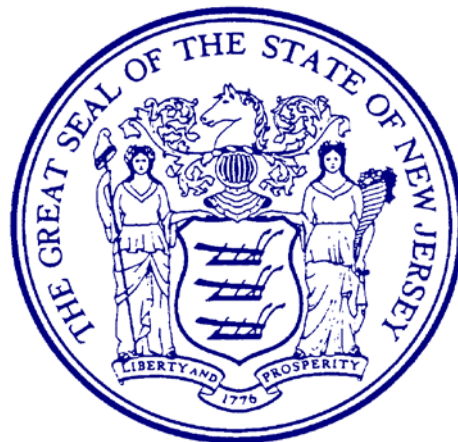


**DGMB CASINO, LLC  
QUARTERLY REPORT**

**FOR THE PERIOD ENDED SEPTEMBER 30, 2013**

**SUBMITTED TO THE  
DIVISION OF GAMING ENFORCEMENT  
OF THE  
STATE OF NEW JERSEY**



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

# DGMB CASINO, LLC

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		9,128	\$9,615
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2013, \$ 2,415; 2012, \$1,829).....	2, 3	6,121	4,191
4	Inventories .....		1,242	1,307
5	Other Current Assets.....	2, 4	2,859	2,772
6	Total Current Assets.....		19,350	17,885
7	Investments, Advances, and Receivables.....	5	7,259	15,212
8	Property and Equipment - Gross.....	2, 6	109,988	51,917
9	Less: Accumulated Depreciation and Amortization.....	2, 6	(11,302)	(5,558)
10	Property and Equipment - Net.....	2, 6	98,686	46,359
11	Other Assets.....	2, 7	3,432	3,693
12	Total Assets.....		\$128,727	\$83,149
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		5,422	\$4,552
14	Notes Payable.....	8	700	700
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....	9	69,119	0
16	External.....			
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	10	11,775	10,129
19	Other Current Liabilities.....		6,804	1,548
20	Total Current Liabilities.....		93,820	16,929
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	30,185
22	External.....	8	1,400	2,100
23	Deferred Credits .....	2	1,709	1,921
24	Other Liabilities.....	5	5,757	772
25	Commitments and Contingencies.....	11	0	0
26	Total Liabilities.....		102,686	51,907
27	Stockholders', Partners', or Proprietor's Equity.....		26,041	31,242
28	Total Liabilities and Equity.....		\$128,727	\$83,149

\* Amounts have been restated in order to conform to current classification.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# DGMB CASINO, LLC

## STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	Revenue:			
1	Casino.....		\$99,945	\$103,676
2	Rooms.....		15,158	16,743
3	Food and Beverage.....		16,570	22,335
4	Other.....		5,511	4,120
5	Total Revenue.....		137,184	146,874
6	Less: Promotional Allowances.....	2	39,755	45,180
7	Net Revenue.....		97,429	101,694
	Costs and Expenses:			
8	Cost of Goods and Services.....		75,857	79,482
9	Selling, General, and Administrative.....		27,366	24,306
10	Provision for Doubtful Accounts.....	2, 3	893	416
11	Total Costs and Expenses.....		104,116	104,204
12	Gross Operating Profit.....		(6,687)	(2,510)
13	Depreciation and Amortization.....		4,717	3,075
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	9	973	200
15	Other.....			0
16	Income (Loss) from Operations.....		(12,377)	(5,785)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....			0
18	Interest Expense - External.....		(2,833)	(101)
19	CRDA Related Income (Expense) - Net.....	5	653	(636)
20	Nonoperating Income (Expense) - Net.....	2	6,233	(430)
21	Total Other Income (Expenses).....		4,053	(1,167)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(8,324)	(6,952)
23	Provision (Credit) for Income Taxes.....		1	2
24	Income (Loss) Before Extraordinary Items.....		(8,325)	(6,954)
	Extraordinary Items (Net of Income Taxes -			
25	2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		(\$8,325)	(\$6,954)

