

MONARCH CASINO & RESORT INC

Form 10-K

March 11, 2016

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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, 2015

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 0-22088

MONARCH CASINO & RESORT, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

89502
(ZIP Code)

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

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

Title of each class	Name of each exchange on which registered
None	None

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

COMMON STOCK, \$0.01 PAR VALUE

(Title of Class)

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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Forward Looking Statements

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

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

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

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

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

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

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PART I

ITEM 1. BUSINESS

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

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

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

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

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

Available Information

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

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The Atlantis Casino Resort Spa

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

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

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

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

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

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

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

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

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

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

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

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

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

The Monarch Casino Black Hawk

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

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

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

Acquisition, Improvements and Additional Expansion Potential

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

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

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

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

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

Marketing Strategy

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

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

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

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

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

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

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

We welcome domestic and international reservations on the Atlantis website www.atlantiscasino.com and we are featured on major package tour and travel websites.

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

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

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

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

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

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

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

Competition

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

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

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