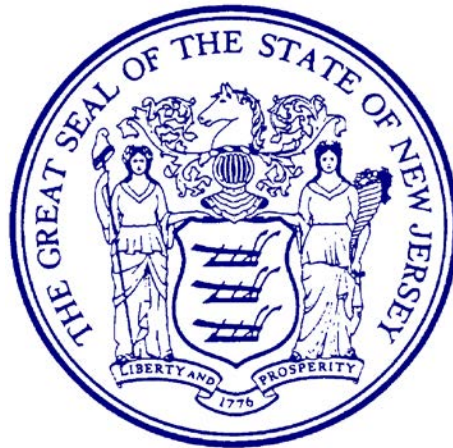


**GOLDEN NUGGET ATLANTIC CITY, LLC  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2020**

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



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

# GOLDEN NUGGET ATLANTIC CITY, LLC

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	3	\$55,211	\$36,317
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2020, \$511 ; 2019, \$2,351).....	4	65,618	53,735
4	Inventories .....	2	2,182	2,317
5	Other Current Assets.....	5	1,264	1,992
6	Total Current Assets.....		124,275	94,361
7	Investments, Advances, and Receivables.....	11	0	0
8	Property and Equipment - Gross.....	6	197,235	195,581
9	Less: Accumulated Depreciation and Amortization.....		(78,119)	(70,523)
10	Property and Equipment - Net.....		119,116	125,058
11	Other Assets.....	7	9,635	9,267
12	Total Assets.....		\$253,026	\$228,686
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$12,779	\$6,801
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....	9	669	950
17	Income Taxes Payable and Accrued.....		22,802	16,941
18	Other Accrued Expenses.....	8	46,556	39,344
19	Other Current Liabilities.....	8	37,017	22,880
20	Total Current Liabilities.....		119,823	86,916
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	0
22	External.....	9	283,150	857
23	Deferred Credits .....		3,468	2,257
24	Other Liabilities.....		0	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		406,441	90,030
27	Stockholders', Partners', or Proprietor's Equity.....		(153,415)	138,656
28	Total Liabilities and Equity.....		\$253,026	\$228,686

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	Revenue:			
1	Casino.....	2	\$97,631	\$111,804 *
2	Rooms.....		8,256	17,435
3	Food and Beverage.....		10,989	33,136
4	Other.....		14,980	19,472
5	Net Revenue.....	2	131,856	181,847 *
	Costs and Expenses:			
6	Casino.....	2	68,299	74,417
7	Rooms, Food and Beverage.....	2	11,743	30,145
8	General, Administrative and Other.....	2	25,321	39,911
9	Total Costs and Expenses.....		105,363	144,473
10	Gross Operating Profit.....		26,493	37,374
11	Depreciation and Amortization.....		6,485	6,745
	Charges from Affiliates Other than Interest:			
12	Management Fees.....		0	0
13	Other.....	12	0	0
14	Income (Loss) from Operations.....		20,008	30,629
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		0	0
16	Interest Expense - External.....		(19,122)	(74)
17	CRDA Related Income (Expense) - Net.....	11	(2,739)	(2,972)
18	Nonoperating Income (Expense) - Net.....		2	13
19	Total Other Income (Expenses).....		(21,859)	(3,033)
20	Income (Loss) Before Taxes .....		(1,851)	27,596
21	Provision (Credit) for Income Taxes.....		1,807	3,390
22	Net Income (Loss).....		(\$3,658)	\$24,206

\* Prior year balances changed to confirm 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.

