# REVEL ENTERTAINMENT GROUP, LLC
# QUARTERLY REPORT

## FOR THE QUARTER ENDED MARCH 31, 2014

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

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

# REVEL ENTERTAINMENT GROUP, LLC
# BALANCE SHEETS

AS OF MARCH 31, 2014 AND 2013

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2014 (c) | 2013 (d) |
|---|---|---|---|---|
| | ASSETS: | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents | | $23,250 | $14,699 |
| 2 | Short-Term Investments | | | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2014, $1,881 ; 2013, $ 656) | 4 | 16,083 | 11,321 |
| 4 | Inventories | 3 | 1,011 | 1,024 |
| 5 | Other Current Assets | 5 | 4,904 | 5,842 |
| 6 | Total Current Assets | | 45,248 | 32,886 |
| 7 | Investments, Advances, and Receivables | | 2,992 | 2,852 |
| 8 | Property and Equipment - Gross | 6 | 517,927 | 1,091,135 |
| 9 | Less: Accumulated Depreciation and Amortization | 6 | (23,200) | (79,116) |
| 10 | Property and Equipment - Net | 6 | 494,727 | 1,012,019 |
| 11 | Other Assets | 7 | 21,570 | 14,047 |
| 12 | Total Assets | | $564,537 | $1,061,804 |
| | LIABILITIES AND EQUITY: | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable | | $33,703 | $55,256 |
| 14 | Notes Payable | | | |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates | | | |
| 16 | External | 9 | 17,021 | 226,336 |
| 17 | Income Taxes Payable and Accrued | 13 | | |
| 18 | Other Accrued Expenses | 8 | 28,080 | 30,383 |
| 19 | Other Current Liabilities | | 6,194 | 8,503 |
| 20 | Total Current Liabilities | | 84,998 | 320,478 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates | | | |
| 22 | External | 9 | 422,209 | 4,090 |
| 23 | Deferred Credits | | | |
| 24 | Other Liabilities | 10 | 44,722 | 1,333,236 |
| 25 | Commitments and Contingencies | 12 | | |
| 26 | Total Liabilities | | 551,929 | 1,657,804 |
| 27 | Stockholders', Partners', or Proprietor's Equity | | 12,608 | (596,000) |
| 28 | Total Liabilities and Equity | | $564,537 | $1,061,804 |

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

# REVEL ENTERTAINMENT GROUP, LLC
# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2014 (c) | 2013 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $34,875 | $26,550 |
| 2 | Rooms | | 9,961 | 9,972 |
| 3 | Food and Beverage | | 6,182 | 5,154 |
| 4 | Other | | 5,353 | 3,830 |
| 5 | Total Revenue | | 56,371 | 45,506 |
| 6 | Less: Promotional Allowances | 3 | 11,356 | 8,197 |
| 7 | Net Revenue | | 45,015 | 37,309 |
| | Costs and Expenses: | | | |
| 8 | Casino | | 10,946 | 13,842 |
| 9 | Rooms, Food and Beverage | | 8,386 | 9,342 |
| 10 | General, Administrative and Other | | 47,433 | 54,904 |
| 11 | Total Costs and Expenses | | 66,765 | 78,088 |
| 12 | Gross Operating Profit | | (21,750) | (40,779) |
| 13 | Depreciation and Amortization | | 7,224 | 19,843 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | | |
| 15 | Other | | | |
| 16 | Income (Loss) from Operations | | (28,974) | (60,622) |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | | | |
| 18 | Interest Expense - External | | (14,723) | (39,439) |
| 19 | CRDA Related Income (Expense) - Net | | (443) | (335) |
| 20 | Nonoperating Income (Expense) - Net | 11 | 1,872 | (144,548) |
| 21 | Total Other Income (Expenses) | | (13,294) | (184,322) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | (42,268) | (244,944) |
| 23 | Provision (Credit) for Income Taxes | 13 | | |
| 24 | Income (Loss) Before Extraordinary Items | | (42,268) | (244,944) |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 20__, $0; 20__, $0 ) | | | |
| 26 | Net Income (Loss) | | ($42,268) | ($244,944) |

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

# REVEL ENTERTAINMENT GROUP, LLC
# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND THE THREE MONTHS ENDED MARCH 31, 2014

(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) | (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Balance, December 31, 2012...........** | | 26,858,824 | | | | $104,438 | ($3,870) | ($455,532) | ($354,964) |
| 2 | Net Income (Loss) - 2013............. | | | | | | | | 405,910 | 405,910 |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 4 | Dividends..................................... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments.............. | | | | | | | | | 0 |
| 6 | Stock Based Compensation | | | | | | 60 | | | 60 |
| 7 | Other Comprehensive Loss | | | | | | | 3,870 | | 3,870 |
| 8 | Elimination of deficit- Fresh start | | (26,858,824) | | | | (104,498) | | (63,243) | (167,741) |
| 9 | Capitalization 5/21/13 | | 7,894,740 | 1 | | | 167,740 | | | 167,741 |
| 10 | **Balance, December 31, 2013...........** | | 7,894,740 | 1 | 0 | 0 | 167,740 | 0 | (112,865) | 54,876 |
| 11 | Net Income (Loss) - 2014............. | | | | | | | | (42,268) | (42,268) |
| 12 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 13 | Dividends..................................... | | | | | | | | | 0 |
| 14 | Prior Period Adjustments.............. | | | | | | | | | 0 |
| 15 | | | | | | | | | | 0 |
| 16 | | | | | | | | | | 0 |
| 17 | | | | | | | | | | 0 |
| 18 | | | | | | | | | | 0 |
| 19 | **Balance, March 31, 2014 .......** | | 7,894,740 | $1 | 0 | $0 | $167,740 | $0 | ($155,133) | $12,608 |

