

MONARCH CASINO & RESORT INC

Form 10-Q

May 08, 2015

[Table of Contents](#)

United States
Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes x No o**

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

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 definitions of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

16,845,015 shares
Outstanding at May 4, 2015

Table of Contents

TABLE OF CONTENTS

	<u>Item</u>	Page Number
<u>PART I - FINANCIAL INFORMATION</u>		
<u>Item 1. Financial Statements</u>		
	<u>Condensed Consolidated Statements of Income for the three months ended March 31, 2015 and 2014 (unaudited)</u>	3
	<u>Condensed Consolidated Balance Sheets at March 31, 2015 (unaudited) and December 31, 2014</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 (unaudited)</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		11
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>		17
<u>Item 4. Controls and Procedures</u>		17
<u>PART II - OTHER INFORMATION</u>		
<u>Item 1. Legal Proceedings</u>		17
<u>Item 1A. Risk Factors</u>		17
<u>Item 6. Exhibits</u>		17
<u>Signatures</u>		18

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

(unaudited)

	Three months ended March 31,	
	2015	2014
Revenues		
Casino	\$ 37,439	\$ 36,034
Food and beverage	13,103	12,265
Hotel	4,737	4,644
Other	2,600	2,479
Gross revenues	57,879	55,422
Less promotional allowances	(10,708)	(9,914)
Net revenues	47,171	45,508
Operating expenses		
Casino	16,336	15,022
Food and beverage	5,219	4,971
Hotel	1,519	1,384
Other	934	875
Selling, general and administrative	12,579	13,231
Depreciation and amortization	4,131	4,694
Gain on disposition of assets	(18)	
Total operating expenses	40,700	40,177
Income from operations	6,471	5,331
Other expenses		
Interest expense, net of amounts capitalized	(219)	(287)
Total other expense	(219)	(287)
Income before income taxes	6,252	5,044
Provision for income taxes	(2,209)	(1,768)
Net income	\$ 4,043	\$ 3,276
Earnings per share of common stock		
Net income		
Basic	\$ 0.24	\$ 0.20
Diluted	\$ 0.24	\$ 0.19

Weighted average number of common shares and potential common shares outstanding

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

Basic	16,821	16,536
Diluted	17,198	17,259

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

Table of Contents**MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except shares)

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,470	\$ 21,583
Receivables, net	2,888	3,047
Income taxes receivable		1,139
Inventories	2,854	2,846
Prepaid expenses	4,336	4,021
Deferred income taxes	1,626	1,626
Total current assets	30,174	34,262
Property and equipment		
Land	29,415	29,415
Land improvements	6,701	6,701
Buildings	150,771	150,821
Buildings improvements	19,858	18,142
Furniture and equipment	126,694	125,671
Construction in progress	20,189	15,672
Leasehold improvements	1,347	1,347
	354,975	347,769
Less accumulated depreciation and amortization	(170,765)	(167,498)
Net property and equipment	184,210	180,271
Other assets		
Goodwill	25,111	25,111
Intangible assets, net	7,074	7,366
Deferred income taxes	4,682	4,682
Other assets, net	533	609
Total other assets	37,400	37,768
Total assets	\$ 251,784	\$ 252,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,259	\$ 7,933
Construction accounts payable	2,201	1,790
Accrued expenses	18,672	19,327
Income taxes payable	1,070	
Total current liabilities	28,202	29,050
Long-term debt	42,000	46,300
Total liabilities	70,202	75,350
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; 16,843,349 outstanding at March 31, 2015; 16,812,794 outstanding at December 31, 2014		
Additional paid - in capital	23,071	22,985
Treasury stock, 2,252,951 shares at March 31, 2015; 2,283,506 shares at December 31, 2014	(32,468)	(32,970)
Retained earnings	190,788	186,745
Total stockholders' equity	181,582	176,951
Total liabilities and stockholders' equity	\$ 251,784	\$ 252,301

