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

**FOR THE QUARTER ENDED MARCH 31, 2022**

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

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

# HARD ROCK HOTEL & CASINO
# BALANCE SHEETS

AS OF MARCH 31, 2022 AND 2021

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2022 (c) | 2021 (d) |
|---|---|---|---|---|
| | ASSETS: | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents | 2 | $113,916 | $65,965 |
| 2 | Short-Term Investments | | 0 | 0 |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2022, $13,106; 2021, $11,540) | 2, 3 | 20,842 | 22,634 |
| 4 | Inventories | 2 | 1,609 | 1,609 |
| 5 | Other Current Assets | 10 | 12,309 | 8,048 |
| 6 | Total Current Assets | | 148,676 | 98,256 |
| 7 | Investments, Advances, and Receivables | | 0 | 0 |
| 8 | Property and Equipment - Gross | 2,4 | 593,938 | 575,191 |
| 9 | Less: Accumulated Depreciation and Amortization | 4 | (185,562) | (149,256) |
| 10 | Property and Equipment - Net | 4 | 408,376 | 425,935 |
| 11 | Other Assets | | 337 | 2,145 |
| 12 | Total Assets | | $557,389 | $526,336 |
| | LIABILITIES AND EQUITY: | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable | | $6,611 | $5,157 |
| 14 | Notes Payable | | 0 | 0 |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates | 7 | 522,837 | 0 |
| 16 | External | | 0 | 0 |
| 17 | Income Taxes Payable and Accrued | | 0 | 0 |
| 18 | Other Accrued Expenses | 5 | 47,193 | 38,689 |
| 19 | Other Current Liabilities | 2,6,9,10 | 103,328 | 39,182 |
| 20 | Total Current Liabilities | | 679,969 | 83,028 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates | 7 | 0 | 521,190 |
| 22 | External | | 0 | 0 |
| 23 | Deferred Credits | | 0 | 0 |
| 24 | Other Liabilities | 2,8,9,10 | 10,729 | 65,676 |
| 25 | Commitments and Contingencies | | 0 | 0 |
| 26 | Total Liabilities | | 690,698 | 669,894 |
| 27 | Stockholders', Partners', or Proprietor's Equity | | (133,309) | (143,558) |
| 28 | Total Liabilities and Equity | | $557,389 | $526,336 |

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

# HARD ROCK HOTEL & CASINO
# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2022 (c) | 2021 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $79,318 | $56,819 |
| 2 | Rooms | | 16,578 | 11,699 |
| 3 | Food and Beverage | | 20,314 | 11,329 |
| 4 | Other | | 14,197 | 9,562 |
| 5 | Net Revenue | | 130,407 | 89,409 |
| | Costs and Expenses: | | | |
| 6 | Casino | 2 | 32,093 | 24,169 |
| 7 | Rooms, Food and Beverage | | 23,764 | 16,109 |
| 8 | General, Administrative and Other | | 47,658 | 40,533 |
| 9 | Total Costs and Expenses | | 103,515 | 80,811 |
| 10 | Gross Operating Profit | | 26,892 | 8,598 |
| 11 | Depreciation and Amortization | 2, 4 | 8,218 | 13,352 |
| | Charges from Affiliates Other than Interest: | | | |
| 12 | Management Fees | 9 | 4,592 | 2,423 |
| 13 | Other | 9 | 1,681 | 1,993 |
| 14 | Income (Loss) from Operations | | 12,401 | (9,170) |
| | Other Income (Expenses): | | | |
| 15 | Interest Expense - Affiliates | 7 | (8,762) | (8,770) |
| 16 | Interest Expense - External | | 0 | 0 |
| 17 | CRDA Related Income (Expense) - Net | 2 | (1,778) | (1,378) |
| 18 | Nonoperating Income (Expense) - Net | 2 | 22 | 42 |
| 19 | Total Other Income (Expenses) | | (10,518) | (10,106) |
| 20 | Income (Loss) Before Taxes | | 1,883 | (19,276) |
| 21 | Provision (Credit) for Income Taxes | 2 | 0 | 0 |
| 22 | Net Income (Loss) | | $1,883 | ($19,276) |

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

# HARD ROCK HOTEL & CASINO
# STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021 AND
THE THREE MONTHS ENDED MARCH 31, 2022