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# DGMB CASINO, LLC

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	Revenue:			
1	Casino.....		\$39,657	\$37,697
2	Rooms.....		6,986	6,662
3	Food and Beverage.....		6,769	8,246
4	Other.....		2,505	1,462
5	Total Revenue.....		55,917	54,067
6	Less: Promotional Allowances.....	2	16,758	16,214
7	Net Revenue.....		39,159	37,853
	Costs and Expenses:			
8	Cost of Goods and Services.....		27,545	28,684
9	Selling, General, and Administrative.....		10,453	8,360
10	Provision for Doubtful Accounts.....	2, 3	453	115
11	Total Costs and Expenses.....		38,451	37,159
12	Gross Operating Profit.....		708	694
13	Depreciation and Amortization.....		1,859	1,045
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	9	391	0
15	Other.....		0	0
16	Income (Loss) from Operations.....		(1,542)	(351)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....			0
18	Interest Expense - External.....		(1,049)	(30)
19	CRDA Related Income (Expense) - Net.....	5	1,195	100
20	Nonoperating Income (Expense) - Net.....	2	2,512	59
21	Total Other Income (Expenses).....		2,658	129
22	Income (Loss) Before Taxes and Extraordinary Items.....		1,116	(222)
23	Provision (Credit) for Income Taxes.....		0	0
24	Income (Loss) Before Extraordinary Items.....		1,116	(222)
25	Extraordinary Items (Net of Income Taxes - 2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		\$1,116	(\$222)

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# DGMB CASINO, LLC

## STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2011.....		\$35,128	\$7,918		\$43,046
2	Net Income (Loss) - 2012.....			(8,630)		(8,630)
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	Member Contributions		4,800			4,800
8	Member distributions		(4,850)			(4,850)
9						0
10	Balance, December 31, 2012.....		35,078	(712)	0	34,366
11	Net Income (Loss) - 2013.....			(8,325)		(8,325)
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	Member Contributions					0
17	Member distributions					0
18						0
19	Balance, September 30, 2013.....		\$35,078	(\$9,037)	\$0	\$26,041

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

# DGMB CASINO, LLC

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$2,660)	\$8,409
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....		0	0
3	Proceeds from the Sale of Short-Term Investments .....		0	0
4	Cash Outflows for Property and Equipment.....		(45,592)	(2,386)
5	Proceeds from Disposition of Property and Equipment.....		0	0
6	CRDA Obligations .....		(1,085)	(1,266) *
7	Other Investments, Loans and Advances made.....		0	
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	CRDA Reimbursement .....		15,212	580 *
11			0	0
12	Net Cash Provided (Used) By Investing Activities.....		(31,465)	(3,072)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....		0	
15	Proceeds from Long-Term Debt .....		0	
16	Costs of Issuing Debt.....		0	
17	Payments to Settle Long-Term Debt.....	8	(525)	(525)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....		0	0
20	Payments of Dividends or Capital Withdrawals.....		0	(4,850)
21	Proceeds from related party debt .....	9	38,901	3,400
22	Payments of related party debt .....	9	(5,000)	(5,450)
23	Net Cash Provided (Used) By Financing Activities.....		33,376	(7,425)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(749)	(2,088)
25	Cash and Cash Equivalents at Beginning of Period.....		9,877	11,703
26	Cash and Cash Equivalents at End of Period.....		\$9,128	\$9,615
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$65	\$101
28	Income Taxes.....		\$1	\$2

\* Amounts have been restated in order to conform to current classification.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

# DGMB CASINO, LLC

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$8,325)	(\$6,954)
30	Depreciation and Amortization of Property and Equipment.....	6	4,504	2,862
31	Amortization of Other Assets.....		213	213
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		0	0
34	Deferred Income Taxes - Noncurrent .....		0	0
35	(Gain) Loss on Disposition of Property and Equipment.....		0	0
36	(Gain) Loss on CRDA-Related Obligations.....		(653)	636
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....	3	(1,180)	12,020
39	(Increase) Decrease in Inventories .....		(44)	69
40	(Increase) Decrease in Other Current Assets.....		(1,056)	553
41	(Increase) Decrease in Other Assets.....		(34)	0
42	Increase (Decrease) in Accounts Payable.....		(5,997)	(2,356)
43	Increase (Decrease) in Other Current Liabilities .....		4,912	1,366
44	Increase (Decrease) in Other Liabilities .....		5,000	0
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		(\$2,660)	\$8,409

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$45,592)	(\$2,386)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$45,592)	(\$2,386)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....			
59	Consideration in Acquisition of Business Entities.....			
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

