

MONARCH CASINO & RESORT INC

Form 10-Q

November 08, 2007

**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 September 30, 2007

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

[Missing Graphic Reference]

MONARCH CASINO & RESORT, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

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

3800 S. Virginia St.

Reno, Nevada
(Address of Principal Executive Offices)

89502
(ZIP Code)

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

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

Common stock, \$0.01 par value
Class

19,089,686 shares
Outstanding at November 7, 2007

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

Monarch Casino & Resort, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues				
Casino	\$ 29,936,988	\$ 27,716,814	\$ 84,512,978	\$ 77,621,373
Food and beverage	11,011,808	10,889,609	32,084,196	30,769,768
Hotel	8,002,564	8,101,167	21,857,687	20,580,811
Other	1,229,521	1,254,264	3,703,972	3,648,862
Gross revenues	50,180,881	47,961,854	142,158,833	132,620,814
Less promotional allowances	(6,557,585)	(6,213,477)	(19,192,626)	(17,644,527)
Net revenues	43,623,296	41,748,377	122,966,207	114,976,287
Operating expenses				
Casino	9,232,990	8,991,885	26,970,411	25,483,766
Food and beverage	5,381,681	5,143,751	15,217,367	14,634,537
Hotel	2,161,564	2,206,631	6,416,669	6,312,500
Other	386,056	384,033	1,127,113	1,116,317
Selling, general and administrative	12,731,275	11,681,175	37,054,086	35,156,852
Depreciation and amortization	1,982,184	2,139,592	6,122,600	6,430,831
Total operating expenses	31,875,750	30,547,067	92,908,246	89,134,803
Income from operations	11,747,546	11,201,310	30,057,961	25,841,484
Other income (expense)				
Interest income	568,462	154,230	1,385,883	190,732
Interest expense	-	(15,401)	(152,274)	(74,845)
Total other income (expense)	568,462	138,829	1,233,609	115,887
Income before income taxes	12,316,008	11,340,139	31,291,570	25,957,371
Provision for income taxes	(4,280,000)	(3,969,098)	(10,860,000)	(8,996,000)
Net income	\$ 8,036,008	\$ 7,371,041	\$ 20,431,570	\$ 16,961,371
Earnings per share of common stock				
Net income				
Basic	\$ 0.42	\$ 0.39	\$ 1.07	\$ 0.89
Diluted	\$ 0.41	\$ 0.38	\$ 1.06	\$ 0.88
Weighted average number of common shares and potential common shares outstanding				
Basic	19,079,062	19,058,896	19,080,347	18,965,694

Diluted	19,366,043	19,245,639	19,352,064	19,263,869
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The Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

Monarch Casino & Resort, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 52,949,354	\$ 36,985,187
Receivables, net	4,590,222	3,268,970
Inventories	1,478,542	1,471,667
Prepaid expenses	3,572,182	2,833,126
Deferred income taxes	1,547,144	965,025
Total current assets	64,137,444	45,523,975
Property and equipment		
Land	10,339,530	10,339,530
Land improvements	3,166,107	3,166,107
Buildings	78,955,538	78,955,538
Building improvements	10,435,062	10,435,062
Furniture and equipment	71,746,192	72,708,061
Leasehold improvements	1,346,965	1,346,965
	175,989,394	176,951,263
Less accumulated depreciation and amortization	(90,245,245)	(84,325,578)
	85,744,149	92,625,685
Construction in progress	10,968,149	-
Net property and equipment	96,712,298	92,625,685
Other assets, net	84,822	231,247
Total assets	\$ 160,934,564	\$ 138,380,907
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 8,053,256	\$ 8,590,669
Construction payable	1,525,987	-
Accrued expenses	8,770,601	9,878,851
Federal income taxes payable	1,371,747	16,457
Total current liabilities	19,721,591	18,485,977
Deferred income taxes	3,708,614	4,248,614
Total Liabilities	23,430,205	22,734,591
Commitments and contingencies		
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;		

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19,067,518 outstanding at 9/30/07		
19,065,968 outstanding at 12/31/06	190,963	190,726
Additional paid-in capital	25,285,175	23,205,045
Treasury stock, 28,782 shares at 9/30/07		
6,582 shares at 12/31/06, at cost	(678,039)	(24,145)
Retained earnings	112,706,260	92,274,690
Total stockholders' equity	137,504,359	115,646,316
Total liabilities and stockholder's equity	\$ 160,934,564	\$ 138,380,907

