# TROPICANA CASINO AND RESORT
# QUARTERLY REPORT

## FOR THE QUARTER ENDED SEPTEMBER 30, 2021

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

**OFFICE OF FINANCIAL INVESTIGATIONS**
**REPORTING MANUAL**

# TROPICANA CASINO AND RESORT
# BALANCE SHEETS

AS OF SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) | |
|---|---|---|---|---|---|
| | ASSETS: | | | | |
| | Current Assets: | | | | |
| 1 | Cash and Cash Equivalents | | $19,940 | $29,158 | |
| 2 | Short-Term Investments | | 0 | 0 | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2021, $3,153 ; 2020, $5,400 | 2 | 15,695 | 13,017 | |
| 4 | Inventories | | 1,530 | 3,152 | |
| 5 | Other Current Assets | 4 | 2,393 | 2,704 | |
| 6 | Total Current Assets | | 39,558 | 48,031 | |
| 7 | Investments, Advances, and Receivables | 5 | 260,843 | 207,078 | * |
| 8 | Property and Equipment - Gross | 3 | 516,854 | 514,391 | |
| 9 | Less: Accumulated Depreciation and Amortization | 3 | (74,159) | (51,718) | |
| 10 | Property and Equipment - Net | 3 | 442,695 | 462,673 | |
| 11 | Other Assets | 6 | 140,921 | 153,045 | * |
| 12 | Total Assets | | $884,017 | $870,827 | * |
| | LIABILITIES AND EQUITY: | | | | |
| | Current Liabilities: | | | | |
| 13 | Accounts Payable | | $6,769 | $9,801 | |
| 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 | 7 | 25,600 | 23,605 | |
| 19 | Other Current Liabilities | 8 | 10,655 | 8,925 | |
| 20 | Total Current Liabilities | | 43,024 | 42,331 | |
| | Long-Term Debt: | | | | |
| 21 | Due to Affiliates | | 0 | 0 | |
| 22 | External | | 0 | 0 | |
| 23 | Deferred Credits | | 0 | 0 | |
| 24 | Other Liabilities | 9 | 444,064 | 440,097 | |
| 25 | Commitments and Contingencies | | 0 | 0 | |
| 26 | Total Liabilities | | 487,088 | 482,428 | |
| 27 | Stockholders', Partners', or Proprietor's Equity | | 396,929 | 388,399 | * |
| 28 | Total Liabilities and Equity | | $884,017 | $870,827 | * |

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

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

# TROPICANA CASINO AND RESORT
# STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | 2 | $149,256 | $101,965 |
| 2 | Rooms | 2 | 72,887 | 30,932 |
| 3 | Food and Beverage | 2 | 15,235 | 9,779 |
| 4 | Other | 2 | 10,621 | 7,451 |
| 5 | Net Revenue | | 247,999 | 150,127 |
| | Costs and Expenses: | | | |
| 6 | Casino | 2 | 53,283 | 43,229 |
| 7 | Rooms, Food and Beverage | 2 | 29,915 | 26,856 |
| 8 | General, Administrative and Other | 2 | 72,451 | 66,524 |
| 9 | Total Costs and Expenses | | 155,649 | 136,609 |
| 10 | Gross Operating Profit | | 92,350 | 13,518 |
| 11 | Depreciation and Amortization | 3 | 24,554 | 29,110 |
| | Charges from Affiliates Other than Interest: | | | |
| 12 | Management Fees | | 0 | 0 |
| 13 | Other | 5 | 5,419 | 0 |
| 14 | Income (Loss) from Operations | | 62,377 | (15,592) |
| | Other Income (Expenses): | | | |
| 15 | Interest Expense - Affiliates | 9 | (32,401) | (32,881) |
| 16 | Interest Expense - External | | 0 | 0 |
| 17 | CRDA Related Income (Expense) - Net | 5, 10 | (3,391) | (2,558) |
| 18 | Nonoperating Income (Expense) - Net | 13 | (240) | 94 |
| 19 | Total Other Income (Expenses) | | (36,032) | (35,345) |
| 20 | Income (Loss) Before Taxes | | 26,345 | (50,937) |
| 21 | Provision (Credit) for Income Taxes | | 0 | 0 |
| 22 | Net Income (Loss) | | $26,345 | ($50,937) |

