

MONARCH CASINO & RESORT INC
Form 10-K
March 16, 2010

United States
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File No. 0-22088

MONARCH CASINO & RESORT, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

89502
(ZIP Code)

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

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

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

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

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

COMMON STOCK, \$0.01 PAR VALUE

(Title of Class)

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

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

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

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

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

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

Large accelerated filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

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

The aggregate market value of voting and non-voting common equity held by nonaffiliates as of June 30, 2009, based on the closing price as reported on The Nasdaq Stock Market (SM) of \$7.30 per share, was approximately \$117.7 million.

As of March 4, 2010, Registrant had 16,125,388 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2010 Annual Meeting of Stockholders, which Proxy Statement shall be filed with the Commission not later than 120 days after the end of the fiscal year covered by this report, are incorporated by reference into Part III.

STATEMENTS IN THIS ANNUAL REPORT ON FORM 10-K WHICH EXPRESS THE BELIEF, ANTICIPATION, INTENTION, EXPECTATION, OR SCHEDULED AS WELL AS OTHER STATEMENTS WHICH ARE NOT HISTORICAL FACT, AND STATEMENTS AS TO BUSINESS OPPORTUNITIES, MARKET CONDITIONS, COST ESTIMATIONS AND OPERATING PERFORMANCE INSOFAR AS THEY MAY APPLY PROSPECTIVELY, ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED.

PART I

ITEM 1. BUSINESS

Monarch Casino & Resort, Inc. (the Company or we), 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 separate parcels of land located adjacent to the Atlantis. Unless otherwise indicated, Monarch or the Company refers to Monarch Casino & Resort, Inc. and its subsidiaries. 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. Our principal executive offices are located at 3800 S. Virginia Street; Reno, Nevada 89502; telephone (775) 335-4600.

AVAILABLE INFORMATION

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

THE ATLANTIS CASINO RESORT SPA

Through Golden Road, we own and operate the Atlantis Casino Resort Spa, which is located approximately three miles south of downtown in the generally more affluent area of Reno, Nevada. The Atlantis features approximately 61,000 square feet of casino space; a hotel and a motor lodge with a combined 973 guest rooms; ten food outlets; an enclosed year-round pool with waterfall; an outdoor pool; a health spa; two retail outlets offering clothing and resort gift shop merchandise; a full service salon for men and women; an 8,000 square-foot family entertainment center; and approximately 52,000 square feet of banquet, convention and meeting room space.

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. Additionally, many of the pre-expansion areas of the Atlantis were redesigned to be consistent with the upgraded look and feel of the new facilities. Through December 31, 2009, the Company had incurred approximately \$80 million related to these capital projects.

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.

ATLANTIS CASINO

The Atlantis Casino offers approximately 1,500 slot and video poker machines; approximately 38 table games, including blackjack, craps, roulette and others; a sports book; Keno and a poker room.

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

HOTEL AND MOTOR LODGE

The Atlantis includes three contiguous high-rise hotel towers with a total of 824 rooms and suites, and a low-rise motor lodge with an additional 149 rooms, for a total of 973 guest rooms. The first of the three hotel towers contains 160 rooms and suites in 13 stories. The 19-story second hotel tower contains 278 rooms and suites. The third tower contains 386 rooms and suites in 28 stories. The rooms on the top seven floors in the third tower are nearly 20% larger than the standard guest rooms and offer key card elevator access, upscale accommodations and a private concierge service.

The Atlantis hotel rooms feature design and furnishings consistent with the highest quality in the Northern Nevada market as well as nine-foot ceilings (most standard hotel rooms have eight-foot ceilings), which create an open and spacious feel. The third hotel tower features a four-story waterfall with an adjacent year-round swimming pool in a climate controlled, five-story glass enclosure, which shares an outdoor third floor pool deck with a seasonal outdoor swimming pool and year round whirlpool. A full service salon (the Salon at Atlantis) overlooks the third floor sundeck and outdoor seasonal swimming pool and offers salon-grade products and treatments for hair, nails, skincare and body services for both men and women. A health spa is located adjacent to the swimming areas which offers treatments and amenities unique to our market. The hotel rooms on the spa floor are designated as spa rooms and feature décor that is themed consistent with the spa. Certain spa treatments are also available in spa floor hotel rooms. The hotel also features glass elevators rising the full 19 and 28 stories, respectively, of the two taller hotel towers, providing panoramic views of the Reno area and the Sierra Nevada mountain range.

The 149-room motor lodge is a two-story structure located adjacent to the hotel. The motor lodge rooms, are smaller than the tower hotel rooms and have standard eight-foot ceilings. We believe the motor lodge rooms appeal to value conscious travelers who want to enjoy the experience and amenities of a first-class hotel-casino resort.

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

| | Years ended December 31, | | |
|-------------------------|--------------------------|----------|----------|
| | 2009 | 2008 | 2007 |
| Occupancy rate | 80.6% | 84.9% | 93.8% |
| Average daily room rate | \$ 64.91 | \$ 65.52 | \$ 74.04 |

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We continually monitor and adjust hotel room rates based upon demand and other competitive factors. Our average daily room rate was adversely impacted in 2008 and 2009 by the declining market demand and by rooms sold at discounted rates to select wholesale operators for tour and travel packages.

RESTAURANTS AND DINING

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

- The 600-seat Toucan Charlie's Buffet & Grill, which offers a wide variety of standard hot food selections, salads and seafood, specialty substations featuring made-to-order items such as Mongolian barbecue, fresh Southwest and Asian specialties, meats roasted in wood-fired rotisserie ovens, two salad stations, and a wide variety of freshly made desserts.
- The 160-seat, Atlantis Steakhouse gourmet restaurant.
- The 200-seat, upscale Bistro Napa featuring a centrally located wine cellar.
- The Oyster Bar restaurant in the Sky Terrace offering fresh seafood, soups and bisques made to order.
- The Sushi Bar, also in the Sky Terrace, offering a variety of fresh raw and cooked sushi specialties, including all-you-can-eat lunch and dinner selections. Combined, the Oyster Bar and Sushi Bar can accommodate up to 139 guests.
- The 178-seat 24-hour Purple Parrot coffee shop.
- The 122-seat Café Alfresco restaurant serving a full menu, pizzas prepared in a wood-fired, brick oven and a variety of gelato deserts.
- The 170-seat Manhattan deli restaurant specializing in piled-high sandwiches, soups, salads and desserts
- Two gourmet coffee bars, offering specialty coffee drinks, pastries and desserts made fresh daily in the Atlantis bakery.
- A snack bar and soda fountain serving ice cream and arcade-style refreshments.

THE SKY TERRACE

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

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

ATLANTIS IMPROVEMENTS

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We have continuously invested in upgrading the Atlantis and providing for future expansion opportunities. Our capital expenditures at the Atlantis were \$15.8 million in 2009; \$67.9 million in 2008 and \$17.3 million in 2007.

During 2009, 2008 and 2007 capital expenditures primarily consisted of construction costs associated with the expansion, skybridge and redesign capital projects that commenced in June 2007. During 2009 we spent approximately \$5.2 million to acquire two additional land parcels with buildings within close proximity to the Atlantis (see additional discussion of these parcels below under Properties in ITEM 2.).

ADDITIONAL EXPANSION POTENTIAL

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

MARKETING STRATEGY

The Reno/Sparks region is a major gaming and leisure destination with aggregate gaming revenues of approximately \$715 million (as reported by the Nevada State Gaming Control Board).

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

Our marketing efforts are directed toward three broad consumer groups: leisure travelers, conventioners and northern Nevada residents. We believe the Atlantis' location south of downtown Reno, near the airport, near major freeway arteries and across the street from the Reno-Sparks Convention Center makes the facility appealing to all three groups.

LEISURE TRAVELERS: The Reno/Tahoe region is a popular gaming and vacation destination that enjoys convenient air service from cities throughout the United States. The principal segments of Reno's leisure traveler market are independent travelers, package tour and travel guests, guests we reach through the world-wide-web and high-end players. We attempt to maximize our gaming revenues and hotel occupancy through a balanced marketing approach that addresses each market segment.

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

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

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

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

CONVENTIONEERS: Convention business, like package tour and travel business, supplements occupancy during lower-demand periods. Conventioneers also typically pay higher average room rates than non-conventioneers. We selectively seek convention and meeting groups that we believe will

materially enhance the Atlantis occupancy and daily room rates, as well as those we believe will be more likely to utilize our gaming products. As the only hotel-casino within easy walking distance of the Reno-Sparks Convention Center, the Atlantis is, in our view, uniquely positioned to capitalize on this expanding segment. We believe the Reno-Sparks Convention Center has created, and we expect will continue to create, additional guest traffic for the Atlantis within this market segment that is presently underserved in the Reno area. As described in the THE ATLANTIS CASINO RESORT SPA section above, an enclosed pedestrian skybridge over Peckham Lane has been constructed that connects the Atlantis directly into the Reno-Sparks Convention Center facilities.

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

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

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

COMPETITION

Competition in the Reno area gaming market is intense. Based on information obtained from the December 31, 2009 Gaming Revenue Report published by the Nevada State Gaming Control Board, there are approximately 10 casinos in the Reno area which generate more than \$12.0 million each in annual gaming revenues.

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

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

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We believe that the Atlantis competition for northern Nevada residents comes primarily from other large-scale casinos located outside of downtown Reno that offer amenities that appeal to middle to upper-middle income guests, and secondarily with those casinos located in downtown Reno that offer similar amenities. We compete for northern Nevada residents primarily on the basis of the desirability of

our location, the quality and ambiance of the Atlantis facility, friendly, efficient service, the quality and relative value of our food and beverage offerings, entertainment offerings, promotions and gaming values. We believe the Atlantis proximity to residential areas in south Reno and its abundant surface parking provide us an advantage over the casinos located in downtown Reno in attracting Locals.

The Atlantis also competes for gaming guests with hotel casino operations located in other parts of Nevada, especially Las Vegas and Lake Tahoe, and with hotel casinos, Native American owned casinos, and riverboat casinos located elsewhere throughout the United States and the world. We believe that the Atlantis also competes to a lesser extent with state-sponsored lotteries, off-track wagering, card parlors, and other forms of legalized gaming, particularly in northern California and the Pacific Northwest.

The constitutional amendment approved by California voters in 2000 allowing the expansion of Native American casinos in California has had an adverse 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. The extent of this continued impact is difficult to predict, but we believe that the impact on us will continue to be mitigated to some extent by the revenue generated from the Reno area residents and our proximity to the Reno-Sparks Convention Center. However, if other Reno area casinos continue to suffer business losses due to increased pressure from California Native American casinos, they may intensify their marketing efforts to Reno-area residents as well. However, we believe our numerous amenities, such as a wide array of restaurants, banquet facilities, spa and surface parking are key advantages in our ability to attract Locals that competitor facilities cannot easily match without major capital expenditures.

Certain experienced Nevada gaming operators have agreements to build and manage Native American casino facilities near San Francisco, one of Reno's key feeder markets. Once these facilities receive all the required permits and are built, they could provide an alternative for drive market guests to Reno area casinos, especially during certain winter periods when auto travel through the Sierra Nevada mountain passes is hampered. One major facility near Sacramento has been operating since June 2003 and a second Sacramento area facility opened in 2008. Both have been very successful, adversely impacting many hotel casinos in Reno.

We also believe that the legalization of unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis feeder markets, such as San Francisco or Sacramento, could have a material adverse impact on our business.

In June 2004, five California Indian tribes signed compacts with the state that allow the tribes to increase the number of slot machines beyond the previous 2,000-per-tribe limit in exchange for higher fees from each of the five tribes. In February 2008, the voters of the State of California approved compacts with four tribes located in Southern California that increased the limit of Native American operated slot machines in the State of California.

REGULATION AND LICENSING

The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and the regulations promulgated thereunder, referred to as the Nevada Act, and various local regulations. Our gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board, and the Reno City Council, referred to collectively as the Nevada Gaming Authorities.

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The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that are concerned with, among other things:

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- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenues through taxation and licensing fees.

Changes in such laws, regulations and procedures could have an adverse effect on our gaming operations.

Golden Road, our subsidiary which operates the Atlantis, is required to be licensed by the Nevada Gaming Authorities. The gaming license requires the periodic payment of fees and taxes and is not transferable. We are registered by the Nevada Gaming Commission as a publicly traded corporation, or Registered Corporation. As such, we are required periodically to submit detailed financial and operating reports to the Nevada Gaming Commission and furnish any other information that the Nevada Gaming Commission may require. No person may become a stockholder of, or receive any percentage of profits from, Golden Road without first obtaining licenses and approvals from the Nevada Gaming Authorities. Golden Road and Monarch have obtained from the Nevada Gaming Authorities the various registrations, approvals, permits and licenses required in order to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, Golden Road or Monarch in order to determine whether that individual is suitable or should be licensed as a business associate of a gaming licensee. Officers, directors and key employees of Golden Road must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. Our officers, directors and key employees who are actively and directly involved in gaming activities of Golden Road may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. Applicants for licensing or a finding of suitability must pay all costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities. In addition to their authority to deny an application for a finding of suitability or licensure, the Nevada Gaming Authorities also have jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with Golden Road or us, the companies involved would have to sever all relationships with that person. In addition, the Nevada Gaming Commission may require that we terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or of questions pertaining to licensing are not subject to judicial review in Nevada.

We are required to submit detailed financial and operating reports to the Nevada Gaming Commission. Substantially all material loans, leases, sales of securities and similar financing transactions by us must be reported to, or approved by, the Nevada Gaming Commission.

