MONARCH CASINO & RESORT INC
Form 10-Q
August 09, 2013
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# United States

# Securities and Exchange Commission

**Washington, D.C. 20549**

# Form 10-Q

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

**For the quarterly period ended June 30, 2013**

**OR**

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

**For the transition period from to .**

**Commission File No. 0-22088**

# MONARCH CASINO & RESORT, INC.

(Exact name of registrant as specified in its charter)

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

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

**(775) 335-4600**

Registrant s telephone number, including area code:

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

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

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

| | |
|---|---|
| Large Accelerated Filer o | Accelerated Filer x |
| Non-Accelerated Filer o | Smaller Reporting Company o |

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

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

| | |
|---|---|
| **Common stock, $0.01 par value** | **16,370,893 shares** |
| Class | Outstanding at August 2, 2013 |

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

MONARCH CASINO & RESORT, INC.

Condensed Consolidated Statements of Income

(Unaudited)

| | Three Months Ended June 30, 2013 | Three Months Ended June 30, 2012 | Six Months Ended June 30, 2013 | Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Revenues | | | | |
| Casino | $ 39,792,123 | $ 33,452,976 | $ 76,787,306 | $ 57,175,297 |
| Food and beverage | 12,494,373 | 11,788,422 | 24,385,133 | 22,092,620 |
| Hotel | 6,368,349 | 5,305,178 | 11,679,577 | 9,673,620 |
| Other | 2,314,753 | 2,245,285 | 4,644,733 | 4,382,641 |
| Gross revenues | 60,969,598 | 52,791,861 | 117,496,749 | 93,324,178 |
| Less promotional allowances | (11,318,504) | (10,320,711) | (22,241,018) | (17,953,767) |
| Net revenues | 49,651,094 | 42,471,150 | 95,255,731 | 75,370,411 |
| Operating expenses | | | | |
| Casino | 14,923,240 | 13,632,111 | 29,429,025 | 23,765,661 |
| Food and beverage | 4,994,464 | 4,620,609 | 9,838,898 | 9,064,765 |
| Hotel | 1,728,556 | 1,546,694 | 3,132,434 | 2,841,888 |
| Other | 813,181 | 765,841 | 1,564,824 | 1,492,065 |
| Selling, general and administrative | 12,643,311 | 12,635,327 | 24,913,865 | 22,633,511 |
| Depreciation and amortization | 4,379,873 | 4,260,205 | 9,023,308 | 7,635,289 |
| Acquisition expense | | 1,625,930 | | 1,700,521 |
| Total operating expenses | 39,482,625 | 39,086,717 | 77,902,354 | 69,133,700 |
| Income from operations | 10,168,469 | 3,384,433 | 17,353,377 | 6,236,711 |
| Other expenses | | | | |
| Interest expense | (516,231) | (577,000) | (1,082,327) | (905,661) |
| Total other expense | (516,231) | (577,000) | (1,082,327) | (905,661) |
| Income before income taxes | 9,652,238 | 2,807,433 | 16,271,050 | 5,331,050 |
| Provision for income taxes | (3,531,994) | (1,014,675) | (5,888,810) | (1,896,925) |
| Net income | $ 6,120,244 | $ 1,792,758 | $ 10,382,240 | $ 3,434,125 |
| | | | | |
| Earnings per share of common stock | | | | |
| Net income | | | | |
| Basic | $ 0.38 | $ 0.11 | $ 0.64 | $ 0.21 |
| Diluted | $ 0.37 | $ 0.11 | $ 0.63 | $ 0.21 |
| | | | | |
| Weighted average number of common shares and potential common shares outstanding | | | | |
| Basic | 16,191,852 | 16,139,074 | 16,169,711 | 16,138,616 |
| Diluted | 16,702,137 | 16,249,450 | 16,537,330 | 16,253,730 |

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

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MONARCH CASINO & RESORT, INC.