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Contributed Capital (c) | Accumulated Earnings (Deficit) (d) | (e) | Total Equity (Deficit) (f) |
|---|---|---|---|---|---|---|
| 1 | **Balance, December 31, 2020..........** | | $159,000 | ($283,282) | $0 | ($124,282) |
| 2 | Net Income (Loss) - 2021.......... | | | (10,910) | | (10,910) |
| 3 | Capital Contributions................ | | | | | 0 |
| 4 | Capital Withdrawals.................. | | | | | 0 |
| 5 | Partnership Distributions.......... | | | | | 0 |
| 6 | Prior Period Adjustments.......... | | | | | 0 |
| 7 | | | | | | 0 |
| 8 | | | | | | 0 |
| 9 | | | | | | 0 |
| 10 | **Balance, December 31, 2021..........** | | 159,000 | (294,192) | 0 | (135,192) |
| 11 | Net Income (Loss) - 2022.......... | | | 1,883 | | 1,883 |
| 12 | Capital Contributions................ | | | | | 0 |
| 13 | Capital Withdrawals.................. | | | | | 0 |
| 14 | Partnership Distributions.......... | | | | | 0 |
| 15 | Prior Period Adjustments.......... | | | | | 0 |
| 16 | | | | | | 0 |
| 17 | | | | | | 0 |
| 18 | | | | | | 0 |
| 19 | **Balance, March 31, 2022...............** | | $159,000 | ($292,309) | $0 | ($133,309) |

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

# HARD ROCK HOTEL & CASINO
# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2022 (c) | 2021 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES... | | $2,375 | $11,243 |
| | 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............................ | 4 | (3,590) | (2,806) |
| 5 | Proceeds from Disposition of Property and Equipment.......... | | 0 | 0 |
| 6 | CRDA Obligations ................................................................ | | 0 | 0 |
| 7 | Other Investments, Loans and Advances made...................... | | 0 | 0 |
| 8 | Proceeds from Other Investments, Loans, and Advances ....... | | 0 | 0 |
| 9 | Cash Outflows to Acquire Business Entities.......................... | | 0 | 0 |
| 10 | ....................... | | 0 | 0 |
| 11 | .................. | | 0 | 0 |
| 12 | Net Cash Provided (Used) By Investing Activities.................... | | (3,590) | (2,806) |
| | 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 | .................. | | 0 | 0 |
| 22 | .................. | | 0 | 0 |
| 23 | Net Cash Provided (Used) By Financing Activities................... | | 0 | 0 |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents............. | | (1,215) | 8,437 |
| 25 | Cash and Cash Equivalents at Beginning of Period................... | | 115,131 | 57,528 |
| 26 | Cash and Cash Equivalents at End of Period............................. | 2 | $113,916 | $65,965 |

| | | | | |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized)...................................... | 7 | $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.