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

Table of Contents

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 4,043	\$ 3,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,131	4,694
Amortization of deferred loan costs	76	76
Stock-based compensation	291	263
Provision for bad debts	7	29
Gain on disposition of assets	(18)	
Changes in operating assets and liabilities:		
Receivables	152	219
Inventories	(8)	281
Prepaid expenses	(315)	(938)
Accounts payable	(1,674)	(1,303)
Accrued expenses	(655)	(517)
Income taxes	2,209	1,768
Net cash provided by operating activities	8,239	7,848
Cash flows from investing activities:		
Proceeds from sale of assets	20	
Change in construction payable	411	1,204
Acquisition of property and equipment	(7,780)	(4,960)
Net cash used in investing activities	(7,349)	(3,756)
Cash flows from financing activities:		
Net exercise of stock options	297	(1,429)
Principal payments on long-term debt	(4,300)	(4,900)
Net cash used in financing activities	(4,003)	(6,329)
Net decrease in cash	(3,113)	(2,237)
Cash and cash equivalents at beginning of period	21,583	19,330
Cash and cash equivalents at end of period	\$ 18,470	\$ 17,093
Supplemental disclosure of cash flow information		
Cash paid for interest, net of amounts capitalized	\$ 142	\$ 242

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

Table of Contents

MONARCH CASINO & RESORT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUARTERLY PERIOD ENDED MARCH 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

Monarch Casino & Resort, Inc., was incorporated in 1993 and through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. (Golden Road), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis). Monarch's wholly owned subsidiaries, High Desert Sunshine, Inc. (High Desert), Golden East, Inc. (Golden East) and Golden North, Inc. (Golden North), each own separate parcels of land located proximate to the Atlantis. Monarch's wholly owned subsidiary Monarch Growth Inc. (Monarch Growth), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino on April 26, 2012. Riviera Black Hawk Casino was renamed Monarch Casino Black Hawk (Monarch Black Hawk) in October 2013. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Monarch Casino Black Hawk.

Monarch's wholly owned subsidiary Monarch Interactive, Inc. (Monarch Interactive) received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company has decided to allow the current approval to lapse pending a change in market conditions that would support the Company's investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

On October 22, 2014, the board of directors authorized a stock repurchase plan (the Repurchase Plan). Under the Repurchase Plan, the board of directors authorized a program to repurchase up to 3,000,000 shares of the Company's common stock in the open market or in privately negotiated transactions from time to time, in compliance with Rule 10b-18 of the Securities and Exchange Act of 1934, subject to market conditions, applicable legal requirements and other factors. The Repurchase Plan does not obligate the Company to acquire any particular amount of common stock and the plan may be suspended at any time at our discretion, and it will continue until exhausted. The actual timing, number and value of shares repurchased under the Repurchase Program will be determined by management at its discretion and will depend on a number of factors, including the market price of the Company's stock, general market economic conditions and applicable legal requirements. The Company has made no purchases under the Repurchase Plan.

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

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

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

Interim Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Table of Contents

The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

Fair Value of Financial Instruments:

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

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. Additionally, the carrying value of our long-term debt approximates fair value due to the variable nature of applicable interest rates and relative short-term maturity.

Change in Accounting Estimate of Depreciable Life of Monarch Black Hawk Parking Structure:

