# HARRAH'S RESORT, ATLANTIC CITY
# QUARTERLY REPORT

## FOR THE QUARTER ENDED DECEMBER 31, 2013

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

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

# HARRAH'S RESORT, ATLANTIC CITY
# BALANCE SHEETS

AS OF DECEMBER 31, 2013 AND 2012

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| | ASSETS: | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents | | $22,228 | $34,930 |
| 2 | Short-Term Investments | | | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2013, $5,032; 2012, $11,162) | 4 | 13,544 | 14,613 |
| 4 | Inventories | 2 | 1,496 | 1,552 |
| 5 | Other Current Assets | 5 | 2,120 | 13,582 |
| 6 | Total Current Assets | | 39,388 | 64,677 |
| 7 | Investments, Advances, and Receivables | 6 | 13,334 | 590,604 |
| 8 | Property and Equipment - Gross | 2,7 | 170,475 | 1,476,745 |
| 9 | Less: Accumulated Depreciation and Amortization | 2,7 | 0 | (233,791) |
| 10 | Property and Equipment - Net | 2,7 | 170,475 | 1,242,954 |
| 11 | Other Assets | 8 | 165,702 | 40,887 |
| 12 | Total Assets | | $388,899 | $1,939,122 |
| | LIABILITIES AND EQUITY: | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable | | $8,928 | $15,711 |
| 14 | Notes Payable | | | |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates | | | |
| 16 | External | 10 | 3,180 | 1,283 |
| 17 | Income Taxes Payable and Accrued | | 8,798 | 0 |
| 18 | Other Accrued Expenses | 9 | 13,829 | 18,950 |
| 19 | Other Current Liabilities | | 2,313 | 2,196 |
| 20 | Total Current Liabilities | | 37,048 | 38,140 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates | | | |
| 22 | External | 11,14 | 4,338 | 833,978 |
| 23 | Deferred Credits | | 0 | 245,333 |
| 24 | Other Liabilities | 12 | 21,770 | 21,121 |
| 25 | Commitments and Contingencies | 15 | | |
| 26 | Total Liabilities | | 63,156 | 1,138,572 |
| 27 | Stockholders', Partners', or Proprietor's Equity | 3 | 325,743 | 800,550 |
| 28 | Total Liabilities and Equity | | $388,899 | $1,939,122 |

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 RESORT, ATLANTIC CITY
# STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $352,356 | $397,571 |
| 2 | Rooms | | 72,985 | 74,771 |
| 3 | Food and Beverage | | 78,563 | 85,160 |
| 4 | Other | | 26,977 | 27,252 |
| 5 | Total Revenue | | 530,881 | 584,754 |
| 6 | Less: Promotional Allowances | 2 | 129,181 | 144,061 |
| 7 | Net Revenue | | 401,700 | 440,693 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services | | 272,224 | 281,907 |
| 9 | Selling, General, and Administrative | | 27,124 | 29,442 |
| 10 | Provision for Doubtful Accounts | | 201 | 2,430 |
| 11 | Total Costs and Expenses | | 299,549 | 313,779 |
| 12 | Gross Operating Profit | | 102,151 | 126,914 |
| 13 | Depreciation and Amortization | | 42,907 | 52,111 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | | |
| 15 | Other | 3 | 43,013 | 56,654 |
| 16 | Income (Loss) from Operations | | 16,231 | 18,149 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | | | |
| 18 | Interest Expense - External | | (28,118) | (36,310) |
| 19 | CRDA Related Income (Expense) - Net | | (3,427) | (2,848) |
| 20 | Nonoperating Income (Expense) - Net | 13 | (1,038,384) | 23,251 |
| 21 | Total Other Income (Expenses) | | (1,069,929) | (15,907) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | (1,053,698) | 2,242 |
| 23 | Provision (Credit) for Income Taxes | 15 | (393,166) | 1,352 |
| 24 | Income (Loss) Before Extraordinary Items | | (660,532) | 890 |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 2013, $0; 2012, $0) | | | |
| 26 | Net Income (Loss) | | ($660,532) | $890 |

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 RESORT, ATLANTIC CITY
# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $83,105 | $78,333 |
| 2 | Rooms | | 16,231 | 14,054 |
| 3 | Food and Beverage | | 18,861 | 15,404 |
| 4 | Other | | 6,263 | 6,171 |
| 5 | Total Revenue | | 124,460 | 113,962 |
| 6 | Less: Promotional Allowances | 2 | 34,476 | 28,816 |
| 7 | Net Revenue | | 89,984 | 85,146 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services | | 66,538 | 60,132 |
| 9 | Selling, General, and Administrative | | 6,800 | 6,449 |
| 10 | Provision for Doubtful Accounts | | 359 | 404 |
| 11 | Total Costs and Expenses | | 73,697 | 66,985 |
| 12 | Gross Operating Profit | | 16,287 | 18,161 |
| 13 | Depreciation and Amortization | | 9,997 | 13,265 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | | |
| 15 | Other | 3 | 10,519 | 12,705 |
| 16 | Income (Loss) from Operations | | (4,229) | (7,809) |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | | | |
| 18 | Interest Expense - External | | (1,312) | (8,976) |
| 19 | CRDA Related Income (Expense) - Net | | (943) | (1,014) |
| 20 | Nonoperating Income (Expense) - Net | 13 | (1,016,426) | 9,978 |
| 21 | Total Other Income (Expenses) | | (1,018,681) | (12) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | (1,022,910) | (7,821) |
| 23 | Provision (Credit) for Income Taxes | 15 | (380,705) | (3,468) |
| 24 | Income (Loss) Before Extraordinary Items | | (642,205) | (4,353) |
| 25 | Extraordinary Items (Net of Income Taxes - 2013, $0; 2012, $0) | | | |
| 26 | Net Income (Loss) | | ($642,205) | ($4,353) |

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 RESORT, ATLANTIC CITY
# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2013

