

**TROPICANA CASINO AND RESORT  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED MARCH 31, 2019**

**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 MARCH 31, 2019 AND 2018

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$23,649	\$41,663
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2019, \$1,308 ; 2018, \$6,223.....	2	19,471	14,086
4	Inventories .....		3,576	3,697
5	Other Current Assets.....	5	2,253	4,576
6	Total Current Assets.....		48,949	64,022
7	Investments, Advances, and Receivables.....	6	243,638	200,775
8	Property and Equipment - Gross.....	4	498,262	382,946
9	Less: Accumulated Depreciation and Amortization.....	4	(11,423)	(131,624)
10	Property and Equipment - Net.....	4	486,839	251,322
11	Other Assets.....	7	170,702	91,637
12	Total Assets.....		\$950,128	\$607,756
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$13,633	\$16,022
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	8	25,568	25,056
19	Other Current Liabilities.....	9	28,192	9,272
20	Total Current Liabilities.....		67,393	50,350
	Long-Term Debt:			
21	Due to Affiliates.....	10	0	37,121
22	External.....		0	0
23	Deferred Credits .....		0	0
24	Other Liabilities.....	11	432,717	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		500,110	87,471
27	Stockholders', Partners', or Proprietor's Equity.....		450,018	520,285
28	Total Liabilities and Equity.....		\$950,128	\$607,756

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 MARCH 31, 2019 AND 2018

(UNAUDITED)  
(\$ IN THOUSANDS)

Amended 8/21/2019

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	Revenue:			
1	Casino.....	2	\$49,259	\$54,737
2	Rooms.....	2	18,081	16,470 *
3	Food and Beverage.....	2	8,765	8,883
4	Other.....	2	4,148	4,445 *
5	Net Revenue.....		80,253	84,535
	Costs and Expenses:			
6	Casino.....	2	17,891	19,127
7	Rooms, Food and Beverage.....	2	16,049	16,463
8	General, Administrative and Other.....	2	29,767	31,471
9	Total Costs and Expenses.....		63,707	67,061
10	Gross Operating Profit.....		16,546	17,474
11	Depreciation and Amortization.....	4,13	8,169	7,876
	Charges from Affiliates Other than Interest:			
12	Management Fees.....	6	729	1,915
13	Other.....		0	0
14	Income (Loss) from Operations.....		7,648	7,683
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		(11,020)	(466)
16	Interest Expense - External.....		0	0
17	CRDA Related Income (Expense) - Net.....	6,12	(1,092)	(1,141)
18	Nonoperating Income (Expense) - Net.....	17	(14)	(1)
19	Total Other Income (Expenses).....		(12,126)	(1,608)
20	Income (Loss) Before Taxes .....		(4,478)	6,075
21	Provision (Credit) for Income Taxes.....		(1,169)	1,517
22	Net Income (Loss).....		(\$3,309)	\$4,558

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 CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018 AND THE THREE MONTHS ENDED MARCH 31, 2019

(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, 2017.....						\$282,128		\$232,074	\$514,202
2	Net Income (Loss) - 2018.....								23,909	23,909
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Other Comprehensive Income Net.....							1,636		1,636
7	Purchase Accounting Adjustment.....						174,675	(1,495)	(259,600)	(86,420)
8	.....									0
9	.....									0
10	Balance, December 31, 2018.....		0	0	0	0	456,803	141	(3,617)	453,327
11	Net Income (Loss) - 2019.....								(3,309)	(3,309)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Other Comprehensive Income Net.....									0
16	.....									0
17	.....									0
18	.....									0
19	Balance, March 31, 2019 .....		0	\$0	0	\$0	\$456,803	\$141	(\$6,926)	\$450,018

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 THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$875)	\$11,447
	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.....		(3,728)	(13,969)
5	Proceeds from Disposition of Property and Equipment.....		15	0
6	CRDA Obligations .....	6	298	(308)
7	Other Investments, Loans and Advances made.....	6	(877)	8,938
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	Proceeds from Sales and Luxury Tax Credits .....		0	0*
11				
12	Net Cash Provided (Used) By Investing Activities.....		(4,292)	(5,339)
	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.....		(5,167)	6,108
25	Cash and Cash Equivalents at Beginning of Period.....		28,816	35,555
26	Cash and Cash Equivalents at End of Period.....		\$23,649	\$41,663
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$0	\$40

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 CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2019 (c)	2018 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$3,309)	\$4,558
30	Depreciation and Amortization of Property and Equipment.....	4	5,653	7,251
31	Amortization of Other Assets.....	13	2,516	625
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		0	0
34	Deferred Income Taxes - Noncurrent .....		104	405
35	(Gain) Loss on Disposition of Property and Equipment.....	17	57	53
36	(Gain) Loss on CRDA-Related Obligations.....		(7)	379
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(5,160)	1,305 *
39	(Increase) Decrease in Inventories .....		(383)	(55)
40	(Increase) Decrease in Other Current Assets.....		675	9,440
41	(Increase) Decrease in Other Assets.....		(114)	1,229 *
42	Increase (Decrease) in Accounts Payable.....		(566)	630
43	Increase (Decrease) in Other Current Liabilities .....		(671)	(14,373)
44	Increase (Decrease) in Other Liabilities .....		330	0
45	Other Comprehensive Income .....		0	0 *
46				
47	Net Cash Provided (Used) By Operating Activities.....		(\$875)	\$11,447