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

# REVEL ENTERTAINMENT GROUP, LLC
# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2014 (c) | 2013 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES... | | ($29,235) | ($79,647) |
| | CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| 2 | Purchase of Short-Term Investments | | | |
| 3 | Proceeds from the Sale of Short-Term Investments | | | |
| 4 | Cash Outflows for Property and Equipment | | (422) | (4,425) |
| 5 | Proceeds from Disposition of Property and Equipment | | | |
| 6 | CRDA Obligations | | | |
| 7 | Other Investments, Loans and Advances made | | | |
| 8 | Proceeds from Other Investments, Loans, and Advances | | | |
| 9 | Cash Outflows to Acquire Business Entities | | 0 | 0 |
| 10 | | | | |
| 11 | | | | |
| 12 | Net Cash Provided (Used) By Investing Activities | | (422) | (4,425) |
| | CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| 13 | Proceeds from Short-Term Debt | | 0 | 57,700 |
| 14 | Payments to Settle Short-Term Debt | | (5,359) | (9,501) |
| 15 | Proceeds from Long-Term Debt | | 36,800 | 0 |
| 16 | Costs of Issuing Debt | | | |
| 17 | Payments to Settle Long-Term Debt | | (7,187) | (564) |
| 18 | Cash Proceeds from Issuing Stock or Capital Contributions | | 0 | 0 |
| 19 | Purchases of Treasury Stock | | | |
| 20 | Payments of Dividends or Capital Withdrawals | | | |
| 21 | Non-cash interest expense (PIK) | | 12,236 | 10,443 |
| 22 | | | | |
| 23 | Net Cash Provided (Used) By Financing Activities | | 36,490 | 58,078 |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents | | 6,833 | (25,994) |
| 25 | Cash and Cash Equivalents at Beginning of Period | | 16,417 | 40,693 |
| 26 | Cash and Cash Equivalents at End of Period | | $23,250 | $14,699 |

| | | | | |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized) | | $1,515 | $4,208 |
| 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.

# REVEL ENTERTAINMENT GROUP, LLC
# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2014 (c) | 2013 (d) |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss) | | ($42,268) | ($244,944) |
| 30 | Depreciation and Amortization of Property and Equipment | | 6,985 | 19,843 |
| 31 | Amortization of Other Assets | | 239 | 2,175 |
| 32 | Amortization of Debt Discount or Premium | | 271 | 2,643 |
| 33 | Deferred Income Taxes - Current | | | |
| 34 | Deferred Income Taxes - Noncurrent | | | |
| 35 | (Gain) Loss on Disposition of Property and Equipment | | | |
| 36 | (Gain) Loss on CRDA-Related Obligations | | 443 | 335 |
| 37 | (Gain) Loss from Other Investment Activities | | | |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks | | (1,679) | 1,929 |
| 39 | (Increase) Decrease in Inventories | | 159 | 49 |
| 40 | (Increase) Decrease in Other Current Assets | | 2,431 | (2,546) |
| 41 | (Increase) Decrease in Other Assets | | (24) | 4,800 |
| 42 | Increase (Decrease) in Accounts Payable | | 2,718 | (25,753) |
| 43 | Increase (Decrease) in Other Current Liabilities | | 2,036 | (6,686) |
| 44 | Increase (Decrease) in Other Liabilities | | (546) | (551) |
| 45 | Stock based compensation | | 0 | 38 |
| 46 | Reorganization exp/liabilities subj to compromise | | 0 | 169,021 |
| 47 | Net Cash Provided (Used) By Operating Activities | | ($29,235) | ($79,647) |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line (a) | Description (b) | Notes | 2014 (c) | 2013 (d) |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment | | ($422) | ($4,425) |
| 49 | Less: Capital Lease Obligations Incurred | | | |
| 50 | Cash Outflows for Property and Equipment | | ($422) | ($4,425) |
| | 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.

# REVEL ENTERTAINMENT GROUP, LLC
# SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE THREE MONTHS ENDED MARCH 31, 2014
(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 | 46,900 | $3,331 | | |
| **2** | Food | 49,584 | 935 | 35,843 | 1,190 |
| **3** | Beverage | 505,898 | 1,137 | 3,669 | 186 |
| **4** | Travel | 667 | 170 | 369 | 141 |
| **5** | Bus Program Cash | | | | |
| **6** | Promotional Gaming Credits | 144,165 | 3,327 | 39,871 | (22) |
| **7** | Complimentary Cash Gifts | 101 | 2,146 | | |
| **8** | Entertainment | 4,335 | 165 | 106 | 7 |
| **9** | Retail & Non-Cash Gifts | | | 9,525 | 506 |
| **10** | Parking | | | 54,372 | 163 |
| **11** | Other * | 16,550 | 145 | 4,861 | 312 |
| **12** | Total | 768,200 | $11,356 | 148,616 | $2,483 |

FOR THE THREE MONTHS ENDED MARCH 31, 2014

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| **1** | Rooms | 46,900 | $3,331 | | |
| **2** | Food | 49,584 | 935 | 35,843 | 1,190 |
| **3** | Beverage | 505,898 | 1,137 | 3,669 | 186 |
| **4** | Travel | 667 | 170 | 369 | 141 |
| **5** | Bus Program Cash | | | | |
| **6** | Promotional Gaming Credits | 144,165 | 3,327 | 39,871 | (22) |
| **7** | Complimentary Cash Gifts | 101 | 2,146 | | |
| **8** | Entertainment | 4,335 | 165 | 106 | 7 |
| **9** | Retail & Non-Cash Gifts | | | 9,525 | 506 |
| **10** | Parking | | | 54,372 | 163 |
| **11** | Other * | 16,550 | 145 | 4,861 | 312 |
| **12** | Total | 768,200 | $11,356 | 148,616 | $2,483 |

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

# REVEL ENTERTAINMENT GROUP, LLC
# STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 2014

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.