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

# TROPICANA CASINO AND RESORT
# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | 2 | $57,349 | $48,898 |
| 2 | Rooms | 2 | 39,734 | 17,385 |
| 3 | Food and Beverage | 2 | 7,844 | 2,381 |
| 4 | Other | 2 | 5,388 | 2,689 |
| 5 | Net Revenue | | 110,315 | 71,353 |
| | Costs and Expenses: | | | |
| 6 | Casino | 2 | 20,013 | 16,442 |
| 7 | Rooms, Food and Beverage | 2 | 13,873 | 9,981 |
| 8 | General, Administrative and Other | 2 | 28,359 | 26,718 |
| 9 | Total Costs and Expenses | | 62,245 | 53,141 |
| 10 | Gross Operating Profit | | 48,070 | 18,212 |
| 11 | Depreciation and Amortization | 3 | 8,146 | 10,555 |
| | Charges from Affiliates Other than Interest: | | | |
| 12 | Management Fees | | | |
| 13 | Other | 5 | 2,721 | 0 |
| 14 | Income (Loss) from Operations | | 37,203 | 7,657 |
| | Other Income (Expenses): | | | |
| 15 | Interest Expense - Affiliates | | (10,833) | (10,608) |
| 16 | Interest Expense - External | | 0 | 0 |
| 17 | CRDA Related Income (Expense) - Net | | (1,360) | (1,144) |
| 18 | Nonoperating Income (Expense) - Net | | (534) | 38 |
| 19 | Total Other Income (Expenses) | | (12,727) | (11,714) |
| 20 | Income (Loss) Before Taxes | | 24,476 | (4,057) |
| 21 | Provision (Credit) for Income Taxes | | 0 | 4,679 |
| 22 | Net Income (Loss) | | $24,476 | ($8,736) |

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, 2020 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2021

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Common Stock Shares (c) | Common Stock Amount (d) | Preferred Stock Shares (e) | Preferred Stock Amount (f) | Additional Paid-In Capital (g) | AOCI (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Balance, December 31, 2019..........** | | | | | | $456,803 | $426 | ($4,006) | $453,223 |
| 2 | Net Income (Loss) - 2020............. | | | | | | | | (67,567) | (67,567) |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 4 | Dividends.................................... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments............. | | | | | | | | | 0 |
| 6 | Other Comprehensive Income Net | | | | | | | | | 0 |
| 7 | Cummulative Change in Acct'g Pr | | | | | | | | (13,887) | (13,887) |
| 8 | | | | | | | | | | 0 |
| 9 | | | | | | | | | | 0 |
| 10 | **Balance, December 31, 2020..........** | | 0 | 0 | 0 | 0 | 456,803 | 426 | (85,460) | 371,769 |
| 11 | Net Income (Loss) - 2021............. | | | | | | | | 26,345 | 26,345 |
| 12 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 13 | Dividends.................................... | | | | | | | | | 0 |
| 14 | Prior Period Adjustments............. | | | | | | | | | 0 |
| 15 | Other Comprehensive Income Net | | | | | | | (1,185) | | (1,185) |
| 16 | | | | | | | | | | 0 |
| 17 | | | | | | | | | | 0 |
| 18 | | | | | | | | | | 0 |
| 19 | **Balance, September 30, 2021 .......** | | 0 | $0 | 0 | $0 | $456,803 | ($759) | ($59,115) | $396,929 |

