

**DGMB CASINO, LLC
QUARTERLY REPORT**

FOR THE QUARTER ENDED JUNE 30, 2017

**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 JUNE 30, 2017 AND 2016

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 * (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	2	\$17,070	\$16,668
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2017, \$ 1,382; 2016, \$1,357).....	2,3	8,688	6,983
4	Inventories		1,476	1,428
5	Other Current Assets.....	3	3,022	2,997
6	Total Current Assets.....		30,256	28,076
7	Investments, Advances, and Receivables.....	5	1,099	1,015
8	Property and Equipment - Gross.....	2,6	167,568	148,986
9	Less: Accumulated Depreciation and Amortization.....		(40,008)	(31,689)
10	Property and Equipment - Net.....		127,560	117,297
11	Other Assets.....	7	3,885	3,868
12	Total Assets.....		\$162,800	\$150,256
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$7,713	\$10,866
14	Notes Payable.....	8	422	785
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....	8	3,958	858
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	10	18,883	17,013
19	Other Current Liabilities.....		2,379	1,727
20	Total Current Liabilities.....		33,355	31,249
	Long-Term Debt:			
21	Due to Affiliates.....	9	71,088	72,665
22	External.....	8	13,972	11,021
23	Deferred Credits		3,020	3,169
24	Other Liabilities.....		38,912	28,881
25	Commitments and Contingencies.....	11	0	0
26	Total Liabilities.....		160,347	146,985
27	Stockholders', Partners', or Proprietor's Equity.....		2,453	3,271
28	Total Liabilities and Equity.....		\$162,800	\$150,256

* Prior year restated to conform with current year presentation

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 SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino.....		\$88,591	\$79,141
2	Rooms.....		11,482	10,039
3	Food and Beverage.....		8,107	7,564
4	Other.....		4,371	4,433
5	Total Revenue.....		112,551	101,177
6	Less: Promotional Allowances.....		28,981	25,415
7	Net Revenue.....		83,570	75,762
	Costs and Expenses:			
8	Casino.....		42,958	39,502
9	Rooms, Food and Beverage.....		5,765	5,358
10	General, Administrative and Other.....		25,311	25,203
11	Total Costs and Expenses.....		74,034	70,063
12	Gross Operating Profit.....		9,536	5,699
13	Depreciation and Amortization.....	6	4,594	4,403
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	9	1,772	1,517
15	Other.....			
16	Income (Loss) from Operations.....		3,170	(221)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(5,041)	(4,795)
18	Interest Expense - External.....	8	(501)	(198)
19	CRDA Related Income (Expense) - Net.....		(520)	(638)
20	Nonoperating Income (Expense) - Net.....		453	1,266
21	Total Other Income (Expenses).....		(5,609)	(4,365)
22	Income (Loss) Before Taxes		(2,439)	(4,586)
23	Provision (Credit) for Income Taxes.....		2	2
24	Net Income (Loss).....		(\$2,441)	(\$4,588)

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 JUNE 30, 2017 AND 2016

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 (d)
	Revenue:			
1	Casino.....		\$45,181	\$42,309
2	Rooms.....		6,781	5,720
3	Food and Beverage.....		4,569	4,112
4	Other.....		2,405	2,314
5	Total Revenue.....		58,936	54,455
6	Less: Promotional Allowances.....		15,235	13,659
7	Net Revenue.....		43,701	40,796
	Costs and Expenses:			
8	Casino.....		21,645	20,350
9	Rooms, Food and Beverage.....		3,565	2,941
10	General, Administrative and Other.....		12,961	12,300
11	Total Costs and Expenses.....		38,171	35,591
12	Gross Operating Profit.....		5,530	5,205
13	Depreciation and Amortization.....	6	2,331	2,226
	Charges from Affiliates Other than Interest:			
14	Management Fees.....	9	959	788
15	Other.....			
16	Income (Loss) from Operations.....		2,240	2,191
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(2,549)	(2,426)
18	Interest Expense - External.....	8	(305)	(132)
19	CRDA Related Income (Expense) - Net.....		(192)	(484)
20	Nonoperating Income (Expense) - Net.....		295	1,090
21	Total Other Income (Expenses).....		(2,751)	(1,952)
22	Income (Loss) Before Taxes		(511)	239
23	Provision (Credit) for Income Taxes.....		2	2
24	Net Income (Loss).....		(\$513)	\$237

The accompanying notes are an integral part of the financial statements.
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DGMB CASINO, LLC

