

MONARCH CASINO & RESORT INC

Form 10-Q

November 08, 2010

[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, 2010

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 ☒ No ☐

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 ☒ No ☐

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

16,138,158 shares
Outstanding at October 30, 2010

Table of Contents

TABLE OF CONTENTS

| Item | Page Number |
|--|--------------------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009 (unaudited)</u> | 3 |
| <u>Condensed Consolidated Balance Sheets at September 30, 2010 (unaudited) and December 31, 2009</u> | 4 |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 (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> | 10 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 19 |
| <u>Item 4. Controls and Procedures</u> | 19 |
| <u>PART II - OTHER INFORMATION</u> | 19 |
| <u>Item 1. Legal Proceedings</u> | 19 |
| <u>Item 1A. Risk Factors</u> | 20 |
| <u>Item 6. Exhibits</u> | 20 |
| <u>Signatures</u> | 20 |
| Exhibit 31.1 Certification of John Farahi pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | 21 |
| Exhibit 31.2 Certification of Ronald Rowan pursuant to Section 302 of the Sarbanes- Oxley Act of 2002 | 22 |
| Exhibit 32.1 Certification of John Farahi pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 23 |
| Exhibit 32.2 Certification of Ronald Rowan pursuant to Section 906 of the Sarbanes- Oxley Act of 2002 | 24 |

[Table of Contents](#)
PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Monarch Casino & Resort, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | | | | |
| Casino | \$ 26,039,912 | \$ 24,385,970 | \$ 75,214,951 | \$ 71,336,715 |
| Food and beverage | 10,595,591 | 9,546,449 | 30,949,116 | 28,965,730 |
| Hotel | 6,361,763 | 5,653,926 | 17,471,295 | 15,680,384 |
| Other | 2,075,795 | 1,665,197 | 5,910,951 | 5,112,754 |
| Gross revenues | 45,073,061 | 41,251,542 | 129,546,313 | 121,095,583 |
| Less promotional allowances | (7,392,963) | (6,405,742) | (21,358,767) | (19,279,190) |
| Net revenues | 37,680,098 | 34,845,800 | 108,187,546 | 101,816,393 |
| Operating expenses | | | | |
| Casino | 9,822,885 | 8,959,794 | 28,676,670 | 26,820,573 |
| Food and beverage | 4,955,400 | 4,600,471 | 13,976,186 | 13,774,017 |
| Hotel | 1,570,286 | 1,807,230 | 4,621,108 | 5,021,467 |
| Other | 745,261 | 654,750 | 2,151,185 | 2,000,936 |
| Selling, general and administrative | 12,785,043 | 12,203,807 | 35,757,641 | 36,133,433 |
| Depreciation and amortization | 3,394,258 | 3,034,674 | 9,919,984 | 9,310,580 |
| Total operating expenses | 33,273,133 | 31,260,726 | 95,102,774 | 93,061,006 |
| Income from operations | 4,406,965 | 3,585,074 | 13,084,772 | 8,755,387 |
| Other income (expense) | | | | |
| Other income | | 36,205 | 16,000 | 171,912 |
| Interest expense | (334,028) | (486,921) | (1,158,303) | (1,608,138) |
| Total other expense | (334,028) | (450,716) | (1,142,303) | (1,436,226) |
| Income before income taxes | 4,072,937 | 3,134,358 | 11,942,469 | 7,319,161 |
| Provision for income taxes | (1,407,000) | (1,096,500) | (4,174,055) | (2,561,225) |
| Net income | \$ 2,665,937 | \$ 2,037,858 | \$ 7,768,414 | \$ 4,757,936 |
| Earnings per share of common stock | | | | |
| Net income | | | | |
| Basic | \$ 0.17 | \$ 0.13 | \$ 0.48 | \$ 0.30 |
| Diluted | \$ 0.17 | \$ 0.13 | \$ 0.48 | \$ 0.29 |
| Weighted average number of common shares and potential common shares outstanding | | | | |
| Basic | 16,132,531 | 16,122,593 | 16,129,017 | 16,122,232 |
| Diluted | 16,209,724 | 16,180,168 | 16,194,332 | 16,159,669 |