5/15/2014
Date

Theresa Glebocki

CFO
Title

4954-11
License Number

On Behalf of:

REVEL ENTERTAINMENT GROUP, LLC
Casino Licensee

# Revel Entertainment Group, LLC
## Notes to Financial Statements
(unaudited)

($ in thousands)

**1. Organization and Basis of Presentation**

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Revel Entertainment Group LLC ("Revel Entertainment") referred to herein as the "Company." The Company is currently wholly-owned by Revel AC, Inc. On May 21, 2013 (the "Effective Date"), the Debtors (as defined below) emerged from Chapter 11 by consummating their restructuring through a series of transactions contemplated by the Plan (as defined below) and the Plan became effective pursuant to its terms. On the Effective Date each holder of a Term Loan Credit Agreement Claim (as defined below) received its pro rata share of 100% of the new equity interests of reorganized Revel AC, Inc. in exchange for the full and final satisfaction, settlement, release, and discharge of the Term Loan Credit Agreement Claims.

The Company owns and operates a beachfront casino and entertainment resort in Atlantic City, New Jersey ("Revel"). The Company is not currently involved in internet gaming operations.

On March 26, 2012, the Company was granted its gaming license by the New Jersey Casino Control Commission ("CCC") and on April 2, 2012 Revel opened to the public.

The accompanying unaudited financial statements are prepared in accordance with the financial reporting regulations of the New Jersey Division of Gaming Enforcement ("DGE"), and as such, certain information and disclosures have been omitted for items that have not changed significantly from the filing of the Quarterly Report for the fourth quarter. These financial statements should be read in conjunction with the financial statements and notes included in the Company's December 31, 2013 Quarterly Report, as filed with the DGE.

**2. Proceedings under Chapter 11 of the Bankruptcy Code**

In early 2013, the Company entered into a Restructuring Support Agreement (as amended, the "Restructuring Support Agreement") with JP Morgan Chase Bank, N.A. (the "Administrative Agent"), in its capacities as administrative agent, collateral agent and disbursement agent under the Term Loan Credit Agreement (see note 10) and in its capacities as administrative agent and collateral agent under the 2012 Credit Agreement (see note 9), holders of a majority of outstanding claims under the 2012 Credit Agreement (the "2012 Credit Agreement Claims"), holders of a majority of outstanding claims under the Term Loan Credit Agreement (the "Term Loan Credit Agreement Claims"), and holders of a majority of outstanding claims under the Indenture governing the Second Lien Notes (the "Second Lien Note Claims") (collectively, the "Consenting Debtholders"). The Restructuring Support Agreement provided for the implementation of a prepackaged plan of reorganization (the "Plan") through an expedited Chapter 11 process. Pursuant to the Restructuring Support Agreement, the Consenting Debtholders agreed to support the Plan, provided that the Company was successful in taking the steps necessary to meet various agreed upon milestones.

On March 25, 2013 (the "Petition Date"), the Company, together with Revel AC, Revel AC, LLC, and Revel Atlantic City, LLC (collectively, the "Debtors") commenced cases (collectively, the "Chapter 11 Cases") in the United States Bankruptcy Court for the District of New Jersey (the "Bankruptcy Court") seeking reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Bankruptcy Code (the "Bankruptcy Code"). As part of the Cases, the Debtors also filed with the Bankruptcy Court the Plan and accompanying disclosure statement of the same date (the "Disclosure Statement").

On May 13, 2013, the Bankruptcy Court confirmed the Debtors' Plan, subject to satisfaction of the conditions of effectiveness, including approval of the CCC and DGE. On May 15, 2013 the CCC and DGE approved the Plan, including the issuance of new equity interests, the extinguishment of any rights in connection with the previous equity interests and the approval of a material debt transaction. On May 21, 2013 ("Consummation Date") the Plan became effective, the transactions contemplated by the Plan were consummated, and the Debtors officially emerged from bankruptcy.

From the filing on the Petition Date to the Consummation Date, the Company operated as a debtor-in possession under the jurisdiction of the Bankruptcy Court. Accordingly, the financial statements for periods from the Petition Date through the

($ in thousands)

**2. Proceedings under Chapter 11 of the Bankruptcy Code (continued)**

Consummation Date were prepared in accordance with Topic 852 – "Reorganizations" of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ("ASC 852"), which requires the reporting of pre-petition liabilities subject to compromise on the balance sheet at an estimate of the amount ultimately allowable by the Bankruptcy Court. ASC 852 also requires separate reporting of certain expenses relating to the Debtors' Chapter 11 Cases as reorganization items.

The accompanying financial statements have been prepared on a going concern basis, which assumes the Company will realize its assets and satisfy its liabilities in the normal course of business. As shown in the accompanying financial statements, during the three months ended March 31, 2014 the Company has generated a net loss of $42.3 million and has a working capital deficit of $39.8 million as of March 31, 2014. The Company's liquidity is impacted by a number of factors, including its operating results and its borrowing capacity under the current credit agreements. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of recorded assets or the amounts and classification of liabilities and the related effects that may result from the outcome of this uncertainty.

**3. Summary of Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

**Receivables**

Accounts receivable primarily consist of casino, hotel and other receivables which arise in the normal course of business. The Company issues credit in the form of "markers" to approved casino customers who are investigated as to their credit worthiness. An estimated allowance for doubtful accounts is maintained to reduce the receivables to their carrying amount, which approximates fair value. The allowance is estimated based on the specific review of customer accounts, and taking into account factors such as trends and economic and business conditions. The allowance for doubtful accounts was $1,881 and $656 at March 31, 2014 and 2013, respectively.