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	Revenue:			
1	Casino.....	2	\$39,724	\$38,081 *
2	Rooms.....		5,124	7,951
3	Food and Beverage.....		3,444	13,147
4	Other.....		6,234	7,844
5	Net Revenue.....	2	54,526	67,023 *
	Costs and Expenses:			
6	Casino.....	2	25,787	24,765
7	Rooms, Food and Beverage.....	2	3,593	11,007
8	General, Administrative and Other.....	2	9,110	13,232
9	Total Costs and Expenses.....		38,490	49,004
10	Gross Operating Profit.....		16,036	18,019
11	Depreciation and Amortization.....		2,129	2,295
	Charges from Affiliates Other than Interest:			
12	Management Fees.....		0	0
13	Other.....	12,12	0	0
14	Income (Loss) from Operations.....		13,907	15,724
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		0	0
16	Interest Expense - External.....		(11,323)	(60)
17	CRDA Related Income (Expense) - Net.....	11	(1,090)	(1,083)
18	Nonoperating Income (Expense) - Net.....		1	0
19	Total Other Income (Expenses).....		(12,412)	(1,143)
20	Income (Loss) Before Taxes .....		1,495	14,581
21	Provision (Credit) for Income Taxes.....		(1,377)	3,342
22	Net Income (Loss).....		\$2,872	\$11,239

\* Prior year balances changed to confirm 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.

# GOLDEN NUGGET ATLANTIC CITY, LLC STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019  
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2020

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	_____ _____ _____ (e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2018.....		\$119,054	(\$23,020)		\$96,034
2	Net Income (Loss) - 2018.....			42,099		42,099
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, 2019.....		119,054	19,079	0	138,133
11	Net Income (Loss) - 2020.....			(3,658)		(3,658)
12	Capital Contributions.....		110			110
13	Capital Withdrawals.....		(288,000)			(288,000)
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, September 30, 2020.....		(\$168,836)	\$15,421	\$0	(\$153,415)

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$12,419	\$16,755
	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.....		(523)	0
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(846)	(1,891)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....			(6,281)
9	Cash Outflows to Acquire Business Entities.....		0	0
10	.....			
11	.....			
12	Net Cash Provided (Used) By Investing Activities.....		(1,369)	(8,172)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....		(808)	(86)
15	Proceeds from Long-Term Debt .....		288,000	1,767
16	Costs of Issuing Debt.....		(4,923)	
17	Payments to Settle Long-Term Debt.....			0
18	Cash Proceeds from Issuing Stock or Capital Contributions...		(16,791)	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....		16,901	
21	Issuance on Notes Receivable .....		(288,000)	
22	.....			
23	Net Cash Provided (Used) By Financing Activities.....		(5,621)	1,681
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		5,429	10,264
25	Cash and Cash Equivalents at Beginning of Period.....		49,782	26,053
26	Cash and Cash Equivalents at End of Period.....		\$55,211	\$36,317
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$29	\$0
28	Income Taxes.....			

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$3,658)	\$24,206
30	Depreciation and Amortization of Property and Equipment...		6,485	6,745
31	Amortization of Other Assets.....			
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....		(10)	(618) *
34	Deferred Income Taxes - Noncurrent .....			
35	(Gain) Loss on Disposition of Property and Equipment.....			
36	(Gain) Loss on CRDA-Related Obligations.....		846	1,919
37	(Gain) Loss from Other Investment Activities.....		0	
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(5,805)	(28,467)
39	(Increase) Decrease in Inventories .....		315	290
40	(Increase) Decrease in Other Current Assets.....		757	536
41	(Increase) Decrease in Other Assets.....		(1,965)	(520)
42	Increase (Decrease) in Accounts Payable.....		4,799	(1,249) *
43	Increase (Decrease) in Other Current Liabilities .....		6,647	13,643 *
44	Increase (Decrease) in Other Liabilities .....		4,008	270 *
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$12,419	\$16,755

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$523)	
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$523)	\$0
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			0
55	Issuance of Stock or Capital Invested.....		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.....		(\$16,791)	\$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.....		(\$16,791)	\$0

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

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020  
(UNAUDITED)  
(\$ IN THOUSANDS)

Amended 11/24/20

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	35,034	\$4,494	0	\$0
2	Food	126,825	2,283	66	3,981
3	Beverage	534,604	4,277	0	0
4	Travel	0	0	1	40
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	84,539	5,792	0	0
7	Complimentary Cash Gifts	214,527	14,371	0	0
8	Entertainment	0	0	0	0
9	Retail & Non-Cash Gifts	124,890	1,598	0	0
10	Parking	0	0	174	696
11	Other	45,246	114	0	0
12	Total	1,165,665	\$32,929	241	\$4,717

