

**TROPICANA CASINO AND RESORT  
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**

# TROPICANA CASINO AND RESORT 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.....		\$29,951	\$43,658
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2018, \$5,993 ; 2017, \$6,621.....	1	13,771	53,055
4	Inventories .....		3,386	4,044
5	Other Current Assets.....	3	4,560	3,567
6	Total Current Assets.....		51,668	104,324
7	Investments, Advances, and Receivables.....	4, 8	224,014	169,276
8	Property and Equipment - Gross.....	2	394,834	356,575
9	Less: Accumulated Depreciation and Amortization.....	2	(146,770)	(118,911)
10	Property and Equipment - Net.....	2	248,064	237,664
11	Other Assets.....	5, 8	92,151	165,725
12	Total Assets.....		\$615,897	\$676,989
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$18,251	\$13,638
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....	6	0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	10	27,319	36,400
19	Other Current Liabilities.....	11	8,976	10,914
20	Total Current Liabilities.....		54,546	60,952
	Long-Term Debt:			
21	Due to Affiliates.....	6	16,976	43,803
22	External.....		0	0
23	Deferred Credits .....		0	0
24	Other Liabilities.....		0	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		71,522	104,755
27	Stockholders', Partners', or Proprietor's Equity.....	14	544,375	572,234
28	Total Liabilities and Equity.....		\$615,897	\$676,989

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

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

Amounts indicated with an asterisk have been restated to conform to the current presentation.

# TROPICANA CASINO AND RESORT 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.....	1	\$168,719	\$177,657 *
2	Rooms.....	1	74,633	70,495 *
3	Food and Beverage.....	1	30,134	29,103 *
4	Other.....	1	14,411	13,544 *
5	Net Revenue.....		287,897	290,799 *
	Costs and Expenses:			
6	Casino.....	1	57,311	59,653 *
7	Rooms, Food and Beverage.....	1	55,102	53,864 *
8	General, Administrative and Other.....	1	100,889	95,835 *
9	Total Costs and Expenses.....		213,302	209,352 *
10	Gross Operating Profit.....		74,595	81,447 *
11	Depreciation and Amortization.....	2, 8	24,444	20,566
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	8	6,621	5,314
13	Other.....		0	0
14	Income (Loss) from Operations.....		43,530	55,567 *
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		(1,327)	(2,961)
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....	4, 7	(3,809)	(2,240)
18	Nonoperating Income (Expense) - Net.....	12	238	23,681
19	Total Other Income (Expenses).....		(4,898)	18,480
20	Income (Loss) Before Taxes .....		38,632	74,047 *
21	Provision (Credit) for Income Taxes.....		9,954	26,010 *
22	Net Income (Loss).....		\$28,678	\$48,037 *

Amounts indicated with an asterisk have been restated to conform to the current presentation.

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

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

# TROPICANA CASINO AND RESORT 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.....	1	\$56,483	\$63,616 *
2	Rooms.....	1	33,971	31,982 *
3	Food and Beverage.....	1	11,005	11,892 *
4	Other.....	1	5,979	5,648 *
5	Net Revenue.....		107,438	113,138 *
	Costs and Expenses:			
6	Casino.....		19,584	21,119 *
7	Rooms, Food and Beverage.....	1	20,047	20,106 *
8	General, Administrative and Other.....	1	35,966	25,719 *
9	Total Costs and Expenses.....	1	75,597	66,944 *
10	Gross Operating Profit.....		31,841	46,194 *
11	Depreciation and Amortization.....	2, 8	8,072	7,100
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	8	2,323	1,645
13	Other.....		0	0
14	Income (Loss) from Operations.....		21,446	37,449 *
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		(323)	(1,231)
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....	4, 7	(1,359)	(1,837)
18	Nonoperating Income (Expense) - Net.....	12	72	23,537
19	Total Other Income (Expenses).....		(1,610)	20,469
20	Income (Loss) Before Taxes .....		19,836	57,918 *
21	Provision (Credit) for Income Taxes.....		5,251	20,390 *
22	Net Income (Loss).....		\$14,585	\$37,528 *

Amounts indicated with an asterisk have been restated to conform to the current presentation.

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# TROPICANA CASINO AND RESORT

## STATEMENTS OF CHANGES IN STOCKHOLDERS' 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	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	AOCI (h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2016.....						\$282,128		\$242,069	\$524,197
2	Net Income (Loss) - 2017.....								(9,995)	(9,995)
3	Contribution to Paid-in-Capital....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	.....									0
7	.....									0
8	.....									0
9	.....									0
10	Balance, December 31, 2017.....		0	0	0	0	282,128	0	232,074	514,202
11	Net Income (Loss) - 2018.....								28,678	28,678
12	Contribution to Paid-in-Capital....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Other Comprehensive Income, Ne	14						1,495		1,495
16	.....									0
17	.....									0
18	.....									0
19	Balance, September 30, 2018 .....		0	\$0	0	\$0	\$282,128	\$1,495	\$260,752	\$544,375

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

# TROPICANA CASINO AND RESORT

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$59,013	\$31,846
	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.....		(31,536)	(34,931)
5	Proceeds from Disposition of Property and Equipment.....		4	29
6	CRDA Obligations .....	4	(1,012)	(1,048)
7	Other Investments, Loans and Advances made.....	4, 8	(34,873)	(39,903)
8	Proceeds from Other Investments, Loans, and Advances .....		479	7,780
9	Cash Outflows to Acquire Business Entities.....		0	0
10	Proceeds from Sales and Luxury Tax Credits .....		2,321	2,607
11				
12	Net Cash Provided (Used) By Investing Activities.....		(64,617)	(65,466)
	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...		0	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.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(5,604)	(33,620)
25	Cash and Cash Equivalents at Beginning of Period.....		35,555	77,278
26	Cash and Cash Equivalents at End of Period.....		\$29,951	\$43,658
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$1,590	\$105

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

# TROPICANA CASINO AND RESORT STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$28,678	\$48,037 *
30	Depreciation and Amortization of Property and Equipment.....	2	22,569	19,316
31	Amortization of Other Assets.....	8	1,875	1,250
32	Amortization of Debt Discount or Premium.....		(49)	(56)
33	Deferred Income Taxes - Current .....		0	0
34	Deferred Income Taxes - Noncurrent .....		406	0
35	(Gain) Loss on Disposition of Property and Equipment.....	12	81	158
36	(Gain) Loss on CRDA-Related Obligations.....		934	(986)
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		759	(39,678)
39	(Increase) Decrease in Inventories .....		256	(394)
40	(Increase) Decrease in Other Current Assets.....		9,456	(111)
41	(Increase) Decrease in Other Assets.....		(2,057)	(211) *
42	Increase (Decrease) in Accounts Payable.....		7,016	274
43	Increase (Decrease) in Other Current Liabilities .....		(12,406)	4,247 *
44	Increase (Decrease) in Other Liabilities .....		0	0
45	Other Comprehensive Income .....	14	1,495	0
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$59,013	\$31,846

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$31,536)	(\$34,931)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$31,536)	(\$34,931)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

Amounts indicated with an asterisk have been restated to conform to the current presentation.