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

# TROPICANA CASINO AND RESORT
# STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES... | | $50,764 | ($17,385) |
| | 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 | | (2,879) | (4,185) |
| 5 | Proceeds from Disposition of Property and Equipment | | 174 | 0 |
| 6 | CRDA Obligations | | 0 | 0 |
| 7 | Other Investments, Loans and Advances made | 5 | (46,523) | 25,988 |
| 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 | | 1,633 | 1,961 |
| 11 | Cash Outflows for Tenant LH Improvements | 2 | (250) | (250) |
| 12 | Net Cash Provided (Used) By Investing Activities | | (47,845) | 23,514 |
| | 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 | | 2,919 | 6,129 |
| 25 | Cash and Cash Equivalents at Beginning of Period | | 17,021 | 23,029 |
| 26 | Cash and Cash Equivalents at End of Period | | $19,940 | $29,158 |

| | | | | |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized) | | $0 | $0 |
| 28 | Income Taxes | | $0 | $0 |

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

# TROPICANA CASINO AND RESORT
# STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss) | | $26,345 | ($50,937) |
| 30 | Depreciation and Amortization of Property and Equipment | 3 | 17,004 | 21,560 |
| 31 | Amortization of Other Assets | | 7,550 | 7,550 |
| 32 | Amortization of Debt Discount or Premium | | (52) | (49) |
| 33 | Deferred Income Taxes - Current | | 0 | 0 |
| 34 | Deferred Income Taxes - Noncurrent | | 0 | (6,100) |
| 35 | (Gain) Loss on Disposition of Property and Equipment | | (163) | 48 |
| 36 | (Gain) Loss on CRDA-Related Obligations | | 48 | 260 |
| 37 | (Gain) Loss from Other Investment Activities | | 0 | 0 |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks | | (4,675) | 3,621 |
| 39 | (Increase) Decrease in Inventories | | 1,065 | 70 |
| 40 | (Increase) Decrease in Other Current Assets | | 536 | 26 |
| 41 | (Increase) Decrease in Other Assets | | 941 | 4,151 |
| 42 | Increase (Decrease) in Accounts Payable | | (2,123) | 1,605 |
| 43 | Increase (Decrease) in Other Current Liabilities | | 5,351 | (448) |
| 44 | Increase (Decrease) in Other Liabilities | | (1,063) | 1,258 |
| 45 | | | | |
| 46 | | | | |
| 47 | Net Cash Provided (Used) By Operating Activities | | $50,764 | ($17,385) |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line (a) | Description (b) | Notes | 2021 (c) | 2020 (d) |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment | | ($2,879) | ($4,185) |
| 49 | Less: Capital Lease Obligations Incurred | | | |
| 50 | Cash Outflows for Property and Equipment | | ($2,879) | ($4,185) |
| | ACQUISITION OF BUSINESS ENTITIES: | | | |
| 51 | Property and Equipment Acquired | | | |
| 52 | Goodwill Acquired | | | |
| 53 | Other Assets Acquired - net | | | |
| 54 | Long-Term Debt Assumed | | | |
| 55 | Issuance of Stock or Capital Invested | | | |
| 56 | Cash Outflows to Acquire Business Entities | | $0 | $0 |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | | |
| 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.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(UNAUDITED)
($ IN THOUSANDS)

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| Line (a) | Description (b) | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 202,164 | $34,152 | | |
| 2 | Food | 51,705 | 1,012 | 183,796 | $3,593 |
| 3 | Beverage | 755,450 | 7,555 | | |
| 4 | Travel | | | 629 | 189 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 439,775 | 35,307 | | |
| 7 | Complimentary Cash Gifts | 1,061,491 | 6,867 | | |
| 8 | Entertainment | 2,399 | 115 | 4 | 1 |
| 9 | Retail & Non-Cash Gifts | | | 141,252 | 1,408 |
| 10 | Parking | | | 282,873 | 1,131 |
| 11 | Other | 37,428 | (842) | 184,863 | (4,108) |
| 12 | Total | 2,550,412 | $84,166 | 793,417 | $2,214 |

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| Line (a) | Description (b) | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 84,706 | $17,567 | | |
| 2 | Food | 27,586 | 512 | 101,793 | $1,890 |
| 3 | Beverage | 312,763 | 3,128 | | |
| 4 | Travel | | | 254 | 77 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 175,472 | 14,604 | | |
| 7 | Complimentary Cash Gifts | 385,579 | 2,223 | | |
| 8 | Entertainment | 2,399 | 115 | 4 | 1 |
| 9 | Retail & Non-Cash Gifts | | | 61,481 | 613 |
| 10 | Parking | | | 108,550 | 434 |
| 11 | Other | 18,095 | (363) | 91,980 | (1,881) |
| 12 | Total | 1,006,600 | $37,786 | 364,062 | $1,134 |

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

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2021

1. I have examined this Quarterly Report.

2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.

