

MONARCH CASINO & RESORT INC

Form 10-Q

August 08, 2017

Table of Contents

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from to .

Commission File No. 0-22088

MONARCH CASINO & RESORT, INC.

(Exact name of registrant as specified in its charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	88-0300760 (I.R.S. Employer Identification No.)
3800 S. Virginia St. Reno, Nevada (Address of Principal Executive Offices)	89502 (ZIP Code)

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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

Common stock, \$0.01 par value	17,568,574 shares
Class	Outstanding at August 4, 2017

Table of Contents

TABLE OF CONTENTS

Item	Page Number
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017 and 2016 (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets at June 30, 2017 (unaudited) and December 31, 2016</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	21
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	21
<u>Item 1A. Risk Factors</u>	21
<u>Item 6. Exhibits</u>	21
<u>Signatures</u>	22

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30,	2016	June 30,	2016
	2017		2017	
Revenues				
Casino	\$ 45,323	\$ 41,999	\$ 86,633	\$ 81,731
Food and beverage	15,562	15,546	31,052	28,960
Hotel	6,248	6,034	11,888	11,137
Other	3,070	2,828	5,848	5,499
Gross revenues	70,203	66,407	135,421	127,327
Less promotional allowances	(11,974)	(11,829)	(23,778)	(23,000)
Net revenues	58,229	54,578	111,643	104,327
Operating expenses				
Casino	18,060	17,435	35,740	34,765
Food and beverage	6,510	6,411	12,762	12,191
Hotel	2,249	1,866	4,457	3,480
Other	1,022	988	2,007	1,947
Selling, general and administrative	15,080	14,536	29,719	27,687
Depreciation and amortization	3,769	3,790	7,675	7,490
(Gain) Loss on disposition of assets	(14)	607	4	663
Total operating expenses	46,676	45,633	92,364	88,223
Income from operations	11,553	8,945	19,279	16,104
Other expenses				
Interest expense, net of amounts capitalized	(206)	(60)	(478)	(145)
Total other expense	(206)	(60)	(478)	(145)
Income before income taxes	11,347	8,885	18,801	15,959
Provision for income taxes	(4,108)	(3,190)	(6,690)	(5,689)
Net income	\$ 7,239	\$ 5,695	\$ 12,111	\$ 10,270

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

Earnings per share of common stock

Net income

Basic	\$ 0.41	\$ 0.33	\$ 0.69	\$ 0.60
Diluted	\$ 0.40	\$ 0.32	\$ 0.67	\$ 0.58

Weighted average number of common shares and potential common shares outstanding

Basic	17,527	17,259	17,502	17,235
Diluted	18,208	17,579	18,114	17,560

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

Table of Contents

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except shares)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 24,218	\$ 26,383
Receivables, net	4,071	5,036
Income taxes receivable	1,643	408
Inventories	3,191	3,097
Prepaid expenses	3,875	4,487
Total current assets	36,998	39,411
Property and equipment		
Land	29,549	29,549
Land improvements	6,914	6,914
Buildings	191,412	191,370
Buildings improvements	24,511	24,511
Furniture and equipment	136,500	134,603
Construction in progress	27,326	9,767
Leasehold improvements	2,688	2,688
	418,900	399,402
Less accumulated depreciation and amortization	(190,851)	(184,503)
Net property and equipment	228,049	214,899
Other assets		
Goodwill	25,111	25,111
Intangible assets, net	4,452	5,035
Deferred income taxes	7,354	7,354
Other assets, net	3,087	3,355
Total other assets	40,004	40,855
Total assets	\$ 305,051	\$ 295,165
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 7,177	\$ 8,720
Construction accounts payable	2,501	2,605
Accrued expenses	21,053	23,795
Total current liabilities	30,731	35,120
Long-term debt	26,200	26,200
Total liabilities	56,931	61,320
Stockholders' equity		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued	—	—

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

Common stock, \$.01 par value, 30,000,000 shares authorized; 19,096,300 shares issued; 17,555,242 outstanding at June 30, 2017; 17,468,269 outstanding at December 31, 2016	191	191
Additional paid-in capital	24,798	23,834
Treasury stock, 1,541,058 shares at June 30, 2017; 1,628,031 shares at December 31, 2016	(20,958)	(22,158)
Retained earnings	244,089	231,978
Total stockholders' equity	248,120	233,845
Total liabilities and stockholders' equity	\$ 305,051	\$ 295,165

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

Table of Contents

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 12,111	\$ 10,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,675	7,490
Amortization of deferred loan costs	269	153
Stock-based compensation	2,163	550
Excess tax benefit from stock-based compensation	—	(285)
Provision for bad debts	37	26
Loss on disposition of assets	4	663
Changes in operating assets and liabilities:		
Receivables	928	(100)
Inventories	(94)	(17)
Prepaid expenses	612	(367)
Accounts payable	(1,439)	1,255
Accrued expenses	(2,729)	(1,282)
Income taxes	(1,235)	(1,228)
Net cash provided by operating activities	18,302	17,128
Cash flows from investing activities:		
Proceeds from sale of assets	86	20
Change in construction payable	(104)	(1)
Acquisition of property and equipment	(20,449)	(14,828)
Net cash used in investing activities	(20,467)	(14,809)
Cash flows from financing activities:		
Net exercise of stock options	—	1,428
Excess tax benefit from stock-based compensation	—	285
Principal payments on long-term debt	—	(5,900)
Net cash used in financing activities	—	(4,187)
Net decrease in cash	(2,165)	(1,868)
Cash and cash equivalents at beginning of period	26,383	21,164
Cash and cash equivalents at end of period	\$ 24,218	\$ 19,296
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 209	\$ —

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

Cash paid for income taxes	\$ 7,925	\$ 6,650
Return of assets under capital lease:		
Accounts Payable	\$ (105)	\$ —
Accrued Expenses	\$ (13)	\$ —

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

5

Table of Contents

MONARCH CASINO & RESORT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUARTERLY PERIOD ENDED JUNE 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

Monarch Casino & Resort, Inc. was incorporated in 1993 and, through its wholly owned subsidiary Golden Road Motor Inn, Inc. (“Golden Road”), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the “Atlantis”). Monarch’s wholly owned subsidiaries, High Desert Sunshine, Inc. (“High Desert”), Golden East, Inc. (“Golden East”) and Golden North, Inc. (“Golden North”), each own separate parcels of land located proximate to the Atlantis.