In December 2013, the Company began construction of a new parking facility at Monarch Black Hawk. Upon completion of that new structure, the Company plans to demolish the existing parking structure. At December 31, 2013, the existing parking structure had a net book value of approximately \$4.8 million and a remaining depreciable life of approximately 37 years. The new parking facility was estimated to be completed on March 31, 2015. In accordance with ASC 250-10-45-17, effective January 1, 2014, the Company modified the estimated depreciable life of the existing parking structure to 15 months; the period from January 1, 2014 through the estimated demolition commencement date of March 31, 2015. As a result of this modification to the estimated depreciable life, depreciation expense of the existing parking structure increased by approximately \$0.3 million per month (approximately \$0.2 million net of tax). In July 2014, because of a delayed construction schedule, the Company revised the new parking facility completion date to December 31, 2015. At this time, the existing parking structure had a net book value of approximately \$2.9 million. The Company modified the estimated depreciable life of the existing parking structure to 18 months; the period from July 1, 2014 through the revised estimated demolition commencement date of December 31, 2015. As a result of this modification, the increase in depreciation expense compared to the prior year was adjusted to \$0.2 million per month (approximately \$0.1 million net of tax) for the period from July 1, 2014 through December 31, 2015. For the three months ended March 31, 2015, the effect of the changes in estimate was an increase of depreciation expense by \$0.5 million, a decrease of net income by \$0.3 million and a decrease of basic and diluted earnings per share by \$0.02.

Segment Reporting:

The accounting guidance for disclosures about segments of an enterprise and related information requires separate financial information to be disclosed for all operating segments of a business. The Company determined that two of the Company's operating segments, Atlantis and Monarch Casino Black Hawk, meet all of the aggregation criteria stipulated by ASC 280-10-50-11. The Company views each property as an operating segment and the two operating segments have been aggregated into one reporting segment.

NOTE 2. STOCK-BASED COMPENSATION

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

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

Table of Contents

Reported stock-based compensation expense was classified as follows (in thousands):

	Three months ended March 31,			
	2015		2014	
Casino	\$	16	\$	16
Food and beverage		24		14
Hotel		3		3
Selling, general and administrative		248		230
Total stock-based compensation, before taxes		291		263
Tax benefit		(102)		(92)
Total stock-based compensation, net of tax	\$	189	\$	171

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 March 31,			
	2015		2014	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	16,821	\$ 0.24	16,536	\$ 0.20
Effect of dilutive stock options	377		723	(0.01)
Diluted	17,198	\$ 0.24	17,259	\$ 0.19

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 three months ended March 31, 2015 and 2014, options for approximately 420 thousand and 509 thousand shares, respectively, were excluded from the computation.

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued an accounting standards update that amends the FASB Accounting Standards Codification and creates a new topic for Revenue from Contracts with Customers. The new guidance is expected to clarify the principles for revenue recognition and to develop a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance also provides substantial revision of interim and annual disclosures. The update allows for either full retrospective adoption, meaning the guidance is applied for all periods presented, or modified retrospective adoption, meaning the guidance is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the guidance recognized at the date of initial application. The effective date for this update is for the annual and interim periods beginning after December 15, 2016. Early application is not permitted. The Company plans to adopt this standard effective January 1, 2017. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

Table of Contents

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for interim or annual reporting periods beginning after December 15, 2015; early adoption is permitted. Entities may apply the amendments in this ASU either: (1) prospectively to all awards granted or modified after the effective date; or (2) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As of December 31, 2014, the Company did not have any share-based payment awards that include performance targets that could be achieved after the requisite service period. As such, the adoption of ASU No. 2014-12 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued an accounting standard update that requires management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Substantial doubt about an entity's ability to continue as a going concern exist when relevant conditions and events, consolidated and aggregated, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statement are issue. Currently, there is no guidance in U.S. GAAP for management's responsibility to perform an evaluation. Under the update, management's evaluation is to be performed when preparing financial statement for each annual and interim reporting period and based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The Company will adopt this standard effective January 1, 2017. The Company is currently assessing the impact the adoption of this standard will have on the Company's Consolidated Financial Statements

In April 2015, FASB issued an accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The effective date for this update is for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. The Company will adopt this standard effective January 1, 2016. The Company is currently assessing the impact the adoption of this standard will have on its consolidated financial statements.