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If it were determined that we violated the Nevada Act, our gaming licenses and registrations with the Nevada Gaming Commission could be limited, conditioned, suspended or revoked, subject to compliance with certain statutory and regulatory procedures. In addition, we and the persons involved

could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Commission. Further, the Nevada Gaming Commission could appoint a supervisor to operate our gaming properties and, under certain circumstances, earnings generated during the supervisor's appointment (except for the reasonable rental value of our gaming properties) could be forfeited to the State of Nevada. The limitation, conditioning or suspension of any gaming license or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect our gaming operations.

Any beneficial holder of our voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have his suitability as a beneficial holder of our voting securities determined if the Nevada Gaming Commission has reason to believe that such ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Gaming Act requires any person who acquires more than 5% of Monarch's voting securities to report the acquisition to the Nevada Gaming Commission. The Nevada Act requires that beneficial owners of more than 10% of our voting securities apply to the Nevada Gaming Commission for a finding of suitability within 30 days after the Chairman of the Nevada Gaming Control Board mails the written notice requiring such filing. Under certain circumstances, an institutional investor, as defined in the Nevada Act, which acquires more than 10%, but not more than 25%, of our voting securities may apply to the Nevada Gaming Commission for a waiver of such finding of suitability if the institutional investor holds the voting securities for investment purposes only, and for a waiver of the requirement for an approval of a change of control if the acquisition is above 20% of the voting securities. An institutional investor is not deemed to hold voting securities for investment purposes unless they were acquired and are held in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or any of our gaming affiliates, or any other action that the Nevada Gaming Commission finds to be inconsistent with holding our voting securities for investment purposes only. Activities that are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and
- such other activities as the Nevada Gaming Commission may determine to be consistent with such investment intent.

If the beneficial holder of voting securities who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or the Chairman of the Nevada State Gaming Control Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of the common stock of a Registered Corporation beyond such period of time as may be prescribed by the Nevada Gaming Commission may be guilty of a criminal offense. We are subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us, we:

- pay that person any dividend or interest upon voting securities,

- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person,
- pay remuneration in any form to that person for services rendered or otherwise, or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities for cash at fair market value.

The Nevada Gaming Commission may, in its discretion, require the holder of any debt security of a Registered Corporation to file applications, be investigated and be found suitable to own the debt security of a Registered Corporation. If the Nevada Gaming Commission determines that a person is unsuitable to own such security, then pursuant to the Nevada Act, the Registered Corporation can be sanctioned, including the loss of its approvals if, without the prior approval of the Nevada Gaming Commission, it:

- pays to the unsuitable person any dividend, interest, or any distribution;
- recognizes any voting right by such unsuitable person in connection with such securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

We are required to maintain a current stock ledger in Nevada, and the Nevada Gaming Authorities may examine the ledger at any time. If any securities are held in trust by an agent or a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. The Nevada Gaming Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act.

We may not make a public offering of our securities without the prior approval of the Nevada Gaming Commission if the securities or proceeds there from are intended to be used to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for purposes of constructing, acquiring or financing gaming facilities. Any approval, if granted, does not constitute a finding, recommendation or approval by the Nevada Gaming Commission or the Nevada Gaming Control Board as to the accuracy or adequacy of the prospectus or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Changes in our control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby that person obtains control (including foreclosure on the pledged shares), may not occur without the prior approval of the Nevada Gaming Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Nevada State Gaming Control Board and Nevada Gaming Commission in a variety of stringent standards prior to assuming control of such Registered Corporation. The Nevada Gaming Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

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The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licensees, and Registered Corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Gaming Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

- assure the financial stability of corporate gaming operators and their affiliates;

- preserve the beneficial aspects of conducting business in the corporate form; and
- promote a neutral environment for the orderly governance of corporate affairs.

We are, in certain circumstances, required to receive approval from the Nevada Gaming Commission before we can make exceptional repurchases of voting securities above their current market price and before we can consummate a corporate acquisition opposed by management. The Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to a Registered Corporation's stockholders for the purposes of acquiring control of the Registered Corporation.

Licensee fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the Nevada licensee's respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable monthly, quarterly or annually and are based upon either:

- a percentage of the gross revenues received;
- the number of gaming devices operated; or
- the number of table games operated.

A live entertainment tax is also paid where entertainment is furnished in connection with the selling of food or refreshments. Nevada licensees that hold a license as an operator of a slot route, a manufacturer or a distributor also pay certain fees and taxes to the State of Nevada.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with such persons, referred to as Licensees, and who is or proposes to become involved in a gaming venture outside of Nevada is required to deposit with the Nevada State Gaming Control Board, and thereafter maintain, a revolving fund in the amount of \$10,000 to pay the expenses of investigation by the Nevada State Gaming Control Board of their participation in foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Gaming Commission. Thereafter, Licensees are required to comply with certain reporting requirements imposed by the Nevada Act. Licensees are also subject to disciplinary action by the Nevada Gaming Commission if they knowingly violate any laws of the foreign jurisdiction pertaining to the foreign gaming operation, fail to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations, engage in activities that are harmful to the State of Nevada or its ability to collect gaming taxes and fees, or employ a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of personal unsuitability.

EMPLOYEES

As of March 4, 2010, we had approximately 1,770 employees. None of our employees are covered by collective bargaining agreements. We believe that our relationship with our employees is good.

ITEM 1A. RISK FACTORS

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Our business prospects are subject to various risks and uncertainties that impact our business. You should carefully consider the following discussion of risks, and the other information provided in this annual report on Form 10-K. The risks described below are not the only ones facing us; however, they do represent all material risks currently known to us. Additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

RECENT INSTABILITY IN THE FINANCIAL MARKETS MAY HAVE AN IMPACT ON OUR BUSINESS

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Recently, the residential real estate market in Reno and the U.S. has experienced a significant downturn due to declining real estate values, substantially reducing mortgage loan originations and securitizations, and precipitating more generalized credit market dislocations and a significant contraction in available liquidity globally. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated an economic recession. Individual consumers are experiencing higher delinquency rates on various consumer loans and defaults on indebtedness of all kinds have increased. Further declines in real estate values in Reno and the U.S. or elsewhere and continuing credit and liquidity concerns could have an adverse affect on our results of operations.

OUR BUSINESS MAY BE ADVERSELY IMPACTED BY WEAKENED ECONOMIC CONDITIONS IN CALIFORNIA AND THE PACIFIC NORTHWEST

Because California and the Pacific Northwest are significant markets for our leisure traveler and conventioner guests, our business may be adversely impacted in the event of further weakened economic conditions in those geographical markets.

OUR BUSINESS IS PARTICULARLY SENSITIVE TO REDUCTIONS IN DISCRETIONARY CONSUMER SPENDING AS A RESULT OF DOWNTURNS IN THE ECONOMY

Consumer demand for entertainment and other amenities at hotel-casino properties, such as ours, are particularly sensitive to downturns in the economy and the corresponding impact on discretionary spending on leisure activities. For example, the year ended December 31, 2009 was one of the toughest periods in Reno Locals history. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, effects of the current decline in consumer confidence in the economy, including the current housing crisis and credit crisis, the impact of high energy and food costs, the increased cost of travel, the potential for continued bank failures, perceived or actual disposable consumer income and wealth, or fears of war and future acts of terrorism could further reduce customer demand for the amenities that we offer, thus imposing practical limits on pricing and negatively impacting our results of operations and financial condition.

The current housing crisis and economic slowdown in the United States has resulted in a significant decline in the amount of tourism and spending in the Reno area. If this decline continues, our financial condition, results of operations and cash flows would be adversely affected.

INTENSE COMPETITION EXISTS IN THE GAMING INDUSTRY, AND WE EXPECT COMPETITION TO CONTINUE TO INTENSIFY

The gaming industry is highly competitive for both customers and employees, including those at the management level. We compete with numerous casinos and hotel-casinos of varying quality and size in our market. We also compete with other non-gaming resorts and vacation destinations, and with various other casino and other entertainment businesses, and could compete with any new forms of gaming that may be legalized in the future. The casino entertainment business is characterized by competitors that vary considerably in their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. We compete directly with other casino facilities operating in the immediate and surrounding market areas. In some markets, we face competition from nearby markets in addition to direct competition within our market areas.

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. We have invested in expanding the Atlantis. In addition, our competitors have also invested in expanding their existing facilities and developing new facilities. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors have increased competition in our market, and this intense competition can be expected to continue. In addition, competition may intensify if our

competitors commit additional resources to aggressive pricing and promotional activities in order to attract customers.

If our competitors operate more successfully than we do, if they attract customers away from us as a result of aggressive pricing and promotion, if they are more successful than us in attracting and retaining employees, if their properties are enhanced or expanded, if they operate in jurisdictions that gives them operating advantages due to differences or changes in gaming regulations or taxes, or if additional hotels and casinos are established in and around our market, we may lose market share or the ability to attract or retain employees. In particular, the expansion of casino gaming in or near any geographic area from which we attract or expect to attract a significant number of our customers could have a significant adverse effect on our business, financial condition and results of operations.

WE ARE SUBJECT TO EXTENSIVE TAXATION POLICIES, WHICH MAY HARM OUR BUSINESS

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. In addition, gaming companies are currently subject to significant state and local taxes and fees, in addition to normal federal corporate income taxes, and such taxes and fees are subject to increase at any time. In a Special Legislative Session in February 2010, the Nevada Legislature was asked to consider an increase in Nevada gaming taxes. While the measure did not succeed, the Nevada Legislature will meet again in 2011, and Nevada's budget deficit is expected to cause pressure on the Legislature to consider new and additional taxes. If there is any material increase in state and local taxes and fees, our business, financial condition and results of operations could be adversely affected.

THE GLOBAL FINANCIAL CRISIS AND DECLINE IN CONSUMER SPENDING MAY HAVE AN EFFECT ON OUR BUSINESS AND FINANCIAL CONDITION IN WAYS THAT WE CURRENTLY CANNOT ACCURATELY PREDICT

The continued credit crisis, economic downturn and related turmoil in the global financial system have had and may continue to have an effect on our business and financial condition. We are not able to predict the duration or severity of the economic downturn. The significant distress recently experienced by financial institutions has had, and may continue to have, far-reaching adverse consequences across many industries, including the gaming industry. The ongoing credit and liquidity crisis has greatly restricted the availability of capital and has caused the cost of capital (if available) to be much higher than it has traditionally been. Accessing the capital markets in this environment could increase the costs of our projects, which could have an impact on our flexibility to react to changing economic and business conditions and our ability or willingness to fund any future expansion projects. All of these effects could have a material adverse effect on our business, financial condition and results of operations.

ENERGY PRICE INCREASES MAY ADVERSELY AFFECT OUR COST OF OPERATIONS AND OUR REVENUES

The Atlantis uses significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy or fuel have been experienced to date, substantial increases in energy and fuel prices, in the United States have, and may continue to, negatively affect our results of operations. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, of which the impact could be material. In addition, energy and gasoline price increases could result in a decline of disposable income of potential customers, an increase in the cost of travel and a corresponding decrease in visitation and spending at our properties, which could have a significant adverse effect on our business, financial condition and results of operations.

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

John Farahi and Bob Farahi, officers and directors of the Company, together with their brother Ben Farahi, beneficially own approximately 44% of the Company's outstanding shares of common stock. As such, members of the Farahi family, if voting together, have the ability to significantly influence our affairs, including the election of members of our Board of Directors and, except as otherwise provided by law, approving or disapproving other matters submitted to a vote of our stockholders, including a merger, consolidation, or sale of assets.

TO SERVICE OUR INDEBTEDNESS, WE WILL REQUIRE A SIGNIFICANT AMOUNT OF CASH. OUR ABILITY TO GENERATE CASH DEPENDS ON MANY FACTORS BEYOND OUR CONTROL

Our ability to make payments on and to refinance our indebtedness and to fund future capital expenditures and expansion efforts will depend upon our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. It is possible that our business will generate insufficient cash flows from operations, or that future borrowings will be available to us under our bank credit facility, in amounts sufficient to enable us to pay our indebtedness as it matures and to fund our other liquidity needs. We believe that we will need to refinance all or a portion of our indebtedness at maturity, and cannot provide assurances that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. We may have to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets or obtaining additional equity or debt financing or joint venture partners. These financing strategies may not be effected on satisfactory terms, if at all.

LIMITATIONS OR RESTRICTIONS ON OUR CREDIT FACILITY COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR LIQUIDITY

Any renegotiation or refinancing of our Credit Facility would likely result in the amendment of material provisions of the Credit Facility, such as the interest rate charged and other material covenants. Our Credit Facility is an important component of our liquidity. Any material restriction on our ability to use our Credit Facility or the failure to obtain a new credit facility upon either the maturity of the existing Credit Facility or the depletion of funds remaining under the existing Credit Facility could adversely impact our operations and future growth options.

OUR BUSINESS MAY BE ADVERSELY IMPACTED IF THE RENO ECONOMY CONTINUES TO DECLINE

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

THE GAMING INDUSTRY IS HIGHLY COMPETITIVE AND INCREASED COMPETITION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FUTURE OPERATIONS

The gaming industry is highly competitive. As competitive pressures from California Native American casinos increase, other Reno area casinos may intensify their targeting of the Reno area resident market, which is one of our key markets. Increased competitive pressures in the local market could adversely impact our ability to continue to attract local residents to the Atlantis or require us to use more expensive, and therefore, less profitable promotions to compete more efficiently.