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

Monarch Casino & Resort, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 20,431,570	\$ 16,961,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,122,600	6,430,831
Amortization of deferred loan costs	148,838	15,402
Share-based compensation	1,663,197	2,748,635
Provision for bad debts	242,126	937,762
(Gain) loss on disposal of assets	(6,969)	49,259
Deferred income taxes	(1,122,118)	(1,142,819)
Changes in operating assets and liabilities:		
Receivables	(1,563,378)	(561,759)
Inventories	(6,875)	(33,180)
Prepaid expenses	(739,056)	(653,236)
Other assets	(2,413)	-
Accounts payable	(537,412)	(252,968)
Accrued expenses	(1,108,250)	(523,191)
Federal income taxes payable	1,355,290	1,338,218
Net cash provided by operating activities	24,877,150	25,314,325
Cash flows from investing activities:		
Proceeds from sale of assets	6,969	38,280
Change in construction payable	1,525,987	-
Acquisition of property and equipment	(10,209,214)	(4,235,862)
Net cash used in investing activities	(8,676,258)	(4,197,582)
Cash flows from financing activities:		
Proceeds from exercise of stock options	340,682	2,141,262
Tax benefit of stock option exercise	178,904	613,841
Principal payments on long-term debt	-	(8,100,000)
Purchase of treasury stock	(756,311)	-
Net cash used in financing activities	(236,725)	(5,344,897)
Net increase in cash	15,964,167	15,771,846
Cash and cash equivalents at beginning of period	36,985,187	12,886,494
Cash and cash equivalents at end of period	\$ 52,949,354	\$ 28,658,340
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,437	\$ 66,659

Cash paid for income taxes

\$ 10,447,923

\$ 7,900,000

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

MONARCH CASINO & RESORT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

Monarch Casino & Resort, Inc. ("Monarch"), a Nevada corporation, was incorporated in 1993. Monarch's wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), operates the Atlantis Casino Resort (the "Atlantis"), a hotel/casino facility in Reno, Nevada. Unless stated otherwise, the "Company" refers collectively to Monarch and its Golden Road subsidiary.

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

Interim Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three months and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2006.

Use of Estimates:

In preparing these 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 respective periods. Actual results could differ from those estimates.

Self-insurance Reserves:

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

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. Since inception, property and equipment have been depreciated principally on a straight line basis over the estimated service 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

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," the Company evaluates the carrying value of its long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable from related future undiscounted cash flows. Indicators which could trigger an impairment review include legal and regulatory factors, market conditions and operational performance. Any resulting impairment loss, measured as the difference between the carrying amount and the fair value of the assets, could have a material adverse impact on the Company's financial condition and results of operations.

For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair market value less costs of disposal. Fair market value for assets to be disposed of is generally estimated based on comparable asset sales, solicited offers or a discounted cash flow model.

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 casino, to earn and accumulate point values, which may be redeemed for a variety of goods and services at the Atlantis Casino Resort. Point values may be applied toward room stays at the hotel, food and beverage consumption at any of the food outlets, gift shop items as well as goods and services at the spa and beauty salon. Point values earned may also be applied toward off-property events such as concerts, shows and sporting events. Point values may not be redeemed for cash.

Awards under the Company's frequent player program are recognized as promotional expenses at the time of redemption.

The retail value of hotel, food and beverage services provided to customers without charge is included in gross revenue and deducted as promotional allowances. The cost associated with complimentary food, beverage, rooms and merchandise redeemed under the program is recorded in casino costs and expenses.

Income Taxes:

Income taxes are recorded in accordance with the liability method specified by SFAS No. 109 "Accounting for Income Taxes." 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 current liability or asset is recognized for the estimated taxes payable or refundable on taxes for the current year; a deferred income tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards; 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 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.

Allowance for Doubtful Accounts:

The Company extends short-term credit to its gaming customers. Such credit is non-interest bearing and 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:

On January 1, 2006, the Company adopted the provisions of SFAS 123R requiring the measurement and recognition of all share-based compensation under the fair value method. The Company implemented SFAS 123R using the modified prospective transition method.

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 cash in bank deposit 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.

Certain Risks and Uncertainties:

A significant portion of the Company's revenues and operating income are generated from patrons who are residents of northern California. A change in general economic conditions or the extent and nature of casino gaming in California, Washington or Oregon could adversely affect the Company's operating results. On September 10, 1999, California lawmakers approved a constitutional amendment that gave Indian tribes the right to offer slot machines and a range of house-banked card games. On March 7, 2000, California voters approved the constitutional amendment. Several Native American casinos have opened in Northern California since passage of the constitutional amendment. A large Native American casino facility opened in the Sacramento area, one of the Company's primary feeder markets, in June of 2003. Other new Native American casinos are under construction in the northern California market, as well as other markets the Company currently serves, that could have an impact on the Company's financial position and results of operations. The State of California has approved compacts with primarily Southern California located Native American tribes that increases the total number of Native American operated slot machines in the State of California. Opponents to the compacts are working on a referendum to overturn the new gaming compacts to be voted on at the February 5 presidential primaries. Certain tribes in favor of the compacts have sued to block the February referendum, claiming that signatures obtained by opponents were not gathered within the required time frame.

In addition, the Company relies on non-conventioneer visitors partially comprised of individuals flying into the Reno area. The threat of terrorist attacks could have an adverse effect on the Company's revenues from this segment. 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 including the ongoing situation in Iraq, have created economic and political uncertainties that could materially adversely affect our business, results of operations, and financial condition in ways we cannot predict.

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.

The Company also markets to Reno-area residents. A major casino-hotel operator that successfully focuses on local resident business in Las Vegas announced plans to develop hotel-casino properties in Reno. The competition for this market segment is likely to increase and could impact the Company's business.