3. To the best of my knowledge and belief, the information contained in this report is accurate.

4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

| | |
|---|---|
| 11/15/2021 | |
| Date | Zara Alayan |
| | VP of Finance |
| | Title |
| | 010417-11 |
| | License Number |

On Behalf of:

TROPICANA CASINO AND RESORT
Casino Licensee

**TROPICANA ATLANTIC CITY CORP.**
**DBA TROPICANA CASINO AND RESORT**
**NOTES TO FINANCIAL STATEMENTS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020**
**(Unaudited)**

## 1. Organization and Basis of Presentation

The accompanying financial statements include the accounts of Tropicana Atlantic City Corp. (the “Company”).

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 was a wholly owned subsidiary of Eldorado Resorts Inc. (“ERI”). On July 20, 2020, ERI completed a merger with Caesars Entertainment Corporation (“Former Caesars”), with Former Caesars surviving as a wholly-owned subsidiary of ERI. In connection with this merger, ERI converted into a Delaware corporation and changed its name to Caesars Entertainment, Inc. (“CEI”)

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, Tropicana AC Sub Corp. (“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.

On April 15, 2018, TEI announced that it had entered into a definitive agreement with CEI, 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 CEI 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 CEI merged into TEI and TEI became a wholly-owned subsidiary of CEI. Immediately prior to the merger, TEI sold its operations and subsidiaries located in Aruba, GLPI acquired substantially all of TEI’s real estate, and CEI 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, CEI entered into a triple net master lease with GLPI (the “Master Lease”) (see Note 9, Other Liabilities).

In November 2013, the Company received authorization from the New Jersey Division of Gaming Enforcement (“NJDGE”) 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 from the NJDGE in October 2018. The Company’s sports book, which commenced operations on October 25, 2018, is operated by William Hill New Jersey, Inc. (“William Hill”), pursuant to an operating agreement. On September 30, 2020, CEI reached an agreement to acquire William Hill plc in an all-cash transaction. The transaction was completed April 2021.

*Recent Developments Related to COVID-19*

In March 2020, an outbreak of a new strain of coronavirus (“COVID-19”) was characterized as a pandemic. In response, on March 16, 2020, the Governor of New Jersey issued Executive Order 104, which, among other things, ordered casino gaming floors and casino concert and entertainment venues to close effective 8:00 PM on March 16, 2020. Based on the Governor’s Order, the NJ Division of Gaming Enforcement issued an Order requiring all Atlantic City casinos to temporarily suspend their land based casino and sports wagering operations effective 8:00 PM on March 16, 2020. Executive Order 104 did not require suspension of online casino and sports wagering operations. As such, those operations continued. The Company resumed operations and returned a portion of its workforce on July 2, 2020 in accordance with governmental orders, directives and guidelines.

Subsequent Executive Orders and the impact on the Company are summarized below:

| Order No. | Title | Issue Date | Effect | Effective Date |
|---|---|---|---|---|
| No. 194 | *New COVID-19 Mitigation Measures* | 11/10/20 | Cessation of indoor food and beverage operations, including casino floor beverage service, from 10:00 PM until 5:00 AM daily, | 11/12/20 |
| No. 219 | *Raising Indoor Capacity Limits* | 02/03/21 | Reinstated indoor food and beverage operations, including casino floor beverage service, from 10:00 PM until 5:00 AM daily | 02/05/21 |
| No. 230 | *Increased Capacity Limits for Indoor Businesses and Indoor and Outdoor Gatherings* | 03/11/21 | Increased food and beverage capacity from 35% to 50% | 03/19/21 |
| No. 238 | *Additional easing of restrictions* | 05/03/21 | Removed all percentage capacity limits for indoor and outdoor businesses and lifted the prohibition on indoor bar seating | 05/07/21 |
| No. 239 | *Second Phase of COVID-19 Restriction Easing* | 05/12/21 | Removes all capacity limits for outdoor gatherings and increases indoor gathering limits | 05/19/21 |
| No. 244 | *Ending COVID-19 Public Health Emergency* | 06/04/21 | Business gatherings and certain organized gatherings allowed, so long as social distancing is maintained. | 06/04/21 |

