

**BOARDWALK REGENCY CORPORATION  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED JUNE 30, 2008**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# BOARDWALK REGENCY CORPORATION

## BALANCE SHEETS

AS OF JUNE 30, 2008 AND 2007

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$14,328	\$32,831
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2008, \$13,464; 2007, \$11,434).....	2 & 4	25,373	25,296
4	Inventories .....	2	1,056	1,252
5	Other Current Assets.....	5	19,270	17,279
6	Total Current Assets.....		60,027	76,658
7	Investments, Advances, and Receivables.....	6	14,658	189,660
8	Property and Equipment - Gross.....	2 & 7	840,904	739,532
9	Less: Accumulated Depreciation and Amortization.....		(20,820)	(66,081)
10	Property and Equipment - Net.....		820,084	673,451
11	Other Assets.....	2 & 8	575,074	568,694
12	Total Assets.....		\$1,469,843	\$1,508,463
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$13,661	\$21,675
14	Notes Payable.....	9		
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....		41	37
17	Income Taxes Payable and Accrued.....	2	3,527	7,710
18	Other Accrued Expenses.....	10	46,791	70,569
19	Other Current Liabilities.....	11	2,830	3,909
20	Total Current Liabilities.....		66,850	103,900
	Long-Term Debt:			
21	Due to Affiliates.....	12	518,330	518,330
22	External.....	13	549	591
23	Deferred Credits .....	2	128,598	131,683
24	Other Liabilities.....	14	168,598	101,840
25	Commitments and Contingencies.....			
26	Total Liabilities.....		882,925	856,344
27	Stockholders', Partners', or Proprietor's Equity.....		586,918	652,119
28	Total Liabilities and Equity.....		\$1,469,843	\$1,508,463

\* These amounts from prior year have been restated to reflect the current year presentation.

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

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$268,213	\$288,144
2	Rooms.....		15,958	18,361
3	Food and Beverage.....		28,570	29,746
4	Other.....		7,402	7,507
5	Total Revenue.....		320,143	343,758
6	Less: Promotional Allowances.....		62,708	75,088
7	Net Revenue.....		257,435	268,670
	Costs and Expenses:			
8	Cost of Goods and Services.....		147,994	145,740
9	Selling, General, and Administrative.....		32,488	33,767
10	Provision for Doubtful Accounts.....		2,246	1,637
11	Total Costs and Expenses.....		182,728	181,144
12	Gross Operating Profit.....		74,707	87,526
13	Depreciation and Amortization.....	2	29,097	27,940
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	10,500	11,504
16	Income (Loss) from Operations.....		35,110	48,082
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9 & 12	(22,029)	(22,029)
18	Interest Expense - External.....		(317)	(270)
19	CRDA Related Income (Expense) - Net.....	15	(1,228)	(2,093)
20	Nonoperating Income (Expense) - Net.....		(1,401)	449
21	Total Other Income (Expenses).....		(24,975)	(23,943)
22	Income (Loss) Before Taxes and Extraordinary Items.....		10,135	24,139
23	Provision (Credit) for Income Taxes.....	2	4,767	10,419
24	Income (Loss) Before Extraordinary Items.....		5,368	13,720
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0 ).....			
26	Net Income (Loss).....		\$5,368	\$13,720

\* These amounts from prior year have been restated to reflect the current year presentation.

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

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$134,496	\$148,991
2	Rooms.....		8,973	9,740
3	Food and Beverage.....		14,795	15,528 *
4	Other.....		4,170	4,193
5	Total Revenue.....		162,434	178,452
6	Less: Promotional Allowances.....		32,026	39,639 *
7	Net Revenue.....		130,408	138,813
	Costs and Expenses:			
8	Cost of Goods and Services.....		76,532	73,194 *
9	Selling, General, and Administrative.....		16,759	18,109 *
10	Provision for Doubtful Accounts.....		977	770
11	Total Costs and Expenses.....		94,268	92,073
12	Gross Operating Profit.....		36,140	46,740
13	Depreciation and Amortization.....	2	14,868	14,475
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	5,245	5,591 *
16	Income (Loss) from Operations.....		16,027	26,674
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9 & 12	(11,133)	(11,014)
18	Interest Expense - External.....		(25)	(135)
19	CRDA Related Income (Expense) - Net.....	15	(672)	(893)
20	Nonoperating Income (Expense) - Net.....		(616)	(9)
21	Total Other Income (Expenses).....		(12,446)	(12,051)
22	Income (Loss) Before Taxes and Extraordinary Items.....		3,581	14,623
23	Provision (Credit) for Income Taxes.....	2	245	6,195
24	Income (Loss) Before Extraordinary Items.....		3,336	8,428
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$____; 20__, \$____ ).....			
26	Net Income (Loss).....		\$3,336	\$8,428

\* These amounts from prior year have been restated to reflect the current year presentation.