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016
AND FOR THE SIX MONTHS ENDED JUNE 30, 2017

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2015.....		\$35,078	(\$27,219)	\$0	\$7,859
2	Net Income (Loss) - 2016.....			(2,965)		(2,965)
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2016.....		35,078	(30,184)	0	4,894
11	Net Income (Loss) - 2017.....			(2,441)		(2,441)
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, June 30, 2017.....		\$35,078	(\$32,625)	\$0	\$2,453

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 SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 * (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$6,583	\$7,010
	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.....		(10,938)	(11,729)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations		(1,062)	(1,158)
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		1,531	1,027
11				
12	Net Cash Provided (Used) By Investing Activities.....		(10,469)	(11,860)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt		8,000	12,000
16	Costs of Issuing Debt.....		96	(543)
17	Payments to Settle Long-Term Debt.....		(1,300)	(675)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21	Net Proceeds/Payments related party		622	1,806
22				
23	Net Cash Provided (Used) By Financing Activities.....		7,418	12,588
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		3,532	7,738
25	Cash and Cash Equivalents at Beginning of Period.....		13,538	8,930
26	Cash and Cash Equivalents at End of Period.....		\$17,070	\$16,668
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$134	\$74
28	Income Taxes.....		\$2	\$2

* Prior year restated to conform with current year presentation

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 SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2017 (c)	2016 * (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$2,441)	(\$4,588)
30	Depreciation and Amortization of Property and Equipment...		4,601	4,411
31	Amortization of Other Assets.....		(7)	(8)
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		0	0
35	(Gain) Loss on Disposition of Property and Equipment.....			
36	(Gain) Loss on CRDA-Related Obligations.....		520	638
37	(Gain) Loss from Other Investment Activities.....			0
38	(Increase) Decrease in Receivables and Patrons' Checks		12	(1,475)
39	(Increase) Decrease in Inventories		(76)	182
40	(Increase) Decrease in Other Current Assets.....		(1,014)	(748)
41	(Increase) Decrease in Other Assets.....		(26)	6
42	Increase (Decrease) in Accounts Payable.....		(2,191)	3,502
43	Increase (Decrease) in Other Current Liabilities		2,165	296
44	Increase (Decrease) in Other Liabilities		5,040	4,794
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$6,583	\$7,010

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$10,938)	(\$11,729)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$10,938)	(\$11,729)
	ACQUISITION OF BUSINESS ENTITIES:			
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
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

* Prior year restated to conform with current year presentation

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 SIX MONTHS ENDED JUNE 30, 2017
(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	92,134	\$6,403	0	\$0
2	Food	69,587	\$2,508	231,364	3,922
3	Beverage	426,240	\$2,769	0	0
4	Travel	0	\$0	7,562	510
5	Bus Program Cash	2,535	\$331	0	0
6	Promotional Gaming Credits	372,251	\$13,826	0	0
7	Complimentary Cash Gifts	46,191	\$2,165	0	0
8	Entertainment	8,367	\$810	121	16
9	Retail & Non-Cash Gifts	0	\$0	22,678	2,608
10	Parking	0	\$0	0	0
11	Other	12,026	\$169	62,439	1,561
12	Total	1,029,331	\$28,981	324,164	\$8,617

FOR THE THREE MONTHS ENDED JUNE 30, 2017

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	48,101	\$3,349	0	\$0
2	Food	40,719	\$1,311	122,322	2,103
3	Beverage	222,518	\$1,445	0	0
4	Travel	0	\$0	3,933	266
5	Bus Program Cash	1,659	\$205	0	0
6	Promotional Gaming Credits	213,277	\$7,390	0	0
7	Complimentary Cash Gifts	24,739	\$986	0	0
8	Entertainment	4,753	\$473	36	5
9	Retail & Non-Cash Gifts	0	\$0	11,921	1,371
10	Parking	0	\$0	0	0
11	Other	5,397	\$76	31,158	779
12	Total	561,163	\$15,235	169,370	\$4,524

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

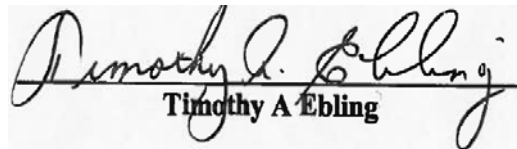
DGMB CASINO, LLC
STATEMENT OF CONFORMITY,
ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2017

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.