\*\*\$11M in PGCS are for RIS/Betfair/ 70702 \$10,987  
Platforms as recorded in DGE 101&105 in GNAC's Income Statement

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2020

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	26,546	\$2,232	0	\$0
2	Food	38,708	697	19,196	1,152
3	Beverage	107,797	862	0	0
4	Travel	0	0	86	3
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	41,405	3,901	0	0
7	Complimentary Cash Gifts	120	9,694	0	0
8	Entertainment	0	0	0	0
9	Retail & Non-Cash Gifts	58,539	749	0	0
10	Parking	0	0	104,082	416
11	Other	0	0	0	0
12	Total	273,116	\$18,135	123,364	\$1,571

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

\*\*\$5.5M in PGCS are for RIS/Betfair 33353 \$5,514



**GOLDEN NUGGET ATLANTIC CITY, LLC  
STATEMENT OF CONFORMITY,  
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2020

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.

11/16/2020

Date



Michael Rodriguez

Vice President of Finance

Title

9254-11

License Number

On Behalf of:

GOLDEN NUGGET ATLANTIC CITY, LLC  
Casino Licensee

## **1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Golden Nugget Atlantic City, LLC (“GNAC”, the “Company”, “we”, “our” or “us”) is the subsidiary of Golden Nugget, LLC, a Delaware LLC. GNAC is the holder of the gaming license issued by the state of New Jersey and operates the Golden Nugget Atlantic City Hotel and Casino in Atlantic City, New Jersey and maintains an online gaming permit and sports wagering license. Golden Nugget, LLC is wholly owned by Golden Nugget, LLC, a Nevada LLC (“GNI” or “Parent”), which is a national, diversified, restaurant, hospitality, entertainment and gaming company principally engaged in the ownership and operation of full service restaurants and Golden Nugget gaming facilities. GNI is an indirect subsidiary of Fertitta Entertainment, Inc. (“FEI”) which is wholly owned by Tilman J. Fertitta. Unless otherwise stated, all dollars are in thousands.

On April 28, 2020, we contributed our existing “Golden Nugget” branded online casino gaming business to Golden Nugget Online Gaming, Inc. (“GNOG”), which was then conveyed to an indirect subsidiary of FEI. GNOG operates the “Golden Nugget” branded online casino business in New Jersey as a “skin” on the GNAC Internet gaming permit and sports wagering license. All periods presented include the assets and liabilities, and the results of operations and disclosures of GNOG.

### ***Merger Transaction***

On June 28, 2020, GNOG entered into a purchase agreement (the “Purchase Agreement”) with Landcadia Holdings II, Inc. and LHGN HoldCo, LLC, a Delaware limited liability company and newly formed, wholly-owned subsidiary of Landcadia Holdings II, Inc. (Landcadia II), (“Landcadia HoldCo”). Pursuant to the Purchase Agreement, subject to the satisfaction or waiver of certain conditions set forth therein, FEI through one of its subsidiaries, Landry’s Fertitta, LLC (“LF LLC”) will receive common stock, cash consideration and the repayment of a portion of principal under the \$300.0 million interest only term loan that was entered into on April 28, 2020. Prior to the closing, GNOG will convert into a limited liability company by merging with and into Golden Nugget Online Gaming, LLC, a New Jersey limited liability company and newly formed, wholly-owned subsidiary of GNOG Holdings.

Upon completion of the transaction, the newly formed entities, will be controlled by FEI and its affiliates. The closing of the transaction is subject to certain conditions, including, among others, approval by Landcadia II’s stockholders of the Purchase Agreement, the transaction and certain other actions related thereto. In addition, the transactions and arrangements are subject to various regulatory approvals and actions in New Jersey, which will be obtained prior to closing under the Purchase Agreement. The transaction is expected to close in the fourth quarter of 2020.

