

MONARCH CASINO & RESORT INC  
Form 10-K  
March 14, 2012

**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, 2011

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)

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

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

**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**

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
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 "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The aggregate market value of voting and non-voting common equity held by nonaffiliates as of June 30, 2011, based on the closing price as reported on The Nasdaq Stock Market (SM) of \$10.44 per share, was approximately \$168.5 million.

As of March 5, 2012, Registrant had 16,138,158 shares of Common Stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Registrant's 2012 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 and Monarch Growth Inc. (Monarch Growth), formed in 2011, entered into a definitive stock purchase agreement on September 29, 2011 to purchase Riviera Black Hawk, Inc. (see THE ACQUISITION) and owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. 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](http://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**

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 with 824 guest rooms and suites; 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.

Until the fourth quarter of 2010, we also had a two story, stand-alone motor lodge located in the parking lot next to the Atlantis. During the fourth quarter of 2010, we demolished the motor lodge and replaced it with paved surface parking.

In January 2009, we completed the final phase of a multi-phase expansion project with the opening of 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. From inception of the project in 2007 through the completion date in January 2009, the Company incurred approximately \$80 million related to these capital projects.

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Through our skywalk Atlantis is 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.

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

## ATLANTIS CASINO

The Atlantis offers approximately 1,450 slot and video poker machines; approximately 39 table games, including blackjack, craps, roulette and others; a race and sports book; keno and a poker room.

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

## HOTEL

The Atlantis includes three contiguous high-rise hotel towers with a total of 824 rooms and suites. 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.

Until the fourth quarter of 2010, we also had a two story, stand-alone motor lodge located in the parking lot next to the Atlantis. During the fourth quarter of 2010, we demolished the motor lodge and replaced it with paved surface parking.

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 high-end health spa (Spa Atlantis) 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 that rise the full 19 and 28 stories of the respective towers providing panoramic views of the Reno area and the Sierra Nevada mountain range.

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

	Years ended December 31,					
	2011		2010		2009	
Occupancy rate		89.1%		85.4%		80.6%
Average daily room rate	\$	74.22	\$	69.06	\$	64.91

We continually monitor and adjust hotel room rates based upon demand and other competitive factors. Our average daily room rates (ADR) in 2009, 2010 and 2011 continued to reflect weaker market demand caused by the national economic recession and discounted room rates sold to select wholesale operators for tour and travel packages. In the fourth quarter of 2010, we demolished our 149 room motor lodge which offered

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rooms at average daily rates significantly lower than the rates offered in the hotel towers. The increase in 2011 ADR compared to 2010 is primarily the result of the elimination of the lower motor lodge ADR.

## 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 (see Sky Terrace description below) 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, Reno's main thoroughfare. The Sky Terrace connects the Atlantis with additional parking on our 16-acre site across South Virginia Street, a primary traffic artery running across the entrance to the Atlantis. The structure rests at each end on two 100-foot tall Grecian columns with no intermediate support pillars. The 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.

## 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 \$5.5 million in 2011; \$6.8 million in 2010; and \$15.8 million in 2009.

During 2009, capital expenditures primarily consisted of construction costs associated with the expansion, skybridge and redesign capital projects that commenced in June 2007. During 2009 we also spent approximately \$5.2 million to acquire two additional land parcels near the Atlantis (see additional discussion of these parcels below under Properties in ITEM 2.). Capital expenditures in 2010 and 2011 at the Atlantis were for various general facility improvements and for purchase of additional gaming equipment.

### ACQUISITION AND ADDITIONAL EXPANSION POTENTIAL

In September 2011, we entered into a definitive stock purchase agreement (the Agreement ) to acquire Riviera Black Hawk, Inc., the owner of the Riviera Black Hawk Casino in Black Hawk,

Colorado. Subject to the terms of the Agreement and satisfaction of various closing conditions, including the receipt of regulatory approvals, the transaction is expected to close before the end of the second quarter of 2012. Subsequently, we acquired a 1.5 acre parcel of developable land contiguous to the Riviera Black Hawk Casino. This parcel of land creates expansion potential at the Riviera Black Hawk property and can be used to add a hotel or to increase casino, food and beverage and other resort amenities in the future subject to market conditions and feasibility.

Expansion potential at our current site is twofold. First, we could further expand our existing hotel and casino, thereby giving us more hotel rooms. 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 surface parking and special events related to the Atlantis. Our 16-acre parcel meets all current Reno zoning requirements in the event we decide to build another resort casino or entertainment facility. We have also 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 \$663 million (as reported by the Nevada State Gaming Control Board for the twelve months ended December 31, 2011).

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 internet and high-end players. We attempt to maximize our gaming revenues and hotel occupancy through a balanced marketing approach that addresses each market segment.

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

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

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We welcome domestic and international reservations on the Atlantis website [www.atlantiscasino.com](http://www.atlantiscasino.com) and are featured on major package tour and travel websites.

