

**RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)**

**QUARTERLY REPORT**

**FOR THE QUARTER ENDED MARCH 31, 2012**

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



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

**RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)**

**BALANCE SHEETS**

AS OF MARCH 31, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$22,021	\$9,257
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, \$ 9,471 ; 2011, \$ 10,092)	Note 4	4,093	7,997
4	Inventories .....		642	849
5	Other Current Assets.....		1,276	2,304
6	Total Current Assets.....		28,032	20,407
7	Investments, Advances, and Receivables.....	Note 5	11,998	16,008
8	Property and Equipment - Gross.....		39,935	33,908
9	Less: Accumulated Depreciation and Amortization.....		(3,685)	(3,899)
10	Property and Equipment - Net.....	Note 6	36,250	30,009
11	Other Assets.....	Note 7	1,733	1,241
12	Total Assets.....		\$78,013	\$67,665
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$2,847	\$4,677
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....		4,446	1,496
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	Note 8	16,702	17,974
19	Other Current Liabilities.....	Note 9	7,355	35,380
20	Total Current Liabilities.....		31,350	59,527
	Long-Term Debt:			
21	Due to Affiliates.....	Note 10	0	348,207
22	External.....		1,209	45
23	Deferred Credits .....			
24	Other Liabilities.....	Note 7	231	229
25	Commitments and Contingencies.....			
26	Total Liabilities.....		32,790	408,008
27	Stockholders', Partners', or Proprietor's Equity.....		45,223	(340,343)
28	Total Liabilities and Equity.....		\$78,013	\$67,665

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

# RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$25,599	\$34,434
2	Rooms.....		2,298	2,305
3	Food and Beverage.....		2,982	4,416
4	Other.....		429	637
5	Total Revenue.....		31,308	41,792
6	Less: Promotional Allowances.....		8,494	11,226
7	Net Revenue.....		22,814	30,566
	Costs and Expenses:			
8	Cost of Goods and Services.....		21,633	30,732
9	Selling, General, and Administrative.....		6,674	6,612
10	Provision for Doubtful Accounts.....		436	526
11	Total Costs and Expenses.....		28,743	37,870
12	Gross Operating Profit.....		(5,929)	(7,304)
13	Depreciation and Amortization.....		985	590
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....		0	330
16	Income (Loss) from Operations.....		(6,914)	(8,224)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	(5,477)
18	Interest Expense - External.....		(81)	(56)
19	CRDA Related Income (Expense) - Net.....		(107)	(143)
20	Nonoperating Income (Expense) - Net.....		519	233
21	Total Other Income (Expenses).....		331	(5,443)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(6,583)	(13,667)
23	Provision (Credit) for Income Taxes.....			
24	Income (Loss) Before Extraordinary Items.....		(6,583)	(13,667)
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0 ).....			
26	Net Income (Loss).....		(\$6,583)	(\$13,667)

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

# RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino) STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011  
AND THE THREE MONTHS ENDED MARCH 31, 2012

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2010.....		\$138,474	(\$465,150)	\$0	(\$326,676)
2	Net Income (Loss) - 2011.....			(39,425)		(39,425)
3	Capital Contributions.....		15,000			15,000
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....		1			1
7	Debt Elimination				402,906	402,906
8						0
9						0
10	Balance, December 31, 2011.....		153,475	(504,575)	402,906	51,806
11	Net Income (Loss) - 2012.....			(6,583)		(6,583)
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16						0
17						0
18						0
19	Balance, March 31, 2012.....		\$153,475	(\$511,158)	\$402,906	\$45,223

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

# RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$2,816)	(\$9,371)
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....		0	0
3	Proceeds from the Sale of Short-Term Investments .....		0	0
4	Cash Outflows for Property and Equipment.....		(1,703)	(236)
5	Proceeds from Disposition of Property and Equipment.....		0	0
6	CRDA Obligations .....		(351)	(421)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	.....		0	0
11	.....		0	0
12	Net Cash Provided (Used) By Investing Activities.....		(2,054)	(657)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....		(673)	(1,102)
15	Proceeds from Long-Term Debt .....		0	0
16	Costs of Issuing Debt.....		0	0
17	Payments to Settle Long-Term Debt.....		0	0
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....		0	0
20	Payments of Dividends or Capital Withdrawals.....		0	0
21	Changes in receivables from affiliates .....		(436)	10,574
22	.....			
23	Net Cash Provided (Used) By Financing Activities.....		(1,109)	9,472
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(5,979)	(556)
25	Cash and Cash Equivalents at Beginning of Period.....		28,000	9,813
26	Cash and Cash Equivalents at End of Period.....		\$22,021	\$9,257
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$81	\$56
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.

# RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$6,583)	(\$13,667)
30	Depreciation and Amortization of Property and Equipment.....		739	445
31	Amortization of Other Assets.....		246	145
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		0	0
34	Deferred Income Taxes - Noncurrent .....		0	0
35	(Gain) Loss on Disposition of Property and Equipment.....		0	0
36	(Gain) Loss on CRDA-Related Obligations.....		107	143
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		1,445	1,557
39	(Increase) Decrease in Inventories .....		1	35
40	(Increase) Decrease in Other Current Assets.....		970	1,472
41	(Increase) Decrease in Other Assets.....		3	11
42	Increase (Decrease) in Accounts Payable.....		883	751
43	Increase (Decrease) in Other Current Liabilities .....		(627)	(263)
44	Increase (Decrease) in Other Liabilities .....		0	0
45	.....		0	0
46	.....		0	0
47	Net Cash Provided (Used) By Operating Activities.....		(\$2,816)	(\$9,371)

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$7,936)	(\$236)
49	Less: Capital Lease Obligations Incurred.....		6,233	0
50	Cash Outflows for Property and Equipment.....		(\$1,703)	(\$236)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net .....		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
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.

**RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

FOR THE THREE MONTHS ENDED MARCH 31, 2012  
(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	42,880	\$1,083		
2	Food	84,951	1,282	7,875	118
3	Beverage	321,527	836	12,933	34
4	Travel			(768)	4
5	Bus Program Cash	846	20		
6	Promotional Gaming Credits	129,336	5,078		
7	Complimentary Cash Gifts	4,065	164		
8	Entertainment				
9	Retail & Non-Cash Gifts			1,010	50
10	Parking				
11	Other	2,079	31	6,661	235
12	Total	585,684	\$8,494	27,711	\$441

FOR THE THREE MONTHS ENDED MARCH 31, 2011

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	47,840	\$1,437		
2	Food	131,463	2,299	6,641	100
3	Beverage	411,583	1,070	12,135	32
4	Travel			30,688	625
5	Bus Program Cash	20,458	519		
6	Promotional Gaming Credits	139,871	5,174		
7	Complimentary Cash Gifts	13,573	583		
8	Entertainment	3,862	97	217	27
9	Retail & Non-Cash Gifts			1,497	75
10	Parking				
11	Other	3,037	46	9,443	345
12	Total	771,687	\$11,225	60,621	\$1,204

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

**RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)  
STATEMENT OF CONFORMITY,  
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED MARCH 31, 2012

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.

5/15/2012

Date



Gregory J. Sherbon

Vice President of Finance

Title

008983-11

License Number

On Behalf of:

RIH ACQUISITIONS NJ, LLC (The Atlantic Club Casino)  
Casino Licensee



**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Consolidation**

RIH Acquisitions NJ, LLC, a New Jersey limited liability company (the “Company”), owns and operates The Atlantic Club Casino Hotel located in Atlantic City, NJ (“ACCH”). The Company is a wholly owned subsidiary of Resorts International Holdings, LLC; a Delaware limited liability company (“RIH”). The Company’s operations commenced on April 26, 2005.

On April 26, 2005, RIH acquired most of the assets and assumed certain liabilities of four casino properties, including the Atlantic City Hilton, from Caesars Entertainment Inc. and Harrah’s Entertainment Inc. (the “Acquisition”). The debt incurred to finance the Acquisition (the “Term Loans”) was carried on the balance sheet of RIH and was not allocated to the Company. The assets acquired and liabilities assumed of the Atlantic City Hilton as a result of the Acquisition were recorded, via a capital contribution, on the balance sheet of the Company. The Acquisition was accounted for using the purchase method of accounting, and accordingly, the aggregate purchase price, including transaction fees and expenses, was allocated based on the estimated fair value of the assets acquired and the liabilities assumed.

In 2011, RIH’s license agreement for use of the Hilton name was not renewed. As such, the Company had until December 31, 2011 to remove the Hilton name on all areas of the property and promotions. Subsequently, on March 13, 2012, the property was renamed The Atlantic Club Casino Hotel.