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$3,728)	(\$13,969)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$3,728)	(\$13,969)
	<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 THREE MONTHS ENDED MARCH 31, 2019  
(UNAUDITED)  
(\$ IN THOUSANDS)

Amended 8/21/2019

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	87,585	\$11,173		
2	Food	92,780	1,795	60,085	\$1,163
3	Beverage	1,565,667	2,790		
4	Travel			524	157
5	Bus Program Cash	433	52		
6	Promotional Gaming Credits	183,662	12,757		
7	Complimentary Cash Gifts	242,903	928		
8	Entertainment	9,212	55	168	29
9	Retail & Non-Cash Gifts			85,156	841
10	Parking			148,561	594
11	Other			9,508	95
12	Total	2,182,242	\$29,550	304,002	\$2,879

FOR THE THREE MONTHS ENDED MARCH 31, 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				
2	Food				
3	Beverage				
4	Travel				
5	Bus Program Cash				
6	Promotional Gaming Credits				
7	Complimentary Cash Gifts				
8	Entertainment				
9	Retail & Non-Cash Gifts				
10	Parking				
11	Other				
12	Total	0	\$0	0	\$0

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

# TROPICANA CASINO AND RESORT STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 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.

8/21/2019

Date



Mimi Jennings- Benvenuti

Vice President - Finance

Title

9749-11

License Number

On Behalf of:

TROPICANA CASINO AND RESORT



**TROPICANA ATLANTIC CITY CORP.**  
**DBA TROPICANA CASINO AND RESORT**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(Unaudited)**

**1. Organization and Basis of Presentation**

The accompanying consolidated financial statements include the accounts of Tropicana Atlantic City Corp. (the “Company”) for the period ended March 31, 2019, and, through March 31, 2018, its wholly-owned subsidiary, Tropicana AC Sub Corp. (“TAC Sub”), after elimination of all significant intercompany accounts and transactions.

The Company operates Tropicana Atlantic City, a casino hotel in Atlantic City, New Jersey (the “Property”) and is a wholly owned subsidiary of Tropicana Entertainment, Inc. (“TEI”), which is a wholly owned subsidiary of Eldorado Resorts Inc. (“ERI”).

On March 8, 2010 (“the Acquisition Date”), the Tropicana Casino and Resort was acquired along with the other assets of Adamar of New Jersey, Inc. by TEI (“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 (“NJDE”) 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.

The Company received its sports wagering license by the NJDE in October 2018. The Company’s sports book, which commenced operating on October 25, 2018, is operated by William Hill New Jersey, Inc. (“William Hill”), pursuant to an operating lease.

*Merger Agreement*

On April 15, 2018, TEI announced that it had entered into a definitive agreement with ERI, a Nevada corporation and GLP Capital, L.P., a Pennsylvania limited partnership (“GLPI”), pursuant to which TEI agreed to sell substantially all of its gaming and hotel operations to ERI and substantially all of its real estate assets to GLPI, for aggregate consideration of approximately \$1.9 billion. At the closing of the transaction on October 1, 2018 (“Merger Date”), a subsidiary of ERI merged into TEI and TEI became a wholly-owned subsidiary of ERI. Immediately prior to the merger, TEI sold its operations and subsidiaries located in Aruba, GLPI acquired substantially all of TEI’s real estate, and ERI acquired TEI’s operations and certain real estate. The real estate acquired by GLPI included the Company’s subsidiary, TAC Sub, and all of its assets, which consisted primarily of the land on which the Property is located. Substantially concurrently with the sale of the real estate portfolio to GLPI, ERI entered into a triple net master lease with GLPI (the “Master Lease”) (see Note 11, Other Liabilities).

In connection with these transactions, the outstanding balance of the Company’s Term Loan Facility (as defined in Note 10, Long-Term Debt) was paid in full.

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and, through March 31, 2018, its wholly-owned subsidiary, TAC Sub, after elimination of all significant intercompany accounts and transactions.

*Use of Estimates*

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

**TROPICANA ATLANTIC CITY CORP.**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018**  
**(Unaudited)**

*Cash, Cash Equivalents and Restricted Cash*

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 patrons' internet gaming accounts. At March 31, 2019 and 2018 the above mentioned account balance was \$2.6 million and \$0.6 million, respectively which included patrons' deposits held in IGaming accounts, which is classified as restricted cash of \$1.1 million and \$0.5 million, 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 are stated at the lower of average cost, using a first-in, first-out basis, or net realizable value. Inventories consist primarily of food and beverage and operating supplies.

*Property and Equipment*

As of March 31, 2018, property and equipment is stated at fair value as of the Acquisition Date, with subsequent acquisitions of property and equipment recorded at cost. At the Merger Date, the carrying value of property and equipment was restated to fair value using the market approach (see Note 3, Preliminary Purchase Price Accounting), with subsequent acquisitions through March 31, 2019 recorded 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.

Estimated useful lives are 10 to 40 years for building and improvements and 3 to 20 years for equipment, furniture and fixtures.

