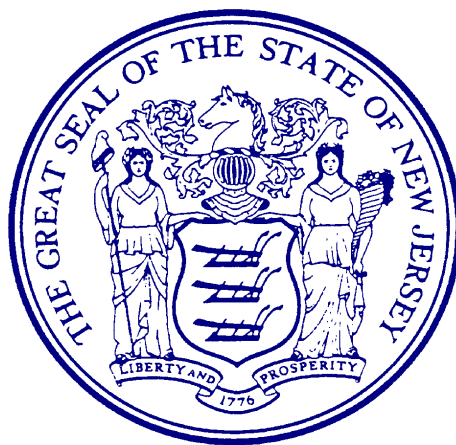


**GOLDEN NUGGET ATLANTIC CITY, LLC  
QUARTERLY REPORT**

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

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



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

# GOLDEN NUGGET ATLANTIC CITY, LLC

## BALANCE SHEETS

AS OF JUNE 30, 2020 AND 2019

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	3	\$38,688	\$30,033
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2020, \$1,316 ; 2019, \$1,327).....	4	67,829	38,862
4	Inventories .....	2	2,461	2,624
5	Other Current Assets.....	5	7,852	2,459
6	Total Current Assets.....		116,830	73,978
7	Investments, Advances, and Receivables.....	11	0	0
8	Property and Equipment - Gross.....	6	197,108	193,584
9	Less: Accumulated Depreciation and Amortization.....		(76,268)	(68,514)
10	Property and Equipment - Net.....		120,840	125,070
11	Other Assets.....	7	6,538	9,496
12	Total Assets.....		\$244,208	\$208,544
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$11,355	\$6,870
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....	9	984	267
17	Income Taxes Payable and Accrued.....		25,207	16,034
18	Other Accrued Expenses.....	8	49,424	39,081
19	Other Current Liabilities.....	8	23,656	18,581
20	Total Current Liabilities.....		110,626	80,833
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	0
22	External.....	9	281,912	474
23	Deferred Credits .....		3,526	2,483
24	Other Liabilities.....		0	0
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		396,064	83,790
27	Stockholders', Partners', or Proprietor's Equity.....		(151,856)	124,754
28	Total Liabilities and Equity.....		\$244,208	\$208,544

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	Revenue:			
1	Casino.....	2	\$57,907	\$73,854 *
2	Rooms.....		3,132	9,484
3	Food and Beverage.....		7,545	19,989
4	Other.....		8,746	11,628
5	Net Revenue.....	2	77,330	114,955 *
	Costs and Expenses:			
6	Casino.....	2	42,512	49,711
7	Rooms, Food and Beverage.....	2	8,149	19,211
8	General, Administrative and Other.....	2	16,212	26,679
9	Total Costs and Expenses.....		66,873	95,601
10	Gross Operating Profit.....		10,457	19,354
11	Depreciation and Amortization.....		4,355	4,451
	Charges from Affiliates Other than Interest:			
12	Management Fees.....		0	0
13	Other.....	12	0	0
14	Income (Loss) from Operations.....		6,102	14,903
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		0	0
16	Interest Expense - External.....		(7,798)	(13)
17	CRDA Related Income (Expense) - Net.....	11	(1,650)	(1,889)
18	Nonoperating Income (Expense) - Net.....		0	13
19	Total Other Income (Expenses).....		(9,448)	(1,889)
20	Income (Loss) Before Taxes .....		(3,346)	13,014
21	Provision (Credit) for Income Taxes.....		5,577	3,040
22	Net Income (Loss).....		(\$8,923)	\$9,974

\* Prior year balances changed to confirm with current year presentation.