**DGMB CASINO, LLC**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013  
(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	117,732	7,942	0	0
2	Food	261,425	6,164	68,758	2,178
3	Beverage	643,518	4,183	0	0
4	Travel	0	0	42,074	2,430
5	Bus Program Cash	2,441	400	0	0
6	Promotional Gaming Credits	607,483	17,779	0	0
7	Complimentary Cash Gifts	176,924	1,537	0	0
8	Entertainment	74,131	1,698	586	73
9	Retail & Non-Cash Gifts	0	0	31,325	3,602
10	Parking	0	0	0	0
11	Other	3,714	52	30,680	767
12	Total	1,887,368	\$39,755	173,423	\$9,050

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	49,279	\$3,285	0	\$0
2	Food	119,496	2,403	34,294	972
3	Beverage	259,227	1,685	0	0
4	Travel	0	0	15,627	911
5	Bus Program Cash	376	178	0	0
6	Promotional Gaming Credits	282,219	8,199	0	0
7	Complimentary Cash Gifts	65,506	466	0	0
8	Entertainment	22,568	524	273	34
9	Retail & Non-Cash Gifts	0	0	11,003	1,265
10	Parking	0	0	0	0
11	Other	1,277	18	17,326	433
12	Total	799,948	\$16,758	78,523	\$3,615

\*No item in this category (Other) exceeds 5% of totals.



**DGMB CASINO, LLC**  
**STATEMENT OF CONFORMITY,**  
**ACCURACY, AND COMPLIANCE**

FOR THE PERIOD ENDED SEPTEMBER 30, 2013

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

11/15/2013

Date

*Lawrence J. McCabe*

Lawrence J. McCabe

Director - Finance

Title

3392-11

License Number

On Behalf of:

DGMB CASINO, LLC

Casino Licensee

**DGMB CASINO, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of DGMB Casino, LLC (the "Company"), a New Jersey limited liability company that was formed on August 30, 2010. The Company currently owns and operates Resorts Casino Hotel ("Resorts"). Resorts is a casino hotel operating in Atlantic City, New Jersey. The Company is owned 100% by DGMB Casino Holding, LLC ("Holding"), a Delaware limited liability company, through a 99.5% direct ownership and a .5 % indirect ownership through DGMB Casino SPE Corp. ("SPE"), a Delaware corporation, which is the managing member of the Company. On October 1, 2012, Holding admitted MGA Gaming NJ, LLC (MGA), a New Jersey limited liability company, as a non-managing member of Holding and 10% owner. MGA then entered into a management agreement for the management of the Company.

On December 7, 2010, with a net purchase price of \$31.5 million, the Company acquired certain assets and assumed certain liabilities of Resorts. However, the assets acquired and liabilities assumed by the Company constitute a business, as all associated processes and productive outputs were obtained in the transaction. The Company completed its valuation procedures, and the resulting fair value of the acquired assets and assumed liabilities was recorded based upon our consideration of an independent valuation of the business enterprise and Resort's tangible and intangible assets.

**2. Summary of Significant Accounting Policies**

**Receivables**

Receivables consist primarily of casino, hotel and other receivables. Accounts receivables are typically non-interest bearing and are initially recorded at cost.

**Allowance for Doubtful Accounts**

The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for doubtful accounts.

**Inventories**

Inventories, which consist primarily of food, beverage, operating supplies and retail items, are stated at the lower of average cost or market value.

**Property and Equipment**

Land, Property and equipment have been recorded at their estimated fair values and useful lives based on the application of purchase accounting in 2010. Additions to land, building, and equipment are stated at cost.

The Company capitalizes the costs of improvements that extend the life of the asset and expense maintenance and repair costs as incurred. Gains or losses on the dispositions of land, buildings or equipment are included in the determination of income.

Depreciation and amortization is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

<b>Asset Class</b>	<b>Life</b>
Building and improvements	35-40 years
Furniture, fixtures, and equipment	2-5 years

The Company reviews the carrying value of property and equipment for impairment whenever events and changes in circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If undiscounted expected future cash flows were less than the carrying value, an impairment loss would be recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results,

**DGMB CASINO, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. No impairment of land, buildings and equipment was recognized for the nine months ended September 30, 2013 and 2012, respectively.

Included in the other income (net) on the accompanying statements of income are proceeds from insurance related to Super Storm Sandy at September 30, 2013. The net gain recorded in other income (net) for the nine months ended September 30, 2013 is \$5.3 Million. The dollar amount received from the insurance company as of September 30, 2013 is not contingent on any finalization of the loss amount or any other conditions. At this time, evaluation and analysis of property damage is continuing and has not been finalized. As the process becomes finalized adjustments to the financial statements will be made.

