

**BOARDWALK 1000, LLC DBA  
HARD ROCK HOTEL & CASINO**

**QUARTERLY REPORT**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

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



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

# HARD ROCK HOTEL & CASINO

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	2	\$22,009	\$0
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2018, \$250; 2017, \$0).....	3	17,934	0
4	Inventories .....		2,652	0
5	Other Current Assets.....		5,813	0
6	Total Current Assets.....		48,408	0
7	Investments, Advances, and Receivables.....		0	0
8	Property and Equipment - Gross.....	2, 4	572,528	0
9	Less: Accumulated Depreciation and Amortization.....	4	(8,294)	0
10	Property and Equipment - Net.....		564,234	0
11	Other Assets.....		4,583	0
12	Total Assets.....		\$617,225	\$0
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$23,675	\$0
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	5	76,839	0
19	Other Current Liabilities.....	6	21,536	0
20	Total Current Liabilities.....		122,050	0
	Long-Term Debt:			
21	Due to Affiliates.....	7, 11	426,682	0
22	External.....		0	0
23	Deferred Credits .....		0	0
24	Other Liabilities.....		8,000	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		556,732	0
27	Stockholders', Partners', or Proprietor's Equity.....		60,493	0
28	Total Liabilities and Equity.....		\$617,225	\$0

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

# HARD ROCK HOTEL & CASINO

## STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 and 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	Revenue:			
1	Casino.....		\$43,079	\$0
2	Rooms.....		15,451	0
3	Food and Beverage.....		23,262	0
4	Other.....		23,306	0
5	Net Revenue.....		105,098	0
	Costs and Expenses:			
6	Casino.....	2	21,057	0
7	Rooms, Food and Beverage.....		29,687	0
8	General, Administrative and Other.....		48,762	0
9	Total Costs and Expenses.....		99,506	0
10	Gross Operating Profit.....		5,592	0
11	Depreciation and Amortization.....		8,300	0
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	9	3,134	0
13	Other.....	9	1,071	0
14	Income (Loss) from Operations.....		(6,913)	0
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....	7	(14,777)	0
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....		(1,202)	0
18	Nonoperating Income (Expense) - Net.....	*, 2	(21,241)	0
19	Total Other Income (Expenses).....		(37,220)	0
20	Income (Loss) Before Taxes .....		(44,133)	0
21	Provision (Credit) for Income Taxes.....	2	0	
22	Net Income (Loss).....		(\$44,133)	\$0

\* Nonoperating Income (Expense) - Net includes \$22,900 of preopening expenses. See Note 2

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

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

# HARD ROCK HOTEL & CASINO

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 and 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	Revenue:			
1	Casino.....		\$41,952	\$0
2	Rooms.....		14,893	0
3	Food and Beverage.....		22,193	0
4	Other.....		21,525	0
5	Net Revenue.....		100,563	0
	Costs and Expenses:			
6	Casino.....	2	19,912	0
7	Rooms, Food and Beverage.....		27,410	0
8	General, Administrative and Other.....		44,979	0
9	Total Costs and Expenses.....		92,301	0
10	Gross Operating Profit.....		8,262	0
11	Depreciation and Amortization.....		8,132	0
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	9	2,981	0
13	Other.....	9	1,071	0
14	Income (Loss) from Operations.....		(3,922)	0
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....	7	(6,781)	0
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....		(1,202)	0
18	Nonoperating Income (Expense) - Net.....	**, 2	(4,957)	0
19	Total Other Income (Expenses).....		(12,940)	0
20	Income (Loss) Before Taxes .....		(16,862)	0
21	Provision (Credit) for Income Taxes.....	2	0	
22	Net Income (Loss).....		(\$16,862)	\$0

\*\* Nonoperating Income (Expense) - Net includes \$5,029 of preopening expenses. See Note 2