The COVID-19 pandemic has had an adverse effect on the Company's results of operations for the nine months ended September 30, 2021 and 2020. The Company paid its full-time employees through April 10, 2020, including tips and tokes. Effective April 11, 2020, the Company furloughed approximately 95% of its employees, implemented salary reductions for certain management level employees and committed to continue to provide benefits to its employees through September 30, 2020. Subsequently, the benefit coverage for furloughed employees was extended indefinitely. The extent of the ongoing and future effects of the COVID-19 pandemic is uncertain, but the Company expects that it will continue to have a significant impact on its results of operations.

## 2. Summary of Significant Accounting Policies

*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 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.

*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 September 30, 2021 and 2020 the above mentioned account balance was $1.5 million and $2.5

million, respectively which included patrons' deposits held in IGaming accounts, which is classified as restricted cash of $1.2 million and $1.4 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*

At the Merger Date, the carrying value of property and equipment was restated to fair value using the market approach with subsequent acquisitions through September 30, 2021 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.

*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 statement of income as part of CRDA related income (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*

Goodwill represents the excess of purchase price over fair market value of the net assets acquired in the merger transaction with CEI. 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 consist of the fair value of gaming licenses and trademarks as of the Merger Date. 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. 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 9, Other Liabilities).

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 9, 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 balance sheets.

Effective May 1, 2021, all new Workers Compensation, General Liability and Automobile claims are covered by CEI captive insurance premiums. The Company is no longer required to pay for casualty claims that occur after 5/1/2021 but will still be responsible for claims that occurred prior to 5/1/2021.

*Caesars Rewards Loyalty Program*

Caesars' customer loyalty program, Caesars Rewards, grants Reward Credits to Caesars Rewards Members based on on-property spending, including gaming, hotel, dining, and retail shopping at all Caesars-affiliated properties. Members may redeem Reward Credits for complimentary or discounted goods and services such as rooms, food and beverages, merchandise, entertainment, and travel accommodations. Members are able to accumulate Reward Credits over time that they may redeem at their discretion under the terms of the program. A member's Reward Credit balance is forfeited if the member does not earn a Reward Credit for a continuous six-month period.

Because of the significance of the Caesars Rewards program and the ability for customers to accumulate Reward Credits based on their past play, we have determined that Reward Credits granted in conjunction with other earning activity represent a performance obligation. As a result, for transactions in which Reward Credits are earned, we allocate a portion of the transaction price to the Reward Credits that are earned based upon the relative standalone selling prices ("SSP") of the goods and services involved. When the activity underlying the "earning" of the Reward Credits has a wide range of selling prices and is highly variable, such as in the case of gaming activities, we use the residual approach in this allocation by computing the value of the Reward Credits as described below and allocating the residual amount to the gaming activity.

Our Caesars Rewards loyalty program includes various tiers that offer different benefits, and members can earn credits towards tier status, which generally enables them to receive discounts similar to those provided as complimentaries described below. 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.

We have determined the SSP of a Reward Credit by computing the redemption value of credits expected to be redeemed. Because Reward Credits are not otherwise independently sold, we analyzed all Reward Credit redemption activity over the preceding calendar year and determined the redemption value based on the fair market value of the goods and services for which the Reward Credits were redeemed. We have applied the practical expedient under the portfolio approach to our Reward Credit transactions because of the similarity of gaming and other transactions and the homogeneity of Reward Credits.