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Common Stock Shares (c) | Common Stock Amount (d) | Preferred Stock Shares (e) | Preferred Stock Amount (f) | Additional Paid-In Capital (g) | Accumulated Comprehensive Income/Loss (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Balance, December 31, 2011..........** | | 25 | $25 | | | $918,547 | ($3,400) | ($118,494) | $796,678 |
| 2 | Net Income (Loss) - 2012............. | | | | | | | | 890 | 890 |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 4 | Dividends..................................... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments.............. | | | | | | | | | 0 |
| 6 | Comprehensive Income/Loss | | | | | | | 2,982 | | 2,982 |
| 7 | | | | | | | | | | 0 |
| 8 | | | | | | | | | | 0 |
| 9 | | | | | | | | | | 0 |
| 10 | **Balance, December 31, 2012..........** | | 25 | 25 | 0 | 0 | 918,547 | (418) | (117,604) | 800,550 |
| 11 | Net Income (Loss) - 2013............. | | | | | | | | (660,532) | (660,532) |
| 12 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 13 | Dividends..................................... | | | | | | | | | 0 |
| 14 | Prior Period Adjustments.............. | | | | | | | | | 0 |
| 15 | Comprehensive Income/Loss | | | | | | | 418 | | 418 |
| 16 | Equitization of Intercompany | 3 | | | | | 229,855 | | | 229,855 |
| 17 | Capital Contributions | 16 | | | | | | | (44,548) | (44,548) |
| 18 | | | | | | | | | | 0 |
| 19 | **Balance, December 31, 2013 .......** | | 25 | $25 | 0 | $0 | $1,148,402 | $0 | ($822,684) | $325,743 |

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 RESORT, ATLANTIC CITY
# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES... | | $819,930 | $43,765 |
| | 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............................ | | (7,518) | (11,413) |
| 5 | Proceeds from Disposition of Property and Equipment........... | | 1,780 | 0 |
| 6 | CRDA Obligations ............................................................... | | (4,383) | (5,238) |
| 7 | Other Investments, Loans and Advances made....................... | | | |
| 8 | Proceeds from Other Investments, Loans, and Advances ....... | | 0 | 440 |
| 9 | Cash Outflows to Acquire Business Entities........................... | | 0 | 0 |
| 10 | ....................... | | | |
| 11 | .................. | | | |
| 12 | Net Cash Provided (Used) By Investing Activities.................... | | (10,121) | (16,211) |
| | 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....................................... | | (39,205) | (40,907) |
| 18 | Cash Proceeds from Issuing Stock or Capital Contributions... | | 0 | 0 |
| 19 | Purchases of Treasury Stock.................................................. | | | |
| 20 | Payments of Dividends or Capital Withdrawals...................... | | | |
| 21 | Transition from CMBS Financing to CERP .................. | 11 | (783,306) | |
| 22 | .................. | | | |
| 23 | Net Cash Provided (Used) By Financing Activities.................. | | (822,511) | (40,907) |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents............. | | (12,702) | (13,353) |
| 25 | Cash and Cash Equivalents at Beginning of Period.................. | | 34,930 | 48,283 |
| 26 | Cash and Cash Equivalents at End of Period............................ | | $22,228 | $34,930 |

| | | | | |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized)...................................... | | $24,914 | $28,729 |
| 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.

# HARRAH'S RESORT, ATLANTIC CITY
# STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013 AND 2012

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss)......... | | ($660,532) | $890 |
| 30 | Depreciation and Amortization of Property and Equipment... | | 38,699 | 47,903 |
| 31 | Amortization of Other Assets......... | | 4,208 | 4,208 |
| 32 | Amortization of Debt Discount or Premium......... | | | |
| 33 | Deferred Income Taxes - Current ......... | | 0 | (2,651) |
| 34 | Deferred Income Taxes - Noncurrent ......... | | (245,333) | 4,652 |
| 35 | (Gain) Loss on Disposition of Property and Equipment......... | | 264 | (137) |
| 36 | (Gain) Loss on CRDA-Related Obligations......... | | 3,427 | 2,848 |
| 37 | (Gain) Loss from Other Investment Activities......... | 11 | (9,347) | (24,081) * |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks ......... | | 751 | 7,248 |
| 39 | (Increase) Decrease in Inventories ......... | | 56 | 135 |
| 40 | (Increase) Decrease in Other Current Assets......... | | 11,462 | 2,571 |
| 41 | (Increase) Decrease in Other Assets......... | | (129,108) | 5,553 |
| 42 | Increase (Decrease) in Accounts Payable......... | | (6,068) | 4,026 |
| 43 | Increase (Decrease) in Other Current Liabilities ......... | | 5,691 | (3,515) |
| 44 | Increase (Decrease) in Other Liabilities ......... | | 3,440 | (1,085) |
| 45 | (Increase) Decrease in Other Receivables or Adv ......... | | 787,213 | (4,800) |
| 46 | Impairment of Assets ......... | 7,13 | 1,015,107 | 0 |
| 47 | Net Cash Provided (Used) By Operating Activities......... | | $819,930 | $43,765 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line (a) | Description (b) | Notes | 2013 (c) | 2012 (d) |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment......... | | ($7,887) | ($14,313) |
| 49 | Less: Capital Lease Obligations Incurred......... | | 369 | 2,900 |
| 50 | Cash Outflows for Property and Equipment......... | | ($7,518) | ($11,413) |
| | 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 |

*Prior year balances have been restated to conform with current year's 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 RESORT, ATLANTIC CITY
# SCHEDULE OF PROMOTIONAL
# EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2013
(UNAUDITED)
($ IN THOUSANDS)

