

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)

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

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

**89502**  
(ZIP Code)

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

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

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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<br/>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>  |            |            |            |            |            |  |
| Basic  | \$ 0.35    | \$ 0.51    | \$ 0.30    | \$ 0.56    | \$ 1.28    |  |
| Weighted average number of common shares and potential common shares outstanding |            |            |            |            |            |  |
| Diluted  | 16,231     | 16,206     | 16,159     | 17,017     | 19,329     |  |
| <b>OTHER DATA</b>  |            |            |            |            |            |  |
| Other (expense) income   | \$ (914)   | \$ (1,458) | \$ (1,979) | \$ (168)   | \$ 1,776   |  |
| Current maturities of long-term debt   |            |            |            |            |            |  |
|  | \$         | \$         | \$ 1,000   | \$ 2,500   | \$         |  |
| Stockholders equity (F7)   | \$ 130,516 | \$ 122,582 | \$ 112,504 | \$ 105,595 | \$ 129,419 |  |

**Footnotes to Selected Financial Data:**

(F1) 2011 includes a \$3.5 million one-time, non-cash charge related to the demolition of a free standing building on a parcel near the Atlantis.

(F2) 2010 includes a \$414 thousand one-time charge related to the demolition of the Company's 149 room motor lodge.

(F3) 2009 includes a \$64 thousand gain on disposal of fixed assets and a \$1.4 million one-time charge related to the implementation of a new frequent player club (see additional discussion in Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 1, Promotional Allowance).

(F4) 2008 includes a \$34 thousand gain on disposal of fixed assets.

(F5) 2007 includes a \$7 thousand gain on disposal of fixed assets.

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

(F7) We paid no dividends during the five year period ended December 31, 2011.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Monarch Casino & Resort, Inc., through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis ). Monarch's wholly owned subsidiaries, High Desert Sunshine, Inc. ( High Desert ) and Golden North, Inc. ( Golden North ), each own separate parcels of land located proximate 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. and owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. 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.

Currently, our sole operating asset, the Atlantis, is a hotel/casino resort located in Reno, Nevada. Our business strategy is to maximize the Atlantis' revenues, operating income and cash flow primarily through our casino, our food and beverage operations and our hotel operations. We capitalize on the Atlantis' location for tour and travel visitors, conventioners and Locals by offering exceptional service, value and an appealing theme to our guests. Our hands-on management style focuses on customer service and cost efficiencies.

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

**OPERATING RESULTS SUMMARY**

Below is a summary of our results for the years ended December 31 for 2011, 2010 and 2009, respectively:

|                                   |         |         |         |          |        |
|-----------------------------------|---------|---------|---------|----------|--------|
| Casino revenues                   | \$ 97.4 | \$ 99.8 | \$ 94.5 | (2.5)%   | 5.6%   |
| Food and beverage revenues        | 42.9    | 41.0    | 38.2    | 4.8%     | 7.3%   |
| Hotel revenues                    | 21.4    | 21.8    | 19.9    | (1.5)%   | 9.5%   |
| Other revenues                    | 8.0     | 7.9     | 6.8     | 1.5%     | 16.2%  |
| Net revenues                      | 140.6   | 142.0   | 133.7   | (1.0)%   | 6.2%   |
| Sales, general and admin expenses | 47.1    | 47.9    | 47.9    | (1.6)%   |        |
| Income from operations            | 9.8     | 14.0    | 9.1     | (30.4)%  | 53.8%  |
| Net income                        | 5.7     | 8.2     | 4.8     | (30.5)%  | 70.8%  |
| Earnings per share - diluted      | 0.35    | 0.51    | 0.30    | (31.4)%  | 70.0%  |
| Operating margin                  | 6.9%    | 9.9%    | 6.8%    | (3.0)pts | 3.1pts |

Our results for the year ended December 31, 2011 reflect the continued effects of the challenging operating environment that began in the three month period ended December 31, 2007. As in many other areas around the country, the economic downturn since 2007 has continued to impact business conditions in northern Nevada through 2011. Other factors causing negative financial impact that continued from the fourth quarter of 2007 were aggressive discounting programs by our competitors. In response to these challenges, we increased promotional

expenditures to attract and retain guests. Furthermore, based on statistics released by the Nevada Gaming Control Board, the Reno gaming market has shrunk in the

aggregate. Due in part to these headwinds, and to the \$3.5 million one-time, non-cash charge discussed below, net revenue, income from operations and net income has decreased for the year ended December 31, 2011 compared to 2010. We believe these declines were mitigated primarily due to the recent improvements to our facility (see the Capital Spending and Development section below) and strong execution of service standards both of which we believe have improved the experience our customers receive when they come to the Atlantis.

Our 2011 results reflect a \$3.5 million one-time, non-cash charge related to the demolition of the Adventure Inn in the third quarter of 2011. The Adventure Inn was a free standing, low-rise building on a land parcel proximate to the Atlantis. The building was primarily used for storage prior to its demolition.

Our 2010 results reflect a \$414 thousand one-time charge related to the demolition of our 149 room motor lodge in the fourth quarter of 2010. The quality of the rooms of the motor lodge was no longer consistent with the higher standards of our upgraded facilities. We converted the motor lodge to paved surface parking right next to the Atlantis.

The factors described above were the primary drivers of:

- Decreases of 2.5% and 1.5% in our casino and hotel revenues, respectively;
- Increases of 4.8% and 1.5% in our food and beverage and other revenues, respectively;
- A 30.4% decrease in income from operations;
- A decrease in our 2011 operating margin of 3.0 points or 29.7%.

## **CAPITAL SPENDING AND DEVELOPMENT**

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

In 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 remodeled 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.

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

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Our capital expenditures were \$17.4 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 with buildings within close proximity to the Atlantis (see additional discussion of these parcels below under **Properties** in ITEM 2). Capital expenditures in 2010 and 2011 were for various general facility improvements and for purchase of additional gaming equipment at the Atlantis. During 2011, we also acquired a 1.5 acre land parcel in Black Hawk, Colorado for \$8.4 million and paid a \$3.8 million deposit related to the acquisition of the Riviera Black Hawk casino. The land parcel is contiguous to the Riviera Black Hawk Casino. On September 29, 2011 Monarch entered an agreement to purchase Riviera Black Hawk, Inc. (see **THE ACQUISITION** below).

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



## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

### Allowance for Doubtful Accounts

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

### Self-insurance Reserves

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

### Casino Revenues

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



### Promotional Allowances

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

We recognize Complimentaries expense at the time points are earned, which occurs commensurate with casino patron play. The amount of expense recognized is based on the estimated cost of the Complimentaries expected to be redeemed.

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

### Income Taxes

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

Our income tax returns are subject to examination by tax authorities. We assess potentially unfavorable outcomes of such examinations based on accounting standards for uncertain income taxes. Under the accounting guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50.0% likelihood of being realized upon ultimate settlement. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure. The liability for unrecognized tax benefits is included in current and noncurrent tax liabilities, based on when expected to be recognized, within the consolidated balance sheets at December 31, 2011 and 2010.

### Stock-based Compensation

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

The Black-Scholes valuation model requires the input of highly subjective assumptions which include the expected term of options granted, risk-free interest rates, expected volatility, and expected rates of dividends. We estimate an expected term for each stock option grant based on the weighted-

average time between grant date and exercise date and the risk-free interest rate assumption was based on U.S. Treasury rates appropriate for the expected term. We use historical data and projections to estimate expected volatility and expected employee behaviors related to option exercises and forfeitures.

Changes in the assumptions used can materially affect the estimate of the stock options' fair value. In our judgment, the most volatile input for our Company has been the expected volatility assumption which has fluctuated significantly from 64.1% to 42.9% and then again to 54.1 % for the years ended December 31, 2009, 2010 and 2011, respectively.

## RESULTS OF OPERATIONS

### 2011 Compared with 2010

For the year ended December 31, 2011, we earned net income of \$5.7 million, or \$0.35 per diluted share, on net revenues of \$140.6 million, compared to net income of \$8.2 million, or \$0.51 per diluted share, on net revenues of \$142.0 million for the year ended December 31, 2010. Income from operations totaled \$9.8 million for 2011, a 30.4% decrease when compared to \$14.0 million for 2010.

Casino revenues totaled \$97.4 million in 2011, a decrease of 2.5% from the \$99.8 million reported in 2010, driven primarily by a decrease in hold in table games which resulted in lower table games revenue. Casino operating expenses were 39.3% of casino revenues in 2011 compared to 38.9% in 2010. The increase was primarily due to the lower casino revenue combined with the cost of increased complimentary food, beverages and other services provided to casino patrons.

Food and beverage revenues increased 4.8% to \$42.9 million in 2011 from \$41.0 million in 2010, due primarily to a 9.3% increase in average revenue per cover, due to menu price increases, partially offset by a 1.3% decrease in the number of covers served. Food and beverage operating expenses as a percentage of food and beverage revenue increased slightly to 46.3% in 2011 from 46.1% in 2010 primarily due to higher food and other commodity prices.

Hotel revenues decreased to \$21.4 million in 2011 from \$21.8 million in 2010. There were fewer available rooms in 2011 due to the demolition of the stand-alone motor lodge in the fourth quarter of 2010. The Atlantis' ADR was \$74.22 in 2011 compared to \$69.06 in 2010. The average occupancy rate at the Atlantis was 89.1% compared to 85.4% in 2010. The higher ADR and occupancy rate was due to the demolition of the stand-alone motor lodge which left only premium quality hotel tower rooms remaining at the property. Hotel operating expenses remained relatively unchanged at 27.2% of hotel revenues in 2011, compared to 27.3% in 2010. In addition to the ADR, we charged guests a \$10 per day resort fee in both years. Revenue per Available Room ( REVPAR ), calculated by dividing total room revenue (less service charges, if any) by total rooms available was \$66.11 and \$58.98 for 2011 and 2010, respectively.