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

NOTE 5. RELATED PARTY TRANSACTIONS

The shopping center adjacent to the Atlantis (the Shopping Center) is owned by Biggest Little Investments, L.P. (BLI) whose general partner is Maxum, LLC. (Maxum). Ben Farahi is the managing member of Maxum. John Farahi, Bob Farahi and Ben Farahi each individually own 1/3 of the outstanding interests in Maxum and non-controlling interests in BLI. John Farahi is Co-Chairman of the Board of Directors, Chief Executive Officer, Secretary and a Director of Monarch. Bob Farahi is Co-Chairman of the Board of Directors, President and a Director of Monarch.

Table of Contents

In addition, we share a driveway with and lease approximately 37,000 square-feet from the Shopping Center for a minimum lease term of 15 years at an annual rent of \$340 thousand plus common area expenses, subject to increase every year beginning in the 61st month based on the Consumer Price Index. We have the option to renew the lease for three individual five-year terms, and at the end of the extension periods, we have the option to purchase the leased driveway section of the Shopping Center. For the three month periods ended March 31, 2015 and 2014, the Company paid \$94 thousand and \$85 thousand in rent, plus \$28 thousand and \$30 thousand, respectively for operating expenses related to this lease.

We occasionally lease billboard advertising, storage space or parking lot from affiliates of our controlling stockholders and paid \$43 thousand and \$38 thousand for the three month periods ended March 31, 2015 and 2014, respectively.

NOTE 6. LONG-TERM DEBT

On November 15, 2011, we amended and restated our \$60.0 million credit facility with a new \$100 million facility (the Credit Facility). We utilized the Credit Facility to finance the acquisition of Black Hawk and the Credit Facility is available to be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements.

The maturity date of the Credit Facility is November 15, 2016. Borrowings are secured by liens on substantially all of the Company's real and personal property.

In addition to other customary covenants for a facility of this nature, as of March 31, 2015, we are required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 2.0:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of March 31, 2015, the Company's leverage ratio and fixed charge coverage ratios were 1.0:1 and 33.8:1, respectively.

The Credit Facility is structured to reduce the maximum principal available by \$1.5 million each quarter beginning June 30, 2013. As of March 31, 2015, the maximum principal available was \$88.0 million, of which \$42.0 million was drawn. We may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$0.5 million and a multiple of \$50,000. Maturities of our borrowings for each of the next two years as of March 31, 2015 are as follows (in millions):

Year	Maturities
2015	\$
2016	42.0
	\$ 42.0

At March 31, 2015, our leverage ratio was such that pricing for borrowings under the Credit Facility was LIBOR plus 1.5%. At March 31, 2015, the one-month LIBOR interest rate was 0.18%. The carrying value of the debt outstanding under the Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

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

Table of Contents

NOTE 7. TAXES

For the three months ended March 31, 2015, the Company's effective tax rate was 35.3% compared to 35.1% for the three months ended March 31, 2014.

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

Monarch Casino & Resort, Inc., through its direct and indirect wholly-owned subsidiaries, Golden Road Motor Inn, Inc. (Golden Road), Monarch Growth Inc. (Monarch Growth), Monarch Black Hawk, Inc. (Monarch Black Hawk), High Desert Sunshine, Inc. (High Desert), Golden North, Inc. (Golden North) and Golden East, Inc. (Golden East) owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis), the Monarch Casino Black Hawk in Black Hawk, Colorado (Monarch Black Hawk), and certain real estate proximate to the Atlantis and Monarch Casino Black Hawk

Monarch's wholly owned subsidiary Monarch Interactive, Inc. (Monarch Interactive) received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended three times, each for an additional six-month period, for a license as an operator of interactive gaming. The Company has decided to allow the current approval to lapse pending a change in market conditions that would support the Company's investment in this line of business. Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

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

OPERATING RESULTS SUMMARY

Our operating results may be affected by, among other things, competitive factors, gaming tax increases, the commencement of new gaming operations, construction at our facilities, general public sentiment regarding travel, overall economic conditions and governmental policies affecting the disposable income of our patrons and weather conditions affecting our properties.

