

MONARCH CASINO & RESORT INC

Form 10-Q

November 09, 2009

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United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 St.
Reno, Nevada
(Address of Principal Executive Offices)

89502
(ZIP Code)

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

(775) 335-4600

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

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 definition 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 Exchange Act).

Yes No

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

Common stock, \$0.01 par value
Class

16,125,388 shares
Outstanding at October 30, 2009

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Monarch Casino & Resort, Inc.

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Casino	\$ 24,385,970	\$ 27,612,822	\$ 71,336,715	\$ 77,041,679
Food and beverage	9,546,449	10,582,809	28,965,730	29,891,424
Hotel	6,314,048	6,301,547	17,578,424	17,677,248
Other	1,005,075	1,181,343	3,278,663	3,598,915
Gross revenues	41,251,542	45,678,521	121,159,532	128,209,266
Less promotional allowances	(6,405,742)	(6,891,322)	(19,279,190)	(19,804,909)
Net revenues	34,845,800	38,787,199	101,880,342	108,404,357
Operating expenses				
Casino	8,923,845	9,991,844	26,686,637	28,005,260
Food and beverage	4,600,471	5,218,032	13,774,017	14,513,679
Hotel	2,194,823	1,983,818	6,247,994	6,056,911
Other	303,106	338,847	908,346	998,498
Selling, general and administrative	12,203,807	12,732,367	36,133,433	38,713,980
Depreciation and amortization	3,034,674	2,353,562	9,310,580	6,388,848
Total operating expenses	31,260,726	32,618,470	93,061,007	94,677,176
Income from operations	3,585,074	6,168,729	8,819,335	13,727,181
Other (expense) income				
Interest income	36,205	36,107	107,964	333,689
Interest expense	(486,921)	(82,981)	(1,608,138)	(82,981)
Total other (expense) income	(450,716)	(46,874)	(1,500,174)	250,708
Income before income taxes	3,134,358	6,121,855	7,319,161	13,977,889
Provision for income taxes	(1,096,500)	(2,096,160)	(2,561,225)	(4,847,260)
Net income	\$ 2,037,858	\$ 4,025,695	\$ 4,757,936	\$ 9,130,629
Earnings per share of common stock				
Net income				
Basic	\$ 0.13	\$ 0.25	\$ 0.30	\$ 0.53
Diluted	\$ 0.13	\$ 0.25	\$ 0.29	\$ 0.53
Weighted average number of common shares and potential common shares outstanding				
Basic	16,122,593	16,122,048	16,122,232	17,238,273
Diluted	16,180,168	16,141,830	16,159,669	17,314,438

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

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MONARCH CASINO & RESORT, INC.

Condensed Consolidated Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,186,772	\$ 11,756,900
Receivables, net	2,699,250	3,344,441
Federal income tax refund receivable	446,372	
Inventories	1,514,146	1,564,347
Prepaid expenses	3,062,464	2,851,872
Deferred income taxes	429,300	429,300
Total current assets	19,338,304	19,946,860
Property and equipment		
Land	12,712,522	12,162,522
Land improvements	3,511,484	3,511,484
Buildings	136,374,918	133,332,232
Building improvements	10,435,062	10,435,062
Furniture and equipment	105,808,017	96,767,076
Leasehold improvements	1,346,965	1,346,965
	270,188,968	257,555,341
Less accumulated depreciation and amortization	(110,347,678)	(101,825,190)
	159,841,290	155,730,151
Construction in progress		4,026,536
Net property and equipment	159,841,290	159,756,687
Other assets, net	3,369,450	2,797,949
Total assets	\$ 182,549,044	\$ 182,501,496
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Borrowings under credit facility	\$	\$ 2,500,000
Accounts payable	7,140,764	10,213,418
Construction payable		5,404,372
Accrued expenses	10,180,192	8,940,110
Federal income taxes payable		233,736
Total current liabilities	17,320,956	27,291,636
Long-term debt, less current maturities	48,650,000	47,500,000
Deferred income taxes	4,610,031	2,115,371
Total Liabilities	70,580,987	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 9/30/09 16,122,048 outstanding at 12/31/08	190,963	190,963
Additional paid-in capital	29,588,261	28,051,009
Treasury stock, 2,970,912 shares at 9/30/09 2,974,252 shares at 12/31/08, at cost	(48,864,979)	(48,943,359)
Retained earnings	131,053,812	126,295,876
Total stockholders' equity	111,968,057	105,594,489
Total liability and stockholders' equity	\$ 182,549,044	\$ 182,501,496