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

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, 2010 (Unaudited) | December 31, 2009 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,843,738 | \$ 14,420,323 |
| Receivables, net | 3,606,120 | 2,294,703 |
| Federal income tax receivable | 1,050,849 | |
| Inventories | 1,800,217 | 1,706,867 |
| Prepaid expenses | 2,450,672 | 2,623,650 |
| Deferred income taxes | 780,550 | 1,090,063 |
| Total current assets | 20,532,146 | 22,135,606 |
| Property and equipment | | |
| Land | 13,172,522 | 13,172,522 |
| Land improvements | 3,511,484 | 3,511,484 |
| Buildings | 140,522,106 | 140,522,106 |
| Building improvements | 10,597,698 | 10,410,770 |
| Furniture and equipment | 111,238,662 | 107,655,784 |
| Leasehold improvements | 1,346,965 | 1,346,965 |
| | 280,389,437 | 276,619,631 |
| Less accumulated depreciation and amortization | (123,287,532) | (113,538,145) |
| Net property and equipment | 157,101,905 | 163,081,486 |
| Other assets, net | 376,438 | 569,622 |
| Total assets | \$ 178,010,489 | \$ 185,786,714 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Borrowings under credit facility | \$ | \$ 1,000,000 |
| Accounts payable | 6,972,541 | 8,984,010 |
| Accrued expenses | 12,740,776 | 11,056,079 |
| Federal income taxes payable | | 46,546 |
| Total current liabilities | 19,713,317 | 21,086,635 |
| Long-term debt, less current maturities | 32,000,000 | 47,500,000 |
| Deferred income taxes | 4,707,594 | 4,695,657 |
| Total Liabilities | 56,420,911 | 73,282,292 |
| 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; 16,138,158 outstanding at 9/30/10 16,125,388 outstanding at 12/31/09 | 190,963 | 190,963 |
| Additional paid-in capital | 31,034,509 | 30,041,083 |
| Treasury stock, 2,958,142 shares at 9/30/10 2,970,912 shares at 12/31/09, at cost | (48,541,663) | (48,864,979) |
| Retained earnings | 138,905,769 | 131,137,355 |
| Total stockholders' equity | 121,589,578 | 112,504,422 |
| Total liability and stockholders' equity | \$ 178,010,489 | \$ 185,786,714 |

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

Table of Contents

MONARCH CASINO & RESORT, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| | Nine months ended September 30, | |
|---|---------------------------------|---------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 7,768,414 | \$ 4,757,936 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,919,984 | 9,310,580 |
| Amortization of deferred loan costs | 193,184 | 201,235 |
| Stock based compensation | 1,221,370 | 1,595,949 |
| Provision for bad debts | 705,450 | 1,048,626 |
| Gain on disposal of assets | (16,000) | (63,948) |
| Deferred income taxes | 321,450 | 2,494,660 |
| Changes in operating assets and liabilities: | | |
| Receivables | (2,016,867) | (1,296,179) |
| Inventories | (93,350) | 50,201 |
| Prepaid expenses | 172,978 | (210,593) |
| Other assets | | (772,736) |
| Accounts payable | (2,011,469) | (3,072,654) |
| Accrued expenses | 1,684,697 | 1,240,083 |
| Federal income taxes | (1,097,395) | 212,636 |
| Net cash provided by operating activities | 16,752,446 | 15,495,796 |
| Cash flows from investing activities: | | |
| Proceeds from sale of assets | 16,000 | 83,425 |
| Acquisition of property and equipment | (3,940,403) | (9,414,659) |
| Change in construction payable | | (5,404,372) |
| Net cash used in investing activities | (3,924,403) | (14,735,606) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 95,372 | 13,009 |
| Tax benefit of stock option exercise | | 6,673 |
| Borrowings under credit facility | | 9,750,000 |
| Principal payments on long-term debt | (16,500,000) | (11,100,000) |
| Net cash used in financing activities | (16,404,628) | (1,330,318) |
| Net decrease in cash | (3,576,585) | (570,128) |
| Cash and cash equivalents at beginning of period | 14,420,323 | 11,756,900 |
| Cash and cash equivalents at end of period | \$ 10,843,738 | \$ 11,186,772 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ 896,648 | \$ 1,526,077 |
| Cash paid for income taxes | \$ 4,950,000 | \$ 740,000 |

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Monarch Casino & Resort, Inc. ("Monarch"), a Nevada corporation, was incorporated in 1993. Monarch's wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), operates the Atlantis Casino Resort Spa (the "Atlantis"), a hotel/casino facility in Reno, Nevada. Monarch's other wholly owned subsidiaries, High Desert Sunshine, Inc. ("High Desert") and Golden North, Inc. ("Golden North"), each own separate parcels of land located adjacent to the Atlantis. Unless stated otherwise, the "Company" refers collectively to Monarch and its subsidiaries.

The consolidated financial statements include the accounts of Monarch, Golden Road, High Desert and Golden North. Intercompany balances and transactions are eliminated.

Interim Financial Statements:

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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

The balance sheet at December 31, 2009 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 consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

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.

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

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

Reclassifications:

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the 2010 presentation. These reclassifications had no effect on the previously reported net income. Revenues and expenses from the spa operations were classified as hotel revenues and expenses, respectively, in 2009 and have been reclassified to other revenues and other expenses, respectively, to conform with the 2010 presentation.

