Mathis Charles Alexander
Form 4
February 18, 2010

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Mathis Charles Alexander
(Last) (First) (Middle)
9801 HIGHWAY 78, BLDG 1
(Street)
LADSON, SC 29456
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FORCE PROTECTION INC [FRPT]

3. Date of Earliest Transaction (Month/Day/Year)
02/16/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/16/2010		A		25,813 (1)	A	$ 0	116,482	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8 D S (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Options (Right to Buy)	$ 5.34	02/16/2010		A		29,928		(2)	02/16/2020	Common Stock	29,928	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Mathis Charles Alexander 9801 HIGHWAY 78 BLDG 1 LADSON, SC 29456			Chief Financial Officer	

Signatures

/s/ Lenna Ruth Macdonald as Attorney in Fact for Charles A. Mathis	02/18/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These shares of common stock are subject to forfeiture restrictions, whereby one-third of the restrictions will lapse each year commencing on February 16, 2011, if certain performance is obtained.

(2) This stock option vests in three equal annual installments, commencing on February 16, 2010.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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The legalization of internet poker and other forms of internet gaming could create further competition for our operations.

OUR BUSINESS MAY BE ADVERSELY IMPACTED BY THE ENTRY OF STATION CASINOS IN THE RENO MARKET

Station Casinos, Inc., a casino operator operating primarily in the Las Vegas market and catering mainly to Las Vegas area residents, has acquired several parcels in the Reno area and has announced plans to build two casinos, one of which would be located within one mile of our Atlantis Casino Resort Spa. Station Casinos is the dominant casino operator catering to local residents in the Las Vegas market. Should Station

Casinos proceed with its plans, it will create additional competition for us in the Reno area resident, conventioneer and tour and travel markets and could have a material adverse impact on our business.

OUR BUSINESS MAY BE ADVERSELY IMPACTED IF WE ARE UNABLE TO ADEQUATELY STAFF OUR OPERATIONS

From time to time, the competition for employees increases. During such times, new and growing business in the area may create job opportunities that at times have exceeded the area s supply of qualified employees. If we are unable to attract and retain qualified employees, or if competition for employees results in materially increased wages, our ability to maintain and grow our business could be adversely impacted.

OUR BUSINESS MAY BE ADVERSELY IMPACTED BY DOMESTIC AND INTERNATIONAL EVENTS

The terrorist attacks that took place in the United States on September 11, 2001, were unprecedented events that created economic and business uncertainties, especially for the travel and tourism industry. The potential for future terrorist attacks, the national and international responses, and other acts of war or hostility have created economic and political uncertainties that could materially adversely affect our business, results of operations and financial condition in ways we cannot predict.

AN OUTBREAK OF HIGHLY INFECTIOUS DISEASE COULD ADVERSELY AFFECT THE NUMBER OF VISITORS TO OUR FACILITIES AND DISRUPT OUR OPERATIONS, RESULTING IN A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS

There have been recent fears concerning the spread of certain influenza or other diseases and cruise ships have, from time to time reported other highly infectious virus outbreaks. Potential future outbreaks of highly infectious diseases may adversely affect the number of visitors to our property and our business and prospects. Furthermore, an outbreak might disrupt our ability to adequately staff our business and could generally disrupt our operations. If any of our guests or employees is suspected of having contracted certain highly contagious diseases, we may be required to quarantine these customers or employees or the affected areas of our facilities and temporarily suspend part or all of our operations at affected facilities. Any new outbreak of such a highly infectious disease could have a material adverse effect on our financial condition, results of operations and cash flows.

FAILURE OF THE RENO-SPARKS CONVENTION CENTER TO BOOK AND ATTRACT CONVENTION BUSINESS COULD ADVERSELY IMPACT OUR BUSINESS

The Atlantis is the closest hotel-casino to the Reno-Sparks Convention Center. If the Reno-Sparks Convention Center does not succeed in booking the anticipated level of conventions, our future results of operations could be adversely impacted.

