TEN RE ACNJ LLC

QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2019

AMENDED 11/15/2019

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

TEN RE ACNJ LLC
BALANCE SHEETS

AS OF JUNE 30, 2019 and 2018*

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	ASSETS:			
	Current Assets:			
1	Cash and Cash Equivalents	1	$44,595	$42,168
2	Short-Term Investments		0	
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2019, $989, 2018 $0)	1	12,600	4,418
4	Inventories	1	3,903	1,492
5	Other Current Assets	5	6,190	5,375
6	Total Current Assets		67,288	53,453
7	Investments, Advances, and Receivables		0	0
8	Property and Equipment - Gross	1	284,217	256,843
9	Less: Accumulated Depreciation and Amortization		(10,897)	(64)
10	Property and Equipment - Net		273,320	256,779
11	Other Assets		8,884	36,497
12	Total Assets		$349,492	$346,729
	LIABILITIES AND EQUITY:			
	Current Liabilities:			
13	Accounts Payable		$23,195	$9,485
14	Notes Payable		0	229
	Current Portion of Long-Term Debt:			
15	Due to Affiliates	2	21,761	0
16	External	2	5,934	2,990
17	Income Taxes Payable and Accrued		0	
18	Other Accrued Expenses	6	10,913	5,238
19	Other Current Liabilities	7	8,258	2,490
20	Total Current Liabilities		70,061	20,432
	Long-Term Debt:			
21	Due to Affiliates	2	54,164	2,500
22	External	2	150,252	174,241
23	Deferred Credits		0	0
24	Other Liabilities		0	5,000
25	Commitments and Contingencies		0	0
26	Total Liabilities		274,477	202,173
27	Stockholders', Partners', or Proprietor's Equity		75,015	144,556
28	Total Liabilities and Equity		$349,492	$346,729

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

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

TEN RE ACNJ LLC
STATEMENTS OF INCOME

FOR THE 6 MONTHS ENDED 6/30/19 & THE PERIOD 6/25 - 6/30/18* (AMD 11/15/19

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino	1	$46,804	$2,287
2	Rooms		33,239	763
3	Food and Beverage		25,768	1,387
4	Other		6,061	111
5	Net Revenue		111,872	4,548
	Costs and Expenses:			
6	Casino		34,951	788
7	Rooms, Food and Beverage		36,232	1,451
8	General, Administrative and Other		53,447	1,449
9	Total Costs and Expenses		124,630	3,688
10	Gross Operating Profit		(12,758)	860
11	Depreciation and Amortization	1	8,011	54
	Charges from Affiliates Other than Interest:			
12	Management Fees		0	61
13	Other		0	0
14	Income (Loss) from Operations		(20,769)	745
	Other Income (Expenses):			
15	Interest Expense - Affiliates		(3,373)	0
16	Interest Expense - External	2	(7,896)	0
17	CRDA Related Income (Expense) - Net		(1,350)	0
18	Nonoperating Income (Expense) - Net		491	0
19	Total Other Income (Expenses)		(12,128)	0
20	Income (Loss) Before Taxes		(32,897)	745
21	Provision (Credit) for Income Taxes		0	0
22	Net Income (Loss)		($32,897)	$745

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

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

TEN RE ACNJ LLC
STATEMENTS OF INCOME

FOR THE 3 MONTHS ENDED 6/30/19 & THE PERIOD 6/25 - 6/30/18*(AMD 11/15/19

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino	1	$23,853	$2,287
2	Rooms		19,778	763
3	Food and Beverage		14,609	1,387
4	Other		3,455	111
5	Net Revenue		61,695	4,548
	Costs and Expenses:			
6	Casino		17,517	788
7	Rooms, Food and Beverage		18,749	1,451
8	General, Administrative and Other		26,630	1,449
9	Total Costs and Expenses		62,896	3,688
10	Gross Operating Profit		(1,201)	860
11	Depreciation and Amortization	1	4,874	54
	Charges from Affiliates Other than Interest:			
12	Management Fees		0	0
13	Other		0	
14	Income (Loss) from Operations		(6,075)	806
	Other Income (Expenses):			
15	Interest Expense - Affiliates	2	(2,196)	0
16	Interest Expense - External	2	(4,309)	0
17	CRDA Related Income (Expense) - Net		(735)	0
18	Nonoperating Income (Expense) - Net		141	0
19	Total Other Income (Expenses)		(7,099)	0
20	Income (Loss) Before Taxes		(13,174)	806
21	Provision (Credit) for Income Taxes		0	0
22	Net Income (Loss)		($13,174)	$806

