

MONARCH CASINO & RESORT INC

Form 10-Q

November 08, 2012

[Table of Contents](#)

**United States**  
**Securities and Exchange Commission**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2012

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 St.**  
**Reno, Nevada**  
(Address of Principal Executive Offices)

**89502**  
(ZIP Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

**(775) 335-4600**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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** x **No** o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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** x **No** o

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

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 Exchange Act). Yes  No

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

**Common stock, \$0.01 par value**  
Class

**16,141,492 shares**  
Outstanding at October 31, 2012

---

Table of Contents

**TABLE OF CONTENTS**

<b>Item</b>	<b>Page Number</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011 (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at September 30, 2012 (unaudited) and December 31, 2011</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4. Controls and Procedures</u>	26
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	27
<u>Item 1A. Risk Factors</u>	28
<u>Item 6. Exhibits</u>	32

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

Monarch Casino &amp; Resort, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues</b>				
Casino	\$ 38,448,040	\$ 24,147,082	\$ 98,496,155	\$ 73,436,721
Food and beverage	12,666,803	11,071,950	35,362,881	32,097,706
Hotel	6,174,337	6,332,818	15,847,957	16,827,480
Other	2,306,289	1,997,541	6,688,929	5,827,587
Gross revenues	59,595,469	43,549,391	156,395,922	128,189,494
Less promotional allowances	(11,733,758)	(7,375,005)	(29,687,525)	(21,569,419)
Net revenues	47,861,711	36,174,386	126,708,397	106,620,075
<b>Operating expenses</b>				
Casino	14,386,595	9,573,416	37,548,779	28,639,455
Food and beverage	4,973,984	5,228,370	14,658,215	14,820,495
Hotel	1,478,601	1,554,277	4,327,991	4,551,768
Other	784,576	723,890	2,253,133	2,177,067
Selling, general and administrative	14,269,691	11,671,842	40,367,996	33,853,077
Depreciation and amortization	4,647,002	3,314,598	12,282,291	10,144,999
Adventure Inn demolition		3,519,148		3,519,148
Acquisition expense	454,701	437,400	2,155,522	437,400
Total operating expenses	40,995,150	36,022,941	113,593,927	98,143,409
Income from operations	6,866,561	151,445	13,114,470	8,476,666
<b>Other expenses</b>				
Interest expense	(479,772)	(160,237)	(1,396,632)	(643,505)
Total other expense	(479,772)	(160,237)	(1,396,632)	(643,505)
Income (loss) before income taxes	6,386,789	(8,792)	11,717,838	7,833,161
(Provision) benefit for income taxes	(2,249,708)	20,071	(4,146,633)	(2,724,600)
Net income	\$ 4,137,081	\$ 11,279	\$ 7,571,205	\$ 5,108,561
<b>Earnings per share of common stock</b>				
Net income				
Basic	\$ 0.26	\$ 0.00	\$ 0.47	\$ 0.32
Diluted	\$ 0.25	\$ 0.00	\$ 0.47	\$ 0.31
<b>Weighted average number of common shares and potential common shares outstanding</b>				
Basic	16,141,492	16,138,158	16,139,582	16,138,158
Diluted	16,234,158	16,234,443	16,248,588	16,226,844

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

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

Table of Contents

MONARCH CASINO & RESORT, INC.

Condensed Consolidated Balance Sheets

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 17,009,507	\$ 13,582,659
Receivables, net	2,367,304	2,299,847
Federal income tax receivable	282,472	
Inventories	2,139,202	2,165,109
Prepaid expenses	2,805,293	6,198,882
Deferred income taxes	554,612	615,912
Total current assets	25,158,390	24,862,409
Property and equipment		
Land	27,914,847	19,214,847
Land improvements	6,389,279	6,359,279
Buildings	150,843,298	135,643,298
Building improvements	11,564,850	11,575,883
Furniture and equipment	130,874,200	117,300,741
Leasehold improvements	1,346,965	1,346,965
	328,933,439	291,441,013
Less accumulated depreciation and amortization	(149,202,728)	(138,227,868)
Net property and equipment	179,730,711	153,213,145
Other assets		
Goodwill	26,575,592	
Intangible assets, net	10,893,580	
Deferred tax asset	3,965,414	
Other assets, net	1,295,859	1,524,050
Total other assets	42,730,445	1,524,050
Total assets	\$ 247,619,546	\$ 179,599,604
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 9,108,497	\$ 8,693,395
Accrued expenses	17,372,276	13,829,540
Federal income taxes payable		768,640
Total current liabilities	26,480,773	23,291,575
Long-term debt	82,100,000	24,680,000
Deferred income taxes		1,112,049
Total liabilities	108,580,773	49,083,624
Stockholders' equity		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued		
Common stock, \$.01 par value, 30,000,000 shares authorized; 19,096,300 shares issued; 16,141,492 outstanding at September 30, 2012 and 16,138,158 at December 31, 2011	190,963	190,963
Additional paid-in capital	34,044,230	33,178,345
Treasury stock, 2,954,808 shares at September 30, 2012 and 2,958,142 at December 31, 2011, at cost	(48,455,960)	(48,541,663)
Retained earnings	153,259,540	145,688,335
Total stockholders' equity	139,038,773	130,515,980
Total liability and stockholders' equity	\$ 247,619,546	\$ 179,599,604

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

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

Table of Contents

## MONARCH CASINO &amp; RESORT, INC.

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

	<b>Nine months ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,571,205	\$ 5,108,561
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	12,282,291	10,144,999
Amortization of deferred loan costs	228,191	193,184
Share based compensation	938,251	1,238,972
Provision for bad debts	84,913	(81,595)
(Gain) loss on disposal and demolition of assets	(3,279)	3,428,500
Deferred income taxes	414,850	225,079
<b>Changes in operating assets and liabilities:</b>		
Receivables	(34,370)	869,427
Inventories	118,907	(23,527)
Prepaid expenses	284,589	(298,772)
Accounts payable	148,455	(2,297,479)
Accrued expenses	(299,619)	(236,478)
Federal income taxes	(1,051,112)	(700,479)
<b>Net cash provided by operating activities</b>	<b>20,683,272</b>	<b>17,570,392</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of assets	11,200	1,500
Acquisition of property and equipment	(7,954,355)	(3,831,301)
Net cash paid for the Riviera Black Hawk acquisition	(66,746,605)	
Acquisition deposit		(3,800,000)
<b>Net cash used in investing activities</b>	<b>(74,689,760)</b>	<b>(7,629,801)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	13,336	
Principal payments on long-term debt	(17,040,000)	(16,600,000)
Proceeds from line of credit	74,460,000	4,000,000
Loan commitment fees		(240,419)
<b>Net cash provided by (used in) financing activities</b>	<b>57,433,336</b>	<b>(12,840,419)</b>
<b>Net increase (decrease) in cash</b>	<b>3,426,848</b>	<b>(2,899,828)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>13,582,659</b>	<b>13,800,604</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 17,009,507</b>	<b>\$ 10,900,776</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,089,870	\$ 395,592
Cash paid for income taxes	\$ 5,500,000	\$ 3,200,000
Non cash transaction - reduction of jackpot liability	\$	\$ 638,865

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

Table of Contents

MONARCH CASINO & RESORT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 ) 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 (collectively Black Hawk ). Monarch Growth's acquisition of Riviera Black Hawk, Inc. was completed on April 26, 2012. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino.

