

**DGMB CASINO, LLC  
QUARTERLY REPORT**

**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

**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, 2012 AND 2011

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$9,615	\$11,619
2	Short-Term Investments.....			0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, \$1,829 ; 2011, \$1,250).....	3, 11	4,191	6,060
4	Inventories .....		1,307	1,084
5	Other Current Assets.....	4	2,772	2,704
6	Total Current Assets.....		17,885	21,467
7	Investments, Advances, and Receivables.....	5	15,212	14,690
8	Property and Equipment - Gross.....	6	51,917	48,135
9	Less: Accumulated Depreciation and Amortization.....	6	(5,558)	(1,816)
10	Property and Equipment - Net.....	6	46,359	46,319
11	Other Assets.....		3,693	6,093
12	Total Assets.....		\$83,149	\$88,569
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$4,552	\$6,518
14	Notes Payable.....		0	700
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	1,619
16	External.....	10	700	0
17	Income Taxes Payable and Accrued.....			9
18	Other Accrued Expenses.....	9	10,129	9,539
19	Other Current Liabilities.....		1,548	1,769
20	Total Current Liabilities.....		16,929	20,154
	Long-Term Debt:			
21	Due to Affiliates.....	8	30,185	22,666
22	External.....	10	2,100	2,768
23	Deferred Credits .....		1,921	2,401
24	Other Liabilities.....		772	799
25	Commitments and Contingencies.....	11	0	0
26	Total Liabilities.....		51,907	48,788
27	Stockholders', Partners', or Proprietor's Equity.....		31,242	39,781
28	Total Liabilities and Equity.....		\$83,149	\$88,569

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, 2012 AND 2011

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$103,676	\$118,532
2	Rooms.....		16,743	13,903
3	Food and Beverage.....		22,335	21,076
4	Other.....		4,120	5,262
5	Total Revenue.....		146,874	158,773
6	Less: Promotional Allowances.....	2	45,180	54,324
7	Net Revenue.....		101,694	104,449
	Costs and Expenses:			
8	Cost of Goods and Services.....		79,482	91,253
9	Selling, General, and Administrative.....		24,306	28,154
10	Provision for Doubtful Accounts.....	2 & 3	416	1,215
11	Total Costs and Expenses.....		104,204	120,622
12	Gross Operating Profit.....		(2,510)	(16,173)
13	Depreciation and Amortization.....		3,075	1,876
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	8	200	900
15	Other.....		0	0
16	Income (Loss) from Operations.....		(5,785)	(18,949)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(101)	(12)
19	CRDA Related Income (Expense) - Net.....		(636)	(1,136)
20	Nonoperating Income (Expense) - Net.....	11	(430)	385
21	Total Other Income (Expenses).....		(1,167)	(763)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(6,952)	(19,712)
23	Provision (Credit) for Income Taxes.....		2	3
24	Income (Loss) Before Extraordinary Items.....		(6,954)	(19,715)
	Extraordinary Items (Net of Income Taxes -			
25	2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		(\$6,954)	(\$19,715)

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, 2012 AND 2011

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$37,697	\$39,787
2	Rooms.....		6,662	5,486
3	Food and Beverage.....		8,246	7,711
4	Other.....		1,462	1,943
5	Total Revenue.....		54,067	54,927
6	Less: Promotional Allowances.....	2	16,214	18,707
7	Net Revenue.....		37,853	36,220
	Costs and Expenses:			
8	Cost of Goods and Services.....		28,684	31,319
9	Selling, General, and Administrative.....		8,360	9,435
10	Provision for Doubtful Accounts.....	2 & 3	115	392
11	Total Costs and Expenses.....		37,159	41,146
12	Gross Operating Profit.....		694	(4,926)
13	Depreciation and Amortization.....		1,045	697
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	8	0	300
15	Other.....		0	0
16	Income (Loss) from Operations.....		(351)	(5,923)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(30)	(25)
19	CRDA Related Income (Expense) - Net.....		100	(187)
20	Nonoperating Income (Expense) - Net.....	11	59	(5)
21	Total Other Income (Expenses).....		129	(217)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(222)	(6,140)
23	Provision (Credit) for Income Taxes.....		0	0
24	Income (Loss) Before Extraordinary Items.....		(222)	(6,140)
25	Extraordinary Items (Net of Income Taxes - 2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		(\$222)	(\$6,140)