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| 1 | Rooms | 461,407 | $37,755 | 0 | $0 |
| 2 | Food | 1,182,512 | 27,524 | 0 | 0 |
| 3 | Beverage | 1,591,660 | 11,937 | 0 | 0 |
| 4 | Travel | 0 | 0 | 65,767 | 17,662 |
| 5 | Bus Program Cash | 108 | 2 | 0 | 0 |
| 6 | Promotional Gaming Credits | 1,143,542 | 40,024 | 0 | 0 |
| 7 | Complimentary Cash Gifts | 145,426 | 6,949 | 0 | 0 |
| 8 | Entertainment | 25,579 | 1,151 | 0 | 0 |
| 9 | Retail & Non-Cash Gifts | 99,628 | 1,993 | 0 | 0 |
| 10 | Parking | 0 | 0 | 0 | 0 |
| 11 | Other | 419,283 | 1,846 | 0 | 0 |
| 12 | Total | 5,069,145 | $129,181 | 65,767 | $17,662 |

FOR THE THREE MONTHS ENDED DECEMBER 31, 2013

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| 1 | Rooms | 109,416 | $9,044 | 0 | $0 |
| 2 | Food | 314,854 | 7,821 | 0 | 0 |
| 3 | Beverage | 378,307 | 2,837 | 0 | 0 |
| 4 | Travel | 0 | 0 | 19,271 | 5,128 |
| 5 | Bus Program Cash | 0 | 0 | 0 | 0 |
| 6 | Promotional Gaming Credits | 345,323 | 12,086 | 0 | 0 |
| 7 | Complimentary Cash Gifts | 32,407 | 1,482 | 0 | 0 |
| 8 | Entertainment | 4,305 | 194 | 0 | 0 |
| 9 | Retail & Non-Cash Gifts | 27,153 | 543 | 0 | 0 |
| 10 | Parking | 0 | 0 | 0 | 0 |
| 11 | Other | 98,251 | 469 | 0 | 0 |
| 12 | Total | 1,310,016 | $34,476 | 19,271 | $5,128 |

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

# HARRAH'S RESORT, ATLANTIC CITY
# STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 2013

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.

| 3/31/2014 | Joseph Lodise |
|---|---|
| Date | |

Director of Finance/Operations Controller
Title

008900-11
License Number

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY
Casino Licensee

**HARRAHS CASINO HOTEL ATLANTIC CITY**
**NOTES TO FINANCIAL STATEMENTS**
**(Unaudited)**
**(Dollars in Thousands)**

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

Harrah's Atlantic City Holding, Inc. and Subsidiaries (the "Company", "Harrah's Atlantic City") is a wholly owned subsidiary of Caesars Entertainment Resort Properties ("CERP") which is a wholly owned subsidiary of Caesars Entertainment Corporation ("Caesars"). The Company operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey, known as Harrah's Resort Atlantic City.

The Company is licensed to operate the facility by the New Jersey Division of Gaming (the "DGE") and is subject to the rules and regulations as published by the DGE. The Company's license is non-transferable and subject to renew every five years. The current license expired in July 2013. Application for renewal has been submitted and is pending DGE review.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation -** The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Management believes the accounting estimates are appropriate and reasonably stated; however, due to the inherent uncertainties in making these estimates, actual amounts could differ.

**Principles of Consolidation -** The accompanying consolidated financial statements include the account balances of Harrah's Atlantic City and 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, which consist primarily of food, beverage, and operating supplies, are stated at average cost.

**Long-Lived Assets -** The Company has significant capital invested in long-lived assets, and judgments are made in determining the estimated useful lives of assets and salvage values and if or when an asset (or asset group) has been impaired. The accuracy of these estimates affects the amount of depreciation and amortization expense recognized in the Company's financial results and whether the Company has a gain or loss on the disposal of an asset. The Company assigns lives to their assets based on their standard policy, which is established by management as representative of the useful life of each category of asset.

The Company reviews the carrying value of their long-lived assets 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. The Company typically estimates its fair value of assets starting with a "Replacement Cost New" approach and then deducting appropriate amounts for both functional and economic obsolescence to arrive at fair value estimates. Other factors considered by management in performing this assessment may include current operating results, trends, prospects, and third-party appraisals, as well as the effect of demand, competition, and other economic, legal, and regulatory factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the lowest level of identifiable cash flows, which, for the Company, is the individual property. These analyses are sensitive to management assumptions and the estimates of the obsolescence factors, and changes in the assumptions and estimates, could have a material impact on the analysis and the consolidated financial statement schedules.

Additions to property and equipment are stated at cost. The Company capitalizes the costs of improvements that extend the life of the asset. The Company expenses maintenance and repair costs as incurred. Gains or losses on the disposition of property and equipment are recognized in the period of disposal. Interest expense is capitalized on internally constructed assets at the applicable weighted-average borrowing rates of interest. Capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period of time. Interest capitalized for construction in progress was $30 and $21 for the periods ending December 31, 2013 and 2012, respectively.

| | | |
|---|---|---|
| Useful Lives **-** | Land improvements 12 years | Leasehold improvements 5 to 15 years |
| | Buildings 30 to 40 years | Furniture, fixtures, and equipment 2.5 to 20 years |

**Debt Issue Cost -** Debt issue costs incurred in connection with the issuance of debt are amortized to interest expense based on the related debt agreement primarily using the effective interest method. Unamortized discounts or premiums are written off and included in gain or loss calculations to the extent debt is retired prior to its original maturity date. Charges of $1,908 and $2,298 for unamortized debt issue costs are included in the statement of income for the periods ending December 31, 2013 and 2012 respectively.

**Goodwill and Other Intangible Assets –** The intangible assets represent a customer database with a recorded gross value of $4,104 and $54,700 as of December 31, 2013 and 2012, respectively, and accumulated amortization of $0 and $20,688 as of December 31, 2013 and 2012, respectively. The customer database had been determined to have a useful life of 13 years.

**Impairment of Intangible Assets -** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principle market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

We assess the inputs used to measure fair value using the three-tier hierarchy promulgated under GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Inputs include quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets in active markets, quoted prices from identical or similar assets in inactive markets, and observable inputs such as interest rates and yield curves.