### ***COVID-19***

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions around the world, accelerating during the last half of March 2020, as federal, state and local governments reacted to the public health crisis. The direct impact on us is primarily the temporary closure and capacity restrictions of our land-based casino, partially offset by an increase in new patrons utilizing online gaming due to closures and capacity restrictions. There have also been suspensions, postponement and cancellations of major sports seasons and sporting events, although sports betting accounted for less than 1% of our revenues for 2019. Some sports seasons and events have now resumed, but there is significant uncertainty as to the length of time the sports will be able to continue and whether they will be successful. The ultimate impact of this pandemic on our financial and operating results is unknown and will depend, in part, on the length of time that these disruptions exist and the subsequent behavior of new patrons after land-based casinos reopen fully.

### ***Basis of Presentation***

The accompanying consolidated financial statements include the consolidated accounts of GNAC and GNOG. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements included herein have been prepared without audit and pursuant to the rules and

regulations of the New Jersey Division of Gaming Enforcement. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for interim periods have been made.

***Use of Estimates***

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America (“GAAP”) requires 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 those estimates.

***Revenue Recognition***

We recognize revenue when control over the goods and services we provide has transferred to the customer, which is generally when the services are performed and we have no substantive performance obligations remaining. Sales taxes collected from customers and remitted to governmental authorities are presented on a net basis, or excluded from revenues, in our consolidated statements of operations.

Casino revenue is the aggregate net difference between gaming wins and losses, less sales incentives and other adjustments. Liabilities are recognized for funds deposited by customers before gaming play occurs and for chips in the customer’s possession. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. We accrue the incremental amount of progressive jackpots as the progressive machine is played, and the progressive jackpot amount increases, with a corresponding reduction to casino revenues.

Internet gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs. We report 100% of casino wins as revenue and our service provider’s share is reported in costs and expenses. Free play and other incentives to customers related to internet gaming play are recorded as a reduction of internet gaming revenue.

Hotel, food and beverage, and other revenues are recognized as goods and services are transferred to the customer. Room revenue is generally recognized over time, consistent with the customer’s reservation period. Advance deposits for future hotel occupancy, convention space or food and beverage services are recorded as a liability until the goods and services are provided to the customer. Food and beverage and other revenues are recognized at the point in time the services are performed or events are held.

The relative standalone selling price of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is recognized as a reduction to revenues for the department which issued the complimentary offering and as an increase to revenues for the department redeemed. Complimentary offerings periodically extended by third parties at our discretion and under our control are recorded as an expense when incurred.

Our gaming revenue included complimentary offerings and loyalty point redemptions follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Rooms .....	\$ 1,644	\$ 3,313	\$ 3,318	\$ 8,276
Food and beverage .....	846	4,184	2,445	11,471
Other .....	789	1,549	1,645	4,467
	<u>\$ 3,279</u>	<u>\$ 9,046</u>	<u>\$ 7,408</u>	<u>\$ 24,214</u>

***Slot Player Club Liability***

We have established promotional slot and player clubs to encourage repeat business from frequent and active slot machine customers and table games patrons. Members earn points based on gaming activity and such points can be redeemed for complimentary amenities, including meals in our non casino restaurants. The incentives earned by customers under these programs are based on their past play and represent separate performance obligations. Player club points generally expire within twelve months.

For transactions where players club points are earned we allocate a portion of the transaction price to the points that are earned based upon the relative standalone selling prices of the goods and services involved. We have determined the standalone selling price of player's club points by computing the redemption value of points expected to be redeemed. We have applied the practical expedient under the portfolio approach to each of our player's club transactions because of the similarity of gaming transactions. When the activity underlying the earning of the points has a wide range of selling prices and is highly variable, we use the residual approach in the allocation by computing the value of the player's club points and allocating the residual amount to the remaining revenue generating activity. This allocation results in a portion of the transaction price being deferred and presented as contract liabilities in our accompanying Balance Sheets.