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

Atlantis: Aggressive marketing programs by our competitors have posed challenges to us. In response our complimentary expense has increased.

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

Monarch Black Hawk: Since the acquisition of Monarch Black Hawk in April 2012, our focus has been to maximize casino and food and beverage revenues. There is currently no hotel on the property. In September 2013, we opened a new buffet. In December 2013, we began a project to redesign and upgrade the casino. To minimize disruption, we staged the work in three equal phases. The first phase was completed and opened in August 2014. The second phase was completed and opened in March 2015. We estimate that the third and final phase of the redesign and upgrade work will be completed by the end of the third quarter 2015. The excavation and foundation work for the facility's new parking structure has been completed and the new parking structure is anticipated to be completed in late 2015 (see Master Planned Expansion of the Monarch Casino Black Hawk below). Monarch expects to begin construction of its new hotel tower and casino expansion in the second quarter of 2016. Once completed, the Monarch Black Hawk expansion will nearly double the casino space and will add a 23-story hotel tower with approximately 500 guest rooms and suites, an upscale spa and pool facility, three additional restaurants (increasing the total to four), additional bars, a new parking structure and associated support facilities. The planned nine story parking structure will increase total parking on site from approximately 500 spaces to approximately 1,500 spaces. Upon completion of the new parking structure, the existing parking structure will be demolished to make space for the hotel tower.

CAPITAL SPENDING AND DEVELOPMENT

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

Table of Contents

Capital expenditures totaled approximately \$7.8 million and \$5.0 million for the three month periods ended March 31, 2015 and 2014. During each of the three month periods ended March 31, 2015 and 2014, our capital expenditures related primarily to the redesign and upgrade of the Monarch Black Hawk facility as well as acquisition of gaming equipment to upgrade and replace existing equipment in the Atlantis and Monarch Casino Black Hawk. In December 2013, we started a three-phase casino floor remodel and upgrade project. The first phase was completed and opened in August 2014 and the second phase was completed and opened in March 2015.

Master Planned Expansion of the Monarch Casino Black Hawk

In October 2012, we began an extensive renovation and upgrade of Monarch Casino Black Hawk. To-date, we have upgraded the property's food and beverage operations (including an all-new buffet) and completed the first two phases of a three-phase renovation and upgrade of the existing casino floor (including a new front entrance and cabaret lounge). We expect to complete phase three in the third quarter of 2015. Our plans also call for the exterior of the existing facilities to be refinished to match the master planned expansion. The remaining cost of the upgrade and renovation is expected to be approximately \$16-\$18 million, all of which is expected to be funded from operating cash flow.

In addition, we have begun work on our master plan to expand and convert the Monarch Casino Black Hawk into a full-scale casino resort. The excavation and foundation work for the facility's new parking structure has been completed. The 9-story parking structure will increase on-site parking from approximately 500 spaces to approximately 1,500 spaces and is anticipated to be completed in late 2015. Upon completion of the new parking structure, the existing parking structure will be razed to make room for the hotel tower. The remaining cost of the parking structure-related work is expected to be approximately \$29-\$32 million, which we expect to fund primarily from operating cash flow and, to a lesser extent, from our Credit Facility.

We expect to begin construction of the new hotel tower and casino expansion in the second quarter of 2016. The new 23-story tower will nearly double the existing casino space and will include approximately 500 hotel rooms, an upscale spa and pool facility, three additional restaurants and additional bars. Tower floors will be opened as they are finished beginning with the casino expansion and additional restaurants, with the expected opening of the entire tower in late 2017 at a total cost of approximately \$229-\$234 million. The cost is expected to be financed through a combination of operating cash flow and an expansion or replacement of our Credit Facility. The Company's current credit facility will mature in November 2016, and before that time, we expect to negotiate a new or amended Credit Facility with sufficient borrowing capacity to complete the expansion.