Monarch’s wholly owned subsidiary, Monarch Growth Inc. (“Monarch Growth”), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino, on April 26, 2012. Riviera Black Hawk, Inc. was renamed Monarch Black Hawk, Inc. and Riviera Black Hawk Casino was renamed Monarch Casino Black Hawk in October 2013. In addition to owning the Monarch Casino Black Hawk, Monarch Black Hawk, Inc. wholly owns Chicago Dogs Eatery, Inc. and Monarch Promotional Association, both of which were formed in relation to extended licensure requirements for extended hours of liquor operation in Black Hawk, Colorado. Monarch Growth’s wholly owned subsidiary, Inter-Mountain Construction, LLC, owns a parcel of land with an industrial warehouse located between Denver Colorado and Monarch Casino Black Hawk.

The accompanying unaudited condensed consolidated financial statements include the accounts of Monarch and its subsidiaries (the “Consolidated Financial Statements”). Intercompany balances and transactions are eliminated.

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

Interim Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The balance sheet at December 31, 2016 has been derived from the audited consolidated financial statements of the Company at that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2016.

Fair Value of Financial Instruments:

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

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

Table of Contents

Debt Issuance Costs:

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the term of the related debt agreement. Loan issuance costs are included in "Other assets, net" on the Company's condensed consolidated balance sheets. As of June 30, 2017, loan issuance costs, net of amortization was \$2.2 million.

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

In December 2013, the Company began construction of a new parking facility at Monarch Casino Black Hawk. Upon completion of the new structure, the Company planned to demolish the existing parking structure. At December 31, 2013, the existing parking structure had a net book value of approximately \$4.8 million and a remaining depreciable life of approximately 37 years. The new parking facility was estimated to be completed on March 31, 2015. In accordance with Financial Accounting Standards Board ("FASB") accounting standards codification ("ASC") 250-10-45-17, effective January 1, 2014, the Company modified the estimated depreciable life of the existing parking structure to 15 months; the period from January 1, 2014 through the estimated demolition commencement date of March 31, 2015. As a result of this modification to the estimated depreciable life, depreciation expense of the existing parking structure increased by approximately \$0.3 million per month (approximately \$0.2 million net of tax). In July 2014, because of a delayed construction schedule, the Company revised the new parking facility completion date to December 31, 2015. At this time, the existing parking structure had a net book value of approximately \$2.9 million. The Company modified the estimated depreciable life of the existing parking structure to 18 months; the period from July 1, 2014 through the revised estimated demolition commencement date of December 31, 2015. In October 2015, the general contractor notified the Company that further delay was expected and completion was then expected in the second quarter of 2016 at which time demolition of the existing structure would commence. At September 30, 2015, the existing parking structure had a net book value of approximately \$0.4 million. Beginning in October 2015, the Company reduced the monthly depreciation expense to \$0.04 million to reflect the revised depreciable life of the existing parking structure. The existing parking structure was fully depreciated as of June 30, 2016. The parking structure was demolished in the fourth quarter of 2016.

For the three and six months ended June 30, 2017, the changes in estimate did not have an effect on depreciation expense, net income and diluted earnings per share. For the three months ended June 30, 2016, the effect of the change in estimate was an increase of depreciation expense by \$133 thousand, a decrease of net income by \$87 thousand and a decrease of basic and diluted earnings per share by less than \$0.01. For the six months ended June 30, 2016, the effect of the change in estimate was an increase of depreciation expense by \$266 thousand, a decrease of net income by \$173 thousand and a decrease of basic and diluted earnings per share by approximately \$0.01.

Segment Reporting:

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

Inventories

Inventories, consisting primarily of food, beverages, and retail merchandise, are stated at the lower of cost and net realizable value. Cost is determined based on the weighted average, which approximates a first-in, first out method.

On January 1, 2017, we adopted the new ASU which changes the measurement principle for inventories valued under the first-in, first-out or weighted-average methods from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The adoption of this standard did not have a material impact on our Consolidated Financial Statements due to the nature of its inventory, consisting primarily of food, beverages, and retail merchandise.

Table of Contents

NOTE 2. STOCK-BASED COMPENSATION

On January 1, 2017, the Company adopted accounting standard update (“ASU”) No. 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Subsequent to the adoption, the Company records any excess tax benefits or deficiencies from its equity awards in its Consolidated Statements of Income in the reporting periods in which vesting occurs. As a result, the Company’s income tax expense and associated effective tax rate are impacted by fluctuations in stock price between the grant dates and vesting dates of equity awards. This guidance of requiring recognition of excess tax benefits and deficits in the income statement was applied prospectively with the adoption of ASU No. 2016-09.

For the three months ended June 30, 2017, the effect of the adoption of ASU No. 2016-09 was a decrease of tax expense by \$277 thousand, an increase of net income by \$180 thousand and a decrease of basic and diluted earnings per share by approximately \$0.01. For the six months ended June 30, 2017, the effect of the adoption of ASU No.2016-09 was a decrease of tax expense by \$341 thousand, an increase of net income by \$222 thousand and a decrease of basic and diluted earnings per share by approximately \$0.01.

The Company has elected to keep the accounting policy of estimated forfeitures, rather than account for forfeitures as they occur. The amendments in the guidance that require application using a modified retrospective transition method did not impact the Company. Therefore, there was no cumulative-effect adjustment to retained earnings recognized as of January 1, 2017.