Our loyalty programs include various tiers that offer different benefits, and members are able to earn credits towards tier status, which generally enables them to receive discounts similar to those provided as the complimentary offerings described above. We have determined that any such discounts received as a result of tier status do not represent material rights, and therefore, we do not account for them as distinct performance obligations.

#### ***Accounts Receivable***

Accounts receivable is comprised primarily of casino and hotel receivables, net of an allowance for doubtful accounts. The allowance is estimated based on specific review of customer accounts as well as historical collection experience and current economic and business conditions. Receivables are written off when management deems the account to be uncollectible.

#### ***Financial Instruments***

GAAP establishes a hierarchy for fair value measurements, such that Level 1 measurements include unadjusted quoted market prices for identical assets or liabilities in an active market, Level 2 measurements include quoted market prices for identical assets or liabilities in an active market which have been adjusted for items such as effects of restrictions for transferability and those that are not quoted but are observable through corroboration with observable market data, including quoted market prices for similar assets, and Level 3 measurements include those that are unobservable and of a highly subjective measure.

The fair value of GNOG's long-term debt is determined by Level 1 measurements based on quoted market prices. The fair value and carrying value of the GNOG debt as of September 30, 2020 was \$342.0 million and \$289.2 million, respectively. The fair value of the GNOG note receivable is determined using level 3 measurements, as it has substantially the same terms as the term loan, the fair value of the note receivable is estimated to be the same.

#### ***Inventories***

Inventories consist primarily of food and beverages used in our restaurant outlets and retail goods are recorded at the lower of cost or market value.

#### ***Property and Equipment***

Property and equipment are recorded at cost. Depreciation expense is computed utilizing the straight-line method over the estimated useful lives of the depreciable assets, as follows: buildings and improvements 10 to 40 years; furniture, fixtures and equipment 5 to 15 years; and automobiles and limousines 4 to 5 years.

Costs of major improvements are capitalized; costs of normal repairs and maintenance are charged to expense as incurred. Gains or losses on dispositions of property and equipment are recognized in the consolidated statements of operations when incurred.

### ***Insurance Liability***

We maintain large deductible insurance policies related to property, general liability, workers' compensation coverage, and certain employee medical claims. Predetermined loss limits have been arranged with insurance companies to limit our per occurrence cash outlay. Accrued liabilities include the estimated costs to settle unpaid claims and estimated incurred but not reported claims using actuarial methodologies.

### ***Advertising Costs***

Advertising costs are expensed as incurred during such year. Advertising costs, included in casino, food and beverage, and general and administrative expense, were \$0.1 million and \$0.5 for the three months ended September 30, 2020 and 2019, respectively, and \$0.5 million and \$1.4 million for the nine months ended September 30, 2020 and 2019, respectively.

### ***Adopted Accounting Pronouncements***

On January 1, 2019, we adopted ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)" using the full retrospective method and recast prior periods presented. ASU 2014-09 provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and eliminates existing industry guidance. Under ASU 2014-09, revenue is recognized in an amount that reflects the consideration an entity expects to receive for the transfer of goods and services. The standard also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. In connection with the adoption of ASU No. 2014-09, a cumulative effect adjustment of \$2.4 million, net of tax, was recorded as a decrease to the ending balance of Retained earnings as of December 31, 2017.

The primary impact on gaming revenues of adopting this new guidance is as follows:

- We previously reported promotional allowances in a separate line item within net gaming revenues. As part of adoption of the new standard, promotional allowances are no longer presented separately. Alternatively, revenue is recognized based on relative standalone selling prices for transactions with more than one performance obligation and included as revenues within rooms, food and beverage and other categories. The majority of such amounts were previously included in promotional allowances now offset casino revenues.
- Previously, we accrued a liability based on the estimated cost of fulfilling the redemption of slot and players club points after consideration of estimated forfeitures, based on the cost of historical redemptions. Upon adoption of the new accounting standard, slot and player points are no longer recorded at cost. A deferred revenue model is used to account for the classification and timing of revenue recognized as well as the classification of related expenses as points are redeemed. This results in a portion of casino revenues being recorded as deferred revenue when points are earned. Revenue is recognized in a future period based on when and what goods or services for which the points are redeemed, such as food and beverage.
- The costs of providing complimentary goods or services are included as expenses within rooms, food and beverage and other categories. The estimated cost of providing complimentary good or services were previously allocated primarily to casino expenses from other operating departments.