Monarch's wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) was formed on January 4, 2012 and received approval from the Nevada Gaming Commission on August 23, 2012 for a license as an operator of interactive gaming. Before the license can be issued, a number of conditions must be met, within six months of the approval, and before operations can commence, the Company must enter into contracts with a licensed interactive gaming service provider with an approved system. None of these conditions have occurred, and 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 Riviera Black Hawk Casino. Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, our food and beverage operations and at the Atlantis, our hotel operations. Riviera Black Hawk does not 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.

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

Interim Financial Statements:

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The balance sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the

Table of Contents

consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

Fair Value of Financial Instruments:

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

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments.

Goodwill and Other Intangible Assets:

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, *Intangibles-Goodwill and Other* (ASC Topic 350). The Company tests its goodwill and indefinite-lived intangible assets 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. The Company's annual goodwill impairment testing utilizes a two-step 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. *ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 250): Testing Goodwill for Impairment* (ASU 2011-08) gives companies the option to perform a qualitative assessment that may allow them to skip the annual two-step test as appropriate.

Goodwill consists of the excess of the acquisition cost over the fair value of the net assets acquired in business combinations. In April 2012, we recorded goodwill totaling \$26.6 million related to the purchase of Riviera Black Hawk, Inc (see NOTES 2 and 9).

Business Combinations:

The acquisition method of accounting for business combinations requires us to use significant estimates and assumptions, including fair value estimates, as of the business combination date and to refine those estimates as necessary during the measurement period (defined as the period, not to exceed one year, in which we may adjust the provisional amounts recognized for a business combination) in a manner that is generally similar to the previous purchase method of accounting.

Under the acquisition method of accounting, we recognize separately from goodwill the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree, generally at the acquisition date fair value. We measure goodwill as of the acquisition date as the excess of consideration transferred, which we also measure at fair value, over the net of the acquisition date

Table of Contents

amounts of the identifiable assets acquired and liabilities assumed. Costs that we incur to complete the business combination such as investment banking, legal and other professional fees are not considered part of consideration and we charge them to acquisition expense as they are incurred.

Should the initial accounting for a business combination be incomplete by the end of a reporting period that falls within the measurement period, we report provisional amounts in our financial statements. During the measurement period, we adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date and we record those adjustments to our financial statements. We apply those measurement period adjustments that we determine to be significant retrospectively to comparative information in our financial statements, including adjustments to depreciation and amortization expense.

Under the acquisition method of accounting for business combinations, if we identify changes to acquired deferred tax asset valuation allowances or liabilities related to uncertain tax positions during the measurement period and they relate to new information obtained about facts and circumstances that existed as of the acquisition date, those changes are considered a measurement period adjustment and we record the offset to goodwill. We record all other changes to deferred tax asset valuation allowances and liabilities related to uncertain tax positions in current period income tax expense.

Finite-Lived Intangible Assets:

The Company's finite-lived intangible assets include assets related to its customer relationships and trade name for the Riviera Black Hawk Casino, which are amortized over their estimated useful lives 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 Riviera Black Hawk Casino'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.

Fair Value Measurement:

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

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

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

### Table of Contents

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

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

### Segment Reporting:

We have defined two reportable segments, (see NOTE 10), based on factors such as how we manage our operations and how our chief operating decision maker views results. We define the chief operating decision maker as our Chief Executive Officer, Chief Operating Officer and our Chief Financial Officer. Our chief operating decision maker organizes and manages our business primarily on the basis of Adjusted EBITDA (see NOTE 10).

We include expenses such as corporate selling, general and administrative expense, which is not allocated to specific segments, in unallocated corporate items.

The accounting policies of our reportable segments are the same as those described in the Summary of Significant Accounting Policies in NOTE 1 to the Consolidated Financial Statements in our 2011 Form 10-K filed on March 14, 2012 as well as described within this Form 10-Q.

### NOTE 2. GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of total acquisition costs over the fair market value of net assets acquired and liabilities assumed in a business combination. To assist in the Company's determination of the purchase price allocation for the Riviera Black Hawk Casino, the Company engaged a third-party valuation firm regarding the assets acquired and liabilities assumed in its acquisition (see NOTE 9). That valuation is expected to be completed by December 31, 2012. On a preliminary basis, the Company recorded goodwill of \$26.6 million and intangible assets as described in the following table.

Intangible assets consist of the following at September 30, (in thousands except years):

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

	Estimated Average Life (years)		2012
Customer list	9	\$	10,490
Trade name	1		1,590
Total Intangible assets			12,080
Less accumulated amortization:			
Trade name			(684)
Customer list			(502)
Total accumulated amortization			(1,186)
Intangible assets, net	7.9	\$	10,894

Estimated amortization expense for the three months ending December 31, 2012 and the years ending December 31, 2013 through 2016 and thereafter is as follows:

Table of Contents

(numbers in thousands)		
2012	\$	689
2013		1,673
2014		1,166
2015		1,166
2016		1,166
Thereafter		5,034
Total	\$	10,894

In connection with business combination accounting, the Company recognized \$1.6 million in a trade name related to the Riviera name, which will be amortized on a straight-line basis over the twelve months following the date Monarch acquired Black Hawk, April 26, 2012, as the Company plans to change the Riviera name. Customer lists were valued at \$10.5 million, representing the value associated with the future potential customer revenue production and are being amortized on a straight-line basis over nine years.

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

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

Amortization expense for the three and nine months ended September 30, 2012 was \$689 thousand and \$1.2 million, respectively. The Company did not record any amortization expense of intangible assets in the prior year.

NOTE 3. STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation in accordance with the authoritative guidance requiring the compensation cost relating to share-based payment transactions be recognized in the Company's consolidated statements of income.

On June 21, 2010, the Company granted stock options for 426,709 shares, each with an exercise price of \$11.15, in exchange for underwater stock options for 454,319 shares, which were surrendered in a stockholder approved exchange offer that expired on June 19, 2010. The newly granted options have a ten-year contractual term and have one of two vesting terms. Options issued in exchange for unvested surrendered options vest one year following the anniversary date of surrendered options. Options issued in exchange for vested surrendered options vest in three equal installments on June 21, 2011, 2012 and 2013, respectively. The exchange ratio was calculated based on the fair values of the options surrendered and issued under a value-for-value exchange. Incremental compensation expense was not material.