8/15/2017

Date



Timothy A Ebling

Vice President, CFO

Title

9194-11

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 the rules and regulations of the New Jersey Division of Gaming Enforcement (“DGE”) 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 wholly owned 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.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents –

Cash and cash equivalents include cash in the bank and cash on the casino floor, which are all unrestricted. As of June 30, 2017, amounts held in financial institutions were in excess of FDIC insurance limits

Receivables

Receivables consist primarily of casino, hotel and other receivables. Accounts receivables are 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, and operating supplies, are stated 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 since the date of acquisition are stated at cost.

The Company capitalizes the costs of improvements that extend the life of the asset and expenses 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:

Asset Class	Useful Life
Building and improvements	35-40 years
Furniture, fixtures, and equipment	3-7 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

DGMB CASINO, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

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 has been recognized.

Intangible Assets

Intangible assets, included in other assets in the accompanying balance sheets, includes trade name. 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 has been recognized.

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 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 levels of gaming activity, through its "Cash Back" marketing program. The incentives are in the form of points, which may be redeemed for wagers 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 June 30, 2017 and 2016, the "Cash Back" liability was \$131,000 and \$113,000, respectively and is included in other accrued expenses in the accompanying balance sheets.

Bankable Complimentaries

The Company customer loyalty program offers incentives to gaming customers 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 use their player card and earn points over a designated 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 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 June 30, 2017 and 2016, the bankable complimentary liability was \$1.6 million and \$1.7 million, respectively and is included in other accrued expenses 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.

DGMB CASINO, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Advertising

Advertising costs are expensed as incurred. Advertising expenses were \$1.2 million and \$1.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$2.2 million and \$2.1 million for the six months ended June 30, 2017 and 2016, respectively. Advertising expenses are included in general, administrative and other expenses in the accompanying statements of income.

Gaming Tax

The Company remits to the State of New Jersey a tax equal to 8% of gross gaming revenue. Gaming tax expense for the three months ended June 30, 2017 and 2016 were \$3.3 million and \$3.1 million, respectively, and for the six months ended June 30, 2017 and 2016 were \$6.4 million and \$5.7 million. Gaming tax is included in casino expenses in the accompanying statements of income.

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 (“GAAP”) 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 that were made in the December 31, 2016 report. Accordingly, the following disclosures have been omitted: Management’s Plans Related to Liquidity and Capital Needs, certain Multiemployer Benefit Plans, Recent Accounting Pronouncements, certain Income Tax disclosures, and Leases.

DGMB CASINO, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

3. Receivables

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

	<u>2017</u>	<u>2016</u>
Gaming	\$ 4,613	\$ 3,506
Less: allowance for doubtful accounts	(1,236)	(1,194)
	<u>3,377</u>	<u>2,312</u>
Non-gaming:		
Hotel and related	1,660	1,013
Less: allowance for doubtful accounts	(146)	(163)
EDA Fund Receivable	1,430	1,421
Tenant Receivable	1,043	814
Other	1,324	1,586
	<u>5,311</u>	<u>4,671</u>
Receivables, net	<u>\$ 8,688</u>	<u>\$ 6,983</u>

4. Other Current Assets

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

	<u>2017</u>	<u>2016</u>
Prepaid insurance	\$ 665	\$ 638
Prepaid casino license	757	780
Prepaid maintenance agreements	643	523
Prepaid sewer	121	91
Prepaid miscellaneous	186	291
Other prepaid expenses and current assets	650	674
	<u>\$ 3,022</u>	<u>\$ 2,997</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 June 30, (in thousands):

	<u>2017</u>	<u>2016</u>
Deposits — net of valuation allowance for \$966 and \$426, respectively	\$ 451	\$ 451
CRDA Bonds — net of valuation allowance for \$7,850 and \$7,934, respectively	648	564
	<u>\$ 1,099</u>	<u>\$ 1,015</u>

DGMB CASINO, LLC
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

The Company records expense to operations to reflect the estimated net realizable value of its CRDA investment. Such expenses to operations were \$192,000 and \$484,000 for the three months ended June 30, 2017 and 2016, respectively, and \$520,000 and \$638,000 for the six months ended June 30, 2017 and 2016, respectively. CRDA expense is included in other income (expense) in the accompanying statements of income.

The funds on deposits are held in an interest-bearing account by the CRDA. If 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 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.