ASU No. 2016-09 also changes the classification and presentation of the excess tax benefit from stock-based compensation in the statement of cash flows. The Company applied the amendments in this guidance relating to classification on its consolidated statement of cash flows prospectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Casino	\$ 35	\$ 30	\$ 68	\$ 51
Food and beverage	30	26	63	51
Hotel	8	11	16	22
Selling, general and administrative	420	356	811	426
Total stock-based compensation, before taxes	493	423	958	550
Tax benefit	(173)	(148)	(335)	(193)
Total stock-based compensation, net of tax	\$ 320	\$ 275	\$ 623	\$ 357

For the six months ended June 30, 2016, stock-based compensation expense was unusually low due to the forfeited stock options and the reversal of stock-based compensation expense in relation to the resignation of the Company's Chief Financial Officer.

NOTE 3. EARNINGS PER SHARE

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

Table of Contents

	Three months ended June 30, 2017		June 30, 2016	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	17,527	\$ 0.41	17,259	\$ 0.33
Effect of dilutive stock options	681	(0.01)	320	(0.01)
Diluted	18,208	\$ 0.40	17,579	\$ 0.32

	Six months ended June 30, 2017		June 30, 2016	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	17,502	\$ 0.69	17,235	\$ 0.60
Effect of dilutive stock options	612	(0.02)	325	(0.02)
Diluted	18,114	\$ 0.67	17,560	\$ 0.58

Excluded from the computation of diluted earnings per share are options where the exercise prices are greater than the market price as their effects would be anti-dilutive in the computation of diluted earnings per share. For the three and six months ended June 30, 2017, options for approximately 167 thousand and 494 thousand shares, respectively, were excluded from the computation. For the three and six months ended June 30, 2016, options for approximately 942 thousand and 981 thousand shares, respectively, were excluded from the computation.

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued an ASU that amends the FASB ASC and creates a new topic for Revenue from Contracts with Customers. The new guidance is expected to clarify the principles for revenue recognition and to develop a common revenue standard for U.S. GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance also provides substantial revision of interim and annual disclosures. The update allows for either full retrospective adoption, meaning the guidance is applied for all periods presented, or modified retrospective adoption, meaning the guidance is applied only to the most current period presented in the financial statements with the cumulative effect of initially applying the guidance recognized at the date of initial application. The effective date is for the annual and interim periods beginning after December 15, 2017. The Company plans to adopt this standard effective January 1, 2018. This standard will affect the Company's accounting policy in relation to the Non-discretionary loyalty program transactions. Based on a clarification from the FASB, complementary revenue represents a consideration payable to a customer and therefore is to be treated as a deduction to revenue at the time of the transaction and at the price of the complementary being offered. The Company expects the majority of such

amounts will offset casino revenues. The standard also changes the presentation of promotional allowances to be shown as a direct reduction of gross revenues instead of being presented as a separate line on the Statement of Income. The Company also expects the accounting for our player program to be impacted, with possible changes to the timing and/or classification of certain transactions within revenues and between revenues and operating expenses as we transition from the immediate revenue/cost accrual model to the deferred revenue model. The quantitative effects of these changes have not yet been determined and are still being analyzed. The Company is planning to adopt this standard on a modified retrospective basis.

Table of Contents

In February 2016, the FASB issued an ASU, amended January 2017, which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Further, the new lease guidance simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and liabilities, which no longer provides a source for off-balance sheet financing. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently assessing the impact the adoption of this standard will have on its Consolidated Financial Statements.

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

NOTE 5. RELATED PARTY TRANSACTIONS

The shopping center adjacent to the Atlantis (the "Shopping Center") is owned by Biggest Little Investments, L.P. ("BLI"). John Farahi and Bob Farahi, Co-Chairmen of the Board and executive officers of the Company, and Ben Farahi are the three largest stockholders ("Farahi Family Stockholders") of Monarch and each also beneficially owns limited partnership interests in BLI. Maxum LLC is the sole general partner of BLI, and Ben Farahi is the sole managing member of Maxum LLC. Neither John Farahi nor Bob Farahi has any management or operational control over BLI or the Shopping Center. Until May 2006, Ben Farahi formerly held positions of Co-Chairman of the Board, Secretary, Treasurer and Chief Financial Officer of the Company.

On August 28, 2015, Monarch, through its subsidiary Golden Road, entered into a 20-year lease agreement with BLI for a portion of the Shopping Center (the "Parking Lot Lease") consisting of an approximate 46,000 square-foot commercial building on approximately 4.15 acres of land adjacent to the Atlantis (the "Leased Property"). The Company demolished the building and converted the land into approximately 300 additional surface parking spaces for the Atlantis. The minimum annual rent under the Parking Lot Lease is \$695 thousand commencing on November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five year anniversary. In addition, the Company is responsible for payment of property taxes, utilities and maintenance expenses related to the Leased Property. The Company has an option to renew the Parking Lot Lease for an additional 10-year term. If the Company elects not to exercise its renewal option, the Company will be obligated to pay BLI \$1.6 million. For the three-month periods ended June 30, 2017 and 2016 the Company paid \$174 thousand and \$174 thousand in rent, plus \$1 thousand and \$26 thousand in operating expenses, related to this lease, respectively. For the six-month periods ended June 30, 2017 and 2016 the Company paid \$348 thousand and \$348 thousand in rent, plus \$8 thousand and \$36 thousand in operating expenses, related to this lease, respectively.