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Several Native American casinos have opened in Northern California since passage of the 2000 constitutional amendment. Certain experienced Nevada gaming operators manage Native American casino facilities near Sacramento, one of Reno's key feeder markets. One major facility near Sacramento has been operating since June 2003 and a second facility near Sacramento opened in 2008. Both have been very successful, adversely impacting many hotel casinos in Reno. Central and Northern California gaming facilities could provide an alternative to Reno area casinos, especially during certain winter

periods when auto travel through the Sierra Nevada mountain passes is hampered. This loss of California drive-in guests could adversely affect our operations.

We also believe that the legalization of unlimited land-based casino gaming in or near any major metropolitan area in the Atlantis key non-Reno marketing areas, such as San Francisco or Sacramento, could have a material adverse impact on our business.

In June 2004, five California Native American tribes signed compacts with the state that allow the tribes to increase the number of slot machines beyond the previous 2,000-per-tribe limit in exchange for higher fees from each of the five tribes. In February 2008, the voters of the State of California approved compacts with four tribes located in Southern California that increase the limit of Native American operated slot machines in the State of California.

Other states are also considering legislation that would enable the development and operation of casinos or casino-like operations.

In addition, Native American gaming facilities in California and other jurisdictions in some instances operate under regulatory requirements less stringent than those imposed on Nevada licensed casinos, which could provide them a competitive advantage in our markets. Moreover, there is a possibility of competition from internet and other account wagering gaming services, which would allow their guests to wager on a wide variety of sporting events and play Las Vegas-style casino games from home, and this could have a material adverse effect on our business, financial condition, operating results and prospects.

OUR BUSINESS MAY BE ADVERSELY IMPACTED BY THE ENTRY OF STATION CASINOS IN THE RENO MARKET

Station Casinos, Inc., a casino operator operating primarily in the Las Vegas market and catering mainly to Las Vegas area residents, has acquired several parcels in the Reno area and has announced plans to build two casinos, one of which would be located within one mile of our Atlantis Casino Resort Spa. Station Casinos is the dominant casino operator catering to local residents in the Las Vegas market. Should Station Casinos proceed with its plans, it will create additional competition for us in the Reno area resident, conventioner and tour and travel markets and could have a material adverse impact on our business.

OUR BUSINESS MAY BE ADVERSELY IMPACTED IF WE ARE UNABLE TO ADEQUATELY STAFF OUR OPERATIONS

During periods of robust business growth in Reno, the competition for employees increases. During such times, new and growing business in the area may create job opportunities that at times have exceeded the area's supply of qualified employees. If we are unable to attract and retain qualified employees, or if competition for employees results in materially increased wages, our ability to maintain and grow our business could be adversely impacted.

OUR BUSINESS MAY BE ADVERSELY IMPACTED BY DOMESTIC AND INTERNATIONAL EVENTS

The terrorist attacks that took place in the United States on September 11, 2001, were unprecedented events that created economic and business uncertainties, especially for the travel and tourism industry. The potential for future terrorist attacks, the national and international responses, and other acts of war or hostility, including the ongoing conflicts in Iraq and Afghanistan, have created economic and political uncertainties that could materially adversely affect our business, results of operations and financial condition in ways we cannot predict.

AN OUTBREAK OF HIGHLY INFECTIOUS DISEASE COULD ADVERSELY AFFECT THE NUMBER OF VISITORS TO OUR FACILITIES AND DISRUPT OUR OPERATIONS,

RESULTING IN A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

There have been recent fears concerning the spread of an avian flu, H1N1 or swine flu and cruise ships have reported other highly infectious virus outbreaks. Potential future outbreaks of highly infectious diseases may adversely affect the number of visitors to our property and our business and prospects. Furthermore, an outbreak might disrupt our ability to adequately staff our business and could generally disrupt our operations. If any of our guests or employees is suspected of having contracted certain highly contagious diseases, we may be required to quarantine these customers or employees or the affected areas of our facilities and temporarily suspend part or all of our operations at affected facilities. Any new outbreak of such a highly infectious disease could have a material adverse effect on our financial condition, results of operations and cash flows.

FAILURE OF THE RENO-SPARKS CONVENTION CENTER TO BOOK AND ATTRACT CONVENTION BUSINESS COULD ADVERSELY IMPACT OUR BUSINESS

The Atlantis is the closest hotel-casino to the Reno-Sparks Convention Center. If the Reno-Sparks Convention Center does not succeed in booking the anticipated level of conventions, our future results of operations could be adversely impacted.

BECAUSE WE ARE CURRENTLY DEPENDENT UPON A SINGLE PROPERTY IN A SINGLE MARKET FOR ALL OF OUR CASH FLOW, WE ARE SUBJECT TO GREATER RISKS THAN A GAMING COMPANY WITH MORE OPERATING PROPERTIES OR THAT OPERATES IN MORE MARKETS

We currently do not have material assets or operations other than the Atlantis. As a result, we are entirely dependent upon the Atlantis property for all of our cash flow until we develop other properties.

OUR BUSINESS IS SUBJECT TO RESTRICTIONS AND LIMITATIONS IMPOSED BY GAMING REGULATORY AUTHORITIES THAT COULD ADVERSELY AFFECT US

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The State of Nevada and the applicable local authorities require various licenses, registrations, permits and approvals to be held by us and our subsidiary. The Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or decline to renew a license or approval to own the stock of our Nevada subsidiary for any cause deemed reasonable by such licensing authority. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiary and the persons involved, and we could be forced to forfeit a portion of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets would have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our current gaming activities. However, gaming licenses and related approvals are deemed to be privileges under Nevada law. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended.

OUR INSURANCE COVERAGE MAY NOT BE ADEQUATE TO COVER ALL POSSIBLE LOSSES THAT OUR PROPERTY COULD SUFFER. IN ADDITION, OUR INSURANCE COSTS MAY INCREASE AND WE MAY NOT BE ABLE TO OBTAIN THE SAME INSURANCE COVERAGE IN THE FUTURE

Although we have general property insurance covering damage caused by a casualty loss (such as fire and natural disasters), each such policy has certain exclusions. In addition, our property insurance is in an amount that may be less than the expected replacement cost of rebuilding the

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complex if there was a total loss. Our level of insurance coverage may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration

or corrosion, insect or animal damage and pollution, might not be covered at all under our policies. Therefore, certain acts could expose us to heavy, uninsured losses.

In addition, although we currently have insurance coverage for occurrences of terrorist acts and for certain losses that could result from these acts, our terrorism coverage is subject to the same risks and deficiencies as those described above for our general property coverage. The lack of sufficient insurance for these types of acts could expose us to heavy losses in the event that any damages occur, directly or indirectly, as a result of terrorist attacks or otherwise, which could have a significant negative impact on our operations.

In addition to the damage caused to our property by a casualty loss (such as fire, natural disasters, acts of war or terrorism), we may suffer business disruption as a result of these events or be subject to claims by third parties injured or harmed. While we carry business interruption insurance and general liability insurance, this insurance may not be adequate to cover all losses in such event.

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, it is possible that the situation in Iraq, Afghanistan, homeland security concerns, other catastrophic events or any change in government legislation governing insurance coverage for acts of terrorism could materially adversely affect available insurance coverage and result in increased premiums on available coverage (which may cause us to elect to reduce our policy limits) and additional exclusions from coverage. Among other potential future adverse changes, in the future we may elect not to, or may not be able to, obtain any coverage for losses due to acts of terrorism.

Our debt instruments and other material agreements require us to maintain a certain minimum level of insurance. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements, which would have a material adverse effect on our financial condition, results of operations or cash flows.

IF THE STATE OF NEVADA OR THE CITY OF RENO INCREASES GAMING TAXES AND FEES, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED

State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes or other fees. If the State of Nevada or the City of Reno were to increase gaming taxes and fees, our results of operations could be adversely affected.

IF WE LOSE OUR KEY PERSONNEL, OUR BUSINESS COULD BE MATERIALLY ADVERSELY AFFECTED

We depend on the continued performances of John Farahi and Bob Farahi, our Chief Executive Officer and our President, respectively, and their management team. If we lose the services of the Farahi brothers, or other senior Atlantis management personnel, and cannot replace such persons in a timely manner, our business could be materially adversely affected.

ADVERSE WINTER WEATHER CONDITIONS IN THE SIERRA NEVADA MOUNTAINS AND RENO-LAKE TAHOE AREA COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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Adverse winter weather conditions, particularly snowfall, can prevent customers from traveling or make it difficult for them to drive to the Atlantis. Adverse winter weather would most significantly affect our drive-in customers from northern California and the Pacific Northwest. If the Reno area itself were to experience prolonged adverse winter weather conditions, our results of operations and financial condition could also be materially adversely affected.

CLAIMS HAVE BEEN BROUGHT AGAINST US AND OUR SUBSIDIARY IN VARIOUS LEGAL PROCEEDINGS, AND ADDITIONAL LEGAL AND TAX CLAIMS ARISE FROM TIME TO TIME

It is possible that our cash flows and results of operations could be affected by the resolution of legal and other claims. We believe that the ultimate disposition of current matters will not have a material impact on our financial condition or results of operations. Please see the further discussion under "Legal Proceedings" in Item 3 of this Form 10-K.

ENERGY PRICE INCREASES MAY ADVERSELY AFFECT OUR COST OF OPERATIONS AND OUR REVENUES

Our facility uses significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy or fuel have been experienced to date, increases in energy and fuel prices in the United States may negatively affect our operating results. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material. In addition, energy and gasoline price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation and spending at our properties, which would negatively impact revenues.

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

A change in regulations on land use requirements with regard to development of new hotel casinos in the proximity of the Atlantis could have an adverse impact on our business, results of operations, and financial condition. A relaxation in such regulations could make it easier for competitors to enter our immediate market. A tightening of such regulations could adversely impact our future expansion opportunities.

OUR RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED BY HIGH-END PLAYERS' WINNINGS

Although not the major focus of our marketing efforts, we have selectively targeted high-end players. Should one or more of these high-end players win large sums in our casino, or should a material amount of credit extended to such players not be repaid, our results of operations could be adversely impacted.

OUR COMMON STOCK PRICE MAY FLUCTUATE SUBSTANTIALLY, AND A STOCKHOLDER'S INVESTMENT COULD DECLINE IN VALUE

The market price of our common stock may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;

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- trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and

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

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to companies' operating performance. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, stockholder derivative lawsuits and/or securities class action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and resources.

WE HAVE THE ABILITY TO ISSUE ADDITIONAL EQUITY SECURITIES, WHICH WOULD LEAD TO DILUTION OF OUR ISSUED AND OUTSTANDING COMMON STOCK

The issuance of additional equity securities or securities convertible into equity securities would result in dilution of our existing stockholders' equity interests in us. Our Board of Directors has the authority to issue, without vote or action of stockholders, preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. If we issue convertible preferred stock, a subsequent conversion may dilute the current common stockholders' interest.

WE DO NOT INTEND TO PAY CASH DIVIDENDS. AS A RESULT, STOCKHOLDERS WILL BENEFIT FROM AN INVESTMENT IN OUR COMMON STOCK ONLY IF IT APPRECIATES IN VALUE

We have never paid a cash dividend on our common stock, and we do not plan to pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain any future earnings to finance our operations and further expansion and growth of our business, including acquisitions. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. We cannot guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There were no unresolved comments from the SEC staff at the time of filing this Form 10-K.

ITEM 2. PROPERTIES

Our properties consist of:

(a) An approximately 13-acre site in Reno, Nevada on which the Atlantis is situated, including the hotel towers, casino, restaurant facilities and surrounding parking.

(b) An approximately 16-acre site, adjacent to the Atlantis and connected to the Atlantis by the Sky Terrace, which includes approximately 11 acres of paved parking used for customer, employee and valet parking. The remainder of the site is undeveloped. This site is compliant with all casino zoning requirements and is suitable and available for future expansion of the Atlantis facilities, parking, or complementary resort casino and/or entertainment amenities. We have not determined the ultimate use of this site.

(c) An approximately 2.6-acre site across Virginia Street from the Atlantis which is expected to be utilized as administrative offices (the Administrative Site) for Atlantis staff.

(d) Leased land consisting of 37,368 square-feet next door to the Atlantis serving as a driveway entrance to the Atlantis. The least term ends in 2019. For a further description of the least terms, see Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Notes 4 and 10 .

(e) An approximate 2.3-acre site with a 27,508 square foot building adjacent to the Administrative Site utilized for storage and administrative offices. The parcel was subject to a lease in 2009 until its acquisition in November 2009. For a further description of the least terms, see Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Notes 4 and 10 .

(f) An approximate 5.3-acre site with a 14,376 square foot building across Coliseum Way from the Atlantis. A portion of the site, and the building, have been leased back to the seller. We expect to use the site for additional parking, storage and administrative offices for Atlantis staff.

Our credit facility is secured by liens on all of our real property.

ITEM 3. 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; unspecified compensatory and punitive damages; and other relief. Monarch believes Kerzner s claims to be entirely without merit and is defending vigorously against the suit. Further, Monarch has filed a 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, significantly narrowing the issues for trial. Kerzner next filed a Request for Certification of 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, and the parties are proceeding with pre-trial preparation. No trial date has been set as of this filing.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders during the fourth quarter of 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our common stock trades on The NASDAQ Stock Market under the symbol MCRI. The following table sets forth the high and low bid prices of our common stock, as reported by the NASDAQ Stock Market, during the periods indicated.

| | 2009 | | 2008 | |
|----------------|----------|---------|----------|----------|
| | High | Low | High | Low |
| First quarter | \$ 12.26 | \$ 3.59 | \$ 24.47 | \$ 15.89 |
| Second quarter | \$ 11.08 | \$ 5.16 | \$ 19.23 | \$ 11.52 |
| Third quarter | \$ 13.32 | \$ 6.89 | \$ 14.53 | \$ 10.20 |
| Fourth quarter | \$ 10.93 | \$ 6.22 | \$ 11.81 | \$ 5.16 |

As of March 5, 2010, there were approximately 85 holders of record of our common stock, and approximately 2,033 beneficial stockholders.