On May 27, 2016, the New Jersey legislature enacted Senate Bill S1715 which implements a Payment in Lieu of Taxes Program (“the PILOT”). Beginning calendar year 2017, casino property owners will fulfill their financial obligations to all local governments serving Atlantic City thereby exempting casino gaming properties from ad valorem property taxation by the City of Atlantic City. The PILOT will have an impact on, among other things, the disposition of future CRDA payments by reallocating the majority of casino investment alternative tax (IAT) receipts collected by the CRDA to Atlantic City for the purpose of paying debt service on municipal bonds issued prior to the effective date of the Bill until December 31, 2026. IAT revenues pledged for the payment of bonds issued by the CRDA, or any bonds issued to refund those bonds, or otherwise contractually obligated by the CRDA prior to the effective date of the bill, are excluded from the reallocation. As a result of the PILOT, any CRDA contributions not previously committed by the CRDA will be expensed.

In October, 2014, the Company applied to the CRDA for financial assistance in the form of a direct investment grant in the amount of \$9.4 million for the construction of an approximately 12,533 square foot meeting space expansion project (“Meeting Space Component”) with an estimated budget of \$4.7 million and renovation of 310 bathrooms (“Hotel Room Component”), also with an estimated budget of \$4.7 million, which application was approved by CRDA in December, 2014. In or about March, 2015 the Company requested and received modification to the project to allow the Company to forgo proceeding with the Hotel Room Component unless future Investment Alternative Tax (“IAT”) revenues are available to the Company to fund the Hotel Room Component as contemplated by the original application. The Meeting Space Component was completed in 2015 and the Hotel Room Component remains in progress as IAT revenues become available.

6. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 11,643	\$ 11,643
Hotels and other buildings	98,697	87,880
Furniture, fixtures and equipment	52,154	46,249
Construction in progress	5,074	3,213
	<u>167,568</u>	<u>148,986</u>
Less: accumulated depreciation	(40,008)	(31,689)
Net property and equipment	<u>\$ 127,560</u>	<u>\$ 117,297</u>

Depreciation expense for the three months ended June 30, 2017 and 2016 was \$2.3 million and \$2.2 million respectively, and for the six months ended June 30, 2017 and 2016 was \$4.6 million and \$4.4 million, respectively.

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7. Intangible Assets

Intangible assets, included in other assets in the accompanying balance sheets, includes a trade name valued at \$3.3 million at June 30, 2017 and 2016, respectively. The trade name is deemed to have an indefinite life.

8. Debt

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. This loan was paid in full on April 22, 2016 with proceeds of the Key Bank loan described below.

In April 2013, the Company entered into a \$2 million Revolver with an initial maturity date of April 30, 2014. The Revolver had been extended to April 30, 2016 under the same terms and conditions. The line of credit expired on April 30, 2016 and was not renewed.

In October 2014, the Company entered into a \$2.5 million three year Promissory Note with the EDA Grant as collateral maturing on November 1, 2017. Principal payments are tied to the amount received from the grant and are no less than \$785,000 annually beginning August 31, 2015. The Promissory Note accrues interest at a rate of 4.25% plus LIBOR as defined. In addition to the grant collateral, the Promissory Note is guaranteed by certain affiliates of Holding. The minimum principal payment of \$785,000 was made in August 2016 and an additional pay down of \$150,000 was made in February 2017. The amount outstanding at June 30, 2017 and 2016 is \$422,000 and \$1.4 million, respectively.

On April 22, 2016, the Company entered into a three-year variable rate credit facility with Key Bank in the principal loan amount of \$12 million with an accordion feature allowing borrowings of an additional \$8 million which was accessed in March 2017 for a total borrowing of \$20 million. The credit facility has various covenants with which the Company is in compliance. The term loan has a first lien on all assets of the Company and is guaranteed by certain affiliates of Holding. Interest is due monthly at LIBOR plus 2.75% with quarterly principal payments and a balloon payment due April 21, 2019. Monthly interest and quarterly principal payments have been made as required. The amount outstanding at June 30, 2017 and 2016 is \$18.4 million and \$11.6 million, respectively.

9. Related Party Transactions

The net amount owed to affiliates of the majority owner of Holding was \$71.1 million and \$72.6 million, respectively and included in due to affiliates on the accompanying balance sheets. The amount of interest expense incurred was \$2.5 million and \$2.4 million for the three months ended June 30, 2017 and 2016, respectively and \$5.0 million and \$4.8 million for the six months ended June 30, 2017 and 2016, respectively. In addition, as part of the management agreement with Mohegan Sun, the amounts funded from the majority owner are subject to the accrual of interest at a rate of 10% per annum. The Key Bank loan entered into in April 2016 and due in 2019 must be repaid before any Related party debt or accrued interest is paid, therefore the Related party debt and accrued interest has been reclassified from current to long term.