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

**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, and also physically connected to, the Reno-Sparks Convention Center, the Atlantis is, in our view, uniquely positioned to capitalize on this segment. We believe the Reno-Sparks Convention Center has created, and we expect will continue to create, additional guest traffic for the Atlantis within this market segment that is presently underserved in the Reno area. 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 with the Reno-Sparks Convention Center facilities. Peckham Lane runs between the Atlantis and the Reno-Sparks Convention Center facilities.

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

Our 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, 2011 Gaming Revenue Report published by the Nevada State Gaming Control Board, there are approximately 10 casinos in the Reno-Sparks area which each generated more than \$12.0 million in annual gaming revenues.

We believe that the Atlantis' primary competition for leisure travelers comes from other large-scale casinos that offer amenities that appeal to middle to upper-middle income guests. We compete for leisure travelers on the basis of the desirability of our location, the quality and ambiance of the Atlantis facility, friendly, efficient service, the quality and relative value of 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 first-time and more affluent guests.

We believe that the Atlantis' primary competition for conventioneers 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 conventioneers 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 with the Reno-Sparks Convention Center facilities, affords us a distinct competitive advantage in attracting conventioneers.



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. 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 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. 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.

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.

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.

The legalization of internet poker and other forms of internet gaming could create further competition for the Atlantis.

## **REGULATION AND LICENSING**

### NEVADA.

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.

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.

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.





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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 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.

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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.

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.

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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.

#### COLORADO.

Upon consummation of our acquisition of Riviera Black Hawk, Inc., our subsidiary, Monarch Growth, and we will be subject to regulation of the Colorado Gaming Commission pursuant to the Colorado Limited Gaming Act of 1991 and other applicable provisions of Colorado law.

#### **EMPLOYEES**

As of February 14, 2012, we had approximately 1,800 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**

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.

**WE FACE RISKS ASSOCIATED WITH OUR POTENTIAL ACQUISITION OF RIVIERA BLACK HAWK, INC.**

On September 29, 2011, we entered into a stock purchase agreement to acquire Riviera Black Hawk, Inc. The acquisition could divert management's attention and could also cause us to incur substantial costs, including legal, professional and consulting fees, and otherwise consume resources that are necessary to sustain our ongoing business. There can be no assurance that the closing conditions in the agreement, including required gaming and regulatory approvals, will be satisfied or that the transaction will close as anticipated, or at all. After closing, we cannot assure you that we will recognize the anticipated benefits of, or that we would not be exposed to unknown liabilities as a result of, the

acquisition. There can also be no assurance that we will be able to profitably manage the Riviera Black Hawk or successfully integrate it into our existing operations without substantial costs, delays or other problems.

#### **THE RECESSION CONTINUES TO IMPACT ON OUR BUSINESS**

The global and U.S. recession continues to adversely impact our business. Recessionary conditions, combined with weak business and consumer confidence and unemployment, have extended the economic recession. Individual consumers have experienced higher delinquency rates on various consumer loans and defaults on indebtedness of all kinds have persisted. Further declines in real estate values in Reno and the U.S. or elsewhere and continuing credit and liquidity concerns could have an adverse effect 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 WEAK DISCRETIONARY CONSUMER SPENDING AS A RESULT OF THE ECONOMY**

Consumer demand for entertainment and other amenities at hotel-casino properties, such as ours, are particularly sensitive to a weak economy and the corresponding impact on discretionary spending on leisure activities. For example, the years ended December 31, 2009, 2010 and 2011, respectively, were three of the most difficult economic 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, including internet gaming, that has been or 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.



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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.

**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.

**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 43% 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 affected 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 FURTHER DECLINES OR STAGNATES**

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 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. Competitive pressures from internet gaming could also affect our future operations.

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.

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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.

The legalization of internet poker and other forms of internet gaming could create further competition for our operations.

**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**

From time to time, 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 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 certain influenza or other diseases and cruise ships have, from time to time 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**

Until we complete the acquisition of Riviera Black Hawk, Inc., 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 or close on the acquisition of Riviera Black Hawk, Inc. See THE ACQUISITION in Item 7. below.

**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.

Upon acquisition of Riviera Black Hawk, Inc. we will also be subject to regulation of the Colorado Gaming Commission.

**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 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.

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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 Iran, 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 GAMING TAXES AND FEES ARE INCREASED, OUR RESULTS OF OPERATIONS COULD BE ADVERSELY AFFECTED**

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. 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, the City of Reno or the State of Colorado once we acquire Riviera Black hawk, Inc., 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**

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;
- 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 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 11 .

(e) An approximate 2.3-acre site with a 27,508 square foot building adjacent to the Administrative Site that was utilized for storage prior to its demolition in July of 2011. 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 11 .

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

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(g) An approximate 1.5-acre site in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. In September 2011 we announced that we entered into a definitive stock purchase agreement to acquire Riviera Black Hawk, Inc., the owner of the Riviera Black Hawk Casino. See THE ACQUISITION in Item. 7. below.