# HARD ROCK HOTEL & CASINO
# STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2022 (c) | 2021 (d) |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss)........................................................ | | $1,883 | ($19,276) |
| 30 | Depreciation and Amortization of Property and Equipment... | 2,4 | 8,212 | 13,346 |
| 31 | Amortization of Other Assets............................................ | | 6 | 6 |
| 32 | Amortization of Debt Discount or Premium.......................... | | 0 | 0 |
| 33 | Deferred Income Taxes - Current ........................................ | | 0 | 0 |
| 34 | Deferred Income Taxes - Noncurrent .................................. | | 0 | 0 |
| 35 | (Gain) Loss on Disposition of Property and Equipment......... | | 0 | 0 |
| 36 | (Gain) Loss on CRDA-Related Obligations........................... | | 0 | 0 |
| 37 | (Gain) Loss from Other Investment Activities....................... | | 0 | 0 |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks ....... | 3 | 401 | 1,305 |
| 39 | (Increase) Decrease in Inventories ....................................... | | 160 | 30 |
| 40 | (Increase) Decrease in Other Current Assets.......................... | | (3,472) | 2,243 |
| 41 | (Increase) Decrease in Other Assets....................................... | | 163 | 143 |
| 42 | Increase (Decrease) in Accounts Payable.............................. | | (941) | 76 |
| 43 | Increase (Decrease) in Other Current Liabilities ................... | | (3,318) | 11,472 |
| 44 | Increase (Decrease) in Other Liabilities ................................ | | (1,130) | 1,487 |
| 45 | Amortization of Loan Issuance Costs .................. | 7 | 411 | 411 |
| 46 | ....................... | | 0 | 0 |
| 47 | Net Cash Provided (Used) By Operating Activities................... | | $2,375 | $11,243 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line (a) | Description (b) | Notes | 2022 (c) | 2021 (d) |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment.................................. | 4 | ($3,590) | ($2,806) |
| 49 | Less: Capital Lease Obligations Incurred.............................. | | 0 | 0 |
| 50 | Cash Outflows for Property and Equipment.............................. | | ($3,590) | ($2,806) |
| | ACQUISITION OF BUSINESS ENTITIES: | | | |
| 51 | Property and Equipment Acquired........................................ | | $0 | $0 |
| 52 | Goodwill Acquired.............................................................. | | 0 | 0 |
| 53 | Other Assets Acquired - net .................................................. | | 0 | 0 |
| 54 | Long-Term Debt Assumed.................................................... | | 0 | 0 |
| 55 | Issuance of Stock or Capital Invested.................................... | | 0 | 0 |
| 56 | Cash Outflows to Acquire Business Entities............................. | | $0 | $0 |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | | |
| 57 | Total Issuances of Stock or Capital Contributions................. | | $0 | $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.

# HARD ROCK HOTEL & CASINO
# SCHEDULE OF PROMOTIONAL
# EXPENSES AND ALLOWANCES

FOR THE THREE MONTHS ENDED MARCH 31, 2022
(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 | 194,632 | $10,804 | | |
| 2 | Food | 172,420 | 6,883 | | |
| 3 | Beverage | 738,430 | 3,781 | | |
| 4 | Travel | | | 1,303 | 586 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 201,445 | 16,599 | | |
| 7 | Complimentary Cash Gifts | 28 | 636 | | |
| 8 | Entertainment | 7,791 | 365 | | |
| 9 | Retail & Non-Cash Gifts | | | 66,620 | 3,433 |
| 10 | Parking | | | 132,177 | 1,101 |
| 11 | Other | 170,900 | 2,784 | 207,350 | 3,135 |
| 12 | Total | 1,485,646 | $41,852 | 407,450 | $8,255 |

FOR THE THREE MONTHS ENDED MARCH 31, 2022

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| 1 | Rooms | 194,632 | $10,804 | | |
| 2 | Food | 172,420 | 6,883 | | |
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| 4 | Travel | | | 1,303 | 586 |
| 5 | Bus Program Cash | | | | |
| 6 | Promotional Gaming Credits | 201,445 | 16,599 | | |
| 7 | Complimentary Cash Gifts | 28 | 636 | | |
| 8 | Entertainment | 7,791 | 365 | | |
| 9 | Retail & Non-Cash Gifts | | | 66,620 | 3,433 |
| 10 | Parking | | | 132,177 | 1,101 |
| 11 | Other | 170,900 | 2,784 | 207,350 | 3,135 |
| 12 | Total | 1,485,646 | $41,852 | 407,450 | $8,255 |

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

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

FOR THE QUARTER ENDED MARCH 31, 2022

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.

| | |
|---|---|
| 5/13/2022 | |
| Date | Bob Allen |
| | Vice President of Finance Operations |
| | Title |
| | 006793-11 |
| | License Number |

On Behalf of:

BOARDWALK 1000, LLC DBA
HARD ROCK HOTEL & CASINO

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

## NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

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

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

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

***Novel Coronavirus (COVID-19)***
The COVID-19 pandemic continues to adversely impact global commercial activity and many countries have instituted quarantines and restrictions on travel. Such actions are adversely impacting several industries, including the hospitality and entertainment industries. The Company's hotel and casino were closed by order of the State of New Jersey on March 16, 2020 and remained closed until July 2, 2020. Upon reopening its facility on July 2, 2020, the Company was required to comply with executive orders and other governmental and regulatory requirements aimed to enforce social distancing and other measures to reduce the spread of COVID-19. The executive orders and other governmental and regulatory requirements included requiring patrons and employees to wear masks in all public areas; screening employees and patrons for fever and COVID-19 symptoms; limiting the number of patrons in gaming areas; prohibiting indoor smoking, limiting the consumption of food and beverages indoors; and limiting the size of gatherings in showrooms and convention space. On June 4, 2021, legislation and an executive order was executed which terminated New Jersey's Public Health Emergency. As a result, the aforementioned governmental and regulatory restrictions expired as of July 4, 2021. Notwithstanding the expiration of these restrictions, COVID-19 continues to adversely impact the Company's operations.