Promotional allowances increased to \$29.1 million in 2011 compared to \$28.4 million in 2010. As a percentage of gross revenue, the amount in 2011 increased to 17.2% as compared to 16.7% for 2010. The increase is attributable to higher promotional efforts to maintain existing, and generate additional, revenues.

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Other revenues in 2011 increased to \$8.0 million, or 1.5%, compared to 2010 primarily due to higher revenues from our spa and salon.

Selling, general and administrative ( SG&A ) expenses decreased to \$47.1 million in 2011 compared to \$47.9 million in 2010 due primarily to lower utilities expense of \$695 thousand, lower bad debt expense of \$635 thousand, lower property tax of \$259 thousand, lower rental and small equipment expense of \$237 thousand, and lower miscellaneous expense of \$354 thousand all partially offset by \$974 thousand of legal and other expenses directly attributable to the Acquisition (see THE ACQUISITION

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section below) and higher marketing expenses of \$437 thousand. As a percentage of net revenue, SG&A decreased to 33.5% in 2011 as compared to 33.7% in 2010 due to the higher net revenue combined with lower SG&A expense.

In the third quarter of 2011, the Company incurred a \$3.5 million one-time, non-cash charge related to the demolition of a free standing building on a parcel it owns near the Atlantis.

Depreciation and amortization expense was \$13.4 million in 2011, an increase of 0.7% compared to \$13.3 million in 2010 due to continued reinvestment in the property during the year.

Interest expense decreased to \$0.9 million in 2011 from \$1.5 million in 2010 due to decreased borrowings under our credit facility combined with lower interest rates (see **THE CREDIT FACILITY** below).

### 2010 Compared with 2009

For the year ended December 31, 2010, we earned net income of \$8.2 million, or \$0.51 per diluted share, on net revenues of \$142.0 million, compared to net income of \$4.8 million, or \$0.30 per diluted share, on net revenues of \$133.7 million for the year ended December 31, 2009. Income from operations totaled \$14.0 million for 2010, a 53.8% increase when compared to \$9.1 million for 2009.

Casino revenues totaled \$99.8 million in 2010, an increase of 5.6% from the \$94.5 million reported in 2009, driven by increases in slot, table games, poker and keno win. We believe these increased revenues are the result of the improvements to our facility (described in the Capital Spending and Development section above) combined with strong service delivered to our guests. Casino operating expenses were 38.9% of casino revenues in 2010 compared to 38.0% in 2009. The increase was primarily due to the cost of increased complimentary food, beverages and other services provided to casino patrons.

Food and beverage revenues increased 7.3% to \$41.0 million in 2010 from \$38.2 million in 2009, due primarily to a 5.2% increase in average revenue per cover, due to menu price increases, combined with a 3.3% increase in the number of covers served. Food and beverage operating expenses as a percentage of food and beverage revenue decreased slightly to 46.1% in 2010 from 46.9% in 2009 primarily related to lower food and other commodity prices.

Hotel revenues increased to \$21.8 million in 2010 from \$19.9 million in 2009. Increases in both hotel occupancy and the average daily room rate ( **ADR** ) combined with revenue from a \$10 per day resort fee, paid by our hotel guests, which we implemented on June 1, 2009 drove the revenue increase. Hotel revenues for the first six months of 2009 also include a \$3 per occupied room energy surcharge. This energy surcharge was suspended when we implemented the resort fee. The Atlantis **ADR** was \$69.06 in 2010 compared to \$64.91 in 2009. The average occupancy rate at the Atlantis was 85.4% compared to 80.6% in 2009. Hotel operating expenses decreased to 27.3% of hotel revenues in 2010, compared to 33.2% in 2009 due primarily to the increase in hotel revenue combined with lower payroll, benefits and overall maintenance expense. Revenue per Available Room ( **REVPAR** ), calculated by dividing total room revenue (less service charges, if any) by total rooms available was \$58.98 and \$52.32 for 2010 and 2009, respectively.

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Promotional allowances increased to \$28.4 million in 2010 compared to \$25.7 million in 2009. As a percentage of gross revenue, the amount in 2010 increased to 16.7% as compared to 16.1% for 2009. The increase is attributable to higher promotional efforts to maintain existing, and generate additional, revenues.

Other revenues in 2010 increased to \$7.9 million, or 16.2%, compared to 2009 primarily due to greater sales in our gift and sundry shops and higher revenues from our new spa that opened in January of 2009.



Selling, general and administrative ( SG&A ) expenses remained flat at \$47.9 million for both 2010 and 2009, respectively. As a percentage of net revenue, SG&A decreased to 33.7% in 2010 as compared to 35.8% in 2009 due to the increase in net revenue without a corresponding increase in SG&A expense.

Depreciation and amortization expense was \$13.3 million in 2010, an increase of 6.4% compared to \$12.5 million in 2009 due primarily to the completion and capitalization of the Capital Projects described under the CAPITAL SPENDING AND DEVELOPMENT section above.

Interest expense decreased to \$1.5 million in 2010 from \$2.1 million in 2009 due to decreased borrowings under our credit facility combined with lower interest rates (see THE CREDIT FACILITY below). Interest income derived from investment of surplus cash in short-term, interest bearing instruments and interest earned on the Note from Triple J (see additional discussion in described in Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements and NOTE 10. RELATED PARTY TRANSACTIONS) decreased to zero in 2010 from \$125 thousand in 2009. This increase was driven by lower surplus cash invested in 2010 as compared to 2009 and the repayment of the Note from Triple J in the fourth quarter of 2009.

## LIQUIDITY AND CAPITAL RESOURCES

For the year ended December 31, 2011, net cash provided by operating activities totaled \$22.6 million, a decrease of approximately \$3.4 million, or 13.1%, compared to the same period last year. This decrease was primarily related to lower net income, lower accounts payable, lower accrued expenses, lower deferred income taxes, higher depreciation and amortization related to the capitalization of our capital projects (see CAPITAL SPENDING AND DEVELOPMENT above), lower share based compensation, lower provision for bad debts, higher inventories, higher prepaid expenses, and higher loss on disposal of assets in 2011 compared to 2010.

Net cash used in investing activities totaled \$17.4 million and \$6.8 million in the years ended December 31, 2011 and 2010, respectively. During 2011, net cash used in investing activities consisted primarily of \$8.4 million for the acquisition of a land parcel in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino, a \$3.8 million acquisition deposit related to the acquisition agreement for Riviera Black Hawk, Inc., and capital expenditures for various general facility improvements and for purchase of additional gaming equipment. Net cash used in investing activities during 2010 consisted primarily of capital expenditures for various general facility improvements and for purchase of additional gaming equipment.

Net cash used in financing activities of \$5.4 million and \$19.8 million during 2011 and 2010, respectively, primarily represent net payments of our Credit Facility (see THE CREDIT FACILITY below) and loan issuance costs related to refinancing the previous credit facility.

We believe that our existing cash balances, cash flow from operations and borrowings available under the Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow, we could be required to adopt one or more alternatives, such as reducing, delaying or eliminating planned capital expenditures, selling assets, restructuring debt or obtaining additional equity capital. See item 1A. Risk Factors .



**COMMITMENTS AND CONTINGENCIES**

Our contractual cash obligations as of December 31, 2011 and the next five years and thereafter are as follows:

| <b>Contractual Cash Obligations</b>                   | <b>Total</b>          | <b>Payments Due by Period (4)</b> |                     |                     |                          |
|---|-----------------------|-----------------------------------|---------------------|---------------------|--------------------------|
|   |                       | <b>less than 1 year</b>           | <b>1 to 3 years</b> | <b>4 to 5 years</b> | <b>more than 5 years</b> |
| Operating Leases(1)                                   | \$ 2,867,500          | \$ 370,000                        | \$ 740,000          | \$ 740,000          | \$ 1,017,500             |
| Maturities of Borrowings Under Credit Facility (2)(4) | 24,680,000            |                                   |                     |                     | 24,680,000               |
| Purchase Obligations(3)                               | 4,451,800             | 4,451,800                         |                     |                     |                          |
| Acquisition(5)  | 73,450,000            | 73,450,000                        |                     |                     |                          |
| <b>Total Contractual Cash Obligations</b>             | <b>\$ 105,449,300</b> | <b>\$ 78,271,800</b>              | <b>\$ 740,000</b>   | <b>\$ 740,000</b>   | <b>\$ 25,697,500</b>     |

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

(2) The amount represents outstanding draws against our Credit Facility (see **THE CREDIT FACILITY** below) as of December 31, 2011.

(3) Purchase obligations represent approximately \$1.1 million of commitments related to the Capital Projects and approximately \$3.4 million of materials and supplies used in the normal operation of our business. Of the total purchase order and capital project commitments, approximately \$3.4 million are cancelable by us upon providing a 30-day notice.

(4) Because interest payments under our New Credit Facility (see **THE CREDIT FACILITY** below) are subject to factors that in our judgment vary materially, the amount of future interest payments is not presently determinable. These factors include: 1) future short-term interest rates; 2) our future leverage ratio which varies with EBITDA and our borrowing levels and 3) the speed with which we deploy capital and other spending which in turn impacts the level of future borrowings. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the Credit Facility agreement), plus an interest rate margin ranging from 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. At December 31, 2011 pricing was set at the opening pricing point of LIBOR plus 2.250% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At December 31, 2011, the one-month LIBOR rate was 0.29%.

In addition, as of December 31, 2011 we recorded a liability related to uncertain tax positions of \$1,501,206 all of which is expected to be paid before December 31, 2012. Related to the uncertain tax position liability, interest net of federal tax benefit is expected to be paid of \$335,659 prior to December 31, 2012.