Reported stock based compensation expense was classified as follows:

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

Table of Contents

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Casino	\$	17,033	\$	20,761	\$	45,025	\$	60,753
Food and beverage		17,829		16,870		53,209		51,663
Hotel		5,095		4,769		13,207		12,098
Selling, general and administrative		312,943		318,730		826,810		1,114,458
Total stock-based compensation, before taxes		352,900		361,130		938,251		1,238,972
Tax benefit		(123,515)		(125,565)		(328,388)		(430,790)
Total stock-based compensation, net of tax	\$	229,385	\$	235,565	\$	609,863	\$	808,182

NOTE 4. EARNINGS PER SHARE

Basic earnings per share is 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 (shares in thousands):

	Three Months Ended September 30,			
	2012		2011	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,141	\$ 0.26	16,138	\$ 0.00
Effect of dilutive stock options	93	(.01)	96	
Diluted	16,234	\$ 0.25	16,234	\$ 0.00

	Nine Months Ended September 30,			
	2012		2011	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,140	\$ 0.47	16,138	\$ 0.32
Effect of dilutive stock options	109		89	(0.01)
Diluted	16,249	\$ 0.47	16,227	\$ 0.31

Excluded from the computation of diluted earnings per share are options where the exercise prices are greater than the market price as their effects would be anti-dilutive in the computation of diluted earnings per share. For the calculation of earnings per share for the nine months ended September 30, 2012 and 2011; 2,164,055 and 1,754,832, respectively, were excluded.

NOTE 5. NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued amendments to enhance disclosures about offsetting and related arrangements. This information will enable the users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial and derivative instruments. These amendments are effective for annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013. The disclosures required by these amendments should be provided retrospectively for all comparative periods presented. Management does not believe that these amendments will

have a material impact on the consolidated financial statements.

Table of Contents

In June 2011, the FASB issued amendments to guidance regarding the presentation of other comprehensive income ( OCI ). The amendments eliminate the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments require that comprehensive income be presented in either a single continuous statement or in two separate but consecutive statements. In a single continuous statement, the entity would present the components of net income and total net income, the components of OCI and a total of OCI, along with the total of comprehensive income in that statement. In the two-statement approach, the entity would present components of net income and total net income in the statement of net income and a statement of OCI would immediately follow the statement of net income and include the components of OCI and a total for OCI, along with a total for comprehensive income. The amendments also require the entity to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The amendments do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income or the option to present components of OCI either net of related tax effects or before related tax effects. The amendments, excluding the specific requirement to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented which was deferred by the FASB in December 2011, are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The Company adopted the guidance as of January 1, 2012 which did not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued amendments to existing fair value measurement guidance in order to achieve common requirements for measuring fair value and disclosures in accordance with GAAP and International Financial Reporting Standards. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks, addresses the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy and requires additional disclosures. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Company adopted the guidance as of January 1, 2012, which did not have a material impact on the consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350)-Testing Goodwill for Impairment ( ASU 2011-08 ). Under the amendments in ASU 2011-08, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the two-step impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 is not expected to have a material impact on the Company's financial position or results of operations.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (ASC Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment. ASU No. 2012-02 amends the impairment test for indefinite-lived intangible assets by allowing companies to first assess the qualitative factors to determine if it is more likely than not that an indefinite-lived intangible asset might be impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The changes to the ASC as a result of this update are effective prospectively for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013 for the Company). The Company does not expect that the adoption of this guidance will have a material impact on its Consolidated Financial Statements.

Table of Contents

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, that the implementation of any such proposed or revised standards would have on the Company's consolidated financial statements.

NOTE 6. RELATED PARTY TRANSACTIONS

The 18.95-acre shopping center (the Shopping Center) adjacent to the Atlantis is owned by Biggest Little Investments, L.P. (BLI). BLI's general partner is Maxum, L.L.C. (Maxum). John Farahi, Bob Farahi and Ben Farahi each individually own non-controlling interests in BLI and Maxum. John Farahi is Co-Chairman of the Board, Chief Executive Officer and a Director of Monarch. Bob Farahi is Co-Chairman of the Board, President, Secretary and a Director of Monarch. Until May 23, 2006, Ben Farahi was the Co-Chairman of the Board, Secretary, Treasurer, Chief Financial Officer and a Director of Monarch.

In addition, a driveway that is being shared between the Atlantis and the Shopping Center was completed on September 30, 2004. As part of this project, in January 2004, the Company leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every year beginning in the 61st month based on the Consumer Price Index. The Company began paying rent to the Shopping Center on September 30, 2004. The Company also uses part of the common area of the Shopping Center and pays its proportional share of the common area expense of the Shopping Center. The Company has the option to renew the lease for three individual five-year terms, and at the end of the extension periods, the Company has the option to purchase the leased driveway section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by the Company for pedestrian and vehicle access to the Atlantis, and the Company may use a portion of the parking spaces at the Shopping Center. The Company paid approximately \$85,200 and \$255,600 plus common area maintenance charges for its leased driveway space at the Shopping Center during the three and nine months ended September 30, 2012 and \$85,200 and \$255,600 plus common area maintenance charges for the three and nine months ended September 30, 2011.

The Company occasionally leases billboard advertising space from affiliates of its controlling stockholders and paid \$10,900 and \$100,700 for the three and nine months ended September 30, 2012, respectively, and paid \$19,900 and \$87,500 for the three and nine months ended September 30, 2011, respectively.

NOTE 7. LONG-TERM DEBT

Old Credit Facility

Until November 15, 2011 the Company had a reducing revolving term loan credit facility with a consortium of banks (the Old Credit Facility) for \$60 million. The Old Credit Facility was to be utilized by the Company for working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The Old Credit Facility was replaced on November 15, 2011 by the New Credit Facility.

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

The maturity date of the Old Credit Facility was January 20, 2012. Borrowings under the Old Facility were secured by liens on substantially all of the real and personal property of the Atlantis and were guaranteed by the Company.

Table of Contents

New Credit Facility

The New Credit Facility was entered into by the Company for financing the acquisition of Riviera Black Hawk, Inc., and working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The maximum available borrowings under the New Credit Facility are \$100 million (see NOTE 9).

The maturity date of the New Credit Facility is November 15, 2016. Borrowings are secured by liens on substantially all of the real and personal property of Monarch, Golden Road, and Monarch Growth (which holds the operations, assets and liabilities of Riviera Black Hawk, Inc.).

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

As of September 30, 2012, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 3.25:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of September 30, 2012, the Company's leverage ratio and fixed charge coverage ratios were 2.03:1 and 19.1:1, respectively.

The maximum principal available under the New Credit Facility is reduced by 1.5% per quarter beginning in the third quarter of 2013. The Company may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$500 thousand and a multiple of \$50 thousand. Maturities of the Company's borrowings for each of the next three years and thereafter as of September 30, 2012 are as follows (amounts in thousands):

Year	Maturities
2013	\$
2014	
2015	
Thereafter	82,100
	\$ 82,100

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

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

The Company paid various one-time fees and other loan costs which totaled \$1.6 million upon the closing of the New Credit Facility that are being amortized over the term of the New Credit Facility using the straight-line method which approximates the effective interest method.