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

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

TEN RE ACNJ LLC
STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE PERIOD JUNE 25-30, 2018
AND THE SIX MONTHS ENDED JUNE 30, 2019

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	Other (e)	Total Equity (Deficit) (f)
1	**Balance, June 25, 2018....................**		$144,656			$144,656
2	Net Income (Loss) - 2018..........			(42,078)		(42,078)
3	Capital Contributions................		3,709			3,709
4	Capital Withdrawals..................					0
5	Partnership Distributions...........					0
6	Prior Period Adjustments..........					0
7	Gain (loss) on Interest Rate Cap				31	31
8						0
9						0
10	**Balance, December 31, 2018..........**		148,365	(42,078)	31	106,318
11	Net Income (Loss) - 2019..........			(32,897)		(32,897)
12	Capital Contributions................		2,202			2,202
13	Capital Withdrawals..................					0
14	Partnership Distributions...........					0
15	Prior Period Adjustments..........					0
16	Gain (loss) on Interest Rate Cap				(31)	(31)
17	Minority Interest Loss		(577)			(577)
18						0
19	**Balance, June 30, 2019....................**		$149,990	($74,975)	$0	$75,015

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

TEN RE ACNJ LLC
STATEMENTS OF CASH FLOWS

FOR THE 6 MONTHS ENDED 6/30/19 & THE PERIOD 6/25 - 6/30/18* (AMD 11/15/19)

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES...		($37,829)	
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments			
4	Cash Outflows for Property and Equipment............................		(3,896)	
5	Proceeds from Disposition of Property and Equipment...........			
6	CRDA Obligations		(1,350)	
7	Other Investments, Loans and Advances made.......................			
8	Proceeds from Other Investments, Loans, and Advances			
9	Cash Outflows to Acquire Business Entities...........................		0	
10	Gain (loss) on Interest Rate Cap		(31)	
11	....			
12	Net Cash Provided (Used) By Investing Activities....................		(5,277)	
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		19,648	
14	Payments to Settle Short-Term Debt......................................			
15	Proceeds from Long-Term Debt		33,806	
16	Costs of Issuing Debt..			
17	Payments to Settle Long-Term Debt.......................................			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		2,202	
19	Purchases of Treasury Stock..			
20	Payments of Dividends or Capital Withdrawals......................			
21	....			
22	....			
23	Net Cash Provided (Used) By Financing Activities...................		55,656	
24	Net Increase (Decrease) in Cash and Cash Equivalents.............		12,550	
25	Cash and Cash Equivalents at Beginning of Period...................		32,045	
26	Cash and Cash Equivalents at End of Period.............................		$44,595	

	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized)......................................		$5,764	
28	Income Taxes..			

The Company commenced gaming operations on 6/25/2018 and did not prepare a Statement of Cash Flows for the quarter ended June 30, 2018.

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

TEN RE ACNJ LLC
STATEMENTS OF CASH FLOWS

FOR THE 6 MONTHS ENDED 6/30/19 & THE PERIOD 6/25 - 6/30/18* (AMD 11/15/19)

(UNAUDITED)

($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss)...		($32,897)	
30	Depreciation and Amortization of Property and Equipment...		6,687	
31	Amortization of Other Assets...		1,324	
32	Amortization of Debt Discount or Premium..........................			
33	Deferred Income Taxes - Current			
34	Deferred Income Taxes - Noncurrent			
35	(Gain) Loss on Disposition of Property and Equipment.........		64	
36	(Gain) Loss on CRDA-Related Obligations...........................			
37	(Gain) Loss from Other Investment Activities.......................			
38	(Increase) Decrease in Receivables and Patrons' Checks		(3,487)	
39	(Increase) Decrease in Inventories		69	
40	(Increase) Decrease in Other Current Assets..........................		(4,715)	
41	(Increase) Decrease in Other Assets......................................		749	
42	Increase (Decrease) in Accounts Payable..............................		(3,166)	
43	Increase (Decrease) in Other Current Liabilities		3,427	
44	Increase (Decrease) in Other Liabilities		(5,307)	
45	Minority Interest Loss		(577)	
46	....			
47	Net Cash Provided (Used) By Operating Activities...................		($37,829)	