***Nature of Business***
The Hard Rock Hotel & Casino - Atlantic City (the "Hard Rock Hotel & Casino") commenced operations on June 28, 2018. The Hard Rock Hotel & Casino features: two hotel towers with a combined total of 1,971 rooms, including high end suites; 2,250 slot machines; 127 table games; a sportsbook; a variety of fine dining and casual restaurants; a 7,000-seat arena; a spa; a gas station, including a convenience store and car wash; and other amenities.

The Company is authorized by the New Jersey Division of Gaming Enforcement ("DGE") to offer 24-hour internet gaming ("I-Gaming") on its online gaming site, *HardRockAtlanticCity.com*. The Company's site features a variety of slot game options and sports betting. Patrons have the opportunity to participate in community jackpots and to be rewarded with both on property and online incentives, as well as, have the opportunity to participate in a variety of promotions. All participants must be 21 years of age or older and be physically located in the State of New Jersey to play.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

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

**(In thousands)**

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

***Certain Concentrations of Risk***
Financial instruments that subject the Company to credit risk consist of cash and cash equivalents maintained at financial institutions and accounts receivable. The Company's policy is to place investments with financial institutions evaluated as being creditworthy, or in short-term money market funds which are exposed to minimal interest rate and credit risk.

As of March 31, 2022, the Company maintained balances in certain of its deposit accounts in excess of federally insured limits. The Company does not expect to incur any losses resulting from cash held in financial institutions in excess of insured limits. The Company manages this risk through predominantly holding its cash with a large, financially stable, global bank.

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

***Cash and Cash Equivalents***
Cash equivalents are highly liquid investments with original maturities of three months or less from the date of purchase and are stated at the lower of cost or market value. Cash and cash equivalents consist of the following:

| | **March 31,** | |
|---|---|---|
| | **2022** | **2021** |
| Unrestricted cash | $ 97,623 | $ 51,679 |
| Restricted cash | 16,293 | 14,286 |
| | $ 113,916 | $ 65,965 |

Restricted cash at March 31, 2022 was $16,293, which included $10,251 of restricted cash related to the balances of patrons' internet gaming accounts, $4,481 related to cash collateral for letters of credit related to the Company's workers compensation insurance, and $1,561 of cash related to third party internet gaming operations. Restricted cash at March 31, 2021 was $14,286, which principally included $6,047 of restricted cash related to the balances of patrons' internet gaming accounts, $4,711 of cash related to third-party internet gaming operations and $3,528 related to cash collateral for letters of credit related to the Company's workers compensation insurance. Pursuant to N.J.A.C. 13:69O1.3(j), the Company maintains separate New Jersey bank accounts to primarily ensure the security of funds held in patrons' internet gaming accounts. Restricted cash balances are on deposit with a large, financially stable, global bank.

***Accounts Receivable, Net***
Accounts receivable, net consist primarily of casino, hotel and other receivables, net of an allowance for doubtful accounts. Receivables are typically noninterest bearing and are initially recorded at cost. Accounts are written off when management deems the account to be uncollectible. An estimated allowance for doubtful accounts is maintained to reduce the Company's receivables to their expected realization. The allowance is estimated based on specific review of customer accounts, as well as historical collection experience and current economic and business conditions. Recoveries of accounts previously written off are recorded when received.

