Monarch Casino & Resort, Inc.	100.00	82.62	113.15	128.39	223.21	189.94
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P 1500 Casinos & Gaming Index	100.00	86.45	57.04	72.69	129.40	86.38
Prior Peer Group	100.00	79.13	63.72	81.35	116.95	86.13

## 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 the repurchase of 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 Plan 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 since the date of its authorization.

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## ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,				
	(Amounts in thousands, except per share amounts)				
	2018	2017	2016	2015	2014
<b>OPERATING RESULTS</b>					
Casino revenues	\$ 125,844 (F1)	\$ 178,585	\$ 168,861	\$ 156,843	\$ 145,134
Other revenues	114,471 (F1)	100,667	95,283	90,327	84,441
Gross revenues	240,315 (F1)	279,252	264,144	247,170	229,575
Promotional allowances	—	(48,526)	(47,112)	(44,925)	(41,808)
Net revenues	240,315	230,726	217,032	202,245	187,767
Income from operations	42,826	40,666	38,548 (F3)	32,555	22,219 (F4)
Income before income tax	42,649	39,699	37,932	31,876	2,115
Net income	\$ 34,098	\$ 25,538 (F2)	\$ 24,574	\$ 20,659	\$ 14,185
<b>INCOME PER SHARE OF COMMON STOCK</b>					
Net income per common share					
Basic	\$ 1.91	\$ 1.45 (F2)	\$ 1.42	\$ 1.22	\$ 0.85
Diluted	\$ 1.83	\$ 1.39 (F2)	\$ 1.39	\$ 1.19	\$ 0.83
Weighted average number of common shares and potential common shares outstanding					
Basic	17,846	17,585	17,305	16,948	16,734
Diluted	18,574	18,367	17,664	17,335	17,107
<b>OTHER DATA</b>					
Depreciation and amortization	\$ 14,617	\$ 15,132	\$ 14,835	\$ 15,933	\$ 17,824
Other expense	\$ (177)	\$ (967)	\$ (616)	\$ (679)	\$ (1,104)
Capital expenditures (F5)	\$ 125,745	\$ 46,772	\$ 24,923	\$ 38,059	\$ 19,929
<b>BALANCE SHEET DATA</b>					
Total assets	\$ 455,127	\$ 332,087	\$ 295,165	\$ 274,846	\$ 252,301
Long-term debt, less current maturities	\$ 94,500	\$ 26,200	\$ 26,200	\$ — (F6)	\$ 46,300
Stockholders' equity (F7)	\$ 301,182	\$ 266,474	\$ 233,845	\$ 203,919	\$ 176,951

## Footnotes to Selected Financial Data:

(F1) Pursuant to the adoption of Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, food and beverage, hotel and other complimentary are now valued at their retail price and included as

revenues within Other revenues categories, with a corresponding decrease in Casino revenues, as the offsetting amount historically included in promotional allowances has been eliminated.

(F2) The enactment of the Tax Cuts and Jobs Act in 2017 resulted in a non-cash deferred tax asset revaluation, which has a \$1.5 million negative effect on Net income and \$0.08 negative effect on the Basic and Diluted EPS.

(F3) 2016 includes \$1.6 million of expense related to the upgrade and redesign of the Toucan Charlie's Buffet at Atlantis.

(F4) 2014 includes \$1.9 million of expense related to the campaign against the proposed 2014 ballot initiative to expand gaming in Colorado.

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

(F6) In 2015, we had \$40.9 million outstanding debt, which was classified as a current liability due to the short term maturity of the credit facility.

(F7) We paid no dividends during the five-year period ended December 31, 2018.

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

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

OVERVIEW

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 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 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. The Monarch Casino Black Hawk does not have a hotel; however, we are in the process of renovations and construction that will include a hotel. See Item 1, "BUSINESS - THE MONARCH CASINO BLACK HAWK." We focus on delivering exceptional service and value to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

FACTORS IMPACTING OUR RESULTS OF OPERATIONS

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

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

Atlantis: Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, food and beverage operations and hotel operations. We continuously upgrade our property. With quality gaming, hotel and dining products, we believe the Atlantis is well positioned to benefit from future macro and local economic growth. Businesses continue to relocate to Northern Nevada and local business volume has steadily increased. While such economic activity could ultimately drive additional revenue and profit at Atlantis, we are experiencing the more immediate effect of increased labor costs, which, combined with continued aggressive marketing programs by our competitors, have applied upward pressure on Atlantis operating costs.

Monarch Casino Black Hawk: Since the acquisition of Monarch Casino Black Hawk in April 2012, our focus has been to maximize casino and food and beverage revenues while upgrading the existing facility and working on the major expansion. There is currently no hotel on the property. 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 November 2016, we opened for guest use our elegant nine-story parking facility with about 1,350 spaces. Construction of a new hotel tower and casino expansion on the site where the old parking structure was sitting 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 the new expanded casino, hotel tower, restaurants and retail areas to be completed in the third quarter of 2019 and the upgraded amenities in the existing casino to be completed in the fourth quarter of 2019.