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

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MONARCH CASINO & RESORT, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 4,757,936	\$ 9,130,629
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,310,580	6,388,848
Amortization of deferred loan costs	201,235	
Share based compensation	1,595,949	1,768,495
Provision for bad debts	1,048,626	818,696
Gain on disposal of assets	(63,948)	(10,200)
Deferred income taxes	2,494,660	759,063
Changes in operating assets and liabilities		
Receivables, net	(1,296,179)	867,912
Inventories	50,201	(95,529)
Prepaid expenses	(210,593)	(399,708)
Other assets	(772,736)	
Accounts payable	(3,072,654)	205,560
Accrued expenses	1,240,083	(15,733)
Federal income taxes	212,636	190,074
Net cash provided by operating activities	15,495,796	19,608,107
Cash flows from investing activities:		
Proceeds from sale of assets	83,425	10,200
Acquisition of property and equipment	(9,414,659)	(55,106,897)
Changes in payable construction	(5,404,372)	470,224
Net cash used in investing activities	(14,735,606)	(54,626,473)
Cash flows from financing activities:		
Proceeds from exercise of stock options	13,009	
Tax benefit of stock option exercise	6,673	
Borrowings under credit facility	9,750,000	42,500,000
Principal payments on long-term debt	(11,100,000)	
Purchase of treasury stock		(35,674,454)
Net cash (used in) provided by financing activities	(1,330,318)	6,825,546
Net decrease in cash	(570,128)	(28,192,820)
Cash and cash equivalents at beginning of period	11,756,900	38,835,820
Cash and cash equivalents at end of period	\$ 11,186,772	\$ 10,643,000
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,526,077	\$ 82,981
Cash paid for income taxes	\$ 740,000	\$ 2,900,000

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

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MONARCH CASINO & RESORT, INC.

NOTES TO CONDENSED 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 subsidiary, High Desert Sunshine, Inc. (High Desert), owns a parcel of land located adjacent to the Atlantis. Unless stated otherwise, the Company refers collectively to Monarch and its subsidiaries.

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

We have evaluated subsequent events through November 6, 2009, which is the date these condensed consolidated financial statements were issued.

Interim Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three months and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2008.

Promotional Allowances:

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

Prior to October 6, 2009, awards under the Company's frequent player program were recognized as promotional expenses at the time of redemption. On October 6, 2009, the Company modified several aspects of its frequent player program which resulted in a change in the timing of expense recognition. Under the new program, the Company recognizes promotional expense at the time points are earned which occurs commensurate with casino patron play.

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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 cost associated with complimentary food, beverage, rooms and merchandise redeemed under the program is recorded in casino costs and expenses.

NOTE 2. STOCK-BASED COMPENSATION

Reported stock based compensation expense was classified as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Casino	\$ 14,606	\$ 19,550	\$ 43,976	\$ 60,519
Food and beverage	14,425	19,512	43,665	55,095
Hotel	5,991	5,748	18,338	25,865
Selling, general and administrative	507,390	573,786	1,489,970	1,627,016
Total stock-based compensation, before taxes	542,412	618,596	1,595,949	1,768,495
Tax benefit	(189,844)	(216,509)	(558,582)	(618,973)
Total stock-based compensation, net of tax	\$ 352,568	\$ 402,087	\$ 1,037,367	\$ 1,149,522

NOTE 3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing reported net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution for all potentially dilutive securities such as stock options. The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations (shares in thousands):

	Three Months Ended September 30,			
	2009		2008	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,123	\$ 0.13	16,122	\$ 0.25
Effect of dilutive stock options	57		20	
Diluted	16,180	\$ 0.13	16,142	\$ 0.25

	Nine Months Ended September 30,			
	2009		2008	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,122	\$ 0.30	17,238	\$ 0.53
Effect of dilutive stock options	38	(.01)	76	
Diluted	16,160	\$ 0.29	17,314	\$ 0.53

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Excluded from the computation of diluted earnings per share are options where the exercise prices are greater than the market price as their effects would be anti-dilutive in the computation of diluted earnings per share. For the calculation of earnings per share for the three months ended September 30, 2009 and 2008, 1,330,606 and 893,519, respectively, were excluded. For the calculation of earnings per share for the nine months ended September 30, 2009 and 2008, 1,333,938 and 857,553, respectively were excluded.