**Intangible Assets**

Intangible assets, included in Other Assets in the accompany balance sheet, includes customer relationships and trade name. Customer relationships represent the value of repeat business associated with our customer loyalty programs. These intangible assets are amortized over a 3-year period under the straight-line method. The trade name is considered an indefinite-lived intangible asset, is not subject to amortization, but instead is subject to an annual impairment test using the relief-from-royalty method. We perform assessments for impairment of trade name more frequently if impairment indicators exist. If the fair value of an indefinite-lived intangible asset is less than its carrying amount, an impairment loss is recognized equal to the difference. No impairment of intangible assets was recognized for the nine months ended September 30, 2013 and 2012, respectively.

**Revenue Recognition**

Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. In 2011, the Company accrued the base and incremental amount of progressive jackpots as the progressive machine was played and the progressive jackpot amount increased, with a corresponding reduction of casino revenue. In March 2012, the Division of Gaming Enforcement of the State of New Jersey ("DGE") approved regulations allowing casinos to remove in-house progressive jackpots from their floor and were liable for progressive jackpot obligations previously accrued. During 2012, the Company removed its in-house progressive jackpots, which resulted in the elimination of the related liability and an equivalent increase in revenue of approximately \$712,000. The in-house progressive jackpots liability at September 30, 2012 was \$700,000. Jackpots are recognized at the time they are won by customers. Accommodations, food and beverage and other revenues are recognized when services are performed.

Cash discounts based upon a negotiated amount with each customer are recognized as a promotional allowance on the date the related revenues are recorded. The Company offers other incentive programs. These are gifts and other promotional items, the type and distribution of which is determined by management. Since these awards are not cash awards, the Company records them as gaming expenses in the statements of income. Such amounts are expensed on the date the award can be utilized by the customer.

**Cashback Liability**

The Company provides incentives to its casino customers, based on their levels of gaming activity, through its "Cash back" marketing program. The incentives are in the form of points, which may be redeemed for cash to wager on slot machines. The Company estimates a liability for outstanding Cash back incentives (those incentives which have been earned, but not redeemed by the customer), adjusted for an estimated redemption factor based on historical results. The ultimate redemption amount resulting from this marketing program could vary from the estimated liability based on actual redemption activity. The amount is recorded as a promotional allowance in the statements of income. At September 30, 2013 and 2012, the Cash back liability was \$75,000 and \$56,000, respectively. Cash back liability is included in accrued expenses and other current liabilities in the accompanying balance sheets.

**Bankable Complimentaries**

The Company customer loyalty program, Resorts Star Club, offers incentives to customers who gamble at Resorts. Under the program, customers are able to accumulate, or bank, comp dollars over time that they may redeem at their discretion under the terms of the program. The comp dollars balance will be forfeited if the customer does not redeem them over an eight-month period from the time they were first earned. Because of the customer's ability to bank the comp dollars, the Company accrues the expense of the comp dollars as they are earned, after consideration of estimated breakage for points that will not be redeemed. The estimated cost to provide comp dollars is included in casino expense on the Company's statements of income. To arrive at the estimated cost associated with comp dollars, estimates and assumptions are made

**DGMB CASINO, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

regarding the marginal costs of the benefits provided, breakage rates and the mix of goods and services for which comp dollars will be redeemed. At September 30, 2013 and 2012, the bankable complimentary liability was \$1.1 million and \$1.5 million, respectively and is included in accrued expenses and current liabilities in the accompanying balance sheets.

**Fair Value of Financial Instruments**

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The carrying amount of the note payable approximates fair value as the interest rate is variable and the Company's credit worthiness has not changed since issuing such note.

**Advertising**

Advertising costs are expensed as incurred. Advertising expenses were \$2.8 Million and \$1.7 Million for the nine months ended September 30, 2013 and 2012, respectively. Advertising expenses are included in selling, general and administrative expenses in the accompanying statements of income.

**Gaming Tax**

The Company remits weekly to the Commission a tax equal to 8% of the gross gaming revenue. Gaming taxes paid to the Commission for the nine months ended September 30, 2013 and 2012 were \$6.9 million and \$7.5 million, respectively.