BECAUSE WE ARE CURRENTLY DEPENDENT UPON A SINGLE PROPERTY IN A SINGLE MARKET FOR ALL OF OUR CASH FLOW, WE ARE SUBJECT TO GREATER RISKS THAN A GAMING COMPANY WITH MORE OPERATING PROPERTIES OR THAT OPERATES IN MORE MARKETS

Until we complete the acquisition of Riviera Black Hawk, Inc., we currently do not have material assets or operations other than the Atlantis. As a result, we are entirely dependent upon the Atlantis property for all of our cash flow until we develop other properties or close on the acquisition of Riviera Black Hawk, Inc. See THE ACQUISITION in Item 7. below.

OUR BUSINESS IS SUBJECT TO RESTRICTIONS AND LIMITATIONS IMPOSED BY GAMING REGULATORY AUTHORITIES THAT COULD ADVERSELY AFFECT US

The ownership and operation of casino gaming facilities are subject to extensive state and local regulation. The State of Nevada and the applicable local authorities require various licenses, registrations, permits and approvals to be held by us and our subsidiary. The Nevada Gaming Commission may, among other things, limit, condition, suspend, revoke or decline to renew a license or approval to own the stock of our Nevada subsidiary for any cause deemed reasonable by such licensing authority. If we violate gaming laws or regulations, substantial fines could be levied against us, our subsidiary and the persons involved, and we could be forced to forfeit a portion of our assets. The suspension, revocation or non-renewal of any of our licenses or the levy on us of substantial fines or forfeiture of assets would have a material adverse effect on our business, financial condition and results of operations.

To date, we have obtained all governmental licenses, findings of suitability, registrations, permits and approvals necessary for the operation of our current gaming activities. However, gaming licenses and related approvals are deemed to be privileges under Nevada law. We cannot assure you that our existing licenses, permits and approvals will be maintained or extended.

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

OUR INSURANCE COVERAGE MAY NOT BE ADEQUATE TO COVER ALL POSSIBLE LOSSES THAT OUR PROPERTY COULD SUFFER. IN ADDITION, OUR INSURANCE COSTS MAY INCREASE AND WE MAY NOT BE ABLE TO OBTAIN THE SAME INSURANCE COVERAGE IN THE FUTURE

Although we have general property insurance covering damage caused by a casualty loss (such as fire and natural disasters), each such policy has certain exclusions. In addition, our property insurance is in an amount that may be less than the expected replacement cost of rebuilding the complex if there was a total loss. Our level of insurance coverage may not be adequate to cover all losses in the event of a major casualty. In addition, certain casualty events, such as labor strikes, nuclear events, acts of war, loss of income due to cancellation of room reservations or conventions due to fear of terrorism, deterioration or corrosion, insect or animal damage and pollution, might not be covered at all under our policies. Therefore, certain acts could expose us to heavy, uninsured losses.

In addition, although we currently have insurance coverage for occurrences of terrorist acts and for certain losses that could result from these acts, our terrorism coverage is subject to the same risks and deficiencies as those described above for our general property coverage. The lack of sufficient insurance for these types of acts could expose us to heavy losses in the event that any damages occur, directly or indirectly, as a result of terrorist attacks or otherwise, which could have a significant negative impact on our operations.

In addition to the damage caused to our property by a casualty loss (such as fire, natural disasters, acts of war or terrorism), we may suffer business disruption as a result of these events or be subject to claims by third parties injured or harmed. While we carry business interruption insurance and general liability insurance, this insurance may not be adequate to cover all losses in such event.

We renew our insurance policies on an annual basis. The cost of coverage may become so high that we may need to reduce our policy limits or agree to certain exclusions from our coverage. Among other factors, it is possible that the situation in Iran, Afghanistan, homeland security concerns, other catastrophic events or any change in government legislation governing insurance coverage for acts of terrorism could materially adversely affect available insurance coverage and result in increased premiums on available coverage (which may cause us to elect to reduce our policy limits) and additional exclusions from coverage. Among other potential future adverse changes, in the future we may elect not to, or may not be able to, obtain any coverage for losses due to acts of terrorism.

Our debt instruments and other material agreements require us to maintain a certain minimum level of insurance. Failure to satisfy these requirements could result in an event of default under these debt instruments or material agreements, which would have a material adverse effect on our financial condition, results of operations or cash flows.