NOTE 2. STOCK-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"), 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's 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 current year stock option activity as of and for the nine months ended September 30, 2007 is presented below:

Options	Shares	Exercise Price	Weighted Average	
			Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of period	1,121,199	\$16.49	-	-
Granted	59,963	25.78	-	-
Exercised	(33,662)	10.12	-	-
Forfeited	(20,000)	18.53	-	-
Expired	-	-	-	-
Outstanding at end of period	1,127,500	\$17.14	7.9 yrs.	\$12,753,150
Exercisable at end of period	329,867	\$12.95	7.2 yrs.	\$ 5,114,026

A summary of the status of the Company's nonvested shares as of September 30, 2007, and for the nine months ended September 30, 2007, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2007	774,330	\$18.14
Granted	59,963	7.66
Vested	(16,660)	4.54
Forfeited	(20,000)	7.45
Nonvested at September 30, 2007	797,633	\$ 8.83

Expense Measurement and Recognition:

On January 1, 2006, the Company adopted the provisions of SFAS 123R requiring the measurement and recognition of all share-based compensation under the fair value method. The Company implemented SFAS 123R using the modified prospective transition method. Accordingly, for the nine months ended September 30, 2007 and 2006, the Company recognized share-based compensation for all current award grants and for the unvested portion of previous award grants based on grant date fair values. Prior to fiscal 2006, the Company accounted for share-based awards under the disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, but applied APB No. 25 and related interpretations in accounting for the Plans, which resulted in pro-forma compensation expense only for stock option awards. Prior period financial statements have not been adjusted to reflect fair value share-based compensation expense under SFAS 123R. With the adoption of SFAS 123R, the Company changed its method of expense attribution for fair value share-based compensation from the straight-line approach to the accelerated approach for all awards granted. The Company anticipates the accelerated method will provide a more meaningful measure of costs incurred and be most representative of the economic reality associated with unvested stock options outstanding. Unrecognized costs related to all share-based awards outstanding at September 30, 2007 is approximately \$3.2 million and is expected to be recognized over a weighted average period of 1.36 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 the third quarter of 2006 were as follows (there were no option grants during the third quarter of 2007):

Three Months

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	Ended September 30,	
	2007	2006
Expected volatility	-	45.5%
Expected dividends	-	-
Expected life (in years)		
Directors' Plan	-	2.5
Executive Plan	-	8.4
Employee Plan	-	3.2
Weighted average risk free rate	-	5.1%
Weighted average grant date fair value per share of options granted	-	\$ 6.59
Total intrinsic value of options exercised	\$105,239	\$ 28,286

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. Upon implementation of SFAS 123R, the Company 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Casino	\$ 17,865	\$ 7,775	\$ 53,839	\$ 37,553
Food and beverage	14,424	7,579	38,015	39,894
Hotel	9,676	7,404	27,734	36,742
Selling, general and administrative	549,214	465,778	1,543,609	2,634,447
Total stock-based compensation, before taxes	591,179	488,535	1,663,197	2,748,636
Tax benefit	(206,913)	(170,987)	(582,119)	(962,022)
Total stock-based compensation, net of tax	\$ 384,266	\$ 317,548	\$ 1,081,078	\$1,786,614

NOTE 3. EARNINGS PER SHARE

The Company reports "basic" earnings per share and "diluted" earnings per share in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings per share is computed by dividing reported net earnings by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect the additional dilution for all potentially dilutive securities such as stock options. The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations (shares in thousands):

	Three Months Ended September 30,		Three Months Ended September 30,	
	2007	2006	2007	2006
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	19,079	\$0.42	19,059	\$0.39
Effect of dilutive stock options	287	(0.01)	187	(0.01)
Diluted	19,366	\$0.41	19,246	\$0.38

Nine Months Ended September 30,				
	2007		2006	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic	19,080	\$1.07	18,966	\$0.89
Effect of dilutive stock options	272	(0.01)	298	(0.01)
Diluted	19,352	\$1.06	19,264	\$0.88

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.

NOTE 4. RECENTLY ISSUED ACCOUNTING STANDARDS

The January 1, 2007 adoption of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes, did not affect our financial position. The Company is not subject to foreign or state income tax. The Company files a federal tax return only. As of the date of adoption, tax years 2003 through 2006 were subject to examination by the Internal Revenue Service. As of June 30, 2007, the statute of limitation for the 2003 tax year has closed. The Company's accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of the provision for income taxes.

In February 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") 159, "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement 115" that provides companies with an option to report certain financial assets and liabilities in their entirety at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The fair value option may be applied instrument by instrument, and may be applied only to entire instruments. A business entity would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. We are evaluating our options provided for under this statement and their potential impact on its financial statements when implemented. SFAS 159 is being reviewed in conjunction with the requirements of SFAS 157 discussed below.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value for both assets and liabilities through a fair value hierarchy and expands disclosure requirements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are evaluating SFAS 157 and have not yet determined the impact adoption will have on the consolidated financial statements.

NOTE 5. RELATED PARTY TRANSACTIONS

On July 26, 2006, the Company submitted a formal offer to Biggest Little Investments, L.P. ("BLI"), formulated and delivered by a committee comprised of the Company's independent directors (the "Committee"), to purchase the 18.95-acre shopping center (the "Shopping Center") adjacent to the Atlantis Casino Resort Spa. On October 16, 2006, the Committee received a letter from counsel to BLI advising the Company that BLI, through its general partner, Maxum, L.L.C., had "decided that such offer is not in the best interest of the Partnership's limited partners and, therefore, will not be entering into negotiations with Monarch." The Board of Directors continues to consider expansion alternatives.