**Economic Development Authority Grant**

In 2012, the Company entered into a Licensing and Lease Agreement with Margaritaville. Margaritaville restaurants are affiliated with the famed singer Jimmy Buffet and are heavily themed with Key West and Tropical motif and lifestyles depicted in the music of Mr. Buffet. The agreements call for the Company to construct a Margaritaville themed Café, Landshark Bar and Grill, 5 O'clock Somewhere Bar, along with a Margaritaville themed section of the existing gaming floor all within the existing Resorts property ("Margaritaville Projects"). In 2013, The State of New Jersey Economic Development Authority approved a \$5,055,000 grant for Resorts under the Economic Redevelopment and Growth Program ("ERG Grant") for the Margaritaville Projects. The ERG Grant is an incentive grant of up to 75% of the annual incremental state tax revenue generated by the project. The ERG Grant comes in the form of rebates for certain state taxes paid (e.g., sales taxes paid on construction materials and food and beverage sales, corporate business taxes, etc.). As of September 30, 2013, Resorts recorded approximately \$1.5 million in ERG Grant receivables based on these state taxes (see Note 3. Receivables) and a corresponding gain that is included in Nonoperating Income (Expense) – Net on the corresponding Statement of Income for the nine months ended September 30, 2013.

**Income Taxes**

The Company is treated as a partnership for federal income tax purposes; therefore, federal income taxes are the responsibility of Holding and SPE. In New Jersey, casino partnerships are subject to state income taxes under the Casino Control Act; therefore, the Company is required to record New Jersey state income taxes.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes.

**Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires that the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**DGMB CASINO, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**

**Recent Accounting Pronouncements**

In September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-09, “Compensation — Retirement Benefits — Multiemployer Plans” to provide updated guidance related to disclosures around employer’s participation in multiemployer benefit plans. The updated guidance increases the quantitative and qualitative disclosures an employer will be required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits and is effective for annual periods ending after December 31, 2012. The updated disclosure requirements are included in Note 8 to the financial statements. As ASU 2011-09 only required additional footnote disclosures, there was no impact on the Company’s financial position, results of operations, or cash flows upon adoption.

In July 2012, the FASB issued ASU No. 2012-02 (ASU 2012-02), Testing Indefinite-Lived Intangible Assets for Impairment, which gives entities testing indefinite-lived intangible assets for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. If entities determine, based on qualitative factors, that the indefinite-lived intangible asset is not more likely than not impaired, a quantitative fair value calculation would not be needed. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and is not expected to significantly impact the Company’s financial position, results of operations, or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, the Company has not yet determined the effect, if any, that the implementation of such proposed standards would have on its financial statements. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires that the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

**Omitted Disclosures**

In accordance with the DGE Financial Reporting guidelines, the Company has elected not to include certain disclosures, which have not changed significantly since the most recent Annual Report filing. Accordingly, the following disclosures have been omitted: Management’s Plans Related to Liquidity and Capital Needs, certain Multiemployer Benefit Plans, certain Income Tax disclosures, and Leases.

**3. Receivables**

Components of receivables were as follows at September 30, (in thousands):

	<b>2013</b>	<b>2012</b>
Gaming	\$ 4,533	\$ 3,773
Less: allowance for doubtful accounts	(2,269)	(1,829)
	<u>2,264</u>	<u>1,944</u>
Non-gaming:		
Hotel and related	1,365	1,605
ERG Grant	1,542	-
Retail tenants	525	63
Other	571	579
Less: allowance for doubtful accounts	(146)	-
	<u>3,857</u>	<u>2,247</u>
Receivables, net	<u>\$ 6,121</u>	<u>\$ 4,191</u>

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**4. Other Current Assets**

Components of other current assets were as follows at September 30, (in thousands):

	<u>2013</u>	<u>2012</u>
Prepaid insurance	\$ 828	\$ 752
Prepaid casino license	647	777
Prepaid maintenance agreements	247	324
Prepaid sewer	241	219
Current deferred tax asset	113	150
Prepaid rent	45	45
Other prepaid expenses and current assets	738	505
	<u>\$ 2,859</u>	<u>\$ 2,772</u>

**5. Investments, Advances and Receivables**

The New Jersey Casino Control Act provides, among other things, for an assessment of licensee equal to 1.25% of the Company's gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the Casino Reinvestments Development Authority ("CRDA"). Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, direct investments in approved CRDA projects may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate

Components of investments, advances and receivables were as follows at September 30, (in thousands):

	<u>2013</u>	<u>2012</u>
Deposits — net of valuation allowance for \$1,988 and \$6,403, respectively	\$ 4,111	\$ 12,505
CRDA Bonds — net of valuation allowance for \$8,106 and \$8,101, respectively	3,148	2,707
	<u>\$ 7,259</u>	<u>\$ 15,212</u>

The Company records (credits) charges to operations to reflect the estimated net realizable value of its CRDA investment. Such (credits) charges to operations were \$(653,000) and \$636,000 for the nine months ended September 30, 2013 and 2012, respectively. CRDA (credits) charges are included in other income (expenses) in the accompanying statements of income.