RIH and its wholly-owned subsidiaries (the “Borrowers”) entered into a loan agreement with JPMorgan Chase Bank (“JPMorgan”) (the “Loan”). In conjunction with the refinancing in October 2006, RIH Propco NJ, LLC (“Propco”) was formed on October 11, 2006. Propco, a wholly-owned subsidiary of the Company, holds all of the real estate associated with ACCH, as well as its non-gaming furniture, fixtures and equipment. The Company leased these assets from Propco for an amount that will cover the debt service under ACCH’s allocation of the Loan.

In July 2009, RIH defaulted on the Loan as a result of its failure to make monthly interest payments totaling \$78.5 million from the date of default thru November 30, 2011. This interest amount includes \$39.2 million in interest expense associated with the Loan’s default rate, which is 3.0% higher than the standard rate. For the three months ended March 31, 2012 and 2011, \$0 million and \$26.5 million, respectively, of this interest has been allocated to the Company and is reflected in the accompanying financial statements. On January 18, 2011, the Company and its parent entered into a Standstill Agreement with the lenders. The Standstill Agreement provided for a forbearance period during which the parties would cooperate to find a buyer for the Atlantic City Hilton. A financial advisory firm was engaged to find a buyer on terms agreeable to all parties. In October 2011, after being unable to find a buyer for the Company, RIH and the lenders reached an agreement whereby Colony Capital would retain ownership of RIH and the Company debt free, but ownership rights to two RIH Subsidiaries in Tunica, MS, would be retained by the lenders. The agreement was approved by all the parties and was made final on November 28, 2011. Thus, the associated debt and accrued interest, and any intercompany related balances with RIH Subsidiaries in Tunica have been forgiven by RIH and eliminated from the financial statements of the Company as of December 31, 2011. The accounting for these transactions was recorded through contributed capital as the originating transactions were pushed down to the Company through intercompany allocations. Also as part of the settlement, Colony funded the Company \$15 million and the bank released \$9.3 million insurance settlement.

The consolidated financial statements include the accounts of RIH Acquisitions NJ, LLC and its wholly-owned subsidiary, Propco. All material intercompany balances and transactions have been eliminated in consolidation.

**2. Summary of Significant Accounting Policies**

**Use of Estimates**

The preparation of the 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.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Cash Equivalents**

Short-term money market securities purchased with original maturities of three months or less are considered to be cash equivalents. The carrying value of cash equivalents approximates fair value due to the short-term maturity of these instruments.

**Allowance for Accounts Receivable**

Allowances for doubtful accounts arising from casino, hotel and other services, are based upon a specific review of certain outstanding receivables. In determining the amounts of the allowances, certain estimates and assumptions are made, and actual results may differ from those assumptions.

**Inventories**

Inventories of provisions, supplies and spare parts are valued at the lower of cost (first-in, first-out) or market.

**Property and Equipment**

Property and equipment are stated at cost and are depreciated over their estimated useful lives reported below using the straight-line method.

Hotels and other buildings	20 – 40 years
Furniture fixtures and equipment	2 – 7 years

The provisions of ASC Topic 360- “Property, Plant and Equipment” (“ASC 360”) require, among other things, that an entity review its long-lived assets and certain intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. ASC 360 requires an impairment loss to be recognized only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. See Note 3 “Asset Impairments.”

**Income Taxes**

The Company has elected to be treated as a partnership for federal income tax purposes; therefore, no provision or benefit for federal income taxes for the years ended March 31, 2012 and 2011 has been recorded. New Jersey state income taxes have been calculated under an alternative minimum assessment of a percentage of gross revenues.

**Revenue Recognition**

Gaming revenue is recorded as the net win from gaming activities, which represents the difference between amounts wagered and amounts won by patrons. Revenues from hotel and related services and from theater ticket sales are recognized at the time the related service is performed.

**Self Insured Health Insurance**

The Company provides medical coverage for its non-union employees under a self-insured medical plan up to a maximum of \$275,000 per year for each insured person. Amounts in excess of these thresholds are covered by the Company’s insurance programs subject to customary policy limits.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Promotional Allowances**

The retail value of hotel accommodations, food, beverage, and other services provided to customers without charge is included in gross revenues and deducted as promotional allowances.

Cash discounts based upon a negotiated amount with each customer are recognized as a promotional allowance on the date the related revenues are recorded. Cash back awards given to a customer based upon earning points for future awards are accrued as the customer earns the points. The amount is recorded as a promotional allowance in the statement of operations. When estimating the amount of the accrual, the company calculates a redemption rate based on historical redemption rates.

The Company offers other incentive programs. These are gifts and other promotional items, the type and distribution of which is determined by management. Since these awards are not cash awards, the Company records them as gaming expenses in the statement of operations. Such amounts are expensed on the date the award can be utilized by the customer.