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

**TROPICANA CASINO AND RESORT  
SCHEDULE OF PROMOTIONAL  
EXPENSES AND ALLOWANCES**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018  
(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	315,614	\$42,601		
2	Food	331,880	6,232	237,897	\$4,484
3	Beverage	5,492,912	8,923		
4	Travel			1,929	579
5	Bus Program Cash	3,453	249		
6	Promotional Gaming Credits	571,579	46,259		
7	Complimentary Cash Gifts	682,414	3,183		
8	Entertainment	36,068	240	193	64
9	Retail & Non-Cash Gifts			360,266	3,566
10	Parking			529,915	2,120
11	Other			35,378	353
12	Total	7,433,920	\$107,687	1,165,578	\$11,166

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	113,863	\$19,525		
2	Food	114,362	2,182	89,957	\$1,716
3	Beverage	1,918,388	2,990		
4	Travel			534	160
5	Bus Program Cash	2,158	103		
6	Promotional Gaming Credits	215,658	17,669		
7	Complimentary Cash Gifts	231,288	1,358		
8	Entertainment	14,954	98	44	4
9	Retail & Non-Cash Gifts			128,522	1,274
10	Parking			195,688	783
11	Other			11,734	117
12	Total	2,610,671	\$43,925	426,479	\$4,054

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



# TROPICANA CASINO AND RESORT 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.

11/20/2018

Date



Mimi Jennings- Benvenuti

Vice President - Finance

Title

9749-11

License Number

On Behalf of:

TROPICANA CASINO AND RESORT  
Casino Licensee

**TROPICANA ATLANTIC CITY CORP.**  
**DBA TROPICANA CASINO AND RESORT**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited)**  
**(\$ in Thousands)**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

**Basis of Presentation**

The consolidated financial statements include the accounts of Tropicana Atlantic City Corp. ("the Company") and its wholly-owned subsidiary Tropicana AC Sub Corp. ("TAC Sub"), after elimination of all significant intercompany accounts and transactions.

The Company operates a casino hotel in Atlantic City, New Jersey ("the Property") and is a wholly owned subsidiary of Tropicana Entertainment, Inc. ("TE").

On March 8, 2010 ("the Acquisition Date"), the Tropicana Casino & Resort was acquired along with the other assets of Adamar of New Jersey, Inc. by TE ("the Acquisition"). The newly acquired company was formed as Tropicana Atlantic City Corp, a New Jersey corporation. Tropicana Atlantic City Corp. formed a wholly owned subsidiary, TAC Sub, a New Jersey corporation. The new corporations were formed in accordance with the terms of the Amended and Restated Purchase agreement that was approved by the United States Bankruptcy Court, District of New Jersey, on November 4, 2009 and the New Jersey Casino Control Commission ("NJCCC") on November 19, 2009.

In November 2013, the Company received authorization from the New Jersey Division of Gaming Enforcement to commence continuous, 24-hour Internet gaming ("IGaming") on its online gaming site, *TropicanaCasino.com*. Tropicana Atlantic City Online showcases a variety of slot game options and classic casino table games. Players have the opportunity to participate in community jackpots and to be rewarded with both on-property and online incentives and have the chance to participate in a variety of promotions. All participants must be 21 or older and physically located in the State of New Jersey to play.

On April 15, 2018, TE entered into a Real Estate Purchase Agreement (the "Real Estate Purchase Agreement") with GLP Capital, L.P., a Pennsylvania limited partnership ("GLP"), and an Agreement and Plan of Merger (the "Merger Agreement") with Eldorado Resorts, Inc., a Nevada corporation ("Parent"), Delta Merger Sub, Inc., a Delaware corporation ("Merger Sub"), and GLP, pursuant to which TE agreed to sell its real estate assets to GLP and its gaming and hotel operations to Parent for an aggregate consideration of approximately \$1.85 billion in cash, which amount is subject to adjustment, including for certain tax distributions payable by TE.

Subject to the terms of the Real Estate Purchase Agreement, TE agreed to sell the real property assets held by its subsidiaries, other than TE's operations and subsidiaries located in Aruba (the "Aruba Operations"), to GLP (the "Real Estate Purchase") for a purchase price of \$1.21 billion (the "Real Estate Purchase Price"). Immediately following the Real Estate Purchase, Merger Sub will be merged with and into TE, with TE continuing as the surviving corporation in the merger (the "Merger"). Following the consummation of the Merger, TE will be a wholly-owned subsidiary of Parent.

In connection with the transactions contemplated by the Real Estate Purchase Agreement and the Merger Agreement, TE agreed to use its reasonable efforts to cause the Aruba Operations to be distributed, transferred or disposed of prior to the closing of the transactions contemplated by the Real Estate Purchase Agreement and the Merger Agreement.

The closing of the transactions contemplated by the Real Estate Purchase Agreement and the Merger Agreement are subject to customary conditions, including, among other things, the receipt of certain regulatory and gaming approvals, and the transfer or disposal of the Aruba operations.

On October 1, 2018, the transactions contemplated by the Real Estate Purchase Agreement and the Merger Agreement were completed, along with the sale of the Aruba Operations. See Note 15 – Subsequent Events, for further discussion.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("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. Significant estimates incorporated in our consolidated financial statements include the estimated useful lives for depreciable and amortizable assets, the estimated allowance for doubtful accounts receivable, the estimated valuation allowance for deferred tax assets, certain tax liabilities, estimated cash flows in assessing the impairment of long-lived assets, intangible assets, New Jersey Casino Reinvestment Development Authority ("CRDA") investments, fair

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**  
**(Unaudited)**  
**(\$ in Thousands)**

values of acquired assets and liabilities, self-insured liability reserves, customer loyalty program reserves, contingencies, litigation, claims, assessments and loss contingencies. Actual results could differ from these estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash, cash on hand in the casino cages, money market funds and highly liquid investments with original maturities of three months or less.