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	Revenue:			
1	Casino.....	2	\$22,105	\$36,785 *
2	Rooms.....		0	5,159
3	Food and Beverage.....		44	10,523
4	Other.....		3,542	6,543
5	Net Revenue.....	2	25,691	59,010 *
	Costs and Expenses:			
6	Casino.....	2	17,914	25,075
7	Rooms, Food and Beverage.....	2	354	10,192
8	General, Administrative and Other.....	2	4,290	13,701
9	Total Costs and Expenses.....		22,558	48,968
10	Gross Operating Profit.....		3,133	10,042
11	Depreciation and Amortization.....		2,174	2,215
	Charges from Affiliates Other than Interest:			
12	Management Fees.....		0	0
13	Other.....	12,12	0	0
14	Income (Loss) from Operations.....		959	7,827
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....		0	0
16	Interest Expense - External.....		(7,780)	(12)
17	CRDA Related Income (Expense) - Net.....	11	(704)	(945)
18	Nonoperating Income (Expense) - Net.....		1	9
19	Total Other Income (Expenses).....		(8,483)	(948)
20	Income (Loss) Before Taxes .....		(7,524)	6,879
21	Provision (Credit) for Income Taxes.....		2,785	104
22	Net Income (Loss).....		(\$10,309)	\$6,775

\* Prior year balances changed to confirm with current year presentation.

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

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019  
AND THE SIX MONTHS ENDED JUNE 30, 2020

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2018.....		\$119,054	(\$23,020)		\$96,034
2	Net Income (Loss) - 2018.....			42,099		42,099
3	Capital Contributions.....		0			0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2019.....		119,054	19,079	0	138,133
11	Net Income (Loss) - 2020.....			(8,923)		(8,923)
12	Capital Contributions.....		6,934			6,934
13	Capital Withdrawals.....		(288,000)			(288,000)
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, June 30, 2020.....		(\$162,012)	\$10,156	\$0	(\$151,856)

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$9,607)	\$8,714
	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.....		(579)	(4,167)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(476)	(1,180)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....			
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(1,055)	(5,347)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....		(432)	613
15	Proceeds from Long-Term Debt .....		288,000	
16	Costs of Issuing Debt.....		0	
17	Payments to Settle Long-Term Debt.....			0
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21	Issuance on Notes Receivable .....		(288,000)	
22				
23	Net Cash Provided (Used) By Financing Activities.....		(432)	613
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(11,094)	3,980
25	Cash and Cash Equivalents at Beginning of Period.....		49,782	26,053
26	Cash and Cash Equivalents at End of Period.....		\$38,688	\$30,033
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$29	\$7
28	Income Taxes.....			

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

# GOLDEN NUGGET ATLANTIC CITY, LLC

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2020 (c)	2019 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$8,923)	\$9,974
30	Depreciation and Amortization of Property and Equipment.....		4,355	4,451
31	Amortization of Other Assets.....			
32	Amortization of Debt Discount or Premium.....		831	
33	Deferred Income Taxes - Current .....		1,356	(393) *
34	Deferred Income Taxes - Noncurrent .....			
35	(Gain) Loss on Disposition of Property and Equipment.....			
36	(Gain) Loss on CRDA-Related Obligations.....		476	1,208
37	(Gain) Loss from Other Investment Activities.....		0	
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(8,016)	(13,595)
39	(Increase) Decrease in Inventories .....		36	(17)
40	(Increase) Decrease in Other Current Assets.....		1,103	70
41	(Increase) Decrease in Other Assets.....		102	(609)
42	Increase (Decrease) in Accounts Payable.....		(3,494)	(1,154) *
43	Increase (Decrease) in Other Current Liabilities .....		(4,309)	8,769 *
44	Increase (Decrease) in Other Liabilities .....		6,876	10 *
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		(\$9,607)	\$8,714

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$579)	(\$4,167)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$579)	(\$4,167)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
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

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

**GOLDEN NUGGET ATLANTIC CITY, LLC**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

FOR THE SIX MONTHS ENDED JUNE 30, 2020  
(UNAUDITED)  
(\$ IN THOUSANDS)

Amended 5/11/21

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	35,034	\$1,674	0	\$0
2	Food	59,610	1,579	16,925	1,015
3	Beverage	137,205	1,098	0	0
4	Travel	0	0	758	37
5	Bus Program Cash	0	0	0	0
6	Promotional Gaming Credits	50,851	5,792	0	0
7	Complimentary Cash Gifts	25,425	775	0	0
8	Entertainment	0	0	0	0
9	Retail & Non-Cash Gifts	66,350	849	0	0
10	Parking	0	0	136,955	547
11	Other	5,020	93	0	0
12	Total	379,495	\$11,860	154,638	\$1,599

