

**BOARDWALK REGENCY CORPORATION
QUARTERLY REPORT**

FOR THE QUARTER ENDED JUNE 30, 2011

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



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

BOARDWALK REGENCY CORPORATION

BALANCE SHEETS

AS OF JUNE 30, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$25,813	\$14,209
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2011, \$11,907; 2010, \$15,492).....	2 & 4	21,693	19,086
4	Inventories	2	720	624
5	Other Current Assets.....	5	7,898	12,652
6	Total Current Assets.....		56,124	46,571
7	Investments, Advances, and Receivables.....	6 & 13	427,322	362,595
8	Property and Equipment - Gross.....	2 & 7	834,697	839,650
9	Less: Accumulated Depreciation and Amortization.....	2 & 7	(137,257)	(98,160)
10	Property and Equipment - Net.....	2 & 7	697,440	741,490
11	Other Assets.....	2 & 8	118,050	127,960
12	Total Assets.....		\$1,298,936	\$1,278,616
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$7,504	\$11,775
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....	10	455	49
17	Income Taxes Payable and Accrued.....	2		
18	Other Accrued Expenses.....	9	171,234	126,899
19	Other Current Liabilities.....		3,141	3,405
20	Total Current Liabilities.....		182,334	142,128
	Long-Term Debt:			
21	Due to Affiliates.....	11	518,330	518,330
22	External.....	11		455
23	Deferred Credits	2	97,980	90,053
24	Other Liabilities.....	12	179,268	172,111
25	Commitments and Contingencies.....	13		
26	Total Liabilities.....		977,912	923,077
27	Stockholders', Partners', or Proprietor's Equity.....		321,024	355,539
28	Total Liabilities and Equity.....		\$1,298,936	\$1,278,616

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

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

BOARDWALK REGENCY CORPORATION

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$201,104	\$203,015
2	Rooms.....		19,238	19,267
3	Food and Beverage.....		22,374	24,995
4	Other.....		7,568	7,497
5	Total Revenue.....		250,284	254,774
6	Less: Promotional Allowances.....		60,734	63,416
7	Net Revenue.....		189,550	191,358
	Costs and Expenses:			
8	Cost of Goods and Services.....		121,958	126,192
9	Selling, General, and Administrative.....		22,039	27,623
10	Provision for Doubtful Accounts.....		257	1,643
11	Total Costs and Expenses.....		144,254	155,458
12	Gross Operating Profit.....		45,296	35,900
13	Depreciation and Amortization.....	2	23,727	24,735
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	14,288	10,535
16	Income (Loss) from Operations.....		7,281	630
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9 & 11	(22,029)	(22,029)
18	Interest Expense - External.....		(84)	(197)
19	CRDA Related Income (Expense) - Net.....	13	(490)	(497)
20	Nonoperating Income (Expense) - Net.....		(1,163)	(995)
21	Total Other Income (Expenses).....		(23,766)	(23,718)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(16,485)	(23,088)
23	Provision (Credit) for Income Taxes.....	2	(4,777)	(8,864)
24	Income (Loss) Before Extraordinary Items.....		(11,708)	(14,224)
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0).....			
26	Net Income (Loss).....		(\$11,708)	(\$14,224)

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

BOARDWALK REGENCY CORPORATION

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$102,311	\$103,120
2	Rooms.....		10,371	10,114
3	Food and Beverage.....		11,864	13,386
4	Other.....		4,265	4,190
5	Total Revenue.....		128,811	130,810
6	Less: Promotional Allowances.....		31,789	32,262
7	Net Revenue.....		97,022	98,548
	Costs and Expenses:			
8	Cost of Goods and Services.....		60,971	63,923
9	Selling, General, and Administrative.....		11,203	15,481
10	Provision for Doubtful Accounts.....		(9)	464
11	Total Costs and Expenses.....		72,165	79,868
12	Gross Operating Profit.....		24,857	18,680
13	Depreciation and Amortization.....	2	11,773	12,210
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	7,087	5,257
16	Income (Loss) from Operations.....		5,997	1,213
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9 & 11	(11,014)	(11,014)
18	Interest Expense - External.....		(42)	(99)
19	CRDA Related Income (Expense) - Net.....	13	(236)	(242)
20	Nonoperating Income (Expense) - Net.....		(915)	(567)
21	Total Other Income (Expenses).....		(12,207)	(11,922)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(6,210)	(10,709)
23	Provision (Credit) for Income Taxes.....	2	(1,533)	(4,070)
24	Income (Loss) Before Extraordinary Items.....		(4,677)	(6,639)
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$____; 20__, \$_____).....			
26	Net Income (Loss).....		(\$4,677)	(\$6,639)