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

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

# HARD ROCK HOTEL & CASINO

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017  
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2016.....		\$0	\$0	\$0	\$0
2	Net Income (Loss) - 2017.....			(7,374)		(7,374)
3	Capital Contributions.....		58,684			58,684
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2017.....		58,684	(7,374)	0	51,310
11	Net Income (Loss) - 2018.....			(44,133)		(44,133)
12	Capital Contributions.....	8	53,316			53,316
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, September 30, 2018.....		\$112,000	(\$51,507)	\$0	\$60,493

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

# HARD ROCK HOTEL & CASINO

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$12,520	\$0
	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.....		(390,547)	0
5	Proceeds from Disposition of Property and Equipment.....		0	0
6	CRDA Obligations .....		0	0
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	.....			
11	.....			
12	Net Cash Provided (Used) By Investing Activities.....		(390,547)	0
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....		0	0
15	Proceeds from Long-Term Debt .....		0	0
16	Costs of Issuing Debt.....		0	0
17	Payments to Settle Long-Term Debt.....		0	0
18	Cash Proceeds from Issuing Stock or Capital Contributions...	8	53,316	0
19	Purchases of Treasury Stock.....		0	0
20	Payments of Dividends or Capital Withdrawals.....		0	0
21	.....			
22	.....			
23	Net Cash Provided (Used) By Financing Activities.....		53,316	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(324,711)	0
25	Cash and Cash Equivalents at Beginning of Period.....		346,720	0
26	Cash and Cash Equivalents at End of Period.....	2	\$22,009	\$0
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$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.

# HARD ROCK HOTEL & CASINO STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$44,133)	\$0
30	Depreciation and Amortization of Property and Equipment...		8,294	0
31	Amortization of Other Assets.....		6	0
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.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(16,333)	0
39	(Increase) Decrease in Inventories .....		(1,930)	0
40	(Increase) Decrease in Other Current Assets.....		(3,804)	0
41	(Increase) Decrease in Other Assets.....		(4,307)	0
42	Increase (Decrease) in Accounts Payable.....		18,383	0
43	Increase (Decrease) in Other Current Liabilities .....		47,108	0
44	Increase (Decrease) in Other Liabilities .....		8,000	0
45	Amortization of Loan Issuance Costs .....		1,236	0
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$12,520	\$0

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$390,547)	\$0
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$390,547)	\$0
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net .....		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....	8	\$53,316	\$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.....		\$53,316	\$0

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

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

# HARD ROCK HOTEL & CASINO SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018  
(UNAUDITED)  
(\$ IN THOUSANDS)

Amended 11/25/19

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	159,024	\$8,493	160	\$8
2	Food	269,607	6,937	58,941	1,503
3	Beverage	993,809	5,088	66,560	13
4	Travel				
5	Bus Program Cash				
6	Promotional Gaming Credits	968,712	16,350		
7	Complimentary Cash Gifts	170	749		
8	Entertainment	81,867	7,710		
9	Retail & Non-Cash Gifts	25,342	675	14,452	385
10	Parking			207,920	832
11	Other	126,518	1,937	3,637	10
12	Total	2,625,049	\$47,939	351,670	\$2,751

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	153,380	\$8,345		
2	Food	246,288	6,768	51,710	1,421
3	Beverage	977,344	5,004	66,560	13
4	Travel				
5	Bus Program Cash				
6	Promotional Gaming Credits	837,620	14,808		
7	Complimentary Cash Gifts	170	749		
8	Entertainment	76,688	6,798		
9	Retail & Non-Cash Gifts	25,342	675	14,376	383
10	Parking			192,658	771
11	Other	114,539	1,867	3,637	10
12	Total	2,431,371	\$45,014	328,941	\$2,598

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



**BOARDWALK 1000, LLC DBA  
HARD ROCK HOTEL & CASINO  
STATEMENT OF CONFORMITY,  
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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.