**Inventory**

Inventory consists primarily of food, beverage and operating supplies, which are valued at the lower of average cost or market values. Cost is determined using the first in, first out method.

**Property and Equipment**

Property and equipment are initially stated at cost. As discussed below in Fresh Start Accounting, the Company adopted fresh-start reporting upon its emergence from chapter 11 on the Consummation Date. In connection with fresh-start reporting, the Company decreased the carrying value of its property and equipment to record property and equipment at its fair value as of the Consummation Date in accordance with ASC 852. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Building and improvements | 10 through 40 years |
| Land improvements | 5 through 15 years |
| Furniture, fixtures and equipment | 3 through 7 years |

**3. Summary of Significant Accounting Policies (continued)**

Costs related to improvements are capitalized, while costs of repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of property and equipment retired or otherwise disposed of are eliminated from the respective accounts and any resulting gain or loss is included in operations.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets to be held and used, the Company reviews these assets for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the Company compares the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then impairment is measured as the difference between fair value and carrying value, with fair value typically based on a discounted cash flow model. If an asset is still under development, future cash flows include remaining construction costs. The Company's impairment assessment at December 31, 2013 is currently under review.

**Intangible Assets**

The Company amortizes intangible assets over their estimated useful lives, estimated to be nine years. The Company does not have any intangible assets with indefinite lives. Amortization expense for the three months ended March 31, 2014 and 2013 is $239 and $0, respectively.

**Revenue and Promotional Allowances**

Gaming revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Hotel, food and beverage, entertainment and other operating revenues are recognized when services are performed. Advance deposits for hotel and convention bookings and advance ticket sales are recorded as customer deposits until services are provided to the customer, at which point revenue is recognized.

The retail value of accommodations, food, beverage, admissions and other services provided to guests on a complimentary basis are included in gross revenues and then deducted as promotional allowances. Promotional allowances also include incentives provided to guests in the form of free slot play.

**Tenant Income**

The majority of Revel's restaurant and retail venues are operated by third party tenants. Lease agreements with these tenants generally require contingent rental income based on a percentage of the tenant's sales, as well as reimbursement of the tenant's proportional share of common area, real estate taxes, and other operating expenses. For the three months ended March 31, 2014 and 2013, total contingent rental income was $1,440 and $1,155, respectively, and additional rental income for the common area costs was $658 and $603, respectively. Deferred rent liabilities related to tenant allowances received for construction costs are included in other long-term liabilities on the accompanying consolidated balance sheet and are amortized over the related lease terms as an addition to rental income.

**Gaming Taxes**

The Company is subject to taxes based on gross gaming revenues in New Jersey. The gaming taxes are assessed at eight percent, and are included in casino expense in the accompanying statements of income.

### 3. Summary of Significant Accounting Policies (continued)

#### Revel Card Liability

Our player's program allows customers to accumulate certain point-based rewards based on the volume of both their gaming and non-gaming activity. Revel guests may earn "resort dollars" redeemable for complimentary rooms, food, beverage, retail, parking, spa and nightlife. Resort dollars accumulate over time and may be redeemed at the customer's discretion under the terms of the program. Resort dollars are forfeited if a customer does not redeem earned rewards over a specified period of time. As a result of the ability of the customer to accumulate resort dollars, we accrue the associated expense, after giving effect to estimated forfeitures, as they are earned. The liability for resort dollars, which is included in other current liabilities on the accompanying balance sheets, was $1,596 and $3,657 at March 31, 2014 and 2013, respectively.

#### Advertising Expenses

Advertising costs are expensed as incurred. For the three months ended March 31, 2014 and 2013, total advertising costs, which are included in general, administrative and other costs in the accompanying statements of income, totaled $3,813, and $1,111, respectively.

#### Income Taxes

Income taxes are recorded under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards.

Accounting standards regarding income taxes requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance, if, based on the available evidence, it is more likely than not that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets is assessed at each reporting period based on a more-than-likely-than-not realization threshold. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods, experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives.

#### Deferred Financing Costs

Costs incurred in connection with the debt financings were capitalized and were being amortized over the expected life of the loan. Total amortization of deferred financing fees in the amount of $233 and $2,176 for the three months ended March 31, 2014 and 2013, respectively, is included in interest expense on the accompanying statement of income.

As a result of the Chapter 11 Cases, the balance of deferred financing costs related to the 2012 Credit Agreements, totaling $42,076 as of March 25, 2013, was written off as reorganization expense in accordance with the applicable accounting guidance provided in ASC Topic 852; this expense is included in other nonoperating expense on the accompanying Statement of Income for the three months ended March 31, 2013 (see note 11).

#### Derivative Instruments and Hedging Activities

In August 2011, the Company executed an interest rate cap to hedge its interest rate risk. The Company accounted for this interest rate cap as required by ASC 815, *Derivatives and Hedging*. The interest rate cap agreement was terminated in March 2013; the proceeds from the termination of the interest rate cap of $550 were returned to the Company. The termination of the agreement resulted in the reclassification of $3,772 that had previously been recognized in accumulated other comprehensive income (loss) in accordance with ASC 815 to current period expense, which is included in other non-operating income on the accompanying statement of income for the three months ended March 31, 2013.

**3. Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

**Commitments and Contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probably that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

**Self Insurance Reserves**

Self-insurance reserves represent the estimated amounts of claims related to employee health medical costs, workers' compensation and personal injury claims that have occurred in the normal course of business. These reserves are established by management based upon specific review of open claims, with consideration of incurred but not reported claims as of the balance sheet date. The costs of the ultimate disposition of these claims may differ from these reserve amounts.