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

BOARDWALK REGENCY CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND THE SIX MONTHS ENDED JUNE 30, 2011

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2009.....		100	\$1,370			\$915,830		(\$536,331)	\$380,869
2	Net Income (Loss) - 2010.....								(37,031)	(37,031)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	ASC 740 Adjustments	2							(16,666)	(16,666)
7	Effect of Deconsolidation of									0
8	Variable Interest Entity								5,560	5,560
9										0
10	Balance, December 31, 2010.....		100	1,370	0	0	915,830	0	(584,468)	332,732
11	Net Income (Loss) - 2011.....								(11,708)	(11,708)
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, June 30, 2011		100	\$1,370	0	\$0	\$915,830	\$0	(\$596,176)	\$321,024

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

BOARDWALK REGENCY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$31,905	\$55,251
	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.....		(4,772)	(3,772)
5	Proceeds from Disposition of Property and Equipment.....		67	20
6	CRDA Obligations		(2,520)	(2,538)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances		83	21
9	Cash Outflows to Acquire Business Entities.....		0	0
10	Effect of Deconsolidation of Variable Interest Er			438
11			
12	Net Cash Provided (Used) By Investing Activities.....		(7,142)	(5,831)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt			
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.....			
21	Borrowings/Payments of Intercompany Payable.		(21,151)	(60,103)
22			
23	Net Cash Provided (Used) By Financing Activities.....		(21,151)	(60,103)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		3,612	(10,683)
25	Cash and Cash Equivalents at Beginning of Period.....		22,201	24,892
26	Cash and Cash Equivalents at End of Period.....		\$25,813	\$14,209
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$61	\$172
28	Income Taxes.....		\$2	\$0

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

BOARDWALK REGENCY CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$11,708)	(\$14,224)
30	Depreciation and Amortization of Property and Equipment.....		19,298	20,308
31	Amortization of Other Assets.....		4,429	4,427
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current		1,745	
34	Deferred Income Taxes - Noncurrent		(3,593)	1,763
35	(Gain) Loss on Disposition of Property and Equipment.....		(67)	(2)
36	(Gain) Loss on CRDA-Related Obligations.....		1,535	1,537
37	(Gain) Loss from Other Investment Activities.....		237	237
38	(Increase) Decrease in Receivables and Patrons' Checks		(618)	4,335
39	(Increase) Decrease in Inventories		(88)	20
40	(Increase) Decrease in Other Current Assets.....		331	(2,286)
41	(Increase) Decrease in Other Assets.....		694	574
42	Increase (Decrease) in Accounts Payable.....		756	586
43	Increase (Decrease) in Other Current Liabilities		20,170	21,896
44	Increase (Decrease) in Other Liabilities		(1,760)	16,080
45	(Incr.) Decr. in Investments, Adv. and Receivab		544	
46			
47	Net Cash Provided (Used) By Operating Activities.....		\$31,905	\$55,251

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$4,772)	(\$3,772)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$4,772)	(\$3,772)
	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.

BOARDWALK REGENCY CORPORATION STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2011

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division of Gaming Enforcement'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 requirements contained in N.J.S.A. 5:12-84(a)1-5 during the quarter.

8/15/2011

Date

Maureen Adams

Maureen Adams

Vice President of Finance

Title

0086701-11

License Number

On Behalf of:

BOARDWALK REGENCY CORPORATION

Casino Licensee

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Boardwalk Regency Corporation (the “Company”), a New Jersey corporation, is a wholly owned subsidiary of Caesars New Jersey, Inc. (“CNJ”), a New Jersey corporation. The Company owns and operates the casino hotel resort in Atlantic City, New Jersey known as “Caesars Atlantic City”. CNJ is a wholly owned subsidiary of Caesars World, Inc. (“CWI”), a Florida corporation, and CWI is a wholly owned subsidiary off Caesars Entertainment Operating Company, Inc. (“CEOC”) (formerly Harrah’s Operating Company), a direct wholly owned subsidiary of Caesars Entertainment, Inc. (“Caesars”) (formerly Harrah’s Entertainment Inc.). The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations.