John Farahi, Bob Farahi and Ben Farahi, beneficially own a controlling interest in BLI through their beneficial ownership interest in Western Real Estate Investments, LLC. 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.

The Company currently rents various spaces in the Shopping Center which it uses as office, storage and parking lot space and paid rent of approximately \$101,200 and \$162,600 plus common area expenses for the three and nine months ended September 30, 2007, respectively, and approximately \$21,800 and \$67,800 plus common area expenses for the three and nine months ended September 30, 2006, respectively.

In addition, a driveway that is being shared between the Atlantis and the Shopping Center was completed on September 30, 2004. As part of this project, in January 2004, the Company leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 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 three five-year terms, and, at the end of the extension periods, the Company has the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by the Company for pedestrian and vehicle access to the Atlantis, and the Company may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; the Company was responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time. The Company paid approximately \$75,000 plus common area maintenance charges for its leased driveway space at the Shopping Center during each of the three months ended September 30, 2007 and 2006.

The Company is currently leasing sign space from the Shopping Center. The lease took effect in March 2005 for a monthly cost of \$1. The lease was renewed for another year for a monthly lease of \$1,000 effective January 1, 2006, and subsequently renewed on June 15, 2007 for a monthly lease of \$1,060. The Company paid \$3,180 and \$9,240 for the leased sign at the Shopping Center for the three and nine months ended September 30, 2007, respectively, and paid \$3,000 and \$9,000 for the three and nine months ended September 30, 2006, respectively.

The Company is currently leasing billboard advertising space from affiliates of its controlling stockholders and paid \$17,500 and \$38,500 for the three and nine months ended September 30, 2007, respectively. The Company paid \$0 and \$21,000 for the three and nine months ended September 30, 2006, respectively.

Until December 2006, the Company rented office and storage space from a company affiliated with Monarch's principal stockholders. The Company expensed \$7,000 and \$21,000 for the three and nine months ended September 30, 2006, respectively. Effective December 2006, Monarch's principal stockholders sold this building and, through April 15, 2007, the Company continued to rent space from the new owner who is not a related party to Monarch.

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

Monarch Casino & Resort, Inc., through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ("Golden Road"), owns and operates the tropically-themed Atlantis Casino Resort, a hotel/casino facility in Reno, Nevada (the "Atlantis"). Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road. The principal asset of Monarch is the stock of Golden Road, which holds all of the assets of the Atlantis.

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

Unless otherwise indicated, "Monarch," "Company," "we," "our" and "us" refer to Monarch Casino & Resort, Inc. and its Golden Road subsidiary.

OPERATING RESULTS SUMMARY

During the three months ended September 30, 2007, we exceeded all previously reported Company third quarter casino revenues, food and beverage revenues, net revenues, net income and earnings per share.

Amounts in millions, except per share amounts

	Three Months Ended September 30,		Percentage
	2007	2006	Increase/(Decrease)
Casino revenues	\$29.9	\$27.7	7.9
Food and beverage revenues	11.0	10.9	0.9
Hotel revenues	8.0	8.1	(1.2)
Other revenues	1.2	1.3	(7.7)
Net revenues	43.6	41.7	4.6
Sales, general and admin exp	12.7	11.7	8.5
Income from operations	11.7	11.2	4.5
Net Income	8.0	7.4	8.1
Earnings per share - diluted	0.41	0.38	7.9
Operating margin	26.9%	26.8%	0.1 pts.

	Nine Months Ended September 30,		Percentage
	2007	2006	Increase
Casino revenues	\$84.5	\$77.6	8.9
Food and beverage revenues	32.1	30.8	4.2
Hotel revenues	21.9	20.6	6.3
Other revenues	3.7	3.6	2.8
Net revenues	123.0	115.0	7.0
Sales, general and admin exp	37.1	35.2	5.4
Income from operations	30.1	25.8	16.7
Net Income	20.4	17.0	20.0
Earnings per share - diluted	1.06	0.88	20.5
Operating margin	24.4%	22.5%	1.9 pts.

Some significant items that affected our third quarter results in 2007 are listed below. These items are discussed in greater detail elsewhere in our discussion of operating results and in the Liquidity and Capital Resources section.

- Increases of 7.9% and 0.9% in our casino and food and beverage revenues, respectively, partially offset by decreases of 1.2% and 7.7% in our hotel and other revenues, led to an increase of 4.6% in net revenues.

- Our operating margin remained relatively unchanged as compared to the same period last year.

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Our selling, general and administrative (“SG&A”) expenses increased by 8.5%, primarily due to increased legal expense, payroll and benefit costs and marketing costs.

- Net interest income increased approximately \$430,000 as compared to the third quarter of 2006.