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NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-01 (ASU 2009-01), *Topic 105 Generally Accepted Accounting Principles amendments based on Statement of Financial Accounting Standards No. 168 The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles*. ASU 2009-01 amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 168 (SFAS 168), *The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles*. ASU 2009-1 includes SFAS 168 in its entirety, including the accounting standards update instructions contained in Appendix B of the Statement. The FASB Accounting Standards Codification TM (Codification) became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In September 2006, the Financial Accounting Standards Board (FASB) issued guidance on fair value measurements. The guidance defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing assets or liabilities and establishes a hierarchy that prioritizes the information used to develop those assumptions. The guidance applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. In February 2008, the FASB amended the guidance to delay the effective date of the guidance to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company implemented the provisions of the guidance as of January 1, 2008 for those assets and liabilities not subject to the deferral described above. The implementation of the guidance as of January 1, 2009 for assets and liabilities previously subject to the deferral described above did not have a material impact on the Company's results of operations, financial position or cash flows.

In December 2007, the FASB issued guidance on business combinations. The primary requirements of the guidance are as follows: (i.) Upon initially obtaining control, the acquiring entity in a business combination must recognize 100% of the fair values of the acquired assets, including goodwill, and assumed liabilities, with only limited exceptions even if the acquirer has not acquired 100% of its target. As a consequence, the current step acquisition model will be eliminated. (ii.) Contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration. The concept of recognizing contingent consideration at a later date when the amount of that consideration is determinable beyond a reasonable doubt, will no longer be applicable. (iii.) All transaction costs will be expensed as incurred. Implementation of the guidance would have required treatment prospectively to business combinations completed on or after January 1, 2009. Because the Company had no business combinations during that time, the adoption did not have a material impact on our financial position or results of operations.

In December 2007, the FASB issued guidance on noncontrolling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for ownership interest in subsidiaries held by parties other than the parent and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The guidance changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amount attributable to both the parent and the noncontrolling interests. The

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statement also establishes reporting requirements that provide sufficient disclosure that clearly identify and distinguish between the interest of the parent and those of the noncontrolling owners. The guidance is effective for fiscal years beginning on or after December 15, 2008. The adoption of the guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued guidance on disclosures about derivative instruments and hedging activities. The guidance changes the disclosure requirements for derivative instruments and hedging activities. Under the guidance, entities are required to provide enhanced disclosures about how and why they use derivative instruments, how derivative instruments and related hedged items are accounted for and the affect of derivative instruments on the entity's financial position, financial performance and cash flows. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of the guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

In October 2008, the FASB issued guidance that provides clarification on the application of the guidance on fair value measurements in a market that is not active and provides an example that illustrates key considerations when applying the principles in the guidance to financial assets when the market for these instruments is not active. The adoption of the guidance is not anticipated to have a material impact on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued amended guidance on accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The amended guidance addresses application issues for assets and liabilities arising from contingencies in a business combination. The amended guidance is effective January 1, 2009, and requires pre-acquisition contingencies to be recognized at fair value, if fair value can be reasonably determined during the measurement period. If fair value cannot be reasonably determined, the amended guidance requires measurement based on the recognition and measurement criteria of guidance for accounting for contingencies. The adoption of the amended guidance did not have a material impact on the Company's financial position, results of operations or cash flows.

In January 2009, the FASB issued amendments to the impairment guidance which aligns the impairment guidance with that in the guidance for accounting for certain investments in debt and equity securities. It changes how companies determine whether an other-than-temporary impairment exists for certain beneficial interests by allowing management to exercise more judgment. The adoption of the guidance did not have a material impact on our financial position, results of operations or cash flows.

In April 2009, the FASB issued additional requirements regarding disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The adoption of the new requirements did not have a material impact on our financial position, results of operations or cash flows.