Condensed Consolidated Balance Sheets

| | June 30, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 17,768,818 | $ 19,043,213 |
| Receivables, net | 2,295,188 | 2,456,883 |
| Inventories | 2,270,474 | 2,382,802 |
| Prepaid expenses | 2,484,506 | 2,636,422 |
| Deferred income taxes | 5,425,848 | 5,425,848 |
| Total current assets | 30,244,834 | 31,945,168 |
| Property and equipment | | |
| Land | 27,914,847 | 27,914,847 |
| Land improvements | 6,561,729 | 6,561,729 |
| Buildings | 150,843,298 | 150,843,298 |
| Building improvements | 11,681,100 | 11,681,100 |
| Furniture and equipment | 137,523,457 | 132,946,374 |
| Leasehold improvements | 1,346,965 | 1,346,965 |
| | 335,871,396 | 331,294,313 |
| Less accumulated depreciation and amortization | (160,001,038) | (152,868,719) |
| Net property and equipment | 175,870,358 | 178,425,594 |
| Other assets | | |
| Goodwill | 25,110,810 | 25,110,810 |
| Intangible assets, net | 9,078,627 | 10,204,691 |
| Deferred income taxes | 1,214,113 | 1,214,113 |
| Other assets, net | 1,067,020 | 1,219,579 |
| Total other assets | 36,470,570 | 37,749,193 |
| Total assets | $ 242,585,762 | $ 248,119,955 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 8,068,523 | $ 8,061,570 |
| Accrued expenses | 16,644,425 | 17,836,194 |
| Income taxes payable | 13,211 | 274,401 |
| Total current liabilities | 24,726,159 | 26,172,165 |
| Long-term debt | 64,800,000 | 81,100,000 |
| Total liabilities | 89,526,159 | 107,272,165 |
| | | |
| 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; 16,277,765 outstanding at June 30, 2013 and 16,147,324 at December 31, 2012 | 190,963 | 190,963 |
| Additional paid-in capital | 32,822,167 | 34,363,690 |
| Treasury stock, 2,818,535 shares at June 30, 2013 and 2,948,976 at December 31, 2012, at cost | (44,934,950) | (48,306,046) |
| Retained earnings | 164,981,423 | 154,599,183 |
| Total stockholders equity | 153,059,603 | 140,847,790 |
| Total liability and stockholder s equity | $ 242,585,762 | $ 248,119,955 |

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

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MONARCH CASINO & RESORT, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

| | Six months ended June 30, 2013 | | Six months ended June 30, 2012 | |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ | 10,382,240 | $ | 3,434,125 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | 9,023,308 | | 7,635,289 |
| Amortization of deferred loan costs | | 152,559 | | 151,912 |
| Share based compensation | | 522,255 | | 585,352 |
| (Recoveries) provision for bad debts | | (83,616) | | 324,244 |
| Gain on disposal of assets | | (22,200) | | (11,200) |
| Deferred income taxes | | | | 414,850 |
| Changes in operating assets and liabilities: | | | | |
| Receivables | | 245,311 | | (700,618) |
| Inventories | | 112,328 | | (7,664) |
| Prepaid expenses | | 151,916 | | 347,364 |
| Accounts payable | | 6,953 | | 1,514,586 |
| Accrued expenses | | (1,191,769) | | (2,584,712) |
| Income taxes | | (261,190) | | 193,939 |
| Net cash provided by operating activities | | 19,038,095 | | 11,297,467 |
| | | | | |
| Cash flows from investing activities: | | | | |
| Proceeds from sale of assets | | 22,200 | | 11,200 |
| Acquisition of property and equipment | | (5,342,008) | | (5,102,242) |
| Net cash paid for the Riviera Black Hawk acquisition | | | | (66,746,605) |
| Net cash used in investing activities | | (5,319,808) | | (71,837,647) |
| | | | | |
| Cash flows from financing activities: | | | | |
| Proceeds from exercise of stock options | | 1,307,318 | | 13,336 |
| Principal payments on long-term debt | | (16,300,000) | | (8,940,000) |
| Borrowings under credit facility | | | | 72,260,000 |
| Net cash (used in) provided by financing activities | | (14,992,682) | | 63,333,336 |
| Net (decrease) increase in cash | | (1,274,395) | | 2,793,156 |
| Cash and cash equivalents at beginning of period | | 19,043,213 | | 13,582,659 |
| Cash and cash equivalents at end of period | $ | 17,768,818 | $ | 16,375,815 |
| | | | | |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | $ | 926,798 | $ | 547,043 |
| Cash paid for income taxes | $ | 6,150,000 | $ | 3,125,000 |