CAPITAL SPENDING AND DEVELOPMENT

Capital expenditures at the Atlantis totaled approximately \$10.2 and \$4.2 million during the first nine months of 2007 and 2006, respectively. During the nine months ended September 30, 2007, our capital expenditures consisted primarily of construction costs associated with the current expansion phase of the Atlantis that commenced in June 2007, and the acquisition of gaming equipment to upgrade and replace existing gaming equipment. During the first nine months of 2006, capital expenditures consisted primarily of acquisitions of gaming and computer equipment, the installation of a casino high-definition video display system, renovation of our Java Coast Gourmet Coffee and pastry bar, initial design and planning expenditures associated with the Atlantis expansion, renovations and upgrades.

Future cash needed to finance ongoing maintenance capital spending is expected to be made available from our current cash balance, operating cash flow, the Credit Facility (see "THE CREDIT FACILITY" below) and, if necessary, additional borrowings.

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, 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, 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. Further information on potential factors which could affect our financial condition, results of operations and business including, without limitation, our expansion, development activities, legal proceedings and employee matters are included in our filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only 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.

RESULTS OF OPERATIONS

Comparison of Operating Results for the Three-Month Periods Ended September 30, 2007 and 2006

For the three months ended September 30, 2007, our net income was \$8.0 million, or \$0.41 per diluted share, on net revenues of \$43.6 million, an increase from net income of \$7.4 million, or \$0.38 per diluted share, on net revenues of \$41.7 million for the three months ended September 30, 2006. Income from operations for the three months ended September 30, 2007 totaled \$11.7 million, a 4.5% increase when compared to \$11.2 million for the same period in 2006. Both net revenues and net income for the third quarter of 2007 represent new third quarter records for the Company. Net revenues increased 4.6%, and net income increased 8.1% when compared to last year's third quarter.

Casino revenues totaled \$29.9 million in the third quarter of 2007, a 7.9% increase from \$27.7 million in the third quarter of 2006, which was primarily due to increases in slot revenues. Casino operating expenses amounted to 30.8% of casino revenues in the third quarter of 2007, compared to 32.4% in the third quarter of 2006; the improvement was due primarily to strong increased casino revenue partially offset by increased payroll and benefit expenses and complimentary expenses.

Food and beverage revenues totaled \$11.0 million in the third quarter of 2007, a 0.9% increase from \$10.9 million in the third quarter of 2006, due primarily to a 5.6% increase in the average revenue per food cover partially offset by a 4.2% decrease in the number of covers served. Food and beverage operating expenses amounted to 48.9% of food and beverage revenues during the third quarter of 2007 as compared to 47.2% for the third quarter of 2006. This increase was primarily the result of higher payroll and benefit expenses and other direct departmental expenses.

Hotel revenues were \$8.0 million for the third quarter of 2007, a decrease of 1.2% from the \$8.1 million reported in the 2006 third quarter. This decrease was the result of lower hotel occupancy partially offset by an increase in the average daily room rate ("ADR"). Both 2007 and 2006 third quarter revenues included a \$3 per occupied room energy surcharge. During the third quarter of 2007, the Atlantis experienced a 97.9% occupancy rate, as compared to 99.9% during the same period in 2006. The Atlantis' ADR was \$81.11 in the third quarter of 2007 compared to \$80.79 in the third quarter of 2006. Hotel operating expenses as a percent of hotel revenues remained relatively unchanged at 27.0% in the 2007 third quarter as compared to 27.2% in the 2006 third quarter.

Promotional allowances increased to \$6.6 million in the third quarter of 2007 compared to \$6.2 million in the third quarter of 2006. The increase is attributable to continued promotional efforts to generate additional revenues. Promotional allowances as a percentage of gross revenues remained relatively constant at 13.1% during the third quarter of 2007 as compared to 13.0% in the third quarter of 2006.

Other revenues decreased slightly to \$1.2 million in the 2007 third quarter as compared to \$1.3 million in the third quarter of 2006.

Depreciation and amortization expense was \$2.0 million in the third quarter of 2007 as compared to \$2.1 million in the third quarter of 2006. This depreciation expense primarily relates to property and equipment acquired in the ordinary course of business as part of the Company's ongoing capital expenditures to replace old and obsolete equipment with newer, more current equipment.

SG&A expenses amounted to \$12.7 million in the third quarter of 2007, an 8.5% increase from \$11.7 million in the third quarter of 2006. The increase was primarily due to increased payroll and benefit expenses, increased legal, accounting and rental expenses as well as increased marketing expenses. These increases were partially offset by lower bad debt expense. As a percentage of net revenue, SG&A expenses increased to 29.2% in the third quarter of 2007 from 28.0% in the same period in 2006.

Net interest income increased to \$568,000 for the third quarter of 2007 from \$139,000 for the third quarter of 2006. This increase was driven by a greater balance of interest bearing cash and cash equivalents at September 30, 2007 as compared to September 30, 2006. During the second quarter of 2006, we paid off the \$8.1 million December 31, 2005 bank debt balance and began investing our surplus cash in stable, short-term investments. Our cash and cash equivalents balance increased throughout the subsequent quarters such that we had cash and cash equivalents of \$52.9 million at September 30, 2007 as compared to \$28.7 million at September 30, 2006.

Comparison of Operating Results for the Nine-Month Periods Ended September 30, 2007 and 2006.