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

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

**BOARDWALK REGENCY CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

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

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2006.....		100	\$1,370			\$582,276		\$54,753	\$638,399
2	Net Income (Loss) - 2007.....								32,155	32,155
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Initial Adoption of FIN 48								(2,522)	(2,522)
7										0
8										0
9										0
10	Balance, December 31, 2007.....		100	1,370	0	0	582,276	0	84,386	668,032
11	Net Income (Loss) - 2008.....								5,368	5,368
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Acquisition by TPG/Apollo	2							(86,482)	(86,482)
16										0
17										0
18										0
19	Balance, June 30, 2008 .....		100	\$1,370	0	\$0	\$582,276	\$0	\$3,272	\$586,918

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$21,483	\$69,462
	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.....		(44,891)	(41,475)
5	Proceeds from Disposition of Property and Equipment.....		1,430	1,390
6	CRDA Obligations .....		(3,354)	(3,613)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....		504	539
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(46,311)	(43,159)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21	Borrowings/Payments of Intercompany Payable .....		15,215	(41,786) *
22				
23	Net Cash Provided (Used) By Financing Activities.....		15,215	(41,786)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(9,613)	(15,483)
25	Cash and Cash Equivalents at Beginning of Period.....		23,941	48,314
26	Cash and Cash Equivalents at End of Period.....		\$14,328	\$32,831
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$7,021	\$270
28	Income Taxes.....		\$1,000	\$10,419

\* These amounts from prior year have been restated to reflect the current year presentation.

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

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$5,368	\$13,720
30	Depreciation and Amortization of Property and Equipment.....		24,452	21,440
31	Amortization of Other Assets.....		4,645	6,500
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....		(690)	(261)
34	Deferred Income Taxes - Noncurrent .....		(11,293)	(1,144)
35	(Gain) Loss on Disposition of Property and Equipment.....		(140)	(25)
36	(Gain) Loss on CRDA-Related Obligations.....		1,288	(5,128)
37	(Gain) Loss from Other Investment Activities.....		237	237
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(2,669)	(404)
39	(Increase) Decrease in Inventories .....		459	(172)
40	(Increase) Decrease in Other Current Assets.....		997	1,449
41	(Increase) Decrease in Other Assets.....		(15,158)	1,519
42	Increase (Decrease) in Accounts Payable.....		(5,179)	(14,149)
43	Increase (Decrease) in Other Current Liabilities .....		15,397	(48,861)
44	Increase (Decrease) in Other Liabilities .....		3,769	94,741 *
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$21,483	\$69,462

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$44,891)	(\$41,475)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$44,891)	(\$41,475)
	<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

\* These amounts from prior year have been restated to reflect the current year presentation.

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

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

**BOARDWALK REGENCY CORPORATION**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

FOR THE SIX MONTHS ENDED JUNE 30, 2008

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	255,890	\$11,131		
2	Food	697,043	11,864		
3	Beverage	4,077,127	8,154		
4	Travel			6,489	2,817
5	Bus Program Cash	399,604	7,126		
6	Other Cash Complimentaries	300,409	22,526		
7	Entertainment	11,058	729	3,263	955
8	Retail & Non-Cash Gifts	50,531	1,011	43,767	3,809
9	Parking				
10	Other*	887	167	229,186	4,082
11	Total	5,792,549	\$62,708	282,705	\$11,663

FOR THE THREE MONTHS ENDED JUNE 30, 2008

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	138,944	\$6,044		
2	Food	360,204	6,131		
3	Beverage	1,959,918	3,920		
4	Travel			3,360	1,459
5	Bus Program Cash	243,630	3,875		
6	Other Cash Complimentaries	77,888	10,885		
7	Entertainment	6,665	559	1,961	793
8	Retail & Non-Cash Gifts	26,735	535	32,939	2,059
9	Parking				
10	Other*	408	77	116,863	2,081
11	Total	2,814,392	\$32,026	155,123	\$6,392

\* No item in this category exceeds 5%.