Table of ContentsNOTE 2. 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 426,709 stock options with an exercise price of \$11.15 in exchange for 454,319 underwater stock options 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Casino | \$ 15,568 | \$ 14,606 | \$ 43,000 | \$ 43,976 |
| Food and beverage | 23,811 | 14,425 | 53,332 | 43,665 |
| Hotel | 9,947 | 5,991 | 20,938 | 18,338 |
| Selling, general and administrative | 271,381 | 507,390 | 1,104,100 | 1,489,970 |
| Total stock-based compensation, before taxes | 320,707 | 542,412 | 1,221,370 | 1,595,949 |
| Tax benefit | (112,247) | (189,844) | (427,480) | (558,582) |
| Total stock-based compensation, net of tax | \$ 208,460 | \$ 352,568 | \$ 793,890 | \$ 1,037,367 |

NOTE 3. 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, | | 2009 | |
|----------------------------------|----------------------------------|------------------|---------------|------------------|
| | 2010 | Per Share Amount | 2009 | Per Share Amount |
| Basic | Shares 16,133 | \$ 0.17 | Shares 16,123 | \$ 0.13 |
| Effect of dilutive stock options | 77 | | 57 | |
| Diluted | Shares 16,210 | \$ 0.17 | Shares 16,180 | \$ 0.13 |

Nine Months Ended September 30,

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

| | 2010 | | 2009 | |
|----------------------------------|--------|------------------|--------|------------------|
| | Shares | Per Share Amount | Shares | Per Share Amount |
| Basic | 16,129 | \$ 0.48 | 16,122 | \$ 0.30 |
| Effect of dilutive stock options | 65 | | 38 | (.01) |
| Diluted | 16,194 | \$ 0.48 | 16,160 | \$ 0.29 |

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

Table of Contents

per share. For the calculation of earnings per share for the three months ended September 30, 2010 and 2009, 1,544,963 and 1,330,606, respectively, were excluded. For the calculation of earnings per share for the nine months ended September 30, 2010 and 2009, 1,544,963 and 1,333,938, respectively were excluded.

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, new accounting guidance was updated regarding fair value measurements and disclosures. The guidance clarifies and extends the disclosure requirements about recurring and nonrecurring fair value measurements. The Company adopted the new accounting guidance in the first quarter of 2010 and the adoption did not have a material impact on the Company's condensed consolidated financial statements.

In April 2010, the Financial Accounting Standards Board (the "FASB") issued guidance on accruing for jackpot liabilities. The guidance clarifies that an entity should not accrue jackpot liabilities (or a portion thereof) before a jackpot is won if an entity can avoid paying that jackpot.

Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base jackpot and the incremental portion of the progressive jackpots. The guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2010. This guidance should be applied by recording a cumulative effect adjustment to opening retained earnings in the period of adoption. The Company is currently determining the impact of the guidance on its consolidated financial statements.

A variety of proposed or otherwise potential accounting standards are currently under consideration by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, the Company has not yet determined the effect, if any, that the implementation of such proposed standards would have on its financial statements.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company currently rents various spaces in a shopping center (the "Shopping Center") adjacent to the Atlantis which it uses as office and storage space. John and Bob Farahi, the Company's Chief Executive Officer and President, respectively, each have an ownership interest in the Shopping Center. The Company paid rent of approximately \$36,700 and \$62,900, plus common area expenses, for the three and nine months ended September 30, 2010, respectively, and approximately \$57,900 and \$114,500 plus common area expenses for the three and nine months ended September 30, 2009, respectively.

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 five-year terms, and, at the end of the extension periods, the Company has 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 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 total cost of the project was \$2.0 million; the Company was responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial

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

15-year lease term; some components of the new driveway are being depreciated over a shorter period of time. The Company paid \$85,200 and \$225,600, plus common area maintenance charges for the three and nine months ended September 30, 2010, respectively, for its

Table of Contents

leased driveway space at the Shopping Center and paid \$75,000 and \$225,000 during each of the three and 2009, respectively.

The Company occasionally leases billboard advertising space from affiliates of its controlling stockholders and paid \$10,500 and \$28,000 for the three and nine months ended September 30, 2010, respectively, and paid \$45,800 and \$121,000 for the three and nine months ended September 30, 2009, respectively.

On December 24, 2007, the Company entered into a lease with Triple J Plus, LLC (Triple J) for the use of a facility on 2.3 acres of land (jointly the Property) across Virginia Street from the Atlantis that the Company plans to utilize for administrative staff offices. The managing partner of Triple J is a first-cousin of John and Bob Farahi, the Company's Chief Executive Officer and President, respectively. The term of the lease was two years requiring monthly rental payments of \$20,256. Contemporaneously with execution of the lease, the Company entered into an agreement that provided the Company with a purchase option on the Property at the expiration of the lease period while also providing Triple J with a put option to cause the Company to purchase the Property during the lease period. The purchase price of the Property was established by a third party appraisal company. Lastly, as a condition of the lease and purchase option, the Company entered into a promissory note (the Note) with Triple J whereby the Company advanced a \$2.7 million loan to Triple J. The Note required interest only payments at 5.25% and matured on the earlier of i) the date the Company acquires the Property or ii) January 1, 2010. In November 2009, Triple J exercised its put option causing the Company to complete the purchase transaction on November 12, 2009 in accordance with the terms described above.