FOR THE THREE MONTHS ENDED JUNE 30, 2020

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	0	\$0	0	\$0
2	Food	0	0	0	\$0
3	Beverage	0	0	0	\$0
4	Travel	0	0	0	\$0
5	Bus Program Cash	0	0	0	\$0
6	Promotional Gaming Credits	0	0	0	\$0
7	Complimentary Cash Gifts	0	0	0	\$0
8	Entertainment	0	0	0	\$0
9	Retail & Non-Cash Gifts	0	0	0	\$0
10	Parking	0	0	0	\$0
11	Other	0	0	0	\$0
12	Total	0	\$0	0	\$0

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

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



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

FOR THE QUARTER ENDED JUNE 30, 2020

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

8/17/2020

Date



Michael Rodriguez

Vice President of Finance

Title

9254-11

License Number

On Behalf of:

GOLDEN NUGGET ATLANTIC CITY, LLC

Casino Licensee

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

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

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

### *Merger Transaction*

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

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

### *COVID-19*

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

### *Basis of Presentation*

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

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

***Use of Estimates***

The preparation of financial statements in conformity with Accounting Principles Generally Accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Revenue Recognition***

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

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

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

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

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

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

	<b>Three Months Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Rooms .....	\$ -	\$ 2,452
Food and beverage .....	-	3,621
Other .....	-	93
	<u>\$ -</u>	<u>\$ 6,166</u>

***Slot Player Club Liability***

We have established promotional slot and player clubs to encourage repeat business from frequent and active slot machine customers and table games patrons. Members earn points based on gaming activity and such points can

be redeemed for complimentary amenities, including meals in our non casino restaurants. The incentives earned by customers under these programs are based on their past play and represent separate performance obligations. Player club points generally expire within twelve months.

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

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

### ***Accounts Receivable***

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

### ***Financial Instruments***

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

The fair value of GNOG's long-term debt is determined by Level 1 measurements based on quoted market prices. The fair value and carrying value of the GNOG debt as of June 30, 2020 was \$340.9 million and \$288.5 million, respectively. The fair value of the GNOG note receivable is determined using level 3 measurements, as it has substantially the same terms as the term loan, the fair value of the note receivable is estimated to be the same.

### ***Inventories***

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

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

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

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

### ***Insurance Liability***

We maintain large deductible insurance policies related to property, general liability, workers' compensation coverage, and certain employee medical claims. Predetermined loss limits have been arranged with insurance

companies to limit our per occurrence cash outlay. Accrued liabilities include the estimated costs to settle unpaid claims and estimated incurred but not reported claims using actuarial methodologies.

### ***Advertising Costs***

Advertising costs are expensed as incurred during such year. Advertising costs, included in casino, food and beverage, and general and administrative expense, were \$4.6 million and \$2.5 for the three months ended June 30, 2020 and 2019, respectively, and \$7.9 million and \$5.3 million for the six months ended June 30, 2020 and 2019, respectively.

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

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

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

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

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

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

### 3. CASH & CASH EQUIVALENTS

Pursuant to N.J.A.C 13:69 1.3(j) we maintain a separate New Jersey bank account to ensure security of funds held in patrons' internet gaming accounts. On June 30, 2020, the above mentioned account balance was \$27.3 million and patron deposits in internet gaming accounts were \$3.2 million.