In addition, we share a driveway with and lease approximately 37,400 square-feet from BLI (the “Driveway Lease”) for an initial lease term of 15 years, which commenced on September 30, 2004, at an original annual rent of \$300 thousand plus common area expenses. The annual rent is subject to a cost of living adjustment increase on each five year anniversary of the Driveway Lease. Effective August 28, 2015, in connection with the Parking Lot Lease, the Driveway Lease was amended to: (i) make the Company solely responsible for the operation and maintenance costs of the shared driveway (including the fountains thereon); (ii) eliminate the Company’s obligation to reimburse the Shopping Center for its proportionate share of common area expenses; and (iii) exercise the three successive five-year renewal terms beyond the initial 15-year term in the existing Driveway Lease Agreement. At the end of the renewal terms, the Company has the option to purchase the leased driveway section of the Shopping Center. As of June 30, 2017, the annual rent is \$377 thousand. For the three-month periods ended June 30, 2017 and 2016, the Company paid \$94 thousand and \$94 thousand in rent, plus \$4 thousand and \$16 thousand in operating expenses, respectively. For the six-month periods ended June 30, 2017 and 2016, the Company paid \$188 thousand and \$188 thousand in rent, plus \$11 thousand and \$22 thousand in operating expenses, respectively.

Table of Contents

We occasionally lease billboard advertising, storage space and parking lot space from affiliates controlled by Farahi Family Stockholders and paid \$33 thousand and \$29 thousand for the three-month periods ended June 30, 2017 and 2016, respectively, and \$60 thousand and \$58 thousand for the six-month periods ended June 30, 2017 and 2016, respectively, for such leases.

NOTE 6. LONG-TERM DEBT

On July 20, 2016, the Company entered into an amended and restated credit facility agreement (the “Amended Credit Facility”), under which our former \$100.0 million credit facility (under which as of June 30, 2016 the borrowing capacity had been reduced to \$45.5 million as a result of \$19.5 million in mandatory reductions pursuant to the agreement and \$35.0 million in voluntary reductions, as allowed by the agreement) was increased to \$250.0 million, and the maturity date was extended from November 15, 2016 to July 20, 2021.

As of June 30, 2017, we had borrowed \$26.2 million of the principle under the Amended Credit Facility, and had a \$0.6 million Standby Letter of Credit and \$223.2 million remaining in available borrowings of the \$250.0 million maximum principal available under the Amended Credit Facility. As of June 30, 2017, there have been no withdrawals from the Standby Letter of Credit.

The total revolving loan commitment under the Amended Credit Facility will be automatically and permanently reduced to \$50.0 million in the first full quarter after completion of the expansion project at the Monarch Casino Black Hawk and all then outstanding revolving loans up to \$200.0 million under the Amended Credit Facility will be converted to a term loan at such time. We may be required to prepay borrowings under the Amended Credit Facility using excess cash flows depending on our leverage ratio no later than December 31, 2019. We have an option to permanently reduce the maximum revolving available credit at any time so long as the amount of such reduction is at least \$0.5 million and in multiples of \$50,000.

Borrowings are secured by liens on substantially all of the Company’s real and personal property.

In addition to other customary covenants for a facility of this nature, as of June 30, 2017, we are required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 3.5:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined in the Third Amended and Restated Credit Agreement) of at least 1.15:1. As of June 30, 2017, the Company’s leverage ratio and fixed charge coverage ratios were 0.5:1 and 46.7:1, respectively.

The interest rate under the Amended Credit Facility is LIBOR plus a margin ranging from 1.00% to 2.50%, or a base rate (as defined in the Amended Credit Facility) plus a margin ranging from 0.00% to 1.50%, or the Prime Rate. The applicable margins will vary depending on our leverage ratio. Commitment fees are equal to the daily average unused revolving commitment multiplied by the commitment fee percentage, ranging from 0.175% to 0.45%, based on our leverage ratio.

At June 30, 2017, our interest rate was based on LIBOR and our leverage ratio was such that pricing for borrowings under the Amended Credit Facility was LIBOR plus 1.00%. At June 30, 2017, the one-month LIBOR interest rate was 1.23%. The carrying value of the debt outstanding under the Amended Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

We may prepay borrowings under the Amended 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 re-borrowed so long as the total borrowings outstanding do not exceed the maximum principal available.

Table of Contents

We believe that our existing cash balances, cash flow from operations and borrowings available under the Amended Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow or if our cash needs exceed our borrowing capacity under the Amended Credit Facility, 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.

NOTE 7. TAXES

For six months ended June 30, 2017 and 2016, the Company's effective tax rate was 35.6% and 35.6%, respectively.

NOTE 8. STOCK REPURCHASE PLAN

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

Table of Contents

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

STATEMENT ON FORWARD-LOOKING INFORMATION

When used in this report and elsewhere by management from time to time, the words “believes,” “anticipates” and “expects” and similar expressions are intended to identify forward-looking statements with respect to our financial condition, results of operations and our business, including our expansion, construction timelines, development activities, legal proceedings and employee matters. Certain important factors, including, but not limited to, competition from other gaming operations, factors affecting our ability to compete, acquisitions of gaming properties, legalization of additional gaming operations in our markets, leverage, construction risks, the inherent uncertainty and costs associated with litigation and governmental and regulatory investigations, and licensing and other regulatory risks, could cause our actual results to differ materially from those expressed in our forward-looking statements. Any changes in the law that would permit the establishment of gaming operations in or near Denver could materially impact Monarch Casino Black Hawk operations and could alter, delay or cause us to reconsider our master development plan to expand our Monarch Casino Black Hawk property. Further information on potential factors which could affect our financial condition, results of operations and business including, without limitation, our expansion, development activities, legal proceedings and employee matters, are included in our filings with the Securities and Exchange Commission (the “SEC”). Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date thereof. We undertake no obligation to publicly release any revisions to such forward-looking statement to reflect events or circumstances after the date hereof.

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

OPERATING RESULTS SUMMARY

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

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

Atlantis: Our business strategy is to maximize revenues, operating income and cash flow primarily through our casino, food and beverage operations and hotel operations. We continually make upgrades to the facility and improve our products. With quality gaming, hotel and dining products, we believe the Atlantis is well positioned to benefit from future macro and local economic growth. Several national businesses have relocated or have announced plans to expand or relocate operations to Northern Nevada. While such economic activity could ultimately drive additional revenue and profit at Atlantis, we are experiencing the more immediate effect of increased labor costs which, combined with continued aggressive marketing programs by our competitors, have applied upward pressure on Atlantis operating costs.