**Fair Value of Financial Instruments**

The carrying values of cash and cash equivalents are reasonable estimates of fair values because of the short term maturities of these investments. CRDA Deposits, bonds, and other investments are stated net of a valuation allowance reflecting the below-market interest rates associated with these investments; therefore the carrying values approximate their fair values. The carrying value of long-term debt approximates its fair value.

**Advertising**

The Company expenses direct-response advertising at the time of the event. Costs associated with mailings for future promotions are included in prepaid expenses on the Company's Balance Sheet.

The Company expenses all other advertising costs as incurred. These costs are included in Selling, General and Administrative costs on the Company's Statements of Operations.

**3. Asset Impairments**

**Long-Lived Assets**

In accordance with Section 10-15, Impairment or Disposal of Long Lived Assets, in ASC Topic 360, Property, Plant and Equipment, the Company reviews carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. 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. For purposes of testing the Company's long lived assets, the Company estimated its fair value using several techniques including third party evaluations and tax assessed values and discounted cash flow valuation.

In both 2011 and 2010, the Company determined that it failed the test for recoverability of ASC 360 as the undiscounted cash flows did not exceed the carrying value.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Asset Impairments (continued)**

**Insurance Recovery**

On August 28, 2009 severe storms in the area caused a roof drainage pipe to burst, resulting in severe water damage to several restaurants, a portion of the casino floor, and back office areas at the Atlantic City Hilton. The damage caused a disruption to business in the casino, hotel, food & beverage, and convention areas. Insurance claims are continuing to be negotiated. The Company reached a settlement on the building and business interruption during 2010. The Company continues to finalize discussions on FF&E. All repairs were completed in the second quarter of 2010.

As of December 31, 2010, the Company recorded a \$1.1 million impairment of damaged property and a corresponding receivable for the fully covered insurance recovery, which was received in 2011. The net impact on the statement of operations was \$0. Company received \$10 million of business interruption recovery which was recorded under non-operating income/expense in 2011.

**4. Receivables**

Components of receivables were as follows at March 31 (in thousands):

	<u>2012</u>	<u>2011</u>
Gaming .....	\$ 11,854	\$ 15,627
Less: allowance for doubtful accounts .....	<u>(9,444)</u>	<u>(10,046)</u>
	2,410	5,581
Non-gaming:		
Hotel and related .....	366	481
Due from affiliates, net .....	-	-
Other .....	<u>1,344</u>	<u>1,981</u>
	1,710	2,462
Less: allowance for doubtful accounts .....	<u>(27)</u>	<u>(46)</u>
	<u>1,683</u>	<u>2,416</u>
Receivables, net .....	<u>\$ 4,093</u>	<u>\$ 7,997</u>

**5. Investments, Advances and Receivables**

Components of investments, advances and receivables were as follows at March 31 (in thousands):

	<u>2012</u>	<u>2011</u>
CRDA bonds and direct investments .....	\$ 11,039	\$ 9,643
CRDA deposits .....	9,077	16,309
Valuation allowance .....	<u>(8,118)</u>	<u>(9,944)</u>
	<u>\$ 11,998</u>	<u>\$ 16,008</u>

The New Jersey Casino Control Act, as amended, requires The Atlantic Club to purchase bonds issued by the Casino Reinvestment Development Authority ("CRDA") or make other investments authorized by the CRDA, in an amount equal to 1.25% of RIH's gross gaming revenue, as defined.

The CRDA bonds have interest rates ranging from 2.9% to 7.0% and have repayment terms of between 20 and 50 years. The Atlantic Club records charges to expense to reflect the below-market interest rate payable on the bonds it may have to purchase to fulfill its investment obligation at the date the obligation arises.

The charges for the three months 2012 and 2011 for discounts on obligations arising in that period were \$246,000 and \$143,000 respectively.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Investments, Advances and Receivables (continued)**

From time to time, The Atlantic Club has donated certain funds it has had on deposit with the CRDA in return for either relief from its obligation to purchase CRDA bonds or credits against future CRDA deposits. At March 31, 2012, ACCH owned \$10.5 million face value of bonds, issued by the CRDA and had \$9.1 million on deposit with the CRDA. The majority of the Company's deposits have been pledged for specific projects.