Level 3: Inputs that are significant to the measurement of fair value that are not observable in the market and include management's judgments about assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

Our assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs.

**Investment in Atlantic City Express Service, LLC "ACES"** - In 2006, the Company entered into an agreement with Caesars Atlantic City, an affiliate of the Company, 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 investment is reflected in the accompanying consolidated financial statements using the equity method. ACES suspended services during the year ended December 31, 2011, and the joint venture agreement terminated, which forced a liquidation of the joint venture's assets. During 2012, the Company received $2,800 in liquidation of the Company's interest in ACES. In 2013, each member received $39 in final settlement of the remaining assets.

**CRDA Real Estate Project** - Harrah's Atlantic City held investments in a townhouse complex and a single-story neighborhood shopping center, all of which are located in Atlantic City, NJ and are collectively referred to as "CRDA Real Estate". In October 2013 and upon expiration of a CRDA mandated 20 year hold period, Caesars Entertainment agreed to sell the CRDA Real Estate to Harbour Pointe Properties, LLC in exchange for $1,825. In June 2013, Harrah's Atlantic City recorded impairments on the CRDA Real Estate in the amount of $24,399 reflected in asset impairments in the consolidated statements of operations. In December 2013, the sale closed and Harrah's Atlantic City received $1,354 in cash consideration, after customary closing costs.

In 2008, Harrah's Atlantic City recorded a long-term note receivable of $12,000 for the sale of the Ocean Terrace condominiums to Ocean Terrace, LLC. Terms of the note were interest free for the first five years then earning 6.5% interest starting 2013 with principal and interest due at maturity in 2018. In March 2013, Harrah's Atlantic City began renegotiations to modify the terms of the note. Consequently, a reserve of $7,000 was recorded in March 2013. In May 2013, Harrah's Atlantic City received $5,000 in settlement of the note.

**(Dollars in Thousands)**

**Revenue Recognition -** Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Accommodations, food and beverage, and other operating revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. The Company does not recognize as revenue taxes collected on goods or services sold to its customers.

**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 December 31:

| | 2013 | 2012 |
|---|---|---|
| Food and Beverage | $ 29,807 | $ 34,089 |
| Rooms | 14,246 | 14,375 |
| Other | 3,467 | 6,708 |
| Other Cash Complimentary | 6,949 | 8,319 |
| Promotional Gaming Credits | 40,024 | 44,208 |
| | $ 94,493 | $ 107,699 |

**Total Rewards Point Liability Program –** Caesars' customer loyalty program, Total Rewards, offers incentives to customers who gamble at Caesars' 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, the expense of Reward Credits is accrued after consideration of estimated forfeitures (referred to as breakage), as they are earned. The estimated cost to provide reward credits is expensed at the property where they are earned and is included in casino expense on the accompanying consolidated 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. These amounts are recorded on Caesars' balance sheets with the incremental charges included in due from affiliates, net in the balance sheets. At December 31, 2013 and 2012, the accrued balance for the estimated cost of Total Rewards credit redemptions was $3,728 and $3,454 respectively.

In addition to Reward Credits, customers can earn points based on play that are redeemable in Non-Negotiable Reel Rewards ("NNRR"). The Company accrues the cost of NNRR, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in casino promotional allowances on the accompanying Consolidated Statements of Income. At December 31, 2013 and 2012, the liability related to outstanding NNRR, which is based on historical redemption activity, were $682 and $598 respectively.

**Gaming Tax –** The Company remits weekly to the State of New Jersey a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the State of New Jersey for the twelve months ended December 31, 2013 and 2012, which are included in cost of goods and services in the statement of income, were approximately $28,509 and $31,973 respectively.

**In House Progressive Liability -** In March 2012, the DGE approved regulations which allowed casinos to remove in-house progressives from the casino floor. Casinos were no longer required to keep in-house progressives once established on the floor. As a result, the regulations allowed us to remove the liability (reset and incremental portion) from the progressive slot liability account. The offset was an increase to the slot revenue.

**Property Taxes -** In 2012, Harrah's settled with the City of Atlantic City (the "City") with respect to their challenges to the real estate tax assessments for each of the tax years 2010 through 2012. Under the settlement terms, the assessments for the Harrah's properties were collectively reduced from approximately $1,819,980 to $1,469,980 for the 2012 tax year. Harrah's did not give up any rights to appeal future tax years as part of the settlement including an appeal of the tax year 2012 which is pending. The tax settlement, based on the 2012 City tax rate, resulted in a reduction in the tax payment that would otherwise have been due of approximately $7,500 in 2012.

**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 recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

**Internet Gaming -** Harrah's Resort Atlantic City did not have Internet gaming operations during 2013.

**Recently Issued Accounting Pronouncements** — We do not expect that any recently issued accounting pronouncements will have a material effect on our financial statements.

**Reclassifications** — The Company has reclassified certain amounts for prior periods to conform to the current year's presentation.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

The Company participates with Caesars Entertainment Operating Company (CEOC) and Caesars' other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated, and managed 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 charged on transfers made to or from the Company.

**Stock-Based Compensation Plans -** Caesars maintains stock-based compensation plans in which employees of the Company may participate. Caesars allocates an appropriate amount of cost for these plans to each subsidiary where employees participate. The Company recognized $137 and $157 in stock-based compensation expense for each of the years ended December 31, 2013 and 2012, respectively, are included in Selling, General, and Administrative expenses in the accompanying statements of income.

**Employee Benefit Plans** — Caesars maintains a defined contribution savings and retirement plan that allows employees to make pre-tax and after-tax contributions. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings (subject to IRS rules and regulations) and are eligible to receive a company match of up to $600, which was reinstated in 2012. Participating employees become vested in matching contributions on a pro-rata basis over five years of credited service. The Company's contribution expense for each of the years ended December 31, 2013 and 2012 were $554 and $498 respectively and are included in the accompanying statements of income.