Pursuant to N.J.A.C. 13:690-1.3(j) the Company maintains a separate New Jersey bank account to ensure security of funds held in patrons internet gaming accounts. On September 30, 2018 and 2017 the above mentioned account balance was \$1,189 and \$2,389 respectively which included patron's deposits in IGaming accounts of \$582 and \$441, respectively.

### **Receivables**

Receivables consist primarily of casino, hotel and other receivables, net of an allowance for doubtful accounts. Receivables are typically non-interest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible. An estimated allowance for doubtful accounts is maintained to reduce the Company's receivables to their expected realization, which approximates fair value. The allowance is estimated based on specific review of customer accounts as well as historical collection experience and current economic and business conditions. Recoveries of accounts previously written off are recorded when received.

### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalent accounts maintained in financial institutions and accounts receivable. Bank accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 or with the Securities Investor Protection Corporation up to \$500,000. Concentration of credit risk, with respect to casino receivables, is limited through the Company's credit evaluation process. The Company issues markers to approved casino customers following credit checks and investigation of credit worthiness.

### **Inventories**

Inventories, which consist primarily of food, beverage, uniforms and operating supplies, are stated at the lower of cost or net realizable value, in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2015-11, *Simplifying the Measurement of Inventory*. ASU No. 2015-11 was adopted by the Company prospectively on January 1, 2017, and did not have any impact on our consolidated financial position, results of operations, cash flows or disclosures. Costs are principally determined using the average cost method.

### **Property and Equipment**

Property and equipment under business combination guidance is stated at fair value as of the Acquisition Date. Property and equipment acquired subsequent to the Acquisition Date is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets or, for capital leases and leasehold improvements, over the shorter of the asset's useful life or the term of the lease. Gains or losses on disposals of assets are recognized as incurred. Costs of major improvements are capitalized, while costs of normal repairs and maintenance are expensed as incurred.

The Company must make estimates and assumptions when accounting for capital expenditures. Whether an expenditure is considered a maintenance expense or a capital asset is a matter of judgment. In contrast to normal repair and maintenance costs that are expensed when incurred, items the Company classifies as maintenance capital are expenditures necessary to keep its existing properties at their current levels and are typically replacement items due to the normal wear and tear of its properties and equipment as a result of use and age. The Company's depreciation expense is highly dependent on the assumptions it makes about its assets' estimated useful lives. The Company determines the estimated useful lives based on its experience with similar assets, engineering studies and its estimate of the usage of the asset. Whenever events or circumstances occur that change the estimated useful life of an asset, the Company accounts for the change prospectively.

### **CRDA Investment**

The CRDA deposits are carried at fair value. The CRDA deposits are recorded at fair value and are used to purchase CRDA bonds that carry below market interest rates unless an alternative investment is approved. A valuation allowance is established, unless there is an agreement with the CRDA for a return of the deposit at full face value, by a charge to the statement of

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**(\$ in Thousands)**

income. If the CRDA deposits are used to purchase CRDA bonds, the valuation allowance is transferred to the bonds as a discount, which is amortized to interest income using the interest method. If the CRDA deposits are used to make other investments, the valuation allowance is transferred to those investments and remains a valuation allowance. The CRDA bonds are classified as held-to-maturity securities and are carried at amortized cost less any adjustments for other than temporary impairments.

As a result of the NJ PILOT Law, which was enacted in May 2016, the portion of investment alternative tax payments made by casino operators which are deposited with the CRDA and which have not been pledged for the payment of bonds issued by the CRDA will be allocated to the State of New Jersey for purposes of paying debt service on bonds previously issued by Atlantic City. That portion of the deposits which will be allocated to the State of New Jersey are no longer recorded as an investment with a corresponding allowance, but are charged directly to expense.

#### **Leasing Costs**

Leasing costs are capitalized as incurred and amortized evenly, as a reduction to rental income, over the related lease terms. Leasing costs consist primarily of tenant allowances, which are incentives provided to tenants whereby the Company agrees to pay certain amounts toward tenant leasehold improvements or other tenant development costs. Leasing costs are included in Other Assets on the balance sheet.

#### **Valuation of Long-Lived Assets**

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances warrant such a review. The carrying value of a long-lived or amortizable intangible asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset.

#### **Intangible Assets**

The Company's definite life intangible assets include customer lists and favorable lease agreements. Intangible assets with a definite life are amortized over their useful life, which is the period over which the asset is expected to contribute directly or indirectly to future cash flows. Management periodically assesses the amortization period of intangible assets with definite lives based upon estimated future cash flows from related operations.

#### **Self-Insurance Reserves**

The Company is self-insured up to certain stop loss amounts for employee health coverage, workers' compensation and general liability claims. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported as estimated by management with the assistance of a third party. In estimating these accruals, historical loss experience is considered and judgments are made about the expected levels of costs per claim. The Company believes its estimates of future liability are reasonable based upon its methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimates for these liabilities. The Company continually monitors changes in claim type and incident and evaluates the insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points. The Company's accrual for general liability claims was approximately \$1,846 and \$1,723 at September 30, 2018 and 2017, respectively. The Company's accrual for workers compensation and employee health insurance claims was approximately \$6,704 and \$5,973 at September 30, 2018 and 2017, respectively.

#### **Revenue Recognition and Customer Loyalty Programs**

The Company's revenue contracts with customers consist primarily of gaming wagers, hotel room sales, food and beverage transactions, and sales of other retail goods and services. Casino revenue represents the difference between wins and losses from gaming activities. The Company applies a practical expedient by accounting for gaming contracts on a portfolio basis, rather than as individual contracts, as gaming wagers have similar characteristics and the Company reasonably expects the effects on the financial statements will not differ materially from that which would result if applying the revenue recognition standard to each individual wagering transaction. Room, food and beverage and other operating revenues are recognized at the time the goods or services are provided, and are recorded net of any sales, use and other applicable taxes that are collected by the Company at the point of sale.

