

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

**FOR THE QUARTER ENDED JUNE 30, 2007**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# HARRAH'S CASINO HOTEL, ATLANTIC CITY

## BALANCE SHEETS

AS OF JUNE 30, 2007 AND 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$33,579	\$32,446
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2007, \$2,190 ; 2006, \$1,083).....		12,069	18,053
4	Inventories .....	2	1,780	1,263
5	Other Current Assets.....	4	9,774	8,740
6	Total Current Assets.....		57,202	60,502
7	Investments, Advances, and Receivables.....	5	368,372	561,274
8	Property and Equipment - Gross.....	2 & 6	1,143,216	917,643
9	Less: Accumulated Depreciation and Amortization.....	2 & 6	(351,207)	(352,405)
10	Property and Equipment - Net.....	2 & 6	792,009	565,238
11	Other Assets.....		476	5,161
12	Total Assets.....		\$1,218,059	\$1,192,175
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$48,646	\$13,696
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	7	59,130	100,478
19	Other Current Liabilities.....		1,212	769
20	Total Current Liabilities.....		108,988	114,943
	Long-Term Debt:			
21	Due to Affiliates.....	8	650,000	650,000
22	External.....		0	0
23	Deferred Credits .....		2,524	1,609
24	Other Liabilities.....		1,326	1,098
25	Commitments and Contingencies.....			
26	Total Liabilities.....		762,838	767,650
27	Stockholders', Partners', or Proprietor's Equity.....		455,221	424,525
28	Total Liabilities and Equity.....		\$1,218,059	\$1,192,175

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

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

# HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$254,320	\$242,610
2	Rooms.....		26,541	24,143
3	Food and Beverage.....		31,166	27,620
4	Other.....		8,504	4,993
5	Total Revenue.....		320,531	299,366
6	Less: Promotional Allowances.....	2	85,251	69,584
7	Net Revenue.....		235,280	229,782
	Costs and Expenses:			
8	Cost of Goods and Services.....		129,914	115,640
9	Selling, General, and Administrative.....		30,036	24,745
10	Provision for Doubtful Accounts.....		634	377
11	Total Costs and Expenses.....		160,584	140,762
12	Gross Operating Profit.....		74,696	89,020
13	Depreciation and Amortization.....		23,299	18,908
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	9,561	9,636
16	Income (Loss) from Operations.....		41,836	60,476
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(26,000)	(26,000)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(2,741)	(1,887)
20	Nonoperating Income (Expense) - Net.....		(4,668)	(957)
21	Total Other Income (Expenses).....		(33,409)	(28,844)
22	Income (Loss) Before Taxes and Extraordinary Items.....		8,427	31,632
23	Provision (Credit) for Income Taxes.....	2	2,672	3,556
24	Income (Loss) Before Extraordinary Items.....		5,755	28,076
25	Extraordinary Items (Net of Income Taxes - 2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		\$5,755	\$28,076

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

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

# HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$128,944	\$124,430
2	Rooms.....		14,101	12,649
3	Food and Beverage.....		15,947	13,616
4	Other.....		4,858	2,692
5	Total Revenue.....		163,850	153,387
6	Less: Promotional Allowances.....	2	44,235	35,854
7	Net Revenue.....		119,615	117,533
	Costs and Expenses:			
8	Cost of Goods and Services.....		66,869	58,373
9	Selling, General, and Administrative.....		15,939	12,632 *
10	Provision for Doubtful Accounts.....		375	217
11	Total Costs and Expenses.....		83,183	71,222
12	Gross Operating Profit.....		36,432	46,311
13	Depreciation and Amortization.....		12,214	9,472
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,732	4,943 *
16	Income (Loss) from Operations.....		19,486	31,896
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(13,000)	(13,000)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(1,398)	(782)
20	Nonoperating Income (Expense) - Net.....		(4,083)	(782)
21	Total Other Income (Expenses).....		(18,481)	(14,564)
22	Income (Loss) Before Taxes and Extraordinary Items.....		1,005	17,332
23	Provision (Credit) for Income Taxes.....	2	1,336	2,002
24	Income (Loss) Before Extraordinary Items.....		(331)	15,330
	Extraordinary Items (Net of Income Taxes -			
25	2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$331)	\$15,330

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

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

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006  
AND THE SIX MONTHS ENDED JUNE 30, 2007