STATEMENT ON FORWARD-LOOKING INFORMATION

When used in this report and elsewhere by management from time to time, the words "believes", "anticipates" and "expects" and similar expressions are intended to identify forward-looking statements with respect to our financial condition, results of operations and our business including our expansion, construction timelines, development activities, legal proceedings and employee matters. Certain important factors, including but not limited to, competition from other gaming operations, factors affecting our ability to compete, acquisitions of gaming properties, legalization of additional gaming operations in our markets, leverage, construction risks, the inherent uncertainty and costs associated with litigation and governmental and regulatory investigations, and licensing and other regulatory risks, could cause our actual results to differ materially from those expressed in our forward-looking statements. Any changes in the law that would permit the establishment of gaming operations in or near Denver could materially impact Black Hawk operations and could alter, delay or cause us to reconsider our master development plan to expand our Black Hawk property. Further information on potential factors which could affect our financial condition, results of operations and business including, without limitation, our expansion, development activities, legal proceedings and employee matters are included in our filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only

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

as of the date thereof. We undertake no obligation to publicly release any revisions to such forward-looking statement to reflect events or circumstances after the date hereof.

Table of Contents

RESULTS OF OPERATIONS

Comparison of Operating Results for the Three-Month Periods Ended March 31, 2015 and 2014

For the three months ended March 31, 2015, our net income totaled \$4.0 million, or \$0.24 per diluted share, compared to net income of \$3.3 million, or \$0.19 per diluted share, reflecting a 23.4% increase in net income and a 26.3% increase in diluted earnings per share. Net revenues totaled \$47.2 million in the current quarter, an increase of \$1.7 million compared to the 2014 first quarter. Income from operations for the three months ended March 31, 2015 totaled \$6.5 million compared to \$5.3 million for the same period in 2014.

Casino revenues increased 3.9%, in the first quarter of 2015 compared to the first quarter of 2014. Casino operating expenses as a percentage of casino revenue increased to 43.6% in the first quarter of 2015, compared to 41.7% in the first quarter of 2014 primarily due to higher complimentary expense combined with higher payroll and related benefits.

Food and beverage revenues for the first quarter of 2015 increased 6.8% over the first quarter of 2014, due to a 3.5% increase in average revenue per cover combined with a 3.3% increase in total covers served. Food and beverage operating expenses as a percentage of food and beverage revenues decreased slightly in the first quarter of 2015 to 39.8% compared to 40.5% for the prior year same period primarily as a result of the increase in revenue per cover partially offset by higher repair and maintenance expenses.

Hotel revenue increased 2.0% due to a slightly higher average daily room rate (ADR) of \$68.43 in the first quarter of 2015 compared to \$67.86 in first quarter of 2014 and slightly higher hotel occupancy of 84.4% during first quarter of 2015 compared to 83.5% during first quarter of 2014. Revenue per Available Room (REVPAR), calculated by dividing total room revenue (less service charges, if any) by total rooms available was \$63.88 and \$62.63 for the three months ended March 31, 2015 and 2014, respectively. Hotel operating expenses as a percentage of hotel revenues increased to 32.1% in first quarter of 2015 as compared to 29.8% for the comparable prior year period due to higher repair and maintenance expenses and higher payroll and related expenses.

Promotional allowances as a percentage of gross revenues increased to 18.5% during the first quarter of 2015 compared to 17.9% in the comparable 2014 quarter. This increase was primarily due to the increase in complimentary expenses driven by our competitive gaming markets.

Other revenues increased 4.9% in the first quarter of 2015 compared to the first quarter of 2014 driven primarily by increased arcade, retail and spa revenues.

Selling, General and Administrative (SG&A) expense decreased to \$12.6 million in the first quarter of 2015 from \$13.2 million in the first quarter of 2014 primarily due to lower marketing expense and lower salaries, wages and benefits expenses. As a percentage of net revenue, SG&A expense decreased to 26.7% in the first quarter of 2015 from 29.1% in the first quarter of 2014.