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment..................................		($3,896)	
49	Less: Capital Lease Obligations Incurred..............................			
50	Cash Outflows for Property and Equipment..............................		($3,896)	
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired..			
52	Goodwill Acquired...			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed..			
55	Issuance of Stock or Capital Invested..................................			
56	Cash Outflows to Acquire Business Entities............................		$0	
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.................		$2,202	
58	Less: Issuances to Settle Long-Term Debt...........................		0	
59	Consideration in Acquisition of Business Entities.................		0	
60	Cash Proceeds from Issuing Stock or Capital Contributions......		$2,202	

* The Company commenced gaming operations on 6/25/2018 and did not prepare a Statement of Cash Flows for the quarter ended June 30, 2018.

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

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

TEN RE ACNJ LLC
SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE SIX MONTHS ENDED JUNE 30, 2019
(UNAUDITED)
($ IN THOUSANDS)

		Promotional Allowances		Promotional Expenses	
Line (a)	**Description (b)**	**Number of Recipients (c)**	**Dollar Amount (d)**	**Number of Recipients (e)**	**Dollar Amount (f)**
1	Rooms	139,893	$17,847		
2	Food	111,860	5,593	36,950	739
3	Beverage	775,000	3,100		
4	Travel	0	0	4,393	659
5	Bus Program Cash	0	0		
6	Promotional Gaming Credits	695,520	17,388		
7	Complimentary Cash Gifts	54,720	1,368		
8	Entertainment	27,900	1,395	20	1
9	Retail & Non-Cash Gifts	12,400	310	57,180	2,859
10	Parking	312,600	1,563	192,800	964
11	Other	5,300	53	7,300	73
12	Total	2,135,193	$48,617	298,643	$5,295

FOR THE THREE MONTHS ENDED JUNE 30, 2019

		Promotional Allowances		Promotional Expenses	
Line (a)	**Description (b)**	**Number of Recipients (c)**	**Dollar Amount (d)**	**Number of Recipients (e)**	**Dollar Amount (f)**
1	Rooms	80,160	$10,601	0	$0
2	Food	66,060	3,303	26,650	533
3	Beverage	409,000	1,636	0	0
4	Travel	0	0	1,527	229
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	402,760	10,069	0	0
7	Complimentary Cash Gifts	22,520	563	0	0
8	Entertainment	13,440	672	20	1
9	Retail & Non-Cash Gifts	10,560	264	27,380	1,369
10	Parking	193,200	966	123,000	615
11	Other	3,600	36	1,300	13
12	Total	1,201,300	$28,110	179,877	$2,760

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

TEN RE ACNJ LLC
STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 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.

8/15/2019

Date

Laura Palazzo

VP of Finance

Title

2461-11

License Number

On Behalf of:

AC OCEAN WALK LLC

Casino Licensee

TEN RE ACNJ, LLC
NOTES TO QUARTERLY DGE REPORT
JUNE 30, 2019

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Ten RE AC NJ LLC ("the Company" or "Ten RE") was formed on December 15, 2016 to acquire, renovate, develop, construct, own, and operate a hotel and casino property.

Basis of Presentation

In February 2019, the majority owner transferred his interest in the Company to a divestiture trust for the benefit of investment vehicles managed by Luxor Capital Group, LP ("Luxor"), a New York City based investment manager. On August 7, 2019, Luxor was granted an Interim Casino Authorization license from the State of New Jersey Casino Control Commission.

Ten RE is the sole member of

- AC Beachfront LLC, a DE single member LLC formed on October 31, 2017, to hold the NJ operating entity for the hotel and casino operations.

AC Beachfront LLC is the sole member of

- ACOWRE LLC, a DE single member LLC formed on October 31, 2017, to own the real property in which the Ten RE hotel and casino is operated, and
- ACOWMGR LLC, a DE single member LLC formed on October 31, 2017, to manage AC Ocean Walk LLC.

Together AC Beachfront LLC and ACOWMGR LLC own 100% of

- AC Ocean Walk, LLC, a NJ multi member LLC formed on August 2, 2017 to hold the NJ Casino license and conduct operations of the hotel and casino.
- The casino and hotel opened on June 27, 2018.

AC Ocean Walk, LLC entered into a partnership agreement with Blue Ocean Waters, LLC on April 11, 2018 to operate the Day and Night Club. They each own 50% of both the Day and Night Club assets plus any future additional capital expenditures and/or additions to the club.