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 TWELVE MONTHS ENDED DECEMBER 31, 2011  
AND THE NINE MONTHS ENDED SEPTEMBER 30, 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, 2010.....		\$34,778	\$24,368		\$59,146
2	Net Income (Loss) - 2011.....			(16,450)		(16,450)
3	Capital Contributions.....		350			350
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2011.....		35,128	7,918	0	43,046
11	Net Income (Loss) - 2012.....			(6,954)		(6,954)
12	Capital Contributions.....					0
13	Capital Withdrawals.....		(4,850)			(4,850)
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, September 30, 2012.....		\$30,278	\$964	\$0	\$31,242

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, 2012 AND 2011

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$8,409	(\$14,704)
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....			
3	Proceeds from the Sale of Short-Term Investments .....			
4	Cash Outflows for Property and Equipment.....		(2,386)	(9,717)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(360)	105
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....			
9	Cash Outflows to Acquire Business Entities.....		0	0
10	CRDA Reimbursement .....		(326)	
11				
12	Net Cash Provided (Used) By Investing Activities.....		(3,072)	(9,612)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....			3,500
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....		(525)	(32)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	350
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....		(4,850)	
21	Proceeds from related party debt .....		3,400	19,285
22	Payments of related party debt .....	8	(5,450)	0
23	Net Cash Provided (Used) By Financing Activities.....		(7,425)	23,103
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(2,088)	(1,213)
25	Cash and Cash Equivalents at Beginning of Period.....		11,703	12,832
26	Cash and Cash Equivalents at End of Period.....		\$9,615	\$11,619
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$101	\$0
28	Income Taxes.....		\$2	\$3

\* 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, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$6,954)	(\$19,715)
30	Depreciation and Amortization of Property and Equipment.....		2,862	1,652
31	Amortization of Other Assets.....		213	224
32	Amortization of Debt Discount or Premium.....			0
33	Deferred Income Taxes - Current .....			0
34	Deferred Income Taxes - Noncurrent .....			0
35	(Gain) Loss on Disposition of Property and Equipment.....			0
36	(Gain) Loss on CRDA-Related Obligations.....		636	(178)
37	(Gain) Loss from Other Investment Activities.....			0
38	(Increase) Decrease in Receivables and Patrons' Checks .....	8	12,020	(2,579)
39	(Increase) Decrease in Inventories .....		69	(473)
40	(Increase) Decrease in Other Current Assets.....		553	(1,134)
41	(Increase) Decrease in Other Assets.....			(43)
42	Increase (Decrease) in Accounts Payable.....		(2,356)	2,559
43	Increase (Decrease) in Other Current Liabilities .....		1,366	4,981
44	Increase (Decrease) in Other Liabilities .....			2
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$8,409	(\$14,704)

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$2,386)	(\$9,717)
49	Less: Capital Lease Obligations Incurred.....			0
50	Cash Outflows for Property and Equipment.....		(\$2,386)	(\$9,717)
	<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	\$350
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	\$350

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, 2012  
(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	129,907	\$8,897	0	\$0
2	Food	284,361	10,663	49,162	1,721
3	Beverage	629,552	4,092	0	0
4	Travel	0	0	76,018	3,598
5	Bus Program Cash	3,501	346	0	0
6	Promotional Gaming Credits	532,524	17,451	0	0
7	Complimentary Cash Gifts	236,910	1,890	0	0
8	Entertainment	78,192	1,807	1,329	166
9	Retail & Non-Cash Gifts	0	0	15,173	1,745
10	Parking	0	0	0	0
11	Other	2,380	34	49,810	1,245
12	Total	1,897,327	\$45,180	191,492	\$8,475

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	44,978	\$3,068	0	\$0
2	Food	119,562	3,880	15,906	557
3	Beverage	229,169	1,490	0	0
4	Travel	0	0	23,786	1,163
5	Bus Program Cash	1,191	115	0	0
6	Promotional Gaming Credits	194,654	6,524	0	0
7	Complimentary Cash Gifts	77,548	495	0	0
8	Entertainment	27,286	639	287	36
9	Retail & Non-Cash Gifts	0	0	5,437	625
10	Parking	0	0	0	0
11	Other	207	3	12,071	302
12	Total	694,595	\$16,214	57,487	\$2,683

\*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, 2012

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.