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

The federal government has, from time to time, considered a federal tax on casino revenues and may consider such a tax in the future. State and local authorities raise a significant amount of revenue through taxes and fees on gaming activities. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes or other fees. If the State of Nevada, the City of Reno or the State of Colorado once we acquire Riviera Black hawk, Inc., were to increase gaming taxes and fees, our results of operations could be adversely affected.

IF WE LOSE OUR KEY PERSONNEL, OUR BUSINESS COULD BE MATERIALLY ADVERSELY AFFECTED

We depend on the continued performances of John Farahi and Bob Farahi, our Chief Executive Officer and our President, respectively, and their management team. If we lose the services of the Farahi brothers, or other senior Atlantis management personnel, and cannot replace such persons in a timely manner, our business could be materially adversely affected.

ADVERSE WINTER WEATHER CONDITIONS IN THE SIERRA NEVADA MOUNTAINS AND RENO-LAKE TAHOE AREA COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Adverse winter weather conditions, particularly snowfall, can prevent customers from traveling or make it difficult for them to drive to the Atlantis. Adverse winter weather would most significantly affect our drive-in customers from northern California and the Pacific Northwest. If the Reno area itself were to experience prolonged adverse winter weather conditions, our results of operations and financial condition could also be materially adversely affected.

CLAIMS HAVE BEEN BROUGHT AGAINST US AND OUR SUBSIDIARY IN VARIOUS LEGAL PROCEEDINGS, AND ADDITIONAL LEGAL AND TAX CLAIMS ARISE FROM TIME TO TIME

It is possible that our cash flows and results of operations could be affected by the resolution of legal and other claims. We believe that the ultimate disposition of current matters will not have a material impact on our financial condition or results of operations. Please see the further discussion under Legal Proceedings in Item 3 of this Form 10-K.

ENERGY PRICE INCREASES MAY ADVERSELY AFFECT OUR COST OF OPERATIONS AND OUR REVENUES

Our facility uses significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy or fuel have been experienced to date, increases in energy and fuel prices in the United States may negatively affect our operating results. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material. In addition, energy and gasoline price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation and spending at our properties, which would negatively impact revenues.

CHANGES IN REGULATIONS ON LAND USE REQUIREMENTS COULD ADVERSELY IMPACT OUR BUSINESS

A change in regulations on land use requirements with regard to development of new hotel casinos in the proximity of the Atlantis could have an adverse impact on our business, results of operations, and financial condition. A relaxation in such regulations could make it easier for competitors to enter our immediate market. A tightening of such regulations could adversely impact our future expansion opportunities.

OUR RESULTS OF OPERATIONS MAY BE ADVERSELY AFFECTED BY HIGH-END PLAYERS WINNINGS

Although not the major focus of our marketing efforts, we have selectively targeted high-end players. Should one or more of these high-end players win large sums in our casino, or should a material amount of credit extended to such players not be repaid, our results of operations could be adversely impacted.

OUR COMMON STOCK PRICE MAY FLUCTUATE SUBSTANTIALLY, AND A STOCKHOLDER S INVESTMENT COULD DECLINE IN VALUE

The market price of our common stock may fluctuate substantially due to many factors, including:

- actual or anticipated fluctuations in our results of operations;
- announcements of significant acquisitions or other agreements by us or by our competitors;
- our sale of common stock or other securities in the future;
- trading volume of our common stock;
- conditions and trends in the gaming and destination entertainment industries;
- changes in the estimation of the future size and growth of our markets; and
- general economic conditions, including, without limitation, changes in the cost of fuel and air travel.

In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to companies operating performance. Broad market and industry factors may materially harm the market price of our common stock, regardless of our operating performance. In the past, following periods of volatility in the market price of a company s securities, stockholder derivative lawsuits and/or securities class action litigation has often been instituted against that company. Such litigation, if instituted against us, could result in substantial costs and a diversion of management s attention and resources.