Table of Contents

Monarch Casino Black Hawk: Since the acquisition of Monarch Casino Black Hawk in April 2012, our focus has been to maximize casino and food and beverage revenues while upgrading the existing facility and laying the groundwork for the planned major expansion. There is currently no hotel on the property. In October 2012, we began a project to redesign and upgrade the existing Monarch Casino Black Hawk facility. In September 2013, we opened a new buffet. In August 2015, we completed the redesign and upgrade of the existing Monarch Casino Black Hawk, bringing to the facility's interior the same quality, ambiance and finishes of the ongoing master planned expansion that will transform Monarch Casino Black Hawk into a full-scale casino resort. In the fourth quarter of 2013, we began work on a multi-phased expansion of the Monarch Casino Black Hawk, which we refer to herein as the "Monarch Black Hawk Expansion Plan." The first phase of the Monarch Black Hawk Expansion Plan is completed. In November 2016, we opened for guest use our nine-story parking facility with about 1,350 spaces. Construction of a new hotel tower and casino expansion on the site where the old parking structure was sitting is under way (see CAPITAL SPENDING AND DEVELOPMENT – Monarch Black Hawk Expansion Plan). Once completed, the Monarch Black Hawk Expansion Plan will nearly double the casino space and will add a 23-story hotel tower with approximately 500 guest rooms and suites, an upscale spa and pool facility, three additional restaurants (increasing the total to four), additional bars and associated support facilities. We currently expect completion of the entire expansion in the second quarter of 2019.

CAPITAL SPENDING AND DEVELOPMENT

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

Capital expenditures for the six-month periods ended June 30, 2017 and 2016 totaled approximately \$20.6 million and \$14.8 million, respectively. During the six-month period ended June 30, 2017, our capital expenditures related primarily to the new hotel tower and casino expansion at Monarch Casino Black Hawk, the acquisition of a parcel of land with an industrial warehouse in proximity to the Monarch Casino Black Hawk, the re-carpeting of the entire casino floor and more than one third of the hotel rooms at Atlantis, as well as acquisition of gaming and other equipment to upgrade and replace existing equipment at the Atlantis and the Monarch Casino Black Hawk. The capital expenditures were funded from operating cash flow. During the six month period ended June 30, 2016, our capital expenditures related primarily to the major redesign and upgrade of the Toucan Charlie's Buffet, improvements to new additional parking spaces at Atlantis, continued work on the new parking garage at Monarch Casino Black Hawk as well as acquisition of gaming equipment to upgrade and replace existing equipment in the Atlantis and Monarch Casino Black Hawk.

Monarch Black Hawk Expansion Plan

The Company has commenced its Monarch Black Hawk Expansion Plan, which will convert the Monarch Casino Black Hawk into a full-scale hotel casino resort spa.

In the fourth quarter of 2013, we began work on a multi-phased expansion of the Monarch Casino Black Hawk which involves construction of a new parking structure, demolition of the existing parking structure followed by the construction of a new hotel tower and casino expansion. In November 2016, the new nine-story parking structure, offering approximately 1,350 parking spaces, was completed and became available for use by Monarch Casino Black Hawk guests. Immediately following the new garage opening, we began work on demolition and removal of the old parking structure. This work, which included a controlled implosion of the old garage, was completed in the first quarter of 2017.

On February 8, 2017, the Company broke ground and construction on the foundation for the hotel tower and casino expansion is underway. The new 23-story tower will nearly double the existing casino space and will include approximately 500 hotel rooms, an upscale spa and pool facility, three additional restaurants and additional bars. Tower floors will be opened as they are finished beginning with the casino expansion and additional restaurants. We currently expect completion of the entire tower in the second quarter of 2019 at a total cost of approximately \$229-\$234 million. The cost is expected to be financed through a combination of operating cash flow and the Amended Credit Facility. We can provide no assurance that any project will be completed on schedule, if at all, or within established budgets, or that any project will result in increased earnings to us.

Table of Contents

RESULTS OF OPERATIONS

Comparison of Operating Results for the Three-Month Periods Ended June 30, 2017 and 2016

For the three months ended June 30, 2017, our net income totaled \$7.2 million, or \$0.40 per diluted share, compared to net income of \$5.7 million, or \$0.32 per diluted share for the same period in 2016, reflecting a 27.1% increase in net income and a 25.0% increase in diluted earnings per share. Net revenues totaled \$58.2 million in the second quarter of 2017, an increase of \$3.7 million, or 6.7%, compared to the second quarter of 2016. Income from operations for the three months ended June 30, 2017 totaled \$11.6 million compared to \$8.9 million for the same period in 2016.

Casino revenue increased 7.9% in the second quarter of 2017 compared to the second quarter of 2016. Casino operating expense as a percentage of casino revenue decreased from 41.5% in the second quarter of 2016 to 39.8% in the same quarter of 2017 primarily due to the increase in casino revenue combined with operating cost efficiencies.

Food and beverage revenue for the second quarter of 2017 increased 0.1% over the second quarter of 2016, due to 3.8% increase in food and beverage revenue per cover offset by a 3.6% decrease in covers. Food and beverage operating expense as a percentage of food and beverage revenue increased in the second quarter of 2017 to 41.8% compared to 41.2% for the same period in 2016 primarily as a result of an increase in employee benefits expense.

Hotel revenue increased 3.5% due to a higher other hotel revenue. Average daily room rate (“ADR”) of \$82.47 in the second quarter of 2017 was slightly lower than the ADR of \$82.93 in the second quarter of 2016 and the occupancy of 88.2% during the second quarter of 2017 decreased compared to 89.2% during the second quarter of 2016. Revenue per Available Room (“REVPAR”), calculated by dividing total room revenue (less service charges, if any) by total rooms available, was \$83.32 and \$80.47 for the three months ended June 30, 2017 and 2016, respectively. Hotel operating expense as a percentage of hotel revenue increased to 36.0% in the second quarter of 2017 as compared to 30.9% for the comparable prior year period primarily due to higher payroll and employee benefits expenses, as well as expenses related to the shuttle service and expanded valet services implemented at Monarch Casino Black Hawk.