The funds on deposits are held in an interest-bearing account by the CRDA. Initial obligation deposits are marked down by approximately 33% to represent their fair value and eventual expected conversion into bonds by the CRDA. Once CRDA Bonds are issued, we have concluded that the bonds are classified as held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, the Company is not permitted to do otherwise. As such, the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, their fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value.

After the initial determination of fair value, the Company analyzes the recoverability of the CRDA Bonds on a quarterly basis and its effect on reported amount based upon the ability and likelihood of bonds to be repaid. When considering recoverability of the CRDA Bonds, the Company considers the relative credit-worthiness of each borrower, historical collection experience and other information received from the CRDA. If indications exist that the amount expected to be recovered is less than its carrying value, the asset will be written down to its expected realizable amount.

In 2012, the Company entered into a Licensing and Lease Agreement with Margaritaville. Margaritaville restaurants are affiliated with the famed singer Jimmy Buffet and are heavily themed with Key West and Tropical motif and lifestyles depicted in the music of Mr. Buffet. The agreements call for the Company to construct a Margaritaville themed Café, Landshark Bar and Grill, 5 O'clock Somewhere Bar, along with a Margaritaville themed section of the existing gaming floor all within the existing Resorts property. In consideration for the Company investing in the project, in the lease agreement between the Company and Margaritaville, Margaritaville has agreed to operate the facilities for a 10 year period, with an option for an additional 10 years, and pay a portion of their Food, Beverage and Retail revenues, with a minimum amount guaranteed, as rent. In addition, the Trademark Sublicense Agreement calls for the Company to make payments to

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Margaritaville for use of its name in connection with the operation at Resorts for a guaranteed amount per year with a potential for increased amounts based upon gaming revenues as defined. The complex has been in operation since its opening in May 2013.

In addition, the Company has planned the development of a Food Court within its casino hotel property that will house five different food and beverage offerings to its customers. The Food Court outlets will be operated by third party vendors under a Master Lease paying rent based upon a percentage of food and beverage revenues.

In 2011 the CRDA created the Atlantic City Tourism District, an area that includes all casino hotels and facilities in Atlantic City, in which the CRDA is authorized to facilitate development, and as such created a Tourism District Master Plan (the "Master Plan"). As part of the Master Plan the CRDA is authorized to allow funds invested with the CRDA to be used by entities for approved projects under the Master Plan. In accordance with these guidelines Resorts requested funds, currently on deposit with the CRDA, to be used as part of its Margaritaville project. The CRDA approved the use of these funds and granted Resorts \$12.8 million for use in its development of the Margaritaville project. As of September 30, 2013, approximately \$12.8 million have been received for the Margaritaville project.

The CRDA has granted \$2.8 million to Resorts, of funds currently on deposit with the CRDA in the CRDA Atlantic City Expansion Fund, for use in the development of the Food Court project.

In addition the Company has obtained CRDA funding for a project, previously approved by the CRDA, to repair certain sections of its building façade facing the boardwalk. The commencement of this project allowed the CRDA to grant \$2.4 million to Resorts. As of September 30, 2013, approximately \$2.4 million have been received for the Facade project.

The Margaritaville and Façade projects were both complete in May 2013, and the Food Court project is projected to be in operation in the fall of 2013.

In June 2013, the Company entered into a binding term sheet with Rational Services Limited ("Rational"). The binding term sheet, which is subject to approval by the DGE, allows, under the Company's license, for Rational to provide the operation of and marketing strategy for online gaming in New Jersey. Rational made an initial payment to the Company in the amount of \$5.0 million to fund the startup of the operation, pending the issue of a license from the DGE. This funding is included in Other Liabilities on the balance sheet as of September 30, 2013.