For the nine months ended September 30, 2007, our net income was \$20.4 million, or \$1.06 per diluted share, on net revenues of \$123.0 million, an increase from net income of \$17.0 million, or \$0.88 per diluted share, on net revenues of \$115.0 million during the nine months ended September 30, 2006. Income from operations for the 2007 nine-month period totaled \$30.1 million, compared to \$25.8 million for the same period in 2006. Net revenues increased 7.0%, and net income increased 20.0% when compared to the nine-month period ended September 30, 2006.

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Casino revenues for the nine months ended September 30, 2007 totaled \$84.5 million, an 8.9% increase from \$77.6 million for the nine months ended September 30, 2006. Casino operating expenses amounted to 31.9% of casino revenues for the nine months ended September 30, 2007, compared to 32.8% for the same period in 2006, primarily due to the increased casino revenue partially offset by increased payroll and benefit expenses and other direct departmental expenses.

Food and beverage revenues totaled \$32.1 million for the nine months ended September 30, 2007, an increase of 4.2% from the \$30.8 million for the nine months ended September 30, 2006, due to an approximate 4.6% increase in the average revenue per cover while the number of covers served remained virtually unchanged. Food and beverage operating expenses amounted to 47.4% of food and beverage revenues during the 2007 nine-month period, relatively unchanged when compared to 47.6% for the same period in 2006.

Hotel revenues for the nine months ended September 30, 2007 increased 6.3% to \$21.9 million from \$20.6 million for the nine months ended September 30, 2006, primarily due to increases in the occupancy and ADR at the Atlantis. Hotel revenues for the nine months of 2007 and 2006 include a \$3 per occupied room energy surcharge. The Atlantis experienced an increase in the ADR during the 2007 nine-month period to \$75.20, compared to \$71.20 for the same period in 2006. The occupancy rate increased to 96.8% for the nine-month period in 2007, from 95.4% for the same period in 2006. Hotel operating expenses in the first nine months of 2007 were 29.4% of hotel revenues, an improvement when compared to 30.7% for the same period in 2006. The improved margin was due to the increased occupancy and ADR, which were partially offset by increased payroll and benefit costs.

Promotional allowances increased to \$19.2 million in the first nine months of 2007 compared to \$17.6 million in the same period of 2006. The increase is attributable to continued efforts to generate additional revenues through promotional efforts. Promotional allowances as a percentage of gross revenues increased slightly to 13.5% for the first nine months of 2007 compared to 13.3% for the same period in 2006.

Other revenues were \$3.7 million for the nine months ended September 30, 2007, a 2.8% increase from \$3.6 million in the same period in 2006.

Depreciation and amortization expense was \$6.1 million in the first nine months of 2007, a decrease of 4.8% compared to \$6.4 million in the same period last year. This decrease is primarily attributable to assets that became fully depreciated during the period.

SG&A expenses increased 5.4% to \$37.1 million in the first nine months of 2007, compared to \$35.2 million in the first nine months of 2006, primarily as a result of increased payroll and benefit costs, increased legal, and increased marketing expense all partially offset by decreased bad debt expense and the elimination of the one-time expense of approximately \$1.2 million related to the accelerated vesting of stock options of a former company executive during the second quarter of 2006. As a percentage of net revenue, SG&A expenses decreased to 30.1% in the 2007 nine-month period from 30.6% in the same period in 2006.

Net interest income for the first nine months of 2007 totaled \$1.2 million, compared to net interest income of \$116,000 for the same period one year earlier. The difference reflects our reduction in debt outstanding (see "THE CREDIT FACILITY" below) and the increase in interest bearing cash and cash equivalents during the first nine months of 2007 as compared to same period in 2006.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our daily hotel and casino activities with net cash provided by operating activities.

For the nine months ended September 30, 2007, net cash provided by operating activities totaled \$24.9 million, a decrease of 1.7% compared to the same period last year. Net cash used in investing activities totaled \$8.7 million and

\$4.2 million in the nine months ended September 30, 2007 and 2006, respectively. During the first nine months of 2007, net cash used in investing activities consisted primarily of construction costs associated with the current expansion phase of the Atlantis that commenced in June 2007, and the acquisition of property and equipment. During the first nine months of 2006, net cash used in investing activities was used primarily in the purchase of property and equipment and continued property renovations and upgrades. Net cash used in financing activities totaled \$236,725 for the first nine months of 2007 compared to \$5.3 million for the same period in 2006. Net cash used in financing activities for the first nine months of 2007 was due to our purchase of Monarch common stock pursuant to the Repurchase Plan (see below) partially offset by proceeds from the exercise of stock options and the tax benefits associated with such stock option exercises. During the first nine months of 2006, we paid off the \$8.1 million December 31, 2005 bank debt balance and began investing our surplus cash in stable, short-term investments, such as certificates of deposit. At September 30, 2007, we had a cash balance of \$52.9 million compared to \$37.0 million at December 31, 2006.

We have a reducing revolving credit facility (see "THE CREDIT FACILITY" below). At September 30, 2007, we had no balance outstanding on the Credit Facility (as defined below) and had \$5 million available to be drawn under the Credit Facility.