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

Depreciation and amortization expense decreased to \$4.1 million for the three months ended March 31, 2015 as compared to \$4.7 million for the three months ended March 31, 2014 primarily as a result of a decrease in monthly depreciation expense of the existing parking structure following the revision in the expected date of early removal of the parking structure from service in relation to the Monarch Black Hawk expansion project.

During the first quarter, the Company paid down the principal balance on its credit facility by \$4.3 million, which decreased the outstanding balance of the credit facility to \$42.0 million at March 31, 2015 from \$46.3 million at December 31, 2014. Interest expense, net of amounts capitalized decreased to \$0.2 million in the first quarter of 2015 from \$0.3 million in the first quarter of 2014 as a result of lower average outstanding borrowings in 2015 first quarter compared to the 2014 first quarter.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2015, net cash provided by operating activities totaled \$8.2 million, an increase of approximately \$0.4 million or 5.0% compared to the same period in the prior year. This increase was primarily the result of an increase in net income by \$0.8 million and an increase in income tax payable by \$0.4 million partially offset by a decrease in depreciation expense by \$0.6 million and a decrease in the ordinary working capital.

Net cash used in investing activities totaled \$7.3 million and \$3.8 million for the three months ended March 31, 2015 and 2014, respectively. Net cash used in investing activities during first quarters of 2015 and 2014 consisted primarily of net cash used for redesigning and upgrading of the Monarch Casino Black Hawk property and for acquisition of gaming equipment and general upgrades at the Atlantis property.

Net cash used in financing activities during first quarter of 2015 was \$4.0 million and represented \$4.3 million of payments made on the Credit Facility offset by \$0.3 million in proceeds resulting from stock options exercises. Net cash used in financing activities during first quarter of 2014 of \$6.3 million represented \$4.9 million of payments made on the Credit Facility and \$0.5 million in proceeds resulting from stock options exercises net of \$2.0 million in income taxes paid to satisfy minimum tax withholdings.

As of March 31, 2015, we had \$88.0 million maximum principal available under the Credit Facility, of which \$42.0 million was drawn. The proceeds from the Credit Facility were utilized to finance the acquisition of Monarch Black Hawk and may also be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements. We had \$46.0 million remaining credit available on the Credit Facility as of March 31, 2015.

The maximum principal available under the Credit Facility is reduced by 1.5% per quarter beginning July 1, 2013. We may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$0.5 million and a multiple of \$50,000. Maturities of the borrowings for each of the next three years and thereafter as of March 31, 2015 are as follows (in millions):

Year	Maturities
2015	\$
2016	42.0
	\$ 42.0

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

The Credit Facility contains customary covenants for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of the Company's assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets and make certain investments. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

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

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

Table of Contents

OFF BALANCE SHEET ARRANGEMENTS

A driveway was completed and opened on September 30, 2004, that is being shared between the Atlantis and a shopping center (the Shopping Center) directly adjacent to the Atlantis. The Shopping Center is controlled by an entity whose owners include our controlling stockholders. As part of this project, in January 2004, we leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300 thousand, subject to increase every year beginning in the 61st month based on the Consumer Price Index. We also use part of the common area of the Shopping Center and pay our proportional share of the common area expense of the Shopping Center. We have the option to renew the lease for three individual five-year terms, and at the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time. We paid approximately \$94 thousand in lease payments for the leased driveway space at the Shopping Center during the three-month period ended March 31, 2015.

CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies and estimates can be found in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations of our Form 10-K for the year ended December 31, 2014 (2014 Form 10-K). For a more extensive discussion of our accounting policies, see Note 1, Summary of Significant Accounting Policies, in the Notes to the Consolidated Financial Statements in our 2014 Form 10-K filed on March 13, 2015.