**6. Property and Equipment**

Components of property and equipment, net were as follows at September 30, (in thousands):

	<u>2013</u>	<u>2012</u>
Land	\$ 11,521	\$ 11,500
Hotels and other buildings	69,370	24,635
Furniture, fixtures and equipment	27,062	14,529
Construction in progress	<u>2,035</u>	<u>1,253</u>
	109,988	51,917
Less: accumulated depreciation	<u>(11,302)</u>	<u>(5,558)</u>
Net property and equipment	<u>\$ 98,686</u>	<u>\$ 46,359</u>

Depreciation expense for the nine months ended September 30, 2013 and 2012 was \$4.5 million and \$2.9 million, respectively.

Interest capitalized for construction in progress was \$1.6 million and \$0 for the nine months ended September 30, 2013 and 2012, respectively.

In 2012, the Company entered into a Licensing and Lease Agreement with Margaritaville of Atlantic City, LLC, ("Margaritaville") a subsidiary of Margaritaville Enterprises, LLC, an owner, operator and licensor of multiple Margaritaville restaurants in the United States. Margaritaville restaurants are affiliated with the famed singer Jimmy Buffet and are heavily themed with Key West and Tropical motif and lifestyles depicted in the music of Mr. Buffet. The agreements call for the Company to construct a Margaritaville themed Café, Landshark Bar and Grill, 5 O'clock Somewhere Bar, along with a Margaritaville themed section of the existing gaming floor all within the existing Resorts property ("Margaritaville Projects").

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At September 30, 2013, of the \$2.0 million recorded within construction in progress, \$1.2 million was predominantly associated with the construction of the Margaritaville Projects.

In 2012, the Company had entered into a \$29.2 million agreement with a contractor for construction of the Margaritaville Projects. At December 31, 2012, Resorts had recorded approximately \$6.1 million in construction costs associated with this agreement. At September 30, 2013, Resorts had increased the contract amount for the Margaritaville Projects through change orders to be \$34.7 million in total. The Company has recorded approximately \$32.7 million in construction costs associated with this agreement, with approximately \$2.0 million due in remaining progress installment payments, until completion in 2013.

**7. Intangible Assets**

Intangible assets, included in other assets in the accompanying balance sheets, includes a trade name valued at \$3.3 million at September 30, 2013 and 2012 and a customer database with a net value of \$50,000 and \$350,000 at September 30, 2013 and 2012, respectively. The trade name is deemed to have an indefinite life. The customer database was determined to have an initial value of \$900,000 based on the application of purchase accounting in 2010 and a three-year life based upon attrition rates and computations of incremental value derived from existing relationships. The Company recorded \$225,000 of amortization expense for the customer database for the periods ending September 30, 2013 and 2012, respectively. The accumulated amortization for the customer database at September 30, 2013 and 2012 was \$850,000 and \$550,000, respectively.

**8. Note Payable**

In August 2011, the Company obtained a loan for \$3.5 million to fund the purchase of heating ventilation and air-conditioning equipment, all of which are secured by the purchased equipment. An entity controlled by the Company's principal shareholder provided guarantees on the note payable. The payment terms of the note are 60 months spread ratably for the principle balance, plus interest on the outstanding principal balance at LIBOR plus 300 basis points. At no time will the interest rate fall below 400 basis points. At September 30, 2013 and 2012, the interest rate was 4%. The Company has estimated that the carrying amounts of \$2.1 million and \$2.8 million approximate the fair value of the debt at September 30, 2013 and 2012, respectively.

In April 2013, the Company entered into a \$2 million Revolving Line of Credit with a bank (the "Revolver") with a maturity date of April 30, 2014. Any outstanding amounts on the Revolver accrue interest at a rate of the greater of 5% or LIBOR plus 4%. There is a fee of .35% on the amount of unused funds during the year payable at December 31, 2013. The Revolver is guaranteed by certain affiliates of Holding. There were no amounts outstanding or repaid as of September 30, 2013.

**9. Related Party Transactions**

In accordance with amended gaming license conditions, the Company is required to maintain total cash balances sufficient to meet its operational needs, which are to be supported by the Revolver. If in the event that the Revolver is not sufficient to meet operational needs, is terminated or otherwise matures, Mr. Bailey shall identify an alternative source of funds to replace it.