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**(Unaudited)**

*CRDA Investment*

The CRDA cash deposits are carried at fair value and are used to purchase CRDA bonds that carry below market interest rates unless an alternative investment is approved. An allowance is established by a charge to the consolidated statement of income as part of general, administrative and other expense. If the CRDA deposits are used to purchase CRDA bonds, the 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 allowance is transferred to those investments. 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 are 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 are allocated to the State of New Jersey are no longer recorded as an investment with a corresponding allowance, but are charged directly to expense.

*Tenant Leasing Costs*

Leasing costs associated with tenant leases are capitalized as incurred and amortized evenly, as a reduction to rental income, over the related lease terms. Leasing costs consist primarily of 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 accompanying 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.

*Goodwill and Other Intangible Assets*

As of March 31, 2019, goodwill represents the excess of purchase price over fair market value of the net assets acquired in the merger transaction with ERI (see Note 3, Preliminary Purchase Price Accounting). Goodwill and indefinite-lived intangible assets must be reviewed for impairment at least annually and between annual test dates in certain circumstances.

Indefinite-lived intangible assets as of March 31, 2019 consist of the fair value of gaming licenses and trademarks as of the Merger Date (see Note 3, Preliminary Purchase Price Accounting). Indefinite-lived intangible assets are not subject to amortization but are subject to an annual impairment test. If the carrying amount of an indefinite-lived intangible assets exceeds its fair value, an impairment loss is recognized in an amount equal to that excess amount.

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.

*Financing Obligation with GLPI*

Substantially concurrently with the consummation of the sale on October 1, 2018 of TEI's real estate assets to GLPI, TEI and the Company entered into the Master Lease with GLPI (see Note 3, Preliminary Purchase Price Accounting). The Master Lease was evaluated as a sale-leaseback of real estate; however, based on certain forms of continuing involvement in the leased assets, the Master Lease did not qualify for sale-leaseback accounting, and was accounted for as a financing obligation. Under a failed sale-leaseback transaction, the real estate assets generally remain on the balance sheet at their historical net book value and are depreciated over their remaining useful lives with a failed sale-leaseback financing obligation recognized for the proceeds received. However, in the absence of cash proceeds, the value of the failed sale-leaseback financing obligations recognized is determined to be the fair value of the leased real estate assets. As a result, the Company calculated a financing obligation at the inception of the Master Lease based on the fair value of the real estate assets subject to the Master Lease (see Note 11, Other Liabilities).

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**(Unaudited)**

As described above, for failed sale-leaseback transaction, the Company continues to recognize the real estate assets on the balance sheets, as if the Company were the legal owner, and the Company continues to recognize depreciation expense over the estimated useful lives. We do not recognize rent expense related to these leased assets, rather we have recorded a liability for the failed sale-leaseback obligation and the minimum lease payments are recognized as interest expense. In the initial periods, cash payments are less than the interest expense recognized in the statement of income, which causes the failed sale-leaseback obligation to increase during the initial years of the lease term (see Note 11, Other Liabilities).

*Self-Insurance Reserves*

The Company is self-insured for various levels of general liability, employee medical insurance coverage and workers' compensation coverage. 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. The Company utilizes independent consultants to assist management in its determination of estimated insurance liabilities. 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 all insurance reserves are included in other accrued expenses on the accompanying consolidated balance sheets.

*Player Loyalty Program*

The Company offers programs at its properties whereby participating customers can accumulate points for wagering that can be redeemed for credits for free play on slot machines, lodging, food and beverage and merchandise. The incentives earned by customers under these programs are based on previous revenue transactions and represent separate performance obligations. Points earned, less estimated breakage, are recorded as a reduction of casino revenues at the standalone selling price of the points when earned based upon the retail value of the benefits, historical redemption rates and estimated breakage and recognized as departmental revenue based on where such points are redeemed upon fulfillment of the performance obligation. The loyalty program liability represents a deferral of revenue until redemption occurs, which is typically less than one year.

*Complimentaries*

The Company offers discretionary coupons and other discretionary complimentaries to customers outside of the loyalty program. The retail value of complimentary food, beverage, hotel rooms and other services provided to customers is recognized as a reduction to the revenues for the department which issued the complimentary and a credit to the revenue for the department redeemed. Complimentaries provided by third parties at the discretion and under the control of the Company are recorded as an expense when incurred.

The Company's revenues included complimentaries and loyalty point redemptions totaling \$29.5 million and \$28.2 million, for the three months ended March 31, 2019 and 2018, respectively.

*Casino Revenue*

The Company recognizes as casino revenue the net win from gaming activities, which is the difference between gaming wins and losses, not the total amount wagered. Gaming revenues are recognized net of certain cash and free play incentives as well as complimentaries.

*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* and *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.

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The State of New Jersey imposes an annual tax of 15% on iGaming gross revenue. These taxes along with expenses for software and licensing fees, royalty fees and payment processing fees are recorded as a component of casino costs & expenses. Certain marketing, advertising and administrative fees associated with the setup and ongoing support of iGaming are reflected in general and administrative expense on the accompanying consolidated statements of income.

An Internet Gaming Permit Fee at a minimum of \$250,000 along with a Responsible Internet Gaming Fee of \$250,000 is required annually. iGaming licensees are also required to remit an additional 2.5% of iGaming gross revenue to satisfy investment obligations with the CRDA.