1/30/2019

Date



Bob Allen

Vice President of Finance Operations

Title

006793-11

License Number

On Behalf of:

BOARDWALK 1000, LLC DBA  
HARD ROCK HOTEL & CASINO

Casino Licensee

# BOARDWALK 1000, LLC



ATLANTIC CITY

## NOTES TO FINANCIAL STATEMENTS (Unaudited) (In thousands)

### NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

#### *Organization*

Boardwalk 1000, LLC (the “Company”), a New Jersey limited liability company, is a wholly owned subsidiary of Hard Rock Tristate AC, LLC (“Tristate”). The Company was formed on February 24, 2017. The Company’s Operating Agreement was entered into by the Company and Tristate and became effective on February 24, 2017. The Operating Agreement was amended and restated effective November 10, 2017.

The Company was created for the purposes of (a) acquiring the land, buildings and other improvements comprising the former Trump Taj Mahal Casino Resort in Atlantic City, New Jersey, (b) designing, developing, renovating, owning, operating and financing an approved casino/hotel facility branded exclusively as a “Hard Rock Hotel & Casino” in Atlantic City and (c) engaging in such activities as may be incidental thereto (the “Project”).

Under the Amended and Restated Operating Agreement, the business and affairs of the Company are member-managed. Tristate is the sole member and has exclusive and complete authority and discretion to manage the operations and affairs of the Company. The Company shall not conduct any other business, except as permitted under the Amended and Restated Operating Agreement.

#### *Nature of Business*

The Hard Rock Hotel & Casino - Atlantic City (the “Hard Rock Hotel & Casino”) commenced operations on June 28, 2018. The Hard Rock Hotel & Casino features: two hotel towers with a combined total of 1,971 rooms, including high end suites; 2,097 slot machines; 120 table games; a variety of fine dining and casual restaurants; a 7,000-seat arena; a nightclub; a spa; a gas station, including a convenience store and car wash; and other amenities.

In June 2018, the Company received authorization from the New Jersey Division of Gaming Enforcement to commence continuous, 24-hour Internet Gaming (“I-Gaming”) on its online gaming site, *HardRockAtlanticCity.com*. The Company features a variety of slot game options. Patrons have the opportunity to participate in community jackpots and to be rewarded with both on property and online incentives, as well as, have the opportunity to participate in a variety of promotions. All participants must be 21 years of age or older and be physically located in the State of New Jersey to play.

### NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

#### *Basis of Presentation*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”).

As of September 30, 2018, the Company generated losses of \$44,133 and had a working capital deficit of \$73,642. Subsequent to September 30, 2018, the Company received \$49,900 in additional loans, along with a \$12,000 equity infusion from Tristate. It is management’s belief that the owners have the ability and intent to continue to fund the working capital needs and to fund the growth of the business through the next twelve months.

**BOARDWALK 1000, LLC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**(Unaudited)**  
**(In thousands)**

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires the Company's management to 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

***Certain Concentrations of Risk***

The Company is subject to the risks inherent with a large-scale project such as the Project. Such circumstances may include, but are not limited to, disputes with the general contractor, shortages of labor and materials, labor disputes, unforeseen engineering, environmental or geological problems, and unanticipated costs. The Company engaged T.N. Ward Company ("T.N. Ward") and Joseph Jingoli & Son, Inc. ("Jingoli Construction") as the general contractors both with guaranteed maximum price agreements. The project work representing the majority of the construction budget was provided by T.N. Ward and Jingoli Construction or by sub-contractors under their oversight.

Financial instruments that subject the Company to credit risk consist of cash equivalents and accounts receivable. The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk.

As of September 30, 2018, the Company maintained balances in certain of its deposit accounts in excess of federally insured limits. The Company does not expect to incur any losses resulting from cash held in financial institutions in excess of insured limits. The Company manages this risk through predominantly holding its cash with a large, financially stable, global bank.

