

**HARRAH'S CASINO HOTEL, ATLANTIC CITY
QUARTERLY REPORT**

FOR THE QUARTER ENDED JUNE 30, 2008

**SUBMITTED TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

HARRAH'S CASINO HOTEL, ATLANTIC CITY

BALANCE SHEETS

AS OF JUNE 30, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$19,021	\$33,579
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2008, \$2,538 ; 2007, \$1,761).....		16,241	12,069
4	Inventories	2	2,054	1,780
5	Other Current Assets.....	4	31,645	9,774
6	Total Current Assets.....		68,961	57,202
7	Investments, Advances, and Receivables.....	5	35,464	368,372
8	Property and Equipment - Gross.....	2 & 6	1,400,011	1,143,216
9	Less: Accumulated Depreciation and Amortization.....	2 & 6	(22,349)	(351,207)
10	Property and Equipment - Net.....	2 & 6	1,377,662	792,009
11	Other Assets.....		611,607	476
12	Total Assets.....		\$2,093,694	\$1,218,059
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$43,978	\$48,646
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....	2	780	0
18	Other Accrued Expenses.....	8	30,045	59,130
19	Other Current Liabilities.....		1,413	1,212
20	Total Current Liabilities.....		76,216	108,988
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	650,000
22	External.....	10	1,160,000	0
23	Deferred Credits		265,911	2,524
24	Other Liabilities.....	11	95,217	1,326
25	Commitments and Contingencies.....			
26	Total Liabilities.....		1,597,344	762,838
27	Stockholders', Partners', or Proprietor's Equity.....		496,350	455,221
28	Total Liabilities and Equity.....		\$2,093,694	\$1,218,059

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$255,485	\$254,320
2	Rooms.....		28,970	26,541
3	Food and Beverage.....		37,512	31,166
4	Other.....		12,093	8,504
5	Total Revenue.....		334,060	320,531
6	Less: Promotional Allowances.....	2	74,388	85,251
7	Net Revenue.....		259,672	235,280
	Costs and Expenses:			
8	Cost of Goods and Services.....		147,429	129,914
9	Selling, General, and Administrative.....		28,916	30,036
10	Provision for Doubtful Accounts.....		1,244	634
11	Total Costs and Expenses.....		177,589	160,584
12	Gross Operating Profit.....		82,083	74,696
13	Depreciation and Amortization.....		30,770	23,299
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	13,223	9,561
16	Income (Loss) from Operations.....		38,090	41,836
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(3,914)	(26,000)
18	Interest Expense - External.....		(37,348)	0
19	CRDA Related Income (Expense) - Net.....		5,143	(2,741)
20	Nonoperating Income (Expense) - Net.....		(873)	(4,668)
21	Total Other Income (Expenses).....		(36,992)	(33,409)
22	Income (Loss) Before Taxes and Extraordinary Items.....		1,098	8,427
23	Provision (Credit) for Income Taxes.....	2	686	2,672
24	Income (Loss) Before Extraordinary Items.....		412	5,755
25	Extraordinary Items (Net of Income Taxes - 2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		\$412	\$5,755

The accompanying notes are an integral part of the financial statements.
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HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$132,411	\$128,944
2	Rooms.....		16,935	14,101
3	Food and Beverage.....		20,628	15,947
4	Other.....		6,577	4,858
5	Total Revenue.....		176,551	163,850
6	Less: Promotional Allowances.....	2	38,177	44,235
7	Net Revenue.....		138,374	119,615
	Costs and Expenses:			
8	Cost of Goods and Services.....		77,995	66,869
9	Selling, General, and Administrative.....		16,452	15,939
10	Provision for Doubtful Accounts.....		679	375
11	Total Costs and Expenses.....		95,126	83,183
12	Gross Operating Profit.....		43,248	36,432
13	Depreciation and Amortization.....		16,767	12,214
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	6,600	4,732
16	Income (Loss) from Operations.....		19,881	19,486
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	0	(13,000)
18	Interest Expense - External.....		(18,759)	0
19	CRDA Related Income (Expense) - Net.....		(471)	(1,398)
20	Nonoperating Income (Expense) - Net.....		(648)	(4,083)
21	Total Other Income (Expenses).....		(19,878)	(18,481)
22	Income (Loss) Before Taxes and Extraordinary Items.....		3	1,005
23	Provision (Credit) for Income Taxes.....	2	1,385	1,336
24	Income (Loss) Before Extraordinary Items.....		(1,382)	(331)
	Extraordinary Items (Net of Income Taxes -			
25	2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$1,382)	(\$331)