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The Company's gaming wager contracts involve multiple performance obligations for those customers who participate in the Company's loyalty programs (the "Programs"). Under the Programs, customers earn points from their gaming wager activities, which may be redeemed, subject to certain limitations and the terms of the programs, for free slot play, cash, food, beverages, rooms or merchandise. For purposes of allocating the transaction price in a wagering transaction between the gaming performance obligation and the obligation associated with the loyalty points earned, the Company determines the stand-alone selling price of the loyalty points earned, which is the retail value of the free slot play, services or merchandise for which points can be redeemed. Since the stand-alone selling price for wagers is highly variable and no set established price can be determined for such wagers, the amount of revenue allocated to the gaming wager is determined using the residual approach, after determining the value of the loyalty points. The gaming revenue is recognized when the wagers occur; the loyalty point liability amount is deferred and recognized as revenue when the customer redeems their points, at the retail value of rooms, food and beverage or other goods and services. See "Adoption of New Accounting Standards", below, for discussion of the impact of the adoption of ASC 606 as of January 1, 2018.

As of September 30, 2018 and 2017, the Company had recorded liabilities of \$3,627 and \$3,758, respectively, for outstanding loyalty points under the Programs.

### **Internet Gaming Operations**

On November 21, 2013 the Company commenced online gaming operations with Gamesys Limited ("Gamesys") as our exclusive internet provider. The Company currently offers two online gaming brands [TropicanaCasino.com](http://TropicanaCasino.com) and [VirginCasino.com](http://VirginCasino.com). IGaming casino revenues represent the difference between wins and losses from online gaming activities and are recognized net of internet revenues from the Virgin Casino site as a component of Casino Revenue in the Statements of Income. The Company makes cash promotional offers to certain of its IGaming 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.

The State of New Jersey imposes an annual tax of 15% on IGaming gross revenue. These taxes along with expenses for software & licensing fees, royalty fees and payment processing fees are recorded as a component of Casino costs & expenses. Certain legal, marketing, advertising and administrative fees associated with the setup and ongoing support of IGaming are reflected in General, Administrative and Other on the Statements of Income.

An Internet Gaming Permit Fee at a minimum of \$250 along with a Responsible Internet Gaming Fee of \$250 is required annually. These fees are treated as prepaid expenses and are amortized over the year. IGaming licensees are also required to invest an additional 2.5% of iGaming gross revenue to satisfy investment obligations with the CRDA.

### **Advertising Costs**

The Company expenses advertising costs as incurred or the first time the advertising takes place. Advertising expense is generally recognized in General, Administrative and Other on the Statements of Income and totaled \$5,871 and \$6,984 for the nine months ended September 30, 2018 and 2017, respectively.

### **Income taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between 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 tax rates on deferred tax assets and liabilities is recognized in income in the period that included the enactment date. Future tax benefits are recognized to the extent that realization of those benefits is considered more likely than not, and a valuation allowance is established for deferred tax assets which do not meet this threshold. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes.

### **Fair Value of Financial Instruments**

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly,

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estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

**Adoption of New Accounting Standards**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This ASU was amended by ASU No. 2015-14, issued in August 2015, which deferred the original effective date by one year; the effective date is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, using one of two retrospective application methods. In addition, the FASB issued several other amendments during 2016 to FASB ASC Topic 606, *Revenue from Contracts with Customers* that include implementation guidance to principal versus agent considerations, guidance to identifying performance obligations, licensing guidance, technical guidance and other narrow scope improvements.

This standard provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services provided to the customer. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The Company adopted this standard on January 1, 2018, using the full retrospective method, which required the restatement of prior period results reported. The adoption of this standard principally affects the presentation of rewards earned and redeemed by our customers under our loyalty programs. Under the new standard, incentives earned by our customers as a result of their gaming activity under our loyalty programs creates a separate performance obligation, which requires the deferral of a portion of the gaming revenue for the value of that obligation. When the customer redeems the incentives and the performance obligation is fulfilled, the deferred revenue is recognized in the venue that provides the goods or services (for example, hotel, food, beverage, or other) at the retail value of the goods or services provided. Before the adoption of this standard, loyalty program redemptions were recorded as complimentary revenues within the venue of redemption, with a corresponding deduction through promotional allowances. As a result of the adoption of this standard, the deduction for promotional allowances is eliminated.

The standard also requires the deferred revenue obligation to be measured at the expected retail value of the benefits owed to the customer, adjusted for expected redemptions ("breakage") by customers; previously, the liability for loyalty program incentives was measured at the anticipated cost of the benefits to be provided, adjusted for expected breakage. As a result of the adoption of this standard, the deferred revenue obligation for incentives earned but not yet redeemed by our customers initially increased by approximately \$1.4 million.

In addition, the adoption of this standard requires certain adjustments and other reclassifications within revenue and expense categories on our statement of income, which did not impact our previously reported operating income or net income.

**Recently Issued Accounting Standards**

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases*. This ASU requires the recognition of right-of-use assets and lease liabilities, measured at the present value of the future minimum lease payments, by lessees for those leases classified as operating leases under previous guidance. In addition, among other changes to the accounting for leases, this ASU retains the distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous guidance. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments in this ASU should be applied using a modified retrospective approach. Early application is permitted. We believe the most significant impact will relate to the recognition of right-of-use assets and lease liabilities on our consolidated balance sheets for long-term operating leases. We anticipate our assessment and implementation plan to be ongoing during the remainder of 2018.

A variety of proposed or otherwise potential accounting standards are currently under consideration by standard-setting organizations and certain regulatory agencies. Because of the tentative and preliminary nature of such proposed standards, we have not yet determined the effect, if any, that the implementation of such proposed standards would have on our financial statements.

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**Disclosures Not Presented**

In accordance with the Division of Gaming Enforcement Financial Reporting guidelines, the Company has elected not to include certain disclosures which have not changed significantly since the most recent Annual Report filing. Accordingly, the following disclosures have been omitted: Fair Value of Financial Instruments and Income Taxes.

**NOTE 2. PROPERTY AND EQUIPMENT**

Property and Equipment consist of the following (in thousands):

	September 30,	
	2018	2017
Land and land improvements	\$ 69,691	\$ 69,694
Building and improvements	196,391	166,700
Furniture, fixtures and equipment	123,471	105,846
Construction in progress	5,281	14,335
Total property and equipment-gross	394,834	356,575
Less: accumulated depreciation and amortization	(146,770)	(118,911)
 Total property and equipment	 <u>\$ 248,064</u>	 <u>\$ 237,664</u>

Depreciation expense related to property and equipment was \$22,569 and \$19,316 for the nine months ended September 30, 2018 and 2017 respectively.

