

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2019

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



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

HARD ROCK HOTEL & CASINO BALANCE SHEETS

AS OF SEPTEMBER 30, 2019 AND 2018*

(UNAUDITED)

(\$ IN THOUSANDS)

Amended 6/15/20

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	2	\$34,573	\$22,009
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2019, \$3,668; 2018, \$250).....	2, 3	30,639	17,934
4	Inventories	2	2,229	1,930
5	Other Current Assets.....	9	13,470	7,188
6	Total Current Assets.....		80,911	49,061
7	Investments, Advances, and Receivables.....			
8	Property and Equipment - Gross.....	2,4	565,733	572,528
9	Less: Accumulated Depreciation and Amortization.....	4	(65,709)	(8,294)
10	Property and Equipment - Net.....	4	500,024	564,234
11	Other Assets.....	9	4,135	3,930
12	Total Assets.....		\$585,070	\$617,225
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$6,202	\$23,675
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....			
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	5	22,186	76,839
19	Other Current Liabilities.....	2, 6, 8	53,615	21,536
20	Total Current Liabilities.....		82,003	122,050
	Long-Term Debt:			
21	Due to Affiliates.....	7	518,719	426,682
22	External.....			
23	Deferred Credits			
24	Other Liabilities.....	2	16,172	8,000
25	Commitments and Contingencies.....			
26	Total Liabilities.....		616,894	556,732
27	Stockholders', Partners', or Proprietor's Equity.....		(31,824)	60,493
28	Total Liabilities and Equity.....		\$585,070	\$617,225

* The Company commenced gaming operations on June 25, 2018.

** Amounts indicated with asterisks have been restated to conform to the 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.

HARD ROCK HOTEL & CASINO

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018*

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino.....		\$134,265	\$43,079
2	Rooms.....		56,856	15,451
3	Food and Beverage.....		64,220	23,262
4	Other.....		54,659	23,306
5	Net Revenue.....		310,000	105,098
	Costs and Expenses:			
6	Casino.....	2	65,127	21,057
7	Rooms, Food and Beverage.....		68,916	29,687
8	General, Administrative and Other.....		146,411	48,762
9	Total Costs and Expenses.....		280,454	99,506
10	Gross Operating Profit.....		29,546	5,592
11	Depreciation and Amortization.....	2, 4	39,526	8,300
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	8	8,225	3,134
13	Other.....	8	5,366	1,071
14	Income (Loss) from Operations.....		(23,571)	(6,913)
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....	7	(25,823)	(14,777)
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....	2	(3,430)	(1,202)
18	Nonoperating Income (Expense) - Net.....	*, 2	253	(21,241)
19	Total Other Income (Expenses).....		(29,000)	(37,220)
20	Income (Loss) Before Taxes		(52,571)	(44,133)
21	Provision (Credit) for Income Taxes.....	2	0	0
22	Net Income (Loss).....		(\$52,571)	(\$44,133)

* The Company commenced gaming operations on June 25, 2018.

2018 Nonoperating Income (Expense) - Net includes \$22,900 of preopening expenses. See Note 2

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

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

HARD ROCK HOTEL & CASINO

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018*

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino.....		\$55,822	\$41,952
2	Rooms.....		25,347	14,893
3	Food and Beverage.....		24,817	22,193
4	Other.....		22,414	21,525
5	Net Revenue.....		128,400	100,563
	Costs and Expenses:			
6	Casino.....	2	23,779	19,912
7	Rooms, Food and Beverage.....		26,248	27,410
8	General, Administrative and Other.....		53,970	44,979
9	Total Costs and Expenses.....		103,997	92,301
10	Gross Operating Profit.....		24,403	8,262
11	Depreciation and Amortization.....	2, 4	12,902	8,132
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	8	3,470	2,981
13	Other.....	8	2,178	1,071
14	Income (Loss) from Operations.....		5,853	(3,922)
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....	7	(8,662)	(6,781)
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....	2	(1,376)	(1,202)
18	Nonoperating Income (Expense) - Net.....	**, 2	81	(4,957)
19	Total Other Income (Expenses).....		(9,957)	(12,940)
20	Income (Loss) Before Taxes		(4,104)	(16,862)
21	Provision (Credit) for Income Taxes.....	2	0	0
22	Net Income (Loss).....		(\$4,104)	(\$16,862)