* Certain 2006 amounts have been reclassified to confirm with 2007 presentation.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007
AND THE SIX MONTHS ENDED JUNE 30, 2008

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2006.....		\$165,954	\$276,904	\$0	\$442,858
2	Net Income (Loss) - 2007.....			31,542		31,542
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, 2007.....		165,954	308,446	0	474,400
11	Net Income (Loss) - 2008.....			412		412
12	Capital Contributions.....		650,000			650,000
13	Capital Withdrawals.....					0
14	Partnership Distributions.....		(1,160,000)			(1,160,000)
15	Prior Period Adjustments.....					0
16	Purchase Price Adjustment		846,228	(314,690)		531,538
17	_____					0
18	_____					0
19	Balance, June 30, 2008.....		\$502,182	(\$5,832)	\$0	\$496,350

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$92,767	\$125,853
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments		0	0
4	Cash Outflows for Property and Equipment.....		(108,152)	(137,191)
5	Proceeds from Disposition of Property and Equipment.....		3,009	2,167
6	CRDA Obligations		(3,079)	(3,177)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		808	1,316
9	Cash Outflows to Acquire Business Entities.....		0	0
10			0	0
11				
12	Net Cash Provided (Used) By Investing Activities.....		(107,414)	(136,886)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt		1,160,000	
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....		(1,160,000)	
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(14,647)	(11,033)
25	Cash and Cash Equivalents at Beginning of Period.....		33,668	44,612
26	Cash and Cash Equivalents at End of Period.....		\$19,021	\$33,579
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$38,070	\$0
28	Income Taxes.....		\$0	\$2,827

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

HARRAH'S CASINO HOTEL, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$412	\$5,755
30	Depreciation and Amortization of Property and Equipment.....		26,074	23,268
31	Amortization of Other Assets.....		4,696	31
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		22,144	0
35	(Gain) Loss on Disposition of Property and Equipment.....		(7,535)	2,034
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		(852)	1,475
39	(Increase) Decrease in Inventories		5	(528)
40	(Increase) Decrease in Other Current Assets.....		(23,409)	(2,941)
41	(Increase) Decrease in Other Assets.....		11,374	1,180
42	Increase (Decrease) in Accounts Payable.....		8,446	(9,176)
43	Increase (Decrease) in Other Current Liabilities		2,455	24,456
44	Increase (Decrease) in Other Liabilities		82,276	151
45	(Increase) decrease in other receivables or advanc		(33,319)	80,148
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$92,767	\$125,853

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$108,152)	(\$137,191)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$108,152)	(\$137,191)
	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.

HARRAH'S CASINO HOTEL, ATLANTIC CITY
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES

FOR THE SIX MONTHS ENDED JUNE 30, 2008

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	234,661	\$20,439		
2	Food	1,552,900	15,529		
3	Beverage	3,480,600	8,702		
4	Travel	0	0	81,849	8,103
5	Bus Program Cash	16,188	162		
6	Other Cash Complimentaries	2,176,706	30,060		
7	Entertainment	76,000	1,900		
8	Retail & Non-Cash Gifts	483,200	2,416		
9	Parking		0		
10	Other	76,753	384		
11	Total	8,097,008	\$79,592	81,849	\$8,103

FOR THE THREE MONTHS ENDED JUNE 30, 2008

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	136,291	\$11,871		
2	Food	818,900	8,189		
3	Beverage	1,890,200	4,726		
4	Travel	0	0	49,606	4,911
5	Bus Program Cash	5,929	59		
6	Other Cash Complimentaries	984,956	14,102		
7	Entertainment	56,600	1,415		
8	Retail & Non-Cash Gifts	185,144	926		
9	Parking	0	0		
10	Other	50,669	254		
11	Total	4,128,689	\$41,542	49,606	\$4,911

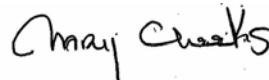
HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2008

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission'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.A.C. 19:43-4.2(b)1-5 during the quarter.