**Fresh Start Accounting**

In accordance with ASC 852, the Company adopted fresh start accounting upon emergence from Chapter 11. ASC 852 requires the provisions of fresh start accounting to be applied when the following criteria: (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation was less than the total of all post-petition liabilities and allowed claims, and (ii) the holders of the voting shares of the Company's stock which existed immediately prior to the confirmation received less than 50 percent of the voting shares of the emerging entity. Under ASC 852, application of fresh start accounting is required on the date on which a plan of reorganization is confirmed by a bankruptcy court, but provides that fresh start accounting should not be applied until all material conditions to the plan of reorganization are satisfied. All material conditions to the Plan of Reorganization were satisfied as of May 21, 2013.

As a result of the adoption of fresh-start reporting, the Reorganized Company's post-emergence financial statements are generally not comparable with the financial statements of the Predecessor Company prior to its emergence from bankruptcy, including the historical financial statements included in this report. Due to the adoption of fresh-start reporting, the Predecessor Company and the Reorganized Company financial statements are prepared on different bases of accounting.

Under fresh start accounting, an emerging entity must allocate its reorganization value to its assets, in conformity with procedures specified by FASB ASC 805, "Business Combinations." The Company's reorganization value, as set forth in the Plan which was approved by the Bankruptcy Court, was estimated to be between $400 million and $500 million, using a variety of financial analyses, including selected publicly traded companies' analyses, selected transaction analyses and a discounted cash flow analysis. The Company used a reorganization value of $438 million for financial reporting purposes. The Company engaged an independent appraiser to assist in the allocation of reorganization value to our assets and liabilities as of the Consummation Date.

# Revel Entertainment Group, LLC
## Notes to Financial Statements
(unaudited)

($ in thousands)

### 4. Receivables and Patrons' Checks

Receivable and patrons' checks consist of the following:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Casino receivables (net of allowance for doubtful accounts of $1,769 and $455) | $8,031 | $ 5,874 |
| Non-gaming receivables (net of allowance for doubtful accounts of $63 and $103) | 3,852 | 2,752 |
| Other receivables (net of allowance for doubtful accounts of $49 and $98) | 4,200 | 2,695 |
| Receivables and patrons' checks | $ 16,083 | $ 11,321 |

### 5. Other Current Assets

Other current assets consist of the following:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Prepaid insurance | $1,875 | $ 402 |
| Prepaid entertainment fees | 68 | 1,013 |
| Other prepaid expenses | 2,961 | 4,427 |
| Other current assets | $ 4,904 | $ 5,842 |

### 6. Property and Equipment

Property and equipment consist of the following:

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Land and improvements | $37,193 | $ 23,423 |
| Building and improvements | 391,450 | 737,140 |
| Furniture, fixtures, and equipment | 89,284 | 327,534 |
| Construction in progress | - | 3,038 |
| Total | 517,927 | 1,091,135 |
| Less accumulated depreciation | 23,200 | 79,116 |
| Property and equipment, net | $494,727 | $ 1,012,019 |

For the three months ended March 31, 2014 and 2013, depreciation expense related to property and equipment was $6,985 and $19,843, respectively.

# Revel Entertainment Group, LLC
## Notes to Financial Statements
(unaudited)

($ in thousands)

### 7. Intangible Assets

As of March 31, 2014 and 2013, intangible assets, which are included in other assets on the accompanying balance sheet, consist of the following:

| | March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Lease related intangibles | $ 5,640 | $ - |
| Customer relationships | 3,100 | - |
| | 8,740 | - |
| Less: accumulated amortization | (808) | - |
| Total intangible assets, net | $ 7,932 | $ - |

### 8. Other Accrued Expenses

Other accrued expenses consist of the following:

| | March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Accrued payroll and related expenses | $ 7,568 | $ 7,787 |
| Accrued interest | 359 | 441 |
| Accrued insurance reserves | 6,831 | 7,248 |
| Other accrued expenses | 13,322 | 14,907 |
| Total accrued expenses | $ 28,080 | $ 30,383 |

### 9. Debt

Debt consisted of the following:

| | March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Revolving Credit Facility | $ 68,032 | $ - |
| First Lien Term Loan Facility, including PIK interest of $2,024 | 52,024 | |
| Second Lien Term Loan Facility, including PIK interest of $36,460 and net of discount of $4,551 | 304,847 | - |
| December 2012 Term Loan Facility | - | 125,000 |
| 2012 Revolver Facility | - | 67,161 |
| DIP Revolving Facility | - | 12,220 |
| Other borrowings | 14,327 | 26,045 |
| | 439,230 | 230,426 |
| Less current portion | 17,021 | 226,336 |
| Long term debt, net of current portion | $ 422,209 | $ 4,090 |

**9. Debt (continued)**

**Chapter 11 Proceeding**

As discussed in note 2, on the Petition Date, the Debtors commenced the Chapter 11 Cases in Bankruptcy Court seeking reorganization under the Bankruptcy Code. The filing of the Chapter 11 Cases created an event of default under the 2012 Credit Agreement (as defined below), the Term Loan Credit Agreement (as defined below) and the Indenture governing the Second Lien Notes (as defined below). The ability of the creditors of the Debtors to seek remedies to enforce their rights under the credit facilities and notes was stayed as a result of the filing of the Chapter 11 Cases, and the creditors' rights of enforcement were subject to the applicable provisions of the Bankruptcy Code.