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2005.....		\$165,954	\$230,495	\$0	\$396,449
2	Net Income (Loss) - 2005.....			53,017		53,017
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2006.....		165,954	283,512	0	449,466
11	Net Income (Loss) - 2007.....			5,755		5,755
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, JUNE 30, 2007.....		\$165,954	\$289,267	\$0	\$455,221

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

# HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$125,853	\$42,513
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....			
3	Proceeds from the Sale of Short-Term Investments .....		0	0
4	Cash Outflows for Property and Equipment.....		(137,191)	(49,243) *
5	Proceeds from Disposition of Property and Equipment.....		2,167	52
6	CRDA Obligations .....		(3,177)	(2,965)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances .....		1,316	1,027
9	Cash Outflows to Acquire Business Entities.....		0	0
10			0	0
11				
12	Net Cash Provided (Used) By Investing Activities.....		(136,886)	(51,129)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(11,033)	(8,616)
25	Cash and Cash Equivalents at Beginning of Period.....		44,612	41,062 *
26	Cash and Cash Equivalents at End of Period.....		\$33,579	\$32,446
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$2,827	\$3,100

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

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

# HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$5,755	\$28,076
30	Depreciation and Amortization of Property and Equipment.....		23,268	18,905
31	Amortization of Other Assets.....		31	3
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		0	(250)
34	Deferred Income Taxes - Noncurrent .....		0	(2,029)
35	(Gain) Loss on Disposition of Property and Equipment.....		2,034	49
36	(Gain) Loss on CRDA-Related Obligations.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		1,475	(2,655) *
39	(Increase) Decrease in Inventories .....		(528)	216
40	(Increase) Decrease in Other Current Assets.....		(2,941)	1,285
41	(Increase) Decrease in Other Assets.....		1,180	1,281
42	Increase (Decrease) in Accounts Payable.....		(9,176)	667 *
43	Increase (Decrease) in Other Current Liabilities .....		24,456	5,436 *
44	Increase (Decrease) in Other Liabilities .....		151	47 *
45	(Increase) decrease in other receivables or advanc .....		80,148	(8,518) *
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$125,853	\$42,513

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$137,191)	(\$49,243) *
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$137,191)	(\$49,243)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
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
	<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

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

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

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

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

FOR THE SIX MONTHS ENDED JUNE 30, 2007

(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	265,706	\$23,143		
2	Food	1,475,900	14,759		
3	Beverage	2,952,000	7,380		
4	Travel			73,515	7,278
5	Bus Program Cash	14,466	144		
6	Other Cash Complimentaries	2,904,175	36,302		
7	Entertainment	91,760	2,294		
8	Retail & Non-Cash Gifts	170,964	855		
9	Parking				
10	Other	74,836	374		
11	Total	7,949,807	\$85,251	73,515	\$7,278

FOR THE THREE MONTHS ENDED JUNE 30, 2007

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	140,390	\$12,228		
2	Food	753,000	7,530		
3	Beverage	1,418,400	3,546		
4	Travel	0	0	42,023	4,160
5	Bus Program Cash	7,745	77		
6	Other Cash Complimentaries	1,503,834	18,798		
7	Entertainment	49,040	1,226		
8	Retail & Non-Cash Gifts	120,033	600		
9	Parking	0	0		
10	Other	45,967	230		
11	Total	4,038,409	\$44,235	42,023	\$4,160



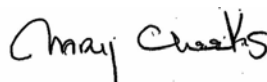
# HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2007

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

8/15/2007

Date



MARY CHEEKS

VICE PRESIDENT OF FINANCE

Title

004960-11

License Number

On Behalf of:

HARRAH'S CASINO HOTEL, ATLANTIC CITY

Casino Licensee

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

**NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION**

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

The Partnership is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Partnership's license is subject to renewal every four years with the current license expiring in April 2008.

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

**Principles of Consolidation** - The accompanying consolidated financial statements include the account balances of the Partnership and its wholly-owned subsidiary, Reno Crossroads LLC ("Reno"). As a result, all material intercompany transactions and balances have been eliminated in consolidation.

**Allowance for Doubtful Accounts** - The Partnership 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. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

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

**Land, Buildings and Equipment** - Land, buildings, and equipment are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

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

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

Land improvements	12 years
Buildings and improvements	7 to 40 years
Furniture, fixtures and equipment	3 to 12 years

The Partnership reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Partnership in performing this assessment

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

include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

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

**Investment in ACES** - In 2006, The Partnership entered into an agreement with two other Atlantic City casinos 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, NY and Atlantic City. The responsibilities of the managing member will rotate annually among the members. The Partnership's anticipated investment in ACES will be approximately \$5,000. ACES is currently in the developing stage and is expected to be operational by the end of 2007. As of June 30, 2007, Partnership has made capital contribution of \$2,100, which is included in Investment, Advances and Receivable in the accompanying Balance Sheet.