8/15/2008

Date



MARY CHEEKS

VICE PRESIDENT OF FINANCE

Title

004960-11

License Number

On Behalf of:

HARRAH'S CASINO HOTEL, ATLANTIC CITY

Casino Licensee

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Harrah's Atlantic City Operating Company, LLC (the "Company") operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey known as Harrah's Casino Hotel Atlantic City. The Company is a wholly-owned subsidiary of Harrah's Atlantic City Holding, Inc. ("HACH") which is a wholly-owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). A substantial portion of the Company's revenues is derived from gaming and supporting hotel operations.

On January 28, 2008, Harrah's was acquired by affiliates of Apollo Global Management, LLC and TPG Capital, L.P. in an all cash transaction, hereinafter referred to as the "Merger." Prior to the Merger, Marina Associates (the "Partnership") operated as a General Partnership and owned and operated Harrah's Casino Hotel Atlantic City. The Partnership was an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary Harrah's.

In conjunction with the Merger, the Partnership, along with five affiliates, was spun off from HOC for the purpose of obtaining financing in the form of commercial mortgaged-backed securities ("CMBS") in order to effect the Merger. A series of transactions, hereinafter referred to as the "Restructuring", were executed that, among other things, dissolved the Partnership and liquidated its assets, net of liabilities, to various affiliates (Note 2) and created the Company. CMBS financing was obtained by subsidiaries of HACH (Note 10).

Construction began in first quarter 2006 on a \$550,000 upgrade and expansion of the resort ("The Project"), which will include a new hotel tower with approximately 960 rooms, a casino expansion and retail and entertainment complex. A new buffet and most of the retail center opened on February 16, 2007 and pool and SPA opened in May 2007. The new hotel tower opened in phases and is completed in July 2008 (Note 11).

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations as published by the CCC. The Company's license is subject to renew every five years with the current license expiring April 2013.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the account balances of HACH and its wholly-owned subsidiaries. As a result, all material intercompany transactions and balances have been eliminated in consolidation.

Acquisition of Harrah's - As a result of the Merger, the assets acquired and liabilities assumed in the Merger were revalued based upon their estimated fair values at the date of acquisition. The estimated fair values were determined after review and consideration of relevant information including discounted cash flows analyses, quoted market prices and Harrah's own estimates. The purchase price that exceeds the fair value of the net identifiable tangible and intangible assets acquired was allocated to goodwill. The purchase price allocation is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement.

Allowance for Doubtful Accounts - The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances.

Inventories - Inventories of provisions and supplies are valued at the lower of average cost, or market.

Land, Buildings and Equipment - Land, buildings, and equipment were stated at cost, through January 27, 2008 and revalued to fair value on January 28, 2008 in connection with the Merger, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

As a result of the Restructuring, certain real property and equipment of the Partnership were distributed to Harrah's Atlantic City Propco, LLC ("HACPC"), a wholly-owned indirect subsidiary of HACH on January 28, 2008.

Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Goodwill and Other Intangible Assets - In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, the Company performs at least an annual review of goodwill and non-amortizing intangibles. The purchase price allocation related to the Merger is in process and will be completed within one year of the Merger; thus, the allocation of the purchase price is subject to refinement. In accordance with the provisions of SFAS No. 142, the Company does not amortize goodwill.