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RESULTS OF OPERATIONS

Comparison of Operating Results for the Years Ended December 31, 2018 and 2017

For the year ended December 31, 2018, our net income totaled \$34.1 million, or \$1.83 per diluted share, compared to net income of \$25.5 million, or \$1.39 per diluted share for the same period of 2017, reflecting a 33.5% increase in net income and 31.7% in diluted earnings per share. Net revenue for the years ended December 31, 2018 and 2017 was \$240.3 million and \$230.7 million, respectively, reflecting an increase of \$9.6 million, or 4.2%. Income from operations for the year ended December 31, 2018 totaled \$42.8 million compared to \$40.7 million for the same period in 2017, representing an increase of \$2.2 million, or 5.3%.

Casino revenue decreased 29.5% in the year ended December 31, 2018 compared to the same period of 2017 due to the adoption of the new revenue standard, which resulted in a reduction of \$59.5 million in casino revenues due to certain reclassifications. Under the prior revenue standard, casino revenue increased 3.8%. Casino revenue growth was suppressed by a low table games hold in the second and third quarters of 2018. Casino operating expense as a percentage of casino revenue decreased to 34.8% for the year ended December 31, 2018, compared to 40.9% in 2017 due to the new revenue standard, partially offset by the low table games revenue and an increase in small equipment expense.

Food and beverage revenue increased 12.3% in the year ended December 31, 2018 over the same period in 2017, due to an 11.0% increase in average revenue per cover and a 1.2% increase in covers served. Food and beverage revenue per covers was affected by the changes in the comp beverage prices as a result of the new revenue standard. Food and beverage operating expense as a percentage of food and beverage revenue in the year ended December 31, 2018 was 75.8% compared to 40.6% over the same period in 2017. The increase in expense margin was a result of the adoption of the new revenue standard. Calculated based on the prior revenue standards, food and beverage operating expense as a percentage of food and beverage revenue decreased as a result of product cost efficiency, partially offset by a labor cost increase.

Hotel revenue increased 23.1% due to a higher ADR of \$104.61 for the year ended December 31, 2018 compared to \$81.46 in 2017. The increase in ADR is primarily due to changing the complimentary ADR from a discounted value in 2017 to the retail value in 2018. Hotel occupancy of 89.3% in 2018 was slightly lower compared to 89.4% in 2017. REVPAR was \$101.40 and \$82.40 for the years ended December 31, 2018 and 2017, respectively. Hotel operating expense as a percent of hotel revenue for the year ended December 31, 2018 was 42.8% compared to 37.6% for the same period in 2017. The increase in the hotel expense margin was due to the adoption of the new revenue standard, as well as increase in labor cost.

Other revenue increased 2.4% in 2018 compared to 2017 driven primarily by increased Atlantis arcade revenue, retail revenue and spa and salon revenues.

As a result of the adoption of the new revenue standard (see Note 2. Revenue Recognition), \$50.8 million was eliminated from promotional allowances and reclassified to revenue categories in the year ended December 31, 2018. Promotional allowances as a percentage of gross revenues under the prior revenue standard increased slightly to 17.5% for the year ended December 31, 2018 compared to 17.4% for the year ended December 31, 2017. This increase was due to higher promotional expenses at Monarch Casino Black Hawk during a slot system switch in the fourth quarter of 2018.

Selling, general and administrative expense (“SG&A Expense”) increased to \$65.8 million in the year ended December 31, 2018 from \$62.7 million in the same period of 2017 due to: i) a \$2.0 million increase in salaries, wages and related employee benefits expense; ii) a \$0.6 million increase in utility expense; iii) a \$0.4 million increase in professional legal fees; and iv) a \$0.1 million increase in property tax expense. As a percentage of net revenue, SG&A expense increased to 27.4% in 2018 from 27.2% in 2017.

Depreciation and amortization expense decreased to \$14.6 million for the year ended December 31, 2018 as compared to \$15.1 million for the same period in 2017 primarily as a result of the decrease in depreciation expense at Monarch Casino Black Hawk due to five-year assets (i.e., assets that are depreciated over a five-year time period) having become fully depreciated.

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During the year ended December 31, 2018, we drew \$68.3 million from the Amended Credit Facility, which increased the outstanding balance thereunder to \$94.5 million as of December 31, 2018 compared to \$26.2 million as of December 31, 2017. During 2018 we capitalized a majority of the interest paid and accrued, as the draws were strictly used to finance the Monarch Black Hawk Expansion Plan, which resulted in interest expense, net of amounts capitalized, of \$0.2 million in 2018 compared to \$1.0 million in 2017. See further discussion of our Amended Credit Facility in the LIQUIDITY AND CAPITAL RESOURCES section below.

Comparison of Operating Results for the Years Ended December 31, 2017 and 2016

For the year ended December 31, 2017, our net income totaled \$25.5 million, or \$1.39 per diluted share, compared to net income of \$24.6 million, or \$1.39 per diluted share for the same period of 2016, reflecting a 3.9% increase in net income and no change in diluted earnings per share. Net revenue for the years ended December 31, 2017 and 2016 was \$230.7 million and \$217.0 million, respectively, reflecting an increase of \$13.7 million, or 6.3%. Income from operations for the year ended December 31, 2017 totaled \$40.7 million compared to \$38.5 million for the same period in 2016, representing an increase of \$2.1 million, or 5.5%.