OTHER FACTORS AFFECTING CURRENT AND FUTURE RESULTS

Negative economic developments in Northern Nevada, the Denver metropolitan area, and our feeder markets, could adversely impact discretionary incomes of our target customers, which, in turn could adversely impact our business as our target customers might curtail discretionary spending for leisure activities and businesses may reduce spending for conventions and meetings, both of which would adversely impact our business. Management continues to monitor economic trends and intends, as appropriate, to adopt operating strategies to attempt to mitigate the effects of such adverse conditions. We can make no assurances that such strategies will be effective should negative economic developments in our markets occur.

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

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

Table of Contents

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

We rely on information technology and other systems to maintain and transmit customer financial information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. The systems and processes we have implemented to protect customers, employees and company information are subject to the ever-changing risk of compromised security. These risks include cyber and physical security breaches, system failure, computer viruses, and negligent or intentional misuse by customers, company employees, or employees of third party vendors. The steps we take to deter and mitigate these risks may not be successful and our insurance coverage for protecting against cybersecurity risks may not be sufficient. Any disruption, compromise or loss of data or systems that results from a cybersecurity attack or breach could materially adversely impact operations or regulatory compliance and could result in remedial expenses, fines, litigation, and loss of reputation, potentially impacting our financial results.

COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of March 31, 2015 and the next five years and thereafter are as follows (in millions):

	Total	Payment due by period (1)		
		Less than 1 year	1 to 3 years	3 to 5 years
Operating Leases (2)	\$ 1.9	\$ 0.5	\$ 0.8	\$ 0.6
Purchase Obligations (3)	7.5	7.5		
Construction Contracts (4)	31.2	25.0	6.2	
Borrowings Under Credit Facility (5)	42.0		42.0	
Total Contractual Cash Obligations	\$ 82.6	\$ 33.0	\$ 49.0	\$ 0.6

(1) Because interest payments under our credit facility are subject to factors that in our judgment vary materially, the amount of future interest payments is not presently determinable. These factors include: i) future short-term interest rates; ii) our future leverage ratio which varies with Adjusted EBITDA and our borrowing levels; and iii) the speed with which we deploy capital and other spending which in turn impacts the level of future borrowings. The interest rate under our credit facility is LIBOR, or a base rate (as defined in the credit facility agreement), plus an interest rate margin ranging from 1.25% to 2.50% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. Based on our leverage ratio, at March 31, 2015 pricing was LIBOR plus 1.5% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At March 31, 2015, the one-month LIBOR rate was 0.18%.

(2) Operating leases include leased driveway usage and executive housing in Colorado.

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

(3) Purchase obligations represent approximately \$2.5 million of commitments related to capital projects and approximately \$5.0 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$7.5 million are cancelable by us upon providing a 30-day notice.

(4) Construction contracts obligations represent commitments related to remodel and expansion projects in Monarch Casino Black Hawk. \$28.6 million of the commitment relates to construction of the new parking garage structure, \$0.6 million relates to construction of the new parking garage foundation and \$2.0 million relates to the remodel of the casino floor of the existing facility.

(5) The amount represents outstanding draws against the Credit Facility as of March 31, 2015.

As described in the CAPITAL SPENDING AND DEVELOPMENT section above, we have begun commencement of a substantial expansion of our Monarch Casino Black Hawk facility which started in 2014. While we have disclosed the estimated cost of that expansion, we have not entered into contracts for substantial portions of the work. For this reason, we have included in the table above only the amounts for which we have contractual commitments.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market conditions and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of March 31, 2015 that are subject to market risk. As of March 31, 2015, we had \$42.0 million of outstanding principal balance under our Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the Credit Facility at March 31, 2015 would result in a change in our annual interest cost of approximately \$0.4 million.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, (the Evaluation Date), an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

A description of our risk factors can be found in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 6. EXHIBITS

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

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

Table of Contents

SIGNATURES

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

MONARCH CASINO & RESORT, INC.
(Registrant)

Date: May 8, 2015

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