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

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

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

| | |
|---|---|
| Building and improvements | 10 through 30 years |
| Furniture and equipment | 3 through 10 years |

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

The Company evaluates the carrying value of long-lived assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. For an asset that is to be disposed of, the Company recognizes the asset at the lower of carrying value or fair market value, less costs of disposal, as estimated based on comparable asset sales, solicited offers, or a discounted cash flow model. For a long-lived asset to be held and used, the Company reviews the asset for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The estimated undiscounted future cash flows of the asset are then compared to the carrying value of the asset. The asset is not impaired if the undiscounted future cash flows exceed its carrying value. If the carrying value exceeds the undiscounted future cash flows, then an impairment charge is recorded, typically measured using a discounted cash flow model, which is based on the estimated future results of the relevant reporting unit discounted using the Company's weighted-average cost of capital and market indicators of terminal year free cash flow multiples. If an asset is under development, future cash flows include remaining construction costs. There were no impairment losses recognized in the statements of income during the three months ended March 31, 2022 and 2021.

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

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

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

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

The transaction price of hotel rooms, food and beverage, and retail contracts is the net amount collected from the customer for such goods and services. The transaction price for such contracts is recorded as revenue as the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product.

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

***Internet Gaming Operations***
I-Gaming casino revenues represent the difference between wins and losses from online gaming activities and are recognized as a component of casino revenue in the statements of income. The Company makes cash promotional offers to certain of its I-Gaming customers, including cash rebates as part of loyalty programs generally based on an individual's level of gaming play. These costs are classified as a deferral of casino revenue, until redeemed by the customer.

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

***Deferred Revenue***
Deferred revenue includes up-front advance payments related to agreements with online gaming providers. These payments are recorded as deferred revenue within other current liabilities and other liabilities and are recognized as casino revenue when earned, which is expected to be on a straight-line basis over the terms of the related agreements.

***Gaming Taxes***
The Company is subject to an annual tax assessment based on 8% of its land-based gross gaming revenues and 15% of its online gross gaming revenues. In addition, online and land-based sports betting revenues are subject to a 13% and 8.5% tax rate, respectively. These gaming taxes are recorded as a casino expense in the statements of income. The Company recorded gaming tax expense of $10,000 and $7,931 during the three months ended March 31, 2022 and 2021, respectively.

***CRDA Obligations***
Pursuant to the New Jersey Casino Control Act ("Casino Control Act"), as a casino licensee, the Company is assessed at an amount equal to 1.25% of its land-based gross gaming revenues. This assessment is made in lieu of an Investment Alternative Tax (the "IAT") equal to 2.5% of land-based gross gaming revenues. The Casino Control Act also provides for an assessment equal to 2.5% of the Company's online gross gaming revenues, which is made in lieu of an IAT equal to 5.0% of online gross gaming revenues. The Company is required to make quarterly payments to the CRDA to satisfy its investment obligations. Pursuant to a provision contained within legislation enacted to address Atlantic City's fiscal matters commonly referred to as the payment in lieu of taxes (PILOT) law, these funds are to be used for the purposes of paying debt service on bonds issued by the City of Atlantic City prior to and after the date of the PILOT law. These provisions expire as of December 31, 2026. The Company recorded IAT expense of $1,778 and $1,378 during the three months ended March 31, 2022 and 2021, respectively.

***Loss Contingencies***
There are times when nonrecurring events may occur that require management to consider whether an accrual for a loss contingency is appropriate. Accruals for loss contingencies typically relate to certain legal proceedings, customer and other claims, and litigation. The Company determines whether an accrual for a loss contingency is appropriate by assessing whether a loss is deemed probable and can be reasonably estimated. The Company analyzes its legal proceedings and other claims based on available information to assess potential liability. The Company develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results assuming a combination of litigation and settlement strategies. See Note 10.

**(In thousands)**

***Income Taxes***
The Company is a disregarded entity for federal and state income tax purposes. The accompanying financial statements do not include a provision for income tax since any income or loss is included in the financial results of the Company's sole member, Tristate.

***Advertising Expense***
Advertising costs are expensed as incurred or the first time the advertising takes place. Advertising costs are included in general, administrative and other expenses in the statements of income and totaled \$3,795 and \$4,134 during the three months ended March 31, 2022 and 2021, respectively.