**Multiemployer Benefit Plans** — Certain employees of the Company are covered by union sponsored, collectively bargained, health and welfare plans. The contributions and charges for these plans were $12,771 and $14,075 for the years ended December 31, 2013 and 2012, respectively, are included in Selling, General, and Administrative expenses in the accompanying statements of income.

The Company contributes to a number of multiemployer defined benefit pension plans under the terms of collective-bargaining agreements that cover its union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Company chooses to stop participating in some of its multiemployer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

| Pension Fund | EIN/Pension Plan Number | Pension Protection Act Zone Status (1) 2013 | Pension Protection Act Zone Status (1) 2012 | FIP/RP Status (2) | on behalf of HACH ($ in thousands) 2013 | on behalf of HACH ($ in thousands) 2012 | Surcharge Imposed | Expiration Date of Collective-Bargaining Agreement |
|---|---|---|---|---|---|---|---|---|
| Pension Plan of the UNITE HERE National Retirement Fun | 13-6130178/001 | Red | Red | Yes | $ 4,279 | $ 4,268 | No | September 2014 |
| Local 68 Engineers Union Pension Plan (3) | 51-0176618/001 | Yellow | Green | Yes | 457 | 447 | No | April 2014 |
| NJ Carpenters Pension Fund | 22-6174423/001 | Yellow | Yellow | Yes | 117 | 105 | No | April 2014 |
| Other funds | | | | | 114 | 90 | | |
| | | | | | $ 4,967 | $ 4,910 | | |

(1) Represents the Pension Protection Act ("PPA") zone status for applicable plan year beginning January 1, 2013, except where noted otherwise.
(2) Indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.
(3) Plan years begin July 1.

The zone status is based on information that the Company received from the plan administrator and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than less than 65% funded, plans in the yellow zone are between 65% and less than 80% funded, and plans in the green zone are at least at least 80% funded. All plans detailed in the table above utilized extended amortization provisions to calculate zone status.

**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 $43,013 and $56,654 for these services for the twelve months ended December 31, 2013 and 2012, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

**Equitization of Intercompany Balances –** During June 2013, the Company began the process to equitize certain intercompany balances with its parent and affiliates that were previously classified as a receivable/liability. The offset to this entry was Additional Paid in Capital. This is separately shown on the statements of changes in stockholders' equity.

**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 $97 and $154 for these costs for the twelve months ended December 31, 2013 and 2012, respectively. The costs are included in other operating expenses in the accompanying statements of income.

**HARRAHS CASINO HOTEL ATLANTIC CITY**
**NOTES TO FINANCIAL STATEMENTS**
**(Unaudited)**
**(Dollars in Thousands)**

## NOTE 4 – RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks as of December 31 consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Casino Receivables (Net of Allowance for Doubtful Accounts - 2013, $4,932 & 2012, $11,037) | $ 6,299 | $ 8,584 |
| Other (Net of Allowance for Doubtful Accounts- 2013, $100 & 2012, $125) | 7,245 | 6,029 |
| | $ 13,544 | $ 14,613 |

## NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid Expenses and Other Current Assets as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Prepaid Air Charter | $ 1,377 | $ 1,943 |
| Prepaid State Income Tax | - | 1,209 |
| Prepaid Deferred State Income Tax | - | 9,185 |
| Prepaid Taxes | 577 | 657 |
| Prepaid Marketing | 25 | 63 |
| Prepaid Other | 141 | 525 |
| | $ 2,120 | $ 13,582 |

## NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

Investments, Advances and Receivables as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Due from Affiliates | $ - | $ 549,848 |
| Notes Receivable | - | 12,000 |
| CRDA obligation deposit-Net of Valuation Allowance of $2,551 and $9,718 at December 31, 2013 and 2012, respectively | 5,336 | 19,926 |
| CRDA obligation bonds-Net of Valuation Allowance of $4,215 and $4,222 at December 31, 2013 and 2012, respectively | 5,341 | 5,351 |
| CRDA Investments, Net | 1,586 | 2,225 |
| Other | 1,071 | 1,254 |
| | $ 13,334 | $ 590,604 |

**(Dollars in Thousands)**

## NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

Land, Buildings and Equipment as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Land and Land Improvements | $ 57,660 | $ 440,594 |
| Building and Improvements | 106,915 | 891,908 |
| Furniture Fixtures & Equipment | 4,819 | 140,387 |
| Construction in Progress | 1,081 | 3,856 |
| | 170,475 | 1,476,745 |
| Less: Accumulated Depreciation and Amortization | - | (233,791) |
| Land, Building and Equipment, Net | $ 170,475 | $ 1,242,954 |

**Tangible Asset Impairments -** In June 2013, Harrah's Atlantic City recorded impairments on the CRDA Real Estate in the amount of $24,399 reflected in asset impairments in the accompanying statements of income.

During the fourth quarter 2013, casino property sales occurred in the Atlantic City market. The pricing of the transactions indicated a substantial decline in market price had occurred for Casinos in Atlantic City. As a result of this triggering event, Caesars determined it was necessary to perform a recoverability test of the carrying amount of the Company. It was determined the carrying values of the Companies was not recoverable. Therefore, a fair value assessment of the properties was performed. Impairment loss for Harrah’s Atlantic City was $990,708 reflected in asset impairments in the accompanying statements of income.