WE HAVE THE ABILITY TO ISSUE ADDITIONAL EQUITY SECURITIES, WHICH WOULD LEAD TO DILUTION OF OUR ISSUED AND OUTSTANDING COMMON STOCK

The issuance of additional equity securities or securities convertible into equity securities would result in dilution of our existing stockholders equity interests in us. Our Board of Directors has the authority to issue, without vote or action of stockholders, preferred stock in one or more series, and has the ability to fix the rights, preferences, privileges and restrictions of any such series. Any such series of preferred stock could contain dividend rights, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences or other rights superior to the rights of holders of our common stock. If we issue convertible preferred stock, a subsequent conversion may dilute the current common stockholders interest.

WE DO NOT INTEND TO PAY CASH DIVIDENDS. AS A RESULT, STOCKHOLDERS WILL BENEFIT FROM AN INVESTMENT IN OUR COMMON STOCK ONLY IF IT APPRECIATES IN VALUE

We have never paid a cash dividend on our common stock, and we do not plan to pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain any future earnings to finance our operations and further expansion and growth of our business, including acquisitions. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. We cannot guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There were no unresolved comments from the SEC staff at the time of filing this Form 10-K.

ITEM 2. PROPERTIES

Our properties consist of:

(a) An approximately 13-acre site in Reno, Nevada on which the Atlantis is situated, including the hotel towers, casino, restaurant facilities and surrounding parking.

(b) An approximately 16-acre site, adjacent to the Atlantis and connected to the Atlantis by the Sky Terrace, which includes approximately 11 acres of paved parking used for customer, employee and valet parking. The remainder of the site is undeveloped. This site is compliant with all casino zoning requirements and is suitable and available for future expansion of the Atlantis facilities, parking, or complementary resort casino and/or entertainment amenities. We have not determined the ultimate use of this site.

(c) An approximately 2.6-acre site across Virginia Street from the Atlantis which is utilized as administrative offices (the Administrative Site) for Atlantis staff.

(d) Leased land consisting of 37,368 square-feet next door to the Atlantis serving as a driveway entrance to the Atlantis. The least term ends in 2019. For a further description of the least terms, see Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Notes 4 and 11 .

(e) An approximate 2.3-acre site with a 27,508 square foot building adjacent to the Administrative Site that was utilized for storage prior to its demolition in July of 2011. The parcel was subject to a lease in 2009 until its acquisition in November 2009. For a further description of the least terms, see Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Notes 4 and 11 .

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

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

Our credit facility is secured by liens on all of our real property.

ITEM 3. LEGAL PROCEEDINGS

As previously disclosed, litigation was filed against Monarch on January 27, 2006, by Kerzner International Limited (Kerzner) owner of the Atlantis, Paradise Island, Bahamas in the United States District Court, District of Nevada. The case number assigned to the matter was 3:06-cv-00232-ECR (RAM). The complaint sought declaratory judgment prohibiting Monarch from using the name Atlantis in connection with offering casino services other than at Monarch s Atlantis Casino Resort Spa located in Reno, Nevada, and particularly prohibiting Monarch from using the Atlantis name in connection with offering casino services in Las Vegas, Nevada; injunctive relief enforcing the same; and other relief. Monarch filed a counterclaim against Kerzner seeking to cancel Kerzner s federal registration of the Atlantis mark for casino services and to obtain declaratory relief in its favor on issues related to Monarch s use of the mark, as raised by Kerzner s complaint. (Monarch also filed a concurrent action with the Trademark Trial and Appeal Board (TTAB) seeking cancellation of Kerzner s federal registration. That administrative action was stayed by the TTAB pending outcome of the district court litigation.) Upon conclusion of discovery various motions were filed by the parties. On December 14, 2009, the court ruled on the pending motions, and identified a single remaining factual question concerning Kerzner s alleged fame that potentially was dispositive of Kerzner s claims. After addressing additional procedural matters, on June 3, 2010, the court directed the parties to file the proposed joint pretrial order. In the proposed joint pretrial order, Kerzner conceded that it could not prove the sole dispositive issue of fame and requested the court to make entry of judgment against Kerzner. The court treated Kerzner s request as a motion to dismiss and for entry of judgment, and on October 8, 2010 issued an order granting dismissal and entry of judgment against Kerzner. On February 10, 2011, the court issued its final judgment against Kerzner and in favor of Monarch with respect to all claims asserted by Kerzner in the Complaint. As to Monarch s Counterclaims, the court granted all remaining counterclaims in favor of Monarch, including declaratory relief that: Monarch s use of the Atlantis mark does not infringe on Kerzner s rights; Monarch has developed valid common law rights in the Atlantis mark for casino services; Monarch owns a valid Nevada state trademark for the Atlantis mark in casino services; Monarch has the exclusive ability to use the Atlantis mark for casino services within the State of Nevada by virtue of its Nevada state registration; and Monarch has the right and ability to use and convey rights in the Atlantis name and mark in connection with casino services in Las Vegas, Nevada, and to do so does not constitute deceptive trade practices under Nevada law. The court declined Monarch s request for cancellation of Kerzner s federal registration and for attorneys fees, but awarded costs of suit to Monarch as the prevailing party. (The TTAB action for cancellation of Kerzner s federal registration remains pending.) On March 11, 2011, Kerzner filed its Notice of Appeal, appealing the above referenced final judgment. Monarch believes that the district court s rulings from which Kerzner has appealed are sound, and intends to vigorously oppose Kerzner s appeal. Additionally, Monarch has filed a cross-appeal on the bases that the district court erred by failing to cancel Kerzner s federal registration of the Atlantis mark for gaming, and by not awarding attorneys fees to Monarch. The case number assigned in the Ninth Circuit Court of Appeal is 11-15675. The briefing schedule at the Ninth Circuit Court of Appeal has been stayed while the parties explore the possibility of settlement. As of December 31, 2011, the briefing schedule remains stayed.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our common stock trades on The NASDAQ Stock Market under the symbol MCRI. The following table sets forth the high and low bid prices of our common stock, as reported by the NASDAQ Stock Market, during the periods indicated.