NOTE 6. LONG-TERM DEBT

THE CREDIT FACILITY

Until February 20, 2004, the Company had a reducing revolving term loan credit facility with a consortium of banks (the First Credit Facility). On February 20, 2004, the First Credit Facility was refinanced (the Second Credit Facility) for \$50 million. The maturity date of the Second Credit Facility was to be April 18, 2009; however, on January 20, 2009, the Second Credit Facility was amended and refinanced (the New Credit Facility) for \$60 million. The New Credit Facility may be utilized by the Company for working capital needs, general corporate purposes and for ongoing capital expenditure requirements.

The maturity date of the New Credit Facility is January 20, 2012. Borrowings are secured by liens on substantially all of the real and personal property of the Atlantis and are guaranteed by Monarch.

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 Company assets and covenants restricting the Company's 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 achieve a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization (EBITDA) on a two-quarter rolling 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 its common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

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

As of September 30, 2010, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 2.375:1 and a fixed charge coverage ratio (EBITDA divided by fixed charges, as defined) of at least 1.25:1. As of September 30, 2010, the Company's leverage ratio and fixed charge coverage ratios were 1.1:1 and 14.2:1, respectively.

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

Table of Contents

The maximum principal available under the New Credit Facility is reduced by \$2.5 million per quarter beginning on December 31, 2009. At September 30, 2010, the maximum principal available under the New Credit Facility was \$50.0 million. 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 five years and thereafter as of September 30, 2010 are as follows (amounts in thousands):

| | Total | less than 1 year | 1 to 3 years | 4 to 5 years | more than 5 years |
|--|---------------|---------------------|-----------------|-----------------|----------------------|
| Maturities of Borrowings Under New Credit Facility | \$ 32,000,000 | | \$ 32,000,000 | | |

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 upon the closing of the refinancing of the New Credit Facility that will be amortized over the facility's term using the straight-line method.

At September 30, 2010, the Company had \$32.0 million outstanding under the New Facility. At that time its leverage ratio was such that pricing for borrowings under the New Facility was LIBOR plus 2.375%. At September 30, 2010 the one-month LIBOR interest rate was 0.28%. 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.

NOTE 7. INCOME TAXES

For the nine months ended September 30, 2010 and 2009, the Company's effective tax rate was 35.0%. The effective tax rate for the nine months ended September 30, 2010 did not vary from the prior period as the items that impact the effective tax rate are generally consistent from year to year.

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 other wholly owned subsidiaries, High Desert Sunshine, Inc. ("High Desert") and Golden North, Inc. ("Golden North"), each own a parcel of land located adjacent to the Atlantis. Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road. The principal asset of Monarch is the stock of Golden Road, which holds all of the assets of the Atlantis.

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

Our sole operating asset, the Atlantis, is a hotel/casino resort located in Reno, Nevada. Our business strategy is to maximize the Atlantis revenues, operating income and cash flow primarily through our casino, food and beverage and hotel operations. We capitalize on the Atlantis location for tour and travel visitors, conventioners and local residents by offering exceptional service, quality 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 Golden Road, High Desert and Golden North subsidiaries.

OPERATING RESULTS SUMMARY

Below is a summary of our third quarter results for 2010 and 2009:

Amounts in millions, except per share amounts

| | Three Months Ended September 30, | | Percentage Increase/(Decrease) | |
|------------------------------|-------------------------------------|---------|-----------------------------------|----------|
| | 2010 | 2009 | | |
| Casino revenues | \$ 26.0 | \$ 24.4 | | 6.6 |
| Food and beverage revenues | 10.6 | 9.5 | | 11.6 |
| Hotel revenues | 6.4 | 5.7 | | 12.3 |
| Other revenues | 2.1 | 1.7 | | 23.5 |
| Net revenues | 37.7 | 34.8 | | 8.3 |
| Sales, general and admin exp | 12.8 | 12.2 | | 4.9 |
| Income from operations | 4.4 | 3.6 | | 22.2 |
| Net income | 2.7 | 2.0 | | 35.0 |
| Earnings per share - diluted | 0.17 | 0.13 | | 30.8 |
| Operating margin | 11.7% | 10.3% | | 1.4 pts. |

| | Nine Months Ended September 30, | | Percentage Increase/(Decrease) | |
|------------------------------|------------------------------------|---------|-----------------------------------|----------|
| | 2010 | 2009 | | |
| Casino revenues | \$ 75.2 | \$ 71.3 | | 5.5 |
| Food and beverage revenues | 31.0 | 29.0 | | 6.9 |
| Hotel revenues | 17.5 | 15.7 | | 11.5 |
| Other revenues | 5.9 | 5.1 | | 15.7 |
| Net revenues | 108.2 | 101.8 | | 6.3 |
| Sales, general and admin exp | 35.8 | 36.1 | | (0.8) |
| Income from operations | 13.1 | 8.8 | | 48.9 |
| Net income | 7.7 | 4.8 | | 60.4 |
| Earnings per share - diluted | 0.48 | 0.29 | | 65.5 |
| Operating margin | 12.1% | 8.6% | | 3.5 pts. |