11/19/2012

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 unaudited 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"). 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.

In August, 2010, Gomes Gaming, Inc. ("Gomes Gaming"), a Nevada corporation, on behalf of itself or its entity assignee, as buyer, entered into an Asset Purchase Agreement (the "APA") with Resorts Atlantic City Holdings ("RAC"), as seller, for the purchase of Resorts. On August 31, 2010, the APA was assigned to the Company. Pursuant to the APA, RAC would sell, transfer, assign and convey and the Company would acquire, either directly from RAC or through Resorts International Hotel, Inc. ("RIHI"), the holder of the Management Agreement for Resorts, parcels of real property, ground leases, personal property, gaming equipment, leases and other assets. Those assets would include the right to use the "Resorts" and "Resorts Atlantic City Casino Hotel" trade names. Under the APA, the RIHI Management Agreement would be terminated. The APA was subject to regulatory approval, including the granting of an Interim Casino Authorization (the "ICA") by the Commission. The purchase price for the acquired assets under the APA was \$35 million, with a \$2 million deposit and the balance due at settlement (the "Settlement"). The Settlement was set to occur on or before 10 business days following the grant of the ICA, and conditioned upon termination of the RIHI Management Agreement. Although the Company could assume certain liabilities in connection with the APA, most other liabilities would be excluded.

In September, 2010 Gomes Gaming and the Company entered into an Operating Agreement (the "Operating Agreement"), whereby Gomes Gaming would have exclusive operating responsibility and full control for the operation of Resorts. In October, 2010 Gomes Gaming assigned the Operating Agreement to Gomes Gaming NJ, LLC ("Gomes Gaming NJ"), a wholly owned subsidiary of Gomes Gaming. Under conditions of the Commission, Gomes Gaming NJ is required to hold a casino license in New Jersey.

On November 16, 2010, the Company and RAC entered into the First Amendment of Asset Purchase Agreement, which stated among other things, that the Settlement date would be December 6, 2010 the final purchase price would be \$31.5 million. The Company has applied the acquisition method of accounting to this business combination with assets acquired and liabilities assumed being recorded at their fair market values.

On December 1, 2010 both the Company and Gomes Gaming NJ were granted an ICA which, by statute, would expire on September 1, 2011, subject to a 3 month extension from the Commission. On July 13, 2011, the Company and Gomes Gaming NJ were each granted a permanent gaming license by the Commission.

On December 6, 2010, the Settlement took place with the effective date of transfer on December 7, 2010. The Company did not acquire the equity interests of RAC, but rather acquired certain assets and assumed certain liabilities. 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 has completed its valuation procedures, and the resulting fair value of the acquired assets and assumed liabilities has been recorded based upon our consideration of an independent valuation of the business enterprise and Resort's tangible and intangible assets. The Company has recorded a bargain purchase in this business combination, as further discussed below, because the fair values of the identifiable net assets acquired and liabilities assumed exceeded the consideration transferred. Acquisition-related costs were not included as part of the consideration transferred, but rather expensed as incurred. Acquisition-related costs totaled \$0.8 million and were expensed in 2010.

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**2. Summary of Significant Accounting Policies**

**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

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

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 valued at the lower of average cost or market value.

**Property and Equipment**

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, 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, 2012 and 2011.

**Intangible Assets**

Intangible assets, presented in Other Assets in the accompany balance sheets, 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 the trade name was recognized for the nine months ended September 30, 2012 and 2011.

**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. Jackpots, other than the base and incremental amount of progressive jackpots, are recognized at the time they are won by customers. Refer to 'Recently Issued Accounting Pronouncements' for a change in accounting principles for progressive jackpots. The Company accrues the base and incremental amount of progressive jackpots as the progressive machine is played and the progressive jackpot amount increases, with a corresponding reduction of casino revenue. 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.