(5) Represents \$72.2 million, plus the \$1.25 million success fee, due at the Closing of the Acquisition (see **THE ACQUISITION** section below).



## THE CREDIT FACILITY

### Old Credit Facility

On November 15, 2011, we amended and restated our then existing \$60 million credit facility (the Old Credit Facility). The Old Credit Facility was utilized by us for working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The Old Credit Facility was replaced on November 15, 2011 by the New Credit Facility (as defined below).

### New Credit Facility

On November 15, 2011 (the Close Date), the terms of the Old Credit Facility were amended and restated (the New Credit Facility) to allow for maximum borrowing capacity of \$100 million. The New Credit Facility may be utilized by us for financing the acquisition of Riviera Black Hawk, Inc. (see THE ACQUISITION below), working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The maximum currently available borrowings under the New Credit Facility are \$30 million with the \$70 million remaining capacity available subject to the closing of the Acquisition.

The maturity date of the New Credit Facility is November 15, 2016. Borrowings are, and will be, secured by liens on substantially all of the real and personal property of Monarch, Golden Road, and Monarch Growth.

The New Credit Facility contains covenants customary and typical for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of our assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets and make certain investments. The New Credit Facility contains covenants requiring that we maintain certain financial ratios and achieve a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization (EBITDA) on a trailing four-quarter basis. It also contains provisions that restrict cash transfers between Monarch and its affiliates and contains provisions requiring the achievement of certain financial ratios before we can repurchase our common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

The maximum principal available under the New Credit Facility is reduced by 1.5% per quarter beginning in the first quarter of 2013. We may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$500 thousand and a multiple of \$50 thousand.

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

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

At December 31, 2011, we had \$24.7 million outstanding under the New Credit Facility, none of which was classified as short-term debt. Short-term debt represents the difference between the amount outstanding at December 31, 2011 and the maximum principal allowed under the New Credit Facility on December 31, 2012. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the New 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 calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At December 31, 2011 pricing was set at the opening pricing point of LIBOR plus 2.250% and will be

adjusted in subsequent quarters in accordance with our leverage ratio. At December 31, 2011, the one-month LIBOR rate was 0.29%.

#### THE ACQUISITION

On September 29, 2011, Monarch entered into a definitive Stock Purchase Agreement (the Agreement) with Riviera Operating Corporation, a Nevada corporation, Riviera Holdings Corporation, a Nevada corporation (collectively the Seller and together with Monarch, the Parties) and Riviera Black Hawk, Inc., a Colorado corporation (Riviera Black Hawk). Pursuant to the Agreement, the Seller agreed to sell all of the issued and outstanding shares of common stock of Riviera Black Hawk to Monarch.

Monarch will pay \$76 million (the Purchase Price), subject to certain post-Closing working capital adjustments. At Closing, Seller will pay substantially all of Riviera Black Hawk's indebtedness and will leave at least \$2.1 million of net working capital comprised of at least \$2.1 million of cash.

The closing of the transaction contemplated by the Agreement (the Closing) is subject to the satisfaction or waiver of certain conditions, including, without limitation, (i) the approval of the transaction by the Colorado Limited Gaming Commission, (ii) the issuance of required licenses to Monarch, and certain Monarch management, from the Colorado Gaming Commission, (iii) the absence of the occurrence of a material adverse effect on Riviera Black Hawk between the date of the Agreement and the Closing of the transaction (iv) the receipt of certain consents, approvals or authorizations required to consummate the transaction contemplated by the Agreement and other licenses and permits required to operate Riviera Black Hawk, (v) certain materiality exceptions, the accuracy of the representations and warranties made by Monarch and Seller, respectively, (vi) compliance with the Parties respective obligations under the Agreement, (vii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and (viii) other customary closing conditions. The transaction is not subject to a financing or due diligence condition.

In accordance with the Agreement, Monarch made a non-refundable (except under certain conditions) deposit of \$3.8 million (the Deposit) which will be credited against the Purchase Price upon the Closing. Upon Closing, Monarch is also obligated to pay a \$1.25 million success fee to its financial advisor. In addition to certain other termination rights, the Agreement may be terminated by either Monarch or the Seller if the Closing has not occurred by the last day of the calendar month of the date that is nine months after the date of the Agreement (the Outside Date). Monarch may extend the Outside Date to twelve months by increasing the Deposit by \$500,000.

The Parties have made certain representations and warranties in the Agreement, including, without limitation, representations and warranties regarding the condition of the assets and liabilities of Riviera Black Hawk, as applicable, pursuant to the Agreement and the availability of funds to consummate the transaction. Additionally, the Parties have agreed to certain covenants, including, without limitation, covenants governing the operation of Riviera Black Hawk prior to the Closing and certain matters post-Closing. Pursuant to the terms of the Agreement, in addition to Monarch's indemnification obligations, the Seller has agreed to limited indemnification for losses incurred or sustained due to actions arising out of the Agreement and the transaction contemplated thereby.

#### **STATEMENT ON FORWARD LOOKING INFORMATION**

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



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

## RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2010, the FASB issued guidance on accruing for jackpot liabilities that clarifies that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can legally avoid paying that jackpot (for example, by removing the gaming machine from the casino floor). Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base jackpots and the incremental portion of progressive jackpots. The guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 and was applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. Under Nevada gaming regulations, the removal of base jackpots is not prohibited and upon adoption, the Company reversed previously accrued base jackpots of \$639 thousand as of January 1, 2011 as a credit to opening retained earnings. This adoption did not affect the accounting for progressive jackpots, as the Company's existing accounting was in accordance with the new guidance.

In December 2011, the FASB issued amendments to enhance disclosures about offsetting and related arrangements. This information will enable the users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial and derivative instruments. These amendments are effective for annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013. The disclosures required by these amendments should be provided retrospectively for all comparative periods presented. Management does not believe that these amendments will have a material impact on the consolidated financial statements.

In June 2011, the FASB issued amendments to guidance regarding the presentation of comprehensive income. The amendments eliminate the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments require that other comprehensive income (OCI) be presented in either a single continuous statement or in two separate but consecutive statements. In a single continuous statement, the entity would present the components of net income and total net income, the components of OCI and a total of OCI, along with the total of comprehensive income in that statement. In the two-statement approach, the entity would present components of net income and total net income in the statement of net income and a statement of OCI would immediately follow the statement of net income and include the components of OCI and a total for OCI, along with a total for comprehensive income. The amendments also require the entity to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The amendments do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income or the option to present components of OCI either net of related tax effects or before related tax effects. The amendments, excluding the specific requirement to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented which was deferred by the FASB in December 2011, are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The Company adopted the guidance as of January 1, 2012 which did not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued amendments to existing fair value measurement guidance in order to achieve common requirements for measuring fair value and disclosures in accordance with GAAP and



International Financial Reporting Standards. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks, addresses the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy and requires additional disclosures. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Company adopted the guidance as of January 1, 2012, which did not have a material impact on the consolidated financial statements.

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in market risks and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of December 31, 2011 subject to market risk. As of December 31, 2011 we had \$24.7 million of outstanding debt under our New Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the New Credit Facility at December 31, 2011 would result in a change in our annual interest cost of approximately \$247 thousand.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited Monarch Casino & Resort, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2011 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Monarch Casino & Resort, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011 of Monarch Casino & Resort, Inc.

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and subsidiaries and our report dated March 14, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Las Vegas, Nevada  
March 14, 2012

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Monarch Casino & Resort, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statements schedule listed in the index at Item 15(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monarch Casino & Resort, Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statements schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for casino jackpots effective January 1, 2011.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Las Vegas, Nevada  
March 14, 2012

## MONARCH CASINO &amp; RESORT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2011                    | 2010          | 2009          |
| <b>Revenues</b>   |                         |               |               |
| Casino  | \$ 97,367,121           | \$ 99,813,126 | \$ 94,510,933 |
| Food and beverage   | 42,933,675              | 40,979,514    | 38,172,149    |
| Hotel   | 21,438,854              | 21,767,117    | 19,937,568    |
| Other   | 8,025,571               | 7,908,525     | 6,830,800     |
| Gross revenues  | 169,765,221             | 170,468,282   | 159,451,450   |
| Less promotional allowances   | (29,133,016)            | (28,438,255)  | (25,719,594)  |
| Net revenues  | 140,632,205             | 142,030,027   | 133,731,856   |
| <b>Operating expenses</b>   |                         |               |               |
| Casino  | 38,275,637              | 38,777,935    | 35,887,871    |
| Food and beverage   | 19,861,195              | 18,874,351    | 17,890,429    |
| Hotel   | 5,824,382               | 5,942,399     | 6,628,190     |
| Other   | 2,891,231               | 2,825,692     | 2,449,977     |
| Selling, general and administrative   | 47,110,839              | 47,881,105    | 47,865,432    |
| Depreciation and amortization   | 13,379,538              | 13,281,396    | 12,501,048    |
| Player club implementation expense  |                         |               | 1,366,614     |
| Building demolition expense   | 3,519,148               | 414,099       |               |
| Total operating expenses  | 130,861,970             | 127,996,977   | 124,589,561   |
| Income from operations  | 9,770,235               | 14,033,050    | 9,142,295     |
| Other income (expense)  |                         |               |               |
| Interest income   |                         |               | 124,661       |
| Interest expense  | (914,308)               | (1,457,865)   | (2,103,798)   |
| Total other expense   | (914,308)               | (1,457,865)   | (1,979,137)   |
| Income before income taxes  | 8,855,927               | 12,575,185    | 7,163,158     |
| Provision for income taxes  | (3,180,073)             | (4,338,924)   | (2,321,679)   |
| Net income  | \$ 5,675,854            | \$ 8,236,261  | \$ 4,841,479  |
| <b>Earnings per share of common stock</b>   |                         |               |               |
| <b>Net income</b>   |                         |               |               |
| Basic   | \$ 0.35                 | \$ 0.51       | \$ 0.30       |
| Diluted   | \$ 0.35                 | \$ 0.51       | \$ 0.30       |
| <b>Weighted average number of common shares and potential common shares outstanding</b> |                         |               |               |
| Basic   | 16,138,158              | 16,131,321    | 16,123,027    |
| Diluted   | 16,231,325              | 16,205,606    | 16,159,415    |