The intangible assets include customer relationships (database) totaling \$133,900. The customer relationships have been determined to have a useful life of 12 years, and are being amortized using the straight-line method. Amortization expense for the three months ended June 30, 2008 was approximately \$2,696, and six months ended June 30, 2008 was approximately \$4,649. Based on the value allocated to amortizing intangibles as of June 30, 2008 per the preliminary purchase price allocation, estimated annual amortization expense for the years ending December 31, 2008 is approximately \$10,228 for the years ending December 31, 2009, 2010, 2011 and 2012 is approximately \$11,518.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

Investment in ACES - In 2006, The Partnership entered into an agreement with Caesars Atlantic City, an affiliate of the Partnership and one other Atlantic City casino to form Atlantic City Express Service, LLC ("ACES"). With each member having a 33% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between Manhattan, New York and Atlantic City. The responsibilities of the managing member will rotate annually among the members. The Partnership's anticipated investment in ACES will be approximately \$5,000. ACES is currently in the development stage and is expected to be operational by the fourth quarter of 2008.

As a result of the Restructuring, the Partnership's interest in ACES was transferred to HACH on January 28, 2008.

The investment is reflected in the accompanying financial statements using the equity method. As of June 30, 2008, HACH has made capital contributions of \$4,514 which is included in Investment, Advances and Receivable in the accompanying balance sheet. HACH's share of ACES' net loss for the six months ended June 30, 2008 was \$41 and is included in non-operating expenses on the accompanying statements of income.

Investments in Subsidiaries - During 1999, the Partnership, through its wholly owned subsidiary Reno Crossroads LLC ("Reno"), acquired a parcel of land in Reno, Nevada for approximately \$10,325. The existing facilities located on the parcel site were demolished and a new plaza was constructed on the site at a cost of approximately \$2,365. On February 1, 2000, Reno entered into an agreement to lease this parcel of land to HOC for a period of twenty years at a fixed rent of \$1,120 per year.

As a result of the Restructuring, the Partnership's interest in Reno was transferred to HOC on January 28, 2008.

Financial Instruments - The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority ("CRDA") bonds and deposits approximately reflect their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

Other Assets - Debt issue costs are amortized to interest expense based on the related debt agreement using the straight-line method, which approximates the effective interest method.

On January 28, 2008, the subsidiaries of HACH entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of \$1,160,000 at a LIBOR cap rate of 4.5%.

CRDA Real Estate Project - The Partnership's investment in its CRDA real estate project (the "Project") consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, NJ. Based upon an agreement with the CRDA, the Partnership may sell certain parts of the Project and will operate certain other parts for a period of up to 20 years.

Income or loss from the operation of the Project is included in the results of operations. Buildings are being depreciated using the straight-line method based on an estimated useful life of 27.5 years.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

In January 2008, The Partnership sold the apartment building, for \$15,000 to Atlantic City Ocean Terrace LLC. The Partnership realized a gain of \$6,300 in connection with this transaction in January 2008.

Revenue Recognition - Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Food, beverage, rooms and other revenues include the aggregate amounts generated by those departments.

Rewards Program - Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, we accrue the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense on our statements of income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. We use historical data to assist in the determination of estimated accruals. At June 30, 2008 and 2007, \$3,943 and \$3,981, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our statements of income. At June 30, 2008 and 2007, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,194 and \$ 1,390, respectively.

Casino Promotional Allowances - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash at the property. The estimated costs of providing such complimentary services are classified as casino expenses in the accompanying statements of income. These costs consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Food and beverage	\$ 18,419	\$ 17,351
Rooms	7,930	8,524
Other	4,731	3,524
Other Cash Complimentaries	<u>22,879</u>	<u>33,765</u>
	<u>\$ 53,959</u>	<u>\$ 63,164</u>

Income Taxes - The accompanying consolidated financial statements do not include a provision for federal income taxes for any periods prior to January 28, 2008, since any income or losses allocated to the partners for those periods are reportable for federal income tax purposes by each partner of the Partnership. In accordance with regulations prescribed by the New Jersey Casino Control Act, the Partnership filed a state income tax return on behalf of the partners for periods ending through January 28, 2008. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes. For periods subsequent to January 28, 2008, the Company’s financial statements include a provision for federal income taxes as the Company will be included in the consolidated federal tax return of Harrah’s. As such, the provision for

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federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

Use of Estimates - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Seasonal factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended June 30, 2008 are not necessarily indicative of the results of operations for the full year.