**NOTE 3. OTHER CURRENT ASSETS**

Other Current Assets consist of the following (in thousands):

	September 30,	
	2018	2017
Prepaid insurance	\$ 613	\$ 686
Prepaid taxes & licenses	1,202	1,176
Prepaid special events	1,496	38
Other	1,249	1,667
 Total other current assets	 <u>\$ 4,560</u>	 <u>\$ 3,567</u>

**NOTE 4. INVESTMENTS**

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues and 2.5% on IGaming gross revenue in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues and 5% on IGaming gross revenue. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. 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-third of market value.

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CRDA Investments consist of the following (in thousands):

	September 30,	
	2018	2017
Investment in bonds-CRDA	\$ 18,869	\$ 18,794
Less unamortized discount	(8,025)	(4,294)
Less valuation allowance	(4,644)	(4,432)
Deposits - CRDA	1,592	2,345
Less valuation allowance	(1,105)	(1,162)
Direct investment - CRDA	2,192	2,037
Less valuation allowance	(2,192)	(2,037)
 Total CRDA investments	 \$ 6,687	 \$ 11,251

The CRDA bonds have various contractual maturities that range up to 40 years. Actual maturities may differ from contractual maturities because of prepayment rights. The Company treats CRDA bonds 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 initially recorded at a discount in order to approximate fair value.

After the initial determination of fair value, the Company analyzes the CRDA bonds for recoverability on a quarterly basis based on management's historical collection experience and other information received from the CRDA. If indications exist that the CRDA bond is not fully recoverable, additional valuation allowances are recorded.

Funds on deposit with the CRDA are held in an interest bearing account by the CRDA. Interest is earned at the stated rate that approximates two-thirds of the current market rate for similar assets. The Company records charges to expense to reflect the lower return on investment and records the deposit at fair value on the date the deposit obligation arises. During the nine months ended September 30, 2018 and 2017, the Company recorded expense of \$987 and a reduction of expense of \$715, respectively, representing changes in these investment reserves, which is included in CRDA Related Income/(Expense) – Net on the accompanying statements of income.

As a result of the NJ PILOT Law, which was enacted in May 2016 (see further discussion in Note 7, Commitments and Contingencies, NJ PILOT Law), the portion of investment alternative tax payments made by casino operators which are deposited with the CRDA and which have not been pledged for the payment of bonds issued by the CRDA will be allocated to the State of New Jersey for purposes of paying debt service on bonds previously issued by Atlantic City. That portion of the deposits which will be allocated to the State of New Jersey are no longer recorded as an investment with a corresponding valuation allowance, but are charged directly to expenses. During the nine months ended September 30, 2018 and 2017, the Company recorded expense of \$2,822 and \$2,955, respectively, representing that portion of investment alternative tax payments that are allocated to the State of New Jersey under the NJ PILOT Law and have no future value to the Company. This expense is included in CRDA Related Income/(Expense) – Net on the accompanying statements of income.

In 2014, the Company was approved to use up to \$18,800 of CRDA deposits ("Approved CRDA Project Funds") for certain capital expenditures relating to the property. In April 2016, the CRDA approved an application by the Company to increase the scope of the approved project to include additional project elements and amend the CRDA grant agreement to permit an \$8,000 increase in the CRDA fund reservation and corresponding increase in the Approved CRDA Project Funds from \$18,800 to \$26,800, and a rescheduled substantial completion date for the project to no later than June 30, 2017. In exchange for the approval, the Company agreed to donate the balance of its CRDA deposits in the amount of approximately \$7,068 to the CRDA pursuant to NJSA 5:12-177. The project was completed by June 30, 2017, and all funds due to the Company under this agreement were received in full by December 31, 2017.



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**NOTE 5. OTHER ASSETS**

Other Assets consists of the following (in thousands):

	September 30,	
	2018	2017
Deferred tax asset- non current	\$ 83,031	\$ 156,173
Intangible assets	3,750	6,250
Other	5,370	3,302
	<u>5,370</u>	<u>3,302</u>
Total other current assets	<u>\$ 92,151</u>	<u>\$ 165,725</u>

Intangible assets represent the Company's unamortized value of the Taj Mahal customer database, which was purchased on March 31, 2017, and is being amortized over a period of three years (see Note 8 – Related Parties”).

**NOTE 6. DEBT**

TE has long-term debt where the Company is a guarantor and substantially all of the Company's property and equipment is pledged as collateral. As a result, a portion of TE's debt and unamortized debt discount is allocated to the Company based on total asset valuation.

The Company's allocated portion of TE's long-term debt consisted of the following (in thousands):

	September 30,	
	2018	2017
TE Term Loan Facility; due 2020, 7.3% and 4.2% at September 30, 2018 and 2017, respectively, net of unamortized discount of \$27 and \$102 at September 30, 2018 and 2017, respectively and debt issuance costs of \$86 and \$309 at September 30, 2018 and 2017, respectively	\$ 16,976	\$ 43,803
Less : current portion	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 16,976</u>	<u>\$ 43,803</u>

On November 27, 2013, TE entered into a senior secured first lien term loan facility in an aggregate principal amount of \$300 million, issued at a discount of 0.5% (the “Term Loan Facility”) and a senior secured first lien revolving credit facility in an aggregate principal amount of \$15 million (the “Revolving Facility” and, together with the Term Loan Facility, the “Credit Facilities”). Commencing on December 31, 2013, the Term Loan Facility is amortized in equal quarterly installments in an amount of \$750, with any remaining balance payable on the final maturity date of the Term Loan Facility, which is November 27, 2020. TE allocates its debt and unamortized debt discount to its subsidiaries based on the portion of collateralized assets at each subsidiary.

The Revolving Facility was terminated by TE effective March 31, 2017, in accordance with the terms of the Credit Agreement. There were no amounts outstanding under the Revolving Facility at the time of the termination.

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The Term Loan Facility accrues interest at a floating per annum rate (as defined in the Credit Agreement) such that the applicable interest rate shall not be less than 4.0%. As of September 30, 2018, the interest rate on the Term Loan Facility was 7.3%.