# BOARDWALK REGENCY CORPORATION STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2008

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

August 15, 2008

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Date



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Kimberly Coker

Vice President of Finance

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Title

008692-11

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License Number

On Behalf of:

BOARDWALK REGENCY CORPORATION  
Casino Licensee

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

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

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

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

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

**Acquisition** - Prior to June 13, 2005, the Company was 100% owned by Caesars Entertainment, Inc. (“CEI”). On June 13, 2005, Harrah’s Entertainment, Inc. (“Harrah’s”) completed the acquisition of 100 percent of the outstanding shares of CEI. Following the purchase, the Company became an indirect wholly-owned subsidiary of HOC.

On January 28, 2008, Harrah’s was acquired by affiliates of Apollo Global Management, LLC and TPG Capital, L.P. in an all cash transaction, hereinafter referred to as the “Merger.” The underlying assets acquired and liabilities assumed in the Merger were revalued based upon their estimated fair values at the date of acquisition. The estimated fair values was determined after review and consideration of relevant information including discounted cash flows analyses, quoted market prices and Harrah’s own estimates. The purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired were allocated to goodwill. The purchase price allocation is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement.

For purposes of this regulatory filing, adjustments to the historical assets of the Company were reflected on June 30, 2008 and in its statement of operations for the six months ended June 30, 2008 and in its statement of cash flows for the six months ended June 30, 2008. The operations of the Company for the periods prior to January 28, 2008 are considered the “Predecessor Company.” The operations of the Company for the period from January 28, 2008 are referred to in these financial statements as the “Company.” The Company’s balance sheet, statements of income and statements of cash flow are not comparable to the Predecessor Company. The Company has assumed all Predecessor Company’s obligations.

**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

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

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

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

**Land, Buildings and Equipment** - Land, buildings, and equipment were stated at cost, through January 27, 2008 and revalued to fair value on January 28, 2008 in connection with the Merger, including capitalized interest on intercompany funds used to finance construction calculated at HOC'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 Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

**Goodwill and Other Intangible Assets** -In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, the Company performs at least an annual review of goodwill and non-amortizing intangibles. The purchase price allocation related to the Merger will be completed within one year of the acquisition and goodwill represents the excess of the purchase price to the fair value of net identifiable tangible and intangible assets acquired. The Company completed its annual assessment for impairment as of September 30 of each year (measurement date), and determined that goodwill related to the Caesars acquisition had not been impaired. In accordance with the provisions of SFAS No. 142, the Company does not amortize goodwill.

The company maintains customer relationships (database) totaling \$106,600. The customer relationships have been determined to have a useful life of six years and are being amortized using

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

the straight-line method. Previous to the Merger, the Predecessor Company maintained a trademark totaling \$83,000 and customer relationships (database) totaling \$195,000. The trademark was determined to have indefinite life and, accordingly, was not amortized. The customer relationships were determined to have a useful life of 15 years and were being amortized using the straight-line method. Amortization expense for the six months ending June 30, 2008 and 2007 was approximately \$4,645 and \$6,500, respectively. Estimated annual amortization expense for the year ending December 31, 2008 is \$9,087, and amortization expense for the years 2009, 2010, 2011 and 2012, is \$8,883.

**Investment in ACES** - In 2006, the Company entered into an agreement with Harrah's Atlantic City, an affiliate of the Company, and one other Atlantic City casino to form ACES. In accordance with FIN 46 (R), *Consolidation of Variable Interest Entities*, the Company is required to consolidate ACES as they are considered to be the primary beneficiary of the variable interest entity. With each member having a 33% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between Manhattan, New York, and Atlantic City. The responsibilities of the managing member will rotate annually among the members. The total anticipated investment in ACES is approximately \$15,000. ACES is currently in the development stage and is expected to be operational by the fourth quarter of 2008. As of June 30, 2008, the members have made contributions totaling \$13,541, which were primarily used to fund construction in progress. ACES' net loss for the six months ended June 30, 2008 was \$123 and is included in non-operating expenses on the accompanying Statements of Income.