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the “CCC”) and is subject to rules and regulations established by the CCC. The Company’s license is subject to renewal every five years with the current license expiring June 2013.

On February 1, 2011 the Governor signed into law a bill which transferred certain regulatory authority from the New Jersey Casino Control Commission (“CCC”) to the New Jersey Division of Gaming Enforcement (“DGE”).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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 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 - 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:

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

Land improvements	12 years
Buildings and improvements	5 to 40 years
Furniture, fixtures and equipment	3 to 20 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 – The Company accounts for goodwill and other intangible assets in accordance with Accounting Standard Codification (“ASC”) 350, Intangible Assets, Goodwill and Other. The Company performs at least an annual review of intangible assets for impairment.

The Company maintains customer relationships (database) totaling \$106,200. The customer relationships have been determined to have a useful life of twelve years and are being amortized using the straight-line method. Estimated annual amortization expense for customer relationships for each of the years ending December 31, 2011, 2012, 2013, and 2014, is approximately \$8,850. Amortization expense for the six months ending June 30, 2011 and 2010 was approximately \$4,425 and \$4,425 respectively.

Investment in Atlantic City Express Service, LLC “ACES” - In 2006, the Company entered into an agreement with Harrah’s Atlantic City, an affiliate of the Company, and one other Atlantic City casino to form 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 total investment in ACES as of June 30, 2011 and 2010 was approximately \$26,873 and \$25,718 respectively. ACES became operational on February 6, 2009. ACES net loss for the six months ended June 30, 2011 and 2010 was \$1,633 and \$3,233 respectively.

In June 2009, the FASB issued *ASU 2009-17 (ASC Topic 810), “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,”* which is effective as of January 1, 2010. The new standard amends existing consolidation guidance for variable interest entities and requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the company that has both the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and either the obligation to absorb losses or the right to receive benefits from the entity that could

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

potentially be significant to the variable interest entity. As a result of the adoption of ASU 2009-17, ACES was consolidated within our financial statements for all periods prior to December 31, 2009, and is no longer consolidated beginning in January 2010. The deconsolidation of ACES resulted in a reduction of cash balances for the six months ended June 30, 2010 of \$438 shown as an investing outflow of cash in our Statement of Cash Flows.

Fair Value of Financial Instruments - The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. 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.

Revenue Recognition - Gaming revenue is (a) the win from gaming activities, which is the difference between gaming wins and losses, less sales incentives and other adjustments and (b) revenue from gaming related activities such as poker and tournaments. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. The Company accrues the incremental amount of progressive jackpots as the progressive machine is played, and the progressive jackpot amount increases, with a corresponding reduction of gaming revenue. The retail value of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is included in gross revenue and then deducted as promotional allowances. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

Total Rewards Program Liability – Caesars’ customer loyalty program, Total Rewards, offers incentives to customers who gamble at the Company’s property and certain affiliate 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 twelve-month period. As a result of the ability of the customer to bank the Reward Credits, the Company accrues the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The estimated cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Cost of Goods and Services in the accompanying 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. The Company uses historical data to assist in the determination of estimated accruals. At June 30, 2011 and 2010, \$3,394 and \$3,597, respectively, was accrued for the cost of anticipated Rewards Credit redemptions. These amounts reside on Caesars’ Balance Sheet and thus are included in the due from affiliates balance in the accompanying consolidated balance sheets of the company

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

(“cash-back points”). The Company accrues 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 in the accompanying statements of income. At June 30, 2011 and 2010, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$588 and \$523, respectively. Of this, \$188 and \$227, respectively, reside on Caesars’ Balance Sheet and thus are included in the due from affiliates balance in the accompanying consolidated balance sheets of the company.

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

	2011	2010
Food & Beverage	\$ 12,614	\$ 14,350
Rooms	4,658	4,932
Other	2,001	2,217
Bus Program Cash	12	-
Promotional Gaming Credits	21,694	18,364
Other Cash Complimentaries	11,282	13,740
	\$ 52,261	\$ 53,603

accompanying statements of income. These costs consisted of the following as of June 30:

Gaming Tax — The Company remits weekly to the DGE a tax equal to 8% of the gross gaming revenue, as defined. Gaming taxes paid to the DGE for the six months ended June 30, 2011 and 2010, which are included in casino expenses in the accompanying consolidated statements of income were approximately \$16,130 and \$16,256, respectively.