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

As of March 5, 2012, there were approximately 70 holders of record of our common stock, and approximately 2,100 beneficial stockholders.

We have never paid dividends. We presently intend to retain earnings and use free cash flow to finance our operating activities, for maintenance capital expenditures and to pay down our debt. We do not anticipate declaring cash dividends in the foreseeable future. Our bank loan agreement also contains provisions that require the achievement of certain financial ratios before we can pay or declare dividends to our stockholders. See Item 8, FINANCIAL STATEMENTS, Notes to Consolidated Financial Statements, Note 5.

For information relating to securities authorized for issuance under equity compensation plans, see Part III, Item 12 - Security Ownership of Certain Beneficial Owners and Management.

STOCK PERFORMANCE GRAPH

The following chart reflects the cumulative total return (change in stock price plus reinvested dividends) of a $100 investment in the Company s Common Stock from the five-year period from December 31, 2006 through December 31, 2011, in comparison to the Standard & Poor s 500 Composite Stock Index and an industry peer group index. The comparisons are not intended to forecast or be indicative of possible future performance of the Company s Common Stock.

				Period Ending		
Index	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**
Monarch Casino & Resort, Inc.	100.00	100.84	48.79	33.92	52.35	42.67
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76
MCRI Peer Group 2011*	100.00	120.66	19.23	28.94	63.81	60.33

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

Pinnacle Entertainment, Inc. (PNK); Riviera Holdings Corp. (RVHLQ); and Wynn Resorts, Ltd (WYNN)

ITEM 6. SELECTED FINANCIAL DATA

[redacted]					
OPERATING RESULTS					
[redacted]					
Other revenues	72,398	70,655	64,941	66,688	75,117
[redacted]					
Promotional allowances	(29,133)	(28,438)	(25,720)	(26,222)	(25,519)
[redacted]					
Income from operations	9,770(F1)	14,033(F2)	9,142(F3)	14,686(F4)	35,688(F5)
[redacted]					
Net income	$ 5,676	$ 8,236	$ 4,841	$ 9,541	$ 24,480
[redacted]					
INCOME PER SHARE OF COMMON STOCK					
[redacted]					
Basic	$ 0.35	$ 0.51	$ 0.30	$ 0.56	$ 1.28
[redacted]					
Weighted average number of common shares and potential common shares outstanding					
[redacted]					
Diluted	16,231	16,206	16,159	17,017	19,329
[redacted]					
OTHER DATA					
[redacted]					
Other (expense) income	$ (914)	$ (1,458)	$ (1,979)	$ (168)	$ 1,776
[redacted]					
[redacted]					
[redacted]					
Current maturities of long-term debt	$	$	$ 1,000	$ 2,500	$
[redacted]					
Stockholders equity (F7)	$ 130,516	$ 122,582	$ 112,504	$ 105,595	$ 129,419