As part of determining the SSP for Reward Credits, we also determined that there is generally an amount of Reward Credits that are not redeemed, which is considered "breakage." We recognize the expected breakage proportionally with the pattern of revenue recognized related to the redemption of Reward Credits. We periodically reassess our customer behaviors and revise our expectations as deemed necessary on a prospective basis.

*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 $84.2 million and $47.4 million, for the nine months ended September 30, 2021 and 2020, 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. Through Gamesys, the Company offers two online gaming brands *TropicanaCasino.com* and *VirginCasino.com*.

On July 1, 2020, the Company entered into an agreement that allowed William Hill to operate an online gaming skin under the Company’s Internet Gaming permit. William Hill online gaming commenced August 10, 2020.

IGaming casino revenues represent the difference between wins and losses from online gaming activities and are recognized net of internet revenues from the Virgin Casino site as a component of Casino Revenue in the Statements of Income. The Company makes cash promotional offers to certain of its IGaming customers, including cash rebates as part of loyalty programs generally based on an individual’s level of gaming play. Under ASC 606, these costs are classified as a deferral of gaming revenue until redeemed by the customer.

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

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 are 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 statements of income and totaled $0.9 million and $2.2 million for the nine months ended September 30, 2021 and 2020, respectively.

*Reclassifications*

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

*Accounting Pronouncements Implemented*

In June 2016 (modified in November 2018), the Financial Accounting Standards Board (“FASB”) issued ASU No 2016-13, Financial Instruments – Credit Losses related to the timing of 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 is applicable to our evaluation of CRDA investments. The guidance is effective for interim and annual periods beginning after December 15, 2019. Adoption of the guidance required a modified-retrospective approach and a cumulative adjustment to retained earnings to the first reporting period that the update is effective. The Company adopted the new guidance on January 1, 2020. Adoption of this guidance did not have a material impact on the Company’s Financial Statements.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This generally means that an intangible asset is recognized for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred. The amendment was effective for annual and interim periods beginning after December 15, 2019. The Company adopted the new guidance on January 1, 2020. Adoption of this guidance did not have a material impact on the Company's Financial Statements.

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 was effective for annual and interim periods beginning after December 15, 2019. The Company adopted the new guidance on January 1, 2020. Adoption of this guidance did not have a material impact on the Company's Financial Statements.

In August 2018, the FASB issued ASU No 2018-14, Compensation –Retirement Benefits – Defined Benefit Plans – General. This amendment improves disclosures over defined benefit plans and is effective for interim and annual periods ending after December 15, 2020 with early adoption allowed. The Company adopted the new guidance on January 1, 2021. Adoption of this guidance did not have a material impact on the Company's 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 disclosure has been omitted: Fair Value of Financial Instruments.

## 3. Property and Equipment

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| **Non-Master Lease:** | | |
| Building and improvements | 14,704 | 14,620 |
| Furniture, fixtures and equipment | 71,047 | 69,041 |
| Construction in progress | 1,003 | 630 |
| | 86,754 | 84,291 |
| Less: accumulated depreciation and amortization | (48,213) | (34,421) |
| | 38,541 | 49,870 |
| **Master Lease:** | | |
| Land and land improvements | 129,150 | 129,150 |
| Building and improvements | 300,950 | 300,950 |
| | 430,100 | 430,100 |
| Less: accumulated depreciation and amortization | (25,946) | (17,297) |
| | 404,154 | 412,803 |
| Total property and equipment | $442,695 | $462,673 |

Depreciation expense related to property and equipment was $17.0 million and $21.6 million for the nine months ended September 30, 2021 and 2020 respectively.