Concentrations of credit risk, with respect to gaming receivables, are limited through the Company's credit evaluation process. The Company issues markers to approved gaming customers only following credit checks and investigations of creditworthiness.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of the following:

	<b>September 30, 2018</b>
Unrestricted cash	\$ 20,916
Restricted cash	1,093
	<u>\$ 22,009</u>

Cash and cash equivalents at September 30, 2018 included restricted cash of \$1,093, of which \$758 related to cash collateral for a letter of credit related to the Company's workers compensation insurance and \$335 of restricted cash related to the balances of patrons' internet gaming accounts as of the previous day. Pursuant to N.J.A.C. 13:69O1.3(j), the Company maintains a separate New Jersey bank account to primarily ensure the security of funds held in patrons' internet gaming accounts. Restricted cash balances are on deposit with a high credit quality financial institution.

**BOARDWALK 1000, LLC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**(Unaudited)**  
**(In thousands)**

***Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the shorter of the asset's useful life or term of the lease.

The estimated useful lives of our major components of property and equipment are:

Building and improvements	10 through 40 years
Furniture and equipment	3 through 7 years

Costs of major improvements are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred.

The Company evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For an asset that is to be disposed of, the Company recognizes the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, the Company reviews the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The estimated undiscounted future cash flows of the asset are then compared to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using the Company's weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If an asset is under development, future cash flows include remaining construction costs. All resulting recognized impairment charges are recorded as operating expenses.

***Revenue Recognition***

The Company's revenue from contracts with customers consists of casino wagers, hotel room sales, food and beverage transactions, entertainment shows, and retail transactions.

The transaction price for a casino wager is the difference between gaming wins and losses ("net win"). In certain circumstances, the Company offers discounts on markers, which is estimated based upon industry practice, and recorded as a reduction of casino revenue. The Company accounts for casino revenue on a portfolio basis given the similar characteristics of wagers by recognizing net win per gaming day versus on an individual wager basis.

For casino wager contracts that include complimentary goods and services provided by the Company to gaming patrons on a discretionary basis to incentivize gaming, the Company allocates revenue to the good or service delivered based upon standalone selling price ("SSP"). Discretionary complimentary services provided by the Company and supplied by third parties are recognized as an operating expense. The Company accounts for complimentary services on a portfolio basis given the similar characteristics of the incentives by recognizing redemption per gaming day.

For casino wager contracts that include incentives earned by customers under the Company's loyalty programs, the Company allocates a portion of net win based upon the SSP of such incentive (less estimated breakage). This allocation is deferred and recognized as revenue when the customer redeems the incentive. When redeemed, revenue is recognized in the department that provides the goods or service. Redemption of loyalty incentives at third party outlets are deducted from the loyalty liability and amounts owed are paid to the third party, with any discount received recorded as other revenue. After allocating revenue to other goods and services provided as part of casino wager contracts, the Company records the residual amount to casino revenue.

The transaction price of hotel rooms, food and beverage, and retail contracts is the net amount collected from the customer for such good and services. The transaction price for such contracts is recorded as revenue as the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product.

**BOARDWALK 1000, LLC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**(Unaudited)**  
**(In thousands)**

Sales and usage-based taxes are excluded from revenues. For some arrangements, the Company acts as an agent in that it arranges for another party to transfer goods and services, which primarily include certain of the Company's entertainment shows as well as customer rooms arranged by online travel agents.

***Internet Gaming Operations***

On June 28, 2018 the Company commenced online gaming operations with the Gaming Innovation Group as our exclusive internet provider. I-Gaming casino revenues represent the difference between wins and losses from online gaming activities and are recognized as a component of Casino Revenue in the Statements of Income. The Company makes cash promotional offers to certain of its I-Gaming customers, including cash rebates as part of loyalty programs generally based on an individual's level of gaming play. Under ASC 606, these costs are classified as a deferral of gaming revenue until redeemed by the customer.

***Contract and Contract-Related Liabilities***

There may be a difference between the timing of cash receipts from the customer and the recognition of revenue, resulting in a contract or contract-related liability. The Company generally has three types of liabilities related to contracts with customers: (1) outstanding chip liability, which represents the amounts owed in exchange for gaming chips held by a customer, (2) loyalty program obligations, which represents the deferred allocation of revenue relating to loyalty program incentives earned, as discussed above, and (3) customer advances and other. Customer advances and other consist primarily of funds deposited by customers before gaming play occurs ("casino front money") and advance payments on goods and services yet to be provided, such as advance ticket sales, deposits on rooms and convention space, or for unpaid wagers. These liabilities are generally expected to be recognized as revenue within one year of being purchased, earned, or deposited and are recorded within other accrued expenses and other current liabilities on the Company's balance sheet.