*Non-gaming Revenue*

Hotel, food and beverage, and other operating revenues are recognized as services are performed and is the net amount collected from the customer for such goods and services. Hotel, food and beverage services have been determined to be separate, stand-alone performance obligations and is recorded as revenue as the good or service is transferred to the customer over the customer's stay at the hotel or when the delivery is made for the food and beverage. Advance deposits for future hotel occupancy, convention space or food and beverage services contracts are recorded as deferred income until the revenue recognition criteria has been met. The Company also provides goods and services that may include multiple performance obligations, such as for packages, for which revenues are allocated on a pro rata basis based on each service's stand-alone selling price.

*Advertising Costs*

The Company expenses advertising costs as incurred or the first time the advertising takes place. Advertising expense is generally recognized in general and administrative expense on the accompanying consolidated statements of income and totaled \$1.4 million and \$1.9 million for the three months ended March 31, 2019 and 2018, 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.

*Reclassifications*

Certain reclassifications of prior period presentations have been made to conform to the current period presentation.

*Pronouncements Implemented in 2019*

In February 2016 (as amended through December 2018), the FASB issued ASU No. 2016-02 codified as Accounting Standards Codification ("ASC") 842, Leases, ("ASC 842") which addresses the recognition and measurement of leases. Under the new guidance, for all leases (with the exception of short-term leases), at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to control the use of a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The effective date for this update is for the annual and interim periods beginning after December 15, 2018 with early adoption permitted. ASC 842 requires a transition adoption election using either 1) a modified retrospective approach with periods prior to the adoption date being recast or 2) a prospective adoption approach with a cumulative-effect adjustment recognized to the opening balance of retained earnings on the adoption date with prior periods continuing to be reported under current lease accounting guidance.

The Company adopted ASC 842 on January 1, 2019 using the prospective adoption approach, and therefore, comparative periods will continue to be reported under prior lease accounting guidance consistent with previously issued financial statements. We elected the package of practical expedients permitted under the transition guidance within ASC 842, which among other things, allows us to carry forward the historical lease identification, lease classification and treatment of initial direct costs for leases entered into prior to January 1, 2019. We also made an accounting policy election to not record short-term leases with an initial term of 12 months or less

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on the balance sheet for all classes of underlying assets. We have also elected to not adopt the hindsight practical expedient for determining lease terms.

Currently, the Company has operating leases in which the Company is the lessor and we expect such arrangements will be accounted for in the same manner. Our operating leases, in which we are the lessee, are recorded on the balance sheet as an ROU asset with a corresponding lease liability. The lease liability will be remeasured each reporting period with a corresponding change to the ROU asset. ROU assets and lease liabilities for operating leases totaled \$0.9 million and \$0.9 million, respectively, as of March 31, 2019. Additionally, we are in the process of evaluating our existing failed sale leaseback transactions that are currently accounted for as financing obligations. While our assessment of the impacts of the standard remains open, we do not believe the standard will significantly impact our consolidated net income.

In June 2016 (modified in November 2018), the FASB issued ASU No 2016-13, Financial Instruments – Credit Losses related to timing on recognizing impairment losses on financial assets. The new guidance lowers the threshold on when losses are incurred, from a determination that a loss is probable to a determination that a loss is expected. The change in guidance will be applicable to our evaluation of the CRDA investments. The guidance is effective for interim and annual periods beginning after December 15, 2019, and early adoption is allowed for interim and annual periods beginning after December 15, 2018. Adoption of the guidance will require a modified-retrospective approach and a cumulative adjustment to retained earnings to the first reporting period that the update is effective. We adopted this guidance during the first quarter of 2019, which had no impact or cumulative effect on our Consolidated Financial Statements.

*Pronouncements to be Implemented in Future Periods*

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. This amendment modifies the disclosure requirements for fair value measurements and is effective for annual and interim periods beginning after December 15, 2019, with early adoption allowed. The Company is evaluating the qualitative and quantitative effect the new guidance will have on our Consolidated Financial Statements.

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.

*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.

### **3. Preliminary Purchase Price Accounting**

On April 15, 2018, TEI announced that it had entered into a definitive agreement with ERI and GLPI, pursuant to which TEI agreed to sell substantially all of its gaming and hotel operations to ERI and substantially all of its real estate assets to GLPI, in a cash transaction valued at approximately \$1.9 billion. At the closing of the transaction on the Merger Date, a subsidiary of ERI merged into TEI and TEI became a wholly-owned subsidiary of ERI. Immediately prior to the merger, GLPI acquired substantially all of TEI's real estate, and ERI acquired TEI's operations and certain real estate. The real estate acquired by GLPI included the Company's former subsidiary, TAC Sub, and all of its assets, which consisted primarily of the land on which the Tropicana Atlantic City casino hotel is located.

The estimated purchase consideration in the acquisition was determined with reference to its acquisition date fair value. The total purchase price for the assets acquired by ERI was allocated to the individual TEI, including the Company, based on the fair values determined through management's analysis, including preliminary work performed by third party valuation specialist, which are subject to finalization and review. The purchase price accounting for the Company as it relates to determining the fair value of certain assets and liabilities, including goodwill, is preliminary and subject to change.