At September 30, 2012, the Company had \$82.1 million outstanding under the New Credit Facility. At that time the Company's leverage ratio was such that pricing for borrowings under the New Facility was LIBOR plus 2.250%. At September 30, 2012 the one-month LIBOR interest rate was

Table of Contents

0.21%. The carrying value of the debt outstanding under the New Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

NOTE 8. TAXES

Income Taxes

For the nine months ended September 30, 2012 and 2011, the Company's effective tax rates were 35.4% and 34.8%, respectively. The effective tax rate for the nine months ended September 30, 2012 varied from the prior period because of the impact of the acquisition of the Riviera Black Hawk Casino (see NOTE 9) which pays Colorado state tax. All other items that impact the effective tax rate are generally consistent from year to year.

Nevada Use Tax Refund Claims

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the Department), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals was exempt from use tax. As a result of this decision, refund claims were filed for use taxes paid, over the period April 1997 through March 2000 and the period February 2005 through June 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino property. We estimate the requested refund to be approximately \$1.5 million, excluding interest. We have not recognized any of these refund amounts.

In February 2012, the Department issued a policy directive, requesting that affected taxpayers begin collecting and remitting sales tax on complimentary meals and employee meals effective February 2012 and on June 25, 2012, the Nevada Tax Commission adopted regulations providing for a similar requirement, which regulations have not yet been made effective. As such we have accrued the resultant tax of \$296 as of September 30, 2012.

We believe this policy directive, and possibly, the new regulations, contradict the March 27, 2008 Nevada Supreme Court decision, and we believe each are being challenged by several affected parties.

IRS Exam Settlement

Tax years 2006 forward were subject to examination by the Internal Revenue Service (the IRS). During 2009, the IRS began its field examination (the Examination) of the Company's 2006, 2007 and 2008 tax returns. The issues for consideration in the Examination were temporary differences related to the appropriate recovery periods applicable to certain assets. In 2010, the Company received the results of the Examination of its 2006 through 2008 U.S. federal income tax returns and subsequently filed an appeal of the Examination findings with the

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

Appellate Division of the IRS. In connection with that appeal, the Company agreed to extend the statute of limitations for its 2006, 2007 and 2008 tax returns to December 31, 2012 to allow the IRS adequate time to consider its response in the appeals process. During the three month period ended September 30, 2012, the Company settled with the IRS and paid \$1.1 million related to the Examination.

### NOTE 9. RIVIERA BLACK HAWK ACQUISITION TRANSACTION

On September 29, 2011, Monarch entered into a definitive Stock Purchase Agreement (the Agreement ) with Riviera Operating Corporation, a Nevada corporation, Riviera Holdings Corporation,

Table of Contents

a Nevada corporation (collectively the Seller and together with Monarch, the Parties ) and Riviera Black Hawk, Inc., a Colorado corporation ( Riviera Black Hawk ). Pursuant to the Agreement, the Seller agreed to sell all of the issued and outstanding shares of common stock of Riviera Black Hawk to Monarch.

On April 26, 2012 (the Closing ) Monarch completed the acquisition of Riviera Black Hawk. Monarch paid \$76 million (the Purchase Price ), subject to certain post-Closing working capital adjustments. At Closing, Seller paid substantially all of Riviera Black Hawk s indebtedness and left Monarch \$2.1 million of net working capital. In order to fund the Purchase Price and related transaction costs, Monarch borrowed \$72.3 million under its New Credit Facility (see NOTE 7). \$2.28 million of the Purchase Price was escrowed to secure the Seller s indemnification obligations under the Purchase Agreement.

The acquisition was treated as a purchase transaction. Accordingly, the purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The final allocation of the purchase price will be completed by December 31, 2012. In establishing its preliminary purchase price allocation, the Company obtained a third-party valuation of the assets acquired and liabilities assumed, and preliminarily assigned the following values based upon the Company s review of the third-party valuation (amounts in thousands):

Cash consideration	\$	75,885
Liabilities assumed by Monarch		3,505
Working capital adjustment		604
Total consideration	\$	79,994

The preliminary allocation of pro forma purchase price is as follows (in thousands):

Tangible Assets:		
Current assets	\$	6,241
Land		8,700
Site improvements		30
Building improvements		15,200
Furniture and equipment		5,737
Total tangible assets		35,908
Intangible Assets:		
Customer list		10,490
Trade name		1,590
Goodwill		26,576
Total intangible assets		38,656
Deferred tax asset		5,430
Total assets	\$	79,994

The Company recognized \$455 thousand and \$2.2 million of acquisition related cost in the three and nine month periods ended September 30, 2012, respectively.

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

The amounts of net revenue and operating income of Riviera Black Hawk Casino included in the Company's unaudited condensed consolidated statement of income, since the Closing, after elimination of intercompany transactions, for the nine month period ended September 30, 2012 are as follows (amounts in thousands except per share amounts):

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

Table of Contents

Net revenues	\$	18,956
Income from operations	\$	4,344
Net income	\$	2,693
Basic earnings per common share	\$	0.17
Diluted earnings per common share	\$	0.17

The pro forma consolidated results of operations, as if the acquisition of Riviera Black Hawk had occurred on January 1, 2011 and 2012, are as follows (amounts in thousands except per share amounts):

	Nine Months Ended September 30,	
	2012	2011
Pro forma:		
Net revenues	\$ 139,394	\$ 136,687
Income from operations	\$ 14,647	\$ 13,816
Net income	\$ 9,241	\$ 10,536
Basic earnings per share	\$ 0.57	\$ 0.66
Diluted earnings per share	\$ 0.57	\$ 0.64

NOTE 10. SEGMENT INFORMATION

We have defined two reportable operating segments: the Atlantis and Riviera Black Hawk. We use Adjusted EBITDA (as defined below) to compare operating results among our segments and allocate resources. The following table highlights our Adjusted EBITDA and reconciles Adjusted EBITDA to net income for the three and nine months ended September 30, 2012 and 2011.

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
<u>Net revenues:</u>				
Atlantis	\$ 36,830,127	\$ 36,174,386	\$ 107,752,749	\$ 106,620,075
Black Hawk (a)	11,031,584		18,955,648	
Total net revenue	\$ 47,861,711	\$ 36,174,386	\$ 126,708,397	\$ 106,620,075
<u>Adjusted EBITDA (b):</u>				
Atlantis	\$ 9,170,407	\$ 8,602,316	\$ 25,177,650	\$ 27,217,220
Black Hawk (a)	4,085,155		6,631,341	
	13,255,562	8,602,316	31,808,991	27,217,220
Corporate and other expense (c)	(934,398)	(818,595)	(3,318,457)	(3,400,035)
Total Adjusted EBITDA	\$ 12,321,164	\$ 7,783,721	\$ 28,490,534	\$ 23,817,185
<u>Expenses:</u>				
Stock based compensation	(352,900)	(361,130)	(938,251)	(1,238,972)
Depreciation and amortization	(4,647,002)	(3,314,598)	(12,282,291)	(10,144,999)
Acquisition expense	(454,701)	(437,400)	(2,155,522)	(437,400)
Adventure Inn demolition		(3,519,148)		(3,519,148)
Interest expense	(479,772)	(160,237)	(1,396,632)	(643,505)
(Provision) benefit for income taxes	(2,249,708)	20,071	(4,146,633)	(2,724,600)
Net income	\$ 4,137,081	\$ 11,279	\$ 7,571,205	\$ 5,108,561



Table of Contents

	September 30, 2012		December 31, 2011	
<u>Assets:</u>				
Atlantis	\$	148,995,874	\$	171,303,164
Black Hawk (a)		90,254,483		
Corporate and other (d)		8,369,189		8,296,440
Total assets	\$	247,619,546	\$	179,599,604

	Nine Months Ended September 30,			
	2012		2011	
<u>Capital Expenditures:</u>				
Atlantis	\$	3,882,410	\$	3,831,301
Black Hawk (a)		4,071,945		
	\$	7,954,355	\$	3,831,301

(a) We acquired Black Hawk on April 26, 2012.