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

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MONARCH CASINO & RESORT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

QUARTERLY PERIOD ENDED JUNE 30, 2013

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation:

Monarch Casino & Resort, Inc., was incorporated in 1993 and through its wholly-owned subsidiary, Golden Road Motor Inn, Inc. ( Golden Road ), owns and operates the Atlantis Casino Resort Spa, a hotel/casino facility in Reno, Nevada (the Atlantis ). Monarch s wholly owned subsidiaries, High Desert Sunshine, Inc. ( High Desert ) and Golden North, Inc. ( Golden North ), each own separate parcels of land located proximate to the Atlantis. Monarch s wholly owned subsidiary Monarch Growth Inc. ( Monarch Growth ), formed in 2011, acquired Riviera Black Hawk, Inc., owner of the Riviera Black Hawk Casino (collectively Black Hawk ) on April 26, 2012. Monarch Growth also owns a parcel of land in Black Hawk, Colorado contiguous to the Riviera Black Hawk Casino. The Company has included the results of Black Hawk in its unaudited condensed consolidated financial statements since the date of acquisition.

Monarch s wholly owned subsidiary Monarch Interactive, Inc. ( Monarch Interactive ) was formed on January 4, 2012 and received approval from the Nevada Gaming Commission on August 23, 2012, which approval was extended on February 26, 2013 for six months (and is subject to potential further extension on August 22, 2013) pending commencement of operations, for a license as an operator of interactive gaming. Before the license can be issued, a number of conditions must be met, within six months of the approval, and before operations can commence, the Company must enter into contracts with a licensed interactive gaming service provider with an approved system. None of these conditions have occurred, and Monarch Interactive is not currently engaged in any operating activities. In Nevada, legal interactive gaming is currently limited to intrastate poker.

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

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

### Interim Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management of the Company, all adjustments considered necessary for a fair presentation are included. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2012.

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Correction of immaterial error and reclassifications:

During the second quarter of 2013, the Company identified that immaterial amounts of promotional items provided to its patrons including free play and cash back awards to casino customers were improperly recorded as selling, general and administrative expenses instead of being recorded as a direct offset to revenue. In accordance with ASC 605-50, *Revenue Recognition,* free play and cash vouchers should be recorded as an offset to revenues instead of being reported as an expense. The following table compares previously reported net revenues and operating expenses to as adjusted amounts, reflecting the reclassification of immaterial promotional amounts in conformity with generally accepted accounting principles (in thousands):

| | Three months ended March 31, 2013 | | | Three months ended June 30, 2012 | | | Six months ended June 30, 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Previously reported** | **Correction** | **As adjusted** | **Previously reported** | **Correction** | **As adjusted** | **Previously reported** | **Correction** | **As adjusted** |
| Net Revenues | $ 47,644 | $ (2,039) | $ 45,605 | $ 45,842 | $ (3,371) | $ 42,471 | $ 80,472 | $ (5,102) | $ 75,370 |
| Operating Expenses | 40,459 | (2,039) | 38,420 | 42,457 | (3,371) | 39,086 | 74,235 | (5,102) | 69,133 |

There was no impact on previously reported operating income, net income or cash flows of the Company.