The increase in net revenue for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 is the third consecutive quarter that our net revenues exceeded that of the prior year's quarter. Before the first quarter of 2010, we had not posted a quarterly increase in net revenues over the same prior year quarter since the third quarter of 2007. Our financial results subsequent to the third quarter of 2007 reflect the effects of a very challenging operating environment that began in the fourth quarter of 2007. As in many other areas around the country, the economic decline in Reno in the fourth quarter of 2007 deepened throughout 2008 and 2009, and has continued into 2010. Aggressive marketing programs by our competitors have also negatively impacted us during that time. Furthermore, based on statistics of

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

gaming revenue win released by the Nevada Gaming Control Board, the Reno gaming market has shrunk in the aggregate. Despite the fact that those negative factors continued into this third quarter of 2010, revenue in each of our operating departments increased compared to the same quarter of 2009. We believe two of the primary factors that drove the net revenues increase include:

Table of Contents

- Contribution from our completed expansion, renovation and Atlantis Convention Center Skybridge capital projects (see CAPITAL SPENDING AND DEVELOPMENT below). We believe these and other improvements have increased the quality of our facility relative to that of many of our competitors who have not upgraded their facilities.
- We also believe that we are delivering superior service to our guests while employee layoffs by many of our competitors have negatively impacted the quality of service they are able to deliver to their guests.

We believe that these factors were the primary drivers of:

- Increases of 6.6%, 11.6%, 12.3% and 23.5% in our casino, food and beverage, hotel and other revenues, respectively, resulting in a net revenues increase of 8.3%;
- An increase in income from operations and diluted earnings per share of 22.2% and 30.8%, respectively;
- An increase in our operating margin by 1.4 points or 13.6%.

We anticipate that the economic decline, combined with the aggressive marketing programs of our competitors, will continue to apply downward pressure on revenue. Despite the fact that we overcame those negative factors in the first nine months of 2010 to grow revenues over the same period in 2009, there is no assurance that we will be able to increase revenues in future periods, particularly if the negative macroeconomic factors persist.

CAPITAL SPENDING AND DEVELOPMENT

We seek to continuously upgrade and maintain the Atlantis facility in order to present a fresh, high quality product to our guests.

In June 2007, we broke ground on an expansion project, several phases of which we completed and opened in the second half of 2008. New space was added to the first floor casino level, the second and third floors and the basement level totaling approximately 116,000 square feet. The existing casino floor was expanded by over 10,000 square feet, or approximately 20%. The first floor casino expansion includes a redesigned, updated and expanded race and sports book of approximately 4,000 square feet and an enlarged poker room. The expansion also included the new Manhattan deli, a New York deli-style restaurant. The second floor expansion created additional ballroom and convention space of approximately 27,000 square feet, doubling the existing facilities. We constructed and opened a pedestrian skywalk over Peckham Lane that connects the Reno-Sparks Convention Center directly to the Atlantis. In January 2009, we opened the final phase of the expansion project, the new Spa Atlantis featuring an atmosphere, amenities and treatments that are unique from any other offering in our market.

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

Additionally, many of the pre-expansion areas of the Atlantis were remodeled to be consistent with the upgraded look and feel of the new facilities. The total cost of these projects (the Capital Projects) was approximately \$80.0 million.

With the opening of the new skywalk, the Atlantis became the only hotel-casino to be physically connected to the Reno-Sparks Convention Center. The Reno-Sparks Convention Center offers approximately 500,000 square feet of leasable exhibition, meeting room, ballroom and lobby space.

Table of Contents

Capital expenditures at the Atlantis totaled approximately \$3.9 million and \$9.4 million during the first nine months of 2010 and 2009, respectively. During the nine month period ended September 30, 2010, our capital expenditures consisted primarily of costs related to the renovation of our Atlantis Steakhouse restaurant and rest rooms, the acquisition of gaming equipment to upgrade and replace existing equipment and continued renovation and other general upgrades to the Atlantis facility. During the nine month periods ended September 30, 2009 our capital expenditures consisted primarily of construction costs associated with the Capital Projects, the acquisition of land to be used for administrative offices, gaming equipment to upgrade and replace existing equipment and continued renovation and upgrades to the Atlantis facility. During the third quarter of 2009, the Company acquired 5.3 acres of land for \$3.25 million financed by a draw down from the New Credit Facility. The land is located on the eastern perimeter of the current Atlantis footprint immediately across Coliseum Way. A portion of the parcel includes a 14,376-square-foot building that has been leased back to the seller, but the leased portion is intended to be available for future alternative parking or other facilities as the Company's development needs require.