Income Taxes - The Company is included in the consolidated federal tax return of Caesars and files a separate New Jersey tax return. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the statutory New Jersey tax.

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. The Company follows the provisions of *ASC 740- Income Taxes*. The Company recognizes interest and penalties accrued

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

related to unrecognized tax benefits in income tax expense.

During 2010, management transferred these reserves and the cumulative impact of the related tax expense to the Company in order to reflect the reserve associated with the uncertain income tax position on the Company's general ledger. Similar transfers were performed for all affiliates of CEOC that had uncertain income tax positions reflected at CEOC. In order to properly reflect the transfer of the reserve for uncertain income tax positions to the Company, an offsetting adjustment to equity at the Company was required.

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 could differ from these estimates.

Seasonal factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the six months ended June 30, 2011 are not necessarily indicative of the results of operations for the full year.

Omission of Disclosures - In accordance with the Financial Reporting guidelines provided by the Division of Gaming Enforcement, the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Annual Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations, Employee Benefits and certain Income Tax disclosures.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with CEOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by CEOC 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.

Cash Activity with CEOC and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to CEOC on a daily basis. Cash transfers from CEOC 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 in the accompanying 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 Harrah's Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately \$148 and

Boardwalk Regency Corporation (Caesars Atlantic City)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(All dollar amounts in thousands)

\$136 for these costs for the six months ended June 30, 2011 and 2010, 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 CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged \$14,288 and \$10,535 for these services for the six months ended June 30, 2011 and 2010, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS

Receivables and patrons’ checks as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2011, \$11,610 & 2010, \$15,171)	\$ 17,013	\$ 13,758
Other (Net of Allowance for Doubtful Accounts - 2011, \$297 & 2010, \$321)	4,680	5,328
	<u>\$ 21,693</u>	<u>\$ 19,086</u>

NOTE 5 – OTHER CURRENT ASSETS

Other Current Assets as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Tax Deferred Asset	\$ 1,501	\$ 3,973
Purse Enhancement Agreement	897	2,648
Other	5,500	6,031
	<u>\$ 7,898</u>	<u>\$ 12,652</u>

NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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(Unaudited)
(All dollar amounts in thousands)

Investments, advances and receivables as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Due from Caesars	\$ 402,645	\$ 338,219
Casino Reinvestment Development Authority Obligation ("CRDA") (net of valuation reserves- 2011, \$13,367 and 2010, \$13,043)	20,090	19,249
Investment In ACES	4,587	5,127
	<u>\$ 427,322</u>	<u>\$ 362,595</u>

The amounts due from Caesars as of June 30 are unsecured and non-interest bearing.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and Equipment as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 182,580	\$ 182,580
Buildings and Improvements	527,365	524,778
Furniture, Fixtures, and Equipment	120,547	118,037
Construction in Progress	4,205	14,255
	<u>\$ 834,697</u>	<u>\$ 839,650</u>
Less Accumulated Depreciation & Amortization	<u>(137,257)</u>	<u>(98,160)</u>
	<u>\$ 697,440</u>	<u>\$ 741,490</u>

NOTE 8 – OTHER ASSETS

Other assets as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Customer Database (less Accumulated Amortization of \$30,238 in 2011 & \$21,388 in 2010)	\$ 75,962	\$ 84,813
Other	42,088	43,147
	<u>\$ 118,050</u>	<u>\$ 127,960</u>

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During May 2003, the Company entered into an agreement to lease the Pier at Caesars (the “Pier”) to developers for an initial term of 75 years. The 75 year term commenced upon completion of the Pier’s construction in 2006. The lease agreement provides for the repayment of certain qualified pier development costs incurred by the developers which are included in Other and are being amortized over the life of the lease.

NOTE 9 - OTHER ACCRUED EXPENSES

Other accrued expenses as of June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Accrued Payroll	\$ 8,505	\$ 9,679
Accrued Interest Payable	150,921	106,867
Other	11,808	10,353
	<u>\$ 171,234</u>	<u>\$ 126,899</u>

NOTE 10- SHORT-TERM DEBT

Short-term debt, due to other as of June 30 consists of the following:

	<u>2011</u>	<u>2010</u>
Due to Other		
Mortgage Note due October 15, 2011 Interest at 10.0%	\$ 455	\$ 49
	<u>\$ 455</u>	<u>\$ 49</u>