**2013 First Lien Revolving Credit Facility and Second Lien Term Loan Facility**

On May 21, 2013, the Company entered into a first lien credit agreement (the "Original First Lien Credit Agreement") providing for a $75 million first lien revolving credit facility (the "Original Revolving Credit Facility"). On November 8, 2013, the Company amended and restated the Original First Lien Credit Agreement (as further amended from time to time, the "Amended and Restated First Lien Credit Agreement") to provide for, in lieu of the Original Revolving Credit Facility, (i) a $25 million first lien revolving credit facility (the "Tranche 1 Revolving Credit Facility"), (ii) a $75 million first lien revolving credit facility (the "Tranche 2 Revolving Credit Facility" and, together with the Tranche 1 Revolving Credit Facility, the "Revolving Credit Facility") and (iii) a $50 million first lien term loan facility (the "First Lien Term Loan Facility" and, together with the Revolving Credit Facility, the "First Lien Credit Facilities"). The First Lien Credit Facilities are scheduled to mature on June 15, 2015. As of March 31, 2014, $68,032 was outstanding under the Revolving Credit Facility, which included a $1,900 irrevocable letter of credit drawn as collateral for workers compensation claims.

On May 21, 2013, the Company also entered into a second lien credit agreement (as amended from time to time, the "Second Lien Credit Agreement" and together with the Amended and Restated First Lien Credit Agreement, the "Credit Agreements") providing for a $275 million second lien term loan facility (the "Second Lien Term Loan Facility" and together with the First Lien Credit Facilities, the "Credit Facilities"). The Second Lien Term Loan Facility is scheduled to mature on May 21, 2018.

Proceeds under the Original First Lien Credit Agreement and the Second Lien Credit Agreement were used to enable the Company, among other things, to consummate the transactions contemplated by the bankruptcy reorganization plan (including repaying in full all borrowings under, and to terminate, the DIP Credit Agreement), and to pay related fees and expenses. Thereafter, proceeds under the Credit Facilities were used to provide for ongoing working capital requirements of the Company and its subsidiaries (subject to the terms thereof).

The loans under the First Lien Credit Facilities bear interest at a rate per annum which, at the Company's option, can be either: (i) in the case of the Tranche 1 Revolving Credit Facility (and, prior to the amendment and restatement, the Original Revolving Credit Facility), (A) an adjusted base rate (not to be less than 2.00% per annum) plus a margin of 5.00%; or (B) the Eurodollar rate (not to be less than 1.00% per annum) plus a margin of 6.00%, (ii) in the case of the Tranche 2 Revolving Credit Facility, (A) an adjusted base rate (not to be less than 2.00% per annum) plus a margin of 5.50%; or (B) the Eurodollar rate (not to be less than 1.00% per annum) plus a margin of 6.50% and (iii) in the case of the First Lien Term Loan Facility, (A) an adjusted base rate (not to be less than 2.00% per annum) plus a margin of 8.00%; or (B) the Eurodollar rate (not to be less than 1.00% per annum) plus a margin of 9.00%. Accrued interest on Revolving Credit Facility loans are payable in cash. Accrued interest on First Lien Term Loan Facility loans are payable by increasing the outstanding principal amount of the First Lien Term Loan Facility; provided that, on and after June 30, 2014 and so long as no Event of Default then exists, at the Company's option, interest then accruing may be payable in cash. In addition, the Company will pay (i) a commitment fee of 3.50% per annum on the average daily unused amount of the Tranche 1 Revolving Credit Facility (and, prior to the amendment and restatement, the Original Revolving Credit Facility), (ii) a commitment fee of 3.75% per annum on the average daily unused amount of the Tranche 2 Revolving Credit Facility and (iii) a letter of credit fronting fee of 0.25% per annum on the average daily amount of outstanding letters of credit and any letter of credit disbursements that have not yet been reimbursed.

**9. Debt (continued)**

The loans under the Second Lien Term Loan Facility bear interest at a rate equal to 14.5% per annum, payable by increasing the outstanding principal amount of the Second Lien Term Loan Facility; provided that, after September 30, 2014 and so long as no Event of Default then exists, at the Company's option, loans for any interest period may bear interest payable in cash at a rate equal to 12.5% per annum.

All borrowings under each Credit Facility are required to be repaid on the final maturity date of such facility. The Credit Facilities are subject to mandatory prepayments in the event of certain asset sales, debt issuances, casualty events (subject to a reinvestment option so long as certain conditions are met), special events and extraordinary events. The Credit Facilities are also subject to annual mandatory prepayments in the amount of 75% of excess cash flow (as defined therein) from the prior year. Prepayment amounts under the Revolving Credit Facility are applied to the prepayment of loans thereunder or, if no loans are then outstanding, are deposited into a collateral account (and the revolving commitment is reduced by such amount). Certain prepayments under the Second Lien Term Loan Facility are subject to prepayment premiums.

Obligations under the Credit Facilities are guaranteed by the subsidiaries of Company. The obligations and guarantees under the Credit Facilities are secured by security interests in substantially all of the assets of the Company and the subsidiary guarantors, subject to certain exceptions set forth in the definitive documentation for the Credit Facilities.

The Credit Agreements require the Company to maintain compliance with certain financial covenants including a minimum liquidity covenant and a maximum capital expenditure covenant (in each case, as defined therein). In addition, the Credit Agreements restrict the ability of the Company or its subsidiaries to, among other things, (a) incur additional indebtedness, (b) pay dividends, prepay indebtedness or purchase or issue capital stock, (c) encumber assets, (d) enter into business combinations or divest assets, (e) alter business plans or projects, (f) enter into new lines of business, and (g) make investments or loans, subject in each case to certain exceptions or excluded amounts.