Other revenue increased 8.6% in the second quarter of 2017 compared to the second quarter of 2016 driven primarily by increased commission, arcade and spa revenues.

Promotional allowances as a percentage of gross revenues decreased to 17.1% during the second quarter of 2017 compared to 17.8% in the comparable 2016 quarter. This decrease was primarily due to higher revenues and more efficient utilization of complimentary.

Selling, General and Administrative (“SG&A”) expense increased to \$15.1 million in the second quarter of 2017 from \$14.5 million in the second quarter of 2016 primarily due to a \$0.6 million increase in salaries, wages and related benefits expense. As a percentage of net revenue, SG&A expense decreased to 25.9% in the second quarter of 2017 compared to 26.6% in the same period in 2016.

Depreciation and amortization expense is flat at \$3.8 million for the three months ended June 30, 2017 and 2016 primarily as a result of the additional depreciation expense related to the new parking garage at Monarch Casino Black Hawk, offset by the decrease in depreciation expense at Monarch Casino Black Hawk due to five-year assets (assets that are depreciated over a 5 year time period) having become fully depreciated.

Interest expense, net of amounts capitalized, increased to \$206.0 thousand in the second quarter of 2017 from \$60.0 thousand in the second quarter of 2016 primarily due to higher bank commitment fees related to the Amended Credit Facility and higher amortization of deferred loan costs expense related to the Amended Credit Facility.

Comparison of Operating Results for the Six-Month Periods Ended June 30, 2017 and 2016

For the six months ended June 30, 2017, our net income totaled \$12.1 million, or \$0.67 per diluted share, compared to net income of \$10.3 million, or \$0.58 per diluted share, for the same period in 2016, reflecting a 17.9% increase in net income and 15.5% increase in diluted earnings per share. Net revenues totaled \$111.6 million in the six-month period of 2017, reflecting an increase of \$7.3 million, or 7.0%, compared to the same period in 2016.

Table of Contents

Income from operations for the six months ended June 30, 2017 totaled \$19.3 million compared to \$16.1 million for the same period in 2016, representing an increase of \$3.2 million or 19.7%.

Casino revenue increased 6.0% in the first six months of 2017 compared to the first six months of 2016. Casino operating expense as a percentage of casino revenue decreased to 41.3% in the first six months of 2017 compared to 42.5% in the first six months of 2016 due to higher casino revenue combined with operating cost efficiencies.

Food and beverage revenue for the first six months of 2017 increased 7.2% over the first six months of 2016, due to a 4.1% increase in average revenue per cover and a 3.0% increase in covers. In 2016, Toucan Charlie's Buffet was closed for redesign and upgrade for 70 days, which unfavorably affected the 2016 total food and beverage covers. Food and beverage operating expense as a percentage of food and beverage revenue decreased in the first six months of 2017 to 41.1% compared to 42.1% for the prior year same period. This decrease was primarily the result of the repair and maintenance expenses related to the Atlantis buffet redesign and upgrade at the beginning of 2016 that was partially offset by an increase in payroll and employee benefits expenses in 2017.

Hotel revenue increased 6.7% due to an increase in occupancy to 87.8% during the first six months of 2017 compared to 86.0% during the first six months of 2016 combined with an increase in ADR to \$80.18 in the first six months of 2017 compared to \$78.58 in the first six months of 2016. REVPAR was \$79.71 and \$74.26 for the six months ended June 30, 2017 and 2016, respectively. Hotel operating expense as a percentage of hotel revenue increased to 37.5% in the first six months of 2017 as compared to 31.2% for the comparable prior year period due to higher payroll and employee benefits expenses, combined with expenses related to the shuttle service and expanded valet services implemented at Monarch Casino Black Hawk.

Other revenue increased 6.3% in the first six months of 2017 compared to the first six months of 2016 driven primarily by increased commission, arcade and spa revenues.

Promotional allowances as a percentage of gross revenues decreased to 17.6% during the first six months of 2017 from 18.1% in the comparable 2016 period primarily as a result of the increase in gross revenues.

SG&A expense increased by \$2.0 million to \$29.7 million in the first six months of 2017 primarily due to: (i) a \$1.3 million increase in salaries, wages and employee benefit expenses; (ii) a \$0.3 million increase in marketing expense; (iii) \$0.2 million higher repair and maintenance expense, and (iv) a \$0.2 million increase in property tax expense related to the new parking garage at Monarch Casino Black Hawk. As a percentage of net revenue, SG&A expense slightly increased to 26.6% in the first six months of 2017 from 26.5% in the first six months of 2016.

Depreciation and amortization expense increased to \$7.7 million for the six months ended June 30, 2017 as compared to \$7.5 million for the six months ended June 30, 2016 primarily as a result of the additional depreciation expense related to the new parking garage at Monarch Casino Black Hawk.

Interest expense, net of amounts capitalized increased to \$478.0 thousand in the first six months of 2017 from \$145.0 thousand in the first six months of 2016 primarily as a result of the higher bank commitment fees related to the Amended Credit Facility and higher amortization of deferred loan costs expense related to the Amended Credit Facility.

Liquidity and Capital Resources

Our principal sources of liquidity have been cash provided by operations and, for capital expansion projects, borrowings available under our credit facilities.

For the six months ended June 30, 2017, net cash provided by operating activities totaled \$18.3 million, an increase of \$1.2 million, or 6.9% compared to the same period in the prior year. This increase was primarily the result of an increase in net income and an increase in depreciation and amortization expense, offset by an increase in working capital. The net cash provided by operating activities was also affected by the adoption of the ASU No. 2016-09, which changes the classification and presentation of the stock-based compensation in the Statement of Cash Flows.