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, leverage, construction risks, the inherent uncertainty and costs associated with litigation and governmental and regulatory investigations, 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, 2010 and 2009

For the three months ended September 30, 2010, our net income was \$2.7 million, or \$0.17 per diluted share, on net revenues of \$37.7 million, an increase from net income of \$2.0 million, or \$0.13 per diluted share, on net revenues of \$34.8 million for the three months ended September 30, 2009. Income from operations for the three months ended September 30, 2010 totaled \$4.4 million when compared to \$3.6 million for the same period in 2009. Net revenues increased 8.3%, and net income increased 35.0%, when compared to last year's third quarter.

Casino revenues totaled \$26.0 million in the third quarter of 2010, a 6.6% increase from the \$24.4 million reported in the third quarter of 2009, which was primarily due to increased slot revenue. Casino operating expenses amounted to 37.7% of casino revenues in the third quarter of 2010, compared to 36.7% in the third quarter of 2009. The increase was primarily due to the increased casino revenue combined with increased complimentary expenses.

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

Food and beverage revenues totaled \$10.6 million in the third quarter of 2010, an 11.6% increase from \$9.5 million in the third quarter of 2009, due primarily to a 5.9% increase in the number of covers served combined with a 6.2% increase in the average revenue per cover. Food and beverage operating

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

Table of Contents

expenses amounted to 46.8% of food and beverage revenues during the third quarter of 2010 as compared to 48.2% for the third quarter of 2009. This decrease was primarily the result of lower food and other commodity costs.

Hotel revenues were \$6.4 million for the third quarters of 2010, or 12.3% greater than the \$5.7 million for the third quarter of 2009. This increase was the result of higher average daily room rate (ADR) and higher hotel occupancy. During the third quarter of 2010, the Atlantis experienced a 93.3% occupancy rate, as compared to 85.5% during the same period in 2009. The Atlantis ADR was \$73.17 in the third quarter of 2010 compared to \$67.76 in the third quarter of 2009. Hotel operating expenses as a percent of hotel revenues decreased to 24.7% in the 2010 third quarter, compared to 32.0% in the 2009 third quarter. This decrease was primarily due to the increase in hotel revenue combined with lower hotel operating expense. Hotel operating expense decreased approximately \$237 thousand, or 13.1%, primarily related to lower small equipment and supplies expense resulting from the substantial completion of our ongoing hotel upgrade project.

Promotional allowances increased to \$7.4 million in the third quarter of 2010 compared to \$6.4 million in the third quarter of 2009. Promotional allowances as a percentage of gross revenues increased to 16.4% during the third quarter of 2010 as compared to 15.5% during the third quarter of 2009. The increase is attributable to continued efforts to generate additional revenues through promotional efforts and in response to aggressive marketing programs by our competitors.

Other revenues increased to \$2.1 million in the third quarter of 2010 compared to \$1.7 million in the third quarter of 2009 primarily due to higher revenue in our spa. Our spa opened in January 2009 and features an atmosphere, amenities and treatments that are unique from any other offering in our market.

Depreciation and amortization expense was \$3.4 million in the third quarter of 2010 as compared to \$3.0 million in the third quarter of 2009. The increase in depreciation expense is primarily related to depreciation of capitalized assets related to recent improvements to our facility (see the CAPITAL SPENDING AND DEVELOPMENT section above).

SG&A expense increased to \$12.8 million in the third quarter of 2010 from \$12.2 million in the third quarter of 2009 primarily due to \$330 thousand of higher marketing expense, \$150 thousand of higher small equipment expense and \$110 thousand of higher bad debt expense. As a percentage of net revenue, SG&A expenses decreased to 33.9% in the third quarter of 2010 from 35.0% in the same period in 2009.

During the three month period ended September 30, 2010, we reduced principal on our credit facility by \$5.8 million, net, which reduced the outstanding balance at September 30, 2010 to \$32.0 million. Because of the lower average borrowing balance in the third quarter of 2010 as compared to the third quarter of 2009, interest expense decreased during the third quarter of 2010 to \$334 thousand from \$487 thousand in the third quarter of 2009.

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2010 and 2009.

For the nine months ended September 30, 2010, our net income was \$7.7 million, or \$0.48 per diluted share, on net revenues of \$108.2 million, an increase from net income of \$4.8 million, or \$0.29 per diluted share, on net revenues of \$101.8 million during the nine months ended

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

September 30, 2009. Income from operations for the 2010 nine-month period totaled \$13.1 million, compared to \$8.8 million for the same period in 2009. Net revenues increased 6.3%, and net income increased 60.4% when compared to the nine-month period ended September 30, 2009.

Casino revenues for the nine months ended September 30, 2010 totaled \$75.2 million, a 5.5% increase from \$71.3 million for the nine months ended September 30, 2009. Casino operating expenses

Table of Contents

increased to 38.1% of casino revenues for the nine months ended September 30, 2010, compared to 37.6% for the same period in 2009, primarily due to increased complimentary expenses.