**2012 Revolver Facility and December 2012 Term Loan Facility**

On May 3, 2012, the Company entered into a revolving credit facility (the "Revolver Facility") under the Revolving Credit Agreement (as amended from time to time, the "2012 Credit Agreement"). On August 22, 2012 and December 20, 2012, the Company entered into amendments to the 2012 Credit Agreement, which increased the Revolver Facility commitments to

$125 million, and in December 2012, established a new $125 million term loan facility (the "December 2012 Term Loan Facility", collectively with the original Term Loan Facility, the "Term Loan Facilities"). As of March 31, 2013, $67,161 was outstanding under the Revolver, which included a $1,900 irrevocable letter of credit drawn as collateral for workers' compensation claims.

As a result of the Plan (note 2), which became effective on May 21, 2013, the 2012 Credit Agreement Claims were repaid in full in cash by proceeds of the DIP Credit Agreement (as defined below).

**DIP Credit Agreement**

In connection with the Chapter 11 Cases, the Debtors received interim and final approval on March 27, 2013 and April 18, 2013, respectively, from the Bankruptcy Court for authority to enter into a $250 million senior secured superpriority debtor in possession credit agreement (as amended, restated, supplemented, or otherwise modified from time to time, the "DIP Credit Agreement") among Revel AC, as the borrower, the other Debtors, as guarantors, the lenders party thereto (the "DIP Facility Lenders") and JPMorgan Chase Bank, N.A., in its capacities as administrative agent, collateral agent and issuing bank. The DIP Credit Agreement provides for (i) a $125 million revolving loan (the "DIP Revolving Facility") and (ii) and a $125 million term loan. On March 27, 2013, the Debtors entered into the DIP Credit Agreement. The proceeds of the DIP Credit Agreement was to be used by Revel AC to (a) repay outstanding indebtedness under the credit agreement, dated as of May 3, 2012, by and among Revel AC, as borrower, the guarantors party thereto, the lenders party thereto, JPMorgan Chase Bank,

($ in thousands)

**9. Debt (continued)**

N.A., in its capacities as administrative agent, collateral agent and issuing bank, and J.P. Morgan Securities LLC, as sole lead arranger and sole bookrunner, over time; (b) pay certain reasonable fees and expenses associated with the transactions contemplated by the DIP Credit Agreement, (c) pay certain professional fees in connection with the Chapter 11 Cases; (d) provide ongoing working capital requirements and pay other fees, costs and expenses relating to the Chapter 11 Cases, in accordance with certain DIP Credit Agreement documents; and (e) fund certain capital expenditures. A portion of the DIP Revolving Facility could be made available for the issuance of letters of credit.

Borrowings under the DIP Revolving Facility were subject to interest, at Revel AC's option, (i) at the Base Rate (as defined in the DIP Credit Agreement) plus a margin of 6.50% per annum or (ii) at the Adjusted LIBOR Rate (as defined in the DIP Credit Agreement) plus a margin of 7.50% per annum. Borrowings under the DIP Term Loan will bear interest, at Revel AC's option, (i) at the Base Rate plus a margin of 8.00% per annum or (ii) at the Adjusted LIBOR Rate plus a margin of 9.00% per annum. In addition, Revel AC will pay a commitment fee of 4.00% per annum on the average daily unused amount of the DIP Revolving Facility, and a letter of credit fronting fee of 0.25% per annum on the average daily amount of outstanding letters of credit and any letter of credit disbursements that have not yet been reimbursed.

The Debtors' obligations under the DIP Credit Agreement are secured by (i) a first priority lien on all of the assets of the Debtors, including a pledge of all of the equity interests of each of its domestic subsidiaries, and (ii) a superpriority administrative claim in each of the Cases, in each case subject to certain agreed upon exceptions.

As of March 31, 2013, $12,220 was outstanding under the DIP Revolving Facility.

In connection with the consummation of the Plan on May 21, 2013, the DIP Credit Agreement was terminated and all borrowings were repaid in full using the proceeds from the Credit Agreements.

**Other Borrowings**

The Company acquired approximately 2,100 slot machines and other equipment under financing arrangements, for use in the casino operation. These financing arrangements, with various manufacturers, are payable in installments over varying time periods through 2015.

**10. Other Liabilities**

| | March 31, 2014 | March 31, 2013 |
|---|---|---|
| Liabilities subject to compromise: | | |
| 2011 Term Loan Facility | - | $ 895,500 |
| Accrued interest | - | 28,232 |
| Second Lien Notes | - | 389,107 |
| Other long term liabilities | $ 44,722 | 20,397 |
| Total Other Liabilities | $ 44,722 | $ 1,333,236 |

**2011 Term Loan Facility**

On February 17, 2011, the Company entered into the credit agreement governing the $850,000 first lien term loan facility (the "Term Loan Facility") (as amended from time to time, the "Term Loan Credit Agreement"). On May 3, 2012 the Company entered into amendments to the Term Loan Credit Agreement which provided for an additional $50,000 of term loan commitments.

($ in thousands)

## 10. Other Liabilities (continued)

### Second Lien Notes

Also on February 17, 2011, concurrently with the closing under the Term Loan Facility, the Company issued 152,200 units (the "Units"), each consisting of a Warrant to purchase 1,000 shares of Common Stock, subject to certain adjustments, and $2 principal amount of the Second Lien Notes at a price equal to 97.5% of the face value of the Second Lien Notes in a transaction exempt from registration under the Securities Act of 1933, as amended.

As a result of the Chapter 11 Cases as discussed in note 2, the outstanding balances under the Company's 2011 Term Loan Facility (including accrued interest payable) and the Second Lien Notes was reclassified to liabilities subject to compromise. All unamortized original issue discounts on the Term Loan Facility and Second Lien Notes were also written off as a result of the Chapter 11 Cases (see note 11).