The consolidated financial statements include the accounts of TenRE and these subsidiaries. Intercompany balances and transactions are eliminated.

Basis of Accounting

The accompanying consolidated financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606) (ASC 606)*, which outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Under the standard, revenue is recognized when an entity transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services.

The Company adopted ASC 606 effective January 1, 2018.

Revenue from contracts with customers primarily consists of casino wagers, room sales, food and beverage transactions, convention sales and entertainment ticket sales. These contracts can be written, oral or implied by customary business practices.

Gross casino revenue is the aggregate of gaming wins and losses. The commissions rebated to gaming promoters and premium players for rolling play, cash discounts and other cash incentives to patrons related to gaming play are recorded as a reduction to gross casino revenue. Gaming contracts include a performance obligation to honor the patron's wager and typically include a performance obligation to provide a product or service to the patron on a complimentary basis to incentivize gaming or in exchange for points earned under the Company's loyalty programs.

For wagering contracts that include complimentary products and services provided by the Company to incentivize gaming, the Company allocates the relative stand-alone selling price of each product and service to the respective revenue type. Complimentary products or services provided under the Company's control and discretion, which are supplied by third parties, are recorded as an operating expense.

For wagering contracts that include products and services provided to a patron in exchange for points earned under the Company's loyalty programs, the Company allocates the estimated fair value of the points earned to the loyalty program liability. The loyalty program liability is a deferral of revenue until redemption occurs. Upon redemption of loyalty program points for Company-owned products and services, the stand-alone selling price of each product or service is allocated to the respective revenue type. For redemptions of points with third parties, the redemption amount is deducted from the loyalty program liability and paid directly to the third party. Any discounts received by the Company from the third party in connection with this transaction are recorded to other revenue.

After allocation to the other revenue types for products and services provided to patrons as part of a wagering contract, the residual amount is recorded to casino revenue as soon as the wager is settled. As all wagers have similar characteristics, the Company accounts for its gaming contracts collectively on a portfolio basis versus an individual basis.

Hotel revenue recognition criteria are met at the time of occupancy. Food and beverage revenue recognition criteria are met at the time of service. Convention revenues are recognized when the related service is rendered, or the event is held. Deposits for future hotel occupancy, convention space or food and beverage services contracts are recorded as deferred revenue until the revenue recognition criteria are met. Cancellation fees for hotel, convention space and food and beverage services are recognized upon cancellation by the customer and are included in other revenues. Entertainment revenue recognition criteria are met at the completion of the event. Revenue from contracts with a combination of these services is allocated pro rata based on each service's relative stand-alone selling price.

The Company's player program allows members, through the frequency of their play at the casino, to earn and accumulate points which may be redeemed for a variety of goods and services. Points may be applied toward room stays at the hotel, food and beverage at the various restaurants, gift shops, additional game play, and entertainment.

Internet Gaming is available through the Company's contract with GAN Platform Licensing, LLC, which delivered, monitors and services the hardware platform and data warehouse through which the activities are conducted. Internet gaming revenue represents net win from online gaming activity, which is the difference between wins and losses less promotional offers related to a patron's level of play.

Rental revenues from tenants are recognized on a straight-line basis over the terms of the related leases. Percentage rental revenues are recognized in the periods in which the tenants exceed their respective percentage rent thresholds.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those 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. 13:69O-1.3(j) the Company maintains a separate New Jersey bank account to ensure security of funds held in patron's internet gaming ("iGaming") accounts. The above-mentioned account balance was $250,000 and $0 at June 30, 2019 and 2018, respectively. Patron deposits held in iGaming accounts were $82,000 and $0 at June 30, 2019 and 2018, respectively, which is classified as restricted cash.

Customer and Other Receivables

The Company extends short-term credit to its approved customers. Such credit is non-interest bearing and due on demand. In addition, the Company will have receivables due from hotel guests, which will be primarily secured with a credit card at the time the customer checks in.

The Company does not accrue interest on outstanding accounts receivable. Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a valuation allowance and a charge to bad debt expense based on its experience and on any unusual circumstances that may affect collectability. The allowance for uncollectible accounts at June 30, 2019 and 2018 was $989,000 and $0 respectively. Balances that are still outstanding after management has used reasonable collection efforts will be written off against the valuation allowance.