***Gaming Taxes***

The Company is subject to an annual tax assessment based on 8% of its land-based gross gaming revenues and 15% of its online gross gaming revenues. These gaming taxes are recorded as a casino expense in the statement of income. The Company recorded gaming tax expense of \$6,108 during the three months ended September 30, 2018 and \$6,642 for the nine months ended September 30, 2018.

***CRDA Obligations***

Pursuant to the New Jersey Casino Control Act ("Casino Control Act"), as a casino licensee, the Company is assessed an amount equal to 1.25% of its land-based gross gaming revenues. This assessment is made in lieu of an Investment Alternative Tax (the "IAT") equal to 2.5% of land-based gross gaming revenues. The Casino Control Act also provides for an assessment of licensees equal to 2.5% of online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of online gross gaming revenues.

The Company records a charge to expense for 100% of the obligation amount as of the date the obligation arises.

***Capitalized Interest***

The interest cost associated with the Project was capitalized and included in the cost of the Project. Capitalization of interest ceased when the Project was substantially completed. The Company amortizes capitalized interest over the estimated useful life of the related asset. Total capitalized interest was \$5,047 during the nine months ended September 30, 2018.

**BOARDWALK 1000, LLC**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**(Unaudited)**  
**(In thousands)**

***Fair Value Measurements***

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement is required to be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's financial instruments are comprised of current assets, current liabilities and long-term debt. Current assets and current liabilities approximate fair value due to their short-term nature.

***Loss Contingencies***

There are times when non-recurring events may occur that require management to consider whether an accrual for a loss contingency is appropriate. Accruals for loss contingencies typically relate to certain legal proceedings, customer and other claims and litigation. As required by US GAAP, the Company determines whether an accrual for a loss contingency is appropriate by assessing whether a loss is deemed probable and can be reasonably estimated. The Company analyzes its legal proceedings and other claims based on available information to assess potential liability. The Company develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results assuming a combination of litigation and settlement strategies. No liability was accrued for loss contingencies as of September 30, 2018.

***Income Taxes***

The Company is a limited liability company and is taxed as a partnership. As such, the Company is not liable for federal income taxes. Income is reported on the member's income tax return and losses are deductible to the extent of the member's tax basis. Therefore, no provision or liability for federal income taxes has been included in the accompanying financial statements.

***Preopening and Start-up Costs***

Costs incurred for one-time activities during the start-up phase of operations, including organizational costs, are accounted for as preopening and start-up costs and are expensed as incurred. Costs classified as preopening and start-up expenses include payroll, outside services, advertising, lease expense and other expenses not capitalized as project costs. Preopening and start-up costs were \$5,029 and \$22,900 during the three and nine months ended September 30, 2018 and are included in Nonoperating Income (Expense) - Net on the Statements of Income.

***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which introduced new revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, the new guidance implements a five-step process for customer contract revenue recognition. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Entities can transition to

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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**(Unaudited)**  
**(In thousands)**

the new guidance either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company adopted Topic 606 effective January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which provides guidance for accounting for leases. Under ASU 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The standard must be adopted using a modified retrospective approach and provides for certain practical expedients. The Company is assessing the impact that the adoption of Topic 842 will have on its financial statements and footnote disclosures.

**NOTE 3 – RECEIVABLES AND PATRONS' CHECKS**

Receivables and patrons' checks consist of the following:

	<b>September 30, 2018</b>
Casino receivables, net of an allowance for doubtful accounts (\$250 in 2018)	\$ 10,800
Due from related parties (see Note 9)	2,537
Other	4,597
<b>Receivables and patrons' checks, net</b>	<b>\$ 17,934</b>

**NOTE 4 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	<b>September 30, 2018</b>
Land	\$ 31,600
Building and improvements	387,328
Furniture and equipment	149,147
Construction in progress	4,453
<b>Total property and equipment</b>	<b>572,528</b>
Less accumulated depreciation	(8,294)
<b>Property and equipment, net</b>	<b>\$ 564,234</b>

Depreciation expense was \$8,126 and \$8,294 during the three and nine months ended September 30, 2018, respectively.