### ***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This guidance requires recognition of most lease liabilities on the balance sheet to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations, as well as the assets it owns versus leases. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2020, and for interim periods within annual periods after December 15, 2021. In July 2018, the FASB issued ASU 2018-11 making transition requirements less burdensome. The standard provides an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the Company's consolidated financial statements. We are currently evaluating the impact that

this guidance will have on our consolidated financial statements as well as the expected adoption method. We believe the impact upon adoption will be an increase in our current and long term liabilities with a corresponding increase to long term assets.

### 3. CASH & CASH EQUIVALENTS

Pursuant to N.J.A.C 13:69 1.3(j) we maintain a separate New Jersey bank account to ensure security of funds held in patrons' internet gaming accounts. On September 30, 2020, the above mentioned account balance was \$2.3 million and patron deposits in internet gaming accounts were \$2.3 million.

Cash as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Unrestricted Cash .....	\$ 9,544	\$ 9,513
Restricted cash internet accounts	45,667	26,804
Total .....	<u>\$ 55,211</u>	<u>\$ 36,317</u>

### 4. ACCOUNTS RECEIVABLE

Accounts receivable as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Gaming .....	\$ 3,238	\$ 4,262
Allowance .....	(1,105)	(811)
Non-Gaming .....	63,506	50,371
Allowance hotel .....	(21)	(87)
Total .....	<u>\$ 65,618</u>	<u>\$ 53,735</u>

### 5. OTHER CURRENT ASSETS

Other current assets as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Prepaid insurance .....	\$ -	\$ 77
Prepaid taxes .....	1,230	582
Other prepaid .....	34	1,333
Total .....	<u>\$ 1,264</u>	<u>\$ 1,992</u>

### 6. PROPERTY AND EQUIPMENT

Property and equipment as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Land .....	\$ 17,650	\$ 17,650
Building and improvements .....	113,844	113,031
Furniture, fixtures, equipment .....	<u>65,741</u>	<u>64,900</u>
Property and equipment, gross .....	197,235	195,581
Accumulated depreciation .....	<u>(78,119)</u>	<u>(70,523)</u>
Property and equipment, net .....	<u>\$ 119,116</u>	<u>\$ 125,058</u>

## 7. OTHER ASSETS

Other assets as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Deferred cost .....	\$ 4,957	\$ 5,359
Software .....	2,005	2,931
Deposits .....	<u>2,673</u>	<u>977</u>
Total .....	<u>\$ 9,635</u>	<u>\$ 9,267</u>

## 8. OTHER ACCRUED EXPENSES & LIABILITIES

Other accrued expenses and liabilities as of September 30 consisted of the following (in thousands):

	<u>2020</u>	<u>2019</u>
Payroll and related expenses .....	\$ 5,071	\$ 4,599
Deposits .....	2,502	1,857
Other .....	<u>38,983</u>	<u>32,888</u>
Total accrued expenses .....	<u>46,556</u>	<u>39,344</u>

	<u>2020</u>	<u>2019</u>
Gaming .....	\$ 740	\$ 1,130
Other .....	<u>36,277</u>	<u>21,750</u>
Total accrued expenses .....	<u>37,017</u>	<u>22,880</u>

## 9. LONG TERM DEBT AND NOTES RECEIVABLE

Total debt as of September 30 is comprised of the following (in thousands):

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
\$300.0 million term loan, Libor + 12% (floor 1%), interest only due October 4, 2023 .....	\$ 300,000	\$ -
Various equipment loans, 5.0% - 5.76%, due July 2019 through July 2021 .....	669	1,807
Less: Deferred financing costs .....	(6,035)	-
Less: Unamortized discount .....	<u>(10,815)</u>	<u>-</u>
Total debt, net of unamortized discounts and debt issuance costs .....	283,819	1,807
Less current portion .....	(669)	(950)
Long-term portion .....	<u>\$ 283,150</u>	<u>\$ 857</u>