Footnotes to Selected Financial Data:

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

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

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

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

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

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

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

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

Monarch Casino & Resort, Inc., through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. (Golden Road), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis). Monarch s wholly owned subsidiaries, High Desert Sunshine, Inc. (High Desert) and Golden North, Inc. (Golden North), each own separate parcels of land located proximate to the Atlantis, and Monarch Growth Inc. (Monarch Growth), formed in 2011, entered into a definitive stock purchase agreement on September 29, 2011 to purchase Riviera Black Hawk, Inc. and owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. Monarch was incorporated in 1993 under Nevada law for the purpose of acquiring all of the stock of Golden Road. The principal asset of Monarch is the stock of Golden Road, which holds all of the assets of the Atlantis.

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

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

OPERATING RESULTS SUMMARY

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

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

Our results for the year ended December 31, 2011 reflect the continued effects of the challenging operating environment that began in the three month period ended December 31, 2007. As in many other areas around the country, the economic downturn since 2007 has continued to impact business conditions in northern Nevada through 2011. Other factors causing negative financial impact that continued from the fourth quarter of 2007 were aggressive discounting programs by our competitors. In response to these challenges, we increased promotional expenditures to attract and retain guests. Furthermore, based on statistics released by the Nevada Gaming Control Board, the Reno gaming market has shrunk in the

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

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

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

The factors described above were the primary drivers of:

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

CAPITAL SPENDING AND DEVELOPMENT

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

In January 2009, we completed the final phase of a multi-phase expansion project with the opening of the new Spa Atlantis featuring an atmosphere, amenities and treatments that are unique from any other offering in our market. Additionally, many of the pre-expansion areas of the Atlantis were remodeled to be consistent with the upgraded look and feel of the new facilities. From inception of the project in 2007 through the completion date in January 2009, the Company incurred approximately $80 million related to these capital projects.

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

Our capital expenditures were $17.4 million in 2011, $6.8 million in 2010, and $15.8 million in 2009. During 2009 capital expenditures primarily consisted of construction costs associated with the expansion, skybridge and redesign capital projects that commenced in June 2007. During 2009 we also spent approximately $5.2 million to acquire two additional land parcels with buildings within close proximity to the Atlantis (see additional discussion of these parcels below under Properties in ITEM 2). Capital expenditures in 2010 and 2011 were for various general facility improvements and for purchase of additional gaming equipment at the Atlantis. During 2011, we also acquired a 1.5 acre land parcel in Black Hawk, Colorado for $8.4 million and paid a $3.8 million deposit related to the acquisition of the Riviera Black Hawk casino. The land parcel is contiguous to the Riviera Black Hawk Casino. On September 29, 2011 Monarch entered an agreement to purchase Riviera Black Hawk, Inc. (see THE ACQUISITION below).

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

<u>Allowance for Doubtful Accounts</u>

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

<u>Self-insurance Reserves</u>

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

<u>Casino Revenues</u>

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

Explanation of Responses:

Promotional Allowances

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

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

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

Income Taxes

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

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

Stock-based Compensation

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

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

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

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

RESULTS OF OPERATIONS

2011 Compared with 2010

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

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

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

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

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

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

Selling, general and administrative (SG&A) expenses decreased to $47.1 million in 2011 compared to $47.9 million in 2010 due primarily to lower utilities expense of $695 thousand, lower bad debt expense of $635 thousand, lower property tax of $259 thousand, lower rental and small equipment expense of $237 thousand, and lower miscellaneous expense of $354 thousand all partially offset by $974 thousand of legal and other expenses directly attributable to the Acquisition (see THE ACQUISITION section below) and higher marketing expenses of $437 thousand. As a percentage of net revenue, SG&A decreased to 33.5% in 2011 as compared to 33.7% in 2010 due to the higher net revenue combined with lower SG&A expense.