Food and beverage revenues totaled \$31.0 million for the nine months ended September 30, 2010, an increase of 6.9% from the \$29.0 million for the nine months ended September 30, 2009, due to an approximate 3.8% increase in the number of covers served combined with an approximate 4.1% increase in the average revenue per cover. Food and beverage operating expenses amounted to 45.2% of food and beverage revenues during the 2010 nine-month period as compared to 47.6% for the same period in 2009. This decrease was primarily the result of lower food and other commodity costs.

Hotel revenues increased to \$17.5 million for the nine months ended September 30, 2010 as compared to \$15.7 million for the nine months ended September 30, 2009. This increase was driven by higher hotel occupancy and higher average daily room rate (ADR) and revenue from a \$10 per day resort fee, paid by our hotel guests, which we implemented on June 1, 2009. Hotel revenues for the first six months of 2009 include a \$3 per occupied room energy surcharge that was eliminated when we implemented the resort fee. ADR during the 2010 nine-month period was \$71.33, compared to \$66.83 for the same period in 2009. The occupancy rate increased to 86.0% for the nine-month period in 2010 from 83.2% for the same period in 2009. Hotel operating expenses as a percentage of hotel revenues in the first nine months of 2010 decreased to 26.4% from 32.0% for the same period in 2009. This decrease is primarily due to the higher revenues and lower hotel operating expense due primarily to lower payroll and benefits and a reduction of repairs and maintenance expense.

Promotional allowances increased to \$21.4 million in the first nine months of 2010 compared to \$19.3 million in the same period of 2009. Promotional allowances as a percentage of gross revenues increased to 16.5% for the first nine months of 2010 compared to 15.9% for the same period in 2009. The increase is attributable to continued efforts to generate additional revenues through promotional efforts

Other revenues were \$5.9 million for the nine months ended September 30, 2010, a 15.7% increase from \$5.1 million in the same period in 2009 due to higher revenue in our spa. Our spa opened in January 2009 and features an atmosphere, amenities and treatments that are unique from any other offering in our market.

Depreciation and amortization expense was \$9.9 million in the first nine months of 2010, an increase of 6.5% compared to \$9.3 million in the same period last year. The increase in depreciation expense is primarily related to depreciation of capitalized assets related to recent improvements to our facility (see the CAPITAL SPENDING AND DEVELOPMENT section above).

SG&A expenses decreased to \$35.8 million in the first nine months of 2010 from \$36.1 million in the first nine months of 2009, due primarily to reductions in legal expense of \$660 thousand, utilities expense of \$540 thousand and bad debt expense of \$350 thousand all partially offset by higher marketing expense of \$870 thousand, higher small equipment expense of \$180 thousand and higher maintenance expense of \$175 thousand. As a percentage of net revenue, SG&A expenses decreased to 33.1% in the 2010 nine-month period from 35.5% in the same period in 2009.

Due to a lower average borrowing balance in the first nine months of 2010 as compared to the same period of 2009, interest expense decreased during the first nine months of 2010 to \$1.2 million from \$1.6 million in same period of 2009.

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, 2010, net cash provided by operating activities totaled \$16.8 million, an increase of \$1.3 million or 8.1% compared to the same period last year. This increase was primarily related to the effects on operating cash flow during the first nine months of 2010 compared

Table of Contents

with the first nine months of the prior year of: 1) higher net income, higher depreciation and amortization, lower prepaid expenses, higher other assets, and higher accrued expenses partially offset by 2) lower deferred income taxes, lower accounts receivable, lower accounts payable and lower income taxes payable.

Net cash used in investing activities totaled \$3.9 million and \$14.7 million in the nine months ended September 30, 2010 and 2009, respectively. During the first nine months of 2010 net cash used in investing activities consisted primarily of the acquisition of equipment. During the first nine months of 2009, net cash used in investing activities consisted primarily of construction costs associated with the recent expansion phase of the Atlantis and the acquisition of property and equipment. See further discussion in the CAPITAL SPENDING AND DEVELOPMENT section above.

Net cash used in financing activities of \$16.4 million during the nine months ended September 30, 2010, and \$1.3 million during the nine months ended September 30, 2009 represent net payments on our Credit Facility (see THE CREDIT FACILITY below).

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

OFF BALANCE SHEET ARRANGEMENTS

A driveway 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 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 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 of the new driveway are being depreciated over a shorter period of time. We paid approximately \$225,600 in lease payments for the leased driveway space at the Shopping Center during the nine months ended September 30, 2010.

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, 2009 (2009 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 2009 Form 10-K filed on March 16, 2010.

Table of Contents

OTHER FACTORS AFFECTING CURRENT AND FUTURE RESULTS

The economy in northern Nevada 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 could 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 constitutional amendment approved by California voters in 1999 allowing 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 and other drive-in customers from coming to the Atlantis.

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, could have a material adverse effect on our business.

Other factors that may impact current and future results are set forth in detail in Item 1A Risk Factors of our 2009 Form 10-K.

COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of September 30, 2010 and the next five years and thereafter are as follow:

Contractual Cash Obligations

| | | Payments Due by Period (4) | | | |
|---|--------------|----------------------------|-----------------|-----------------|----------------------|
| | Total | less than 1 year | 1 to 3 years | 4 to 5 years | more than 5 years |
| Operating Leases(1) | \$ 3,330,000 | \$ 370,000 | \$ 740,000 | \$ 740,000 | \$ 1,480,000 |
| Current Maturities of Borrowings Under Credit Facility (2) | 32,000,000 | | 32,000,000 | | |

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

| | | | | | | | |
|------------------------------------|-----------|------------|-----------|-----------|----|------------|-------------------------|
| Purchase Obligations(3) | 3,030,800 | | 3,030,800 | | | | |
| Total Contractual Cash Obligations | \$ | 38,360,800 | \$ | 3,400,800 | \$ | 32,740,000 | \$ 740,000 \$ 1,480,000 |

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

Table of Contents

(2) The amount represents outstanding draws against our Credit Facility (see THE CREDIT FACILITY below) as of September 30, 2010.

(3) Purchase obligations represent approximately \$1.5 million of commitments related to capital projects and approximately \$1.5 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$1.5 million are cancelable by us upon providing a 30-day notice.

(4) Because interest payments under our Credit Facility are subject to factors that in our judgment vary materially, the amount of future interest payments is not presently determinable. These factors include: 1) future short-term interest rates; 2) our future leverage ratio which varies with 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 Credit Facility is LIBOR, or a base rate (as defined in the Credit Facility agreement), plus an interest rate margin ranging from 2.00% to 3.375% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At September 30, 2010 our leverage ratio was such that pricing for borrowings was LIBOR plus 2.375%.

THE CREDIT FACILITY

Until February 20, 2004, we had a reducing revolving term loan credit facility with a consortium of banks (the First Credit Facility). On February 20, 2004, the Original Credit Facility was refinanced (the Second Credit Facility) for \$50 million. The maturity date of the Second Credit Facility was to be April 18, 2009; however, on January 20, 2009, the Second Credit Facility was amended and refinanced (the New Credit Facility) for \$60 million. The New Credit Facility may be utilized by us for working capital needs, general corporate purposes and for ongoing capital expenditure requirements.

The maturity date of the New Credit Facility is January 20, 2012. Borrowings are secured by liens on substantially all of the real and personal property of the Atlantis and are guaranteed by Monarch.

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 our 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 we maintain certain financial ratios and achieve a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization (EBITDA) on a two-quarter rolling 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 we can repurchase our common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

The maximum principal available under the New Credit Facility is reduced by \$2.5 million per quarter beginning on December 31, 2009. We may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$500,000 and a multiple of \$50,000.

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

We 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.

We paid various one-time fees and other loan costs upon the closing of the refinancing of the New Credit Facility that will be amortized over the facility's term using the straight-line method.

Table of Contents

At September 30, 2010, we had \$32.0 million outstanding under the New Credit Facility, none of which was classified as short-term debt. Short-term debt represents the difference between the amount outstanding at September 30, 2010 and the maximum principal allowed under the New Credit Facility on September 30, 2011. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the Credit Facility agreement), plus an interest rate margin ranging from 2.00% to 3.375% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At September 30, 2010 our leverage ratio was such that pricing for borrowings was LIBOR plus 2.375%. At September 30, 2010, the one-month LIBOR rate was 0.28%.

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, 2010 that are subject to market risk. As of September 30, 2010 we had \$32.0 million of outstanding debt under our New Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the New Credit Facility at September 30, 2010 would result in a change in our annual interest cost of approximately \$320,000.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, (the Evaluation Date), an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the 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. The case number assigned to the matter is 3:06-cv-00232-ECR (RAM). The complaint seeks 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 believes Kerzner's claims to be entirely without merit and is defending vigorously against the suit. Further, Monarch filed a

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

counterclaim against Kerzner seeking to cancel Kerzner's registration of the Atlantis mark for casino services and to obtain declaratory relief on these issues. 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 was potentially dispositive of Kerzner's claims. Kerzner next filed a Request for Certification of

Table of Contents

Interlocutory Appeal as to the court's December 14, 2009 Orders. Kerzner's Request was rejected by the court in its Order issued February 25, 2010. Thereafter, Monarch moved for a bifurcated trial allowing the potentially dispositive question of Kerzner's alleged fame to be decided in the initial trial phase, potentially obviating the need for a second phase if Kerzner was not successful. On June 3, 2010, the court granted Monarch's Motion to Bifurcate and, among other things, 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. Monarch has been directed to submit a proposed form of judgment, which currently is being drafted.

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, 2009. There were no material changes to those risk factors during the three months ended September 30, 2010.

ITEM 6. EXHIBITS

(a) Exhibits

| Exhibit No | Description |
|-------------------|---|
| 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* |

* Filed herewith

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, 2010

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