NOTE 11- LONG-TERM DEBT

Long-term debt, due to affiliates and other as of June 30 consists of the following:

	<u>2011</u>	<u>2010</u>
Due to Affiliates		
8.5% Note Payable to Caesars Entertainment, Ltd. (“HEL”) due December 1, 2020	<u>\$518,330</u>	<u>\$518,330</u>
	<u>\$518,330</u>	<u>\$518,330</u>
Due to Other		

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Mortgage Note due October 15, 2011 Interest at 10.0%	\$ -	\$ 504
Less: Current Maturities	<u>\$ -</u>	<u>\$ (49)</u>
	<u>\$ -</u>	<u>\$ 455</u>
Total Long Term Debt	<u><u>\$518,330</u></u>	<u><u>\$518,785</u></u>

On July 1, 2006, the note formerly held by CEFC was assigned to CEL. Neither the terms nor the amounts of debt were affected by this assignment. The only notable change resulting from the assignment was a change in the timing of interest payments. Prior to the assignment interest payments were made monthly. However, for subsequent tax years, interest payments will be remitted annually, payable in the following year. As of June 30, 2011, accrued interest related to the intercompany note totaled \$150,887. Since the note is due to an affiliate, a determination of fair value is not considered meaningful.

NOTE 12 – OTHER LIABILITIES

Other Liabilities as of June 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Due to Affiliates, Atlantic City Region	\$ 99,232	\$ 94,986
Due to Affiliates, Other	39,798	39,768
CRDA-Seat Licenses	1,382	4,463
Deferred Tax Liability	38,856	32,894
	<u><u>\$ 179,268</u></u>	<u><u>\$ 172,111</u></u>

The Atlantic City Region consists of Caesars casino licenses operating in Atlantic City, New Jersey.

NOTE 13 – 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 include insurance allowances of \$435 and \$410 as of June 30, 2011 and 2010, respectively. Actual results may differ from these reserve amounts.

CRDA Investment Obligation - The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment

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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 rate.

As of June 30, CRDA related assets were as follows:

	<u>2011</u>	<u>2010</u>
CRDA Bonds — net of amortized costs	\$ 3,920	\$ 3,949
Deposits — net of reserves of \$11,673 and \$11,293	<u>16,169</u>	<u>15,300</u>
Total	<u>\$ 20,089</u>	<u>\$ 19,249</u>

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$253 and \$259 for the six months ended June 30, 2011 and 2010, respectively, and is included in CRDA Expense, in the consolidated statements of income.

The funds on deposit are held in an interest-bearing account by the CRDA. Initial obligation deposits are marked down by approximately 33% to represent their fair value and eventual expected conversion into bonds by the CRDA.

Once CRDA Bonds are issued, we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA; they are not permitted to do otherwise. As such, the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the six months ended June 30, 2011 and 2010 was \$13 and \$18, respectively, and is included in CRDA Expense in the consolidated statements of income.

After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its affect on reported amount based upon the ability and likelihood of bonds to be repaid. When considering recoverability of the CRDA Bonds, the Company considers the relative credit-worthiness of each bondholder, historical collection experience and other information received from the CRDA. If indications exist that the amount expected to be recovered is less than its carrying value, the asset will be written down to its expected realizable amount.

All the Atlantic City casino properties (the “AC Industry”) and the CRDA entered into an agreement with the New Jersey Sports & Exposition Authority (the “NJSEA”) to provide funding to subsidize

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New Jersey's horseracing industry. This agreement expired on January 1, 2009. The agreement provided that in exchange for funding, the NJSEA and the three active New Jersey racetracks would not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry provided \$34,000 over a four-year period to the NJSEA and deposited another \$62,000 into the Casino Expansion Fund (managed by the CRDA). The Company's obligation was equal to its fair-share of AC Industry casino revenues, and the Company is eligible to receive funds deposited as a result of this obligation from the Casino Expansion Fund for qualified construction expenditures. The Company has until September 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.

In August 2008, the AC Industry entered into a new agreement with the NJSEA that will provide \$90 million in funding to subsidize New Jersey's horseracing industry. The funding will be provided in installments through 2011. 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 December 31, 2011. The Company's obligation is estimated at \$10,634, equal to its fair-share of AC Industry casino revenues. The total commitment is being charged to operations on a straight-line basis beginning January 2009 through December 31, 2011. The Company recognized \$1,729 for payments to NJSEA for the six months ended June 30, 2011.