***Recently Issued Accounting Pronouncements***
In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. Under ASU No. 2016-02, the Company will be required to recognize the assets and liabilities for the rights and obligations created by leased assets. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Entities have the option to either apply the amendments (1) at the beginning of the earliest period presented using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements or (2) at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without the need to restate prior periods. There are also certain optional practical expedients that an entity may elect to apply. The Company is currently evaluating the effect that ASU No. 2016-02 will have on its financial statements, and expects the primary financial statement impact upon adoption will be the recognition, on a discounted basis, of the Company's future minimum lease commitments as right of use assets and operating lease liabilities on the balance sheet. The Company is in the process of identifying its operating leases, but, does not expect the adoption of this standard to have a significant impact on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Loss (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. This new update, as amended, is effective for interim and annual periods beginning after December 15, 2022. The Company does not expect the adoption of this new update will have a material impact on its financial position, results of operations, or cash flows.

## NOTE 3 – RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks consist of the following:

| | March 31, | |
|---|---|---|
| | **2022** | **2021** |
| Casino receivables, net of an allowance for doubtful accounts (\$13,070 in 2022 and \$11,426 in 2021) | \$ 11,510 | \$ 11,673 |
| Hotel receivables, net of an allowance for doubtful accounts (\$36 in 2022 and \$114 in 2021) | 2,841 | 1,619 |
| Due from related parties (see Note 9) | 1,847 | 4,993 |
| Other | 4,644 | 4,349 |
| **Receivables and patrons' checks, net** | **\$ 20,842** | **\$ 22,634** |

(In thousands)

## NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| Land | $ 31,600 | $ 31,600 |
| Building and improvements | 379,352 | 371,857 |
| Furniture and equipment | 176,795 | 168,412 |
| Construction in progress | 6,191 | 3,322 |
| **Total property and equipment** | **593,938** | **575,191** |
| Less accumulated depreciation | (185,562) | (149,256) |
| **Property and equipment, net** | **$ 408,376** | **$ 425,935** |

Depreciation expense was $8,212 and $13,346 during the three months ended March 31, 2022 and 2021, respectively.

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

## NOTE 5 – OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| Accrued payroll and related expenses | $ 13,810 | $ 8,773 |
| Accrued interest | 19,206 | 19,206 |
| Accrued insurance and legal reserves | 8,174 | 5,818 |
| Accrued expenses and other liabilities | 6,003 | 4,892 |
| **Other accrued expenses** | **$ 47,193** | **$ 38,689** |

## NOTE 6 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| Casino-related liabilities | $ 17,544 | $ 14,639 |
| Online gaming related liabilities | 11,077 | 10,448 |
| Deferred revenue | 20,477 | 7,403 |
| Due to related parties (see Note 9) | 50,711 | 3,851 |
| Other | 3,519 | 2,841 |
| **Other current liabilities** | **$ 103,328** | **$ 39,182** |

(In thousands)

**NOTE 7 – DEBT**

The Company has related-party debt, which became current during the year ended December 31, 2021. Debt consisted of the following at March 31, 2022 and 2021:

| | March 31, 2022 | March 31, 2021 |
|---|---|---|
| Loan Agreement - HRAC Lender | $ 445,977 | $ 445,977 |
| Unamortized debt financing costs | (540) | (2,187) |
| Loan Agreement - HRAC Lender, net | 445,437 | 443,790 |
| Promissory Notes - Tristate | 77,400 | 77,400 |
| **Total debt, affiliates** | **$ 522,837** | **$ 521,190** |
| Less: Current portion of long-term debt, affiliates | (522,837) | - |
| **Long-term debt, affiliates** | **$ -** | **$ 521,190** |

*Loan Agreement*

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

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

The period which began on August 30, 2017 and ended on February 28, 2019 is defined as the “PIK Interest Period.” During the PIK Interest Period, all interest was paid by the Company in kind by having such interest added to and automatically becoming a part of the principal amount of the Loan. During the PIK Interest Period, a total of $37,977 of interest expense was paid in kind.

Interest on the outstanding principal balance of the Loan (including the loan origination fee and PIK Interest added to the outstanding principal amount of the Loan) shall be paid in cash by the Company on the Payment Date, as defined in the Loan Agreement, at the Loan Rate. Amounts outstanding under the Loan and outstanding interest are due upon the Maturity Date. There is no penalty for prepayment of principal and outstanding interest.