The Term Loan Facility may be prepaid at the option of TE at any time without penalty (other than customary LIBO Rate breakage fees). In September, 2017 and December 2017, TE made optional prepayments of principal on the Term Loan Facility of \$125 million and \$25 million, respectively. In addition, TE made optional prepayments of principal on the Term Loan Facility of \$50 million in May 2018 and \$25 million in July 2018. Under the terms of the Term Loan Facility, the optional prepayments are applied first to the next four quarterly mandatory principal payments, and second, to reduce on a pro-rata basis, the remaining scheduled principal payments. As a result of the optional prepayments, TE wrote off a portion of the debt issuance costs and discount.

Key covenants binding TE and its subsidiaries include limitations on indebtedness, liens, investments, acquisitions, asset sales, dividends and other restricted payments, and affiliate and extraordinary transactions. Key default provisions include failure to repay principal, interest, fees and other amounts owing under the facility, cross default to certain other indebtedness, the rendering of certain judgments against TE or its subsidiaries, failure of security documents to create valid liens on property securing the Term Loan Facility and to perfect such liens, revocation of casino, gambling, or gaming licenses, TE's or its material subsidiaries' bankruptcy or insolvency; and the occurrence of a Change of Control (as defined in the Credit Agreement). Many defaults are also subject to cure periods prior to such default giving rise to the right of the lenders to accelerate the loans and to exercise remedies. TE was in compliance with the covenants of the Term Loan Facility at September 30, 2018.

#### **NOTE 7. COMMITMENTS AND CONTINGENCIES**

##### **Licensing**

On November 10, 2010, the Company was granted its plenary casino license by the New Jersey Casino Control Commission. In accordance with N.J.S.A. 5:12-87.1, which requires casino licensees to resubmit information to the New Jersey Division of Gaming Enforcement ("NJDE") every five (5) years in connection with continuation of its casino license, on March 10, 2016, the Division found that Tropicana continued to meet the statutory requirements of N.J.S.A. 5:12-84 and 85 for retention of its casino license.

The State of New Jersey imposes an annual tax of 8% on gross casino revenue and, commencing with the operations of IGaming, an annual tax of 15% on IGaming gross revenue. Pursuant to legislation adopted in 1984, casino license holders or IGaming permit holders are required to invest an additional 1.25% of gross casino revenue and 2.5% of IGaming gross revenue for the purchase of bonds to be issued by the CRDA or to make other approved investments equal to those amounts; and in the event the investment requirement is not met, the casino license holder or IGaming permit holder is subject to a tax of 2.5% on gross casino revenue and 5.0% on IGaming gross revenue. As mandated by the legislation, the interest rate of the CRDA bonds purchased by the licensee will be two-thirds of the average market rate for bonds available for purchase and published by a national bond index at the time of the CRDA bond issuance.

##### **2011 Legislation**

On February 1, 2011, New Jersey enacted legislation (the "Tourism District Bill") that delegated redevelopment authority and creation of a master plan to the CRDA and allowed the CRDA the ability to enter into a five year public private partnership with the casinos in Atlantic City that have formed the Atlantic City Alliance ("ACA") to jointly market the city. The legislation obligated the Atlantic City casinos either through the ACA or, if not a member of the ACA, through individual assessments, to provide funding for the Tourism District Bill in the aggregate amount of \$30.0 million annually through 2016. Each Atlantic City casino's proportionate share of the assessment was based on the gross revenue generated in the preceding fiscal year (see NJ PILOT Law for further discussion of the ACA).

##### **NJ PILOT Law**

On May 27, 2016, New Jersey enacted the Casino Property Tax Stabilization Act (the "NJ PILOT Law") which exempted Atlantic City casino gaming properties from ad valorem property taxation in exchange for an agreement to make annual payment in lieu of tax payments ("PILOT Payments") to the City of Atlantic City, made certain changes to the NJ Tourism District Law and redirected certain IAT payments to assist in the stabilization of Atlantic City finances. Under the NJ PILOT Law, commencing in 2017 and for a period of ten (10) years, each Atlantic City casino gaming property (as defined in the NJ

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PILOT Law) is required to pay its prorated share of an aggregate amount of PILOT Payments based on an equal weighted formula that includes the following criteria: the gross gaming revenues ("GGR") of the casino, the total number of hotel guest rooms and the geographic footprint of the real property owned by each casino gaming property. For calendar year 2017, the aggregate amount of PILOT Payments owed to the City of Atlantic City by Atlantic City casino gaming properties was \$120 million, prorated among casino properties based upon the above factors. Commencing in 2018 and for each year thereafter, the aggregate amount of PILOT Payments owed will be determined based on a sliding scale of Atlantic City casino industry GGR from the applicable prior year, subject to certain adjustments. Based on the industry GGR for 2017, the aggregate amount of PILOT Payments owed to the City of Atlantic City by Atlantic City casino gaming properties for calendar year 2018 will be \$130 million. For each year from 2017 through 2021, each casino gaming property's prorated share of PILOT Payments is capped (the "PILOT CAP") at an amount equal to the real estate taxes due and payable in calendar year 2015, which is calculated based upon the assessed value of the casino gaming property for real estate tax purposes and tax rate.

On August 1, 2017, the Company, the City of Atlantic City and the New Jersey Department of Community Affairs entered into a Real Estate Tax Appeal Settlement Agreement (the "Settlement Agreement"), pursuant to which the parties agreed to settle the Company's 2015 and 2016 real estate tax appeals pending before the Tax Court of New Jersey (the "Pending Tax Appeals"). The Settlement Agreement, among other things, provided for refunds in the aggregate amount of \$36,765 in respect of the Pending Tax Appeals and the Company's 2017 PILOT Payment. The Company received full payment of the refunds in early October 2017. In addition, the Settlement Agreement provides for a reduction in the assessed value of the Company for real estate tax purposes for calendar year 2015, including a corresponding reduction to the Company's PILOT CAP for each of calendar years 2018 through 2021, from \$19,848 to \$8,384, and the expense associated with the Company's PILOT Payments for each of the calendar years 2018 through 2021.

The NJ PILOT Law also provides for the abolishment of the ACA effective as of January 1, 2015 and redirection of the \$30 million in ACA funds paid by the casinos for each of the years 2015 and 2016 under the Tourism District Law to the State of New Jersey for Atlantic City fiscal relief and further payments of \$15 million in 2017, \$10 million in 2018 and \$5 million for each year between 2019 and 2023 to Atlantic City.