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

**CRDA Real Estate Project** - The Partnership's investment in its CRDA real estate project (the "Project") consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, New Jersey. Based upon an agreement with the Casino Reinvestment Development Authority ("CRDA"), the Partnership may not sell its ownership interest in certain elements of the Project, principally the apartment building, before 2007 and the townhomes before 2011.

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

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

**Total Rewards Program Liability** - Harrah's customer loyalty program, Total Rewards, offers incentives to customers who gamble at the Partnership's property and certain affiliate casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, The Partnership accrues the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Cost of Goods and Services on the accompanying statements of income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental

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

marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. The Partnership uses historical data to assist in the determination of estimated accruals. At June 30, 2007 and 2006, \$3,981 and \$4,687, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). The Partnership accrues the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on the accompanying statements of income. At June 30, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$ 1,390 and \$1,226, respectively.

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

	<u>2007</u>	<u>2006</u>
Food and beverage	\$17,351	\$ 14,274
Rooms	8,524	7,102
Other	3,524	2,603
Other Cash Complimentaries	<u>33,765</u>	<u>26,776</u>
	<u>\$ 63,162</u>	<u>\$ 50,755</u>

**Income Taxes** - The accompanying consolidated financial statements do not include a provision for federal income taxes, since any income or losses allocated to the partners are reportable for federal income tax purposes by each partner.

In accordance with regulations prescribed by the New Jersey Casino Control Act, the Partnership files a state income tax return on behalf of the partners. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes.

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.

**Omission of Disclosures** - In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the “CCC”), the Partnership has elected not to include certain disclosures, which have not significantly changed since filing the most recent Annual Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations, Employee Benefits and certain Income Tax disclosures.

**Use of Estimates** - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

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

statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

**Seasonal factors** - The Partnership's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended June 30, 2007 are not necessarily indicative of the results of operations for the full year.

**Reclassifications** - Certain prior year balances have been reclassified to conform to the current year presentation.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

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

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

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

**Administrative and Other Services** - The Partnership is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Partnership was charged \$ 9,561 and \$9,636 for these services for the six months ended June 30, 2007 and 2006, respectively and \$4,732 and \$4,943 for these services for the three months ended June 30, 2007 and 2006 respectively. The fee is included in charges from affiliates in the accompanying consolidated statements of income.

**NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS**

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

	<u>2007</u>	<u>2006</u>
Prepaid Air Charters	4,217	3,544
Prepaid State Income Tax	1,415	2,382
Prepaid Taxes	1,739	1,736
Prepaid Marketing	1,354	451
Prepaid Other	<u>1,049</u>	<u>627</u>
	<u>\$ 9,774</u>	<u>\$ 8,740</u>

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
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**NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES**

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

	<u>2007</u>	<u>2006</u>
Due from Affiliates	\$ 349,751	\$ 544,916
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$4,226 and \$3,729 at June 30, 2007 and 2006, respectively	13,658	11,485
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,693 and \$3,728 at June 30, 2007 and 2006, respectively	4,236	4,339
Other	<u>727</u>	<u>534</u>
	<u>\$368,372</u>	<u>\$561,274</u>

Due from Affiliates as of June 30 consisted of the following unsecured, non-interest bearing intercompany amounts:

	<u>2007</u>	<u>2006</u>
Harrah's Entertainment	\$ 323,721	\$ 522,383
Atlantic City Region	16,257	13,616
Other	<u>9,773</u>	<u>8,917</u>
	<u>\$ 349,751</u>	<u>\$ 544,916</u>

The Atlantic City Region consists of Harrah's casino operating in Atlantic City, New Jersey.

**NOTE 6 – LAND, BUILDINGS AND EQUIPMENT**

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

	<u>2007</u>	<u>2006</u>
Land and Land Improvements	\$ 89,470	\$ 93,183
Buildings, Leaseholds and Improvements	715,212	564,083
Furniture, Fixtures and Equipment	181,345	191,475
Construction in Progress	<u>157,188</u>	<u>68,902</u>
	1,143,215	917,643
Less Accumulated Depreciation	<u>(351,206)</u>	<u>( 352,405)</u>
Property and Equipment, Net	<u>\$ 792,009</u>	<u>\$ 565,238</u>

Construction began in first quarter 2006 on a \$550,000 upgrade and expansion of the resort ("The Expansion Project"), which will include a new hotel tower with approximately 960 rooms, a casino expansion and retail and entertainment complex. A new buffet and most of the retail center opened on February 16, 2007 and pool and SPA opened on Memorial Day weekend. The new hotel tower is expected to open in the second quarter of 2008 (see Note 9).