## NOTE 8 - OTHER ASSETS

Other Assets as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Intangible Asstes | $ 4,352 | $ 34,012 |
| Deferred Finance Charge | - | 6,279 |
| Deferred Income Taxes | 160,498 | |
| Other | 852 | 596 |
| | $ 165,702 | $ 40,887 |

## NOTE 9 - OTHER ACCRUED EXPENSES

Other Accrued Expenses as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Accrued Salaries, Wages and Benefits | $ 1,880 | $ 4,361 |
| Taxes Payable | 2,689 | 3,200 |
| Accrued City Wide Progressive Slot Liability | 174 | 205 |
| Accrued Interest, Long-term debt | 38 | 1,290 |
| Accrued CCC/DGE Casino License Fees | 472 | 493 |
| Accrued Utilities | 735 | 823 |
| Accrued Health and Welfare Union | 1,517 | 1,450 |
| Other accrued Expenses | 6,324 | 7,128 |
| | $ 13,829 | $ 18,950 |

**(Dollars in Thousands)**

**NOTE 10- SHORT-TERM DEBT**

Short-term debt, due to other as of December 31, consists of the following:

| | 2013 | 2012 |
|---|---|---|
| **Due to Other** | | |
| Current Portion of Capitalized Leases | $ 3,180 | $ 1,283 |
| | $ 3,180 | $ 1,283 |

**NOTE 11 – LONG TERM DEBT**

Long-term debt, due to others as of December 31 consists of the following:

| | 2013 | 2012 |
|---|---|---|
| CMBS Financing - 3.21% & 3.28% at December 31, 2013 and 2012, respectively - Maturity 2015* | $ - | $ 832,361 |
| Capitalized Leases | 4,338 | 1,617 |
| | $ 4,338 | $ 833,978 |

* Caesars is permitted to extend the maturity of the CMBS Loans from 2013 to 2015, subject to satisfying certain conditions, in connection with the amendment to the CMBS Facilities.

**Commercial Mortgaged-Back Securities (CMBS) Financing** - In 2008, eight properties including Harrah's Atlantic City (the "CMBS properties") and their related assets were spun out of CEOC to Caesars. The CMBS properties borrowed $6,500,000 of CMBS financing (the "CMBS Financing"). The CMBS Financing was secured by the assets of the CMBS properties and certain aspects of the financing were guaranteed by Caesars. On May 22, 2008, two properties and their related operating assets were spun out of CEOC to Caesars and became property secured under the CMBS mortgage loan and/or related mezzanine loans ("CMBS Loans"), and four properties, not including Harrah's Atlantic City were transferred to CEOC from Caesars. The CMBS Financing was refinanced in October 2013 as described below.

**CMBS Debt Repurchase** — During 2012, Caesars purchased $367,399 of aggregate face value of CMBS Loans for $229,222, recognizing total pre-tax gains of $134,938, net of deferred finance charges. During 2013, Caesars purchased $49,055 of aggregate face value of CMBS Loans for $39,205, recognizing total pre-tax gains of $9,347, net of deferred finance charges.

**CERP Financing -** On October 11, 2013, Caesars formed CERP from the prior CMBS Financing structure assets, including Harrah's Atlantic City plus the addition of two properties acquired from CEOC, and (i) completed the offering of $1,000,000 aggregate principal amount of their 8% first-priority senior secured notes due 2020 and $1,150,000 aggregate principal amount of their 11% second-priority senior secured notes due 2021 (together with the 8% first-priority senior secured notes due 2020, the "CERP Notes") and (ii) entered into a first lien credit agreement governing their new $2,769,500 senior secured credit facilities, consisting of senior secured term loans in an aggregate principal amount of $2,500,000 (the "CERP Term Loans") and a senior secured revolving credit facility in an aggregate principal amount of up to $269,000. This new borrowing structure if referred to as CERP and the refinancing transaction as "CERP Financing".

Borrowings under the CERP Term Loans bear interest at a rate equal to either the alternate base rate or the greater of (i) the then-current LIBOR rate or (ii) 1.0%; in each case plus an applicable margin. As of December 31, 2013, borrowings under the CERP Term Loans bore interest at the minimum base rate of 1.0%, plus 600 basis points. The CERP Term Loans require scheduled quarterly payments of $6,300 with the balance due at maturity. Borrowings under the senior secured revolving credit facility would bear interest at a rate equal to either the alternate base rate or the greater of (i) the then-current LIBOR rate or (ii) 1.0%; in each case plus an applicable margin.

On a quarterly basis, Caesars is required to pay each lender (i) a commitment fee in respect of any unborrowed amounts under the senior secured revolving credit facility and (ii) a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the senior secured revolving credit facility. As of December 31, 2013, the senior secured revolving credit facility bore a commitment fee for unborrowed amounts of 50 basis points. There were no amounts outstanding under the revolving credit facility at December 31, 2013.

**(Dollars in Thousands)**

The net proceeds from the offering of CERP Notes and the borrowings under the CERP Term Loans, together with cash, was used to retire 100% of the CMBS financing in addition to other borrowings of Caesars, and to pay related fees and expenses. This resulted in a loss on extinguishment of debt of $37,100.

## NOTE 12 - OTHER LIABILITIES

Other Liabilities as of December 31 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Reported Claims | $ 840 | $ 980 |
| CRDA-ACIA Funding | - | 140 |
| Deferred CRDA grant | - | 302 |
| Fin 48- Tax Reserve | 20,930 | 19,699 |
| | $ 21,770 | $ 21,121 |

## NOTE 13 – NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2013 and 2012, Non-Operating Income (Expense) consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Interest Income | $ 229 | $ 236 |
| Gain/Loss on Early Retirement Debt | 9,347 | 24,081 |
| Asset Write-Off | (7,181) | - |
| Impairment Goodwill Intangible | (25,452) | - |
| Impairment Tangible Assets | (1,015,107) | |
| Other | (220) | (1,066) |
| | $(1,038,384) | $ 23,251 |

## NOTE 14 - LEASES

**Capital Lease** — The Company entered into capital leases for approximately $369 in 2013 and $2,915 in 2012, for gaming equipment, which is included in furniture, fixtures, and equipment, in the accompany balance sheets. The net book value of the assets held under capital lease is $290 as of December 31, 2013.