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

	<u>2020</u>	<u>2019</u>
Unrestricted Cash .....	\$ 11,395	\$ 9,184
Restricted cash internet accounts .....	27,293	20,849
Total .....	<u>\$ 38,688</u>	<u>\$ 30,033</u>

### 4. ACCOUNTS RECEIVABLE

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

	<u>2020</u>	<u>2019</u>
Gaming .....	\$ 2,707	\$ 4,687
Allowance .....	(1,547)	(1,401)
Non-Gaming .....	66,706	35,660
Allowance hotel .....	(37)	(84)
Total .....	<u>\$ 67,829</u>	<u>\$ 38,862</u>

### 5. OTHER CURRENT ASSETS

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

	<u>2020</u>	<u>2019</u>
Prepaid insurance .....	\$ -	\$ 98
Prepaid taxes .....	97	827
Other prepaid .....	7,755	1,534
Total .....	<u>\$ 7,852</u>	<u>\$ 2,459</u>

### 6. PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land .....	\$ 17,650	\$ 17,650
Building and improvements .....	113,311	111,962
Furniture, fixtures, equipment .....	66,147	63,972
Property and equipment, gross .....	197,108	193,584
Accumulated depreciation .....	(76,268)	(68,514)
Property and equipment, net .....	<u>\$ 120,840</u>	<u>\$ 125,070</u>

## 7. OTHER ASSETS

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

	<u>2020</u>	<u>2019</u>
Deferred cost .....	\$ 3,848	\$ 5,583
Software .....	2,283	3,121
Deposits .....	407	792
Total .....	<u>\$ 6,538</u>	<u>\$ 9,496</u>

## 8. OTHER ACCRUED EXPENSES & LIABILITIES

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

	<u>2020</u>	<u>2019</u>
Payroll and related expenses .....	\$ 3,756	\$ 5,442
Deposits .....	1,260	1,591
Other .....	44,408	32,048
Total accrued expenses .....	<u>49,424</u>	<u>39,081</u>

	<u>2020</u>	<u>2019</u>
Gaming .....	\$ 1,332	\$ 980
Other .....	22,324	17,601
Total accrued expenses .....	<u>23,656</u>	<u>18,581</u>

## 9. LONG-TERM DEBT AND NOTE RECEIVABLE

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

	<u>2020</u>	<u>2019</u>
\$300.0 million term loan, Libor + 12% (floor 1%), interest only due October 4, 2023 .....	\$ 300,000	\$ -
Various equipment loans, 5.0% - 5.76%, due July 2019 through July 2021 .....	1,119	742
Less: Deferred financing costs .....	(6,701)	-
Less: Unamortized discount .....	(11,522)	-
Total debt, net of unamortized discounts and debt issuance costs .....	282,896	742
Less current portion .....	(984)	(268)
Long-term portion .....	<u>\$ 281,912</u>	<u>\$ 474</u>

On April 28, 2020, GNOG entered into a term loan credit agreement that is comprised of a \$300.0 million interest only term loan due October 4, 2023. Proceeds received from the term loan were sent to an indirect subsidiary of FEI, who issued us a note receivable due October 2024 to GNI with substantially similar terms as our credit agreement. The proceeds were in turn loaned to GNI under substantially identical terms. The note receivable from an indirect subsidiary FEI is accounted for as contra-equity, similar to a subscription receivable, with interest and accretion of the original issue discount accounted for as additional capital contributions. Both the term loan and the note receivable were issued at a 4% discount. The term loan and associated note receivable both bear interest at LIBOR plus 12% and interest payments are made quarterly. The term loan is secured by the note receivable which effectively, but indirectly provides pari passu security interest with GNI's senior secured credit facility.

The term loan credit agreement contains certain negative covenants including restrictions on incurring additional indebtedness or liens, liquidation or dissolution, limitations on disposal of assets and paying dividends. The term loan credit agreement also contains a make-whole provision that is in effect through April 2022 and for six months thereafter is redeemable at 107%. GNOG completed a tender offer that is contingent on the successful

completion of the merger transaction for \$150.0 million of the principal under the term loan at 116%, representing a \$24.0 million premium to face value.

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

## **10. EMPLOYEE BENEFIT PLAN**

Certain of our employees are covered by union-sponsored, collective bargained, multi-employer health and welfare and defined benefit pension plans. We recorded plan related expenses of \$.1 million and \$2.6 million for the three months ended June 30, 2020 and 2019, respectively, and \$3.3 million and \$5.2 million for the six months ended June 30, 2020 and 2019, respectively.