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

## MONARCH CASINO &amp; RESORT, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|  | December 31,   |                |
|--|----------------|----------------|
|  | 2011           | 2010           |
| <b>ASSETS</b>  |                |                |
| Current assets   |                |                |
| Cash and cash equivalents  | \$ 13,582,659  | \$ 13,800,604  |
| Receivables, net   | 2,299,847      | 3,269,250      |
| Federal income tax receivable  |                | 99,202         |
| Inventories  | 2,165,109      | 1,883,816      |
| Prepaid expenses and other current assets  | 6,198,882      | 2,553,341      |
| Deferred income taxes  | 615,912        | 1,384,443      |
| Total current assets   | 24,862,409     | 22,990,656     |
| Property and equipment   |                |                |
| Land   | 19,214,847     | 13,172,522     |
| Land improvements  | 6,359,279      | 3,891,990      |
| Buildings  | 135,643,298    | 139,843,299    |
| Building improvements  | 11,575,883     | 10,766,414     |
| Furniture and equipment  | 117,300,741    | 112,847,107    |
| Leasehold improvements   | 1,346,965      | 1,346,965      |
|  | 291,441,013    | 281,868,297    |
| Less accumulated depreciation and amortization   | (138,227,868)  | (125,437,458)  |
| Net property and equipment   | 153,213,145    | 156,430,839    |
| Other assets, net  | 1,524,050      | 312,043        |
| Total assets   | \$ 179,599,604 | \$ 179,733,538 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                |                |
| Current liabilities  |                |                |
| Accounts payable   | \$ 8,693,395   | \$ 10,216,495  |
| Accrued expenses   | 13,829,540     | 14,077,344     |
| Federal income taxes payable   | 768,640        |                |
| Total current liabilities  | 23,291,575     | 24,293,839     |
| Long-term debt   | 24,680,000     | 28,600,000     |
| Deferred income taxes  | 1,112,049      | 3,384,218      |
| Other long-term liabilities  |                | 873,872        |
| Total liabilities  | 49,083,624     | 57,151,929     |
| Stockholders' equity   |                |                |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued  |                |                |
| Common stock, \$.01 par value, 30,000,000 shares authorized; 19,096,300 shares issued; 16,138,158 outstanding at December 31, 2011 and December 31, 2010 | 190,963        | 190,963        |
| Additional paid-in capital   | 33,178,345     | 31,558,693     |
| Treasury stock, 2,958,142 shares at December 31, 2011 and December 31, 2010, at cost   | (48,541,663)   | (48,541,663)   |
| Retained earnings  | 145,688,335    | 139,373,616    |
| Total stockholders' equity   | 130,515,980    | 122,581,609    |
| Total liability and stockholders' equity   | \$ 179,599,604 | \$ 179,733,538 |

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



**MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

|  | Common Stock          |            |                                |                 |                      |                |  |
|--|-----------------------|------------|--------------------------------|-----------------|----------------------|----------------|--|
|  | Shares<br>Outstanding | Amount     | Additional Paid-<br>In Capital | Treasury Stock  | Retained<br>Earnings | Total          |  |
| Balance, January 1, 2009                                 | 16,122,048            | \$ 190,963 | \$ 28,051,009                  | \$ (48,943,359) | \$ 126,295,876       | \$ 105,594,489 |  |
| Exercise of stock options, including related tax benefit | 3,340                 |            | (58,697)                       | 78,380          |                      | 19,683         |  |
| Share based compensation expense                         |                       |            | 2,048,771                      |                 |                      | 2,048,771      |  |
| Net income   |                       |            |                                |                 | 4,841,479            | 4,841,479      |  |
| Balance, December 31, 2009                               | 16,125,388            | 190,963    | 30,041,083                     | (48,864,979)    | 131,137,355          | 112,504,422    |  |
| Exercise of stock options, including related tax benefit | 12,770                |            | (223,473)                      | 323,316         |                      | 99,843         |  |
| Share based compensation expense                         |                       |            | 1,741,083                      |                 |                      | 1,741,083      |  |
| Net income   |                       |            |                                |                 | 8,236,261            | 8,236,261      |  |
| Balance, December 31, 2010                               | 16,138,158            | 190,963    | 31,558,693                     | (48,541,663)    | 139,373,616          | 122,581,609    |  |
| Share based compensation expense                         |                       |            | 1,619,652                      |                 |                      | 1,619,652      |  |
| Accounting change for base jackpots                      |                       |            |                                |                 | 638,865              | 638,865        |  |
| Net income   |                       |            |                                |                 | 5,675,854            | 5,675,854      |  |
| Balance, December 31, 2011                               | 16,138,158            | \$ 190,963 | \$ 33,178,345                  | \$ (48,541,663) | \$ 145,688,335       | \$ 130,515,980 |  |

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

## MONARCH CASINO &amp; RESORT, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended December 31, |               |               |
|---|-------------------------|---------------|---------------|
|   | 2011                    | 2010          | 2009          |
| <b>Cash flows from operating activities:</b>                                      |                         |               |               |
| Net income  | \$ 5,675,854            | \$ 8,236,261  | \$ 4,841,479  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |               |               |
| Depreciation and amortization   | 13,379,538              | 13,281,396    | 12,501,048    |
| Amortization of deferred loan costs   | 258,863                 | 257,579       | 265,630       |
| Share based compensation  | 1,619,652               | 1,741,084     | 2,048,771     |
| Provision for bad debts   | 84,798                  | 740,387       | 1,120,333     |
| Loss (gain) on disposal of assets   | 3,428,500               | 167,813       | (63,948)      |
| Deferred income taxes   | (2,377,510)             | (731,947)     | 1,919,523     |
| Changes in operating assets and liabilities:                                      |                         |               |               |
| Receivables   | 884,605                 | (1,714,934)   | (70,595)      |
| Inventories   | (281,293)               | (176,949)     | (142,520)     |
| Prepaid expenses  | 154,459                 | 70,309        | 228,221       |
| Other assets  |                         |               | 2,735,433     |
| Accounts payable  | (1,523,100)             | 1,232,485     | (1,229,408)   |
| Accrued expenses  | 391,059                 | 3,021,263     | 2,115,968     |
| Federal income taxes  | 867,842                 | (145,748)     | (187,190)     |
| Net cash provided by operating activities   | 22,563,267              | 25,978,999    | 26,082,745    |
| <b>Cash flows from investing activities:</b>                                      |                         |               |               |
| Proceeds from sale of assets  | 1,500                   | 16,000        | 83,425        |
| Acquisition of property and equipment   | (13,591,843)            | (6,814,562)   | (15,845,321)  |
| Acquisition deposit   | (3,800,000)             |               |               |
| Change in construction payable  |                         |               | (5,404,372)   |
| Net cash used in investing activities   | (17,390,343)            | (6,798,562)   | (21,166,268)  |
| <b>Cash flows from financing activities:</b>                                      |                         |               |               |
| Proceeds from exercise of stock options   |                         | 95,372        | 13,009        |
| Tax benefit of stock option exercise  |                         | 4,472         | 6,674         |
| Principal payments on long-term debt  | (19,100,000)            | (21,200,000)  | (13,250,000)  |
| Borrowings under credit facility  | 15,180,000              | 1,300,000     | 11,750,000    |
| Loan issuance costs   | (1,470,869)             |               | (772,737)     |
| Net cash used in financing activities   | (5,390,869)             | (19,800,156)  | (2,253,054)   |
| Net (decrease) increase in cash   | (217,945)               | (619,719)     | 2,663,423     |
| Cash and cash equivalents at beginning of period                                  | 13,800,604              | 14,420,323    | 11,756,900    |
| Cash and cash equivalents at end of period  | \$ 13,582,659           | \$ 13,800,604 | \$ 14,420,323 |
| <b>Supplemental disclosure of cash flow information:</b>                          |                         |               |               |
| Cash paid for interest  | \$ 532,795              | \$ 1,144,613  | \$ 1,948,457  |
| Cash paid for income taxes  | \$ 3,650,000            | \$ 5,000,000  | \$ 2,240,000  |
| Non cash transaction - reduction of jackpot liability                             | \$ 638,865              | \$            | \$            |

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



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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Monarch Casino & Resort, Inc. ( Monarch ), a Nevada corporation, was incorporated in 1993. Monarch 's wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), operates the Atlantis Casino Resort Spa (the Atlantis ), a hotel/casino facility in Reno, Nevada. Monarch 's wholly owned subsidiaries, High Desert Sunshine, Inc. and Golden North, Inc., each own separate parcels of land located adjacent to the Atlantis. Monarch 's wholly owned subsidiary Monarch Growth Inc. ( Monarch Growth ) was formed in 2011, entered into a definitive stock purchase agreement on September 29, 2011 to purchase Riviera Black Hawk, Inc. (see Note 10.) and owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. Unless stated otherwise, the Company refers collectively to Monarch and its subsidiaries.