In addition, the NJ PILOT Law also provides for IAT payments made by the casino operators since the effective date of the NJ PILOT Law, which were previously deposited with the CRDA and which have not been pledged for the payment of bonds issued by the CRDA, or any bonds issued to refund such bonds, to be allocated to the State of New Jersey for purposes of paying debt service on bonds previously issued by Atlantic City.

The NJ PILOT Law is the subject of litigation pending in the Superior Court of New Jersey, Atlantic County Law Division, which challenges the validity of the law and/or portions of it. In the event the litigation is successful in overturning the NJ PILOT Law (or portions of it), such a ruling, if upheld on appeal, could have a future financial impact on the Company, including whether the Company continues to make PILOT Payments under the current law, is subject to future ad valorem property taxation, or some other mechanism for payments in lieu of taxes, and the amount of payments under any such alternative statutory schemes.

**Other**

The Company is a party to various claims, legal actions and complaints arising in the ordinary course of business or asserted by way of defense or counter-claim in actions filed by the Company. Management believes that its defenses are substantial in each of these matters, and the Company's legal posture can be successfully defended or satisfactorily settled without material adverse effect on its consolidated financial position, results of operations or cash flows.

**NOTE 8. RELATED PARTIES**

Advances to affiliates are reflected in Investments, Advances and Receivables. The identity of the affiliate and corresponding balances at September 30, 2018 and 2017 are as follows (in thousands):

	September 30,	
	2018	2017
Due from Tropicana Entertainment Inc.	\$ 215,417	\$ 156,668
Due from TEI (ES) LLC	1,030	728
Due from Centroplex- Baton Rouge	459	363

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Due from Evansville	421	266
Due to Affiliates	\$ 217,327	\$ 158,025

Transactions with TE include activity principally related to the Term Loan Facility, joint insurance programs, federal income tax filings, and other administrative services. The Company operates a Reservation Call Center for which it charges the Lumiere Hotel ("TEI (ES), LLC"), Centroplex Baton Rouge, and Tropicana Evansville a fee for the services provided. TEI (ES) LLC, Centroplex Baton Rouge, and Tropicana Evansville are wholly owned Subsidiaries of TE.

Various corporate services were provided to the Company in the nine months ended September 30, 2018 and 2017 for which a management fee was charged. For the nine months ended September 30, 2018 and 2017 the Company recorded a management fee of \$6,621 and \$5,314 respectively.

Effective October 1, 2016, the Company and Trump Entertainment Resorts, Inc. ("TER") entered into a Database License Agreement pursuant to which the Company licensed the Taj Mahal customer database from TER. On March 31, 2017 the Company and TER agreed to terminate the Database License Agreement and TE entered into a Customer Database and IP Sales Agreement, pursuant to which TE purchased the Taj Mahal customer database. TE has estimated the value of the customer database to be \$7,500, which was recorded on the Company's balance sheet as of March 31, 2017, and amortized on a straight-line basis over three years, commencing April 1, 2017. The amortization expense is recognized in Depreciation and Amortization on the statements of income and totaled \$1,875 and \$1,250 for the nine months ended September 30, 2018 and 2017, respectively.

Effective April 1, 2017, the Company entered into a services agreement with TER (the "Services Agreement"), pursuant to which the Company performs certain administrative services for TER related to TTMA and Plaza Associates on a month to month basis in exchange for a one-time service fee in the amount of \$600, which was paid on March 31, 2017. The Services Agreement, which originally had a one year term, was amended in March 2018 to extend the expiration to December 31, 2018. During the extension period, TER will pay the Company a service fee of \$50 per month for each month during the extended term. The terms of the Services Agreement allow either party to terminate the Services Agreement during the extended term upon thirty days advance written notice to the other party.

In accordance with the terms of the Services Agreement, the Company elected to terminate the agreement, effective September 30, 2018.

On June 27, 2017, IEP Morris LLC ("IEP Morris"), an affiliate of Icahn Enterprises, and the Company entered into a short term triple net lease agreement with annual rent of ten dollars (\$10) (the "Lease Agreement"), pursuant to which the Company leased the property formerly known as The Chelsea Hotel, located in Atlantic City ("The Chelsea") from IEP Morris. The Lease Agreement was terminated on July 6, 2017, at which time the Company paid IEP Morris \$5,482 for an assignment of a mortgage on The Chelsea and rights under certain other related agreements, pursuant to which The Chelsea was acquired by IEP Morris. On July 6, 2017, the Company recorded a deed from IEP Morris conveying title to The Chelsea to the Company.

**NOTE 9. LEASES**

For the nine months ended September 30, 2018 and 2017, the Company recorded, as a component of Other Revenue on the Statements of Income, rental revenue of \$4,310 and \$4,348 respectively.

The future minimum lease payments to be received under non-cancelable operating leases for the three months and years subsequent to September 30, 2018 are as follows (in thousands):

2018	\$1,099
2019	4,488
2020	3,247
2021	3,046
2022	2,808
Thereafter	3,859

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Total	<u>\$18,547</u>
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The above minimum rental income does not include contingent rental income or common area maintenance costs contained within certain retail operating leases.

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**NOTE 10. OTHER ACCRUED EXPENSES**

Other Accrued Expenses consist of the following (in thousands):

	September 30,	
	2018	2017
Accrued payroll, taxes, and benefits	\$ 8,918	\$ 19,883
Insurance Reserves	8,550	7,696
Accrued comp liability	3,627	3,758
Accrued Taxes	2,812	2,730
Other	3,412	2,333
	<u>3,412</u>	<u>2,333</u>
Total other accrued expenses	<u>\$ 27,319</u>	<u>\$ 36,400</u>

**NOTE 11. OTHER CURRENT LIABILITIES**

Other Current Liabilities consist of the following (in thousands):

	September 30,	
	2018	2017
Chip liability	\$ 3,421	\$ 2,180
Other	5,555	8,734
	<u>5,555</u>	<u>8,734</u>
Total other current liabilities	<u>\$ 8,976</u>	<u>\$ 10,914</u>

**NOTE 12. NON-OPERATING INCOME/EXPENSE**

Non-operating Income/(Expense) consists of the following (in thousands):

	September 30,	
	2018	2017
Interest income	\$ 204	\$ 390
Loss on disposal of asset	(81)	(158)
Property tax settlement	-	23,449
Other non- operating income	115	-
	<u>115</u>	<u>-</u>
Total non-operating expense/(income)	<u>\$ 238</u>	<u>\$ 23,681</u>

**NOTE 13. EMPLOYEE BENEFIT PLAN**

In connection with the collective bargaining agreement and related settlement agreement (the "Settlement Agreement") that was executed in May 2014 between the Company and UNITE HERE Local 54 ("Local 54"), the parties agreed that the Company would establish a Variable Annuity Pension Plan ("VAPP"), a defined benefit pension plan, for certain Local 54 employees. The VAPP became effective on August 8, 2017 upon receipt of a favorable determination from the Internal Revenue Service ("IRS") and formal adoption of the VAPP by the Company.