(b) We define Adjusted EBITDA for each segment as net income plus provision for income taxes, interest expense, acquisition expense, depreciation and amortization and stock based compensation.

(c) Corporate and other expenses represent unallocated payroll, professional fees, travel expenses and other general and administrative expenses not directly related to our casino and hotel operations.

(d) Corporate assets include assets not directly related to our casino and hotel operations and the assets of our non-operating subsidiaries.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Monarch Casino & Resort, Inc., 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" ) 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 (collectively, "Black Hawk" ) on April 26, 2012. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road.

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

Monarch's wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) was formed on January 4, 2012 and received approval from the Nevada Gaming Commission on August 23, 2012 for a license as an operator of interactive gaming. Before the license can be issued, a number of conditions must be met, within six months of the approval, and before operations can commence, the Company must enter into contracts with a licensed interactive gaming service provider with an approved system. None of these conditions have occurred, and 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 Riviera Black Hawk Casino. 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 Riviera Black Hawk Casino does not 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.

Table of Contents

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

OPERATING RESULTS SUMMARY

Our operating results may be affected by, among other things, competitive factors, gaming tax increases, the commencement of new gaming operations, construction at our facilities, general public sentiment regarding travel, overall economic conditions and governmental policies affecting the disposable income of our patrons and weather conditions affecting our properties. In particular, our results for the quarter ended September 30, 2012 were impacted by non-recurring expenses in connection with the acquisition of Riviera Black Hawk, Inc. Consequently, our operating results for any quarter or year are not necessarily comparable and may not be indicative of future periods' results.

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

Atlantis:

As in many other areas around the country, the impacts of the economic decline and weakness in Reno that began in the fourth quarter of 2007 continue to be felt in 2012. Aggressive marketing programs by our competitors have also posed challenges to us during that time. Furthermore, based on statistics released by the Nevada Gaming Control Board, the Reno gaming revenue market has shrunk in the aggregate. We anticipate that the ongoing macroeconomic weakness nationally and in the Reno market, combined with aggressive marketing programs of our competitors, will continue to apply downward pressure on Atlantis revenue.

Riviera Black Hawk:

On April 26, 2012, we acquired Riviera Black Hawk, Inc., the owner of the Riviera Black Hawk Casino in Black Hawk, Colorado which is located approximately 40 miles from Denver, Colorado. Our initial focus with the Riviera Black Hawk Casino is to maximize casino and food and beverage revenues. There is currently no hotel on the property. We have begun to evaluate all aspects of operations and to implement certain operational and management changes which we believe will enhance operations. We have also begun to develop a master plan of future improvements to the Riviera Black Hawk Casino, which we expect to include, among other things, a property-wide renovation, including renovations of all casino, restaurant, public areas, improvement of casino games, and, subject to our final evaluation, construction of a new multi-story parking facility, a hotel and related property amenities.

CAPITAL SPENDING AND DEVELOPMENT

We seek to continuously upgrade and maintain our facilities in order to present a fresh, high quality product to our guests. Capital expenditures during the first nine months of 2012 and 2011 were as follows:

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

	Nine Months Ended September 30,	
	2012	2011
<b>Capital Expenditures:</b>		
Atlantis	\$ 3,882,410	\$ 3,831,301
Black Hawk (a)	4,071,945	
	\$ 7,954,355	\$ 3,831,301

Table of Contents

---

(a) We acquired Riviera Black Hawk on April 26, 2012.

During the nine month period ended September 30, 2012 and 2011, capital expenditures at both the Atlantis and Riviera Black Hawk consisted primarily of the acquisition of gaming equipment to upgrade and replace existing equipment and other general upgrades to their respective facilities.

STATEMENT ON FORWARD-LOOKING INFORMATION

When used in this report and elsewhere by management from time to time, the words *believes*, *anticipates* and *expects* and similar expressions are intended to identify forward-looking statements with respect to our financial condition, results of operations and our business including our expansion, development activities, legal proceedings and employee matters. Certain important factors, including but not limited to, competition from other gaming operations, factors affecting our ability to compete, acquisitions of gaming properties, integration of our new property, leverage, construction risks, the inherent uncertainty and costs associated with litigation and governmental and regulatory investigations, changes in taxation, and licensing and other regulatory risks, could cause our actual results to differ materially from those expressed in our forward-looking statements. Further information on potential factors which could affect our financial condition, results of operations and business including, without limitation, our expansion, development activities, legal proceedings and employee matters are included in our filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revisions to such forward-looking statement to reflect events or circumstances after the date hereof.

RESULTS OF OPERATIONS

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2012 and 2011

*Atlantis Operations:*

For the three months ended September 30, 2012, net revenue increased to \$36.8 million from \$36.2 million for the same period of 2011, approximately \$656 thousand or 1.8% due to higher gaming and food and beverage revenues combined with higher promotional allowances due to an increase in the amount of complimentary food, beverage and other services provided to casino patrons ( *Complimentaries* ).

The increase in casino revenues was primarily due to higher slot revenues. Casino operating expenses as a percentage of casino revenue decreased to 39.0% as compared to 39.6% in the prior year's third quarter primarily due to higher casino net revenue partially offset by higher Complimentaries.

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

Food and beverage revenues increased 2.0% during the quarter driven by a 1.4% increase in covers served combined with a 0.1% increase in the average revenue per cover. This increase in the average revenue per cover was the result of menu price increases in response to higher food commodity costs. These menu price increases contributed to an improvement in the food and beverage operating expenses as a percentage of food and beverage revenue from 47.2% in prior year's third quarter to 41.5% for the current year's third quarter.

Hotel revenue decreased due to lower average daily room rate (ADR) of \$78.02 for the third quarter of 2012 compared to \$82.10 in the third quarter of 2011. This lower ADR was partially offset by higher hotel occupancy of 97.4% during the third quarter of 2012 compared to 94.9% during the third

Table of Contents

quarter of 2011. Revenue per Available Room ( REVPAR ), calculated by dividing total room revenue (less service charges, if any) by total rooms available was \$76.03 and \$77.92 for the three month periods ended September 30, 2012 and 2011, respectively. Hotel operating expenses as a percent of hotel revenues decreased slightly to 23.9% for the third quarter of 2012 as compared to 24.5% for the third quarter of 2011 due to the miscellaneous expense reductions.