OFF BALANCE SHEET ARRANGEMENTS

A driveway was completed and opened on September 30, 2004, that is being shared between the Atlantis and a shopping center (the "Shopping Center") directly adjacent to the Atlantis. The Shopping Center is controlled by an entity whose owners include our controlling stockholders. As part of this project, in January 2004, we leased a 37,368 square-foot corner section of the Shopping Center for a minimum lease term of 15 years at an annual rent of \$300,000, subject to increase every 60 months based on the Consumer Price Index. We also use part of the common area of the Shopping Center and pay our proportional share of the common area expense of the Shopping Center. We have the option to renew the lease for three five-year terms, and at the end of the extension periods, we have the option to purchase the leased section of the Shopping Center at a price to be determined based on an MAI Appraisal. The leased space is being used by us for pedestrian and vehicle access to the Atlantis, and we may use a portion of the parking spaces at the Shopping Center. The total cost of the project was \$2.0 million; we were responsible for two thirds of the total cost, or \$1.35 million. The cost of the new driveway is being depreciated over the initial 15-year lease term; some components of the new driveway are being depreciated over a shorter period of time. We paid approximately \$225,000 in lease payments for the leased driveway space at the Shopping Center during the nine months ended September 30, 2007.

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, 2006 ("2006 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 2006 Form 10-K filed on March 14, 2007.

OTHER FACTORS AFFECTING CURRENT AND FUTURE RESULTS

The constitutional amendment approved by California voters in 1999 allowing the expansion of Indian 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 Indian casinos, they may intensify their marketing efforts to Reno-area residents as well.

We also believe that 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 effect on our business.

In June 2004, five California Indian 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. The State of California has approved compacts with primarily Southern California located Native American tribes that increases the total number of Native American operated slot machines in the State of California. Opponents to the compacts are working on a referendum to overturn the new gaming compacts to be voted on at the February 5 presidential primaries. Certain tribes in favor of the compacts have sued to block the February referendum, claiming that signatures obtained by opponents were not gathered within the required time frame.

The economy in Reno and our feeder markets, like many other areas around the country, are experiencing the effects of several negative macroeconomic trends, including higher fuel prices, home mortgage defaults, higher mortgage interest rates and declining residential real estate values. These negative trends could adversely impact discretionary incomes of our target customers which, in turn could adversely impact our business. Management continues to monitor these 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.

Other factors that may impact current and future results are set forth in detail in Part II - Item 1A "Risk Factors" of this Form 10-Q and in Item 1A "Risk Factors" of the 2006 Form 10-K.

COMMITMENTS AND CONTINGENCIES

Our contractual cash obligations as of September 30, 2007 and the next five years and thereafter are as follow:

		Payments Due by Period			
	Total	Less Than 1 Year	1 to 3 Years	4 to 5 Years	More Than 5 Years
Operating leases (1)	\$ 4,440,000	\$ 370,000	\$740,000	\$740,000	\$2,590,000
Purchase obligations (2)	31,416,000	31,416,000	-	-	-
Total contractual cash obligations	\$35,856,000	\$31,786,000	\$740,000	\$740,000	\$2,590,000

(1) Operating leases include \$370,000 per year in lease and common area expense payments to the shopping center adjacent to the Atlantis (see Note 5. Related Party Transactions, in the Notes to the Condensed Consolidated Financial Statements in this Form 10-Q).

(2) Our open purchase order and construction commitments total approximately \$31.4 million. Of the total purchase order and construction commitments, approximately \$2.0 million are cancelable by us upon providing a 30-day notice.

On September 28, 2006, our Board of Directors authorized a stock repurchase plan (the "Repurchase Plan"). Under the Repurchase Plan, our Board of Directors authorized a program to repurchase up to 1,000,000 shares of our 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 us to acquire any particular amount of common stock and the plan may be suspended at any time at our discretion. In August 2007, we acquired 32,112 shares pursuant to the Repurchase Plan at an average price of \$23.55 per share. No other shares have been purchased pursuant to the Repurchase Plan.

We began construction in the second quarter of 2007 on the next expansion phase of the Atlantis. New space to be added to the first floor casino level, the second and third floors and the basement level will total approximately 116,000 square feet. Once complete, the existing casino floor will be expanded by over 10,000 square feet, or approximately 20%. The first floor plans include a redesigned, updated and expanded race and sports book of approximately 4,000 square feet and an enlarged poker room. The plans also include a New York-style deli restaurant. The second floor expansion will create additional ballroom and convention space of approximately 27,000 square feet, doubling our existing facilities. The spa and fitness center will be remodeled and expanded to create an ultra-modern spa and fitness center facility. We are working with the Reno-Sparks Convention and Visitors' Authority to design and build a pedestrian skywalk over Peckham Lane that will connect the Reno-Sparks Convention Center (RSCVA) directly to the Atlantis. Upon completion of, and agreement on, design plans with the RSCVA, construction is expected to take approximately twelve months and is expected to be funded entirely out of existing cash on hand plus cash flow from operations. Excluding the cost of the skywalk, the expansion is estimated to cost approximately \$50 million. Final design plans, and the resultant cost estimate, of the skywalk have not been completed.

We believe that our existing cash balances, cash flow from operations, equipment financing, 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 requirements; 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.