Casino revenue increased 5.8% in the year ended December 31, 2017 compared to the same period of 2016. Casino revenues increased at both the Monarch Casino Black Hawk and at the Atlantis. The Atlantis benefited from the region's market strength. Our renovated Monarch Black Hawk casino increased market share despite the disruptions related to the property's expansion. Casino operating expense as a percentage of casino revenue decreased to 40.9% for the year ended December 31, 2017, compared to 41.2% in 2016 due to the effect of higher casino revenue combined with operating cost efficiencies.

Food and beverage revenue increased 5.2% in the year ended December 31, 2017 over the same period in 2016, due to a 2.7% increase in average revenue per cover and a 2.4% increase in covers served. Food and beverage operating expense as a percentage of food and beverage revenue in the year ended December 31, 2017 was 40.6% compared to 40.9% over the same period in 2016. The decrease in expense margin is due primarily to the costs, related to the redesign and upgrade of Toucan Charlie's Buffet at Atlantis, which costs were expensed during the first quarter of 2016 and the improved cost of sales percentage in 2017, offset by an increase in labor expenses.

Hotel revenue increased 6.0% due to a higher ADR of \$81.46 for the year ended December 31, 2017 compared to \$79.52 for the same period in 2016, combined with higher hotel occupancy of 89.4% in 2017 compared to 88.2% in 2016. REVPAR was \$82.40 and \$77.50 for the years ended December 31, 2017 and 2016, respectively. Hotel operating expense as a percent of hotel revenue for the year ended December 31, 2017 was 37.6% compared to 30.9% for the same period in 2016. The increase was due primarily to higher payroll and related benefits expense, expenses related to the implementation of advanced analytical tools, hotel repair and maintenance expense, as well as expenses related to the shuttle service and expanded valet services implemented at Monarch Casino Black Hawk.

Other revenue increased 7.1% in 2017 compared to 2016 driven primarily by increased Atlantis arcade revenue, spa and salon revenue and retail revenue.

Promotional allowances as a percentage of gross revenues decreased to 17.4% for the year ended December 31, 2017 compared to 17.8% for the year ended December 31, 2016. This decrease was primarily due to higher revenues and more efficient utilization of complimentary.

SG&A Expense increased to \$62.7 million in the year ended December 31, 2017 from \$57.7 million in the same period of 2016 primarily due to: i) a \$3.2 million increase in salaries, wages and related employee benefits expense; ii) a \$0.5 million increase in professional fees; iii) a \$0.4 million increase in repair and maintenance expense; iv) a \$0.3 million increase in information technology expense; v) a \$0.3 million increase in marketing expense; vi) a \$0.2 million increase in property tax expense resulting from the new parking structure at Monarch Casino Black Hawk; and vii) a \$0.1 million increase in contribution expense.

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Depreciation and amortization expense increased to \$15.1 million for the year ended December 31, 2017 as compared to \$14.8 million for the same period in 2016 as a result of: i) a \$0.4 million increase in depreciation expense from new assets at Atlantis and ii) a \$0.1 million decrease in depreciation expense at Monarch Casino Black Hawk as a result of the accelerated depreciation of the old garage building in 2016, partially offset by the increase in depreciation expense from the new parking garage at Monarch Casino Black Hawk.

In 2016, we incurred a \$0.6 million loss from disposal of assets, primarily as a result of the write off of the remaining net book value of the hotel towers doors at the Atlantis, that were replaced with new doors in the second quarter of 2016.

During the year ended December 31, 2017, we did not draw on or make principal payments on the Amended Credit Facility and the outstanding balance of the Amended Credit Facility remained at \$26.2 million as of December 31, 2017. Interest expense, net of amounts capitalized were \$1.0 million and \$0.6 million in 2017 and 2016, respectively. The increase in interest expense is a result of an increase in the interest rate and commitment fees paid. See further discussion of the Amended Credit Facility in the LIQUIDITY AND CAPITAL RESOURCES section below.

## CAPITAL SPENDING AND DEVELOPMENT

We seek to continuously upgrade and maintain our facilities in order to present a fresh, high quality product to our guests. In addition, we have invested, and continue to invest, in our Monarch Black Hawk Expansion Plan. Capital expenditures during the years ended December 31, 2018 and 2017 were as follows (in thousands):

	2018	2017
Atlantis	\$ 4,333	\$ 6,464
Monarch Casino Black Hawk	121,412	40,308
	\$ 125,745	\$ 46,772

During the twelve months ended December 31, 2018 and 2017, capital expenditures related primarily to the work on the Monarch Black Hawk Expansion Plan and the property upgrade work at Atlantis, as well as acquisition of gaming equipment to upgrade and replace existing equipment at both properties.

## Monarch Black Hawk Expansion Plan

In 2013, we began work to convert the Monarch Casino Black Hawk into a full-scale casino resort.

The multi-phased expansion of the Monarch Casino Black Hawk involves construction of a new parking structure, demolition of the existing parking structure and construction of a new hotel tower and casino expansion. In November 2016, the new nine-story parking structure, offering approximately 1,350 parking spaces, was completed and became available for use by Monarch Casino Black Hawk guests. The demolition and removal of the old parking structure, which included a controlled implosion of the old garage, was completed in the first quarter of 2017.