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The following table summarizes the preliminary allocation of the purchase consideration to the Company's identifiable assets acquired and liabilities assumed as of the Merger Date, with the excess recorded as goodwill as of December 31, 2018 (in thousands):

Current and other assets .....	\$ 272,400
Property and equipment .....	56,998
Property subject to the financing obligation .....	430,100
Goodwill .....	113,782
Intangible assets .....	58,268
Other noncurrent assets .....	9,461
Total assets .....	<u>941,009</u>
Current liabilities .....	(54,106)
Financing obligation to GLPI .....	(430,100)
Total liabilities .....	<u>(484,206)</u>
Net assets acquired .....	<u>\$ 456,803</u>

Valuation methodologies under both a market and income approach used for the identifiable net assets acquired in the Merger Agreement make use of Level 3 inputs including discounted cash flows.

Trade receivables and payables, inventory, and other current and noncurrent assets and liabilities were valued at the existing carrying values as they represented the estimated fair value of those items at the Merger Date.

The fair value of land (excluding the real property acquired by GLPI) was determined using the market approach, which arrives at an indication of value by comparing the site being valued to sites that have been recently acquired in arm's-length transactions. The market data is then adjusted for any significant differences, to the extent known, between the identified comparable sites and the site being valued. Building and site improvements were valued using the cost approach using a direct cost model built on estimates of replacement cost. With respect to personal property components of the assets, personal property assets with an active and identifiable secondary market such as gaming equipment, computer equipment, and vehicles were valued using the market approach. Other personal property assets such as furniture, fixtures, computer software, and restaurant equipment were valued using the cost approach which is based on replacement or reproduction costs of the asset. The cost approach is an estimate of fair value developed by computing the current cost of replacing a property and subtracting any depreciation resulting from one or more of the following factors: physical deterioration, functional obsolescence, and/or economic obsolescence. The income approach incorporates all tangible and intangible property and served as a ceiling for the fair values of the acquired assets of the ongoing business enterprise, while still taking into account the premise of highest and best use. In the instance where the business enterprise value developed via the income approach was exceeded by the initial fair values of the underlying assets, an adjustment to reflect economic obsolescence was made to the tangible assets on a pro rata basis to reflect the contributory value of each individual asset to the enterprise as a whole.

The real estate assets that were sold to GLPI and leased back by the Company were first adjusted to fair value concurrently with the acquisition of TEI. The fair value of the properties were determined utilizing the direct capitalization method of the income approach. In allocating the fair value to the underlying acquired assets, a fair value for the buildings and improvements was determined using the above mentioned cost approach method. To determine the underlying land value, the extraction method was applied, wherein the fair value of the building and improvements was deducted from the fair value of the property as derived from the direct capitalization approach to determine the fair value of the land. The fair value of GLPI's real estate assets related to the Tropicana Atlantic City was determined to be \$430.1 million.

The fair value of the gaming licenses was determined using the excess earnings or replacement cost methodology, based on whether the license resides in gaming jurisdictions where competition is limited to a specified number of licensed gaming operators. The excess earnings methodology is an income approach methodology that estimates the projected cash flows of the business attributable to the gaming license intangible asset, which is net of charges for the use of other identifiable assets of the business including working capital, fixed assets and other intangible assets. Under the respective state's gaming legislation, the property specific licenses can only be acquired if a theoretical buyer were to acquire each existing facility. The existing licenses could not be acquired and used for a different facility. The estimated future cash flows of the Company were the primary assumption in the valuation of the gaming license. The replacement cost methodology is a cost approach methodology based on replacement or reproduction cost of the gaming license as an

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indicator of fair value.

The Company has preliminarily assigned an indefinite useful life to the gaming licenses, in accordance with its review of the applicable guidance of ASC 350. The Company considered, among other things, the expected use of the asset, the expected useful life of other related assets or asset groups, any legal, regulatory, or contractual provisions that may limit the useful life, the Company's own historical experiences in renewing similar arrangements, the effects of obsolescence, demand and other economic factors, and the maintenance expenditures required to obtain the expected cash flows. The Company determined that no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of its New Jersey gaming licenses. The renewal of the Company's New Jersey gaming licenses depends on a number of factors, including payment of certain fees and taxes, providing certain information to the New Jersey gaming regulators, and meeting certain inspection requirements. However, the Company does not expect any limitations regarding its ability to continue to renew each license, and no other competitive, contractual, or economic factor limits the useful life of this asset. Accordingly, the Company has preliminarily concluded that the useful life of its gaming license is indefinite.

Trade names are valued using the relief from royalty method, which presumes that without ownership of such trademarks, the Company would have to make a stream of payments to a brand or franchise owner in return for the right to use their name. By virtue of this asset, the Company avoids any such payments and records the related intangible value of the Company's ownership of the brand name. The primary assumptions in the valuation included revenue, pre-tax royalty rate, and tax expense. The Company has preliminarily assigned an indefinite useful life to the trade names after considering, among other things, the expected use of the asset, the expected useful life of other related assets or asset groups, any legal, regulatory, or contractual provisions that may limit the useful life, ERI's historical experience in renewing similar arrangements, the effects of obsolescence, demand and other economic factors, and the maintenance expenditures required to obtain the expected cash flows. In that analysis, the Company determined that no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of these intangible assets.