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

Use of Estimates

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

Self-insurance Reserves

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

Capitalized Interest

The Company capitalizes interest costs associated with debt incurred in connection with major construction projects. When no debt is specifically identified as being incurred in connection with a construction project, the Company capitalizes interest on amounts expended on the project at the Company 's average borrowing cost. Interest capitalization is ceased when the project is substantially complete. The Company did not capitalize interest during the years ended December 31, 2011, 2010 and 2009.

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

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

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

The Company evaluates property and equipment and other long-lived assets for impairment in accordance with the guidance for accounting for the impairment or disposal of long-lived assets. For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair value less costs of disposal. Fair value for assets to be disposed of is generally estimated based on comparable asset sales, solicited offers or a discounted cash flow model. For assets to be held and used, the Company reviews fixed assets for impairment whenever indicators of impairment exist. If an indicator of impairment exists, we compare the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model or market comparables, when available. For the years ended December 31, 2011, 2010 and 2009, there were no impairment charges.

Casino Revenues

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

Promotional Allowances

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

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

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

|                   | Years ended December 31, |               |               |
|-------------------|--------------------------|---------------|---------------|
|                   | 2011                     | 2010          | 2009          |
| Food and beverage | \$ 16,244,303            | \$ 15,878,288 | \$ 13,844,611 |
| Hotel             | 2,328,566                | 2,276,414     | 3,023,164     |
| Other             | 1,696,485                | 1,505,020     | 641,404       |
|                   | \$ 20,269,354            | \$ 19,659,722 | \$ 17,509,179 |

#### Advertising Costs

All advertising costs are expensed as incurred. Advertising expense, which is included in selling, general and administrative expense, was \$4,083,700, \$3,883,958 and \$3,844,432 for the years ended December 31, 2011, 2010 and 2009, respectively.

#### Income Taxes

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

Under the accounting guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50.0% likelihood of being realized upon ultimate settlement. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods and disclosure. The liability for unrecognized tax benefits is included in current and noncurrent tax liabilities, based on when expected to be recognized, within the consolidated balance sheets at December 31, 2011.

#### Allowance for Doubtful Accounts

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

#### Stock-based Compensation



The Company accounts for stock-based compensation in accordance with the authoritative guidance requiring that compensation cost relating to share-based payment transactions be recognized in the Company's consolidated statements of income. The cost is measured at the grant date, based on the calculated fair value of the award using the Black-Scholes option pricing model for stock options, and based on the closing share price of the Company's stock on the grant date for restricted stock awards. The cost is recognized as an expense over the employee's requisite service period (the vesting period of the

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equity award). The Company's stock-based employee compensation plan is more fully discussed in Note 8. - Share-Based Compensation.

### Earnings Per Share

Basic earnings per share is computed by dividing reported net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution for all potentially dilutive securities such as stock options.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations (shares in thousands):

|                                  | 2011   |                  | Years ended December 31,<br>2010 |                  | 2009   |                  |
|----------------------------------|--------|------------------|----------------------------------|------------------|--------|------------------|
|                                  | Shares | Per Share Amount | Shares                           | Per Share Amount | Shares | Per Share Amount |
| Net income                       |        |                  |                                  |                  |        |                  |
| Basic                            | 16,138 | \$ 0.35          | 16,131                           | \$ 0.51          | 16,123 | \$ 0.30          |
| Effect of dilutive stock options | 93     |                  | 75                               |                  | 36     |                  |
| Diluted                          | 16,231 | \$ 0.35          | 16,206                           | \$ 0.51          | 16,159 | \$ 0.30          |

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

|   | Years ended December 31, |                 |                |
|---|--------------------------|-----------------|----------------|
|   | 2011                     | 2010            | 2009           |
| Options to purchase shares of common stock (in thousands) | 1,720                    | 1,715           | 1,528          |
| Exercise prices   | \$10.43-\$29.00          | \$10.43-\$29.00 | \$9.00-\$29.00 |
| Expiration dates (mo./yr.)                                | 10/14-12/21              | 10/14-10/19     | 11/14-11/18    |

### Fair Value of Financial Instruments

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

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

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of bank deposits and trade receivables. The Company maintains its surplus cash in bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and accounts receivable. Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded

when received. An allowance for doubtful accounts is determined to reduce the Company's receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit-related losses.

#### Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by the Nevada gaming commission. The loss of a license could have a material adverse effect on future results of operations.

The Company is dependent on the local market for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded, the Company's results of operations could be adversely affected.

The Company is dependent on the U.S. economy in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

The Company is dependent upon a stable gaming and admission tax structure in the location that it operates in. Any change in the tax structure could have a material adverse effect on future results of operations.

#### Impact of Recently Issued Accounting Standards

In April 2010, the FASB issued guidance on accruing for jackpot liabilities that clarifies that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can legally avoid paying that jackpot (for example, by removing the gaming machine from the casino floor). Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base jackpots and the incremental portion of progressive jackpots. The guidance was effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 and was applied by recording a cumulative-effect adjustment to opening retained earnings in the period of adoption. Under Nevada gaming regulations, the removal of base jackpots is not prohibited and upon adoption, the Company reversed previously accrued base jackpots of \$639 thousand as of January 1, 2011 as a credit to opening retained earnings. This adoption did not affect the accounting for progressive jackpots, as the Company's existing accounting was in accordance with the new guidance.

In December 2011, the FASB issued amendments to enhance disclosures about offsetting and related arrangements. This information will enable the users of the financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial and derivative instruments. These amendments are effective for annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013. The disclosures required by these amendments should be provided retrospectively for all comparative periods presented. Management does not believe that these amendments will have a material impact on the consolidated financial statements.

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In June 2011, the FASB issued amendments to guidance regarding the presentation of other comprehensive income ( OCI ). The amendments eliminate the option to present components of OCI as part of the statement of changes in stockholders' equity. The amendments require that comprehensive income be presented in either a single continuous statement or in two separate but consecutive statements. In a single continuous statement, the entity would present the components of net income and total net income, the components of OCI and a total of OCI, along with the total of comprehensive income in that statement. In the two-statement approach, the entity would present components of net income and total net income in the statement of net income and a statement of OCI would immediately follow the statement of net income and include the components of OCI and a total for OCI, along with a total for comprehensive income. The amendments also require the entity to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the

statement(s) where the components of net income and the components of OCI are presented. The amendments do not change the items that must be reported in OCI, when an item of OCI must be reclassified to net income or the option to present components of OCI either net of related tax effects or before related tax effects. The amendments, excluding the specific requirement to present on the face of the financial statements any reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented which was deferred by the FASB in December 2011, are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. The Company adopted the guidance as of January 1, 2012 which did not have a material impact on the consolidated financial statements.

In May 2011, the FASB issued amendments to existing fair value measurement guidance in order to achieve common requirements for measuring fair value and disclosures in accordance with GAAP and International Financial Reporting Standards. The guidance clarifies how a principal market is determined, addresses the fair value measurement of instruments with offsetting market or counterparty credit risks, addresses the concept of valuation premise and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy and requires additional disclosures. The amendments are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011. The Company adopted the guidance as of January 1, 2012, which did not have a material impact on the consolidated financial statements.

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

#### Reclassifications

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the 2011 presentation. These reclassifications had no effect on the previously reported net revenues, income from operations or net income. Revenues and expenses from the spa operations that were classified as hotel revenues and expenses in 2009 have been reclassified to other revenues and other expenses to conform with the 2011 and 2010 presentation.

The Company reclassified \$2.4 million from hotel revenues to other revenues and reclassified \$1.3 million from hotel operating expenses to other operating expenses for the year ended December 31, 2009.

#### NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

|        | December 31, |              |
|--------|--------------|--------------|
|        | 2011         | 2010         |
| Casino | \$ 2,819,310 | \$ 4,852,826 |
| Hotel  | 483,634      | 475,044      |
| Other  | 309,748      | 392,095      |

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|                                      |              |    |             |
|--------------------------------------|--------------|----|-------------|
|                                      | 3,612,692    |    | 5,719,965   |
| Less allowance for doubtful accounts | (1,312,845)  |    | (2,450,715) |
|                                      | \$ 2,299,847 | \$ | 3,269,250   |

The Company recorded bad debt expense of \$84,798, \$740,387 and \$1,120,333 in 2011, 2010 and 2009, respectively. The Company calculates an allowance for doubtful accounts by applying a

percentage, estimated by management based on historical aging experience, to the accounts receivable balance.

### NOTE 3. ACCRUED EXPENSES

Accrued expenses consist of the following:

|  | December 31,  |               |
|--|---------------|---------------|
|  | 2011          | 2010          |
| Accrued salaries, wages and related benefits       | \$ 4,159,055  | \$ 3,912,072  |
| Progressive slot machine and other gaming accruals | 3,240,818     | 4,703,303     |
| Accrued gaming taxes                               | 466,905       | 515,688       |
| Accrued interest                                   | 88,542        | 35,766        |
| Other accrued liabilities                          | 5,874,220     | 4,910,515     |
|  | \$ 13,829,540 | \$ 14,077,344 |

### NOTE 4. LEASE COMMITMENTS

In 2004, a driveway was constructed that is being shared between the Atlantis and the adjacent Sierra Marketplace Shopping Center that is owned and controlled by affiliates of the Company's principal stockholders (the Shopping Center). A traffic signal was erected at mid-block on South Virginia Street, serving the driveway. As part of this project, the Company is leasing a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. The Company has the option to renew the lease for 3 five-year terms, and at the end of the extension periods, the Company has the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI appraisal. The Company uses the leased driveway space for pedestrian and vehicle access to the Atlantis, and the Company has use of a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; the Company was responsible for two thirds of the total cost, or \$1.35 million. The project was completed, the driveway was put into use and the Company began paying rent on September 30, 2004. The cost of the driveway is being depreciated over the initial 15-year lease term; some components of the driveway are being depreciated over a shorter period of time.