The Company has evaluated the change in presentation on prior period financial statements taking into account the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). In accordance with the relevant guidance, we evaluated the materiality of the error from a qualitative and quantitative perspective. Based on such evaluation, we concluded that correcting the error did not have a material impact on any individual prior period financial statement or affect the trend of financial results. As provided by SAB 108, the portion of the immaterial error and reclassification that impacts previously reported net revenues and operating expenses for the three months ended March 31, 2013, and the annual and quarterly periods for the years ended December 31, 2012 and 2011 will not require the previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q to be amended and the correction is permitted to be made the next time we file our prior period financial statements.

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.

NOTE 2. STOCK-BASED COMPENSATION

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

Reported stock-based compensation expense was classified as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Casino | $ 19,103 | $ 14,669 | $ 32,089 | $ 27,992 |
| Food and beverage | 13,836 | 18,451 | 33,385 | 35,381 |
| Hotel | 2,284 | 4,056 | 6,341 | 8,112 |
| Selling, general and administrative | 251,166 | 279,690 | 450,440 | 513,867 |
| Total stock-based compensation, before taxes | 286,389 | 316,866 | 522,255 | 585,352 |
| Tax benefit | (100,236) | (110,903) | (182,789) | (204,873) |
| Total stock-based compensation, net of tax | $ 186,153 | $ 205,963 | $ 339,466 | $ 380,479 |

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NOTE 3. EARNINGS PER SHARE

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

*Shares in thousands*

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Shares | | Per Share Amount | Shares | | Per Share Amount |
| Basic | 16,192 | $ | 0.38 | 16,139 | $ | 0.11 |
| Effect of dilutive stock options | 510 | | (0.01) | 110 | | |
| Diluted | 16,702 | $ | 0.37 | 16,249 | $ | 0.11 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Shares | | Per Share Amount | Shares | | Per Share Amount |
| Basic | 16,170 | $ | 0.64 | 16,139 | $ | 0.21 |
| Effect of dilutive stock options | 367 | | (0.01) | 115 | | |
| Diluted | 16,537 | $ | 0.63 | 16,254 | $ | 0.21 |

Excluded from the computation of diluted earnings per share are options where the exercise prices are greater than the market price as their effects would be anti-dilutive in the computation of diluted earnings per share.  For the three and six months ended June 30, 2013 options for 548,488 shares and 865,025 shares were excluded from the computation.  For the three and six months ended June 30, 2012 2,200,378 and 2,120,928 shares were excluded from the computation.

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

In December 2011, the Financial Accounting Standards Board (   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. The Company adopted this standard on January 1, 2013 which did not have a material effect on the Company   s consolidated financial statements.

In July 2013, the FASB issued an accounting standards update that amends the presentation requirements of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The update would require an unrecognized tax benefit, or a portion of an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward in most cases. The standard update is effective for our 2014 financial statements. We are currently evaluating the impact, if any, of adopting this statement on our 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.

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NOTE 5. RELATED PARTY TRANSACTIONS

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

In addition, the Company shares a driveway with and leases approximately 37,000 square-feet from the Shopping Center for a minimum lease term of 15 years at an annual rent of $340,000 plus common area expenses, subject to increase every year beginning in the 61st month based on the Consumer Price Index. The Company has the option to renew the lease for three individual five-year terms, and at the end of the extension periods, the Company has the option to purchase the leased driveway section of the Shopping Center. During the three and six months ended June 30, 2013 and 2012, the Company paid $85,200 and $170,400, respectively, plus common area maintenance charges related to this lease.

The Company occasionally leases billboard advertising space and storage from affiliates of its controlling stockholders and paid $43,200 and $55,700 for the three and six months ended June 30, 2013, respectively, and paid $36,000 and $89,800 for the three and six months ended June 30, 2012, respectively.