Promotional allowances as a percentage of gross revenues increased to 18.5% during the third quarter of 2012 from 16.9% during the third quarter of 2011. This increase was primarily the result of increased promotional and discount programs in response to the challenging economic environment and ongoing competitor promotional and discount programs.

Riviera Black Hawk Operations:

We acquired the Black Hawk on April 26, 2012, and therefore, no information is given for the three month period ended September 30, 2011. The amounts of net revenue and operating income of Riviera Black Hawk included in the Company's unaudited condensed consolidated statement of income, after elimination of intercompany transactions, for the three month period ended September 30, 2012 are as follows (numbers in thousands except per share amounts):

Net revenues	\$	11,032
Income from operations	\$	2,701
Net income	\$	1,675

Corporate and Other Expenses:

Depreciation and amortization expense increased to \$4.7 million in the third quarter of 2012 as compared to \$3.3 million for the third quarter of 2011 primarily due to depreciation and amortization expense related to the addition of Black Hawk.

Selling, general and administrative expense ( SG&A Expense ) for the 2012 third quarter increased by \$2.6 million, \$2.2 million of which represents SG&A Expense from the Black Hawk operation for which the third quarter of the prior year reflects no expense. The primary drivers of the remaining \$400 thousand of increased Atlantis SG&A Expense are: higher marketing expense of \$740 thousand and higher use tax expense of \$120 thousand partially offset by lower utilities of \$245 thousand and bad debt expense of \$250 thousand. The higher use tax expense is the result of a ruling from the Nevada Department of Taxation that complimentary meals are subject to use tax effective February 2012. Following Nevada casino industry practice, the Company did not recognize use tax on complimentary meals in the prior year.

During the third quarter of 2012, we incurred \$455 thousand of non-recurring acquisition expense directly related to the acquisition of Black Hawk.

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

Because of borrowings required to complete the Black Hawk acquisition, the balance outstanding under our New Credit Facility increased from \$16.0 million at September 30, 2011 to \$82.1 million at September 30, 2012. As a result, interest expense increased from \$160 thousand in the third quarter of 2011 to \$480 thousand in the third quarter of 2012.

### Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2012 and 2011

#### Atlantis Operations:

For the nine months ended September 30, 2012, net revenue increased slightly to \$107.8 million from \$106.6 million for the same period of the prior year, approximately \$1.1 million or 1.1%. A 5.8%

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

### Table of Contents

decrease in hotel revenue and higher promotional allowances were offset by increases in casino, food and beverage and other revenues.

Casino operating expenses amounted to 39.0% for both the nine month periods ended September 30, 2012 and 2011.

Food and beverage revenues increased 2.8% due to a 0.8% decrease in the number of covers served offset by 3.0% increase in the average revenue per cover. Food and beverage operating expenses amounted to 42.9% of food and beverage revenues during the first nine months of 2012, a decrease when compared to 46.2% for the same period in 2011. This decrease was primarily the result of higher menu prices in response to higher food commodity costs.

The decrease in hotel revenues was due to lower hotel occupancy and average daily room rate ( ADR ). Hotel occupancy decreased to 89.6% during the first nine months of 2012, as compared to 90.8% during the same period in 2011. We also experienced a decrease in the ADR from \$76.38 during the first nine months of 2011 to \$72.69 in the same period of 2012. Revenue per Available Room ( REVPAR ), calculated by dividing total room revenue (less service charges, if any) by total rooms available was \$65.16 and \$69.38 for the nine month periods ended September 30, 2012 and 2011, respectively. Hotel operating expenses as a percent of hotel revenues remained relatively flat at approximately 27.0% for the first nine months of 2012 and the same period of 2011.

Promotional allowances as a percentage of gross revenues increased to 18.1% for the first nine months of 2012 compared to 16.8% for the same period in 2011. This increase was primarily the result of increased promotional and discount programs that we initiated in response to the challenging economic environment and ongoing competitor promotional and discount programs.

### Riviera Black Hawk Operations:

We acquired Riviera Black Hawk on April 26, 2012, and therefore no information is given for the nine month period ended September 30, 2011. The amounts of net revenue and operating income of Riviera Black Hawk included in the Company's unaudited condensed consolidated statement of income, after elimination of intercompany transactions, for the nine month period ended September 30, 2012 (reflecting only operations since April 26, 2012) are as follows (numbers in thousands except per share amounts):

Net revenues	\$	18,956
Income from operations	\$	4,344
Net income	\$	2,693

### Corporate and Other Expenses:

Depreciation and amortization expense was \$12.3 million in the first nine months of 2012, \$2.2 million higher than the \$10.1 million in the same period last year primarily due to depreciation and amortization expense related to the addition of Black Hawk.

SG&A Expense for the first nine months of 2012 increased by \$6.5 million, \$4.1 million of which represents SG&A Expense from the Black Hawk operation for the period from the date of the Black Hawk acquisition (April 26, 2012) through September 30, 2012. The primary drivers of the remaining \$2.4 million of Atlantis operational increases are: higher marketing expense of \$1.8 million, higher use tax expense of \$560 thousand and higher bad debt expense of \$160 thousand. The higher use tax expense is related to a recent ruling from the Nevada Department of Taxation that complimentary meals are subject to use tax effective February 2012. The Company did not recognize use tax on complimentary meals in the prior year.

Table of Contents

During the first nine months of 2012, we incurred \$2.2 million of non-recurring acquisition expense, comprised primarily of professional fees, directly related to the acquisition of Black Hawk.

At September 30, 2012 we had \$82.1 million of outstanding principal under our credit facility. Interest expense during the nine month period ended September 30, 2012 increased to \$1.4 million as compared to \$644 thousand during the same period of 2011. This increase was due to higher borrowings under our credit facility required to complete our acquisition of Black Hawk.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 2012, net cash provided by operating activities totaled \$20.7 million, an increase of \$3.1 million or 17.7% compared to the same period last year. This increase was primarily the result of higher net income, depreciation and amortization, accounts payable and federal income taxes all partially offset by higher accounts receivable, lower share based compensation, lower provision for bad debts, lower loss on disposal of assets, lower deferred income taxes, lower inventories, and lower prepaid expenses during the first nine months of 2012 as compared to the first nine months of the prior year.

Net cash used in investing activities totaled \$74.7 million and \$7.6 million in the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily due to net cash paid to acquire Riviera Black Hawk and cash spent to acquire property and equipment.

Net cash of \$57.4 million was provided by financing activities during the nine months ended September 30, 2012 due primarily to borrowings made to complete the acquisition of Black Hawk, Inc. For the nine months ended September 30, 2011, net cash used by financing activities was \$12.8 million. During the first nine months of 2012 and 2011, we paid \$17.0 million and \$16.6 million, respectively, of the outstanding balance under our credit facility described below.