We have never paid dividends. We presently intend to retain earnings and use free cash flow to finance our operating activities, for maintenance capital expenditures and to pay down our debt. We do not anticipate declaring cash dividends in the foreseeable future. Our bank loan agreement also contains provisions that require the achievement of certain financial ratios before we can pay or declare dividends to our stockholders. See Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12 - Security Ownership of Certain Beneficial Owners and Management.

STOCK PERFORMANCE GRAPH

The following chart reflects the cumulative total return (change in stock price plus reinvested dividends) of a \$100 investment in the Company's Common Stock from the five-year period from December 31, 2004 through December 31, 2009, in comparison to the Standard & Poor's 500 Composite Stock Index and an industry peer group index. The comparisons are not intended to forecast or be indicative of possible future performance of the Company's Common Stock.

| Index | Period Ending | | | | | |
|-------------------------------|---------------|----------|----------|----------|----------|----------|
| | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 |
| Monarch Casino & Resort, Inc. | 100.00 | 111.47 | 117.78 | 118.77 | 57.46 | 39.95 |
| S&P 500 | 100.00 | 104.91 | 121.48 | 128.16 | 80.74 | 102.11 |
| Peer Group Index* | 100.00 | 92.88 | 160.96 | 194.25 | 30.90 | 46.41 |

*Peer Group index comprised of: Ameristar Casinos, Inc.; Boyd Gaming Corp.; Isle of Capri Casinos, Inc.; Las Vegas Sands Corp.; MGM Mirage; Nevada Gold & Casinos, Inc.; Penn National Gaming, Inc.; Pinnacle Entertainment, Inc.; Riviera Holdings Corp.; and Wynn Resorts, Ltd

ITEM 6. SELECTED FINANCIAL DATA

| | Years ended December 31, (Amounts in thousands, except per share amounts) | | | | |
|--|--|------------|------------|------------|------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| OPERATING RESULTS | | | | | |
| Casino revenues | \$ 94,511 | \$ 100,904 | \$ 110,259 | \$ 103,333 | \$ 94,501 |
| Other revenues | 64,941 | 66,688 | 75,117 | 72,329 | 67,165 |
| Gross revenues | 159,452 | 167,592 | 185,376 | 175,662 | 161,666 |
| Promotional allowances | (25,720) | (26,222) | (25,519) | (23,693) | (21,881) |
| Net revenues | 133,732 | 141,370 | 159,856 | 151,969 | 139,785 |
| Income from operations | 9,142(F1) | 14,686(F2) | 35,688(F3) | 33,492(F4) | 33,069(F5) |
| Income before income tax | 7,163 | 14,518 | 37,464 | 33,860 | 32,056 |
| Net income | \$ 4,841 | \$ 9,541 | \$ 24,480 | \$ 22,080 | \$ 21,035 |
| INCOME PER SHARE OF COMMON STOCK | | | | | |
| Net income per share | | | | | |
| Basic | \$ 0.30 | \$ 0.56 | \$ 1.28 | \$ 1.16 | \$ 1.12 |
| Diluted | \$ 0.30 | \$ 0.56 | \$ 1.27 | \$ 1.15 | \$ 1.10 |
| Weighted average number of common shares and potential common shares outstanding | | | | | |
| Basic | 16,123 | 16,958 | 19,058 | 18,990 | 18,849 |
| Diluted | 16,159 | 17,017 | 19,329 | 19,275 | 19,094 |
| OTHER DATA | | | | | |
| Depreciation and amortization | \$ 12,501 | \$ 9,892 | \$ 8,138 | \$ 8,559 | \$ 8,379 |
| Other (expense) income | \$ (1,979) | \$ (168) | \$ 1,776 | \$ 368 | \$ (1,013) |
| Capital expenditures (F6) | \$ 15,845 | \$ 67,882 | \$ 17,287 | \$ 5,795 | \$ 6,113 |
| BALANCE SHEET DATA | | | | | |
| Total assets | \$ 185,787 | \$ 182,502 | \$ 154,286 | \$ 138,381 | \$ 117,670 |
| Current maturities of long-term debt | \$ 1,000 | \$ 2,500 | \$ | \$ | \$ |
| Long-term debt, less current maturities | \$ 47,500 | \$ 47,500 | \$ | \$ | \$ 8,100 |
| Stockholders' equity (F7) | \$ 112,504 | \$ 105,595 | \$ 129,419 | \$ 115,646 | \$ 87,559 |

Footnotes to Selected Financial Data:

(F1) 2009 includes a \$64 thousand gain on disposal of fixed assets and a \$1.4 million one-time, non-cash charge related to the implementation of a new frequent player club (see additional discussion in Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 1, Promotional Allowance).

(F2) 2008 includes a \$34 thousand gain on disposal of fixed assets

(F3) 2007 includes a \$7 thousand gain on disposal of fixed assets

(F4) 2006 includes a \$55 thousand loss on disposal of fixed assets

(F5) 2005 includes a \$42 thousand gain on disposal of fixed assets.

(F6) Includes amounts financed with debt or capitalized lease obligations.

(F7) We paid no dividends during the five year period ended December 31, 2009.

ITEM 7. 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 tropically-themed Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis). Monarch's other wholly owned subsidiary, High Desert Sunshine, Inc., owns 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.

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, our food and beverage operations and our hotel operations. We capitalize on the Atlantis location for tour and travel visitors, conventioners and Locals by offering exceptional service, value and an appealing theme 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 Golden Road and High Desert Sunshine, Inc subsidiaries.

OPERATING RESULTS SUMMARY

Below is a summary of our results for the years ended December 31 for 2009, 2008 and 2007, respectively:

Amounts in millions, except per share amounts

| | 2009 | | 2008 | | 2007 | | Percentage Increase / (Decrease) | |
|------------------------------|------|-------|------|-------|------|-------|----------------------------------|-----------|
| | | | | | | | 09 vs 08 | 08 vs 07 |
| Casino revenues | \$ | 94.5 | \$ | 100.9 | \$ | 110.3 | (6.3)% | (8.5)% |
| Food and beverage revenues | | 38.2 | | 39.5 | | 42.4 | (3.3)% | (6.8)% |
| Hotel revenues | | 22.4 | | 22.3 | | 27.9 | 0.4% | (20.1)% |
| Other revenues | | 4.4 | | 5.0 | | 4.9 | (12.0)% | 2.0% |
| Net revenues | | 133.7 | | 141.4 | | 159.9 | (5.4)% | (11.6)% |
| Sales, general and admin exp | | 47.9 | | 51.2 | | 50.0 | (6.4)% | 2.4% |
| Income from operations | | 9.1 | | 14.7 | | 35.7 | (38.1)% | (58.8)% |
| Net income | | 4.8 | | 9.5 | | 24.5 | (49.5)% | (61.2)% |
| Earnings per share - diluted | | 0.30 | | 0.56 | | 1.27 | (46.4)% | (55.9)% |
| Operating margin | | 6.8% | | 10.4% | | 22.3% | (3.6)pts | (11.9)pts |

Our results for the year ended December 31, 2009 reflect the effects of the challenging operating environment that began in the three month period ended December 31, 2007. As in many other areas around the country, the economic downturn in northern Nevada in the fourth quarter

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of 2007 has deepened throughout 2008 and 2009. Other factors causing negative financial impact that continued from the fourth quarter of 2007 were aggressive discounting programs by our competitors. In response to these challenges, we increased promotional expenditures to attract and retain guests. Furthermore, based on statistics released by the Nevada Gaming Control Board, the Reno gaming market has shrunk in the aggregate. We anticipate that downward pressure on profits will persist as long as we continue to

experience the adverse effects of the negative macroeconomic environment and the aggressive marketing programs of our competitors.

Our results also reflect a one-time, non-cash charge of \$1.4 million related to the launch of our new EZ Comp(SM) program on October 6, 2009. This program allows Atlantis patrons to redeem complimentary food, beverages and other services (Complimentaries) directly at Atlantis food outlets or other points of service throughout the casino. Before the launch of EZ Comp(SM), Atlantis patrons were required to obtain vouchers from Atlantis service personnel prior to redeeming a Complimentary. The new EZ Comp(SM) system also allows Atlantis patrons to see their unredeemed Complimentary point balances and corresponding point values. Prior to the launch of the EZ Comp(SM) program, we recognized expense at the time Complimentary points were redeemed and the redemption value was at our discretion. Under the new program, we recognize Complimentaries expense at the time points are earned, which occurs commensurate with casino patron play. The redemption value is now known to the patron. This change in our program resulted in a one-time, non-cash charge in the fourth quarter of 2009 of approximately \$1.4 million to recognize the liability for redeemable Complimentary point balances on the date the EZ Comp(SM) program was launched.

These factors were the primary drivers of:

- Decreases of 6.3% and 3.3% in our casino and food and beverage revenues, respectively, resulting in a net revenue decrease of 5.4%.
- A decrease in our 2009 operating margin by 3.6 points or 34.6%.

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. 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. Through December 31, 2009, the Company had incurred approximately \$80 million related to these capital projects.

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.

We have continuously invested in upgrading the Atlantis. Our capital expenditures at the Atlantis were \$15.8 million in 2009; \$67.9 million in 2008 and \$17.3 million in 2007.

During 2009, 2008 and 2007 capital expenditures primarily consisted of construction costs associated with the expansion, skybridge and redesign capital projects that commenced in June 2007. During 2009 we spent approximately \$5.2 million to acquire two additional land parcels with buildings

within close proximity to the Atlantis (see additional discussion of these parcels above under **Properties** in ITEM 2.).

Future cash needed to finance ongoing capital expenditures is expected to be available from operating cash flow, the Credit Facility (see **THE CREDIT FACILITY** below) and, if necessary, additional borrowings.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Self-insurance Reserves

We are currently self insured up to certain stop loss amounts for workers' compensation and certain medical benefit costs provided to our employees. The Company reviews self-insurance reserves at least quarterly. The reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reports prepared by the third party plan administrator for any significant unpaid claims. The reserve is an amount estimated to pay both reported and unreported claims as of the balance sheet date. We believe changes in medical costs, trends in claims of our employee base, accident frequency and severity and other factors could materially affect the estimate for this reserve. Unforeseen developments in existing claims, or the possibility that our estimate of unreported claims differs materially from the actual amount of unreported claims, could result in the over or under estimation of our self-insurance reserve.

Casino Revenues

Casino revenues represent the net win from gaming activity, which is the difference between wins and losses. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts. Progressive jackpot provision estimates are determined based on the award amount and the statistical probability of a player receiving that award. The frequency of future progressive jackpot awards could vary from the statistical probability used in determining the estimate.

Promotional Allowances

Our frequent player program, Club Paradise, allows members, through the frequency of their play at the casino, to earn and accumulate points which may be redeemed for a variety of goods and services at the Atlantis. Points may be applied toward room stays at the hotel, food and beverage consumption at the food outlets, gift shop items as well as goods and services at the spa and beauty salon. Points earned may also be applied toward off-property events such as concerts, shows and sporting events. Points may not be redeemed for cash.

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The cost of the products and services provided is reported as casino operating expense.

Income Taxes

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

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

Share-based Compensation

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

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

Changes in the assumptions used can materially affect the estimate of the stock options' fair value. In our judgment, the most volatile input for our Company has been the expected volatility assumption which has increased significantly from 50.3% to 111.7% and then again to 64.1 % for the years ended December 31, 2007, 2008 and 2009, respectively. The table below presents the amount that stock-based compensation expense would have changed if the expected volatility input into the Black-Scholes model is increased or decreased by 10 percentage points for the stock options issued in each year presented.

Total stock-based compensation, before taxes:

| | Years ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| IF EXPECTED VOLATILITY IS INCREASED BY 10 PERCENTAGE POINTS: | | | |
| Expected volatility input becomes | 74.1% | 121.7% | 60.3% |
| Resultant expense increase | \$ 17,475 | \$ 20,716 | \$ 28,081 |
| IF EXPECTED VOLATILITY IS DECREASED BY 10 PERCENTAGE POINTS: | | | |
| Expected volatility input becomes | 54.1% | 101.7% | 40.3% |
| Resultant expense decrease | \$ 17,938 | \$ 21,197 | \$ 29,153 |

RESULTS OF OPERATIONS

2009 Compared with 2008

For the year ended December 31, 2009, we earned net income of \$4.8 million, or \$0.30 per diluted share, on net revenues of \$133.7 million, compared to net income of \$9.5 million, or \$0.56 per diluted share, on net revenues of \$141.4 million for the year ended December 31, 2008. Income from operations totaled \$9.1 million for 2009, a 38.1% decrease when compared to \$14.7 million for 2008.

Casino revenues totaled \$94.5 million in 2009, a decrease of 6.3% from the \$100.9 million reported in 2008, driven by decreases in slot, table games, poker and keno win due to the decrease in guest discretionary spending and greater competitor promotional programs. Casino operating expenses were 37.8% of casino revenues in 2009 compared to 36.9% in 2008. The increase was primarily due to the decreased casino revenue combined with the cost of increased complimentary food, beverages and other services provided to casino patrons.