NOTE 3 - RELATED PARTY TRANSACTIONS

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

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

Cash Activity with Harrah's and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to Harrah's on a daily basis. Cash transfers from Harrah's to the Company are also made based upon the needs of the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due from affiliates, net, in the accompanying consolidated financial statements.

Atlantic City Country Club - Atlantic City Country Club 1, LLC ("ACCC") is a wholly owned subsidiary of Bally's Atlantic City ("Bally's"), an affiliate of the Company. The net operating costs of ACCC are allocated to the Company and Bally's as well as Caesars Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately \$174 and \$187 for these costs for the years ended June 30, 2008 and 2007, respectively. The costs are included in other operating expenses in the accompanying statements of income

Administrative and Other Services - The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged \$13,223 and \$9,561 for these services for the six months ended June 30, 2008 and 2007,

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respectively and \$6,600 and \$4,732 for these services for the three months ended June 30, 2008 and 2007, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Prepaid Air Charters	5,098	4,217
Prepaid State Income Tax	0	1,415
Prepaid Deferred State Income Tax	24,498	0
Prepaid Taxes	6	1,739
Prepaid Marketing	568	1,354
Prepaid Other	<u>1,475</u>	<u>1,049</u>
	<u>\$ 31,645</u>	<u>\$ 9,774</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

Investments, Advances and Receivables as of June 30, consisted of the following:

	<u>2008</u>	<u>2007</u>
Due from Affiliates	\$ 0	\$ 349,751
Investment in ACES	4,383	
Notes Receivable	8,867	
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$5,942 and \$4,226 at June 30, 2008 and 2007, respectively	16,721	13,658
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,922 and \$3,693 at June 30, 2008 and 2007, respectively	4,007	4,236
Other	<u>1,486</u>	<u>727</u>
	<u>\$ 35,464</u>	<u>\$ 368,372</u>

As a result of the Restructuring, all Due from Affiliate balances were assigned to Harrah's on January 28, 2008.

NOTE 6 - LAND, BUILDINGS AND EQUIPMENT

Land, Buildings and Equipment as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Land and Land Improvements	\$439,133	\$ 89,470
Buildings, Leaseholds and Improvements	608,427	715,212

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Furniture, Fixtures and Equipment	70,852	181,345
Construction in Progress	<u>281,599</u>	<u>157,188</u>
	1,400,011	1,143,215
Less Accumulated Depreciation	<u>(22,349)</u>	<u>(351,206)</u>
Property and Equipment, Net	<u>\$1,377,662</u>	<u>\$792,009</u>

NOTE 7 - OTHER ASSETS

Other Assets as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Goodwill	\$ 424,132	\$ 0
Intangible Assets	129,251	0
Deferred Finance Charge	27,258	0
Interest Rate Cap Derivative	30,966	0
Deferred and Prepaid CRDA Obligations	0	399
Other	<u>0</u>	<u>77</u>
	<u>\$ 611,607</u>	<u>\$ 476</u>

NOTE 8 - OTHER ACCRUED EXPENSES

Other Accrued Expenses as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Accrued Salaries, Wages and Benefits	\$6,978	\$ 8,198
Taxes Payable	4,165	4,057
Accrued In-House Progressive Slot Liability	796	721
Accrued City Wide Progressive Slot Liability	328	272
Accrued Interest, Long-term debt	2,825	34,667
Accrued Casino Control Commission / Department		
Gaming Enforcement Casino License Fees	782	852
Accrued Utilities	2,124	961
Accrued Health & Welfare Union	1,486	1,206
Accrued Charter Services	1,953	2,324
Other Accrued Expenses	<u>8,608</u>	<u>5,872</u>
	<u>\$30,045</u>	<u>\$59,130</u>