On November 15, 2011, the Company amended and restated its \$60 million credit facility with a new facility (the New Credit Facility). The New Credit Facility was utilized by the Company for financing the acquisition of Riviera Black Hawk, Inc. and may be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The maximum available borrowings under the New Credit Facility are \$100 million.

The maturity date of the New Credit Facility is November 15, 2016. Borrowings are secured by liens on substantially all of the real and personal property of Monarch, Golden Road, and Monarch Growth.

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

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

common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

As of September 30, 2012, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 3.25:1 and a fixed charge coverage

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

### Table of Contents

ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of September 30, 2012, the Company's leverage ratio was 2.03:1, and the fixed charge coverage ratio was 19.1:1.

The maximum principal available under the New Credit Facility is reduced by 1.5% per quarter beginning in the third quarter of 2013. The Company may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$500 thousand and a multiple of \$50 thousand. Maturities of the Company's borrowings for each of the three years and thereafter as of September 30, 2012 are as follows (amounts in thousands):

Year	Maturities
2013	\$
2014	
2015	
Thereafter	82,100
	\$ 82,100

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

The Company paid various one-time fees and other loan costs which totaled \$1.6 million upon the closing of the New Credit Facility that are being amortized over the term of the New Credit Facility using the straight-line method which approximates the effective interest method.

At September 30, 2012, the Company had \$82.1 million outstanding under the New Credit Facility. At that time its leverage ratio was such that pricing for borrowings under the New Facility was LIBOR plus 2.250%. At September 30, 2012 the one-month LIBOR interest rate was 0.21%. The carrying value of the debt outstanding under the New Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

We believe that our existing cash balances, cash flow from operations and borrowings available under the New Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital. See item 1A. Risk Factors .

### OFF BALANCE SHEET ARRANGEMENTS

A driveway was completed and opened on September 30, 2004, that is being shared between the Atlantis and a shopping center (the Shopping Center ) directly adjacent to the Atlantis. The Shopping Center is controlled by an entity whose owners include our controlling stockholders. As part of this project, in January 2004, we leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years

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

at an annual rent of \$300,000, subject to increase every year beginning in the 61st month based on the Consumer Price Index. We also use part of the common area of the Shopping Center and pay our proportional share of the common area expense of the Shopping Center. We have the option to renew the lease for three individual five-year terms, and at the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components

Table of Contents

of the new driveway are being depreciated over a shorter period of time. We paid approximately \$255,600 in lease payments for the leased driveway space at the Shopping Center during the nine month period ended September 30, 2012.

CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies and estimates can be found in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of our Form 10-K for the year ended December 31, 2011 ( 2011 Form 10-K ). For a more extensive discussion of our accounting policies, see Note 1, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements in our 2011 Form 10-K filed on March 14, 2012.

OTHER FACTORS AFFECTING CURRENT AND FUTURE RESULTS

The economies in northern Nevada, the Denver metropolitan area, and our feeder markets, like many other areas around the country, are experiencing the effects of several negative macroeconomic trends, including a broad economic recession, higher home mortgage defaults and declining residential real estate values. These negative trends could adversely impact discretionary incomes of our target customers, which, in turn has and is expected to continue to adversely impact our business. We believe that as recessionary pressures increase or continue for an extended period of time, target customers may further curtail discretionary spending for leisure activities and businesses may reduce spending for conventions and meetings, both of which would adversely impact our business. Management continues to monitor these trends and intends, as appropriate, to adopt operating strategies to attempt to mitigate the effects of such adverse conditions. We can make no assurances that such strategies will be effective.

The expansion of Native American casinos in California has had an impact on casino revenues in Nevada in general, and many analysts have continued to predict the impact will be more significant on the Reno-Lake Tahoe market. If other Reno-area casinos continue to suffer business losses due to increased pressure from California Native American casinos, such casinos may intensify their marketing efforts to northern Nevada residents as well, greatly increasing competitive activities for our local customers.

Higher fuel costs may deter California, Denver area, and other drive-in customers from coming to the Atlantis or the Riviera Black Hawk Casino.

We also believe that unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis key feeder market areas, such as San Francisco or Sacramento, or in other areas near Denver, Colorado, the Riviera Black Hawk key feeder markets, could have a material adverse effect on our business.

Table of ContentsCOMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of September 30, 2012 and the next five years and thereafter are as follows:

	Total	Payments Due by Period (d)			
		less than 1 year	1 to 3 years	4 to 5 years	more than 5 years
<b>Contractual Cash Obligations:</b>					
Operating Leases(a)	\$ 2,624,700	\$ 404,700	\$ 740,000	\$ 740,000	\$ 740,000
Current Maturities of Borrowings					
Under New Credit Facility (b)	82,100,000			82,100,000	
Purchase Obligations(c)	8,477,900	8,477,900			
Total Contractual Cash Obligations	\$ 93,202,600	\$ 8,882,600	\$ 740,000	\$ 82,840,000	\$ 740,000

(a) Operating leases include \$370,000 per year in lease and common area expense payments to the shopping center adjacent to the Atlantis.

(b) The amount represents outstanding draws against our New Credit Facility (see LIQUIDITY AND CAPITAL RESOURCES above) as of September 30, 2012.

(c) Purchase obligations represent approximately \$4.1 million of commitments related to capital projects and approximately \$4.4 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$4.4 million are cancelable by us upon providing a 30-day notice.

(d) Because interest payments under our New 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: 1) future short-term interest rates; 2) our future leverage ratio which varies with Adjusted EBITDA and our borrowing levels and 3) the speed with which we deploy capital and other spending which in turn impacts the level of future borrowings. The interest rate under our New Credit Facility is LIBOR, or a base rate (as defined in the New Credit Facility), plus an interest rate margin ranging from 0.25% to 2.50% depending on our leverage ratio and whether LIBOR or a base rate is utilized. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At September 30, 2012 our leverage ratio was such that pricing for borrowings was LIBOR plus 2.250%.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in market risks and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of September 30, 2012 that are subject to market risk. As of September 30, 2012 we had \$82.1 million of outstanding debt under our New Credit Facility, all of which was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the New Credit Facility at September 30, 2012 would result in a change in our annual interest cost

of approximately \$821,000.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-