** The Company commenced gaming operations on June 25, 2018.

2018 Nonoperating Income (Expense) - Net includes \$5,029 of preopening expenses. See Note 2

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

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

HARD ROCK HOTEL & CASINO

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018

AND THE NINE MONTHS ENDED SEPTEMBER 30, 2019

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2017.....		\$58,684	(\$7,374)	\$0	\$51,310
2	Net Income (Loss) - 2018.....			(95,879)		(95,879)
3	Capital Contributions.....		65,316			65,316
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2018.....		124,000	(103,253)	0	20,747
11	Net Income (Loss) - 2019.....			(52,571)		(52,571)
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, September 30, 2019.....		\$124,000	(\$155,824)	\$0	(\$31,824)

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

HARD ROCK HOTEL & CASINO STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018*

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$14,586	\$12,520
	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.....		(31,797)	(390,547)
5	Proceeds from Disposition of Property and Equipment.....		0	0
6	CRDA Obligations		0	0
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	CRDA Project Grant Proceeds	4	2,546	0
11			
12	Net Cash Provided (Used) By Investing Activities.....		(29,251)	(390,547)
	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	53,316
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	53,316
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(14,665)	(324,711)
25	Cash and Cash Equivalents at Beginning of Period.....		49,238	346,720
26	Cash and Cash Equivalents at End of Period.....	2	\$34,573	\$22,009
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....	7	\$18,214	\$0
28	Income Taxes.....		\$0	\$0

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

HARD ROCK HOTEL & CASINO STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018*

(UNAUDITED)
(\$ IN THOUSANDS)

Amended 6/15/20

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$52,571)	(\$44,133)
30	Depreciation and Amortization of Property and Equipment...	2,4	39,508	8,294
31	Amortization of Other Assets.....		18	6
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		0	0
35	(Gain) Loss on Disposition of Property and Equipment.....		43	0
36	(Gain) Loss on CRDA-Related Obligations.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks	3	(7,643)	(16,333)
39	(Increase) Decrease in Inventories		(210)	(1,930)
40	(Increase) Decrease in Other Current Assets.....		(4,272)	(3,804)
41	(Increase) Decrease in Other Assets.....		1,490	(4,307)
42	Increase (Decrease) in Accounts Payable.....		(4,696)	18,383
43	Increase (Decrease) in Other Current Liabilities		34,182	43,029
44	Increase (Decrease) in Other Liabilities		3,172	8,000
45	Amortization of Loan Issuance Costs	7,	1,235	1,235
46	Current year interest paid in kind	7	4,330	4,080
47	Net Cash Provided (Used) By Operating Activities.....		\$14,586	\$12,520

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$31,797)	(\$390,547)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$31,797)	(\$390,547)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$53,316
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	\$53,316

** Amounts indicated with asterisks have been restated to confirm to the 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.

HARD ROCK HOTEL & CASINO SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(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	458,392	\$24,778	27	\$2
2	Food	622,476	18,127		
3	Beverage	2,271,275	11,628		
4	Travel				
5	Bus Program Cash				
6	Promotional Gaming Credits	686,997	36,180		
7	Complimentary Cash Gifts	1,475	1,963		
8	Entertainment	105,759	7,627		
9	Retail & Non-Cash Gifts			216,849	7,087
10	Parking			531,880	3,662
11	Other	318,344	5,189	455,584	6,893
12	Total	4,464,718	\$105,492	1,204,340	\$17,644

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	186,870	\$10,050		
2	Food	248,524	7,073		
3	Beverage	793,750	4,064		
4	Travel				
5	Bus Program Cash				
6	Promotional Gaming Credits	312,996	17,016		
7	Complimentary Cash Gifts	525	765		
8	Entertainment	43,385	3,313		
9	Retail & Non-Cash Gifts			81,180	3,731
10	Parking			153,000	1,331
11	Other	130,123	2,121	174,686	2,643
12	Total	1,716,173	\$44,402	408,866	\$7,705

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

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2019

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.