Mr. Bailey has continued to fund operational needs of the Company with an Unlimited Line of Credit. The initial terms of the Unlimited Line of Credit were that the amounts borrowed carry no interest charge and require that if the Company is financially able, and if the cash levels of the Company exceed a certain level, payment will be made to reduce the amount outstanding. On October 1, 2012, under an amendment to the operating agreement of Holding, the terms of the Unlimited Line of Credit were changed to allow interest to accrue at 10% per annum and compound annually on the unpaid principal balance. At September 30, 2013 and 2012, approximately \$61.9 million and \$22.3 million, respectively, were outstanding under the Unlimited Line of Credit and are included in Due to Affiliates Debt on the accompanying balance sheets. The amount of interest expense incurred was \$4.3 Million and \$0 for the nine months ended September 30, 2013 and 2012, respectively.

In addition, Morris Bailey has provided to the Company a source of funds for capital improvements under a \$10 million Capital Funding Agreement. The maturity date of the agreement is December 31, 2013. The terms of the Capital Funding Agreement are that the amounts borrowed carry no interest charge and repayment will be made to the extent funds are available after all day-to-day operating expenses and maintenance expenditures have been made. On October 1, 2012, under an amendment of the operating agreement of Holding, this outstanding balance began accruing interest. At September 30, 2013 and 2012, approximately \$7.2 million was outstanding under the Capital Funding Agreement and included in Due to



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Affiliates Debt on the accompanying balance sheets. The amount of interest expense incurred was \$729,000 and \$0 for the nine months ended September 30, 2013 and 2012, respectively.

On October 1, 2012, the Company entered into an agreement with MGA whereby MGA would manage and operate Resorts Casino Hotel (the "Management Agreement") for a minimum term of five years. MGA is compensated for its services under the Management Agreement with a base fee calculated as a percentage (1%) of net revenues and paid on a monthly basis. The Management Agreement also allows for an incentive fee based on annual EBITDA results as defined in the Management Agreement. For the nine months ended September 30, 2012, the Company recorded \$973,000 in base fees related to the Management Agreement. No amount was recorded or paid for incentive fees based on 2012 annual results.

**Multiemployer Benefit Plans** — Certain employees of the Company are covered by union sponsored, collectively bargained, health and welfare plans. The contributions and charges for these plans totaled \$5.7 million for the nine months ended September 30, 2013 and 2012, respectively, and were included in total costs and expenses in the accompanying consolidated statements of income.

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Under the Collective Bargaining Agreement entered into with UNITE HERE Local 54, Resorts began contributing as a new employer to the UNITE HERE National Retirement Fund (NRF) effective July 1, 2012 based on the fact that the NRF will receive approval from the Pension Benefit Guarantee Corporation ("PBGC") to use a withdrawal liability method that places Resorts in a new pool with other new employers for purposes of calculating withdrawal liability. If approved by the PBGC, Resorts' withdrawal liability exposure is significantly reduced and, at this point in time, non-existent, because the new employer pool is not underfunded at this time. More importantly, Resorts is not liable for the large underfunded amount in the existing NRF pool. In the event the PBGC does not approve Resorts participation in the new employer pool, then the NRF will refund Resorts' contributions without interest and Resorts' agreement to contribute to the NRF will cease. Resorts and UNITE HERE Local 54 will then meet in a good faith attempt to agree upon an alternate retirement contribution method, which will not expose Resorts to a significant unfunded liability.

**10. Other Accrued Expenses**

Components of other accrued expenses were as follows at September 30, (in thousands):

	<u>2013</u>	<u>2012</u>
Payroll and related costs	\$ 4,735	\$ 5,473
Payable Construction	1,206	-
Slot purchase obligations	1,197	-
Unredeemed incentives	1,121	1,528
Property Taxes	601	497
Other	2,915	2,631
	<u>\$ 11,775</u>	<u>\$ 10,129</u>

**11. Commitments and Contingencies**

**Litigation**

There are other various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

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**Atlantic City Alliance**

All the Atlantic City casino properties and the CRDA entered into an agreement with the Atlantic City Alliance (the “ACA”) to provide funding to subsidize Atlantic City casino marketing. This agreement was signed on November 2, 2011 and expires on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the Atlantic City casino industry. As part of the agreement, the Atlantic City casino industry provided an initial deposit of \$5.0 million as of December 31, 2011 and will continue to pay \$30.0 million annually for the next five years. Each annual payment will be allocated to the AC Industry based on each casino’s prorated share of gross gaming revenues from the preceding year. The Company’s obligation for the initial deposit in 2011 was \$131,000 and it paid an additional \$1.3 million in 2012. The Company’s obligation was \$877,000 and \$976,000 for the nine months ended September 30, 2013 and 2012, respectively.