## 4. Other Current Assets

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Prepaid taxes and licenses | $ 857 | $ 965 |
| Prepaid contracts | 357 | 505 |
| Prepaid marketing | 441 | 808 |
| Prepaid insurance | 209 | - |
| Prepaid utilities | 319 | 106 |
| Other | 210 | 320 |
| Total other current assets | $ 2,393 | $ 2,704 |

## 5. Investments, Advances and Receivables

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| CRDA bonds and deposits, net | $ 2,754 | $ 4,735 |
| Related party receivables: | | |
| Due from Eldorado Resorts Inc. | 258,089 | 202,343 |
| | $ 260,843 | $ 207,078 |

*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-thirds 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 nine months ended September 30, 2021 and 2020, the Company recorded expense of $0 and $215,000, respectively, representing changes in these investment reserves, which are 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 10, 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 nine months ended September 30, 2021 and 2020, the Company recorded expense of $3.4 million and $2.3 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.

*Related Party Transactions*

The Company participates with Caesars and other Caesars subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by Caesars on a company-wide basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the cost and terms for similar programs that it could negotiate on a standalone basis.

**Cash Activity with CEC and Affiliates -** The Company transfers cash in excess of its operating and regulatory needs to its parent on a weekly basis. If needed, cash transfers from the Company's parent are also available based upon the needs of the Company to fund daily operations, including accounts payable, payroll, and capital expenditures. No interest is charged on transfers made to or from the Company.

**Administrative and Other Services -** Pursuant to a shared services agreement, Caesars Enterprise Services ("CES") provides certain corporate and administrative services provided by corporate personnel. The Company was charged $5.4 million for these services for the nine months ended September 30, 2021. The fee is included in charges from affiliates in the accompanying statements of income.

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.

## 6. Other Assets

Other assets consist of the following (in thousands):

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Goodwill | $ 102,966 | $ 102,966 |
| Intangible asset – gaming licenses | 1,068 | 1,068 |
| Intangible asset – trade names | 27,000 | 27,000 |
| Intangible asset – player loyalty programs/customer list | 30,200 | 30,200 |
| Long term notes receivable | 9,335 | 11,272 |
| Long term deposits and other assets | 552 | 672 |
| | 171,121 | $ 173,178 |
| Less: accumulated amortization – player loyalty programs/customer list | (30,200) | (20,133) |
| Other assets | $ 140,921 | $ 153,045 |

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 September 30, 2021 represent the fair value of intangible assets acquired resulting from the acquisition of the Company on the Merger Date. The intangible asset related to player loyalty programs is amortized on a straight-line basis over three years.

## 7. Other Accrued Expenses

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Accrued payroll, taxes and benefits | $ 10,563 | $ 6,836 |
| Loyalty program liabilities | 33 | 3,395 |
| Insurance reserves | 9,012 | 8,716 |
| Accrued Taxes | 4,652 | 3,245 |
| Other | 1,340 | 1,413 |
| Total other accrued expenses | $ 25,600 | $ 23,605 |

## 8. Other Current Liabilities

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

| | September 30, 2021 | September 30, 2020 |
|---|---|---|
| Unredeemed Chip Liability | $ 2,075 | $ 1,735 |
| Other Accrued A/P | 3,210 | 3,593 |
| Accrued CRDA | 1,566 | 1,125 |
| Deferred Income | 1,637 | 535 |
| Other | 2,167 | 1,937 |
| Total Other Current Liabilities | $ 10,655 | $ 8,925 |

## 9. Other Liabilities

Other liabilities at September 30, 2021 and 2020, include $443.0 million and $438.8 million respectively, for that portion of the Master Lease allocated to the Company based on the fair value of the leased assets attributable to the Company.

CEI'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 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 CEI's option, the Master Lease may be extended for up to four five-year renewal terms beyond the initial 15-year term. If CEI 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. CEI 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, CEI 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 nine months ended September 30, 2021 and 2020 recognized by the Company, was $32.4 million and $32.9 million respectively. 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 CEI.

## 10. 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 ("NJDGE") 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.

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

The State of New Jersey imposes annual taxes as follows: 8% for gross casino revenue; 15% for IGaming gross revenue; 8.5% for on-site sports wagering gross revenue; 13% for on-line sports wagering gross revenue: plus 1.25% additional tax for all sports wagering gross revenue. Casino license holders or IGaming permit holders are required to remit an additional 1.25% of gross casino revenue and 2.5% of IGaming gross revenue for CRDA investment obligations.