**(Dollars in Thousands)**

Future minimum rental commitments for non-cancelable leases including renewal options and capital leases, as of December 31, 2013, are as follows:

| | Lease Obligations Capital |
|---|---|
| 2014 | $ 3,521 |
| 2015 | 2,652 |
| 2016 | 1,903 |
| Total minimum lease payments | 8,076 |
| Amounts representing interest | (558) |
| Present value of net minimum lease payments | 7,518 |
| Less current maturities | (3,180) |
| Capital lease obligations — noncurrent | $ 4,338 |

**NOTE 15 – INCOME TAXES (BENEFIT)**

The Company is included in the consolidated federal income tax return of Caesars, but files a separate New Jersey income tax return.

The tax years that remain open for examination for Caesars major jurisdictions are 2002 through 2013 for New Jersey due to our execution of New Jersey statute of limitations extensions. The tax years prior to 2010 are no longer subject to examination for U.S. tax purposes.

Significant components of the provision for income taxes for the years ended December 31, 2013 and 2012 are as follows:

| Provision (benefit) for income taxes | 2013 | 2012 |
|---|---|---|
| Current: | | |
| Federal | $ (523) | $ 428 |
| State | (1,012) | 670 |
| | (1,535) | 1,098 |
| Deferred | (391,631) | 254 |
| Provision for income taxes | $ (393,166) | $ 1,352 |

The provision for income taxes for the years ended December 31, 2013 differ from the federal statutory rate of 35% primarily due to state income taxes, the impact of nondeductible expenses, federal tax credits and the accrual for uncertain tax positions.

The Company does not have a formal tax sharing agreement in place with its parent entity for federal income tax purposes. Therefore, Caesars reports all of the Company’s federal income taxes of which the Company’s portion was a benefit of $1,755 and a benefit of $70 in 2013 and 2012, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company’s deferred tax assets and liabilities as of December 31, 2013and 2012 were as follows:

**(Dollars in Thousands)**

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets: | | |
| Compensation programs | $ - | $ 398 |
| Allowance for doubtful accounts | 2,064 | 4,560 |
| Contingencies | 7,937 | 7,434 |
| CRDA investment obligation | 5,725 | 14,809 |
| Progressive jackpot liability | - | 671 |
| Tax credit carryovers | 2,031 | 7,563 |
| Net Operating loss carryovers | 95 | 3,221 |
| Depreciation and other property related items | 210,710 | - |
| Intangible Assets | 6,725 | - |
| Other | 303 | - |
| | 235,590 | 38,656 |
| Valuation Allowance | (33,305) | - |
| | 202,285 | 38,656 |
| Deferred tax liabilities: | | |
| Depreciation and other property related items | - | (206,631) |
| Intangible assets | - | (13,894) |
| Debt costs | (51,576) | (54,137) |
| Other | - | (141) |
| | (51,576) | (274,803) |
| Net deferred tax liability | $ 150,709 | $ (236,147) |

As of December 31, 2013, the Company had New Jersey net operating loss (NOL) carryforwards of $1,622. These NOLs will begin to expire in 2033.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing federal and state deferred tax assets. On the basis of this evaluation, as of December 31, 2013, a valuation allowance of $33,305 has been recorded against the portion of the state deferred tax assets that are not more likely than not to be realized. The amount of the federal and state deferred tax assets considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company accrued approximately $1,231 of interest during 2013. In total, the Company accrued $10,450 for the payment of interest and penalties at December 31, 2013.

It is reasonably possible that the amount of unrecognized tax benefits could decrease within the next twelve months. Management estimates that the amount of unrecognized tax benefits will decrease by $10,480 within the next twelve months.

## NOTE 16 — ATLANTIC CITY CONFERENCE CENTER

In June 2013, Caesars established, AC Conference NewCo, LLC (“NewCo”) to construct and operate a new conference center (the "Project) adjacent to Harrah's Atlantic City. NewCo is a direct wholly owned subsidiary of AC Conference HoldCo, LLC, which is a direct wholly owned subsidiary of Caesars.

Also in June 2013, Caesars signed an agreement with the CRDA regarding a grant for financial assistance in the amount of $45,000 million (the "Project Grant") wherein the CRDA will provide Caesars cash to help fund the construction of the Project. Under the Project Grant, Caesars is obligated to contribute to the CRDA the following:

- $46,200 of Atlantic City Economic Development Investment Alternative Tax Obligation balances (“Existing Credits”), of which $1,200 represents a 2.75% administrative fee,

**(Dollars in Thousands)**

- $9,500 of CRDA Credits that the CRDA will use towards the construction of the CRDA's marketplace-style retail development project (the "Donation Credits"), and

- Land parcels with an appraised value of $7,300 on which the CRDA's Marketplace Project will be developed (the Marketplace Parcels).1

The gross value of the credits and land parcels described above held by the Companies immediately prior to the transaction as follows:

| | | |
|---|---|---|
| **Existing Credits** | | |
| Bally's Park Place, Inc. | $ | 23,400 |
| Boardwalk Regency Corporation | | 10,600 |
| Harrah's Atlantic City Holding, Inc and Subsidiaries | | 7,000 |
| Ocean Showboat, Inc. and Subsidiaries | | 5,200 |
| Total | $ | 46,200 |
| **Donation Credits** | | |
| Ocean Showboat, Inc. and Subsidiaries | $ | 9,500 |
| **Marketplace Parcels** | | |
| Bally's Park Place, Inc. | $ | 4,600 |
| Boardwalk Regency Corporation | | 2,700 |
| Total | $ | 7,300 |

In return for the above, the CRDA will deposit $45,000 into a Project Fund from which Caesars can draw on a paripassu basis via reimbursements to NewCo based on amounts paid for the Project by NewCo. During 2013, Caesars received $1,400 in reimbursements from the Project Fund.

In December 2013, the land on which the Project is being built was conveyed from Harrah's Atlantic City to NewCo in return for a promissory note in the amount of $4,000. The promissory note was then conveyed from Harrah's Atlantic City to Caesars and was ultimately conveyed down to NewCo who then cancelled the note.