In connection with the Loan Agreement, the Company incurred debt financing fees of $8,099 (which include the loan origination fee). The debt financing fees are recorded in current portion of long-term debt, due to affiliates as of March 31, 2022 and long-term debt, due to affiliates as of March 31, 2021, and are being amortized over the term of the Loan Agreement. The Company recorded amortization of $411 during each of the three months ended March 31, 2022 and 2021 and is included within interest expense in the statements of income.

On March 2, 2021, the Company and HRAC Lender entered into a Second Loan Agreement Modification Agreement (the “Second Modification Agreement”). Under the terms of the Second Modification Agreement, the Company and HRAC Lender agreed to amend and restate the Loan Agreement’s definition of Payment Date from February 28 and August 31 of each year to May 15 and October 15 of each year. The Company made the interest payments on May 14, 2021, October 15, 2021 and May 13, 2022 in accordance with the amended and restated Loan Agreement. Accrued interest related to the Loan Agreement was $15,609 at March 31, 2022 and 2021.

(In thousands)

*Promissory Notes - Tristate*

During 2018, Tristate loaned the Company $77,400 (the “Promissory Notes”) to fund the payment of construction costs associated with the Project. The Promissory Notes mature on July 29, 2022. The Promissory Notes bear interest at 8% per annum. Interest payments were originally due on the last business day of August and February of each year, commencing on August 30, 2019. Amounts due under the Promissory Notes are subordinate and junior in right of payment to amounts due and outstanding under the Loan Agreement.

On March 2, 2021, Tristate and the Company agreed to amend and restate the Promissory Notes’ definition of Payment Date from February 28 and August 31 of each year to May 15 and October 15 of each year. The Company made the interest payments on May 14, 2021, October 15, 2021 and May 13, 2022 in accordance with the amended and restated Promissory Notes. Accrued interest related to the Promissory Notes at March 31, 2022 and 2021 was $3,596.

The Company does not have sufficient capital on hand to repay the principal amounts under the Loan Agreement and Promissory Notes (“Related Party Debt”) when due. However, the Company has various alternatives to obtain sufficient capital to repay the Related Party Debt including, raising additional equity investment, obtaining third-party financing, or extending the terms of the Related Party Debt.

## NOTE 8 – OTHER LIABILITIES

Other liabilities consisted of the following:

| | March 31, | |
|---|---|---|
| | 2022 | 2021 |
| Due to related parties (see Note 9) | $ - | $ 50,022 |
| Deferred revenue | 4,918 | 9,418 |
| Other accrued expenses | 5,811 | 6,236 |
| **Other liabilities** | **$ 10,729** | **$ 65,676** |

## NOTE 9 - RELATED PARTY TRANSACTIONS

The Company engages in certain transactions with affiliated entities. As disclosed in Note 7, the Company entered into the Loan Agreement with HRAC Lender and has outstanding Promissory Notes from Tristate.

On August 21, 2017, an affiliate of certain of the owners of Tristate obtained a $1,600 irrevocable letter of credit on behalf of the Company in connection with obtaining owner-controlled insurance related to the construction of the Project. The letter of credit expires on August 18, 2022.

*Hotel & Casino Management Agreement*

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

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

HR Atlantic City is entitled to receive 2% of gross revenue (including gross gaming revenues and gross revenues from nongaming activities) ("Base License Fee"); provided that HR Atlantic City shall not be entitled to 2% of gross revenues on those portions of gross revenue for which it is otherwise entitled to a fee or compensation otherwise pursuant to the Management Agreement. HR Atlantic City is also entitled to an incentive management fee which is calculated based upon a percentage of achieved earnings before interest expense, income taxes, depreciation, amortization, and management fees (EBITDAM), as defined in the Management Agreement.

Amounts due to HR Atlantic City were $49,937 and $33,521 as of March 31, 2022 and 2021, respectively, and primarily relate to management fees. These amounts are included in other current liabilities and other liabilities as of March 31, 2022 and 2021, respectively, in the accompanying balance sheets.

In addition, the Company incurs expenses with other affiliated entities, principally related to the Company's hotel room reservation center and other support services. The Company recognized $1,010 and $1,486 of expense associated with such services during the three months ended March 31, 2022 and 2021, respectively. During January 2022, the Company paid $16,273 related to amounts that were outstanding. Amounts due to such affiliates were $260 and $16,501 as of March 31, 2022 and 2021, respectively, and are included in other current liabilities and other liabilities, respectively, in the accompanying balance sheets.