Inventory

Inventory consists of food, beverages, linen, uniforms, retail merchandise, general supplies, china and glass, and fuel and oil inventory. The values are stated at the lower of cost or net realizable value, with cost determined on a first-in, first-out basis. At June 30, 2019 and 2018, inventory was valued at $3,903,000 and $1,492,000 respectively.

Property and Equipment

Property and equipment is stated at cost and as of June 30, 2019 and 2018 consists of the following:

Category	**Estimated Useful Lives**	**2019**	**2018**
Land		$ 37,609,000	$ 37,475,000
Buildings	40 years	165,169,000	165,169,000
Improvements	15-40 years	42,779,000	47,470,000
Furniture & equipment	5-7 years	37,431,000	6,659,000
Transportation equipment	5 years	1,229,000	70,000
Total		**$ 284,217,000**	**$ 256,843,000**

Depreciation is provided using straight-line and accelerated methods over the estimated useful lives of the related assets. Depreciation expense was $3,550,000 and $54,000 for the three months ended June 30, 2019 and 2018, respectively, and $6,687,000 and $54,000 for the six months ended June 30, 2019 and 2018, respectively.

Additions, improvements, and expenditures for repairs and maintenance that significantly extend the life of an asset are capitalized. Other expenditures for routine repairs and maintenance are charged directly to expense when incurred.

The Company evaluates property and equipment and other long-lived assets for impairment in accordance with GAAP. For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair value less costs of disposal. For assets to be held and used, the Company reviews fixed assets for impairment annually during the fourth quarter of each year, or whenever indicators of impairment exist. If an indicator of impairment exists, the Company compares the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no adjustment is indicated. If the undiscounted cash flows do not exceed the carrying value, the impairment is measured based on fair value compared to the carrying value, with fair value typically based on a discounted cash flow model or market comparables, when available. For the six months ended June 30, 2019, there were no impairment charges.

Right of Use Assets

The Company has elected to early implement new accounting standards for leases, which are effective for periods beginning after December 15, 2019. Accordingly, leases identified as operating leases under current accounting guidance are recognized as lease assets and liabilities, measured as the present value of the lease payments to be paid using the discount rate for the lease at commencement. Leases are expensed on a straight-line basis over the term of the lease.

Vehicles

On April 12, 2018, the Company entered into a limousine services agreement for the right to use certain vehicles. The right to use the vehicles conferred by that agreement has been capitalized and amortized over the thirty-six month period of the agreement ending June 30, 2021. Rent expense of $144,000 has been recorded with $497,000 remaining as a right of use asset at June 30, 2019.

Possessory Rights to the HQ Day/Night Club

Effective May 18, 2018, the Company entered into an agreement to purchase the possessory rights of the former tenants of the HQ Day/Night Club. The right to use the HQ Day/Night Club property conferred by that agreement has been capitalized and amortized over the 48 month remaining term of the original lease. A discount rate of 10.75% has been applied. Rent expense for the six months ended June 30, 2019 was $1,000,000, with $4,824,000 remaining as a right of use asset at June 30, 2019. This space is being operated by the Joint Venture between AC Ocean Walk, LLC and Blue Ocean Waters, LLC, a related party.

Fair Value of Financial Instruments

The company applies the following fair value hierarchy, which prioritizes the inputs utilized to measure fair value into three levels:

- Level 1 - Quoted prices for identical assets or liabilities in active markets;
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets or valuations based on models where the significant inputs are observable or can be corroborated by observable market data; and
- Level 3 – Valuations based on models where the significant inputs are unobservable. The unobservable inputs reflect the Company's estimates or assumptions that market participants would utilize in pricing such assets or liabilities.

The Company's assessment of the significance of a particular input requires judgment and may affect the valuation of financial assets and liabilities and their placement within the fair value hierarchy.

The carrying amount of cash and cash equivalents, restricted cash, receivables, accounts payables, and loans from financial institution approximates the value. The estimated fair value of the Company's LIBOR cap agreement is a Level 2 investment.

Income Taxes

Generally, income taxes have not been provided because the Company is treated as a partnership for federal and state income tax purposes as provided in the Internal Revenue Code and State Tax Code. As such, the Company's income or loss and credits are passed through to the members and reported on their individual income tax returns.

Management has evaluated uncertain tax positions taken by the Company. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the Internal Revenue Service or other taxing authority. The

Company has recognized no interest or penalties related to uncertain tax positions. The Company is subject to routine audits by taxing jurisdictions. As the Company was formed in 2016, all relevant tax years are still subject to federal and state income tax examinations.