11/15/2019

Date



Bob Allen

Vice President of Finance Operations

Title

006793-11

License Number

On Behalf of:

BOARDWALK 1000, LLC DBA
HARD ROCK HOTEL & CASINO

Casino Licensee

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

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Organization

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

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

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

For the nine months ended September 30, 2019, the Company generated a net loss of \$52,571 and as of September 30, 2019, had a working capital deficit of \$1,092, primarily due to the expenses incurred to attract new patrons and the seasonality of the Atlantic City market. Management plans to improve the operating results by adjusting the Company’s operations to better match the flow of customers with the demand for services, creating more targeted marketing campaigns and continuing to offer events designed to increase visits to the facility.

Nature of Business

The Hard Rock Hotel & Casino - Atlantic City (the “Hard Rock Hotel & Casino”) commenced operations on June 28, 2018. The Hard Rock Hotel & Casino features: two hotel towers with a combined total of 1,971 rooms, including high end suites; 2,133 slot machines; 115 table games; a sportsbook; a variety of fine dining and casual restaurants; a 7,000-seat arena; a nightclub; a spa; a gas station, including a convenience store and car wash; and other amenities.

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

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

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

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

Certain Concentrations of Risk

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

As of September 30, 2019 and 2018, the Company maintained balances in certain of its deposit accounts in excess of federally insured limits. The Company does not expect to incur any losses resulting from cash held in financial institutions in excess of insured limits. The Company manages this risk through predominantly holding its cash with a large, financially stable, global bank.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30,	
	2019	2018
Unrestricted cash	\$ 33,276	\$ 20,916
Restricted cash	1,297	1,093
	\$ 34,573	\$ 22,009

Cash and cash equivalents at September 30, 2019 included restricted cash of \$1,297 related to the balances of patrons' internet gaming accounts as of the previous day. At September 30, 2018, cash and cash equivalents included restricted cash of \$1,093, of which \$758 related to cash collateral for a letter of credit related to the Company's workers compensation insurance and \$335 of restricted cash related to the balances of patrons' internet gaming accounts as of the previous day. Pursuant to N.J.A.C. 13:6901.3(j), the Company maintains a separate New Jersey bank account to primarily ensure the security of funds held in patrons' internet gaming accounts. Restricted cash balances are on deposit with a high credit quality financial institution.

Accounts Receivable, Net

Accounts receivable, net 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. 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.

Inventories

Inventories consist primarily of food and beverage and retail items and are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. Provisions are made, as necessary, to reduce excess or obsolete inventories to their net realizable value.

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

Property and Equipment

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

The estimated useful lives of the Company's major components of property and equipment are:

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

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

The Company evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For an asset that is to be disposed of, the Company recognizes the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, the Company reviews the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The estimated undiscounted future cash flows of the asset are then compared to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using the Company's weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If an asset is under development, future cash flows include remaining construction costs. There were no impairment losses recognized in the statements of income during the three and nine months ended September 30, 2019 and 2018.

Revenue Recognition

The Company adopted the provisions of Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASC 606"), of the Financial Accounting Standards Board Accounting Standards Codification ("FASB") on January 1, 2018. As the Company began generating revenues upon the opening of the Project on June 28, 2018, there were no retroactive adjustments related to the adoption of ASC 606.

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

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

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

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

The transaction price of hotel rooms, food and beverage, and retail contracts is the net amount collected from the customer for such goods and services. The transaction price for such contracts is recorded as revenue as the good or

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

service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product.

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

Internet Gaming Operations

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

Contract and Contract-Related Liabilities

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

Deferred Revenue

The Company received upfront advanced payments related to agreements with online gaming providers. These payments are recorded as deferred revenue within other current liabilities and other liabilities and will be recognized as casino revenue when earned, which is expected to be on a straight-line basis over the terms of the related agreements.