*Rocktane Gas & Wash Lease Agreement*

The Company leases Rocktane Gas & Wash, a fuel, convenience store and car wash facility to AC Gas Station LLC, a subsidiary of Tristate. The lease expires on June 27, 2028 and may be renewed for one ten-year period. The Company receives rental income based on a percentage of Rocktane's gross sales, as defined in the lease. Rental income was $99 and $101 during the three months ended March 31, 2022 and 2021, respectively, and is included in other revenue in the statements of income.

*Other Related Party Transactions*

The Company engaged in various related party transactions to provide miscellaneous services to its patrons. During the three months ended March 31, 2022 and 2021, the Company incurred expenses related to these services of $671 and $507, respectively, which are included in charges from affiliates – other in the accompanying statements of income.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

*New Jersey PILOT Law*

On May 27, 2016, New Jersey enacted the Casino Property Tax Stabilization Act (the "PILOT Law") which: (i) exempted Atlantic City casino gaming properties from ad valorem property taxation in exchange for an agreement to make annual payment in lieu of tax payments ("PILOT Payments") to the City of Atlantic City, (ii) made certain changes to the New Jersey Tourism District Law and (iii) redirected certain IAT payments to assist in the stabilization of the City of Atlantic City's finances. Under the PILOT Law, commencing in 2017 and for a period of ten (10) years, each Atlantic City casino gaming property (as defined in the PILOT Law) is required to pay its pro rated share of an aggregate amount of PILOT Payments based on an equal weighted formula that includes the following criteria: the gross gaming revenues ("GGR") of the casino, the total number of hotel guest rooms and the geographic footprint of the real property owned by each casino gaming property. Commencing in 2018 and for each year thereafter, the aggregate amount of PILOT Payments owed will be determined based on a sliding scale of Atlantic City casino industry GGR from the applicable prior year, subject to certain adjustments. The aggregate amount of PILOT Payments owed to the City of Atlantic City by Atlantic City casino gaming properties for calendar year 2022 is $110 million. The Company recognized $2,360 and $1,926 of expense during each of the three months ended March 31, 2022 and 2021 representing its proportionate share of the 2022 and 2021 PILOT Payments.

*Settlement Agreement – Property Tax Appeals and PILOT Law*

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

As a result of the reduced 2017 assessed valuation, the Company will receive a refund from the City in the amount of $4,950 (the "Refund Payment"). The Refund Payment will be paid to the Company by the City in four equal annual installments in the amount of $1,237, each payment due on or before June 30 commencing June 30, 2019. The present value of the Refund Payment was recorded as a reduction to the carrying value of property and equipment and was estimated to be $4,297. The Company received the first $1,237 installment of the Refund Payment in July 2019. The second and third $1,237 installments of the Refund Payment were received on June 30, 2020 and 2021, respectively.

*Settlement Agreement*

On January 17, 2020, the Company entered into a Settlement Agreement with two of its tenants (the "Tenants") to terminate the lease agreements between the Company and each of the Tenants and to settle all pending disputes between the parties. Pursuant to the Settlement Agreement, the Company must pay $13,000, without interest, in 13 equal installments (the "Settlement Amount"). The first installment of $1,000 was paid on March 17, 2020, in accordance with the terms of the Settlement Agreement. The second and third installments were paid on December 31, 2020 and 2021, respectively. The remaining 10 payments are due annually on January 1, 2023, through and including January 1, 2032. The present value of the Settlement Amount was estimated to be $8,400 and was recorded during the year ended December 31, 2019. The remaining balance of the Settlement Amount as of March 31, 2022, is included within other current liabilities and other liabilities on the balance sheets.

*Legal Matters*

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

## NOTE 11 – EMPLOYEE BENEFIT PLANS

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code covering certain of its nonunion employees. The plan allows eligible employees to defer up to the lesser of the Internal Revenue Code prescribed maximum amount or 100% of their income on a pretax basis through contributions to the plan. The Company recognized expense of $346 and $307 for the three months ended March 31, 2022 and 2021, respectively, related to the 401(k) plan. Such amounts are included in general, administrative and other costs in the statements of income.

## NOTE 12 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through May 13, 2022, the date these financial statements were issued.