Food and beverage revenues decreased 3.3% to \$38.2 million in 2009 from \$39.5 million in 2008, due primarily due to a 0.7% increase in average revenue per cover combined with a 4.5% decrease in the number of covers served. Food and beverage operating expenses as a percentage of food and beverage revenue decreased to 46.9% in 2009 from 48.6% in 2008 primarily related to lower food and other commodity prices.

Hotel revenues increased slightly from \$22.3 million in 2008 to \$22.4 million in 2009. Decreases in hotel occupancy and the average daily room rate (ADR) were offset by higher revenue from our new spa which opened in January 2009 and revenue from a \$10 per day resort fee (Resort Fee), paid by our hotel guests, which we implemented on June 1, 2009. Hotel revenues for the first six months of 2009, and all of 2008, also include a \$3 per occupied room energy surcharge. The Atlantis ADR was \$64.91 in 2009 compared to \$65.52 in 2008. The average occupancy rate at the Atlantis was 80.6% compared to 84.9% in 2008. Hotel operating expenses increased slightly to 35.9% of hotel revenues in 2009, compared to 35.4% in 2008. This increase was primarily due to increased operating costs of the new spa.

Food and beverage revenues decreased 3.3% to \$38.2 million in 2009 from \$39.5 million in 2008, due primarily due

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Promotional allowances decreased to \$25.7 million in 2009 compared to \$26.2 million in 2008. As a percentage of gross revenue, the amount in 2009 increased to 16.1% as compared to 15.6% for 2008. The increase is attributable to continued promotional efforts to maintain existing, and generate additional, revenues.

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Other revenues in 2009 decreased \$569 thousand, or 11.5%, compare to 2008 primarily due to lower sales in our gift and sundry shops and lower revenues from ancillary services we stopped billing for when we implemented the Resort Fee in June 2009.

Selling, general and administrative (SG&A) expenses totaled \$47.9 million, or 35.8% of net revenues, in 2009 compared to \$51.2 million, or 36.2% of net revenues, in 2008 for a year over year decrease of \$3.3 million or 6.4%. This decrease is primary due to reductions in: marketing expense of approximately \$1.4 million, payroll and benefits expense of approximately \$960 thousand, repairs expense of approximately \$370 thousand, professional fees of approximately \$240 thousand and rental expense of approximately \$200 thousand. These decreases were primarily the result of several cost reduction programs we implemented to reduce expenses in areas that would not impact the quality of our guest service.

Depreciation and amortization expense was \$12.5 million in 2009, an increase of 26.3% compared to \$9.9 million in 2008 due primarily to the completion and capitalization of the Capital Projects described under the CAPITAL SPENDING AND DEVELOPMENT section above.

Interest expense increased to \$2.1 million in 2009 from \$539 thousand in 2008 due to increased borrowings under our credit facility (see THE CREDIT FACILITY below). Interest income derived from investment of surplus cash in short-term, interest bearing instruments and interest earned on the Note from Triple J. (see additional discussion in described in Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements and NOTE 10. RELATED PARTY TRANSACTIONS) decreased to \$125 thousand in 2009 from \$371 thousand in 2008. This increase was driven primarily by lower surplus cash invested in 2009 as compared to 2008. The surplus cash was used through the second quarter of 2008 for our capital projects (see CAPITAL SPENDING AND DEVELOPMENT above) and share repurchases.

2008 Compared with 2007

For the year ended December 31, 2008, we earned net income of \$9.5 million, or \$0.56 per diluted share, on net revenues of \$141.4 million, compared to net income of \$24.5 million, or \$1.27 per diluted share, on net revenues of \$159.9 million for the year ended December 31, 2007. Income from operations totaled \$14.7 million for 2008, a 58.8% decrease when compared to \$35.7 million for 2007.

Casino revenues totaled \$100.9 million in 2008, a decrease of 8.5% from the \$110.3 million reported in 2007, driven by decreases in slot, table games, poker and keno win due to the decrease in discretionary spending, disruption from construction and competitor promotional programs. Casino operating expenses were 36.9% of casino revenues in 2008 compared to 32.6% in 2007. The increase was primarily due to the decreased casino revenue combined with the cost of increased complimentary food, beverages and other services provided to casino patrons.

Food and beverage revenues decreased 6.8% to \$39.5 million in 2008 from \$42.4 million in 2007, due primarily due to a 3.7% increase in average revenue per cover combined with a 10.2% decrease in the number of covers served. Food and beverage operating expenses as a percentage of food and beverage revenue increased to 48.6% in 2008 from 47.9% in 2007 primarily related to higher commodity costs and a 12% increase in the legal minimum wage in July 2008.

Hotel revenues totaled \$22.3 million in 2008, a decrease of 20.1% from \$27.9 million in 2007. The decrease reflects decreases in both the average daily room rate (ADR) and occupancy rate during the twelve month period of 2008 compared to the same period in 2007. The Atlantis ADR was \$65.52 in 2008 compared to \$74.04 in 2007. The average occupancy rate at the Atlantis was 84.9% in 2008 compared to 93.8% in

Food and beverage revenues decreased 6.8% to \$39.5 million in 2008 from \$42.4 million in 2007, due primarily due

2007. Hotel operating expenses increased to 35.4% of hotel revenues in 2008,

compared to 30.0% in 2007. This increase in operating expenses as a percentage of hotel revenues resulted primarily from the decreased revenue partially offset by lower direct hotel operating expenses.

Promotional allowances increased to \$26.2 million in 2008 compared to \$25.5 million in 2007. As a percentage of gross revenue, the amount in 2008 increased to 15.6% as compared to 13.8% for 2007. The increase is attributable to continued promotional efforts to maintain existing, and generate additional, revenues.

Other revenues in 2008 increased slightly to \$5.0 million as compared to \$4.9 million in 2007.

Selling, general and administrative (SG&A) expenses totaled \$51.2 million, or 36.2% of net revenues, in 2008 compared to \$50.0 million, or 31.3% of net revenues, in 2007 for a year over year increase of \$1.2 million or 2.4%. The primary drivers of this increase are: i) higher marketing and promotional expense primarily related to our efforts to mitigate the negative effects of the disruption our guests experienced related to construction of our expansion project (see additional discussion above under CAPITAL SPENDING AND DEVELOPMENT), aggressive marketing discount programs by our nearest competitor to promote the grand opening of its major expansion project and negative macroeconomic trends experienced in Reno, our feeder markets and the nation as a whole and ii) higher bad debt expense partially offset by iii) lower legal expense and iv) lower payroll and benefits expense related to lower headcount in 2008 as compared to 2007.

Depreciation and amortization expense was \$9.9 million in 2008, an increase of 21.6% compared to \$8.1 million in 2007.

Interest expense increased to \$539 thousand in 2008 from \$152 thousand in 2007 due to increased borrowings under our credit facility (see THE CREDIT FACILITY below). Interest income derived from investment of surplus cash in short-term, interest bearing instruments decreased to \$371,000 from \$1.9 million in 2007. This increase was driven primarily by lower surplus cash invested in 2008 as compared to 2007. The surplus cash was used in 2007 and through the second quarter of 2008 for our capital projects (see CAPITAL SPENDING AND DEVELOPMENT above) and share repurchases.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2009, net cash provided by operating activities totaled \$26.1 million, an increase of \$2.3 million or 10.0% compared to the same period last year. This increase was primarily related to lower net income offset by higher depreciation and amortization related to the capitalization of our capital projects (see CAPITAL SPENDING AND DEVELOPMENT above), higher deferred income taxes, higher other assets and higher accrued expenses in 2009 compared to 2008.

Net cash used in investing activities totaled \$21.2 million and \$64.4 million in the years ended December 31, 2009 and 2008, respectively. During 2009 and 2008, net cash used in investing activities consisted primarily of construction costs associated with the recent expansion phase of the Atlantis (see further discussion of the Capital Projects in the CAPITAL SPENDING AND DEVELOPMENT section above) and the acquisition of property and equipment. Because the construction was completed in January 2009, we used \$43.2 million, or 67.1%, less net cash in investing activities during 2009 compared to 2008.

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Net cash used in financing activities of \$2.3 million during 2009 primarily represents net payments of our Credit Facility (see THE CREDIT FACILITY below). During 2008, net cash provided by financing activities totaled \$14.3 million which consisted of \$35.7 million to purchase Monarch common stock pursuant to a stock repurchase plan that was in place in the prior year offset by borrowings under our Credit Facility of \$50.0 million.

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. See item 1A. Risk Factors.

COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of December 31, 2009 and the next five years and thereafter are as follows:

| Contractual Cash Obligations | Total | Payments Due by Period (4) | | | |
|--|---------------|----------------------------|---------------|--------------|-------------------|
| | | less than 1 year | 1 to 3 years | 4 to 5 years | more than 5 years |
| Operating Leases(1) | \$ 3,607,500 | \$ 370,000 | \$ 740,000 | \$ 740,000 | \$ 1,757,500 |
| Maturities of Borrowings Under Credit Facility (2) | 48,500,000 | 1,000,000 | 47,500,000 | | |
| Purchase Obligations(3) | 3,371,200 | 3,371,200 | | | |
| Total Contractual Cash Obligations | \$ 55,478,700 | \$ 4,741,200 | \$ 48,240,000 | \$ 740,000 | \$ 1,757,500 |

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

(2) The amount represents outstanding draws against our Credit Facility (see THE CREDIT FACILITY below) as of December 31, 2009.

(3) Purchase obligations represent approximately \$1.6 million of commitments related to the Capital Projects and approximately \$1.8 million of materials and supplies used in the normal operation of our business. Of the total purchase order and capital project commitments, approximately \$1.8 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 December 31, 2009 our leverage ratio was such that pricing for borrowings was LIBOR plus 2.875%. At December 31, 2009, the one-month LIBOR rate was 0.25%.

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 thousand and a multiple of \$50 thousand.

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.

At December 31, 2009, we had \$48.5 million outstanding under the New Credit Facility, \$1.0 million of which was classified as short-term debt. Short-term debt represents the difference between the amount outstanding at December 31, 2009 and the maximum principal allowed of \$47.5 million under the New Credit Facility on December 31, 2010. 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 December 31, 2009 our leverage ratio was such that pricing for borrowings was LIBOR plus 2.875%. At December 31, 2009, the one-month LIBOR rate was 0.25%.

STATEMENT ON FORWARD LOOKING INFORMATION

Certain information included herein contains statements that may be considered forward-looking, such as statements relating to projections of future results of operations or financial condition, expectations for our casino and expectations of the continued availability of capital resources. Any forward-looking statement made by us necessarily is based upon a number of estimates and assumptions that, while considered reasonable by us, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and are subject to

change. Actual results of our operations may vary materially from any forward-looking statement made by us or on our behalf. Forward-looking statements should not be regarded as representation by us or any other person that the forward-looking statements will be achieved. Undue reliance should not be placed on any forward-looking statements. Some of the contingencies and uncertainties to which any forward-looking statement contained herein are subject to include, but are not limited to, those set forth above in the heading ITEM 1A. Risk Factors.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance on subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, under the guidance, an entity is required to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. We adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued new authoritative guidance to establish the FASB Accounting Standards Codification as the single source of authoritative non-governmental GAAP. The guidance is effective for interim and annual reporting periods ending after September 15, 2009. We adopted the guidance effective July 1, 2009 and the adoption did not have an effect on our audited Consolidated Financial Statements.

In June 2009, the FASB issued new authoritative guidance regarding a transfer of financial assets, the effects of a transfer on its financial statements, and any continued involvement in transferred financial assets. Additionally, the concept of a qualifying special-purpose entity was removed. The guidance is effective for annual reporting periods beginning after November 15, 2009 and the adoption did not have an effect on our audited Consolidated Financial Statements.

In June 2009, the FASB issued new authoritative guidance for enterprises involved with variable interest entities. The guidance is effective for annual reporting periods beginning after November 15, 2009 and the adoption did not have an effect on our audited Consolidated Financial Statements.

In August 2009, the FASB issued new authoritative guidance on measuring liabilities at fair value. The guidance addresses restrictions on the transfer of a liability and clarifies how the price of a traded debt security should be considered in estimating the fair value of the issuer's liability. This guidance is effective for the first reporting period beginning after its issuance. We adopted the guidance effective October 1, 2009 and the adoption did not have a material effect on our audited Consolidated Financial Statements.

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 our audited Consolidated Financial Statements.