## NOTE 17 – CASINO REINVESTMENT DEVELOPMENT AUTHORITY INVESTMENT

**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 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 December 31, CRDA related assets were as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| CRDA Bonds-net of amortized cost | $ | 5,341 | $ | 5,351 |
| Deposit - net reserves | | 5,336 | | 19,926 |
| Direct Investments - net of reserves | | 1,586 | | 2,225 |
| | $ | 12,263 | $ | 27,502 |

The CRDA related assets are held in deferred charges and other non-current assets in the consolidated balance sheets.

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were $3,179 and $2,739 for the twelve months ended December 31, 2013 and 2012, respectively, and is included in CRDA related expenses, in the statement of income.

The funds on deposits 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 twelve months ended December 31, 2013 and 2012 were $57 and $56, respectively, and is included in CRDA related expenses, in the statement 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 effect 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.

**NOTE 18 – COMMITMENTS AND CONTINGENCIES**

**Litigation** - The Company is involved in various legal proceedings relating to routine matters of its business. The Company believes that all the actions brought against it are without merit and will continue to vigorously defend against them. While any proceedings or litigation has an element of uncertainty, the Company believes that the final outcome of these matters, in the aggregate, is not likely to have a material adverse effect upon the Company's results of operations, financial position, or cash flows.

**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 $840 and $980 as of December 31, 2013 and 2012, respectively. Actual results may differ from these reserve amounts.

All the Atlantic City casino properties (the "AC Industry") and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize Atlantic City casino marketing. This agreement was signed on November 2, 2011 and is set to expire on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of $5,000 in December 2011 and will continue to pay $30,000 annually for the next five years. The Company's fair-share was $3,775 for the twelve months ended December 31, 2013. The Company's obligation for its portion of future payments is estimated at $12,330 equal to its fair-share of AC Industry casino revenues.

# HARRAH'S RESORT, ATLANTIC CITY

# ANNUAL FILINGS

## FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

# HARRAH'S RESORT, ATLANTIC CITY

## ANNUAL SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE YEAR ENDED DECEMBER 31, 2013

(UNAUDITED)
($ IN THOUSANDS)

| ACCOUNTS RECEIVABLE BALANCES | | | | |
|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Account Balance (c)** | **Allowance (d)** | **Accounts Receivable (Net of Allowance) (e)** |
| | Patrons' Checks: | | | |
| 1 | Undeposited Patrons' Checks | $4,732 | | |
| 2 | Returned Patrons' Checks | 6,499 | | |
| 3 | Total Patrons' Checks | 11,231 | $4,932 | $6,299 |
| 4 | Hotel Receivables | 1,478 | 100 | $1,378 |
| | Other Receivables: | | | |
| 5 | Receivables Due from Officers and Employees | 9 | | |
| 6 | Receivables Due from Affiliates | | | |
| 7 | Other Accounts and Notes Receivables | 5,858 | | |
| 8 | Total Other Receivables | 5,867 | | $5,867 |
| 9 | Totals (Form DGE-205) | $18,576 | $5,032 | $13,544 |

| UNDEPOSITED PATRONS' CHECKS ACTIVITY | | |
|---|---|---|
| **Line (f)** | **Description (g)** | **Amount (h)** |
| 10 | Beginning Balance (January 1) | $5,131 |
| 11 | Counter Checks Issued | 142,626 |
| 12 | Checks Redeemed Prior to Deposit | (92,488) |
| 13 | Checks Collected Through Deposits | (46,810) |
| 14 | Checks Transferred to Returned Checks | (3,727) |
| 15 | Other Adjustments | |
| 16 | Ending Balance | $4,732 |
| 17 | "Hold" Checks Included in Balance on Line 16 | 0 |
| 18 | Provision for Uncollectible Patrons' Checks | $201 |
| 19 | Provision as a Percent of Counter Checks Issued | 0.1% |

# HARRAH'S RESORT, ATLANTIC CITY
# ANNUAL EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2013

($ IN THOUSANDS)

| Line (a) | Department (b) | Number of Employees (c) | Salaries and Wages: Other Employees (d) | Salaries and Wages: Officers & Owners (e) | Salaries and Wages: Totals (f) |
|---|---|---|---|---|---|
| | CASINO: | | | | |
| 1 | Table and Other Games | 972 | | | |
| 2 | Slot Machines | 80 | | | |
| 3 | Administration | | | | |
| 4 | Casino Accounting | 114 | | | |
| 5 | Simulcasting | | | | |
| 6 | Other | 153 | | | |
| 7 | Total - Casino | 1,319 | $25,015 | | $25,015 |
| 8 | ROOMS | 460 | 10,470 | 126 | 10,596 |
| 9 | FOOD AND BEVERAGE | 1,052 | 17,666 | | 17,666 |
| 10 | GUEST ENTERTAINMENT | 198 | 1,388 | | 1,388 |
| 11 | MARKETING | 2 | 49 | 397 | 446 |
| 12 | OPERATION AND MAINTENANCE | 233 | 8,574 | | 8,574 |
| | ADMINISTRATIVE AND GENERAL: | | | | |
| 13 | Executive Office | 2 | 57 | 496 | 553 |
| 14 | Accounting and Auditing | 2 | 137 | 117 | 254 |
| 15 | Security | 153 | 4,048 | | 4,048 |
| 16 | Other Administrative and General | 157 | 5,136 | 76 | 5,212 |
| | OTHER OPERATED DEPARTMENTS: | | | | |
| 17 | Retail | 51 | 1,333 | | 1,333 |
| 18 | Communications | 0 | 244 | | 244 |
| 19 | Employee Cafeteria | 10 | 770 | | 770 |
| 20 | | | | | 0 |
| 21 | | | | | 0 |
| 22 | | | | | 0 |
| 23 | TOTALS - ALL DEPARTMENTS | 3,639 | $74,887 | $1,212 | $76,099 |