*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 is 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, for calendar year 2019 was $132.6 million, for calendar year 2020 was $152.6 million and for calendar year 2021 will be $130 million. For each year from 2017 through 2021, each casino gaming property's prorated share of PILOT Payments is capped 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.

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.

*Other*

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

**11. Leases**

The Company has operating and finance leases for various real estate and equipment. Certain of the Company's lease agreements include rental payments based on a percentage of sales over specified contractual amounts, rental payments adjusted periodically for inflation and rental payments based on usage. The Company's leases include options to extend the lease term one month to 60 years. Except for the GLPI Master Lease (see Note 9), the Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease expense are as follows (in thousands):

| | Classification on Statement of Income | Nine Months Ended September 30, 2021 | 2020 |
|---|---|---|---|
| Operating lease expense: | | | |
| Operating lease expense | Costs and expenses | $ - | 38 |
| Short-term and variable lease expense | Costs and expenses | - | 2,353 |
| Finance lease expense: | | | |
| Interest expense on lease liabilities | Interest expense - affiliates | 32,401 | 32,881 |
| Amortization of ROU assets | Depreciation and amortization | 6,486 | 7,336 |
| Total lease expense | | $ 38,887 | $ 42,608 |

For the nine months ended September 30, 2021 and 2020, the Company recorded total rental income, including minimum and excess rental income of $5.0 million and $3.9 million, respectively, which is included as a component of other revenue on the accompanying statements of income.

## 12. Employee Benefit Plans

*Variable Annuity Pension Plan*

In connection with the collective bargaining agreement and related 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.

Contributions to the VAPP under the current collective bargaining agreement, which expired on February 29, 2020 and was extended until May 31, 2022, are calculated at $1.93 per straight time hour paid to employees covered by the agreement.

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

| | Nine Months Ended September 30, 2021 | 2020 |
|---|---|---|
| Service costs | $ 1,253 | $ 2,298 |
| Interest costs | 398 | 410 |
| Expected return on plan assets | (715) | (658) |
| Net periodic benefit cost | $ 936 | $ 2,050 |

Net periodic benefit costs are reported in the various operating departments in the accompanying statement of income for the nine months ended September 30, 2021 and 2020.

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

| | Nine Months Ended September 30, 2021 | 2020 |
|---|---|---|
| Change in benefit obligations | | |
| Projected benefit obligation, beginning of period | $ 20,152 | $ 15,508 |
| Service and interest cost during period | 1,650 | 2,708 |
| Benefit payments during the period | (195) | (139) |
| Expenses during the period | (244) | (281) |
| Projected benefit obligation, end of period | $ 21,363 | $ 17,796 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of period | $ 20,015 | $ 16,964 |
| Return on plan assets during period | 715 | 658 |
| Benefit payments during period | (195) | (139) |
| Expenses during period | (244) | (281) |
| Employer contributions | 80 | - |
| Fair value of plan assets, end of period | $ 20,371 | $ 17,202 |
| Funded status at end of period | $ (992) | $ (594) |

Future estimated expected benefit payments for 2021 through 2030 are as follows (in thousands):

| | Expected Benefit Payments |
|---|---|
| 2021 | $ 260 |
| 2022 | 348 |
| 2023 | 441 |
| 2024 | 540 |
| 2025 | 647 |
| 2026 through 2030 | 5,068 |
| | $ 7,304 |

The Company's net periodic pension cost for the year ended December 31, 2021 is expected to be approximately $1.2 million.

## 13. Other Non-Operating Income (Expense), net

Non-operating income (expense), net for the nine months ended September 30, 2021 and 2020 consisted of the following (in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2021** | **2020** |
| Interest income | $ 197 | $ 142 |
| Gain / (Loss) on asset disposal | 163 | (48) |
| Termination fee | (600) | - |
| | $ (240) | $ 94 |

**14. Subsequent Events**

The Company evaluated subsequent events through November 15, 2021, the date the financial statements were available to be issued, and all applicable disclosures have been made throughout the footnotes.