Pursuant to the provisions of the VAPP, qualifying individuals became participants in the VAPP on January 1, 2018. Therefore, there were no VAPP participants as of December 31, 2017 and hence no benefits had accrued under the VAPP as of

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December 31, 2017. Once an employee becomes a participant in the VAPP, in certain circumstances his or her benefit may take into account years of prior service with the Company on or after February 1, 2014. The VAPP is administered by a Retirement Committee composed of an equal number of members appointed by the Company and Local 54. The VAPP is intended to provide certain eligible Local 54 employees with retirement benefits in accordance with the VAPP. In accordance with the Settlement Agreement, the Company was required to initially fund the VAPP with contributions in the amount of \$1.93 per hour for each straight time hour paid to regular employees covered by the collective bargaining agreement during the period commencing February 1, 2014 through and including August 8, 2017. Contributions to the VAPP through the end of the current collective bargaining agreement of February 29, 2020, will be calculated at \$1.93 per straight time hour paid to employees covered by the agreement.

Based on the Settlement Agreement, the Company made a payment to initially fund the VAPP on January 1, 2018 in the amount of \$10,754. In September 2018, the Company contributed an additional \$3.4 million to fund the VAPP for the current year. Commencing in 2018, with the introduction of participants into the VAPP, pension expenses are calculated using actuarial assumptions, including an expected long-term rate of return on assets and discount rate, based on a long-term investment strategy that will be developed by the Retirement Committee. The Company will evaluate all of the actuarial assumptions, generally on an annual basis, and will adjust as necessary. Actual pension expense will depend on future investment performance, changes in future discount rates, the level of contributions and various other factors.

The components of the net periodic benefit cost relating to the VAPP consist of the following (in thousands):

	<b>Nine Months Ended Sept 30, 2018</b>
Service costs	\$ 2,346
Interest costs	362
Expected return on plan assets	(431)
Amortization of net (gain) loss	(45)
Net periodic benefit cost	\$ 2,232

The change in the projected benefit obligation, change in plan asset and funded status is as follows (in thousands):

	<b>Nine Months Ended Sept 30, 2018</b>
Change in benefit obligations:	
Projected benefit obligation beginning of period	\$ 9,654
Service and interest cost during period	2,707
Benefit payments during period	(33)
Expenses during period	(315)
Projected benefit obligation end of period	\$ 12,013
Change in plan assets:	
Fair value of plan assets at beginning of period	\$ 10,754
Expected return on plan assets during period	431
Benefit payments during period	(33)
Expenses during period	(315)
Employer contributions	3,400
Fair value of plan assets at end of period	\$ 14,237
Funded status at end of period	\$ 2,224

Actuarial assumptions used to determine the benefit obligations for the VAPP include a discount rate of 5.0% pre-retirement

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and a discount rate of 3.0% post-retirement, which, as defined in the Settlement Agreement, will result in no adjustments to the plan benefit. The expected return on plan assets used was 5.0%.

As of September 30, 2018, the Retirement Committee had not developed a formal investment policy for the VAPP. Therefore, the payment made to initially fund the VAPP of \$14.1 million is currently held in a bank account which invests the funds in short term money market funds. The amount held in the account at September 30, 2018 of \$14.3 million represents cash and cash equivalents, which approximate the fair value of the plan assets, and would be considered a Level 1 asset within the fair value hierarchy classification.

Future estimated expected benefit payments for 2018 through 2027 are as follows (in thousands):

	<u>Expected Benefit Payments</u>
2018	\$ 83
2019	107
2020	142
2021	203
2022	288
2023 through 2027	<u>2,899</u>
	<u>\$ 3,722</u>

The Company's net periodic pension cost for the year ended December 31, 2018 is expected to be approximately \$3.0 million.

**NOTE 14. OTHER COMPREHENSIVE INCOME**

The following table presents the changes in the components of accumulated other comprehensive income for the nine months ended September 30, 2018 (in thousands):

	<u>Defined Benefit Pension Plan</u>	<u>Accumulated Other Comprehensive Income</u>
Accumulated other comprehensive income, beginning of period	\$ —	\$ —
Actuarial gain, net of tax effect of \$405	1,540	1,540
Amortization of net actuarial gain	<u>(45)</u>	<u>(45)</u>
Accumulated other comprehensive income, end of period	<u>\$ 1,495</u>	<u>\$ 1,495</u>



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**(\$ In Thousands)**

**NOTE 15. SUBSEQUENT EVENTS**

**Eldorado Resorts, Inc. / TE Merger**

Pursuant to Casino Control Commission Resolution No. 18-09-12-14, on September 12, 2018, Eldorado Resorts, Inc. (“ERI”) and Merger Sub were issued Interim Casino Authorization (ICA) approving the Company to become a wholly-owned indirect subsidiary of ERI and for TE to become a wholly-owned direct subsidiary of ERI and an intermediary holding company of the Company.

On October 1, 2018, the transactions contemplated in the Real Estate Purchase Agreement, as amended, and the Merger Agreement (as discussed in Note 1) were consummated, including the sale of TE’s Aruba Operations. Immediately following the consummation of the Real Estate Purchase Agreement, Merger Sub merged with and into TE, with TE as the surviving entity. Accordingly, as a result of the Merger, TE became a wholly-owned subsidiary of ERI.

**Sports Book**

The Company’s Sports Wagering License was issued by the NJDGE and became effective on October 25, 2018. The Company’s Sports Book is operated by William Hill New Jersey, Inc. (“William Hill”) pursuant to an operating lease dated August 23, 2018 with the Company, which has been submitted to the NJDGE. The Company and William Hill are transacting sports wagering business in accordance with a Transactional Waiver approved by the NJDGE on October 24, 2018.