On February 8, 2017, we broke ground on the hotel tower and casino expansion. The new 23-story tower will nearly double the existing casino space and will include approximately 500 hotel rooms, an upscale spa and pool facility, three additional restaurants and additional bars.

During 2018, we completed certain modifications to the Monarch Black Hawk Expansion Plan scope which, we believe, will provide additional revenue opportunities for our expanded resort, including enlarging the casino floor and associated amenities by approximately 6,500 square feet. In addition, we made adjustments to the budget for the rise in construction costs and furniture, fixtures and equipment costs. Accordingly, we increased our budget for the hotel tower and casino expansion cost by \$35 million, to approximately \$264 million to \$269 million.

Our Monarch Casino Black Hawk general contractor has informed us that the new expanded casino, hotel tower, restaurants and retail areas will be completed in the third quarter of 2019 and that the upgraded amenities in the existing

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casino will be completed in the fourth quarter of 2019. We expect to continue to finance the cost through a combination of operating cash flow and the Amended Credit Facility. We can provide no assurance that any project will be completed on schedule, if at all, or within established budgets, or that any project will result in increased earnings.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash provided by operations and, for capital expansion projects, borrowings available under our Amended Credit Facility.

### Operating Activities

For the year ended December 31, 2018, net cash provided by operating activities totaled \$58.8 million, an increase of approximately \$9.3 million, or 18.8%, compared to the same period of the prior year. This increase was primarily due to: i) a \$8.6 million increase in net income; and ii) a \$7.1 million decrease in working capital, all offset by the effect of the changes in stock-based compensation expense and in deferred income taxes and a \$0.5 million decrease in depreciation and amortization.

### Investing Activities

Net cash used in investing activities totaled \$125.7 million and \$46.7 million in the years ended December 31, 2018 and 2017, respectively. Net cash used in investing activities during the year ended December 31, 2018 consisted primarily of cash used for the new hotel tower and casino expansion at Monarch Casino Black Hawk and for the acquisition of gaming and other equipment at both properties. Net cash used in investing activities during the year ended December 31, 2017 consisted primarily of cash used for the new hotel tower and casino expansion at Monarch Casino Black Hawk, the purchase of a parcel of land with an industrial warehouse in proximity to the Monarch Casino Black Hawk, the re-carpeting of the casino floor and hotel rooms and upgrading the fountains at Atlantis, and for the acquisition of gaming and other equipment at both properties.

### Financing Activities

Net cash provided by financing activities during the year ended December 31, 2018 was \$68.3 million and represented borrowing under our Amended Credit Facility. There were no financing activities during the year ended December 31,

2017.

#### Amended Credit Facility

On July 20, 2016, we entered into the Amended Credit Facility, under which our former \$100 million credit facility was increased to \$250.0 million, and the maturity date was extended from November 15, 2016 to July 20, 2021.

As of December 31, 2018, we had an outstanding principal balance of \$94.5 million under the Amended Credit Facility and a \$0.6 million Standby Letter of Credit and \$154.9 million remaining in available borrowings of the \$250.0 million maximum principal available under the Amended Credit Facility. As of December 31, 2018, there have been no withdrawals from the Standby Letter of Credit.

The total revolving loan commitment under the Amended Credit Facility will be automatically and permanently reduced to \$50 million at the earlier of the first full quarter after completion of the hotel tower and casino expansion at the Monarch Casino Black Hawk and December 31, 2019 and all then outstanding revolving loans up to \$200 million under the Amended Credit Facility will be converted to a term loan at such time. We may be required to prepay borrowings under the Amended Credit Facility no later than December 31, 2019 using excess cash flows depending on our leverage ratio. We have an option to permanently reduce the maximum revolving available credit at any time so long as the amount of such reduction is at least \$0.5 million and in multiples of \$50,000.

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



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In addition to other customary covenants for a facility of this nature, as of December 31, 2018, we are required to maintain a Total Leverage Ratio (at any time, the ratio of (a) Total Funded Debt at such time, to (b) EBITDA for the four consecutive fiscal quarter period most recently ended for which Financial Statements are available, as defined in the Amended Credit Facility) of no more than 4.75:1 and a Fixed Charge Coverage Ratio (for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date (a) the sum of (i) EBITDA minus (ii) income taxes paid in cash during such period minus (iii) Distributions made during such period (other than Distributions made pursuant to Section 5.02(f)(i)) minus (iv) Investments in Excluded Subsidiaries made during such period minus (v) Maintenance Capital Expenditures made during such period divided by (b) Fixed Charges for such period, as defined in the Amended Credit Facility) of at least 1.15:1. As of December 31, 2018, we were in compliance with the financial covenants contained in the Amended Credit Facility, as our Total Leverage Ratio and Fixed Charge Coverage Ratio were 1.6:1 and 24.4:1, respectively.

The interest rate under the Amended Credit Facility is LIBOR plus a margin ranging from 1.00% to 2.50%, or a base rate (as defined in the Amended Credit Facility) plus a margin ranging from 0.00% to 1.50%, or the Prime Rate. The applicable margins will vary depending on our leverage ratio. Commitment fees are equal to the daily average unused revolving commitment multiplied by the commitment fee percentage, ranging from 0.175% to 0.45%, based on our leverage ratio.