On April 28, 2020, GNOG entered into a term loan credit agreement that is comprised of a \$300.0 million interest only term loan due October 4, 2023. Proceeds received from the term loan were sent to an indirect subsidiary of FEI, who issued us a note receivable due October 2024 to GNI with substantially similar terms as our credit agreement. The proceeds were in turn loaned to GNI under substantially identical terms.

The note receivable from an indirect subsidiary of FEI is accounted for as contra-equity, similar to a subscription receivable, with interest and accretion of the original issue discount accounted for as additional capital contributions. Both the term loan and the note receivable were issued at a 4% discount. The term loan and associated note receivable both bear interest at LIBOR plus 12% and interest payments are made quarterly. The term loan is secured by the note receivable which effectively, but indirectly provides a *pari passu* security interest with GNI's senior secured credit facility.

The term loan credit agreement contains certain negative covenants including restrictions on incurring additional indebtedness or liens, liquidation or dissolution, limitations on disposal of assets and paying dividends. The term loan credit agreement also contains a make-whole provision that is in effect through April 2022 and for six months thereafter is redeemable at 107%. GNOG completed a tender offer that is contingent on the successful completion of the merger transaction for \$150.0 million of the principal amount under the term loan at 116%, representing a \$24.0 million premium to face value.

In April 2019, we entered into an equipment loan for the purchase of gaming hardware and software. The loan bears an interest rate of 5.0% and matures in March 2021. In July 2019, we entered into an additional equipment loan with Cal-First for the purchase of gaming hardware and software. The loan bears an interest rate of 5.76% and matures July 2021.

## **10. EMPLOYEE BENEFIT PLAN**

Certain of our employees are covered by union-sponsored, collective bargained, multi-employer health and welfare and defined benefit pension plans. We recorded plan related expenses of \$1.1 million and \$2.4 million for the three months ended September 30, 2020 and 2019, respectively, and \$3.7 million and \$7.1 million for the nine months ended September 30, 2020 and 2019, respectively.

We sponsor a qualified defined contribution retirement plan (401(k) Plan) covering our eligible, non-union employees. The 401(K) plan allows eligible employees to contribute, subject to Internal Revenue Service limitations on total annual contributions, up to 75% of their base compensation as defined in the 401(k) Plan, to various investment funds. We may match at our discretion, within prescribed limits, a portion of eligible employees' contributions. Matching contributions for both the nine months ended September 30, 2019 and 2018 were immaterial. Employee contributions vest immediately while our contributions vest 20% annually beginning in the participant's second year of eligibility.

## **11. COMMITMENTS AND CONTINGENCIES**

### ***Casino Reinvestment Development Authority Obligation***

CRDA Investments 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 and online sports related gross gaming revenues in order to fund qualified investments. This assessment is made in lieu of an Investment Alternative Tax (the "IAT") equal to 2.5% of land-based and 2 online sports related gross gaming revenues. The Casino Control Act also provides for an assessment of licensees equal to 2.5% of non-sports online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of non-sports online gross gaming revenues. Once the funds are deposited with the New Jersey Casino Reinvestment Development Authority ("CRDA"), qualified investments may be satisfied by: (i) the purchase of bonds issued by the CRDA at below market rates of interest; (ii) direct investment in CRDA-approved projects; or (iii) a donation of funds to projects as determined by the CRDA. According to the Casino Control Act, funds on deposit with the CRDA are invested by the CRDA and the resulting income is shared two-thirds to the casino licensee and one-third to the CRDA. Further, the Casino Control Act requires that CRDA bonds be issued at statutory rates established at two-thirds of market value.