ITEM 7A. 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 December 31, 2009 that are subject to market risk. As of December 31, 2009 we had \$48.5 million of outstanding debt under our Second Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the Second Credit Facility at December 31, 2009 would result in a change in our annual interest cost of approximately \$485 thousand.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Monarch Casino & Resort, Inc.:

We have audited the accompanying consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statements schedule listed in the index at Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monarch Casino & Resort, Inc. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Las Vegas, Nevada

March 15, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Monarch Casino & Resort, Inc.:

We have audited Monarch Casino & Resort, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2009 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Monarch Casino & Resort, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2009 of Monarch Casino & Resort, Inc. and subsidiaries and our report dated March 15, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Las Vegas, Nevada

March 15, 2010

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2009 | 2008 | 2007 |
| Revenues | | | |
| Casino | \$ 94,510,933 | \$ 100,904,355 | \$ 110,259,104 |
| Food and beverage | 38,172,149 | 39,465,734 | 42,364,225 |
| Hotel | 22,385,927 | 22,270,776 | 27,885,858 |
| Other | 4,382,441 | 4,951,006 | 4,866,536 |
| Gross revenues | 159,451,450 | 167,591,871 | 185,375,723 |
| Less promotional allowances | (25,719,594) | (26,222,402) | (25,519,352) |
| Net revenues | 133,731,856 | 141,369,469 | 159,856,371 |
| Operating Expenses | | | |
| Casino | 35,756,975 | 37,275,786 | 35,927,672 |
| Food and beverage | 17,890,429 | 19,186,872 | 20,283,267 |
| Hotel | 8,042,023 | 7,879,234 | 8,357,541 |
| Other | 1,167,040 | 1,289,489 | 1,485,550 |
| Selling, general and administrative | 47,865,432 | 51,160,484 | 49,976,753 |
| Depreciation and amortization | 12,501,048 | 9,891,803 | 8,137,886 |
| Player club implementation expense | 1,366,614 | | |
| Total operating expenses | 124,589,561 | 126,683,668 | 124,168,669 |
| Income from operations | 9,142,295 | 14,685,801 | 35,687,702 |
| Other income (expense) | | | |
| Interest income | 124,661 | 370,632 | 1,928,450 |
| Interest expense | (2,103,798) | (538,684) | (152,274) |
| Total other (expense) income | (1,979,137) | (168,052) | 1,776,176 |
| Income before income taxes | 7,163,158 | 14,517,749 | 37,463,878 |
| Provision for income taxes | (2,321,679) | (4,976,781) | (12,983,660) |
| Net income | \$ 4,841,479 | \$ 9,540,968 | \$ 24,480,218 |
| Earnings per share of common stock | | | |
| Basic | \$ 0.30 | \$ 0.56 | \$ 1.28 |
| Diluted | \$ 0.30 | \$ 0.56 | \$ 1.27 |
| Weighted average number of common shares and potential common shares outstanding | | | |
| Basic | 16,123,027 | 16,957,692 | 19,057,583 |
| Diluted | 16,159,415 | 17,017,859 | 19,329,131 |

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|--|----------------|----------------|
| | 2009 | 2008 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 14,420,323 | \$ 11,756,900 |
| Receivables, net | 2,294,703 | 3,344,441 |
| Inventories | 1,706,867 | 1,564,347 |
| Prepaid expenses | 2,623,650 | 2,851,872 |
| Deferred income taxes | 1,090,063 | 429,300 |
| Total current assets | 22,135,606 | 19,946,860 |
| Property and equipment | | |
| Land | 13,172,522 | 12,162,522 |
| Land improvements | 3,511,484 | 3,511,484 |
| Buildings | 140,522,106 | 133,332,232 |
| Building improvements | 10,410,770 | 10,435,062 |
| Furniture and equipment | 107,655,784 | 96,767,076 |
| Leasehold improvements | 1,346,965 | 1,346,965 |
| | 276,619,631 | 257,555,341 |
| Less accumulated depreciation and amortization | (113,538,145) | (101,825,190) |
| | 163,081,486 | 155,730,151 |
| Construction in progress | | 4,026,536 |
| Net property and equipment | 163,081,486 | 159,756,687 |
| Other assets, net | 569,622 | 2,797,949 |
| Total assets | \$ 185,786,714 | \$ 182,501,496 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Borrowings under credit facility | \$ 1,000,000 | \$ 2,500,000 |
| Accounts payable | 8,984,010 | 10,213,418 |
| Construction payable | | 5,404,372 |
| Accrued expenses | 11,056,079 | 8,940,110 |
| Federal income taxes payable | 46,546 | 233,736 |
| Total current liabilities | 21,086,635 | 27,291,636 |
| Long-term debt, less current maturities | 47,500,000 | 47,500,000 |
| Deferred income taxes | 4,695,657 | 2,115,371 |
| Total Liabilities | 73,282,292 | 76,907,007 |
| 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; 16,125,388 outstanding at 12/31/09 16,122,048 outstanding at 12/31/08 | 190,963 | 190,963 |
| Additional paid-in capital | 30,041,083 | 28,051,009 |
| Treasury stock, 2,970,912 shares at 12/31/09 2,974,252 shares at 12/31/08, at cost | (48,864,979) | (48,943,359) |
| Retained earnings | 131,137,355 | 126,295,876 |
| Total stockholders' equity | 112,504,422 | 105,594,489 |
| Total liability and stockholders' equity | \$ 185,786,714 | \$ 182,501,496 |

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Total |
|---|-----------------------|------------|----------------------------------|----------------------|-------------------|----------------|
| | Shares Outstanding | Amount | | | | |
| Balance, January 1, 2007 | 19,065,968 | \$ 190,726 | \$ 23,205,045 | \$ 92,274,690 | \$ (24,145) | \$ 115,646,316 |
| Exercise of stock options, including related tax benefit | 56,080 | 237 | 265,870 | | 629,286 | 895,393 |
| Purchase of treasury stock | (555,508) | | | | (13,874,046) | (13,874,046) |
| Share based compensation expense | | | 2,271,057 | | | 2,271,057 |
| Net income | | | | 24,480,218 | | 24,480,218 |
| Balance, December 31, 2007 | 18,566,540 | 190,963 | 25,741,972 | 116,754,908 | (13,268,905) | 129,418,938 |
| Purchase of treasury stock | (2,444,492) | | | | (35,674,454) | (35,674,454) |
| Share based compensation expense | | | 2,309,037 | | | 2,309,037 |
| Net income | | | | 9,540,968 | | 9,540,968 |
| Balance, December 31, 2008 | 16,122,048 | 190,963 | 28,051,009 | 126,295,876 | (48,943,359) | 105,594,489 |
| Exercise of stock options, including related tax benefit | 3,340 | | (58,697) | | 78,380 | 19,683 |
| Share based compensation expense | | | 2,048,771 | | | 2,048,771 |
| Net income | | | | 4,841,479 | | 4,841,479 |
| Balance, December 31, 2009 | 16,125,388 | \$ 190,963 | \$ 30,041,083 | \$ 131,137,355 | \$ (48,864,979) | \$ 112,504,422 |

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years ended December 31, | | |
|---|--------------------------|---------------|---------------|
| | 2009 | 2008 | 2007 |
| Cash flows from operating activities: | | | |
| Net income | \$ 4,841,479 | \$ 9,540,968 | \$ 24,480,218 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 12,501,048 | 9,891,803 | 8,137,886 |
| Amortization of deferred loan costs | 265,630 | 19,893 | 148,838 |
| Share based compensation | 2,048,771 | 2,309,037 | 2,271,057 |
| Provision for bad debts | 1,120,333 | 1,225,145 | 554,891 |
| Gain on disposal of assets | (63,948) | (33,652) | (6,969) |
| Deferred income taxes | 1,919,523 | (55,078) | (1,542,439) |
| Changes in operating assets and liabilities: | | | |
| Receivables, net | (70,595) | 562,636 | (2,418,143) |
| Inventories | (142,520) | (68,301) | (24,379) |
| Prepaid expenses | 228,221 | 292,502 | (311,248) |
| Other assets | 2,735,433 | | (2,735,433) |
| Accounts payable | (1,229,408) | (626,900) | 2,249,649 |
| Accrued expenses | 2,115,968 | (290,047) | (648,694) |
| Federal income taxes payable | (187,190) | 233,736 | (16,457) |
| Net cash provided by operating activities | 26,082,745 | 23,001,742 | 30,138,777 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of assets | 83,425 | 42,400 | 6,969 |
| Change in construction payable | (5,404,372) | 3,433,350 | 1,971,022 |
| Acquisition of property and equipment | (15,845,321) | (67,881,958) | (17,287,483) |
| Net cash used in investing activities | (21,166,268) | (64,406,208) | (15,309,492) |
| Cash flows from financing activities: | | | |
| Proceeds from exercise of stock options | 13,009 | | 602,636 |
| Tax benefit of stock option exercise | 6,674 | | 292,757 |
| Borrowings under credit facility | 11,750,000 | 50,000,000 | |
| Loan issuance costs | (772,737) | | |
| Principal payments on long-term debt | (13,250,000) | | |
| Purchase of treasury stock | | (35,674,454) | (13,874,045) |
| Net cash (used in) provided by financing activities | (2,253,054) | 14,325,546 | (12,978,652) |
| Net increase (decrease) in cash | 2,663,423 | (27,078,920) | 1,850,633 |
| Cash and cash equivalents at beginning of year | 11,756,900 | 38,835,820 | 36,985,187 |
| Cash and cash equivalents at end of year | \$ 14,420,323 | \$ 11,756,900 | \$ 38,835,820 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest net of \$0, \$499,990 and \$0 capitalized respectively | \$ 1,948,457 | \$ 398,119 | \$ 3,437 |
| Cash paid for income taxes | \$ 2,240,000 | \$ 3,800,000 | \$ 15,247,923 |

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Monarch Casino & Resort, Inc. (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. and Golden North, Inc., 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 and Golden Road. Intercompany balances and transactions are eliminated.

Use of Estimates

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

Self-insurance Reserves

The Company reviews self-insurance reserves at least quarterly. The reserve is determined by reviewing the actual expenditures for the previous twelve-month period and reports prepared by the third party plan administrator for any significant unpaid claims. The reserve is accrued at an amount that approximates amounts needed to pay both reported and unreported claims as of the balance sheet date, which management believes are adequate.

Capitalized Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company 's average borrowing cost. Interest capitalization is ceased when the project is substantially complete. The Company capitalized interest of \$499,990 during the year ended December 31, 2008. The Company did not capitalize interest during the years ended December 31, 2009 and 2007.

Cash and Cash Equivalents

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

Inventories

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Property and Equipment

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

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

The Company evaluates the carrying value of its long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable from related future undiscounted cash flows. Indicators which could trigger an impairment review include legal and regulatory factors, market conditions and operational performance. Any resulting impairment loss, measured as the difference between the carrying amount and the fair value of the assets, could have a material adverse impact on the Company's financial condition and results of operations. All recognized impairment losses, whether for assets to be disposed or for assets to be held and used, are recorded as operating expenses. The Company has not recognized any impairment losses in the current year.

Casino Revenues

Casino revenues represent the net win from gaming activity, which is the difference between wins and losses. Additionally, net win is reduced by a provision for anticipated payouts on slot participation fees, progressive jackpots and any pre-arranged marker discounts.

Promotional Allowances

The Company's frequent player program, Club Paradise, allows members, through the frequency of their play at the Company's casino, to earn and accumulate points which may be redeemed for a variety of goods and services at the Atlantis. Points may be applied toward room stays at the hotel, food and beverage consumption at the food outlets, gift shop items as well as goods and services at the spa and beauty salon. Points earned may also be applied toward off-property events such as concerts, shows and sporting events. Points may not be redeemed for cash.

In October 2009, the Company launched a new program under the Club Paradise program called EZ Comp(SM). Among other things, the technology allows Atlantis patrons to see their redeemable Complimentary point balances. Prior to the launch of the EZ Comp(SM) program, the Company recognized expense at the time Complimentary points were redeemed and the redemption value was at the Company's discretion. Under the new program, the Company recognizes Complimentaries expense at the time points are earned, which occurs commensurate with casino patron play. The redemption value is now known to the patron. This change in the Company's program resulted in a one-time, non-cash charge in 2009 of approximately \$1.4 million to recognize the liability for redeemable Complimentary point balances on the date the EZ Comp(SM) program was launched.

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The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The estimated departmental costs of providing such promotional allowances are included in casino costs and expenses as follows:

| | Years ended December 31, | | |
|-------------------|--------------------------|---------------|---------------|
| | 2009 | 2008 | 2007 |
| Food and beverage | \$ 13,844,611 | \$ 13,979,386 | \$ 12,735,942 |
| Hotel | 3,023,164 | 2,948,354 | 2,143,988 |
| Other | 641,404 | 623,766 | 460,099 |
| | \$ 17,509,179 | \$ 17,551,506 | \$ 15,340,029 |

Advertising Costs

All advertising costs are expensed as incurred. Advertising expense, which is included in selling, general and administrative expense, was \$3,844,432, \$4,368,908 and \$3,657,712 for the years ended December 31, 2009, 2008 and 2007, respectively.

Income Taxes

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

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

Allowance for Doubtful Accounts

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

Stock Based Compensation

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The Company accounts for 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. The cost is measured at the grant date, based on the calculated fair value of the award using the Black-Scholes option pricing model for stock options, and based on the closing share price of the Company's stock on the grant date for restricted stock awards. The cost is recognized as an expense over the employee's requisite service period (the vesting period of the equity award). The Company's stock-based employee compensation plan is more fully discussed in Note 8 - Share-Based Compensation.

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):

| | 2009 | | Years ended December 31, 2008 | | 2007 | |
|----------------------------------|--------|------------------|----------------------------------|------------------|--------|------------------|
| | Shares | Per Share Amount | Shares | Per Share Amount | Shares | Per Share Amount |
| Net income | | | | | | |
| Basic | 16,123 | \$ 0.30 | 16,958 | \$ 0.56 | 19,058 | \$ 1.28 |
| Effect of dilutive stock options | 36 | | 60 | | 271 | (0.01) |
| Diluted | 16,159 | \$ 0.30 | 17,018 | \$ 0.56 | 19,329 | \$ 1.27 |

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

| | Years ended December 31, | | |
|---|--------------------------|-----------------|-----------------|
| | 2009 | 2008 | 2007 |
| Options to purchase shares of common stock (in thousands) | 1,528 | 861 | 232 |
| Exercise prices | \$9.00-\$29.00 | \$13.82-\$29.00 | \$27.39-\$30.07 |
| Expiration dates (mo./yr.) | 11/14-11/18 | 11/14-5/18 | 5/16-10/17 |

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.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of bank deposits and trade receivables. The Company maintains its surplus cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and accounts receivable.