**6. Property and Equipment**

Components of property and equipment were as follows at March 31 (in thousands):

	<u>2012</u>	<u>2011</u>
Land and land rights .....	\$ 10,054	\$ 10,008
Hotels and other buildings .....	14,509	17,880
Furniture, fixtures and equipment .....	6,242	5,293
Construction in progress .....	9,130	727
	<u>39,935</u>	<u>33,908</u>
Less: accumulated depreciation .....	(3,685)	(3,899)
Net property and equipment.....	<u>\$ 36,250</u>	<u>\$ 30,009</u>

**7. Other Assets**

Components of deferred charges and other assets were as follows at March 31 (in thousands):

	<u>2012</u>	<u>2011</u>
Restricted cash .....	1,005	999
Other .....	728	242
	<u>\$ 1,733</u>	<u>\$ 1,241</u>

As a condition of a sale of land in November 2006, the Company was required to deposit \$500,000 from the sale price in an escrow account to be used for potential future environmental clean-up costs for certain portions of the parcels sold (see Note 12). The current escrow balance is \$231,000 and is included in Other Assets and Other Long-Term Liabilities on the consolidated balance sheet at March 31, 2012.

**8. Other Accrued Expenses**

Components of other accrued expenses were as follows at March 31 (in thousands):

	<u>2012</u>	<u>2011</u>
Payroll.....	\$ 7,252	\$ 9,361
Unredeemed customer incentives .....	948	1,418
Gaming taxes and fees .....	738	723
Non-gaming taxes and fees .....	420	379
Real Estate Taxes.....	5,090	1,714
Other .....	2,254	4,379
	<u>\$ 16,702</u>	<u>\$ 17,974</u>

The Company has been in ongoing real estate tax assessment appeal negotiations with the City of Atlantic City. A tentative agreement was reached in early 2011, but could not be finalized. Negotiations continue; however, if an agreement is not reached in the near-term, the Company will pursue this matter in the New Jersey tax court. The 2012 and 2011 expenses recorded on the financial statements represent the amounts due had the agreement been finalized. In light of the settlement negotiations and related litigation, no cash payments for real estate taxes have been made in 2012 or 2011.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. Other Current Liabilities**

Components of other current liabilities were as follows at March 31 (in thousands):

	2012	2011
Unredeemed chip liability .....	\$ 567	\$ 682
CRDA obligation .....	322	429
Other .....	150	397
Due to Affiliates.....	6,316	33,872
	\$ 7,355	\$ 35,380

**10. Debt**

In October 2006, the RIH refinanced its outstanding debt by entering into a Commercial Mortgage Backed Security with JP Morgan Chase. The Loan Agreement (the “Loan”) has a principal amount of \$960 million. Under the Loan the total principal is allocated to each of RIH’s operating properties, including the Atlantic City Hilton. The Loan originally was to mature November 9, 2008 and included the option to extend the life of the Loan for three successive terms of one year each. In November 2008, RIH exercised this option and extended the term of the loan for one year.

The cash flows of ACCH and the other casino properties owned by RIH were the only source to fund the interest payments of the debt issued by RIH. Substantially all of the Company’s assets were pledged as collateral on the Loan, and the Company was named as a guarantor on the Loan. In accordance with Topic 460 “Guarantees” of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) (“ASC 460”), ACCH’s allocated portion of the Loan was classified as short-term debt and a reduction in member’s equity in the consolidated balance sheets at March 31, 2011.

In July 2009, RIH defaulted on the Loan as a result of its failure to make monthly interest payments totaling \$78.5 million from the date of default thru November 30, 2011. This interest amount includes \$39.2 million in interest expense associated with the Loan’s default rate, which is 3.0% higher than the standard rate. For the three months ended March 31, 2012 and 2011, \$0 million and \$26.5 million, respectively, of this interest has been allocated to the Company and is reflected in the accompanying financial statements. On January 18, 2011, the Company and its parent entered into a Standstill Agreement with the lenders. The Standstill Agreement provided for a forbearance period during which the parties would cooperate to find a buyer for the Atlantic City Hilton. A financial advisory firm was engaged to find a buyer on terms agreeable to all parties. In October 2011, after being unable to find a buyer for the Company, RIH and the lenders reached an agreement whereby Colony Capital would retain ownership of RIH and the Company debt free, but ownership rights to two RIH Subsidiaries in Tunica, MS, would be retained by the lenders. The agreement was approved by all the parties and was made final on November 28, 2011. Thus, the associated debt and accrued interest, and any intercompany related balances with RIH Subsidiaries in Tunica have been forgiven by RIH and eliminated from the financial statements of the Company as of December 31, 2011. The accounting for these transactions was recorded through contributed capital as the originating transactions were pushed down to the Company through intercompany allocations. Also as part of the settlement, Colony funded the Company \$15 million and the bank released \$9.3 million insurance settlement.