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

Following is a summary of future minimum payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2011:

| Year ending December 31, | Operating<br>Leases |
|--------------------------|---------------------|
| 2012                     | 370,000             |
| 2013                     | 370,000             |



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|                              |    |           |
|------------------------------|----|-----------|
| 2014                         |    | 370,000   |
| 2015                         |    | 370,000   |
| 2016                         |    | 370,000   |
| Thereafter                   |    | 1,017,500 |
| Total minimum lease payments | \$ | 2,867,500 |

Rental expense for operating leases amounted to \$730,400, \$840,000 and \$1,153,753 in 2011, 2010 and 2009, respectively, as reported in selling, general and administrative expenses in the consolidated statements of income.

#### NOTE 5. LONG-TERM DEBT

##### Old Credit Facility

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

The maturity date of the Old Credit Facility was January 20, 2012 but was amended and restated (the New Credit Facility) on November 15, 2011. Borrowings were secured by liens on substantially all of the real and personal property of the Atlantis and are guaranteed by Monarch.

##### New Credit Facility

The New Credit Facility may be utilized by the Company for financing the expected acquisition of Riviera Black Hawk, Inc., working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The maximum available borrowings under the New Credit Facility are \$30 million with an additional \$70 million to be available subject to the closing of the Acquisition (see Note 10).

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

The New Credit Facility contains covenants customary and typical for a facility of this nature, including, but not limited to, covenants requiring the preservation and maintenance of the Company's assets and covenants restricting our ability to merge, transfer ownership of Monarch, incur additional indebtedness, encumber assets and make certain investments. The New Credit Facility contains covenants requiring that the Company maintains certain financial ratios and achieves a minimum level of Earnings-Before-Interest-Taxes-Depreciation and Amortization (EBITDA) on a trailing four-quarter basis. It also contains provisions that restrict cash transfers between Monarch and its affiliates and contains provisions requiring the achievement of certain financial ratios before the Company can repurchase common stock or pay dividends. Management does not consider the covenants to restrict normal functioning of day-to-day operations.

As of December 31, 2011, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 3.25:1 and a fixed charge coverage ratio (EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of December 31, 2011, the Company's leverage ratio and fixed charge coverage ratios were 0.84:1 and 22.0:1, respectively. As of December 31, 2010, the Company's leverage ratio and fixed charge coverage ratios were 0.97:1 and 14.0:1, respectively.

The maximum principal available under the New Credit Facility is reduced by 1.5% per quarter beginning in the first quarter of 2013. The Company may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least \$500 thousand and a multiple of

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\$50 thousand. Maturities of the Company's borrowings for each of the next three years and thereafter as of December 31, 2011 are as follows (amounts in thousands):

| Year       | Maturities |
|------------|------------|
| 2012       | \$         |
| 2013       |            |
| 2014       |            |
| Thereafter | 24,680     |
|            | \$ 24,680  |

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

The Company paid various one-time fees and other loan costs upon the closing of the refinancing of the New Credit Facility that are amortized over the facility's term using the straight-line method which approximates the effective interest method.

At December 31, 2011, the Company had \$24.7 million outstanding under the New Credit Facility, none of which was classified as short-term debt. The interest rate under the New 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 the Company's leverage ratio. The interest rate is adjusted quarterly based on the Company's leverage ratio calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At December 31, 2011 pricing was set at the opening pricing point of LIBOR plus 2.250% and will be adjusted in subsequent quarters in accordance with the Company's leverage ratio. At December 31, 2011, the one-month LIBOR rate was 0.29%. The carrying value of the debt outstanding under the New Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

Short-term debt represents the difference between the amount outstanding at end of the year and the maximum principal allowed under the New Credit Facility at the end of the following year. At December 31, 2011 and 2010 the Company had no short-term debt.

**NOTE 6. INCOME TAXES**

Income tax provision (benefit) consists of the following:

|                              | Years ended December 31, |              |              |
|------------------------------|--------------------------|--------------|--------------|
|                              | 2011                     | 2010         | 2009         |
| Current provision            | \$ 4,683,711             | \$ 4,443,536 | \$ 402,156   |
| Deferred (benefit) provision | (1,503,638)              | (104,612)    | 1,919,523    |
|                              | \$ 3,180,073             | \$ 4,338,924 | \$ 2,321,679 |

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Income tax benefits were recognized through stockholders' equity of \$0, \$4,472 and \$6,673 during the years of 2011, 2010 and 2009, respectively, as compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes.

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

|                                      | Years ended December 31, |         |         |
|--------------------------------------|--------------------------|---------|---------|
|                                      | 2011                     | 2010    | 2009    |
| Income tax at the statutory rate     | 35.00%                   | 35.00%  | 35.00%  |
| Tax credits                          | (2.24)%                  | (1.52)% | (2.23)% |
| Adjustment to base jackpot liability | 2.09%                    | 0.00%   | 0.00%   |
| Other                                | 1.06%                    | 1.01%   | (0.37)% |
|                                      | 35.91%                   | 34.49%  | 32.40%  |

The components of the deferred income tax assets and liabilities at December 31, 2011 and 2010, as presented in the consolidated balance sheets, are as follows:

|  | 2011                | 2010                  |
|--|---------------------|-----------------------|
| <b>DEFERRED TAX ASSETS</b>               |                     |                       |
| Share based compensation                 | \$ 4,126,452        | \$ 3,555,103          |
| Compensation and benefits                | 440,268             | 506,897               |
| Bad debt reserves                        | 459,496             | 857,751               |
| Accrued gaming liabilities               | 773,052             | 1,148,127             |
| Accrued interest                         | 8,937               | 8,937                 |
| Accrued other                            | 298,631             | 384,769               |
| Deferred income tax asset                | \$ 6,106,836        | \$ 6,461,584          |
| <b>DEFERRED TAX LIABILITIES</b>          |                     |                       |
| Depreciation                             | (5,537,132)         | (7,324,088)           |
| Prepaid expenses                         | (785,328)           | (861,613)             |
| Real estate taxes                        | (280,513)           | (275,658)             |
| Deferred income tax liability            | \$ (6,602,973)      | \$ (8,461,359)        |
| <b>NET DEFERRED INCOME TAX LIABILITY</b> | <b>\$ (496,137)</b> | <b>\$ (1,999,775)</b> |

The Company is required to file a federal tax return only. As of December 31, 2011, tax years 2006 through 2010 were subject to examination by the Internal Revenue Service (the "IRS"). During 2009, the IRS began its field examination (the "Examination") of the Company's 2006, 2007 and 2008 tax returns. The issues for consideration in the Examination were temporary differences related to the appropriate recovery periods applicable to certain assets. In 2010, the Company received the results of the Examination of its 2006 through 2008 U.S. federal income tax returns and subsequently filed an appeal of the Examination findings with the Appellate Division of the IRS. In connection with that appeal, the Company agreed to extend the statute of limitations for its 2006, 2007 and 2008 tax returns to December 31, 2012 to allow the IRS adequate time to consider its response in the appeals process. The company believes that it will likely reach an agreement with the IRS with respect to the Examination within the next 12 months. Upon the settlement of these issues unrecognized tax benefits could decrease by \$1,501,206 to \$0.

Accounting standards require that tax positions be assessed for recognition using a two-step process. A tax position is recognized if it meets a "more likely than not" threshold, and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized. Uncertain tax positions must be reviewed at each balance sheet date. Liabilities recorded as a result of this analysis must generally be recorded separately from any current or deferred income tax accounts. The Company's policy regarding interest and penalties associated with any uncertain tax positions is to classify such amounts as income tax expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in thousands):

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|  | 2011         | 2010         |
|--|--------------|--------------|
| Balance Beginning of year                            | \$ 1,501,206 | \$           |
| Additions based on tax positions of the current year |              |              |
| Additions based on tax positions of prior years      |              | 1,501,206    |
| Reductions for settlements                           |              |              |
| Decreases due to lapses in statutes of limitations   |              |              |
| Balance End of year                                  | \$ 1,501,206 | \$ 1,501,206 |

As of December 31, 2011 and 2010, the Company recorded a liability related to uncertain tax positions of \$1,501,206 all of which is recorded as a current liability.

For the years ending December 31, 2011 and 2010, the Company recognized accrued interest expense related to unrecognized tax benefits of \$165,871 and \$169,788, respectively. At December 31, 2011, accrued interest related to unrecognized tax benefits was \$335,659. No interest or penalties were recorded for the year ending December 31, 2009.

**NOTE 7. BENEFIT PLANS**

Savings Plan - Effective November 1, 1995, the Company adopted a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating employees may defer up to 15% of their pre-tax compensation, but not more than statutory limits. Effective January 1, 2009, the Company suspended its contribution and on July 1, 2010, reinstated the contribution. The Company's matching contributions were approximately \$221,582, \$97,180 and \$0 for years ended December 31, 2011, 2010 and 2009, respectively.