Construction in progress presented in the table above primarily relates to costs capitalized in connection with major improvements that have not yet been placed into service, and accordingly, such costs are not currently being depreciated.

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**NOTE 5 – OTHER ACCRUED EXPENSES**

Other accrued expenses consist of the following:

	<b>September 30, 2018</b>
Accrued construction-related costs	\$ 60,878
Accrued payroll and related expenses	7,504
Accrued interest	2,165
Accrued expenses and other liabilities	6,292
<b>Other accrued expenses</b>	<b>\$ 76,839</b>

**NOTE 6 – OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

	<b>September 30, 2018</b>
Casino-related liabilities	\$ 3,218
Deferred revenue	4,969
Due to related parties (see note 9)	9,162
Other	4,187
<b>Other current liabilities</b>	<b>\$ 21,536</b>

**NOTE 7 – LONG-TERM DEBT**

***Loan Agreement***

On August 30, 2017, the Company entered into a Loan Agreement (the “Loan Agreement”) with Hard Rock Atlantic City Lender, LLC (“HRAC Lender”). HRAC Lender is an affiliate of the HR Members. The Loan Agreement consists of a term loan in the principal amount of \$400,000 (“Loan”). The Loan bears interest at an annual rate of 6% (“Loan Rate”). The Loan matures on July 29, 2022 (“Maturity Date”). On August 30, 2017, a non-cash loan origination fee of \$8,000 (2% of the Loan) was charged by HRAC Lender and applied to the outstanding principal amount of the Loan per the terms of the Loan Agreement. The Loan is guaranteed by Tristate.

The Loan Agreement proceeds were used to finance the development and renovation of the Project, including, but not limited to, construction costs, costs of gaming equipment, furniture, fixtures and equipment, preopening expenses and HRAC Lender expenses.

The period beginning on August 30, 2017 and ending on February 28, 2019 is defined as the “PIK Interest Period.” During the PIK Interest Period, all interest shall be paid by the Company in kind by having such interest added to and automatically becoming a part of the principal amount of the Loan immediately upon each Payment Date (last business day, as defined in the Loan Agreement, of August and February of each year, commencing on February 28, 2018).

Commencing on the first Payment Date to occur after the PIK Interest Period, and on each Payment Date thereafter until the Maturity Date, interest on the outstanding principal balance of the Loan (including the debt financing fee and



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PIK Interest added to the outstanding principal amount of the Loan) during such quarter shall be paid by the Company in cash at the Loan Rate. Amounts outstanding under the Loan and outstanding interest is due upon the Maturity Date. There is no penalty for prepayment of principal and outstanding interest.

Long-term debt as of September 30, 2018 consisted of the following:

Long-term debt - HRAC Lender	\$ 432,987
Unamortized debt financing costs	<u>(6,305)</u>
Total long-term debt, net	<u>\$ 426,682</u>

In connection with the Loan Agreement, the Company incurred debt financing fees of \$8,099 which are recorded in long-term debt, net, and are being amortized over the term of the Loan Agreement. The Company recorded amortization of \$412 and \$1,235 during the three and nine months ended September 30, 2018 and is included within interest expense on the statement of operations.

**NOTE 8 – CONTRIBUTIONS**

During June 2018, Tristate made a \$41,316 capital contribution to the Company. The proceeds of the capital contribution were used to fund costs associated with the Project.

In addition, during June 2018, Tristate made a \$12,000 capital contribution to the Company. The proceeds of the capital contribution were used to fund the casino cage impressment.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

The Company engages in certain transactions with affiliated entities. As disclosed in Note 7, the Company entered into the Loan Agreement with HRAC Lender.