At December 31, 2018, our interest rate was based on LIBOR and our leverage ratio was such that pricing for borrowings under the Amended Credit Facility was LIBOR plus 1.25%. At December 31, 2018, the one-month LIBOR interest rate was 2.53%. The carrying value of the debt outstanding under the Amended Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

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

We believe that our existing cash balances, cash flow from operations and borrowings available under the Amended Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow or if our cash needs exceed our borrowing capacity under the Amended Credit Facility, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital.

OFF-BALANCE SHEET ARRANGEMENTS

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

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In response to customer demand for more convenient surface parking at the Atlantis, and after detailed analysis, on August 28, 2015, the Company, through its subsidiary Golden Road, entered into a 20-year lease (the “Parking Lot Lease”) with BLI with respect to a portion of the Shopping Center. This lease gives the Atlantis the right to use a parcel, approximately 4.2 acres, comprised of a commercial building and surrounding land adjacent to the Atlantis (the “Leased Property”). The primary purpose of the Parking Lot Lease is to provide additional, convenient, Atlantis surface parking. We demolished the commercial building on the Leased Property and converted the land into approximately 300 additional surface parking spaces for the Atlantis. The minimum annual rent under the Parking Lot Lease is \$695 thousand commencing November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five-year anniversary. In addition, we are responsible for the payment of property taxes, utilities and maintenance expenses related to the Leased Property. We have an option to renew the Parking Lot Lease for an additional 10-year term. If we elect not to exercise the renewal option, we will be obligated to pay BLI \$1.6 million. For each of the years ended December 31, 2018 and 2017, we paid approximately \$695 thousand in parking lot rent, respectively.

A driveway (the “Driveway Project”) that is being shared between the Atlantis and the Shopping Center was completed and opened on September 30, 2004. The Shopping Center is controlled by BLI. As part of the Driveway Project, in January 2004, we leased (the “Driveway Lease”) an approximate 37,400 square-foot corner section of the Shopping Center, for a minimum lease term of 15 years at an annual rent of \$300 thousand, subject to a cost of living increase on each five-year anniversary of the Driveway Lease. As of December 31, 2018, the annual rent is \$377 thousand. In August 2015, we exercised our option to extend the lease for three individual five-year terms in addition to the 15-year initial term. At the end of the extension periods, we have the option to purchase the leased section of the Shopping Center. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million. We were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the 15-year expected economic useful life of the asset; some components of the new driveway were depreciated over a shorter period of time. We paid approximately \$377 thousand in lease payments for the leased driveway space during each of the years ended December 31, 2018 and 2017.

## COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of December 31, 2018 and the next five years and thereafter are as follows (in millions):

	Total	Payments due by period (1)			
		Less than 1 year	1 to 3 years	3 to 5 years	Greater than 5 years
Operating Leases (2)	\$ 25.3	\$ 1.1	\$ 2.2	\$ 2.2	\$ 19.8
Purchase Obligations (3)	29.6	25.3	2.3	2.0	—
Borrowings Under Amended Credit Facility (4)	94.5	—	94.5	—	—

Total Contractual Cash Obligations	\$ 149.4	\$ 26.4	\$ 99.0	\$ 4.2	\$ 19.8
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(1) Because interest payments under our Amended Credit Facility are subject to factors that, in our judgment, vary materially, the amount of future interest payments is not presently determinable. These factors include: i) future short-term interest rates; ii) our future leverage ratio which varies with EBITDA and our borrowing levels; and iii) the rate at which we deploy capital and other spending which, in turn, impacts the level of future borrowings. The interest rate under the Amended Credit Facility is LIBOR plus a margin ranging from 1.00% to 2.50%, or a base rate (as defined in the Amended Credit Facility) plus a margin ranging from 0.00% to 1.50%, or the Prime Rate. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings as of the end of the most recent quarter. Based on our leverage ratio, at December 31, 2018, pricing was LIBOR plus 1.25% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At December 31, 2018, the one-month LIBOR rate was 2.53%.

(2) Operating leases include the Driveway Lease and the Parking Lot Lease.

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- (3) Purchase obligations represent approximately \$21.4 million of commitments related to capital projects and approximately \$8.2 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$29.6 million are cancelable by us upon providing a 30-day notice.
- (4) The amount represents outstanding draws against the Amended Credit Facility as of December 31, 2018.

As described in the “CAPITAL SPENDING AND DEVELOPMENT” section above, we have commenced a substantial expansion of our Monarch Casino Black Hawk facility starting in 2014. While we have disclosed the estimated cost of that expansion, we have not entered into contracts for substantial portions of the work. For this reason, we have included in the table above only the amounts for which we have contractual commitments. At December 31, 2018, we estimate that the remaining cost to complete the Monarch Black Hawk Expansion is between \$129 million and \$136 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Allowance for Doubtful Accounts

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

#### Self-insurance Reserves

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

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### Capitalized Interest

We capitalize interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, we capitalize interest on amounts expended on the project at our average borrowing cost. Interest capitalization is ceased when the project is substantially complete. We capitalized interest in the amount of \$2.3 million during the year ended December 31, 2018 and \$0.5 million during each of the years ended December 31, 2017 and 2016.