Player loyalty programs were valued using the cost approach and the incremental cash flow method under the income approach. The incremental cash flow method is used to estimate the fair value of an intangible asset based on a residual cash flow notion. This method measures the benefits (e.g., cash flows) derived from ownership of an acquired intangible asset as if it were in place, as compared to the acquirer's expected cash flows as if the intangible asset were not in place (i.e., with-and-without). The residual or net cash flows of the two models is ascribable to the intangible asset. The Company has preliminarily estimated a 3-year useful life on the player loyalty programs.

Goodwill is the result of expected synergies from combining operations of the acquired and the acquirer. The goodwill is fully amortizable for tax purposes.



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**4. Property and Equipment**

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

	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2018</u>
<b>Non-Master Lease:</b>		
Land and land improvements.....	\$ —	\$ 69,691
Building and improvements.....	7,712	186,864
Furniture, fixtures and equipment.....	54,444	117,080
Construction in progress .....	6,006	9,311
	<u>68,162</u>	<u>382,946</u>
Less: accumulated depreciation and amortization .....	(7,439)	(131,624)
	<u>60,723</u>	<u>251,322</u>
<b>Master Lease:</b>		
Land and land improvements.....	129,150	—
Building and improvements.....	300,950	—
	<u>430,100</u>	<u>—</u>
Less: accumulated depreciation and amortization .....	(3,984)	—
	<u>426,116</u>	<u>—</u>
Total property and equipment.....	<u><u>\$486,839</u></u>	<u><u>\$ 251,322</u></u>

Depreciation expense related to property and equipment was \$5.7 million and \$7.3 million for the three months ended March 31, 2019 and 2018 respectively.

**5. Other Current Assets**

Other current assets consist of the following (in thousands):

	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2018</u>
Prepaid insurance.....	\$ 172	1,989
Prepaid taxes and licenses.....	473	460
Prepaid contracts.....	527	435
Prepaid special events.....	230	749
Other .....	851	943
	<u>851</u>	<u>943</u>
Total other current assets .....	<u><u>\$ 2,253</u></u>	<u><u>\$ 4,576</u></u>

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**6. Investments, Advances and Receivables**

Investments, advances and receivables consist of the following (in thousands):

	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2018</u>
CRDA bonds and deposits, net .....	\$ 6,403	\$ 7,114
Related party receivables:		
Due from Tropicana Entertainment Inc. ....	235,284	192,012
Due from TEI (ES) LLC .....	1,051	881
Due from Centroplex-Baton Rouge .....	466	414
Due from Evansville. ....	434	354
	<u>\$ 243,638</u>	<u>\$ 200,775</u>

*CRDA 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.

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 three months ended March 31, 2019 and 2018, the Company recorded a credit of \$7,000 and expense of 286,000, 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 12, 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 expense. During the three months ended March 31, 2019 and 2018, the Company recorded expense of \$1.1 million and \$0.9 million, 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.

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*Related Party Receivables*

Transactions with TEI included activity principally related to the Term Loan Facility through its termination on the Merger Date, joint insurance programs, federal income tax filings, and other administrative services. TEI provided various corporate services to the Company during the three months ended March 31, 2019 and 2018, under the terms of a Shared Services Agreement with TEI, which was executed in 2011, for which a management fee was charged. For the three months ended March 31, 2019 and 2018 the Company recorded management fee expense of \$0.7 million and \$1.9 million, respectively, as per the terms of the Shared Services Agreement.

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 TEI.

Commencing with the Merger Date, ERI provides various corporate services to the Company; transactions with ERI include activity principally related to the Master Lease, joint insurance programs, tax filings and other administrative services.

**7. Other Assets**

Other assets consist of the following (in thousands):

	<b>March 31, 2019</b>	<b>March 31, 2018</b>
Goodwill .....	\$ 113,782	\$ —
Intangible asset – gaming licenses.....	1,068	—
Intangible asset – trade names .....	27,000	—
Intangible asset – player loyalty programs/customer list.....	30,200	5,625
Deferred tax assets.....	1,322	83,031
Long term deposits and other assets .....	2,363	3,606
	<u>175,735</u>	<u>92,262</u>
Less: accumulated amortization – player loyalty programs/customer list ...	<u>(5,033)</u>	<u>(625)</u>
	<u>(5,033)</u>	<u>(625)</u>
Other assets.....	<u>\$ 170,702</u>	<u>\$ 91,637</u>

Goodwill represents the excess of the purchase price over the fair market value of the assets acquired resulting from the acquisition of the Company on the Merger Date.

Gaming licenses, trade names and player loyalty programs at March 31, 2019 represent the fair value of intangible assets acquired resulting from the acquisition of the Company on the Merger Date (see Note 3, Preliminary Purchase Price Accounting). The intangible asset related to player loyalty programs is being amortized on a straight-line basis over three years.

On March 31, 2017, TEI purchased the Taj Mahal customer database and certain other intellectual property owned by Trump Entertainment Resorts, Inc. (“TER”), for an aggregate purchase price of \$8.05 million (see Note 13, Related Parties). The value of the customer database purchased was estimated to be \$7.5 million, and was being amortized over three years on a straight-line basis. As a result of the purchase of the Company on the Merger Date, the remaining value of the list acquired was adjusted in conjunction with the purchase accounting adjustments.