NOTE 9 - NOTE PAYABLE TO AFFILIATE

Debt as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Promissory Note	<u>\$0</u>	<u>\$650,000</u>

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On October 31, 2001, the Partnership and HOC consummated a promissory note for \$650,000. All principal and interest outstanding on the promissory note was due and payable on demand to HOC. Interest was computed on an annual basis using 360 days for the actual number of days elapsed during a year at an annual rate of eight percent. Any amount of principal not paid by the Partnership to HOC when due would bear an additional two percent annual interest rate. On March 12, 2003, the promissory note was assigned to Harrah's Entertainment Limited ("HEL"). Neither the term nor the amount of debt was affected by this assignment. As of June 30, 2008 and 2007, there was accrued interest of \$0 and \$34,667, respectively, on the balance sheet related to the promissory note. Since the promissory note was due to an affiliate, a determination of fair value was not considered meaningful.

As a result of the Restructuring, HOC contributed the promissory note to the Partnership. The Partnership then transferred the promissory note to HEL in satisfaction of its payable to HEL.

NOTE 10 – OTHER LONG TERM DEBT

Secured debt as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
CMBS financing, 5.470% at June 30, 2008, maturity 2013	<u>\$1,160,000</u>	<u>\$0</u>

NOTE 11 - OTHER LIABILITIES

Other Liabilities as of June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Reported Claims	344	465
CRDA-ACIA funding	248	273
Deferred CRDA grant	536	588
Due to Affiliates	81,957	0
FIN 48- Tax Reserve	<u>12,132</u>	<u>0</u>
	<u>\$95,217</u>	<u>\$1,326</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation - The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

Insurance Reserve - The Company is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of \$332 and \$473 as of June 30, 2008 and 2007, respectively. Actual results may differ from these reserve amounts.

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CRDA Investment Obligation - The New Jersey Casino Control Act provides, among other things, for an assessment of licensees 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 CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Company includes net of valuation allowance, funds on deposit and CRDA investment bonds in Investment, Advances and Receivable in the accompanying balance sheets totaling \$16,721 and \$4,007, respectively, at June 30, 2008 and \$13,658 and \$4,236, respectively, at June 30, 2007. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2008, the Company received approval from the CRDA for a qualified direct investment project to construct various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City ("CRDA real estate project") at an estimated cost to the Company of approximately \$54,573. The partnership had a repayment of the Company's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset was being amortized over the related Atlantic City obligation period, which ended in 2007.

The Company has committed approximately \$9,589 of its current and future CRDA deposit obligations for the refurbishment of the Atlantic City Convention Center. The amount is amortized on a straight-line basis over a 15-year period commencing September 2001. As of June 30th, 2008 there was accrued CRDA obligation of \$ 958 in the accompanying balance sheet.

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January, 1 2009. As part of the agreement, the AC Industry will provide \$34,000 over a four year period to the NJSEA and must deposit another \$62,000 in the Casino Expansion Fund (managed by the CRDA). The \$62,000 will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be \$3,215 the first payment of which was made November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62,000, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

The parent company of the issuer ("Debtor") of certain CRDA-backed bonds held by the Company is in Chapter 11 bankruptcy. Debtor is currently in active negotiations to sell its company and has an identified buyer. The CRDA is representing the interest of the casino industry, including the Company, in negotiations with Debtor to restructure the bonds. The face value of the bonds held by the Company is \$ 742; however, the Company maintains a reserve on these bonds and on all of its other CRDA-backed bonds. While it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the bond

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agreement, the Company has concluded that its reserves are currently adequate and will continue to monitor developments of this case.

Purchases - At June 30, 2008, the Company is obligated under purchase commitments totaling approximately \$ 79,322 relating to the Expansion Project. Costs incurred under the Project were approximately \$470,358 and are included in Property and Equipment - Gross in the accompanying balance sheet as of June 30, 2008.