Table of Contents

Net cash used in investing activities totaled \$20.5 million and \$14.8 million during the six months ended June 30, 2017 and 2016, respectively. Net cash used in investing activities during the first six months of 2017 consisted primarily of cash used for the new hotel tower and casino expansion at Monarch Casino Black Hawk, the purchase of a parcel of land with an industrial warehouse in proximity to the Monarch Casino Black Hawk, the re-carpeting of the casino floor and hotel rooms at Atlantis, and for acquisition of gaming and other equipment at both properties. Net cash used in investing activities during the first six months of 2016 consisted primarily of cash used for the new parking garage at Monarch Casino Black Hawk, the redesign and upgrade of Toucan Charlie's Buffet at Atlantis, improvements to new additional parking spaces at Atlantis, and for acquisition of gaming and other equipment at both properties.

There were no financing activities during the first six months of 2017. Net cash used in financing activities during the first six months of 2016 was \$4.2 million and represented \$5.9 million in payments under our credit facility offset by \$1.7 million in proceeds from stock option exercises, including excess tax benefit from options exercised.

Under the Amended Credit Facility, our available borrowing capacity is \$250.0 million with a maturity date of July 20, 2021. The proceeds from the Amended Credit Facility will be used to fund the Monarch Black Hawk Expansion Plan, for ongoing capital expenditure, for working capital needs and general corporate purposes and requirements.

As of June 30, 2017, we had borrowed \$26.2 million of the principle under the Amended Credit Facility, and had a \$0.6 million Standby Letter of Credit and \$223.2 million remaining in available borrowings of the \$250.0 million maximum principal available under the Amended Credit Facility. As of June 30, 2017, there have been no withdrawals from the Standby Letter of Credit.

The total revolving loan commitment under the Amended Credit Facility will be automatically and permanently reduced to \$50.0 million in the first full quarter after completion of the expansion project at the Monarch Casino Black Hawk and all then outstanding revolving loans up to \$200.0 million under the Amended Credit Facility will be converted to a term loan at such time. We may be required to prepay borrowings under the Amended Credit Facility using excess cash flows depending on our leverage ratio no later than December 31, 2019. We have an option to permanently reduce the maximum revolving available credit at any time so long as the amount of such reduction is at least \$0.5 million and in multiples of \$50,000.

Borrowings are secured by liens on substantially all of our real and personal property.

In addition to other customary covenants for a facility of this nature, as of June 30, 2017, we are required to maintain a leverage ratio, defined as consolidated debt divided by Adjusted EBITDA, of no more than 3.5:1 and a fixed charge coverage ratio (Adjusted EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of June 30, 2017, the

Company's leverage ratio and fixed charge coverage ratios were 0.5:1 and 46.7:1, respectively.

The interest rate under the Amended Credit Facility is LIBOR plus a margin ranging from 1.00% to 2.50%, or a base rate (as defined in the Amended Credit Facility) plus a margin ranging from 0.00% to 1.50%, or the Prime Rate. The applicable margins will vary depending on our leverage ratio. Commitment fees are equal to the daily average unused revolving commitment multiplied by the commitment fee percentage, ranging from 0.175% to 0.45%, based on our leverage ratio.

At June 30, 2017, our interest rate was based on LIBOR and our leverage ratio was such that pricing for borrowings under the Amended Credit Facility was LIBOR plus 1.00%. At June 30, 2017, the one-month LIBOR interest rate was 1.23%. The carrying value of the debt outstanding under the Amended Credit Facility approximates fair value because the interest fluctuates with the lender's prime rate or other market rates of interest.

We may prepay borrowings under the Amended 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 re-borrowed so long as the total borrowings outstanding do not exceed the maximum principal available.

Table of Contents

We believe that our existing cash balances, cash flow from operations and borrowings available under the Amended Credit Facility will provide us with sufficient resources to fund our operations, meet our debt obligations, and fulfill our capital expenditure plans over the next twelve months; however, our operations are subject to financial, economic, competitive, regulatory, and other factors, many of which are beyond our control. If we are unable to generate sufficient cash flow or if our cash needs exceed our borrowing capacity under the Amended Credit Facility, 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.

OFF BALANCE SHEET ARRANGEMENTS

John Farahi and Bob Farahi, Co-Chairmen of the Board and executive officers of the Company, and Ben Farahi are the three largest stockholders of Monarch and each also beneficially owns limited partnership interests in BLI. Maxum LLC is the sole general partner of BLI, and Ben Farahi is the sole managing member of Maxum LLC. Neither John Farahi nor Bob Farahi has any management or operational control over BLI or the Shopping Center. Until May 2006, Ben Farahi held the positions of Co-Chairman of the Board, Secretary, Treasurer and Chief Financial Officer of the Company.

In response to customer demand for more convenient surface parking at the Atlantis, and after detailed analysis, on August 28, 2015, the Company, through its subsidiary Golden Road, entered into a 20-year lease (the "Parking Lot Lease") with BLI with respect to a portion of the Shopping Center. This lease gives the Atlantis the right to use a parcel, approximately 4.15 acres, comprised of a commercial building and surrounding land adjacent to the Atlantis (the "Leased Property"). The primary purpose of the Parking Lot Lease is to provide additional, convenient, Atlantis surface parking. We demolished the commercial building on the Leased Property and converted the land into approximately 300 additional surface parking spaces for the Atlantis. The minimum annual rent under the Parking Lot Lease is \$695 thousand commencing November 17, 2015. The minimum annual rent is subject to a cost of living adjustment increase on each five-year anniversary. In addition, we are responsible for payment of property taxes, utilities and maintenance expenses related to the Leased Property. We have an option to renew the Parking Lot Lease for an additional 10-year term. If we elect not to exercise the renewal option, we will be obligated to pay BLI \$1.6 million. During each of the three-month periods ended June 30, 2017 and 2016, we paid approximately \$174 thousand in parking lot rent payments. During each of the six-month periods ended June 30, 2017 and 2016, we paid approximately \$348 thousand in parking lot rent payments.