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**8. Other Accrued Expenses**

Other accrued expenses consist of the following (in thousands):

	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2018</u>
Accrued payroll, taxes and benefits .....	\$ 8,479	\$ 9,438
Loyalty program liabilities.....	3,123	3,303
Insurance reserves.....	9,184	7,772
Other .....	4,782	4,543
Total other accrued expenses .....	<u>\$ 25,568</u>	<u>\$ 25,056</u>

**9. Other Current Liabilities**

Other current liabilities consist of the following (in thousands):

	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2018</u>
Due to Eldorado Resorts Inc.....	\$ 19,513	\$ —
Unredeemed chip liability.....	1,971	3,749
Other .....	6,708	5,523
Total other current liabilities.....	<u>\$ 28,192</u>	<u>\$ 9,272</u>

**10. Long-Term Debt**

As of March 31, 2018, TEI had long-term debt where the Company was a guarantor and substantially all of the Company's property and equipment was pledged as collateral. At March 31, 2018, the Company's allocated portion of TEI's Term Loan Facility (as described below) was \$37.1 million, net of unamortized discount of \$72,000 and debt issuance costs of \$239,000.

On November 27, 2013, TEI 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"). The Term Loan Facility was amortized in equal quarterly installments in an amount of \$750,000, with any remaining balance payable on the final maturity date of the Term Loan Facility, which was November 27, 2020. The Revolving Facility was terminated by TEI 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.

The Term Loan Facility accrued 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% annually.

The Term Loan Facility could be prepaid at the option of TEI at any time without penalty (other than customary LIBO Rate breakage fees). TEI made four optional prepayments of principal on the Term Loan Facility totaling \$225 million, between September 2017 and July 2018. The remaining outstanding balance of the Term Loan Facility was paid in full on October 1, 2018 in connection with the acquisition of TEI by ERI and GLPI (see Note 1 – Merger Agreement).

**11. Other Liabilities**

Other liabilities at March 31, 2019 of \$432.4 million consists of that portion of the Master Lease allocated to the Company based on the fair value of the leased assets attributable to the Company.

ERI's Master Lease with GLPI is accounted for as a failed sale-leaseback financing obligation equal to the fair value of the leased real estate assets. Under the terms of the Master Lease, and based on certain prohibited forms of continuing involvement in the leased assets, the Master Lease did not qualify for sale-leaseback accounting and was accounted for as a financing obligation.

When cash proceeds are exchanged, a failed sale-leaseback financing obligation is equal to the proceeds received for the assets that are sold and then leased back. However, in the absence of cash proceeds, the value of the failed sale-leaseback financing obligations

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recognized in this transaction was determined to be the fair value of the leased real estate assets. In subsequent periods, a portion of the periodic lease payment under the Master Lease will be recognized as interest expense with the remainder of the lease payment reducing the failed sale-leaseback financing obligation using the effective interest method. However, the failed sale-leaseback obligations will not be reduced to less than the net book value of the leased real estate assets as of the end of the lease term.

The fair value of the real estate assets and the related failed sale-leaseback financing obligations were estimated based on the present value of the estimated future lease payments over the lease term of 35 years, including renewal options, using an imputed discount rate of approximately 10.2%. The value of the failed sale-leaseback financing obligations is dependent upon assumptions regarding the amount of the lease payments and the estimated discount rate of the lease payments required by a market participant.

The Master Lease provides for the lease of land, buildings, structures and other improvements on the land, easements and similar appurtenances to the land and improvements relating to the operation of the leased properties. The Master Lease provides for an initial term of fifteen years with no purchase option. At ERI's option, the Master Lease may be extended for up to four five-year renewal terms beyond the initial 15-year term. If ERI elects to renew the term of the Master Lease, the renewal will be effective as to all, but not less than all, of the leased property then subject to the Master Lease. ERI does not have the ability to terminate its obligations under the Master Lease prior to its expiration without GLPI's consent.

The total rent payable under the Master Lease is comprised of "Base Rent" and "Percentage Rent." Base rent is the sum of:

- Building Base Rent: a fixed component equal, in the aggregate, to \$60.9 million during the first year of the Master Lease, and thereafter escalated annually by 2%, subject to a cap that would cause the preceding year's adjusted revenue to rent ratio for the properties in the aggregate not to fall below 1.20:1.00 for the first five years of the Master Lease and 1.80:1.00 thereafter, plus
- Land Base Rent: an additional fixed component equal, in the aggregate, to \$13.4 million, subject to adjustment in the event of the termination of the Master Lease with respect to any of the leased properties.

The Percentage Rent payable under the Master Lease is adjusted every two years based on the actual net revenues of the leased properties during the two-year period then ended. The initial variable rent percentage, which is fixed for the first two years, is \$13.4 million per year. The actual percentage increase is based on actual performance and is subject to change.

Under the Master Lease, ERI is required to pay the following, among other things: lease payments to the underlying ground lessor for properties that are subject to ground leases, facility maintenance costs, all insurance premiums for insurance with respect to the leased properties and the business conducted on the leased properties, taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor) and all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

Interest expense under the Master Lease for the period January 1, 2019 to March 31, 2019 recognized by the Company was approximately \$11.0 million. For the initial periods of the Master Lease, cash payments are less than the interest expense recognized, which causes the failed sale-leaseback obligation to increase during the initial years of the lease term.