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 was 3:06-cv-00232-ECR (RAM). The complaint sought declaratory judgment prohibiting Monarch from using the name Atlantis in connection with offering casino services other than at Monarch s Atlantis Casino Resort Spa located in Reno, Nevada, and particularly prohibiting Monarch from using the Atlantis name in connection with offering casino services in Las Vegas, Nevada; injunctive relief enforcing the same; and other relief. Monarch filed a counterclaim against Kerzner seeking to cancel Kerzner s federal registration of the Atlantis mark for casino services and to obtain declaratory relief in its favor on issues related to Monarch s use of the mark, as raised by Kerzner s complaint. (Monarch also filed a concurrent action with the Trademark Trial and Appeal Board ( TTAB ) seeking cancellation of Kerzner s federal registration. That administrative action was stayed by the TTAB pending outcome of the district court litigation.) Upon conclusion of discovery various motions were filed by the parties. On December 14, 2009, the court ruled on the pending motions, and identified a single remaining factual question concerning Kerzner s alleged fame that potentially was dispositive of Kerzner s claims. After addressing additional procedural matters, on June 3, 2010, the court directed the parties to file the proposed joint pretrial order. In the proposed joint pretrial order, Kerzner conceded that it could not prove the sole dispositive issue of fame and requested the court to make entry of judgment against Kerzner. The court treated Kerzner s request as a motion to dismiss and for entry of judgment, and on October 8, 2010 issued an order granting dismissal and entry of judgment against Kerzner. On February 10, 2011, the court issued its final judgment against Kerzner and in favor of Monarch with respect to all claims asserted by Kerzner in the Complaint. As to Monarch s Counterclaims, the court granted all remaining counterclaims in favor of Monarch, including declaratory relief that: Monarch s use of the Atlantis mark does not infringe on Kerzner s rights; Monarch has developed valid common law rights in the Atlantis mark for casino services; Monarch owns a valid Nevada state trademark for the Atlantis mark in casino services; Monarch has the exclusive ability to use the Atlantis mark for casino services within the State of Nevada by virtue of its Nevada state registration; and Monarch has the right and ability to use and convey rights in the Atlantis name and mark in connection with casino services in Las Vegas, Nevada, and to do so does not constitute deceptive trade practices under Nevada law. The court declined Monarch s request for cancellation of Kerzner s federal registration and for attorneys fees, but awarded costs of suit to Monarch as the prevailing party. (The TTAB action for cancellation of Kerzner s federal registration remains pending.) On March 11, 2011, Kerzner filed its Notice of Appeal, appealing the above referenced final judgment. Monarch believes that the district court s rulings from which Kerzner has appealed are sound, and intends to vigorously oppose Kerzner s appeal. Additionally, Monarch has filed a cross-appeal on the bases that the district court erred by failing to cancel Kerzner s federal registration of the Atlantis mark for gaming, and by not awarding attorneys fees to Monarch. The case number assigned in the Ninth Circuit Court of Appeal is 11-15675. The briefing schedule at the Ninth Circuit Court of Appeal has been stayed while the parties explore the possibility of settlement. As of December 31, 2011, the briefing schedule remains stayed.

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. MINE SAFETY DISCLOSURES**

Not applicable.

**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.

	2011				2010			
	High	Low	High	Low	High	Low	High	Low
First quarter	\$ 13.11	\$ 9.79	\$ 9.59	\$ 6.50				
Second quarter	\$ 11.70	\$ 8.91	\$ 12.48	\$ 8.51				
Third quarter	\$ 11.63	\$ 8.96	\$ 11.74	\$ 9.25				
Fourth quarter	\$ 10.82	\$ 8.55	\$ 13.51	\$ 11.00				

As of March 5, 2012, there were approximately 70 holders of record of our common stock, and approximately 2,100 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, 2006 through December 31, 2011, 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					
	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Monarch Casino & Resort, Inc.	100.00	100.84	48.79	33.92	52.35	42.67
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76
MCRI Peer Group 2011*	100.00	120.66	19.23	28.94	63.81	60.33

\*MCRI Peer Group 2011 comprised of: Ameristar Casinos, Inc. (ASCA); Boyd Gaming Corp (BYD); Isle of Capri Casinos, Inc. (ISLE); Las Vegas Sands Corp. (LVS); MGM Resorts International (MGM); Nevada Gold & Casinos, Inc. (UWN); Penn National Gaming, Inc. (PENN);



**ITEM 6. SELECTED FINANCIAL DATA**

<b>OPERATING RESULTS</b>					
Other revenues	72,398	70,655	64,941	66,688	75,117
Promotional allowances	(29,133)	(28,438)	(25,720)	(26,222)	(25,519)
Income from operations	9,770(F1)	14,033(F2)	9,142(F3)	14,686(F4)	35,688(F5)
Net income	\$ 5,676	\$ 8,236	\$ 4,841	\$ 9,541	\$ 24,480
<b>INCOME PER SHARE OF COMMON STOCK</b>					