Impact of Recently Issued Accounting Standards

In May 2009, the Financial Accounting Standards Board (FASB) issued guidance on subsequent events. The guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, under the guidance, an entity is required to disclose subsequent events through the date the financial statements were issued or the date the financial statements were available to be issued. The guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance on the accounting treatment for subsequent events or transactions. The guidance is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted the guidance as of June 30, 2009, as required. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued new authoritative guidance to establish the FASB Accounting Standards Codification as the single source of authoritative non-governmental GAAP. The guidance is effective for interim and annual reporting periods ending after September 15, 2009. We adopted the guidance effective July 1, 2009 and the adoption did not have an effect on the Company's consolidated financial statements.

In June 2009, the FASB issued new authoritative guidance regarding a transfer of financial assets, the effects of a transfer on its financial statements, and any continued involvement in transferred financial assets. Additionally, the concept of a qualifying special-purpose entity was removed. The guidance is effective for annual reporting periods beginning after November 15, 2009 and the adoption did not have an effect on the Company's consolidated financial statements.

In June 2009, the FASB issued new authoritative guidance for enterprises involved with variable interest entities. The guidance is effective for annual reporting periods beginning after November 15, 2009 and the adoption did not have an effect on the Company's consolidated financial statements.

In August 2009, the FASB issued new authoritative guidance on measuring liabilities at fair value. The guidance addresses restrictions on the transfer of a liability and clarifies how the price of a traded debt security should be considered in estimating the fair value of the issuer's liability. This guidance is effective for the first reporting period beginning after its issuance. We adopted the guidance effective October 1, 2009 and the adoption did not have a material effect on the Company's consolidated financial statements.

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.

Reclassifications

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the 2009 presentation. These reclassifications had no effect on the previously reported net income.

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

| | December 31, | |
|--------------------------------------|--------------|--------------|
| | 2009 | 2008 |
| Casino | \$ 4,189,190 | \$ 4,686,816 |
| Hotel | 433,658 | 403,830 |
| Other | 83,138 | 141,991 |
| | 4,705,986 | 5,232,637 |
| Less allowance for doubtful accounts | (2,411,283) | (1,888,196) |
| | \$ 2,294,703 | \$ 3,344,441 |

The Company recorded bad debt expense of \$1,120,333, \$1,225,145 and \$554,891 in 2009, 2008 and 2007, respectively. The Company calculates an allowance for doubtful accounts by applying a percentage, estimated by management based on historical aging experience, to the accounts receivable balance.

NOTE 3. ACCRUED EXPENSES

Accrued expenses consist of the following:

| | December 31, | |
|--|---------------|--------------|
| | 2009 | 2008 |
| Accrued salaries, wages and related benefits | \$ 3,340,695 | \$ 3,336,069 |
| Progressive slot machine and other gaming accruals | 3,431,896 | 3,132,586 |
| Accrued gaming taxes | 526,402 | 365,093 |
| Accrued interest | 35,917 | 146,205 |
| Other accrued liabilities | 3,721,169 | 1,960,157 |
| | \$ 11,056,079 | \$ 8,940,110 |

NOTE 4. LEASE COMMITMENTS

In 2004, a driveway was constructed that is being shared between the Atlantis and the adjacent Sierra Marketplace Shopping Center that is owned and controlled by affiliates of the Company's principal stockholders (the Shopping Center). A traffic signal was erected at mid-block on South Virginia Street, serving the driveway. As part of this project, the Company is leasing 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 60 months based on the Consumer Price Index. The Company is also using 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 3 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 Company uses the leased driveway space for pedestrian and vehicle access to the Atlantis, and the Company has use of a portion of the parking

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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 project was completed, the driveway was put into use and the Company began paying rent on September 30, 2004. The cost of the driveway is being

depreciated over the initial 15-year lease term; some components of the driveway are being depreciated over a shorter period of time.

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. Commensurate 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.

The Company accounts for its rental expense using the straight-line method over the original lease term. Rental increases based on the change in the CPI are contingent and accounted for prospectively.

Following is a summary of future minimum payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2009:

| | Operating Leases |
|------------------------------|-----------------------------|
| Year ending December 31, | |
| 2010 | 370,000 |
| 2011 | 370,000 |
| 2012 | 370,000 |
| 2013 | 370,000 |
| 2014 | 370,000 |
| Thereafter | 1,757,500 |
| Total minimum lease payments | \$ 3,607,500 |

Rental expense for operating leases amounted to \$1,153,753, \$1,316,835 and \$1,043,415 in 2009, 2008 and 2006, respectively, as reported in selling, general and administrative expenses in the statements of income.

NOTE 5. 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 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

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.

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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.

As of December 31, 2009, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 2.875:1 and a fixed charge coverage ratio (EBITDA divided by fixed charges, as defined) of at least 1.25:1. As of December 31, 2009, the Company's leverage ratio and fixed charge coverage ratios were 1.9:1 and 9.0:1, respectively. As of December 31, 2008, the Company's leverage ratio and fixed charge coverage ratios were 1.9:1 and 21.6:1, respectively.

The maximum principal available under the New Credit Facility is reduced by \$2.5 million per quarter beginning on December 31, 2009. 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 December 31, 2009 are as follows (amounts in thousands):

| Year | Maturities | |
|------|------------|--------|
| 2010 | \$ | 1,000 |
| 2011 | | 10,000 |
| 2012 | | 37,500 |
| | \$ | 48,500 |

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 December 31, 2009, the Company had \$48.5 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 2.875%. At December 31, 2008, the Company had \$50 million outstanding under the First Credit Facility. At that time its leverage ratio was such that pricing for borrowings under the First Credit Facility was LIBOR plus 1.25%. At December 31, 2009 the one-month LIBOR interest rate was 0.25% while at December 31, 2008 the one-month LIBOR interest rate was 0.44%. At December 31, 2007, the Company had no outstanding borrowings; however, its leverage ratio was such that the pricing for borrowings would have been the Base Rate plus 0.00 percent or LIBOR plus 1.00 percent. 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 6. INCOME TAXES

Income tax provision (benefit) consists of the following:

| | Years ended December 31, | | |
|------------------------------|--------------------------|--------------|---------------|
| | 2009 | 2008 | 2007 |
| Current provision | \$ 402,156 | \$ 5,790,922 | \$ 14,494,634 |
| Deferred provision (benefit) | 1,919,523 | (814,141) | (1,510,974) |
| | \$ 2,321,679 | \$ 4,976,781 | \$ 12,983,660 |

Income tax benefits were recognized through stockholders' equity of \$6,673, \$0 and \$292,757 during the years of 2009, 2008 and 2007, respectively, as compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes.

The difference between the Company's provision for federal income taxes as presented in the accompanying Consolidated Statements of Income, and the provision for income taxes computed at the statutory rate is comprised of the items shown in the following table as a percentage of pre-tax earnings.

| | Years ended December 31, | | |
|----------------------------------|--------------------------|---------|---------|
| | 2009 | 2008 | 2007 |
| Income tax at the statutory rate | 35.00% | 35.00% | 35.00% |
| Tax credits | (2.60)% | (0.70)% | (0.30)% |
| | 32.40% | 34.30% | 34.70% |

The components of the deferred income tax assets and liabilities at December 31, 2009 and 2008, as presented in the Consolidated Balance Sheets, are as follows:

| | 2009 | | 2008 | |
|-----------------------------------|------|-------------|------|-------------|
| DEFERRED TAX ASSETS | | | | |
| Share based compensation | \$ | 2,951,416 | \$ | 2,236,090 |
| Compensation and benefits | | 540,765 | | 418,222 |
| Bad debt reserves | | 843,949 | | 660,869 |
| Accrued gaming liabilities | | 859,635 | | 599,064 |
| Accrued interest | | 8,937 | | 8,937 |
| Accrued other | | 181,154 | | 198,654 |
| Deferred income tax asset | \$ | 5,385,856 | \$ | 4,121,836 |
| DEFERRED TAX LIABILITIES | | | | |
| Impairment of assets | \$ | (72,260) | \$ | (72,260) |
| Depreciation | | (7,468,267) | | (4,193,760) |
| Land basis | | (285,706) | | (285,706) |
| Prepaid expenses | | (845,720) | | (895,758) |
| Real estate taxes | | (319,497) | | (360,423) |
| Deferred income tax liability | \$ | (8,991,450) | \$ | (5,807,907) |
| NET DEFERRED INCOME TAX LIABILITY | \$ | (3,605,594) | \$ | (1,686,071) |

The January 1, 2007 adoption of authoritative guidance on accounting for uncertainty in income taxes did not affect the Company's financial position. The Company is required to file a federal tax return only. As of December 31, 2009, tax years 2006 through 2009 were subject to examination by the Internal Revenue Service (IRS). During 2009, the IRS began its field examination of the Company's 2007 and 2008 tax years. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain income tax positions have been recorded. The Company expects resolution of the exam in the next 12 months.

NOTE 7. BENEFIT PLANS

Savings Plan - Effective November 1, 1995, the Company adopted a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating employees may defer up to 15% of their pre-tax compensation, but not more than statutory limits. Prior to 2007, the Company contributed twenty five cents for each dollar contributed by a participant, with a maximum contribution of 4% of a participant's compensation. Effective January 1, 2007, the Company increased its contribution to fifty cents for each dollar contributed by a participant and effective January 1, 2009, the Company suspended its contribution altogether. The Company's matching contributions were approximately \$0, \$236,869 and \$238,510 for years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 8. SHARE-BASED COMPENSATION

The Company's three stock option plans, consisting of the Directors' Stock Option Plan, the Executive Long-term Incentive Plan and the Employee Stock Option Plan (the Plans), which collectively provide for the granting of options to purchase up to 3,250,000 common shares. The exercise price of stock options granted under the Plans is established by the respective plan committees, but the exercise price may not be less than the market price of the Company's common stock on the date the option is granted. The Company stock options typically vest on a graded schedule, typically in equal, one-third increments, although the respective stock option committees have the discretion to impose different vesting periods or modify existing vesting periods. Options expire ten years from the grant date. By their amended terms, the Plans will expire in June 2013 after which no options may be granted.

A summary of the stock option activity as of and for the year ended December 31, 2009 is presented below:

| Options | Shares | Exercise Price | Weighted Average | | Aggregate Intrinsic Value |
|------------------------------------|-----------|----------------|------------------|----------------------------|---------------------------|
| | | | Exercise Price | Remaining Contractual Term | |
| Outstanding at beginning of period | 1,560,040 | \$ | 18.01 | | |
| Granted | 305,640 | | 4.52 | | |
| Exercised | (3,340) | | 3.40 | | |
| Forfeited | (33,000) | | 6.97 | | |
| Expired | | | | | |
| Outstanding at end of period | 1,829,340 | \$ | 15.99 | 6.9 yrs. | \$ 14,417,017 |
| Exercisable at end of period | 1,000,007 | \$ | 7.48 | 2.8 yrs. | \$ 8,012,831 |

A summary of the status of the Company's nonvested shares as of, and for the year ended, December 31, 2009 is presented below:

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| Nonvested Shares | Shares | Weighted-Average Grant Date Fair Value | |
|--------------------------------|-----------|--|------|
| Nonvested at January 1, 2009 | 827,004 | \$ | 8.90 |
| Granted | 305,640 | | 4.52 |
| Vested | (270,311) | | 8.97 |
| Forfeited | (33,000) | | 6.97 |
| Nonvested at December 31, 2009 | 829,333 | \$ | 7.45 |

Expense Measurement and Recognition:

The Company recognizes share-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Unrecognized costs related to all share-based awards outstanding at December 31, 2009 totaled approximately \$4.1 million and is expected to be recognized over a weighted average period of 2.5 years.

The Company uses historical data and projections to estimate expected employee, executive and director behaviors related to option exercises and forfeitures.

The Company estimates the fair value of each stock option award on the grant date using the Black-Scholes valuation model incorporating the assumptions noted in the following table. Option valuation models require the input of highly subjective assumptions, and changes in assumptions used can materially affect the fair value estimate. Option valuation assumptions for options granted during each year were as follows:

| | 2009 | Years ended December 31, | | 2007 |
|---|-----------|--------------------------|--|------------|
| | | 2008 | | |
| Expected volatility | 64.1% | 111.7% | | 50.3% |
| Expected dividends | | | | |
| Expected life (in years) | | | | |
| Directors' Plan | 2.5 | 2.5 | | 2.5 |
| Executive Plan | 4.5 | 4.5 | | 4.5 |
| Employee Plan | 3.1 | 3.1 | | 3.1 |
| Weighted average risk free rate | 1.4% | 4.1% | | 4.1% |
| Weighted average grant date fair value per share of options granted | \$ 4.52 | \$ 5.30 | | \$ 11.24 |
| Total intrinsic value of options exercised | \$ 15,698 | \$ | | \$ 747,770 |
| Cash received for all stock option exercises | \$ 13,009 | \$ | | \$ 602,636 |
| Tax benefit realized for tax return deductions | \$ 6,673 | \$ | | \$ 292,757 |

The risk-free interest rate is based on the U.S. treasury security rate in effect as of the date of grant. The expected lives of options are based on historical data of the Company. The Company has determined that an implied volatility is more reflective of market conditions and a better indicator of expected volatility.