On August 21, 2017, an affiliate of certain of the owners of Tristate obtained a \$1,600 irrevocable letter of credit on behalf of the Company in connection with obtaining owner-controlled insurance related to the construction of the Project. The letter of credit expires on August 18, 2019. Any remaining proceeds from the letter of credit will be refunded to the Company upon its expiration.

The Company incurred costs associated with the construction of the Hard Rock Cafe located within the Hard Rock Hotel & Casino. The Hard Rock Cafe is operated by an affiliated entity. As of September 30, 2018, there was \$871 of reimbursable construction-related costs due from this related party.

***Hotel & Casino Management Agreement***

The Company and HR Atlantic City, LLC (“HR Atlantic City”), a part-owner of Tristate, entered into a Hotel & Casino Management Agreement dated as of September 27, 2017 (the “Management Agreement”). Pursuant to the Management Agreement, HR Atlantic City provided technical consultancy services during the planning, design and reopening phases of the Hard Rock Hotel & Casino Atlantic City (the “Property”), and manages, operates and promotes the business, operations, services, marketing and sales of the Property for the benefit of the Company. HR Atlantic City manages certain facilities at the Property which include, in part, a Hard Rock branded hotel, a Hard Rock branded casino, certain food and beverage facilities that are not leased or licensed to third parties, meeting, parking, conference and banquet facilities, a Rock Shop retail store and a Hard Rock Live entertainment venue (collectively, the “Managed Facilities”).

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The preopening period commenced on September 27, 2017 and expired on, and as of June 28, 2018, the date the Managed Facilities became fully operational and open for business to the public as Hard Rock Hotel & Casino (“Opening Date”). The initial term of the Management Agreement commenced on the Opening Date and expires at midnight on the tenth anniversary of the Opening Date, unless sooner terminated or extended (“Term”). The Term may be extended by HRAC for one successive but independent term of ten years commencing on the day immediately following the expiration of the initial Term (“Extension Term”) so long as the investors have received an average return on investment equal to or exceeding 10% per year (“Preferred Return”) as of the expiration date of the initial Term.

HR Atlantic City is entitled to receive 2% of gross revenue (including gross gaming revenues and gross revenues from non-gaming activities) (“Base License Fee”); provided that HR Atlantic City shall not be entitled to 2% of gross revenues on those portions of gross revenue for which it is otherwise entitled to a fee or compensation otherwise pursuant to the Management Agreement. HR Atlantic City is also entitled to an incentive management fee which is calculated based upon a percentage of achieved EBITDAM, as defined in the Management Agreement.

In connection with the Hotel & Casino Management Agreement, HR Atlantic City incurs certain expenses on behalf of the Company. Amounts due to HR Atlantic City of \$3,613 as of September 30, 2018 primarily relate to management fees.

In addition, the Company incurs expenses with other affiliated entities, principally related to the Company’s hotel room reservation center and other support services. Amounts due to such affiliates were \$5,549 as of September 30, 2018.

***Construction Costs***

The Company engaged Jingoli Construction as one of its general contractors. Joseph Jingoli is a part-owner of Tristate. The agreement with Jingoli Construction is a guaranteed maximum price agreement.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

The Company engaged T.N. Ward and Jingoli Construction as the general contractors both with guaranteed maximum price agreements. The project work representing the majority of the construction budget was directly provided by T.N. Ward and Jingoli Construction or by sub-contractors under their oversight.

The Company is party from time to time in legal actions that arise in the normal course of business. In the opinion of management, the ultimate outcome of such legal actions is not expected to have a material effect on the results of operations or the financial position of the Company.

**NOTE 11 - SUBSEQUENT EVENTS**

Subsequent to September 30, 2018, the Company received \$49,900 in additional loans, along with a \$12,000 equity infusion from Tristate. The proceeds of the capital contribution were used to fund costs associated with the Project.

The Company has evaluated subsequent events through November 15, 2018, the date these financial statements were issued.