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

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 awards incentives to its casino customers, based on their levels of gaming activity, through its “Cashback” marketing program. The incentives awarded are in the form of points which may be redeemed for coin to wager on slot machines. The Company records a liability for outstanding Cashback incentives (those incentives which have been earned, but not yet redeemed by the customer), adjusted for an estimated redemption factor based on historical results. The amount of expense resulting from this marketing program could vary from the liability recorded based on actual redemption rates; management believes, based upon its experience with Cashback programs that the actual redemption will be materially consistent with the amount estimated. The amount is recorded as a promotional allowance in the statements of income. At September 30, 2012 and 2011 the Cashback liability was \$56,000 and \$180,000, respectively and is included in Other Accrued Expenses on the Company’s 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. As a result of the ability of the customer to bank the comp dollars, the Company accrues the expense of the comp dollars, after consideration of estimated breakage for points that will not be redeemed, as they are earned. The estimated cost to provide comp dollars is expensed as the comp dollars are earned and 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 regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which comp dollars will be redeemed. At September 30, 2012 and 2011 the Bankable Complimentaries liability was \$1.5 million and \$0.8 million, respectively and is included in Other Accrued Expenses on the Company’s balance sheets.

**Advertising**

The Company expenses advertising costs as incurred. These costs are included in Selling, General and Administrative costs on the Company’s statements of income. For the nine months ended September 30, 2012 and 2011 these costs amounted to \$1.7 million and \$1.9 million, respectively.

**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 statements 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)**

**Recently Issued Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement” to provide updated guidance related to fair value measurement and disclosure requirements. The changes result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (“IFRS”) and change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The changes were originally to be effective for the Company on January 1, 2012. In December 2011, the FASB issued updated guidance deferring the effective date indefinitely pending further deliberations by the FASB at a future date.

In September 2011, the FASB issued 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. This update relates only to disclosures. There was no impact on the Company’s financial position, results of operations, or cash flows upon adoption.

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The Update simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Examples of intangible assets subject to the guidance include indefinite-lived trademarks, licenses, and distribution rights. The standard applies to all public, private, and not-for-profit organizations.

The amendments allow an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is “more likely than not” that the asset is impaired. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

**3. Receivables**

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

	<u>2012</u>	<u>2011</u>
Gaming	\$ 3,773	\$ 4,022
Less: allowance for doubtful accounts	(1,829)	(1,250)
	<u>1,944</u>	<u>2,772</u>
Non-gaming:		
Hotel and related	1,605	1,247
Other	642	2,041
	<u>2,247</u>	<u>3,288</u>
Less: allowance for doubtful accounts	-	-
	<u>2,247</u>	<u>3,288</u>
Receivables, net	<u>\$ 4,191</u>	<u>\$ 6,060</u>

**4. Other Current Assets**

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

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	<u>2012</u>	<u>2011</u>
Prepaid casino licenses	\$ 777	\$ 830
Prepaid insurance	752	812
Prepaid maintenance agreements	324	296
Other prepaid expenses and current assets	919	766
	<u>\$ 2,772</u>	<u>\$ 2,704</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, 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>2012</u>	<u>2011</u>
Deposits — net of valuation allowance	\$ 12,505	\$ 11,813
CRDA Bonds — net of valuation allowance	2,707	2,877
	<u>\$ 15,212</u>	<u>\$ 14,690</u>

The Company recorded the carrying value of the CRDA assets at the estimated fair value at December 6, 2010, the date of the purchase of Resorts. For subsequent CRDA transactions, the Company records charges to operations to reflect the impact related to (1) the estimated below market interest rate of investments and (2) the credit worthiness of the borrower.

At September 30, 2012, the CRDA bonds have interest rates ranging from 3.5% to 7.0% and have repayment terms of between 20 and 50 years. The Company records charges to expense to reflect the below-market interest rate payable on the bonds it may have to purchase to fulfill its investment obligation at the date the obligation arises. The funds on deposit 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 expected purchase of bonds through the CRDA. Such charges for the six months ended 2012 and 2011 were \$636,000 and \$1.1 million, respectively and are included in CRDA Related Income (Expense) – Net on the Company's statements of income.

Once CRDA bonds are issued, the bonds are classified as held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and the CRDA provisions restrict the ability to sell or transfer such assets. Accordingly the CRDA bonds are reported 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 representing the mandatory interest rate reduction that the borrowers are provided. The Company accretes such discount over the remaining life of the bonds.

The Company reviews the recoverability of the CRDA bonds on a regular basis and to consider the likelihood of bonds to be repaid. When considering recoverability of the CRDA bonds, the Company considers the relative credit-worthiness of each bondholder, 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, a valuation allowance is recorded to reflect the net asset at its expected realizable amount.