As of March 31, 2012, the Company had a net due to RIH of \$6.3 million (see Note 9). RIH provides payments for certain services (e.g. health care, property insurance, etc.) that pertain to all of the associated companies under its financing structure, the appropriate shares of which are then allocated to the Company. In addition, the Company transfers excess cash to RIH and RIH provides cash to the Company when needed to fund operations.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
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**11. Income Taxes**

The Company has elected to be treated as a partnership for federal income tax purposes: therefore, no provision or benefit for federal income taxes for the three months ended March 31, 2012 and 2011 has been recorded. New Jersey state income taxes have been calculated under an alternative minimum assessment of a percentage of gross revenues ("NJAMA").

**12. Commitments and Contingencies**

**Litigation**

The Atlantic Club is a defendant in certain litigation. In the opinion of management, based upon advice of counsel, the aggregate liability, if any, arising from such litigation will not have a material adverse effect on the financial position, results of operations, or liquidity of The Atlantic Club.

**Union Employees**

Approximately 44% of the Company's employees are represented by labor unions. The contract for the largest labor union, representing approximately 39% of the Company's total workforce, expired in September 2011. A new agreement was reached effective on March 5, 2012 thru September 14, 2014.

**Atlantic City Tourism District**

In February 2011, as part of the State of New Jersey's plan to revitalize Atlantic City's casino and tourism industries, a law was enacted requiring the creation of a tourism district (the "Tourism District") to be administered and managed by the CRDA. The Tourism District includes each of the Atlantic City casino properties, along with certain other tourism related areas of Atlantic City. The law requires, among other things, the creation of a public-private partnership between the CRDA and a private entity that represents existing and future casino licensees. The private entity, known as The Atlantic City Alliance (the "ACA"), was established in the form of a not-for-profit corporation, of which the Company is a member. The public-private partnership established between the ACA and the CRDA is for an initial term of five years. Its general purpose is to revitalize and market the Tourism District. The law requires that a \$5 million contribution be made to this effort by all casinos prior to 2012, followed by an annual amount of \$30 million to be contributed by the casinos commencing January 1, 2012 for a term of five years. Each casino's portion of the annual contributions will equate to the percentage representing its gross gaming revenue for the prior calendar year compared to the aggregate gross gaming revenues for that period for all casinos. During the three months ended March 31, 2012, the Company recognized \$323,375 related to its portion of the \$5 mil contribution made during 2012.

**Environmental Matters**

An independent environmental consultant performed a Phase I environment site assessment in accordance with American Society for Testing and Materials standards on the Atlantic City Hilton property dated November 18, 2004. In August 2004, the New Jersey Department of Environmental Protection, or the NJDEP, inspected the onsite BP Service Station which resulted in the detection of volatile organic compounds in excess of applicable regulatory standards. The Phase I report notes that this matter remains open and the future action is subject to regulatory agency requirements. At the location of a former high school building onsite, contaminated soils and groundwater associated with the removal of an underground storage tank were identified. The Phase I report notes that this contamination may extend beneath a public right-of-way. In addition, site impacts still remain from several underground storage tanks. The Company expects to manage these environmental conditions with the completion of additional site investigations and approval of remedial action work plans from the NJDEP. There can be no assurance, however, that the remedial activity for the Atlantic City Hilton property will not exceed the Company's estimates based upon the current limited available site information. The former high school site was one of the parcels of land sold by the Company in November 2006; under the terms of the sale, the Company was required to deposit \$500,000 from the sale price in an escrow account to be used for future clean-up costs of the site. As of March 31, 2012, \$271,000 has been utilized for the clean-up.

**RIH ACQUISITIONS NJ, LLC (THE ATLANTIC CLUB CASINO HOTEL)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

On July 21, 2005, an oil pipeline ruptured at the Atlantic City Hilton which resulted in an oil-spill. The Company is in the process of resolving the issue in accordance with NJDEP and U.S. Environmental Protection Agency guidelines. At this time, the Company has no indication that surrounding areas of other properties sustained any damage. The estimated cost to remediate the issue of \$371,000 is reflected in the accompanying balance sheets.

**Licensing**

On April 18, 2007, the New Jersey Casino Control Commission (the "NJCCC") granted the Company a five-year casino license to operate ACCH, subject to certain conditions.