In April 2009, the FASB issued guidance on the recognition and presentation of other-than-temporary impairments. The guidance amends the other-than-temporary impairment guidance relating to certain debt securities and will require a company to assess the likelihood of selling the security prior to recovering its cost basis. Additionally, when a company meets the criteria for impairment, the impairment charges related to credit losses would be recognized in earnings, while non-credit losses would be reflected in other comprehensive income. The adoption of the guidance did not have a material impact on our financial position, results of operations or cash flows.

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In April 2009, the FASB issued guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The guidance provides additional guidance on determining when the trading volume and activity for an asset or liability has significantly decreased, which may indicate an inactive market, and on measuring the fair value of an asset or liability in inactive markets. The adoption of the guidance did not

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have a material impact on our financial position, results of operations or cash flows.

In April 2009, the FASB issued amended guidance for accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies. The amended guidance requires that an acquirer recognize at fair value, at the acquisition date, an asset acquired or a liability assumed in a business combination that arises from a contingency if the acquisition-date fair value of the asset or liability can be determined during the measurement period. The Company adopted the amended guidance on January 1, 2009. The adoption of the amended guidance did not have a material impact on our financial position, results of operations or cash flows.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company currently rents various spaces in a shopping center (the Shopping Center) adjacent to the Atlantis which it uses as office and storage space. John and Bob Farahi, the Company's Chief Executive Officer and President, respectively, each have an ownership interest in the Shopping Center. The Company paid rent of approximately \$57,900 and \$114,500, plus common area expenses, for the three and nine months ended September 30, 2009, respectively, and approximately \$13,100 and \$181,700 plus common area expenses for the three and nine months ended September 30, 2008, respectively.

In addition, a driveway that is being shared between the Atlantis and the Shopping Center was completed on September 30, 2004. As part of this project, in January 2004, the Company leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every year beginning in the 61st month based on the Consumer Price Index. The Company began paying rent to the Shopping Center on September 30, 2004. The Company also uses part of the common area of the Shopping Center and pays its proportional share of the common area expense of the Shopping Center. The Company has the option to renew the lease for three five-year terms, and, at the end of the extension periods, the Company has the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by the Company for pedestrian and vehicle access to the Atlantis, and the Company may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; the Company was responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time. The Company paid approximately \$75,000 and \$225,000, plus common area maintenance charges, for its leased driveway space at the Shopping Center during each of the three and nine months ended September 30, 2009 and 2008, respectively.

The Company leased sign space from the Shopping Center through July 2008. The lease took effect in March 2005 for a monthly cost of \$1. The lease was renewed for another year for a monthly lease of \$1,000 effective January 1, 2006, and subsequently renewed on June 15, 2007 for a monthly lease of \$1,060. The Company paid \$1,060 and \$7,420 for the three and nine months ended September 30, 2008, respectively.

The Company occasionally leases billboard advertising space from affiliates of its controlling stockholders and paid \$10,500 and \$28,000 for the three and nine months ended September 30, 2009, respectively, and paid \$7,000 and \$28,000 for the three and nine months ended September 30, 2008, respectively.

On December 24, 2007, the Company entered into a lease with Triple J Plus, LLC (Triple J) for the use of a facility on 2.3 acres of land (jointly the Property) across Virginia Street from the Atlantis that the Company currently utilizes for storage. The managing partner of Triple J is a

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first-cousin of John and Bob Farahi, the Company's Chief Executive Officer and President, respectively. The term of the lease is two years requiring monthly rental payments of \$20,256. Contemporaneously with

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execution of the lease, the Company entered into an agreement that provides 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 has been 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 requires interest only payments at 5.25% and matures on the earlier of i) the date the Company acquires the Property or ii) January 1, 2010. Triple J notified the Company that it intends to exercise its put option to cause the purchase transaction to close prior to December 31, 2009. Should Triple J not exercise its put option in December 2009, the Company intends to exercise its purchase option which would cause the purchase transaction to close in January 2010.

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

Monarch Casino & Resort, Inc., through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. (Golden Road), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis). Monarch's other wholly owned 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 local residents 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 third quarter results for 2009 and 2008:

Amounts in millions, except per share amounts

		Three Months Ended September 30,		
	2009	2008	2008	Percentage Increase/(Decrease)
Casino revenues	\$ 24.4	\$ 27.6		