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During the second quarter, The Partnership sold certain piece of land for \$2,000. The loss on transaction is included in Non Operating (Income) Loss in the accompanying Statement of Income

**NOTE 7 - OTHER ACCRUED EXPENSES**

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

	<u>2007</u>	<u>2006</u>
Accrued Interest, Long-term debt	\$ 34,667	\$ 78,000
Accrued Salaries, Wages and Benefits	8,198	7,454
Taxes Payable	4,057	3,199
Accrued Casino Control Commission / Department		
Gaming Enforcement Casino License Fees	852	625
Accrued In-House Progressive Slot Liability	721	475
Accrued City Wide Progressive Slot Liability	272	250
Other Accrued Expenses	<u>10,363</u>	<u>10,475</u>
	<u>\$ 59,130</u>	<u>\$100,478</u>

**NOTE 8 - LONG-TERM DEBT**

Long-term Debt as of December 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
Promissory Note	<u>\$650,000</u>	<u>\$650,000</u>

On October 31, 2001, the Partnership and HOC consummated a promissory note for \$650,000. All principal and interest outstanding on the promissory note is due and payable on demand to HOC. Interest is computed on an annual basis using 360 days for the actual number of days elapsed during a year, and an annual rate of eight percent. Any amount of principal not paid by the Partnership to HOC when due will bear an additional two percent annual interest rate. On March 12, 2003, the eight percent Promissory Note was assigned to Harrah's Entertainment Limited ("HEL"). Neither the term nor the amount of debt was affected by this assignment. Based on the affiliate's agreement not to demand repayment prior to July 1, 2008, these amounts have been classified as non-current in the accompanying balance sheet. As of June 30, 2007 and 2006, there was accrued interest of \$34,667 and \$78,000, respectively, on the balance sheet related to the intercompany note. Since the eight percent Promissory Note is due to an affiliate, a determination of fair value is not considered meaningful.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

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

**Insurance Reserve** - The Partnership is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of \$473 and \$160 as of June 30, 2007 and 2006, respectively. Actual results may differ from these reserve amounts.

**CRDA Investment Obligation** - The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Partnership may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Partnership includes net of valuation allowance, funds on deposit and CRDA investment bonds in Investment, Advances and Receivable in the accompanying balance sheets totaling \$13,658 and \$4,236, respectively, at June 30, 2007 and \$11,485 and \$4,339, respectively, at June 30, 2006. The Partnership records charges to operations to reflect the estimated net realizable value of its CRDA investment.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2006, the Partnership received approval from the CRDA for a qualified direct investment project to construct various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City ("CRDA real estate project") at an estimated cost to the Partnership of approximately \$54,573. As of June 30, 2007 and 2006, approximately \$ 399 and \$5,054 respectively, represents a prepayment of the Partnership's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset is being amortized over the related Atlantic City obligation period and is included in deferred charges and other non-current assets in the accompanying balance sheets.

The Partnership has committed \$9,589 of its current and future CRDA deposit obligations for the refurbishment of the Atlantic City Convention Center. The amount is amortized on a straight-line basis over a 15-year period commencing September 2001.

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



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of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

By letter dated March 27, 2007, the Partnership was informed by the CRDA that the parent company of the issuer of certain CRDA-backed bonds held by the Partnership has filed for Chapter 11 bankruptcy and does not intend to make future debt service payments on such bonds. The face value of the bonds held by the Partnership is \$ 722; however, the Partnership maintains a reserve on these bonds and on all of its other CRDA-backed bonds. Based on the information currently available and remedies available to the Partnership, the Partnership is not in a position to determine if impairment has occurred, therefore, the Partnership has not adjusted its reserve on their bonds and will continue to monitor development of this case.

**Purchases** - At June 30, 2007, the Partnership is obligated under purchase commitments totaling approximately \$504,702 relating to the Expansion Project. Costs incurred under the Project were approximately \$262,739 and are included in Construction in Progress in Property and Equipment - Gross in the accompanying balance sheet as of June 30, 2007.