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

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

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

<u>2010 Compared with 2009</u>

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

Explanation of Responses:

COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

(4) Because interest payments under our New Credit Facility (see THE CREDIT FACILITY below) are subject to factors that in our judgment vary materially, the amount of future interest payments is not presently determinable. These factors include: 1) future short-term interest rates; 2) our future leverage ratio which varies with EBITDA and our borrowing levels and 3) the speed with which we deploy capital and other spending which in turn impacts the level of future borrowings. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the Credit Facility agreement), plus an interest rate margin ranging from 1.25% to 2.50% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio which is calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At December 31, 2011 pricing was set at the opening pricing point of LIBOR plus 2.250% and will be adjusted in subsequent quarters in accordance with our leverage ratio. At December 31, 2011, the one-month LIBOR rate was 0.29%.

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

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

THE CREDIT FACILITY

Old Credit Facility

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

New Credit Facility

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

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

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

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

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

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

At December 31, 2011, we had $24.7 million outstanding under the New Credit Facility, none of which was classified as short-term debt. Short-term debt represents the difference between the amount outstanding at December 31, 2011 and the maximum principal allowed under the New Credit Facility on December 31, 2012. The interest rate under our Credit Facility is LIBOR, or a base rate (as defined in the New Credit Facility agreement), plus an interest rate margin ranging from 1.25% to 2.50% depending on our leverage ratio. The interest rate is adjusted quarterly based on our leverage ratio calculated using operating results over the previous four quarters and borrowings at the end of the most recent quarter. At December 31, 2011 pricing was set at the opening pricing point of LIBOR plus 2.250% and will be

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

THE ACQUISITION

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

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

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

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

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

STATEMENT ON FORWARD LOOKING INFORMATION

Certain information included herein contains statements that may be considered forward-looking, such as statements relating to projections of future results of operations or financial condition, expectations for our casino and expectations of the continued availability of capital resources. Any forward-looking statement made by us necessarily is based upon a number of estimates and assumptions that, while considered reasonable by us, is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and are subject to change. Actual results of our operations may vary materially from any forward-looking statement made by us or on our behalf. Forward-looking statements should not be regarded as representation by us or any other person that the forward-looking statements will be achieved. Undue reliance should not be placed on any forward-looking statements. Some of the contingencies and uncertainties to which any forward-looking statement contained herein are subject to include, but are not limited to, those set forth above in the heading ITEM 1A. Risk Factors.

RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

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

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

/s/ Ernst & Young LLP

Las Vegas, Nevada
March 14, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

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

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

/s/ Ernst & Young LLP

Las Vegas, Nevada
March 14, 2012

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

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

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

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

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

MONARCH CASINO & RESORT, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Use of Estimates

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

Self-insurance Reserves

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

Capitalized Interest

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

Cash and Cash Equivalents

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

Inventories

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

Property and Equipment

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

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

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

Casino Revenues

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

Promotional Allowances

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

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

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

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

Advertising Costs

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

Income Taxes

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

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

Allowance for Doubtful Accounts

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

Stock-based Compensation

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

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

Earnings Per Share

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

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

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

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

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

Fair Value of Financial Instruments

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

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

Concentrations of Credit Risk

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

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company s customer base. The Company believes it is not exposed to any significant credit risk on cash and accounts receivable. Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded when received. An allowance for doubtful accounts is determined to reduce the Company s receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit-related losses.

Certain Risks and Uncertainties

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

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

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

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

Impact of Recently Issued Accounting Standards

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

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

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

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

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

Reclassifications

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

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

NOTE 2. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

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

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

The Company recorded bad debt expense of $84,798, $740,387 and $1,120,333 in 2011, 2010 and 2009, respectively. The Company calculates an allowance for doubtful accounts by applying a percentage, estimated by management based on historical aging experience, to the accounts receivable balance.

NOTE 3. ACCRUED EXPENSES

Accrued expenses consist of the following:

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

NOTE 4. LEASE COMMITMENTS

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

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

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

	Operating Leases
Year ending December 31,	