Gaming Taxes

New Jersey imposes a tax equal to 8% of the gross gaming revenues and 15% on internet gaming revenues. Included in casino expenses, for the six months ended June 30, 2019, the Company paid gaming taxes in the amount of $6,796,000 to the State of New Jersey.

Advertising

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Prepaid rental fees associated with billboard advertisements are amortized over the terms of the related rental agreements. For the six months ended June 30, 2019, $1,139,000 was incurred for advertising costs.

NOTE 2 - DEBT

On June 4, 2018, the Company entered into a $163,000,000 mortgage note agreement and $12,000,000 mezzanine note agreement which called for monthly payments of interest at a rate of LIBOR plus 750 basis points, over a term of three years, at which time the full balance of principal was due.

On February 8, 2019, a $72,000,000 payment of principal was made on the mortgage note reducing the balance to $91,000,000. Also, on February 8, 2019 a loan advance of $23,020,000 was made to the Company from the mezzanine loan bringing the mezzanine balance to $35,020,000.

At this time the loans were amended and restated to include among other items, options to extend the initial maturity date for two successive one-year terms and payments of interest at the LIBOR rate plus a LIBOR rate spread of 5.29% for the mortgage loan and 13.25% for the mezzanine note. The loans require certain reserves to be held by the lender and is subject to various restrictive covenants and prepayment penalties. The loans are collateralized by a mortgage on substantially all of the assets of the Company. In addition, the Company is required to obtain interest rate protection with a cap of LIBOR at a strike of 3.25% throughout the term of the loan.

On February 8, 2019 the Company issued promissory notes in the aggregate principal amount of $25,000,000 which are convertible into common equity units of the Company. The notes bear interest at a rate of 10% per annum for a period of two years from the date of issuance and mature on February 8, 2024. The notes are unsecured and $973,000 of interest has been accrued for the six months ending June 30, 2019.

On February 8, 2019 the Company entered into a $50,000,000 mezzanine loan with an affiliated entity. The note bears interest at a rate of 10.75% per annum until the maturity date of June 9, 2021. As of June 30, 2019, unamortized loan fees were $1,121,000 and incurred amortization expense of $225,000. The Company is also required to maintain certain covenants. Interest of $2,091,000 has been accrued through June 30, 2019.

The Company had borrowed $1,816,000 from an affiliated party. The principal amount was transferred in February 2019 to the new affiliated entity. Interest accrues at 10% and as of June 30, 2019 accrued $257,000.

The Company issued various demand promissory notes to affiliated entities in the aggregate principal amount of $19,050,000. The notes accrue interest at a rate of 7% per annum and is payable on demand. Interest expense for the six months ended June 30, 2019 was $211,000

There are various notes payable to purchase gaming equipment, maturing from October 31, 2019 to February 28, 2022, with monthly payments totaling $428,000. At June 30, 2019, the remaining balance of the notes is $7,337,000, of which $5,419,000 is current and $1,918,000 is long-term. The leases are collateralized by the leased equipment. Interest expense for the six months ended June 30, 2019 was $77,000.

As described in Note 1, on May 18, 2018, the Company entered into an agreement to purchase the possessory rights of the former tenants of the HQ Day/ Night Club for the sum of $8,000,000. The Company paid $3,000,000 on the date hereof and the balance is due in five annual installments of $1,000,000 each, the first one being on July 1, 2019. The debt has been recorded at the present value of the lease payments, discounted with a rate of 10.75% or $6,616,000. The balance at June 30, 2019 was $3,616,000.

The Company uses interest rate swap agreements to convert a portion of its interest rate exposure from floating rates to fixed rates to reduce its cash flow risk. The Company has $175,000,000 of notional amount of interest rate swap agreements consisting of $163,000,000, expiring on July 15, 2020 and $12,000,000 expiring on July 15, 2020. These agreements were amended on February 8, 2019, the amended notional amounts are now $91,000,000 and $35,020,000 both expiring on July 15, 2020. Under the swap agreements, the Company receives a variable rate of LIBOR plus 750 basis points and pays a fixed rate of interest adjusted quarterly.

The swap agreements are formally designated and qualify as cash flow hedges and are recorded at fair value in the consolidated balance sheet in other assets. Gains and losses due to changes in fair value of the LIBOR cap agreements completely offset changes in the fair value of the hedged portion of the underlying debt. Therefore, no gain or loss has been recognized due to hedge ineffectiveness. Offsetting changes in fair value of both the interest rate swaps and the hedged portion of the underlying debt both were recognized in accumulated other comprehensive income in the consolidated statement of operations and members' equity. The Company does not hold or issue any derivative instrument for trading or speculative purposes.