THE CREDIT FACILITY

On February 20, 2004, a previous credit facility was refinanced (the "Credit Facility") for \$50 million. At our option, borrowings under the Credit Facility would accrue interest at a rate designated by the agent bank at its base rate (the "Base Rate") or at the London Interbank Offered Rate ("LIBOR") for one, two, three or six month periods. The rate of interest included a margin added to either the Base Rate or to LIBOR tied to our ratio of funded debt to EBITDA (the "Leverage Ratio"). Depending on our Leverage Ratio, this margin would vary between 0.25 percent and 1.25 percent above the Base Rate, and between 1.50 percent and 2.50 percent above LIBOR. In February 2007, this margin was further reduced to 0.00 percent and 0.75 percent above the Base Rate and between 1.00 percent and 1.75 percent above LIBOR. At September 30, 2007, we had no borrowings under the Credit Facility; however, our leverage ratio was such that the pricing for borrowings would have been the Base Rate plus 0.00 percent or LIBOR plus 1.00 percent.

Subject to our February 2007 decision to reduce the total borrowing availability to \$5 million as described below, we may utilize proceeds from the Credit Facility for working capital needs, general corporate purposes and for ongoing capital expenditure requirements at the Atlantis.

The Credit Facility is secured by liens on substantially all of the real and personal property of the Atlantis, and is guaranteed by Monarch.

The 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 Credit Facility also contains covenants requiring us to maintain certain financial ratios and contains provisions that restrict cash transfers between Monarch and its affiliates. The Credit Facility also contains provisions requiring the achievement of certain financial ratios before we can repurchase our common stock. We do not consider the covenants to restrict our operations.

The maturity date of the Credit Facility is February 23, 2009. Beginning June 30, 2004, the maximum principal available under the Credit Facility was to be reduced over five years by an aggregate of \$30.875 million in equal increments of \$1.625 million per quarter with the remaining balance due at the maturity date. We may prepay borrowings under the Credit Facility without penalty (subject to certain charges applicable to the prepayment of LIBOR borrowings prior to the end of the applicable interest period). Amounts prepaid under the Credit Facility may be reborrowed so long as the total borrowings outstanding do not exceed the maximum principal available. At December 31, 2006, our available borrowings were \$24.0 million. Effective February 2007, in consideration of our cash balance, cash expected to be generated from operations and to avoid agency and commitment fees, we elected to permanently reduce the available borrowings to \$5 million. We may permanently reduce the maximum principal available under the Credit Facility at any time so long as the amount of such reduction is at least \$500,000 and a multiple of \$50,000.

We paid various one-time fees and other loan costs upon the closing of the refinancing of the Credit Facility that will be amortized over the term of the Credit Facility using the straight-line method.

ITEM 3. 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 September 30, 2007, that are subject to market risks.

A one-point increase in interest rates would have had no impact on interest expense in the third quarter of 2007.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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 September 30, 2007. 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 September 30, 2007, the Company's internal control over financial reporting is effective based on those criteria. 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.

PART II - OTHER INFORMATION

ITEM 1. 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 is 3:06-cv-00232-ECR (RAM). The complaint seeks 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; unspecified compensatory and punitive damages; and other relief. Monarch believes Kerzner's claims to be entirely without merit and is defending vigorously against the suit. Further, Monarch has filed a counterclaim against Kerzner seeking to enforce the license agreement granting Monarch the exclusive right to use the Atlantis name in association with lodging throughout the state of Nevada; to cancel Kerzner's registration of the Atlantis mark for casino services on the basis that the mark was fraudulently obtained by Kerzner; and to obtain declaratory relief on these issues. Litigation is in the discovery phase.

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 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 quarterly report on Form 10-Q. The risks described below are not the only ones facing us. Other risk factors are disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Furthermore, additional risks that are presently unknown to us or that we currently deem immaterial may also impact our business.

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 6. EXHIBITS

(a) Exhibits

Exhibit No Description

31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of John Farahi, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Ronald Rowan, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: November 8, 2007 By: /s/ RONALD ROWAN
Ronald Rowan, Chief Financial Officer
and Treasurer (Principal Financial
Officer and Duly Authorized Officer)

EXHIBIT 31.1 - CERTIFICATION OF JOHN FARAHİ PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Farahi, Chief Executive Officer of Monarch Casino & Resort, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monarch Casino & Resort, Inc., a Nevada corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 8, 2007

By: /s/ John Farahi

John Farahi, Chief Executive Officer

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EXHIBIT 31.2 - CERTIFICATION OF RONALD ROWAN PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald Rowan, Chief Financial Officer of Monarch Casino & Resort, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monarch Casino & Resort, Inc., a Nevada corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 8, 2007

By: /s/ Ronald Rowan

Ronald Rowan, Chief Financial Officer

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EXHIBIT 32.1

**CERTIFICATION OF JOHN FARAHİ PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT
OF 2002**

In connection with the Quarterly Report of Monarch Casino & Resort, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Farahi, Chief Executive Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2007

By: /s/ JOHN FARAHİ

John Farahi, Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION OF RONALD ROWAN PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Monarch Casino & Resort, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald Rowan, Chief Financial Officer of the Company certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2007

By: /s/ Ronald Rowan

Ronald Rowan, Chief Financial Officer