**NOTE 8. SHARE-BASED COMPENSATION**

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

A summary of the stock option activity as of and for the year ended December 31, 2011 is presented below:

| Options                            | Shares    | Exercise Price | Weighted Average | Remaining Contractual Term | Aggregate Intrinsic Value |
|------------------------------------|-----------|----------------|------------------|----------------------------|---------------------------|
| Outstanding at beginning of period | 2,079,383 | \$             | 12.54            |                            |                           |
| Granted                            | 293,627   |                | 9.56             |                            |                           |
| Exercised                          |           |                |                  |                            |                           |

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|                              |           |    |       |          |                |
|------------------------------|-----------|----|-------|----------|----------------|
| Forfeited                    | (20,555)  |    | 10.75 |          |                |
| Expired                      | (4,999)   |    | 20.59 |          |                |
| Outstanding at end of period | 2,347,456 | \$ | 12.13 | 6.8 yrs. | \$ 701,710     |
| Exercisable at end of period | 1,232,329 | \$ | 13.85 | 5.1 yrs. | \$ (1,330,342) |

On May 21, 2010, the Company commenced a Stock Option Exchange Program whereby eligible employees were allowed a one-time opportunity to voluntarily surrender certain outstanding underwater stock options in exchange for fewer new stock options with a lower exercise price (the Exchange



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Offer ). The Exchange Offer expired on June 18, 2010. Pursuant to the Exchange Offer, 454,319 eligible stock options were tendered and accepted by the Company for cancellation. The tendered options represented approximately 95% of the total stock options eligible for exchange in the Exchange Offer. On June 21, 2010, the Company granted an aggregate of 426,709 new stock options in exchange for the eligible stock options surrendered in the Exchange Offer. The exercise price of the new stock options is \$11.15, which was the closing price of the Company's common stock on June 21, 2010 as reported by the NASDAQ stock exchange.

A summary of the status of the Company's nonvested shares as of, and for the year ended, December 31, 2011 is presented below:

| Nonvested Shares               | Shares    | Weighted-Average<br>Grant Date Fair<br>Value |
|--------------------------------|-----------|--|
| Nonvested at January 1, 2011   | 1,246,143 | \$ 6.52                                      |
| Granted                        | 293,627   | 9.56   |
| Vested                         | (399,089) | 13.85  |
| Forfeited                      | (25,554)  | 10.75  |
| Nonvested at December 31, 2011 | 1,115,127 | \$ 12.16                                     |

Expense Measurement and Recognition:

The Company recognizes share-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Unrecognized costs related to all share-based awards outstanding at December 31, 2011 totaled approximately \$1.3 million and is expected to be recognized over a weighted average period of 2.9 years.

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

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

|   | Years ended December 31, |         |         |
|---|--------------------------|---------|---------|
|   | 2011                     | 2010    | 2009    |
| Expected volatility   | 56.1%                    | 42.9%   | 64.1%   |
| Expected dividends  |                          |         |         |
| Expected life (in years)  |                          |         |         |
| Directors' Plan   | 4.6                      | 4.6     | 2.5     |
| Executive Plan  | 4.5                      | 4.5     | 4.5     |
| Employee Plan   | 3.1                      | 3.1     | 3.1     |
| Weighted average risk free rate                                     | 0.7%                     | 1.2%    | 1.4%    |
| Weighted average grant date fair value per share of options granted | \$ 3.89                  | \$ 2.13 | \$ 4.52 |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| Total intrinsic value of options exercised     | \$ | 64,253 | \$ | 15,698 |
| Cash received for all stock option exercises   | \$ | 95,372 | \$ | 13,009 |
| Tax benefit realized for tax return deductions | \$ | 4,472  | \$ | 6,673  |

The risk-free interest rate is based on the U.S. treasury security rate in effect as of the date of grant. The expected lives of options are based on historical data of the Company. The Company has

determined that an implied volatility is more reflective of market conditions and a better indicator of expected volatility.

Reported stock based compensation expense was classified as follows:

|  | For the years ended December 31, |              |              |
|--|----------------------------------|--------------|--------------|
|  | 2011                             | 2010         | 2009         |
| Casino                                       | \$ 80,530                        | \$ 46,313    | \$ 58,761    |
| Food and beverage                            | 70,633                           | 75,633       | 56,600       |
| Hotel  | 17,028                           | 27,866       | 23,587       |
| Selling, general and administrative          | 1,451,461                        | 1,591,272    | 1,909,823    |
| Total stock-based compensation, before taxes | 1,619,652                        | 1,741,084    | 2,048,771    |
| Tax benefit                                  | (581,601)                        | (609,379)    | (717,069)    |
| Total stock-based compensation, net of tax   | \$ 1,038,051                     | \$ 1,131,705 | \$ 1,331,702 |

#### NOTE 9. COMMITMENTS AND CONTINGENCIES

Self Insurance - The Company is self-insured for health care claims for eligible active employees. Benefit plan administrators assist the Company in determining its liability for self-insured claims, and such claims are not discounted. The Company is also self-insured for workers compensation. Both plans limit the Company's maximum liability through a benefit limitation in the case of the health plan and through a stop-loss insurance agreement in the case of the worker's compensation plan. The maximum liability per insured is \$750 thousand per calendar year. The maximum liability for workers' compensation under the stop-loss agreement is \$500 thousand per claim.

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.

#### NOTE 10. RIVIERA BLACK HAWK ACQUISITION

On September 29, 2011, Monarch entered into a definitive Stock Purchase Agreement (the "Agreement") with Riviera Operating Corporation, a Nevada corporation, Riviera Holdings Corporation, a Nevada corporation (collectively the "Seller" and together with Monarch, the "Parties") and Riviera Black Hawk, Inc., a Colorado corporation ("Riviera Black Hawk"). Pursuant to the Agreement, the Seller agreed to sell all of the issued and outstanding shares of common stock of Riviera Black Hawk to Monarch.

Monarch will pay \$76 million (the "Purchase Price"), subject to certain post-Closing working capital adjustments. At Closing, Seller will pay substantially all of Riviera Black Hawk's indebtedness and will leave Monarch at least \$2.1 million of net working capital comprised of at least \$2.1 million of cash.

The closing of the transaction contemplated by the Agreement (the "Closing") is subject to the satisfaction or waiver of certain conditions, including, without limitation, (i) the approval of the transaction by the Colorado Limited Gaming Commission, (ii) the issuance of required licenses to Monarch, and certain Monarch management, from the Colorado Gaming Commission, (iii) the absence of the occurrence of a material adverse effect on Riviera Black Hawk between the date of the Agreement and the Closing of the transaction (iv) the receipt of certain consents, approvals or authorizations required to consummate the transaction contemplated by the Agreement and other licenses and permits required to operate Riviera Black Hawk, (v) certain materiality exceptions, the accuracy of the representations and warranties made by Monarch and Seller, respectively, (vi) compliance with the Parties' respective obligations under the Agreement, (vii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and (viii) other customary closing conditions. The transaction is not subject to a financing or due diligence condition.

In accordance with the Agreement, Monarch made a non-refundable (except under certain conditions) deposit of \$3.8 million (the "Deposit") which will be credited against the Purchase Price upon the Closing. The Deposit is classified in prepaid expenses and other current assets on the balance sheet at December 31, 2011. Upon Closing, Monarch is also obligated to pay a \$1.25 million success fee to its financial advisor. In addition to certain other termination rights, the Agreement may be terminated by either Monarch or the Seller if the Closing has not occurred by the last day of the calendar month of the date that is nine months after the date of the Agreement (the "Outside Date"). Monarch may extend the Outside Date to twelve months by increasing the Deposit by \$500,000.



The Parties have made certain representations and warranties in the Agreement, including, without limitation, representations and warranties regarding the condition of the assets and liabilities of Riviera Black Hawk, as applicable, pursuant to the Agreement and the availability of funds to consummate the transaction. Additionally, the Parties have agreed to certain covenants, including, without limitation, covenants governing the operation of Riviera Black Hawk prior to the Closing and certain matters post-Closing. Pursuant to the terms of the Agreement, in addition to Monarch's indemnification obligations, the Seller has agreed to limited indemnification for losses incurred or sustained due to actions arising out of the Agreement and the transaction contemplated thereby.

#### NOTE 11. RELATED PARTY TRANSACTIONS

The 18.95-acre shopping center (the Shopping Center) adjacent to the Atlantis Casino Resort Spa is owned by Biggest Little Investments, L.P. (BLI). BLI's general partner is Maxum, L.L.C. (Maxum). John Farahi, Bob Farahi and Ben Farahi each individually own non-controlling interests in BLI and Maxum. John Farahi is Co-Chairman of the Board, Chief Executive Officer, Chief Operating Officer and a Director of Monarch. Bob Farahi is Co-Chairman of the Board, President, Secretary and a Director of Monarch. Ben Farahi formerly was the Co-Chairman of the Board, Secretary, Treasurer, Chief Financial Officer and a Director of Monarch. Monarch's board of directors accepted Ben Farahi's resignation from these positions on May 23, 2006.

A driveway that is being shared between the Atlantis and the Shopping Center was completed on September 30, 2004. As part of this project, in January 2004, the Company leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. The Company began paying rent to the Shopping Center on September 30, 2004. The Company also uses part of the common area of the Shopping Center and pays its proportional share of the common area expense of the Shopping Center. The Company has the option to renew the lease for 3 five-year terms, and at the end of the extension periods, the Company has the option to purchase the leased driveway section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by the Company for pedestrian and vehicle access to the Atlantis, and the Company may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; the Company was responsible for two thirds of the total cost, or \$1.35 million. The Company paid approximately \$340,000, \$340,000 and \$310,000 plus common area charges for the years ended December 31, 2011, 2010 and 2009, for its leased driveway space at the Shopping Center.

#### NOTE 12. SUBSEQUENT EVENTS

The Company evaluated all subsequent events through the date that the consolidated financial statements were issued. No material subsequent events have occurred since December 31, 2011 that required recognition or disclosure in the consolidated financial statements.