Gaming Taxes

The Company is subject to an annual tax assessment based on 8% of its land-based gross gaming revenues and 15% of its online gross gaming revenues. The Company commenced online and land-based sports betting operations in January 2019. Online and land-based sports betting revenues are subject to a 13% and 8.5% tax rate, respectively. These gaming taxes are recorded as a casino expense in the statements of income. The Company recorded gaming tax expense of \$8,378 and \$20,314 during the three and nine months ended September 30, 2019, respectively, and \$6,108 and \$6,642 during the three and nine months ended September 30, 2018, respectively.

CRDA Obligations

Pursuant to the New Jersey Casino Control Act ("Casino Control Act"), as a casino licensee, the Company is assessed an amount equal to 1.25% of its land-based gross gaming revenues. This assessment is made in lieu of an Investment Alternative Tax (the "IAT") equal to 2.5% of land-based gross gaming revenues. The Casino Control Act also provides for an assessment equal to 2.5% of the Company's online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of online gross gaming revenues. The Company is required to make quarterly payments to the CRDA to satisfy its investment obligations. 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, these funds are to 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 recorded IAT expense of \$1,376 and \$3,430 during the three and nine months ended September 30, 2019, respectively, and \$1,202 during the three and nine months ended September 30, 2018.

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

Capitalized Interest

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

Loss Contingencies

There are times when non-recurring events may occur that require management to consider whether an accrual for a loss contingency is appropriate. Accruals for loss contingencies typically relate to certain legal proceedings, customer and other claims, and litigation. The Company determines whether an accrual for a loss contingency is appropriate by assessing whether a loss is deemed probable and can be reasonably estimated. The Company analyzes its legal proceedings and other claims based on available information to assess potential liability. The Company develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results assuming a combination of litigation and settlement strategies. No liability was accrued for loss contingencies as of September 30, 2019 and 2018.

Income Taxes

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

Preopening and Start-up Costs

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

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which provides guidance for accounting for leases. Under ASU 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. The standard must be adopted using a modified retrospective approach and provides for certain practical expedients. The Company is assessing the impact that the adoption of Topic 842 will have on its financial statements and footnote disclosures.

NOTE 3 – RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks consist of the following:

	September 30,	
	2019	2018
Casino receivables, net of an allowance for doubtful accounts (\$3,640 and \$250 in 2019 and 2018, respectively)	\$ 17,665	\$ 10,800
Hotel receivables, net of allowance for doubtful accounts (\$28 and \$0 in 2019 and 2018, respectively)	5,582	2,144
Due from related parties (see Note 8)	2,930	2,537
Other	4,462	2,453
Receivables and patrons' checks, net	\$ 30,639	\$ 17,934

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

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
Land	\$ 31,600	\$ 31,600
Building and improvements	382,750	387,328
Furniture and equipment	146,033	149,147
Construction in progress	5,350	4,453
Total property and equipment	565,733	572,528
Less accumulated depreciation	(65,709)	(8,294)
Property and equipment, net	\$ 500,024	\$ 564,234

Depreciation expense was \$12,896 and \$39,508 during the three and nine months ended September 30, 2019, respectively, and \$8,126 and \$8,294 during the three and nine months ended September 30, 2018, respectively.

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

During the three months ended September 30, 2019, the Company received refunds from the State of New Jersey of previously paid sales taxes on the purchase of qualifying construction materials related to the Project. The refunds totaled \$2,546 and were recorded as a reduction of property and equipment.

NOTE 5 – OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
Accrued payroll and related expenses	\$ 10,431	\$ 7,504
Accrued construction costs	98	60,878
Accrued interest	2,739	2,165
Accrued legal and insurance reserves	2,733	350
Accrued expenses and other liabilities	6,185	5,942
Other accrued expenses	\$ 22,186	\$ 76,839

BOARDWALK 1000, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)
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NOTE 6 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30,	
	2019	2018
Casino-related liabilities	\$ 12,054	\$ 4,215
Online gaming related	2,637	302
Deferred revenue	7,940	4,969
Due to related parties (see Note 8)	28,445	9,276
Other	2,539	2,774
Other current liabilities	\$ 53,615	\$ 21,536