Table of Contents

15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

As previously disclosed, litigation was filed against Monarch on January 27, 2006, by Kerzner International Limited ( Kerzner ) owner of the Atlantis, Paradise Island, Bahamas in the United States District Court, District of Nevada, case number 3:06-cv-00232-ECR (RAM). The complaint sought declaratory judgment prohibiting Monarch from using the name Atlantis in connection with offering casino services other than at Monarch s Atlantis Casino Resort Spa located in Reno, Nevada, and particularly prohibiting Monarch from using the Atlantis name in connection with offering casino services in Las Vegas, Nevada; injunctive relief enforcing the same; and other relief. Monarch filed a counterclaim against Kerzner seeking to cancel Kerzner s federal registration of the Atlantis mark for casino services and to obtain declaratory relief in its favor on issues related to Monarch s use of the mark, as raised by Kerzner s complaint. (Monarch also filed a concurrent action with the Trademark Trial and Appeal Board ( TTAB ) seeking cancellation of Kerzner s federal registration. That administrative action was stayed by the TTAB pending outcome of the district court litigation.) Upon conclusion of discovery various motions were filed by the parties. On December 14, 2009, the court ruled on the pending motions, and identified a single remaining factual question concerning Kerzner s alleged fame that potentially was dispositive of Kerzner s claims. After addressing additional procedural matters, on June 3, 2010, the court directed the parties to file the proposed joint pretrial order. In the proposed joint pretrial order, Kerzner conceded that it could not prove the sole dispositive issue of fame and requested the court to make entry of judgment against Kerzner. The court treated Kerzner s request as a motion to dismiss and for entry of judgment, and on October 8, 2010 issued an order granting dismissal and entry of judgment against Kerzner. On February 10, 2011, the court issued its final judgment against Kerzner and in favor of Monarch with respect to all claims asserted by Kerzner in the Complaint. As to Monarch s Counterclaims, the court granted all remaining counterclaims in favor of Monarch, including declaratory relief that: Monarch s use of the Atlantis mark does not infringe on Kerzner s rights; Monarch has developed valid common law rights in the Atlantis mark for casino services; Monarch owns a valid Nevada state trademark for the Atlantis mark in casino services; Monarch has the exclusive ability to use the Atlantis mark for casino services within the State of Nevada by virtue of its Nevada state registration; and Monarch has the right and ability to use and convey rights in the Atlantis name and mark in connection with casino services in Las Vegas, Nevada, and to do so does not constitute deceptive trade practices under Nevada law. The court declined Monarch s request for cancellation of Kerzner s federal registration and for attorneys fees, but awarded costs of suit to Monarch as the prevailing party. (The TTAB action for cancellation of Kerzner s federal registration remains pending.) On March 11, 2011, Kerzner filed its Notice of Appeal, appealing the above referenced final judgment. Monarch believes that the district court s rulings, from which Kerzner has appealed, are sound and intends to vigorously oppose Kerzner s appeal. Additionally, Monarch has filed a cross-appeal on the bases that the district court erred by failing to cancel Kerzner s federal registration of the Atlantis mark for gaming, and by not awarding attorneys fees to Monarch. The case number assigned in the Ninth Circuit Court of Appeal is 11-15675. The briefing schedule at the Ninth Circuit Court of Appeal has been stayed while the parties explore the possibility of settlement.

Table of Contents

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

**ITEM 1A. RISK FACTORS**

A description of our risk factors can be found in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011. The material changes to those risk factors during the nine months ended September 30, 2012 are found below.

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

We market to and rely upon business from Reno and Denver metropolitan area residents. Adverse changes in the business and employment conditions in Reno (prior to our acquisition of Black Hawk) brought on by the economic recession have adversely impacted our business. There can be no guarantee that such conditions will improve or will not worsen. Additional erosion in business and employment conditions in Reno or the Denver metropolitan area could adversely impact our business.

**WE FACE RISKS ASSOCIATED WITH GROWTH AND INTEGRATION**

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

We could face significant challenges in managing and integrating our expanded or combined operations. The integration of Black Hawk will require the dedication of management resources that may temporarily divert attention from the Atlantis. The process of integrating Black Hawk, if not successful could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

Such projects and any other development projects we may undertake will be subject to the many risks inherent in the expansion or renovation of an existing enterprise or construction of a new enterprise, including unanticipated design, construction, regulatory, environmental and operating problems and lack of demand for our projects. Our current and future projects could also experience:

- delays and significant cost increases;

Table of Contents

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

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

In addition, actual costs and construction periods for any of our projects can differ significantly from initial expectations. Our initial project costs and construction periods will be based upon budgets, conceptual design documents and construction schedule estimates prepared at inception of the project in consultation with architects and contractors. Many of these costs can increase over time as the project is built to completion.

The cost of any project may vary significantly from initial budget expectations and we may have a limited amount of capital resources to fund cost overruns. If we cannot finance cost overruns on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. We can provide no assurance that any project will be completed on time, if at all, or within established budgets, or that any project will result in increased earnings to us. Significant delays, cost overruns, or failures of our projects to achieve market acceptance could have a material adverse effect on our business, financial condition and results of operations.

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

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

In addition, although we will design our projects to minimize disruption of our existing business operations, expansion and renovation projects require, from time to time, all or portions of affected existing operations to be closed or disrupted. Any significant disruption in operations of a property could have a significant adverse effect on our business, financial conditions and results of operations.

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

We intend to finance our future expansion and renovation projects, as well as our other capital expenditures, primarily with cash flow from operations, borrowings under our New Credit Facility, and debt financings. If we are unable to finance our future expansion and renovation projects, or our other capital expenditures, we will have to adopt one or more alternatives, such as reducing, delaying or abandoning planned expansion and renovation projects as well as other capital expenditures, selling assets, restructuring debt, considering obtaining equity financing or joint venture partners, or modifying our New 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

Table of Contents

terms, in a timely manner, or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness.

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

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

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

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

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

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

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

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

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

Table of Contents

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 Riviera Black Hawk property 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 Riviera 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 Riviera Black Hawk (on which mining may have occurred in the past), we may incur costs related to this matter in the future. Furthermore, there may have been soil or groundwater contamination at certain of our properties resulting from current or former operations. None of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

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

On August 23, 2012, the Nevada Gaming Commission (the Commission) approved our application for a license to conduct intrastate interactive gaming in the State of Nevada. Under the approval and before the license is issued, we will still be required to meet the Commission's conditions. In addition, before launching the interactive gaming business, we will be required to enter into one or more contracts with licensed interactive gaming service providers, which contracts have not yet been consummated. Nevada law currently limits permissible interactive gaming to poker.

Our ability to offer interactive poker in the State of Nevada is subject to, among other things, the following:

- Satisfaction of all conditions imposed by the Commission, which include, approval of, and attestation by an independent accountant, of internal controls with respect to interactive gaming, adoption of a gaming compliance plan with respect to interactive gaming, and filing with, and approval of, a plan of operations with the Nevada Gaming Control Board;
- Payment of a license fee of \$500,000, to cover a two-year period, or a pro-rata amount based upon the time of payment;
- Entry into one or more contracts with licensed interactive gaming service provider(s) that will provide the necessary hardware and software systems to conduct interactive gaming;
- Nevada regulatory approval of the interactive gaming systems, which, to date, have not yet been approved; and
- Market and economic conditions that will, in the opinion of our management, justify launching interactive poker.

We are unable to provide assurances of the date of completion of all such conditions described above, but we are focused initially on selecting one or more interactive service providers. If we do not commence interactive gaming operations within six months of August 23, 2012, we must seek an extension of our approval from the Commission.

Table of Contents

**ITEM 6. EXHIBITS**

(a) Exhibits

<b>Exhibit No</b>	<b>Description</b>
31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of John Farahi, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Ronald Rowan, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

---

\*\* XBRL information is furnished and not filed as a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MONARCH CASINO & RESORT, INC.  
(Registrant)

Date: November 8, 2012

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