In May 2016, pursuant to a provision contained within legislation enacted to address Atlantic City's fiscal matters commonly referred to as the PILOT (payment in lieu of taxes) law, any CRDA funds not utilized or pledged for direct investments, the purchases of CRDA bonds or otherwise contractually obligated, related to all funds received from the payment of the IAT going forward are allocated to the City of Atlantic



City. The PILOT law directs that these funds be used for the purposes of paying debt service on bonds issued by the City of Atlantic City prior to and after the date of the PILOT law. These provisions expire as of December 31, 2026.

The Company is required to make quarterly deposits with the CRDA to satisfy its investment obligations and, as a result of the PILOT law, records a charge to expense for 100% of the obligation amount as of the date the obligation arises. For the three months ended September 30, 2020 and 2019, we charged to general and administrative expense \$1.1 million, respectively, and for the nine months ended September 30, 2020 and 2019, we charged \$3.0 million, respectively.

As of September 30, 2020, the CRDA deposits and investments in CRDA Bonds reflected in non-current assets on the accompanying consolidated balance sheets, net of allowances \$16.1 million had no value. As of September 30, 2019, the deposits and bonds net of allowances \$15.1 million had no value.

### ***Atlantic City PILOT Program***

In June 2016, the State of New Jersey passed legislation known as the PILOT bill which requires casino properties for 10 years, starting January 1, 2017, to make payments in lieu of property taxes based on a statutory formula. An additional part of that bill requires the casinos to make annual payments to the state starting retroactively in 2015 through 2022 based on a similar formula. For our contribution to the state, we incurred expenses of \$0.3 million and \$0.7 million for the nine months ended September 30, 2020 and 2019, respectively.

### ***Farley State Marina Leases***

We have a non-cancelable operating lease that covers the land, building and marina adjacent to our property, which expires in 2025. Other lease commitments also include operating equipment used in daily operations.

Rent expense was \$0.1 million for both the three months ended September 30, 2020 and 2019, and \$0.4 million for both the nine months ended September 30, 2020 and 2019.

### ***General Litigation***

We are subject to legal proceedings and claims that arise in the ordinary course of business. We do not believe that the outcome of any of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

## **12. TRANSACTIONS WITH AFFILIATES**

### ***Shared Services Agreement***

We have entered into Shared Services Agreements (SSA's) with affiliates. Pursuant to the SSA's, the parties agree to cooperatively develop and implement joint programs for the procurement and implementation of certain products and services including insurance and risk management, legal, information technology, entertainment, general purchasing, financial planning and accounting, human resources and employee benefit administration, marketing, strategic and tactical business planning, retail and executive management. The SSA's provide for the reimbursement of expenses if either party incurs costs in excess of its proportional share.

### ***Tenant Agreement***

We have entered into certain lease agreements with affiliates wherein they operate restaurants in our casino property, and we receive rental payments. Moreover, we routinely enter into certain transactions with affiliated companies. These transactions have been entered into between related parties and are not the result of arm's-length negotiations. Accordingly, the terms of the transactions may have been more or less favorable to us than might have been obtained from unaffiliated third parties. Rental revenue from the affiliates totaled \$0.1 million for both the three months ended September 30, 2020 and 2019, respectively, and \$0.4 million for both the nine months ended September 30, 2020 and 2019.

### ***Online Operations Agreement***

On April 27, 2020, we entered into an Online Gaming Operations Agreement with GNOG. The agreement grants GNOG the right to host, manage, control, operate, support and administer online gaming services under GNAC's operating licenses. The agreement also grants GNOG the right to use the Golden Nugget trademark in connection with GNOG's online gaming operations. Under the terms of these agreements, GNOG will pay a monthly royalty equal to 3% of net gaming revenue as defined.

### ***Live Dealer Lease***

On April 27, 2020, we entered into a Live Dealer Lease with GNOG. The Live Dealer Lease permits GNOG to operate the Live Dealer Studio in our casino's property and makes GNOG responsible for maintaining the facility

## **13. SUBSEQUENT EVENTS**

We have evaluated subsequent events through November 16, 2020, which is the date our consolidated financial statements were available to be issued.