### Casino Revenues

Casino revenues represent the net win from gaming activity, which is the difference between the amounts won and lost, which represents the transaction price. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. Funds deposited by customers in advance and outstanding chips and slot tickets in the customers' possession are recognized as a liability until such amounts are redeemed or used in gaming play by the customer. Additionally, net win is reduced by the performance obligations for the players' club program, progressive jackpots and any pre-arranged marker discounts. Progressive jackpot provisions are recognized in two components: 1) as wagers are made for the share of players' wagers that are contributed to the progressive jackpot award, and 2) as jackpots are won for the portion of the progressive jackpot award contributed by us. Cash discounts and other cash incentives to guests related to gaming play are recorded as a reduction to gaming revenue.

### Income Taxes

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

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

## Stock-based Compensation

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

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



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RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2018, the FASB issued an ASU to align the requirements for capitalizing implementation costs incurred in a hosting arrangement with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The implementation costs incurred in a hosting arrangement that is a service contract should be presented as a prepaid asset in the balance sheet and expensed over the term of the hosting arrangement to the same line item in the statement of income as the costs related to the hosting fees. The guidance in this ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption is permitted including adoption in any interim period. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after adoption. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

In January 2017, the FASB issued an ASU that simplifies the accounting for goodwill impairment for all entities by eliminating the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of today's goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on today's Step 1). The standard does not change the guidance on completing Step 1 of the goodwill impairment test. An entity will still be able to perform today's optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard will be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019.

In November 2016, the FASB issued amended accounting guidance on the presentation of restricted cash in the statement of cash flows. Entities are required to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The amended guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted this ASU on January 1, 2018, with no impact to our presentation on the Consolidated Statements of Cash Flows.

In August 2016, the FASB issued an ASU that provides clarifying guidance on the presentation of certain cash receipts and cash payments in the statement of cash flows. The guidance clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows and how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017. We adopted this ASU on January 1, 2018, with no impact to our presentation of cash receipts and payments on our Consolidated Statements of Cash Flows.

In February 2016, the FASB issued an ASU, amended January 2017, which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off- balance sheet financing. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. The standard permits two approaches, one requiring retrospective application of the new guidance with restatement of prior years, and one requiring prospective application of the new guidance. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, amending certain aspects of the new leasing standard. The amendment allows an additional optional transition method whereby an entity records a cumulative effect adjustment to opening retained earnings in the year of adoption without restating prior periods.

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We will adopt this standard as of the first quarter of 2019 using this modified retrospective transition approach and have elected not to adjust comparative periods presented. We have elected to use the package of practical expedients in our transition and accordingly, will not reassess our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we have elected the short-term lease recognition exemption, under which we will not recognize right-of-use assets or lease liabilities for leases with a term of twelve months or less, and have elected not to apply the use-of-hindsight practical expedient. We are in the final stages of implementing changes to our systems and processes for lease accounting and reporting, and are currently finalizing our evaluation of the financial statement impact of adopting the amended guidance, which will include recognizing lease liabilities and related right-of-use assets for operating leases on the opening balance sheet in the period of adoption. We do not expect the adoption to have a material impact on the pattern of lease expense recognition in our consolidated statements of income or cash flows.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in interest rates, foreign currency exchange rates and commodity prices. Our current primary market risk exposure is interest rate risk relating to the impact of interest rate movements under our Amended Credit Facility. As of December 31, 2018, we had \$94.5 million of outstanding debt under our Amended Credit Facility which bears interest at variable rates. A hypothetical 1% increase in the interest rate on the balance outstanding under the Amended Credit Facility at December 31, 2018 would result in a change in our annual interest cost of approximately \$0.9 million.

We do not have any cash or cash equivalents as of December 31, 2018 subject to market risk.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of

Monarch Casino & Resort, Inc. and subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (2) (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 14, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for its revenue from contracts with customers in 2018 due to the adoption of Accounting Standards Update (“ASU”) No. 2014-09 “Revenue from Contracts with Customers (Topic 606).”

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2003.

Las Vegas, Nevada

March 14, 2019

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

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Revenues			
Casino	\$ 125,844	\$ 178,585	\$ 168,861
Food and beverage	71,212	63,416	60,269
Hotel	30,497	24,784	23,374
Other	12,762	12,467	11,640
Gross revenues	240,315	279,252	264,144
Less promotional allowances	—	(48,526)	(47,112)
Net revenues	240,315	230,726	217,032
Operating expenses			
Casino	43,791	73,017	69,529
Food and beverage	54,002	25,727	24,627
Hotel	13,059	9,320	7,231
Other	6,206	4,141	3,855
Selling, general and administrative	65,802	62,719	57,730
Depreciation and amortization	14,617	15,132	14,835
Loss on disposition of assets	12	4	677
Total operating expenses	197,489	190,060	178,484
Income from operations	42,826	40,666	38,548
Other expenses			
Interest expense, net of amounts capitalized	(177)	(967)	(616)
Total other expense	(177)	(967)	(616)
Income before income taxes	42,649	39,699	37,932
Provision for income taxes	(8,551)	(14,161)	(13,358)
Net income	\$ 34,098	\$ 25,538	\$ 24,574
Earnings per share of common stock			
Net income			
Basic	\$ 1.91	\$ 1.45	\$ 1.42