NOTE 6. LONG-TERM DEBT

On November 15, 2011, we amended and restated our $60.0 million credit facility with a new facility (the New Credit Facility ). We utilized the New Credit Facility to finance the acquisition of Black Hawk and the New Credit Facility is available to be used for working capital needs, general corporate purposes and for ongoing capital expenditure requirements. The maximum available borrowings under the New Credit Facility are $100.0 million.

In addition to other customary covenants for a facility of this nature, as of June 30, 2013, the Company was required to maintain a leverage ratio, defined as consolidated debt divided by EBITDA, of no more than 3.0:1 and a fixed charge coverage ratio (EBITDA divided by fixed charges, as defined) of at least 1.15:1. As of June 30, 2013, the Company s leverage ratio and fixed charge coverage ratios were 1.4:1 and 13.3:1, respectively.

The maximum principal available under the New Credit Facility is reduced by $1.5 million per quarter beginning July 1, 2013. The Company may permanently reduce the maximum principal available at any time so long as the amount of such reduction is at least $0.5 million and a multiple of $50,000. Maturities of the Company s borrowings for each of the next three years and thereafter as of June 30, 2013 are as follows:

*Amounts in millions*

| **Year** | | **Maturities** |
|---|---|---|
| 2013 | $ | |
| 2014 | | |
| 2015 | | |
| Thereafter | | 64.8 |
| | $ | 64.8 |

At June 30, 2013, the Company s leverage ratio was such that pricing for borrowings under the New Facility was LIBOR plus 2.0%. At June 30, 2013 the one-month LIBOR interest rate was 0.19%. The carrying value of the debt outstanding under the New Facility approximates fair value because the interest fluctuates with the lender s prime rate or other market rates of interest.

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NOTE 7. TAXES

For the six months ended June 30, 2013 the Company s effective tax rate was 36.2% compared to 35.6% for the six month period ended June 30, 2012 with the increase in the effective rate attributable to a full six months results for Black Hawk in the current year period. Black Hawk s tax rate is higher due to Colorado taxable income.

Sales and Use Tax on Complimentary Meals

On March 27, 2008, the Nevada Supreme Court issued a decision in Sparks Nugget, Inc. vs. The State of Nevada Department of Taxation (the Department ), holding that food purchased for subsequent use in the provision of complimentary and/or employee meals were exempt from use tax. As a result of this decision, refund claims were filed for use taxes paid over the period April 1997 through March 2000 and the period February 2005 through June 2008, on food purchased for subsequent use in complimentary and employee meals at our Nevada casino property. We requested refunds totaling approximately $1.6 million, excluding interest ( the Refunds ). We have not recognized any of these refund amounts.

In February 2012, the Department issued a policy directive, requesting that affected taxpayers begin collecting and remitting sales tax on complimentary meals and employee meals effective February 2012 and on June 25, 2012, the Nevada Tax Commission adopted regulations providing for a similar requirement. Subject to these regulations we accrued $0.6 million through June 2013 related to this directive.

The Department policy directive was challenged by several affected parties and in June 2013, the Nevada Tax Commission issued a ruling that complimentary and employee meals were no longer subject to sales taxation. Associated with the ruling, the Nevada hotel-casino industry, including the Company, agreed to forego and cause to be withdrawn certain pending use tax refund requests. Pursuant to that agreement, the Company withdrew its requests for the $1.6 million Refunds. As a result of the ruling, we reversed the accumulated sales tax expense accrual totaling $0.6 million in the current quarter.

NOTE 8. SEGMENT INFORMATION

We have two reportable operating segments, the Atlantis and Black Hawk. The following table highlights our Adjusted EBITDA and reconciles Adjusted EBITDA to net income for the three and six months ended June 30, 2013 and 2012.

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2013 | | 2012 | | 2013 | | 2012 |
| Net revenue | | | | | | | | |
| Atlantis | $ | 37,231,961 | $ | 34,468,122 | $ | 71,295,352 | $ | 67,367,383 |