The Master Lease contains certain covenants, including minimum capital improvement expenditures.

The payment of all monetary obligations under the Master Lease is guaranteed by ERI.

## **12. 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 the Company continued to meet the statutory requirements of N.J.S.A. 5:12-84 and 85 for retention of its casino license.

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*New Jersey Gross Casino Revenue Tax and Casino Investment Alternative Tax*

The State of New Jersey imposes an annual tax of 8% on gross casino revenue, an annual tax of 15% on IGaming gross revenue, and an annual tax of 8.5% for on-site sports wagering gross revenue, which commenced in October 2018 at the Property. Casino license holders or IGaming permit holders are required to remit an additional 1.25% of gross casino revenue and sports wagering gross 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.

*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 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. The aggregate amount of PILOT Payments owed to the City of Atlantic City by Atlantic City casino gaming properties for calendar year 2018 was \$130 million and for calendar year 2019 will be \$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.

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 "Tax 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 Tax Settlement Agreement, among other things, provided for refunds in the aggregate amount of \$36.8 million in respect of the Pending Tax Appeals and the Company's 2017 PILOT Payment. The Company received full payment of the refunds in October 2017. In addition, the Tax Settlement Agreement provided 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 \$19.8 million to \$8.4 million, and the expense associated with the Company's PILOT Payments for each of the calendar years 2018 through 2021.

The NJ PILOT Law also provided for the abolishment, effective January 1, 2015, of the Atlantic City Alliance ("ACA"), which had been established in 2011 as a five-year public private partnership with the casinos in Atlantic City to jointly market the city. The \$30 million in ACA funds paid by the casinos for each of the years 2015 and 2016 under the Tourism District Law was redirected to the State of New Jersey for Atlantic City fiscal relief. Additional payments under the NJ PILOT Law of \$15 million in 2017, \$10 million in 2018 and \$5 million for each year between 2019 and 2023 are to be made 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

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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.

**13. Related Parties**

In addition to on-going related-party transactions as described in Note 6, Investments, advances and receivables, prior to the Merger Date approximately 83.9% of TEI's common stock was owned by Carl Icahn through certain affiliates. The Company had certain transactions with Mr. Icahn's affiliated companies through the Merger Date, as described below.

*Database License and IP Sales Agreements*

Effective October 1, 2016, the Company and 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 TEI entered into a Customer Database and IP Sales Agreement, pursuant to which TEI purchased the Taj Mahal customer database. TEI estimated the value of the customer database to be \$7.5 million, 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 was recognized in depreciation and amortization on the statements of income and totaled \$0.6 million for the three months ended March 31, 2018. As a result of the purchase of the Company on October 1, 2018, the remaining value of the list acquired was adjusted in conjunction with the purchase accounting adjustments.

**14. Leases**

For the three months ended March 31, 2019 and 2018, the Company recorded total rental income, including minimum and excess rental income of \$1.6 million and \$1.4 million, respectively, which is included as a component of other revenue on the accompanying consolidated statements of income.

The future minimum lease payments to be received under non-cancelable operating leases for the nine months and years subsequent to March 31, 2019 are as follows (in thousands):

2019 .....	\$ 3,578
2020 .....	3,648
2021 .....	3,442
2022 .....	3,196
2023 .....	2,320
Thereafter.....	2,189
	<u>\$ 18,373</u>

The above minimum rental income does not include contingent rental income or common area maintenance costs contained within certain retail operating leases.

**15. Employee Benefit Plans**

*Variable Annuity Pension 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. 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

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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 \$10.7 million. 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>Three Months Ended March 31, 2019</b>
Service costs.....	\$ 813
Interest costs.....	157
Expected return on plan assets .....	(187)
Net periodic benefit cost.....	\$ 783

Net periodic benefit costs are reported in the various operating departments in the accompanying consolidated statement of income for 2019.

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

	<b>Three Months Ended March 31, 2019</b>
Change in benefit obligations	
Projected benefit obligation, beginning of period .....	\$ 12,650
Service and interest cost during period.....	970
Benefit payments during the period.....	(31)
Expenses during the period.....	(105)
Projected benefit obligation, end of period .....	\$ 13,484
Change in plan assets:	
Fair value of plan assets, beginning of period .....	\$ 14,330
Return on plan assets during period.....	187
Benefit payments during period.....	(31)
Expenses during period .....	(105)
Fair value of plan assets, end of period .....	\$ 14,381
Funded status at end of period .....	\$ 897



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Future estimated expected benefit payments for 2019 through 2028 are as follows (in thousands):

	<b>Expected Benefit Payments</b>
2019.....	\$ 125
2020.....	172
2021.....	236
2023.....	446
2024 through 2028 .....	3,879
	\$ 5,204

The Company's net periodic pension cost for the year ended December 31, 2019 is expected to be approximately \$3.1 million.

**17. Other Non-Operating Income (Expense), net**

Non-operating income (expense), net for the three months ended March 31, 2019 and 2018 consisted of the following (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Interest income.....	\$ 43	\$ 52
Loss on disposal of asset.....	(57)	(53)
	\$ (14)	\$ (1)

**18. Subsequent Events**

The Company evaluated subsequent events through May 15, 2019, the date the financial statements were available to be issued, and all applicable disclosures have been made throughout the footnotes.