**NOTE 13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

|                                  | 2011          |               |               |               |                |  |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|--|
|                                  | 1st Quarter   | 2nd Quarter   | 3rd Quarter   | 4th Quarter   | Total          |  |
| Net revenues                     | \$ 33,285,816 | \$ 37,159,873 | \$ 36,174,386 | \$ 34,012,130 | \$ 140,632,205 |  |
| Operating expenses               | 30,629,377    | 31,491,091    | 36,022,941    | 32,718,561    | 130,861,970    |  |
| Income from operations           | 2,656,439     | 5,668,782     | 151,445       | 1,293,569     | 9,770,235      |  |
| Net income                       | 1,539,146     | 3,558,136     | 11,279        | 567,293       | 5,675,854      |  |
| Income per share of common stock |               |               |               |               |                |  |
| Basic                            | \$ 0.10       | \$ 0.22       | \$ 0.00       | \$ 0.04       | \$ 0.35        |  |
| Diluted                          | \$ 0.09       | \$ 0.22       | \$ 0.00       | \$ 0.03       | \$ 0.35        |  |

|                                  | 2010          |               |               |               |                |  |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|--|
|                                  | 1st Quarter   | 2nd Quarter   | 3rd Quarter   | 4th Quarter   | Total          |  |
| Net revenues                     | \$ 34,351,552 | \$ 36,155,896 | \$ 37,680,098 | \$ 33,842,481 | \$ 142,030,027 |  |
| Operating expenses               | 30,135,982    | 31,693,659    | 33,273,133    | 32,894,203    | 127,996,977    |  |
| Income from operations           | 4,215,570     | 4,462,237     | 4,406,965     | 948,278       | 14,033,050     |  |
| Net income                       | 2,442,146     | 2,660,331     | 2,665,937     | 467,847       | 8,236,261      |  |
| Income per share of common stock |               |               |               |               |                |  |
| Basic                            | \$ 0.15       | \$ 0.16       | \$ 0.17       | \$ 0.03       | \$ 0.51        |  |
| Diluted                          | \$ 0.15       | \$ 0.16       | \$ 0.17       | \$ 0.03       | \$ 0.51        |  |

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

As of the end of the period covered by this Annual Report on Form 10-K, (the Evaluation Date ), an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. No changes were made to our internal control over financial reporting (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control over Financial Reporting**



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

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even

effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment we believe that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

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

#### **ITEM 9B. OTHER INFORMATION**

At the Company's 2011 Annual Meeting of Stockholders held on May 6, 2011, stockholders voted on an advisory (non-binding) proposal regarding the frequency of future advisory votes on executive compensation. As we reported on a Form 8-K filed on May 10, 2011, approximately 56% of the votes cast on the frequency proposal voted in favor of holding an advisory vote on executive compensation every three years. Following consideration of the stockholder vote on the frequency proposal, the Company's Board of Directors has determined to hold an advisory vote on executive compensation every three years.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 1, 2012.

#### **ITEM 11. EXECUTIVE COMPENSATION**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 1, 2012.

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

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

| Plan Category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|---|--|--|--|
| Equity compensation plans approved by security holders (F1) | 2,347,456  | \$ 12.13   | 971,384  |
| Equity compensation plans not approved by security holders  |  |  |  |
| Total   | 2,347,456  | \$ 12.13   | 971,384  |

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

Additional information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 1, 2012.

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

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 1, 2012.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

This information is incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders to be held on June 1, 2012.



**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. Financial Statements

Included in Part II of this report:

a) Report of Independent Registered Public Accounting Firm

b) Consolidated Statements of Income for the years ended December 31, 2011, 2010 and 2009.

c) Consolidated Balance Sheets at December 31, 2011 and 2010.

d) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009.

e) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009.

f) Notes to Consolidated Financial Statements.

2. Financial Statements Schedules

Schedule II. - VALUATION AND QUALIFYING ACCOUNTS

| <b>Year ended<br/>December 31,<br/><u>2009</u></b> | <b>Balance at<br/>beginning<br/>of year</b> | <b>Charged to<br/>costs and<br/>expenses</b> | <b>Deductions<br/>(F1)</b> | <b>Other</b> | <b>Balance at end<br/>of year</b> |
|--|---|--|----------------------------|--------------|-----------------------------------|
| Allowance for doubtful accounts                    | \$ 1,888,196                                | \$ 1,120,333                                 | \$ (597,246)               | \$           | \$ 2,411,283                      |

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| <u>2010</u>                     |    |           |    |         |                   |              |
|---------------------------------|----|-----------|----|---------|-------------------|--------------|
| Allowance for doubtful accounts | \$ | 2,411,283 | \$ | 740,387 | \$ (700,955) \$   | \$ 2,450,715 |
| <u>2011</u>                     |    |           |    |         |                   |              |
| Allowance for doubtful accounts | \$ | 2,450,715 | \$ | 84,798  | \$ (1,222,668) \$ | \$ 1,312,845 |

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

**Exhibits**

| <b>Number</b> | <b>Exhibit Description</b>  |
|---------------|---|
| 2.01          | Stock Purchase Agreement dated as of September 29, 2011 by and between Monarch Casino & Resort, Inc., Monarch Growth Inc. (a wholly owned subsidiary of Monarch Casino and Resort, Inc.), Riviera Operating Corporation, Riviera Holdings Corporation |

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and Riviera Black Hawk, Inc. is incorporated herein by reference to the Company's Form 8-K/A (SEC File 0-22088) filed on October 4, 2011, Exhibit 2.1.

- 3.01 Articles of Incorporation of Monarch Casino & Resort, Inc., filed June 11, 1993 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.01.
- 3.02 Bylaws of Monarch Casino & Resort, Inc., adopted June 14, 1993 and amended January 24, 1995 and March 27, 2009 are incorporated herein by reference from the Company's Form 10-Q (SEC File 0-22088) filed on May 11, 2009, Exhibit 3.1.
- 3.03 Articles of Incorporation of Golden Road Motor Inn, Inc. filed March 6, 1973; Certificate Amending Articles of Incorporation of Golden Road Motor Inn, Inc. filed August 29, 1973; and Certificate of Amendment of Articles of Incorporation filed April 5, 1984 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.03.
- 3.04 Bylaws of Golden Road Motor Inn, Inc., adopted March 9, 1973 are incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 3.04.
- 4.01 Specimen Common Stock Certificate for the Common Stock of Monarch Casino & Resort, Inc. is incorporated herein by reference from the Company's Form S-1 registration statement (SEC File 33-64556), Part II, Item 16, Exhibit 4.01.
- 4.02 Amended and Restated Monarch Casino & Resort, Inc. 1993 Directors' Stock Option Plan is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-022088) for the fiscal year ended December 31, 1998, Item 14(c), Exhibit 4.02.
- 4.03 Monarch Casino & Resort, Inc. 1993 Executive Long-Term Incentive Plan, as amended, is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) filed on March 25, 2011, Appendix B.
- 4.04 Monarch Casino & Resort, Inc. 1993 Employee Stock Option Plan, as amended, is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) filed on March 25, 2011, Appendix A.
- 4.05 Second Amendment to Monarch Casino & Resort, Inc. 1993 Directors' Stock Option Plan is incorporated herein by reference to the Company's Proxy Statement (SEC File 0-22088) in relation to the Company's 2003 Annual Meeting of Stockholders Exhibit A-1.
- 10.01 Non-standardized 401(k) Plan Adoption Agreement between Monarch Casino & Resort, Inc. and Smith Barney Shearson dated November 7, 1995 is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995, Item 14(a)(3), Exhibit 10.21.
- 10.02 Trademark Agreement between Golden Road Motor Inn, Inc. and Atlantis Lodge, Inc., dated February 3, 1996 is incorporated herein by reference to the Company's Form 10-K report (SEC File 0-22088) for the fiscal year ended December 31, 1995, Item 14(a)(3), Exhibit 10.23.
- 10.03 Lease Agreement and Option to Purchase dated as of January 29, 2004, between Golden Road Motor Inn, Inc. as Lessee and Biggest Little Investments, L.P. as Lessor is

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incorporated herein by reference to the Company's Form 10-K (SEC File 0-22088) dated March 11, 2004, Exhibit 10.18.

|         |   |
|---------|---|
| 10.04   | Second Amended and Restated Credit Agreement, dated as of November 15, 2011, among Monarch Casino & Resort, Inc., Golden Road Motor Inn, Inc. and Monarch Growth Inc., as Borrowers, the Lenders named therein, and Wells Fargo Bank, National Association, as Administrative Agent, L/C Issuer, Swing Line Lender and Lead Arranger and Wells Fargo Securities, LLC, as Lead Arranger and Sole Book runner, Bank of America N.A., as Syndication Agent.* |
| 21.01   | List of Subsidiaries of Monarch Casino & Resort, Inc.*  |
| 23.1    | Consent of Independent Registered Public Accounting Firm*   |
| 31.1    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 31.2    | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*   |
| 32.1    | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*   |
| 32.2    | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is filed as an exhibit to this Form 10-K.*   |
| 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  |

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\* filed herewith.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MONARCH CASINO & RESORT, INC.  
(Registrant)

Date: March 14, 2012

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

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

| Signature                                  | Title  | Date           |
|--|--|----------------|
| /S/ JOHN FARAHI<br>John Farahi             | Co-Chairman of the Board of Directors<br>Chief Executive Officer (Principal<br>Executive Officer) and Director | March 14, 2012 |
| /S/ BOB FARAHI<br>Bob Farahi               | Co-Chairman of the Board of Directors,<br>President, Secretary and Director                                    | March 14, 2012 |
| /S/ RONALD ROWAN<br>Ronald Rowan           | Chief Financial Officer and Treasurer<br>(Principal Financial Officer and<br>Principal Accounting Officer)     | March 14, 2012 |
| /S/ YVETTE E. LANDAU<br>Yvette E. Landau   | Director   | March 14, 2012 |
| /S/ CRAIG F. SULLIVAN<br>Craig F. Sullivan | Director   | March 14, 2012 |
| /S/ RONALD R. ZIDECK<br>Ronald R. Zideck   | Director   | March 14, 2012 |