NOTE 7 – LONG-TERM DEBT

Long-term debt consists of the following:

	September 30,	
	2019	2018
Loan Agreement - HRAC Lender	\$ 445,977	\$ 432,987
Unamortized debt financing costs	(4,658)	(6,305)
Loan Agreement - HRAC Lender, net	441,319	426,682
Loans Payable - Tristate	77,400	-
Long-term debt, affiliates	\$ 518,719	\$ 426,682

Loan Agreement

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

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

The period which began on August 30, 2017 and ended on February 28, 2019 is defined as the “PIK Interest Period.” During the PIK Interest Period, all interest was paid by the Company in kind by having such interest added to and automatically becoming a part of the principal amount of the Loan immediately upon each Payment Date (last business day, as defined in the Loan Agreement, of August and February of each year, commencing on February 28, 2018). On February 28, 2019, \$12,990 of accrued interest was paid in kind.

Commencing on the first Payment Date to occur after the PIK Interest Period, and on each Payment Date thereafter until the Maturity Date, interest on the outstanding principal balance of the Loan (including the loan origination fee and PIK Interest added to the outstanding principal amount of the Loan) shall be paid by the Company in cash at the

BOARDWALK 1000, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Loan Rate. Amounts outstanding under the Loan and outstanding interest is due upon the Maturity Date. There is no penalty for prepayment of principal and outstanding interest. On August 29, 2019, the Company paid \$13,379 of interest expense related to the Loan Agreement. Accrued interest related to the Loan Agreement was \$2,230 and \$2,165 at September 30, 2019 and 2018, respectively.

In connection with the Loan Agreement, the Company incurred debt financing fees of \$8,099 (which include the loan origination fee) which are recorded in long-term debt, net, and are being amortized over the term of the Loan Agreement. The Company recorded amortization of \$412 and \$1,235 during the three and nine months ended September 30, 2019, respectively, and \$412 and \$1,235 during the three and nine months ended September 30, 2018, respectively, and is included within interest expense in the statements of income.

Loans from Tristate

During 2018, Tristate loaned the Company \$77,400 (including the \$22,000 on December 31, 2018 as disclosed in Note 8) to fund the payment of construction costs associated with the Project. The loans mature on July 29, 2022. The loans bear interest at 8% per annum. Interest payments are due on the last business day of August and February of each year, commencing on August 30, 2019. Amounts due under the loans are subordinate and junior in right of payment to amounts due and outstanding under the Loan Agreement. On August 29, 2019, the Company paid \$4,834 of interest expense related to the loans from Tristate. Accrued interest at September 30, 2019 was \$509.

NOTE 8 - RELATED PARTY TRANSACTIONS

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

On August 21, 2017, an affiliate of certain of the owners of Tristate obtained a \$1,600 irrevocable letter of credit on behalf of the Company in connection with obtaining owner-controlled insurance related to the construction of the Project. The letter of credit expires on August 18, 2020. Any remaining proceeds from the letter of credit will be refunded to the Company upon its expiration.

Hotel & Casino Management Agreement

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

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

HR Atlantic City is entitled to receive 2% of gross revenue (including gross gaming revenues and gross revenues from non-gaming activities) (“Base License Fee”); provided that HR Atlantic City shall not be entitled to 2% of gross revenues on those portions of gross revenue for which it is otherwise entitled to a fee or compensation otherwise

BOARDWALK 1000, LLC
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)
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pursuant to the Management Agreement. HR Atlantic City is also entitled to an incentive management fee which is calculated based upon a percentage of achieved EBITDAM, as defined in the Management Agreement.

In connection with the Hotel & Casino Management Agreement, HR Atlantic City incurs certain expenses on behalf of the Company. Amounts due to HR Atlantic City of \$15,886 and \$3,613 as of September 30, 2019 and 2018, respectively, primarily relate to management fees and are included in other current liabilities in the accompanying balance sheet.

In addition, the Company incurs expenses with other affiliated entities, principally related to the Company's hotel room reservation center and other support services. The Company recognized \$1,442 and \$3,554 of expense associated with such services during the three and nine months ended September 30, 2019, respectively. Amounts due to such affiliates were \$10,329 and \$5,443 as of September 30, 2019 and 2018, respectively, and are included in other current liabilities in the accompanying balance sheet.