A driveway (the "Driveway Project") that is being shared between the Atlantis and the Shopping Center was completed and opened on September 30, 2004. The Shopping Center is controlled by BLI. As part of the Driveway Project, in January 2004, we leased (the "Driveway Lease") approximately 37,400 square-foot corner section of the Shopping Center, for a minimum lease term of 15 years at an annual rent of \$300 thousand, subject to a cost of living increase on each five year anniversary of the Driveway Lease. As of June 30, 2017, the annual rent is \$377 thousand. In August 2015, we exercised our option to extend the lease for three individual five-year terms in addition to the 15-year initial term. At the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center.

The total cost of the project was \$2.0 million. We were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the 15-year expected economic useful life of the asset; some components of the new driveway are being depreciated over a shorter period of time. During each of the three-month periods ended June 30, 2017 and 2016, we paid approximately \$94 thousand in driveway rent payments. During each of the six-month periods ended June 30, 2017 and 2016, we paid approximately \$188 thousand in driveway rent payments.

CRITICAL ACCOUNTING POLICIES

A description of our critical accounting policies and estimates can be found in Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”). For a more extensive discussion of our accounting policies, see Note 1. “Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements in our 2016 Form 10-K filed on March 14, 2017.

Table of Contents

OTHER FACTORS AFFECTING CURRENT AND FUTURE RESULTS

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

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

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

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

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

Table of Contents

COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of June 30, 2017 and the next five years and thereafter are as follows (in millions):

	Payments due by period (1)				Greater than 5 years
	Total	Less than 1 year	1 to 3 years	3 to 5 years	
Operating Leases (2)	\$ 26.9	\$ 1.1	\$ 2.2	\$ 2.2	\$ 21.4
Purchase Obligations (3)	14.2	11.0	3.2	—	—
Construction Contracts (4)	0.6	0.6	—	—	—
Borrowings Under Amended Credit Facility (5)	26.2	—	—	26.2	—
Total Contractual Cash Obligations	\$ 67.9	\$ 12.7	\$ 5.4	\$ 28.4	\$ 21.4

(1) Because interest payments under our Amended Credit Facility are subject to factors that, in our judgment, vary materially, the amount of future interest payments is not presently determinable. These factors include: i) future short-term interest rates; ii) our future leverage ratio which varies with EBITDA and our borrowing levels; and iii) the rate at which we deploy capital and other spending which, in turn, impacts the level of future borrowings. The interest rate under the Amended Credit Facility is LIBOR plus a margin ranging from 1.00% to 2.50%, or a base rate (as defined in the Amended Credit Facility) plus an interest rate margin ranging from 0.00% to 1.50%, or the Prime Rate. The interest rate is adjusted quarterly based on our leverage ratio, which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. Based on our leverage ratio, at June 30, 2017, pricing was LIBOR plus 1.00% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At June 30, 2017, the one-month LIBOR was 1.23%.

(2) Operating leases include the Driveway Lease and the Parking Lot Lease.

(3) Purchase obligations represent approximately \$7.4 million of commitments related to capital projects and approximately \$6.8 million of materials and supplies used in the normal operation of our business. Of the total purchase order and construction commitments, approximately \$14.2 million are cancelable by us upon providing a 30-day notice.

(4) Construction contract obligations represent commitments related to the expansion projects at Monarch Casino Black Hawk. The \$0.6 million commitment represents retainage of the new garage structure construction contractual obligation.

(5) The amount represents outstanding draws against the Amended Credit Facility as of June 30, 2017.

As described in above under “Capital Spending and Development”, we have begun commencement of the Monarch Black Hawk Expansion Plan, which started in the fourth quarter of 2013. While we have disclosed the estimated cost of that expansion, we have not yet entered into contracts for substantial portions of the work. For this reason, we have included in the table above only the amounts for which we have contractual commitments. At June 30, 2017, we estimate that the remaining cost to complete the Black Hawk Expansion Plan is between \$230 million and \$237 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market conditions and prices, such as interest rates, foreign currency exchange rates and commodity prices. We do not have any cash or cash equivalents as of June 30, 2017 that are subject to market risk. We do not enter into derivative financial instruments for trading or speculative purpose, nor have we experienced any losses to date on any derivative financial instruments due to counterparty credit risk.

Table of Contents

In the normal course of business, we are exposed to risks associated with fluctuations in interest rates. As of June 30, 2017, we had \$26.2 million of outstanding principal balance under our Amended Credit Facility that was subject to credit risk. A 1% increase in the interest rate on the balance outstanding under the Amended Credit Facility at June 30, 2017 would result in a change in our annual interest cost of approximately \$0.3 million. See Item 2. Liquidity and Capital Resources for further discussion of our financing facility and capital structure.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and our Chief Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon the evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosures.

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may be party to claims that arise in the normal course of business. Management believes that the amount of any reasonably possible or probable loss for known matters would not have a material adverse impact on our financial condition, cash flows or results of operations; however, the outcome of these actions is inherently difficult to predict.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors we previously disclosed in Item 1A of our 2016 Form 10-K.

We encourage investors to review the risks and uncertainties relating to our business disclosed under the heading Risk Factors or otherwise in the 2016 Form 10-K, as well as those contained in Part I - Forward-Looking Statements thereof, as revised or supplemented by our Quarterly Reports filed with the SEC since the filing of the 2016 Form 10-K.

If any of the risks discussed in the sections referenced above actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and investors could lose all or part of their investment.

This report is qualified in its entirety by these risk factors.

ITEM 6. EXHIBITS

Exhibit No	Description
31.1*	Certification of Principal Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Table of Contents

31.2*	Certification of Principal Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

* filed herewith.

SIGNATURES

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

MONARCH CASINO &
RESORT, INC.
(Registrant)

Date: August 8, 2017 By: /s/ EDWIN S. KOENIG
Edwin S. Koenig, Chief
Accounting Officer
(Chief Accounting Officer
and Duly Authorized Officer)