We sponsor a qualified defined contribution retirement plan (401(k) Plan) covering our eligible, non-union employees. The 401(K) plan allows eligible employees to contribute, subject to Internal Revenue Service limitations on total annual contributions, up to 75% of their base compensation as defined in the 401(k) Plan, to various investment funds. We may match at our discretion, within prescribed limits, a portion of eligible employees' contributions. Matching contributions for both the six months ended June 30, 2020 and 2019 were immaterial. Employee contributions vest immediately while our contributions vest 20% annually beginning in the participant's second year of eligibility.

## **11. COMMITMENTS AND CONTINGENCIES**

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

As required by the provisions of the New Jersey Casino Control Act (the "Act"), a casino licensee must pay an investment alternative tax of 2.5% of its gross casino revenues and 5.0% of internet gaming revenues as defined in the Act. However, pursuant to contracts with the Casino Reinvestment Development Authority ("CRDA"), we pay 1.25% of our gross casino revenues and 2.5% of internet gaming revenues to the CRDA (the "CRDA Payment") to fund qualified investments as defined in the Act and such CRDA Payment entitles us to an investment tax credit in an amount equal to twice the amount of the CRDA Payment against the investment alternative taxes. Qualified investments may include the purchase of bonds issued by the CRDA at a below market rate of interest, direct investment in projects or donation of funds to projects as determined by the CRDA. Pursuant to the contract with the CRDA, we are required to make quarterly deposits with the CRDA to satisfy our investment obligations.

The deposits are recorded at cost less a valuation allowance. The valuation allowance is established at the time the obligation is incurred by a charge to the statement of operations as part of general and administrative expense unless there is an agreement with the CRDA for a return of the deposit at full face value. If the CRDA deposits are used to purchase CRDA bonds, the valuation allowance is transferred to the bonds as a discount, which is amortized to interest income using the interest method. If the CRDA deposits are used to make other investments, the valuation allowance is transferred to those investments and remains a valuation allowance. The CRDA bonds are classified as held-to-maturity securities and are carried at amortized cost less a valuation allowance.

For the three months ended June 30, 2020 and 2019, we charged to general and administrative expense \$1.0 million and \$1.0 million, respectively, and for the six months ended June 30, 2019 and 2018, we charged \$2.0 million and \$2.0 million, respectively.

As of June 30, 2020, the CRDA deposits and investments in CRDA Bonds reflected in non-current assets on the accompanying consolidated balance sheets, net of allowances \$16.1 million had no value. As of June 30, 2019 the deposits and bonds had a value of \$0.6 million, net of allowances of \$14.4 million.

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

In June 2016, the State of New Jersey passed legislation known as the PILOT bill which requires casino properties for 10 years, starting January 1, 2017, to make payments in lieu of property taxes based on a statutory formula. An additional part of that bill requires the casinos to make annual payments to the state starting retroactively



in 2015 through 2022 based on a similar formula. For our contribution to the state, we incurred expenses of \$0.1 million and \$0.3 million for the six months ended June 30, 2020 and 2019, respectively.

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

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

Rent expense was \$0.1 million for both the three months ended June 30, 2019 and 2018, and \$0.3 million for both the six months ended June 30, 2020 and 2019.

#### ***General Litigation***

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

## **12. TRANSACTIONS WITH AFFILIATES**

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

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

#### ***Tenant Agreement***

We have entered into certain lease agreements with affiliates wherein they operate restaurants in our casino property and we receive rental payments. Moreover, we routinely enter into certain transactions with affiliated companies. These transactions have been entered into between related parties and are not the result of arm's-length negotiations. Accordingly, the terms of the transactions may have been more or less favorable to us than might have been obtained from unaffiliated third parties. Rental revenue from the affiliates totaled \$0.1 million for both the three months ended March 31, 2020 and 2019, respectively.

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

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

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

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

## **13. SUBSEQUENT EVENTS**

We have evaluated subsequent events through August 17, 2020, which is the date our consolidated financial statements were available to be issued.