**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.

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

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

regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. The Company uses historical data to assist in the determination of estimated accruals. At June 30, 2008 and 2007, \$4,181 and \$5,272, respectively, was accrued for the cost of anticipated Rewards Credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). The Company accrues the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances in the accompanying statements of income. At June 30, 2008 and 2007, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$984 and \$1,329, 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 as of June 30:

	2008	2007
Food & Beverage	\$ 15,981	\$ 22,497
Rooms	6,163	14,560
Other	2,670	9,794
Other Cash Complimentaries	29,652	29,405
	\$ 54,466	\$ 76,256

**Income Taxes** - The Company is included in the consolidated federal tax return of Harrah’s 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.

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

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

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

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

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

**NOTE 3 - RELATED PARTY TRANSACTIONS**

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

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

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

**Administrative and Other Services** - The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged \$5,245 and \$5,591 for these services for the three months ended June 30, 2008 and 2007, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

**Atlantic City Country Club** - Atlantic City Country Club 1, LLC ("ACCC") is a wholly owned subsidiary of Bally's Atlantic City ("Bally's"), an affiliate of the Company. The net operating costs of ACCC are allocated to the Company and Bally's as well as Harrah's Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately \$177 and \$207 for these costs for the years ended June 30, 2008 and 2007, respectively. The costs are included in other operating expenses in the accompanying statements of income.

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**NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS**

Receivables and patrons’ checks as of June 30, 2008 and June 30, 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2008, \$13,000 & 2007, \$11,530)	\$ 18,899	\$ 18,134
Other (Net of Allowance for Doubtful Accounts - 2008, \$266 & 2007, \$105)	6,474	7,162
	<u>\$ 25,373</u>	<u>\$ 25,296</u>

**NOTE 5 – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	<u>2008</u>	<u>2007</u>
Tax Deferred Asset	\$ 15,688	\$ 15,338
Other	3,582	1,941
	<u>\$ 19,270</u>	<u>\$ 17,279</u>

**NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES**

Investments, advances and receivables as of June 30, 2008 and June 30, 2007 consist of the following:

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	<u>2008</u>	<u>2007</u>
CRDA Deposits	\$ 20,805	\$ 16,385
CRDA Bonds Receivable	6,657	6,372
CRDA Long Term Note Receivable	-	-
	<u>\$ 27,462</u>	<u>\$ 22,757</u>
Less Valuation Allowance on CRDA Investments	<u>(12,804)</u>	<u>(10,948)</u>
	<u>\$ 14,658</u>	<u>\$ 11,809</u>
 Due from Harrahs	 -	 177,851
	<u>\$ 14,658</u>	<u>\$ 189,660</u>

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2008 and June 30, 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 185,881	\$ 86,933
Buildings and Improvements	489,081	497,502
Furniture, Fixtures, and Equipment	70,521	110,587
Construction in Progress	95,421	44,510
	<u>\$ 840,904</u>	<u>\$ 739,532</u>
Less Accumulated Depreciation & Amortization	<u>(20,820)</u>	<u>(66,081)</u>
	<u>\$ 820,084</u>	<u>\$ 673,451</u>

**NOTE 8 – OTHER ASSETS**

Other assets as of June 30, 2008 and June 30, 2007 consist of the following:



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	2008	2007
Goodwill	\$ 423,333	\$ 270,526
Customer Database less Accumulated Amortization of \$3,701 in 2008 & \$26,614 in 2007	102,899	168,386
Trademark	0	83,000
Deferred Lease Incentive	41,686	42,303
CRDA Seat License	2,608	348
Other, Net	4,548	4,131
	<u>\$ 575,074</u>	<u>\$ 568,694</u>

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

As financing for the qualified pier development costs, the Company and certain of its Atlantic City affiliates entered into a credit agreement (the “Credit Agreement”) with the CRDA. The Credit Agreement provides for funding from the CRDA of up to \$42,800 for qualified development costs. The CRDA funding will come from amounts either currently on deposit or to be deposited with the CRDA pursuant to the Company’s and its affiliates’ investment obligations. Repayments to the developers are limited to the funds received from the CRDA. As of June 30, 2008, the Company has received \$4,879 of previously deposited funds from the CRDA.