## 11. Other Non-operating Income (Expense)

Other non-operating income (expense) for the three months ended March 31, 2014 and 2013 consists of the following:

| | Three Months ended March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Reorganization expense: | | |
| Write off original issue discount on debt | - | (98,021) |
| Write off deferred financing costs | - | (42,076) |
| Other reorganization expense | - | (693) |
| Termination of interest rate cap | - | (3,772) |
| Other non-operating income | 1,872 | 14 |
| Total other non-operating income (expense) | $ 1,872 | $ (144,548) |

## 12. Commitments and Contingencies

In February 2011, the Company entered into an Energy Services Agreement (the "ESA") with ACR Energy Partners, LLC ("ACR") pursuant to which ACR designed and constructed a central utility plan (the "CUP") on land leased from the Company that supplies the Company with all of its thermal energy (hot and chilled water) and electricity needs for Revel. The term of the ESA is for a period of 20 years commencing on the date that Revel was commercially open to the public (or April 2, 2012). Obligations under the ESA contain both fixed fees and variable fees based upon usage rates. The fixed fee components under the ESA are currently estimated at approximately $20,200 per annum. The variable fee component under the ESA is based upon pre-negotiated rates.

The Company is party to a ground lease (the "Ground Lease") under which ACR leases the land on which the CUP is located. The initial term of the Ground Lease commenced on April 8, 2011 and expires with the expiration of the ESA (April 1, 2032). Fixed rent under the Ground Lease is $198 annually, payable to the Company in equal monthly installments.

The New Jersey Casino Control Act provides, among other things, for an assessment of licensee equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the Casino Reinvestment Development Authority ("CRDA"). Under the terms of an agreement with the CRDA, the Company has agreed to donate the first four years of deposits to the CRDA. As a result, the Company has

**12. Commitments and Contingencies (continued)**

recorded a full reserve for its CRDA obligations as of March 31, 2014 and 2013. The amount of expense recorded for this reserve for the three months ended March 31, 2014 and 2013 was $443 and $335, respectively.

On March 13, 2013, the Company entered into an executive transition agreement (as amended on March 19, 2013, the "Executive Transition Agreement") with Kevin DeSanctis, the former President and Chief Executive Officer of the Company, and Michael Garrity, the former Chief Investment Officer of the Company. The Executive Transition Agreement provided for ongoing development and consulting arrangements with and payments to the Executives through June 20, 2013, who resigned from their positions with the Company on March 22, 2013. The total expense associated with the Executive Transition Agreement is approximately $7,140, of which $880 was recorded during the three months ending March 31, 2013, and is included in general, administrative and other costs on the accompanying statement of income.

Included in long-term liabilities as of March 31, 2014 is approximately $11.7 million of a tax credit received during 2013. As all conditions to retain the credit are not reasonably assured as of the balance sheet date, the recognition of this credit has been deferred.

From time to time, the Company is a party to various claims and lawsuits arising in the normal course of business, including the construction and development of Revel. Legal proceedings of this nature are inherently unpredictable and substantial losses sometimes result. As a consequence, the Company may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its financial position, results of operations, or cash flows. The Company is of the opinion that these litigations or claims will not have a material negative effect on its consolidated financial position, results of operations, or cash flows.

**13. Income Taxes**

Deferred tax assets and liabilities are provided for the effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the balance sheet. These temporary differences result in taxable or deductible amounts in future years.

A valuation allowance is recorded if it is more likely than not that a net deferred tax asset will not be realized. In assessing its need for a valuation allowance, the Company considered all available positive and negative evidence including its status as a start-up entity with historical operating losses and forecasted operating losses. Based on this analysis, the Company has recorded a full valuation allowance against its net deferred tax assets as of March 31, 2014 and 2013. The Company will continue to reassess its valuation allowance on a quarterly basis and if future evidence allows for a partial or full release of the valuation allowance a tax benefit will be recorded accordingly in the subsequent period.

For income tax reporting, the Company has federal and state net operating loss carryforwards of approximately $628,000 at December 31, 2013, which are available to reduce future federal and state taxable income, subject to potential Internal Revenue Code ("IRS") Section 108 attribute reduction and IRC Section 382 limitations discussed below. Such net operating loss carryforwards begin to expire in 2031.

The Company anticipates that it will realize discharge of indebtedness income for tax purposes as a result of the restructuring of its debt in the Chapter 11 Cases. The Company is currently evaluating the impact of this discharge of indebtedness income, which could require the reduction of certain tax attributes such as net operating losses (NOL's) and the tax basis of its assets. We have not finalized our assessment of the tax effects of the bankruptcy emergence and this estimate, as well as the Plan's effect on all tax attributes, is subject to revision, which could be significant. Any such reductions could result in increased future tax liabilities for the Company. Additionally, the future utilization of its NOL carryforwards, if any, may be limited under Section 382.

**13. Income Taxes (continued)**

Uncertain tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the appropriate year such tax positions are claimed, including any related interest or penalties. The Company did not have any recorded uncertain tax positions as of March 31, 2014.

The Company files federal and New Jersey income tax returns and the tax years 2013, 2012 and 2011 remain open subject to examination by the tax authorities.

**14. Subsequent Events**

The Amended and Restated First Lien Credit Agreement and the Second Lien Credit Agreement have been amended to reduce the minimum liquidity requirement amount defined in the minimum liquidity covenant.

The Company has not yet paid its second quarter 2014 real estate tax obligation. In conjunction with this, the Company received waivers to the Amended and Restated First Lien Credit Agreement and the Second Lien Credit Agreement so that it is not in default of these agreements.