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 of net revenues and paid on a monthly basis. The Management Agreement also allows for an incentive fee paid annually based on annual EBITDA results as defined in the Management Agreement. The Management Agreement was amended effective October 14, 2015, which, among other things, extended the minimum term to December 31, 2019. The Company recorded \$959,000 and \$788,000, for the three months ended June 30, 2017 and 2016, respectively, and \$1.8 million and \$1.5 million for the six months ended June 30, 2017 and 2016, respectively in base and incentive fees related to the Management Agreement. As of June 30, 2017 and 2016, there was \$3.1 million and \$2.1 million respectively, of accrued incentive fees on the accompanying balance sheets.

An affiliate of the Company with the same ownership, Resorts Digital Gaming, LLC, operates real money online gaming in New Jersey under the Internet Gaming Permit (NJIGP-15-008) issued to the Company. The Company provides Resorts Digital Gaming, LLC with administrative services such as payroll, accounting, risk

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management, legal, treasury, and information systems in return for a fee pursuant to a Shared Services Agreement. Agreements with Rational Services Limited (“Rational”) and Sportech-NYX Gaming, LLC (“NYX”) and the Company were assigned to Resorts Digital Gaming, LLC, which qualifies as an “Affiliated Company” as that term is defined and the Company has executed all documents required in to effectuate the assignment in 2015.

10. Other Accrued Expenses

Components of other accrued expenses were as follows at June 30, 2017 (in thousands):

	<u>2017</u>	<u>2016</u>
Payroll and related costs	\$ 9,261	\$ 7,184
Capital liability	1,310	2,915
Unredeemed incentives	1,778	1,802
Management Fees	3,093	-
Property taxes	540	1,896
Utilities	452	466
Guest claims	399	365
Regulatory and state taxes	1,010	1,549
Other	1,041	838
	<u>\$ 18,883</u>	<u>\$ 17,013</u>

11. Commitments and Contingencies

Litigation

There are other various claims and legal actions arising in the ordinary course of business which can be categorized as routine business litigation, such as, without limitation, negligence, workers compensation and employment claims. In the opinion of management, these matters will not have a material effect on the Company’s financial position or results of operations.

Commitments

All the Atlantic City casino properties (“AC Industry”) and the CRDA were required by law to enter 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 expired on December 31, 2016. The agreement provided that in exchange for funding the ACA would create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of \$5.0 million as of December 31, 2011 and was required to continue to pay \$30.0 million annually for the term of the agreement. Each payment was allocated to the AC Industry based on each casino’s prorated share of gross gaming revenues from the preceding period. In November 2014, the ACA board voted unanimously to request the state legislature to disband the ACA in light of then pending legislation to divert the Industry’s combined \$30.0 million yearly ACA contributions to fund a portion of the city’s budget in addition to the PILOT payments required of casino licensees.

As stated above in Note 5, on May 27, 2016, the New Jersey legislature enacted Senate Bill S1715 which implemented the PILOT program. The legislation permits CRDA to cancel the agreement with casino licensees removing the obligation to fund the functions that were previously supported by their contributions to the ACA and diverts the funding for calendar years 2015 to 2023 to payments under the PILOT program. The Company is responsible for its pro-rata share of \$15 million in 2017.

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 themed with Key West and Tropical motif and lifestyles depicted in the music of Mr. Buffet. The Company has constructed 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 2014, the Margaritaville restaurants assigned substantially all of their restaurant leases nationwide to International Meal Company (“IMC”). Accordingly, Margaritaville of Atlantic City, LLC assigned

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its Lease Agreement with the Company to IMCMV Atlantic City, LLC, a subsidiary of IMC, on July 31, 2014. The License Agreement was not affected by the assignment of the Lease Agreement.

12. Subsequent Events

The Company completed its subsequent events review through August 15, 2017 the date on which the financial statements were issued. On July 11th the Second Amendment Agreement with Key Bank was signed allowing, among other things, a \$4m pay down of the loan with an equivalent pay down of subordinate debt and a revised amortization schedule.

No other subsequent events have been identified that are required to be accounted for or disclosed in the financial statements.