As of June 30, 2008, the Company repaid the developers approximately \$42,800 through CRDA funds previously deposited by an affiliate. These payments are considered lease incentive payments and will be amortized over the life of the lease.

Refer to Note 2 for discussion of Goodwill and Other Intangible Assets.

**NOTE 9 – NOTES PAYABLE**

At December 31, 2000, the Company entered into an uncommitted \$50,000 credit facility with Caesars Entertainment Finance Corporation (“CEFC”), a wholly owned subsidiary of HOC. At June 30, 2008, there was no outstanding balance.

**NOTE 10 - OTHER ACCRUED EXPENSES**

Other accrued expenses as of June 30, 2008 and June 30, 2007 consist of the following:

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	<u>2008</u>	<u>2007</u>
Accrued Payroll & Benefits	\$ 11,106	\$ 12,224
Accrued Interest Payable	18,757	44,105
Real Estate Taxes	5,388	1,692
Other	<u>11,540</u>	<u>12,548</u>
	<u>\$ 46,791</u>	<u>\$ 70,569</u>

**NOTE 11- OTHER CURRENT LIABILITIES**

Other current liabilities as of June 30, 2008 and June 30, 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Unredeemed Chip and Token Liability	2,165	3,095
Other	<u>665</u>	<u>814</u>
	<u>2,830</u>	<u>3,909</u>

**NOTE 12 - LONG-TERM DEBT - DUE TO AFFILIATES**

Long-term debt, due to affiliates as of June 30, 2008 and June 30, 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
8.5% Note Payable to Harrah's Entertainment, Ltd. ("HEL") due December 31, 2010	<u>\$ 518,330</u>	<u>\$ 518,330</u>
	<u>\$ 518,330</u>	<u>\$ 518,330</u>

On July 1, 2006, the note formerly held by CEFC was assigned to HEL. Neither the terms nor the amounts of debt were affected by this assignment. The only notable change resulting from the assignment was a change in the timing of interest payments. Prior to the assignment interest payments were made monthly. However, for subsequent tax years, interest payments will be remitted annually, payable in the following year. As of June 30, 2008, accrued interest related to the intercompany note totaled \$21,911. Since the note is due to an affiliate, a determination of fair value is not considered meaningful.

**NOTE 13 – LONG-TERM DEBT, OTHER**

Long-term debt, other as of June 30, 2008 and June 30, 2007 consists of the following:

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	<u>2008</u>	<u>2007</u>
Mortgage Note due October 15, 2011 Interest at 10.0%	\$ 590	\$ 628
Less: Current Maturities	(41)	(37)
	<u>\$ 549</u>	<u>\$ 591</u>

**NOTE 14 – OTHER LIABILITIES**

Other Liabilities as of June 30, 2008 consisted of the following:

	<u>2008</u>	<u>2007</u>
Due to Affiliates, Atlantic City Region	\$ 77,731	\$ 58,619
Due to Harrah's	43,769	-
Due to Affiliates, Other	38,870	26,483
Other	8,228	16,738
	<u>\$ 168,598</u>	<u>\$ 101,840</u>

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

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

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

**CRDA Investment Obligation** - The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Company includes CRDA investment bonds and funds on deposit in Investments, Advances and Receivables in the accompanying balance sheets totaling \$6,657 and \$20,805 respectively, at June 30, 2008 and \$6,372 and \$16,385, respectively, at June 30, 2007. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment.

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,

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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 into the Casino Expansion Fund (managed by the CRDA). The \$62,000 will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be a total of \$3,700, the first payment of which was made November 2004. The total estimated commitment will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62,000, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

The parent company of the issuer ("Debtor") of certain CRDA-backed bonds held by the company is in Chapter 11 bankruptcy. Debtor is currently in active negotiations to sell its company and has an identified buyer. The CRDA is representing the interest of the casino industry, including the Company, in negotiations with Debtor to restructure the bonds. The face value of the bonds held by the Company is \$2,061; however, the Company maintains a reserve on these bonds and on all its other CRDA-backed bonds. While it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the bond agreement, the Company has concluded that its reserves are currently adequate and will continue to monitor developments of this case.