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Diluted	\$ 1.83	\$ 1.39	\$ 1.39
Weighted average number of common shares and potential common shares outstanding			
Basic	17,846	17,585	17,305
Diluted	18,574	18,367	17,664

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

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

## CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 30,462	\$ 29,151
Receivables, net	6,740	6,925
Income taxes receivable	279	2,008
Inventories	3,692	3,335
Prepaid expenses	5,508	4,612
Total current assets	46,681	46,031
Property and equipment		
Land	30,034	30,034
Land improvements	7,645	7,249
Buildings	193,235	193,286
Buildings improvements	25,995	24,745
Furniture and equipment	139,772	140,404
Construction in progress	180,518	48,834
Leasehold improvements	3,782	3,800
	580,981	448,352
Less accumulated depreciation and amortization	(206,657)	(197,638)
Net property and equipment	374,324	250,714
Other assets		
Goodwill	25,111	25,111
Intangible assets, net	2,704	3,869
Deferred income taxes	4,027	3,544
Other assets, net	2,280	2,818
Total other assets	34,122	35,342
Total assets	\$ 455,127	\$ 332,087
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 11,182	\$ 8,184
Construction accounts payable	17,152	5,823
Accrued expenses	31,111	25,406
Total current liabilities	59,445	39,413
Long-term debt	94,500	26,200
Total liabilities	153,945	65,613
Stockholders' equity		
	—	—



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Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued		
Common stock, \$.01 par value, 30,000,000 shares authorized; 19,096,300 shares issued; 17,919,021 outstanding at December 31, 2018; 17,759,446 outstanding at December 31, 2017	191	191
Additional paid-in capital	30,111	26,890
Treasury stock, 1,177,279 shares at December 31, 2018; 1,336,854 shares at December 31, 2017	(15,876)	(18,123)
Retained earnings	286,756	257,516
Total stockholders' equity	301,182	266,474
Total liabilities and stockholders' equity	\$ 455,127	\$ 332,087

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

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

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except shares)

	Common Stock Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2015	17,202,699	\$ 191	\$ 22,728	\$ 207,404	\$ (26,404)	\$ 203,919
Net exercise of stock options	265,570	—	(1,312)	—	4,246	2,934
Excess tax benefit from stock-based compensation	—	—	737	—	—	737
Stock-based compensation expense	—	—	1,681	—	—	1,681
Net income	—	—	—	24,574	—	24,574
Balance, December 31, 2016	17,468,269	\$ 191	\$ 23,834	\$ 231,978	\$ (22,158)	\$ 233,845
Net exercise of stock options	291,177	—	812	—	4,035	4,847
Stock-based compensation expense	—	—	2,244	—	—	2,244
Net income	—	—	—	25,538	—	25,538
Balance, December 31, 2017	17,759,446	\$ 191	\$ 26,890	\$ 257,516	\$ (18,123)	\$ 266,474
Net exercise of stock options	159,575	—	90	—	2,247	2,337
Stock-based compensation expense	—	—	3,131	—	—	3,131
Adjustment to beginning retained earnings for accounting changes in accordance with the new revenue recognition standard				(4,858)		(4,858)
Net income	—	—	—	34,098	—	34,098
Balance, December 31, 2018	17,919,021	\$ 191	\$ 30,111	\$ 286,756	\$ (15,876)	\$ 301,182

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

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 34,098	\$ 25,538	\$ 24,574
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,617	15,132	14,835
Amortization of deferred loan costs	538	538	410
Stock-based compensation	5,468	7,091	1,681
Excess tax benefit from stock-based compensation	—	—	(737)
Provision for bad debts	93	103	74
Loss on disposition of assets	12	4	677
Deferred income taxes	(483)	3,810	798
Changes in operating assets and liabilities:			
Receivables	92	(1,992)	(1,381)
Income taxes	1,729	(1,600)	203
Inventories	(357)	(238)	(216)
Prepaid expenses	(896)	(125)	(1,085)
Accounts payable	2,998	(431)	1,973
Accrued expenses	847	1,624	1,922
Net cash provided by operating activities	58,756	49,454	43,728
Cash flows from investing activities:			
Proceeds from sale of assets	—	86	29
Change in construction payable	11,329	3,218	1,198
Acquisition of property and equipment	(137,074)	(49,990)	(26,121)
Net cash used in investing activities	(125,745)	(46,686)	(24,894)
Cash flows from financing activities:			
Net exercise of stock options	—	—	2,934
Excess tax benefit from stock-based compensation	—	—	737
Loan issuance cost	—	—	(2,586)
Long-term debt borrowings (principal payment)	68,300	—	(14,700)
Net cash provided by (used in) financing activities	68,300	—	(13,615)
Change in cash	1,311	2,768	5,219
Cash and cash equivalents at beginning of period	29,151	26,383	21,164
Cash and cash equivalents at end of period	\$ 30,462	\$ 29,151	\$ 26,383

Supplemental disclosure of cash flow information:

Cash paid for interest, net of amounts capitalized	\$ 186	\$ 426	\$ 206
Cash paid for income taxes	\$ 7,305	\$ 11,950	\$ 12,375
Adjustment to beginning retained earnings for accounting changes in accordance with the new revenue recognition standard			
Accrued expenses	4,858	—	—
Return of assets under capital lease:			
Accounts payable	\$ —	\$ (105)	—
Accrued expenses	\$ —	\$ (13)	\$ —