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**6. Property and Equipment**

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

	<u>2012</u>	<u>2011</u>
Land	\$ 11,500	\$ 11,500
Hotels and other buildings	24,635	24,390
Furniture, fixtures and equipment	14,529	8,903
Construction in progress	1,253	3,342
	<u>51,917</u>	<u>48,135</u>
Less: accumulated depreciation	(5,558)	(1,816)
Net property and equipment	<u>\$ 46,359</u>	<u>\$ 46,319</u>

Depreciation expense for the nine months ended September 30, 2012 and 2011 was \$2.9 million and \$1.7 million respectively.

**7. Intangible Assets**

Intangible assets, included in other assets in the accompanying balance sheets, represent a customer database valued at \$0.4 million and the trade name valued at \$3.3 million at September 30, 2012. The trade name is deemed to have an indefinite life. The customer database was determined to have a three-year life based upon attrition rates and computations of incremental value derived from existing relationships. The Company recorded \$198,000 & \$225,000 of amortization expense for the nine months ended September 30, 2012 and 2011, respectively.

**8. Related Party Debt**

In September 2010, Gomes Gaming and the Company entered into an Operating Agreement (the "Operating Agreement"), whereby Gomes Gaming would have exclusive operating responsibility and full control for the operation of Resorts. In October 2010, Gomes Gaming assigned the Operating Agreement to Gomes Gaming NJ, LLC ("Gomes Gaming NJ"), a wholly owned subsidiary of Gomes Gaming. Under conditions of the Commission, Gomes Gaming NJ is required to hold a casino license in New Jersey. Under the terms of the Operating Agreement, Gomes, Gaming NJ is to be paid \$1.2 million per year in equal monthly installments. In February 2012, Dennis C Gomes, President and Chief Executive Officer of the Company and principal of Gomes Gaming, passed away. Under the terms of the Operating Agreement the death of Mr. Gomes created an event that allows for the termination of the Operating Agreement by the Company. In March 2012, the Company terminated the Operating Agreement. There was no amount owed under the operating agreement at September 30, 2012 and the expense for the nine months ended September 30, 2012 and 2011 was \$200,000 and \$900,000, respectively.

In connection with the Company's purchase of the assets from RAC, and as a condition of the Company's permanent gaming license, the Company's majority owner provided an Unlimited Line of Credit to the Company that expires on December 31, 2013. Such Unlimited Line of Credit is secured by the personal property of the Company. Funding under the Unlimited Line of Credit can cease upon 60 days' prior written notice to the New Jersey Division of Gaming Enforcement or the agreement is replaced or supplemented by a credit line, loan or other funding vehicle. The terms of the Unlimited Line of Credit are that the amounts borrowed carry no interest charge and require that if the Company is financially able, and if the

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cash levels of the Company exceed a certain level, payment will be made to reduce the amount outstanding. At September 30, 2012 and 2011, \$22.3 million and \$17.1 million, respectively were outstanding under the Unlimited Line of Credit and are included in the Due to Affiliates on the accompanying balance sheet.

The majority owner also 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. At September 30, 2012 and 2011, approximately \$7.2 million, respectively were outstanding under the Capital Funding Agreement and included in Due to Affiliates on the accompanying balance sheets.

In July 2012 the Company announced plans to build food, beverage, retail and entertainment venues in conjunction with Jimmy Buffet and his Margaritaville themed enterprises (the "Margaritaville project"). An additional \$700,000 was borrowed from the Company's majority owner in order to pay preliminary expenditures related to the Margaritaville project.

**9. Other Accrued Expenses**

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

	<u>2012</u>	<u>2011</u>
Payroll and related costs	\$ 5,473	\$ 4,986
Unredeemed incentives	1,528	952
Progressive jackpot liability	700	671
State taxes non-gaming	601	564
Due to RAC	497	-
Regulatory fees	459	711
Other	871	1,655
	<u>\$ 10,129</u>	<u>\$ 9,539</u>

**10. 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, 2012, the interest rate was 4%. The Company has estimated that the carrying amount of \$2.8 million approximates the fair value of the debt.

**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.

**12. Subsequent Events**

On October 1, 2012 the Company entered into a Management Contract and Investment Agreement with the Mohegan Tribal Gaming Authority, having received the necessary regulatory approvals. The Management Contract became effective October 1, 2012 for an initial term of five years. The Consulting Agreement between the Company and the Mohegan Tribal Gaming Authority was terminated upon the commencement of the Management contract.