Reported stock based compensation expense was classified as follows:

| | For the years ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2009 | 2008 | 2007 |
| Casino | \$ 58,761 | \$ 80,148 | \$ 72,509 |
| Food and beverage | 56,600 | 72,424 | 53,542 |
| Hotel | 23,587 | 31,536 | 38,071 |
| Selling, general and administrative | 1,909,823 | 2,124,929 | 2,106,935 |
| Total stock-based compensation, before taxes | 2,048,771 | 2,309,037 | 2,271,057 |
| Tax benefit | (717,069) | (808,163) | (794,870) |
| Total stock-based compensation, net of tax | \$ 1,331,702 | \$ 1,500,874 | \$ 1,476,187 |

NOTE 9. COMMITMENTS AND CONTINGENCIES

Self Insurance - The Company is self-insured for health care claims for eligible active employees. Benefit plan administrators assist the Company in determining its liability for self-insured claims, and such claims are not discounted. The Company is also self-insured for workers compensation. Both plans limit the Company's maximum liability through a benefit limitation in the case of the health plan and through a stop-loss insurance agreement in the case of the worker's compensation plan. The maximum liability for health care claims is \$500 thousand per calendar year, and \$1 million over the lifetime, for each eligible employee. The maximum liability for workers' compensation under the stop-loss agreement is \$500 thousand per claim.

On September 28, 2006, the Company's Board of Directors (the Board) authorized a stock repurchase plan (the Repurchase Plan). Under the Repurchase Plan, the Board authorized a program to repurchase up to 1,000,000 shares of our common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements and other factors. The Repurchase Plan did not obligate the Company to acquire any particular amount of common stock.

On March 11, 2008, the Board increased its initial authorization by 1,000,000 shares and on April 22, 2008, the Board increased its authorization a third time by 1,000,000 shares which increased the shares authorized to be repurchased to a total of 3,000,000 shares. During the first and second quarters of 2008, the Company purchased 2,444,492 shares of the Company's common stock pursuant to the Repurchase Plan at a weighted average purchase price of \$14.59 per share, which increased the total number of shares purchased pursuant to the Repurchase Plan to 3,000,000 at a weighted average purchase price of \$16.52 per share. As of June 30, 2008, the Company had purchased all shares under the three million share Repurchase Plan authorization.

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; unspecified compensatory and punitive damages; and other relief. Monarch believes Kerzner's claims to be entirely without merit and is defending vigorously against the suit. Further, Monarch has filed a 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, significantly narrowing the issues for trial. Kerzner next filed a Request for Certification of 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, and the parties are proceeding with pre-trial preparation. No trial date has been set as of this filing.

The Company is 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.

NOTE 10. RELATED PARTY TRANSACTIONS

The 18.95-acre shopping center (the Shopping Center) adjacent to the Atlantis Casino Resort Spa 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, Chief Operating Officer and a Director of Monarch. Bob Farahi is Co-Chairman of the Board, President, Secretary and a Director of Monarch. Ben Farahi formerly was the Co-Chairman of the Board, Secretary, Treasurer, Chief Financial Officer and a Director of Monarch. Monarch's board of directors accepted Ben Farahi's resignation from these positions on May 23, 2006.

The Company currently rents various spaces in the Shopping Center which it uses as office, storage space and guest parking and paid rent of approximately \$136,300 plus common area expenses in the year ended December 31, 2009. The Company paid rent of approximately \$194,800 and \$262,700 plus common area expenses in the years ended December 31, 2008 and 2007, 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 60 months 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 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 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 Company paid approximately \$310,000 plus common area charges for the year ended December 31, 2009, and approximately \$300,000 in each of the years ended December 31, 2008 and 2007, for its leased driveway space at the Shopping Center.

The Company leased sign space from the Shopping Center through July 2008. The Company paid \$7,460 and \$12,420 for the years ended December 31, 2008 and 2007, respectively.

The Company is currently leasing billboard advertising space from affiliates of its principal stockholders for a total cost of \$38,500, \$42,000 and \$49,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

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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. Commensurate 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 11. SUBSEQUENT EVENTS

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material subsequent events have occurred since December 31, 2009 that required recognition or disclosure in the consolidated financial statements.

NOTE 12. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | 2009 | | | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
| Net revenues | \$ 32,579,184 | \$ 34,455,358 | \$ 34,845,800 | \$ 31,851,514 | \$ 133,731,856 |
| Operating expenses | 30,645,657 | 31,154,624 | 31,260,726 | 31,528,554 | 124,589,561 |
| Income from operations | 1,933,527 | 3,300,734 | 3,585,074 | 322,960 | 9,142,295 |
| Net income | 922,160 | 1,797,918 | 2,037,858 | 83,543 | 4,841,479 |
| Income per share of common stock | | | | | |
| Basic | \$ 0.06 | \$ 0.11 | \$ 0.13 | \$ 0.01 | \$ 0.30 |
| Diluted | \$ 0.06 | \$ 0.11 | \$ 0.13 | \$ 0.01 | \$ 0.30 |

| | 2008 | | | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|----------------|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
| Net revenues | \$ 34,273,393 | \$ 35,343,765 | \$ 38,787,199 | \$ 32,965,112 | \$ 141,369,469 |
| Operating expenses | 30,998,549 | 30,924,665 | 32,753,962 | 32,006,492 | 126,683,668 |
| Income from operations | 3,274,844 | 4,419,100 | 6,033,237 | 958,620 | 14,685,801 |
| Net income | 2,302,031 | 2,802,903 | 4,025,695 | 410,339 | 9,540,968 |
| Income per share of common stock | | | | | |
| Basic | \$ 0.13 | \$ 0.16 | \$ 0.25 | \$ 0.03 | \$ 0.56 |
| Diluted | \$ 0.12 | \$ 0.16 | \$ 0.25 | \$ 0.03 | \$ 0.56 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, (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. No changes were made to our internal control over financial reporting (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2009, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. This report appears in Item 8 of this Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on May 21, 2010.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on May 21, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Following is information related to the Company's equity compensation.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|--|--|--|
| Equity compensation plans approved by security holders (F1) | 1,829,340 | \$ 15.99 | 851,155 |
| Equity compensation plans not approved by security holders | | | |
| Total | 1,829,340 | \$ 15.99 | 851,155 |

(F1) Includes the 1993 Directors Stock Option Plan, 1993 Employee Stock Option Plan and 1993 Executive Long-Term Incentive Plan, as amended.

Additional information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on May 21, 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on May 21, 2010.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on May 21, 2010.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

Included in Part II of this report:

- a) Report of Independent Registered Public Accounting Firm
- b) Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007.
- c) Consolidated Balance Sheets at December 31, 2009 and 2008.
- d) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007.
- e) Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007.
- f) Notes to Consolidated Financial Statements.

2. Financial Statements Schedules

Schedule II. - VALUATION AND QUALIFYING ACCOUNTS

| Year ended December 31, <u>2007</u> | Balance at beginning of year | Charged to costs and expenses | Deductions (F1) | Other | Balance at end of year |
|---|------------------------------------|-------------------------------------|--------------------|-------|---------------------------|
| Allowance for doubtful accounts | \$ 1,253,297 | \$ 554,891 | \$ (390,069) | \$ | \$ 1,418,119 |
| <u>2008</u> | | | | | |
| Allowance for doubtful accounts | \$ 1,418,119 | \$ 1,225,145 | \$ (755,068) | \$ | \$ 1,888,196 |
| <u>2009</u> | | | | | |
| Allowance for doubtful accounts | \$ 1,888,196 | \$ 1,120,333 | \$ (597,246) | \$ | \$ 2,411,283 |

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(F1) The Company reviews receivables monthly and, accordingly, adjusts the allowance for doubtful accounts monthly. The Company records write-offs annually. The amount charged to Costs and Expenses reflects the bad debt expense recorded in the consolidated statements of income, while the amount recorded for Deductions reflects the adjustment to actual allowance for doubtful accounts reserve at the end of the period.

Exhibits

| Number | Exhibit Description |
|--------|---|
| 3.01 | Articles of Incorporation of Monarch Casino & Resort, Inc., filed June 11, 1993 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.01. |
| 3.02 | Bylaws of Monarch Casino & Resort, Inc., adopted June 14, 1993 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.02. |
| 3.03 | Articles of Incorporation of Golden Road Motor Inn, Inc. filed March 6, 1973; Certificate Amending Articles of Incorporation of Golden Road Motor Inn, Inc. filed August 29, 1973; and Certificate of Amendment of Articles of Incorporation filed April 5, 1984 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.03. |
| 3.04 | Bylaws of Golden Road Motor Inn, Inc., adopted March 9, 1973 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.04. |
| 3.05 | Amendment to Bylaws of Monarch Casino & Resort, Inc. adopted January 24, 1995 is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 2006, Exhibit 3.05. |
| 3.06 | Amendment No. 2 to Bylaws of Monarch Casino & Resort, Inc. adopted March 27, 2009 is incorporated herein by reference to the Company's Form 8-K (SEC File 0-22088) filed on April 1, 2009, Exhibit 3.01 |
| 4.01 | Specimen Common Stock Certificate for the Common Stock of Monarch Casino & Resort, Inc. is incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 4.01. |
| 4.02 | Amended and Restated Monarch Casino & Resort, Inc. 1993 Directors' Stock Option Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 1998, Item 14(c), Exhibit 4.02. |
| 4.03 | Amended and Restated Monarch Casino & Resort, Inc. 1993 Executive Long-Term Incentive Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1997, Item 14(c), Exhibit 4.03. |
| 4.04 | Amended and Restated Monarch Casino & Resort, Inc. 1993 Employee Stock Option Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1997, Item 14(c), Exhibit 4.04. |
| 4.05 | Second Amendment to Monarch Casino & Resort, Inc. 1993 Directors' Stock Option Plan is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) in relation to the Company's 2003 Annual Meeting of Stockholders Exhibit A-1. |

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- 4.06 Second Amendment to Monarch Casino & Resort, Inc. 1993 Employee Stock Option Plan is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) in relation to the Company's 2003 Annual Meeting of Stockholders Exhibit A-2.
- 4.07 Second Amendment to Monarch Casino & Resort, Inc. 1993 Executive Long-Term Incentive Plan is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) in relation to the Company's 2003 Annual Meeting of Stockholders Exhibit A-3.
- 4.08 Third Amendment to Monarch Casino & Resort, Inc. 1993 Employee Stock Option Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 2006, Exhibit 4.08.
- 4.09 Third Amendment to Monarch Casino & Resort, Inc. 1993 Executive Long-Term Incentive Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 2006, Exhibit 4.09.
- 10.01 Non-standardized 401(k) Plan Adoption Agreement between Monarch Casino & Resort, Inc. and Smith Barney Shearson dated November 7, 1995 is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995, Item 14(a)(3), Exhibit 10.21.
- 10.02 Trademark Agreement between Golden Road Motor Inn, Inc. and Atlantis Lodge, Inc., dated February 3, 1996 is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995, Item 14(a)(3), Exhibit 10.23.
- 10.03 Credit Agreement, dated as of February 20, 2004, among Golden Road Motor Inn, Inc. as Borrower, Monarch Casino & Resort, Inc., as Guarantor, the Lenders as defined therein, and Wells Fargo Bank as administrative and collateral Agent for the Lenders and Swingline Lender is incorporated herein by reference to the Company's Form 8-K report (SEC File 0-22088) dated March 8, 2004, Exhibit 99.1.
- 10.04 Lease Agreement and Option to Purchase dated as of January 29, 2004, between Golden Road Motor Inn, Inc. as Lessee and Biggest Little Investments, L.P. as Lessor is incorporated herein by reference to the Company's Form 10-K (SEC File 0-22088) dated March 11, 2004, Exhibit 10.18.
- 10.05 First Amendment, dated as of February 8, 2007, to the Credit Agreement, dated as of February 20, 2004, among Golden Road Motor Inn, Inc., as Borrower, Monarch Casino & Resort, Inc., as Guarantor, the Lenders as defined therein, and Wells Fargo Bank as administrative and collateral Agent for the Lenders and Swingline Lender is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 2006, Exhibit 10.05.
- 10.06 Amended and Restated Credit Agreement, dated as of January 20, 2009, among Golden road Motor Inn, Ind., as Borrower, Monarch Casino & Resort, Inc., as Guarantor, the Lenders as defined therein, and Wells Fargo Bank, National Association, as Swingline Lender, L/C Issuer and Agent Bank is incorporated herein by reference to the Company's Form 10-K (SEC File 0-22088) filed May 11, 2009, Exhibit 10.01.
- 21.01 Amended and Restated List of Subsidiaries of Monarch Casino & Resort, Inc.
- 23.1 Consent of Independent Registered Public Accounting Firm*
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*

* filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 15, 2010

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|----------------|
| <i>/S/ JOHN FARAHI</i> John Farahi | Co-Chairman of the Board of Directors Chief Executive Officer (Principal Executive Officer) and Director | March 15, 2010 |
| <i>/S/ BOB FARAHI</i> Bob Farahi | Co-Chairman of the Board of Directors, President, Secretary and Director | March 15, 2010 |
| <i>/S/ RONALD ROWAN</i> Ronald Rowan | Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer) | March 15, 2010 |
| <i>/S/ CRAIG. F. SULLIVAN</i> Craig F. Sullivan | Director | March 15, 2010 |
| <i>/S/ RONALD R. ZIDECK</i> Ronald R. Zideck | Director | March 15, 2010 |