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

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MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Monarch’s wholly owned subsidiary Monarch Growth Inc. (“Monarch Growth”), formed in 2011, owns Monarch Black Hawk, Inc. which owns and operates Monarch Casino Black Hawk. In addition to owning the Monarch Casino Black Hawk, Monarch Black Hawk, Inc. also wholly owns Chicago Dogs Eatery, Inc. and Monarch Promotional Association, both of which were formed related to licensure requirements for extended hours of liquor operation in Black Hawk. Monarch Growth’s wholly owned subsidiary, Inter-Mountain Construction, LLC, owns a parcel of land with an industrial warehouse located between Denver and Monarch Casino Black Hawk.

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

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

Use of Estimates

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

#### Cash and Cash Equivalents

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

#### Allowance for Doubtful Accounts

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

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Casino Jackpots

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

Inventories

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by the Financial Accounting Standards Board (“FASB”) as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The adoption of this standard did not have a material impact on our Consolidated Financial Statements due to the nature of its inventory, consisting primarily of food, beverages, and retail merchandise.

Property and Equipment

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

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

The Company evaluates property and equipment and other long-lived assets for impairment in accordance with the guidance for accounting for the impairment or disposal of long-lived assets. For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair value less costs of disposal. Fair value for assets to be disposed of is generally estimated based on comparable asset sales, solicited offers or a discounted cash flow



model.

For assets to be held and used, the Company reviews fixed assets for impairment annually during the fourth quarter of each year or whenever indicators of impairment exist. If an indicator of impairment exists, we compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, the impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model or market comparables, when available. For the years ended December 31, 2018, 2017 and 2016, there were no impairment charges.

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### Goodwill

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

Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations in April 2012. As of December 31, 2018 and 2017, we had goodwill totaling \$25.1 million related to the purchase of Black Hawk, Inc. (see NOTE 4). For the years ended December 31, 2018, 2017 and 2016, there were no impairment charges.

### Finite-Lived Intangible Assets

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

The customer relationship intangible asset represents the value associated with Monarch Casino Black Hawk’s rated casino guests. The initial fair value of the customer relationship intangible asset was estimated based on the projected net cash flows associated with these casino guests. The recoverability of the Company’s customer relationship intangible asset could be affected by, among other things, increased competition within the gaming industry, a downturn in the economy, declines in customer spending which would impact the expected future cash flows associated with the rated casino guests, declines in the number of visitations which could impact the expected attrition rate of the rated casino guests, and erosion of operating margins associated with rated casino guests. Should events or changes in circumstances cause the carrying value of the customer relationship intangible asset to exceed its estimated fair value, an impairment charge in the amount of the excess would be recognized. As of December 31, 2018 and

2017, the customer relationships net intangible asset balance was \$2.7 million and \$3.9 million, respectively.

### Segment Reporting

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

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### Self-insurance Reserves

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

### Debt Issuance Costs

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the term of the related debt agreement. Loan issuance costs are included in "Other assets, net" on the Company's condensed consolidated balance sheets. As of December 31, 2018, loan issuance costs, net of amortization, were \$1.4 million.

### Capitalized Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company's average borrowing cost. Interest capitalization is ceased when the project is substantially complete. The Company capitalized \$2.3 million during the year ended December 31, 2018 and \$0.5 million during each of the years ended December 31, 2017 and 2016 of interest.

### Advertising Costs

All advertising costs are expensed as incurred. Advertising expense, which is included in selling, general and administrative expense, was \$4.9 million, \$5.2 million and \$5.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

### Income Taxes

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

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

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## Gaming Taxes

The Company is subject to taxes based on gross gaming revenue in the jurisdictions in which it operates, subject to applicable jurisdictional adjustments. These gaming taxes are an assessment on the Company's gaming revenue and are recorded as casino expense in the accompanying Consolidated Statements of Income. These taxes totaled \$22.3 million, \$21.6 million and \$20.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

## Stock-based Compensation

The Company accounts for stock-based compensation in accordance with the authoritative guidance requiring that compensation cost relating to stock-based payment transactions be recognized in the Company's consolidated statements of income. The cost is measured at the grant date, based on the calculated fair value of the award using the Black-Scholes option pricing model for stock options, and based on the closing share price of the Company's stock on the grant date for restricted stock awards. The cost is recognized as an expense over the employee's requisite service period (the vesting period of the equity award). The Company's stock-based employee compensation plan is more fully discussed in NOTE 10.

## Earnings Per Share

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

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

	Years ended December 31, 2018		2017		2016	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Basic	17,846	\$ 1.91	17,585	\$ 1.45	17,305	\$ 1.42

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Effect of dilutive stock options	728		(0.08)	782		(0.06)	359		(0.03)
Diluted	18,574	\$	1.83	18,367	\$	1.39	17,664	\$	1.39

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

	Years ended December 31,		
	2018	2017	2016
Options to purchase shares of common stock	697,968	203,667	106,102
Exercise prices	\$ 39.82 - \$ 47.81	\$ 45.32 - \$ 46.73	\$ 28.02 - \$ 29.00
Expiration dates (month/year)	11/27-12/28		