Advance from Tristate

On December 31, 2018, Tristate made an interest free, intercompany transfer of \$22,000 to the Company for the payment of construction costs associated with the Project. During 2019, the DGE confirmed that the intercompany transfer did not require approval as a material debt transaction under New Jersey Administrative Code 13:69C-4.3(a)3. The intercompany transfer was converted into a loan with similar terms as the loans payable to Tristate effective as of December 31, 2018 as described in Note 7.

Valet Services Agreement

The Company engages Seminole Transportation AC, LLC, a related party, to provide full-service valet parking services, including overall management and staffing of its valet parking operations. The Company recognized expense for such services of \$735 and \$1,812, respectively, during the three and nine months ended September 30, 2019, and \$866 and \$918, respectively, during the three and nine months ended September 30, 2018.

Rocktane Gas & Wash Lease Agreement

The Company leases Rocktane Gas & Wash, a fuel, convenience store and car wash facility to AC Gas Station LLC, a subsidiary of Tristate. The lease expires on June 27, 2028 and may be renewed for one ten-year period. The Company receives rental income based on a percentage of Rocktane's gross sales, as defined in the lease. Rental income was \$140 and \$339 for the three and nine months ended September 30, 2019, respectively, and is included in other revenue in the statements of income.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

New Jersey PILOT Law

On May 27, 2016, New Jersey enacted the Casino Property Tax Stabilization Act (the "PILOT Law") which: (i) 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, (ii) made certain changes to the New Jersey Tourism District Law and (iii) redirected certain IAT payments to assist in the stabilization of the City of Atlantic City's finances. Under the PILOT Law, commencing in 2017 and for a period of ten (10) years, each Atlantic City casino gaming property (as defined in the 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. 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. The aggregate amount of PILOT Payments owed to the City of Atlantic City by Atlantic City casino gaming properties for calendar year 2019 is \$132.6 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.

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

Settlement Agreement – Property Tax Appeals and PILOT Law

On December 28, 2018, the Company and the City of Atlantic City (the “City”), by and through the Deputy Commissioner-Department of Community Affairs, entered into an agreement to settle the Company’s 2017 and 2018 property tax appeals (the “Settlement Agreement”). Pursuant to the terms of the Settlement Agreement: (1) the Company’s 2017 assessed valuation was reduced to \$80,000; (2) the Company’s assessed valuation for the period from January 1, 2018 through and including June 30, 2018 was \$224,681; (3) the Company agreed to participate in the PILOT Law for the period July 1, 2018 through and including December 31, 2018, and (4) on an annual basis, the Company agreed to participate in the PILOT Law for tax years 2019 through 2026.

As a result of the reduced 2017 assessed valuation, the Company will receive a refund from the City in the amount of \$4,950 (the “Refund Payment”). The Refund Payment will be paid to the Company by the City in four equal annual installments in the amount of \$1,237, each payment due on or before June 30 commencing June 30, 2019. The Company received the first \$1,237 installment of the Refund Payment in July 2019. The present value of the Refund Payment was recorded as a reduction to the carrying value of property and equipment and was estimated to be \$4,297.

Under the terms of the Settlement Agreement, the Company’s PILOT Cap for calendar years 2019 through 2022 will be \$7,705. The Company will receive quarterly reimbursements for payment amounts that are projected to cause the Company to exceed \$7,705 annually.

Legal Matters

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

NOTE 10 – EMPLOYEE BENEFIT PLANS

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code covering certain of its non-union employees. The plan allows eligible employees to defer up to the lesser of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pre-tax basis through contributions to the plan. The Company recognized expense of \$355 and \$417 during the three and nine months ended September 30, 2019, respectively, and \$108 and \$115 during the three and nine months ended September 30, 2018, respectively, related to voluntary contributions to the 401(k) plan. Such amounts are recorded in general, administrative and other costs in the statements of income.

NOTE 11 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 15, 2019, the date these financial statements were issued.