The fair values of the swap agreements as of June 30, 2019 were assets of $138 and are included in other long-term assets in the consolidated balance sheet. The fair value of the cap agreements excludes accrued interest and takes into consideration current interest rates and current likelihood of the cap counterparties' compliance with its contractual obligations.

NOTE 3 - RELATED PARTY TRANSACTIONS

There is a consulting agreement in effect between Winding Trail, LLC, which is a member, and Ten RE, which calls for payments of $35,000 per month through June 27, 2019. For the six months ended June 30, 2019, the Company incurred an expense of $210,000 under this agreement.

NOTE 4 - LEASES

As described in Note 1, the Company entered into an agreement to purchase the right to control the Club for the period the prior tenant had possessory rights which was the term of the original lease. Rent expense for the six months ended June 30, 2019 was $1,000,000.

The Company entered into an agreement with its Joint Venture partner to lease the Club for ten years and an option to renew for five more. Rent expense for the six months ended June 30, 2019 was $267,000 and has been eliminated in the consolidated statement of operations.

The Company leases vehicles through July 14, 2020 and June 30, 2021. Rent expense for the six months through June 30, 2019 was $163,000.

An operating lease was entered into on January 4, 2018 between ACOWRE, LLC and AC Ocean Walk, LLC to lease the premises for a nominal fee of $10 per annum plus Supplementary and Other Rent which includes all FF&E expenditures. The lease term was for five years.

The lease was restated on May 31, 2018 for a term of ten years and $20,000,000 per annum. All payments paid to any Mortgagee and Mezzanine Lender for debt service and reserves in accordance with the Mortgage Loan Documents shall be deemed to be a credit against operating lease payable. A Right of Use Asset has not been booked for this agreement as all payments are variable.

The lease was amended to require monthly installments of $1,666,000 of the annual rent mentioned above, and to give the tenant the right to pay and discharge when due any or all the Supplementary Rent and Other Rent by payment directly to third parties in lieu of paying such amounts to the landlord.

TEN RE ACNJ, LLC
NOTES TO QUARTERLY DGE REPORT
JUNE 30, 2019

NOTE 5 – OTHER CURRENT ASSETS

Other Current Assets consists of the following:

	June 30,	
	2019	**2018**
Prepaid Insurance	$ 1,906,000	$ 1,075,000
Prepaid Sewer	255,000	543,000
Prepaid Slot Machine Licenses	1,303,000	1,051,000
Prepaid Advertising & Marketing	182,000	550,000
Prepaid Real Estate	386,000	-
Prepaid Entertainment	957,000	226,000
Prepaid Service Contracts	805,000	673,000
Prepaid Other	396,000	1,257,000
TOTALS	**$ 6,190,000**	**$ 5,375,000**

NOTE 6 – OTHER ACCRUED EXPENSES

Other Accrued Expenses consists of the following:

	June 30,	
	2019	**2018**
Accrued Payroll & Benefits	$ 5,985,000	$ 4,019,000
Accrued Sales/Use & Lux taxes	1,796,000	221,000
Accrued Utilities	803,000	558,000
Accrued CRDA	674,000	-
Accrued Insurance Reserves	807,000	-
Accrued Gaming Taxes	347,000	241,000
Accrued Other	501,000	199,000
TOTAL	$ 10,913,000	$ 5,238,000

NOTE 7 – OTHER CURRENT LIABILITIES

Other Current Liabilities consists of the following:

	June 30,	
	2019	**2018**
Gaming Liabilities	$ 3,564,000	$ 290,000
Deposits	1,673,000	1,362,000
Ticketmaster	1,133,000	-
Deferred Revenue	723,000	-
Chip Liability	524,000	826,000
Other	641,000	12,000
TOTAL	$ 8,258,000	$ 2,490,000

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company's operations are dependent on obtaining and retaining continued licensing from the New Jersey gaming authorities. The inability to obtain a license or subsequent loss of a license could have a material adverse effect on future results of operations.

The Company is party to legal actions, various claims and complaints that arise in the normal course of business. It is management's belief that its defenses are substantial in each of these matters and the Company's position can be successfully defended or settled without material adverse effect on its results of operations or cash flows.