

**HARRAH'S RESORT, ATLANTIC CITY  
QUARTERLY REPORT  
FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# HARRAH'S RESORT, ATLANTIC CITY

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2009 AND 2008

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$16,104	\$16,864
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2009, \$7,704; 2008, \$3,286).....		19,161	20,713
4	Inventories .....	2	1,299	2,143
5	Other Current Assets.....	4	17,340	14,134
6	Total Current Assets.....		53,904	53,854
7	Investments, Advances, and Receivables.....	5	669,964	233,512
8	Property and Equipment - Gross.....	2,6	1,447,296	1,425,648
9	Less: Accumulated Depreciation and Amortization.....	2,6	(81,182)	(34,530)
10	Property and Equipment - Net.....	2,6	1,366,114	1,391,118
11	Other Assets.....	7	78,324	286,020
12	Total Assets.....		\$2,168,306	\$1,964,504
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$16,659	\$31,290
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.....	2	2,948	2,131
18	Other Accrued Expenses.....	8	23,906	29,336
19	Other Current Liabilities.....		1,198	1,753
20	Total Current Liabilities.....		44,711	64,510
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....	9	1,160,000	1,160,000
23	Deferred Credits .....		205,953	213,133
24	Other Liabilities.....	10	15,038	12,879
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		1,425,702	1,450,522
27	Stockholders', Partners', or Proprietor's Equity.....		742,604	513,982
28	Total Liabilities and Equity.....		\$2,168,306	\$1,964,504

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	Revenue:			
1	Casino.....		\$369,514	\$416,452
2	Rooms.....		54,484	48,987
3	Food and Beverage.....		59,582	61,159
4	Other.....		19,360	20,889
5	Total Revenue.....		502,940	547,487
6	Less: Promotional Allowances.....	2	123,471	128,699
7	Net Revenue.....		379,469	418,788
	Costs and Expenses:			
8	Cost of Goods and Services.....		212,741	234,188
9	Selling, General, and Administrative.....		43,345	48,515
10	Provision for Doubtful Accounts.....		2,997	1,838
11	Total Costs and Expenses.....		259,083	284,541
12	Gross Operating Profit.....		120,386	134,247
13	Depreciation and Amortization.....		39,790	41,089
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	24,461	20,351
16	Income (Loss) from Operations.....		56,135	72,807
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	0	(3,914)
18	Interest Expense - External.....		(34,745)	(55,033)
19	CRDA Related Income (Expense) - Net.....		(1,495)	4,608
20	Nonoperating Income (Expense) - Net.....		(129)	(721)
21	Total Other Income (Expenses).....		(36,369)	(55,060)
22	Income (Loss) Before Taxes and Extraordinary Items.....		19,766	17,747
23	Provision (Credit) for Income Taxes.....	2	7,955	7,647
24	Income (Loss) Before Extraordinary Items.....		11,811	10,100
25	Extraordinary Items (Net of Income Taxes - 2009, \$0; 2008, \$0 ).....		0	0
26	Net Income (Loss).....		\$11,811	\$10,100

The accompanying notes are an integral part of the financial statements.  
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# HARRAH'S RESORT, ATLANTIC CITY

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	Revenue:			
1	Casino.....		\$137,686	\$155,763
2	Rooms.....		21,495	20,017
3	Food and Beverage.....		24,265	23,647
4	Other.....		7,889	8,796
5	Total Revenue.....		191,335	208,223
6	Less: Promotional Allowances.....	2	49,386	49,107
7	Net Revenue.....		141,949	159,116
	Costs and Expenses:			
8	Cost of Goods and Services.....		76,207	86,759
9	Selling, General, and Administrative.....		16,553	19,599
10	Provision for Doubtful Accounts.....		771	594
11	Total Costs and Expenses.....		93,531	106,952
12	Gross Operating Profit.....		48,418	52,164
13	Depreciation and Amortization.....		13,968	10,319
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	8,351	7,128
16	Income (Loss) from Operations.....		26,099	34,717
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	0	0
18	Interest Expense - External.....		(11,423)	(17,685)
19	CRDA Related Income (Expense) - Net.....		(746)	(535)
20	Nonoperating Income (Expense) - Net.....		345	152
21	Total Other Income (Expenses).....		(11,824)	(18,068)
22	Income (Loss) Before Taxes and Extraordinary Items.....		14,275	16,649
23	Provision (Credit) for Income Taxes.....	2	4,890	6,961
24	Income (Loss) Before Extraordinary Items.....		9,385	9,688
25	Extraordinary Items (Net of Income Taxes - 2009, \$0; 2008, \$0 ).....		0	0
26	Net Income (Loss).....		\$9,385	\$9,688

The accompanying notes are an integral part of the financial statements.  
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# HARRAH'S RESORT, ATLANTIC CITY

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2008 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2009

(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, 2007.....						\$165,954		\$308,446	\$474,400
2	Net Income (Loss) - 2008.....								(181,536)	(181,536)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Purchase Price Adjustment		25	25			752,593		(314,689)	437,929
7										0
8										0
9										0
10	Balance, December 31, 2008.....		25	25	0	0	918,547	0	(187,779)	730,793
11	Net Income (Loss) - 2009.....								11,811	11,811
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, September 30, 2009_ .....		25	\$25	0	\$0	\$918,547	\$0	(\$175,968)	\$742,604

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 NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$2,019	\$128,637
	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.....		(15,342)	(144,538)
5	Proceeds from Disposition of Property and Equipment.....		470	3,085
6	CRDA Obligations .....		(4,453)	(4,797)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....		385	809
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(18,940)	(145,441)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....			1,160,000
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.....			(1,160,000)
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(16,921)	(16,804)
25	Cash and Cash Equivalents at Beginning of Period.....		33,025	33,668
26	Cash and Cash Equivalents at End of Period.....		\$16,104	\$16,864
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$35,466	\$45,376
28	Income Taxes.....		\$1,423	\$225

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# HARRAH'S RESORT, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$11,811	\$10,100
30	Depreciation and Amortization of Property and Equipment.....		36,598	38,212
31	Amortization of Other Assets.....		3,192	2,877
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....			
34	Deferred Income Taxes - Noncurrent .....		(5,116)	80,382
35	(Gain) Loss on Disposition of Property and Equipment.....		(380)	(7,611)
36	(Gain) Loss on CRDA-Related Obligations.....			
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks .....		1,037	(5,324)
39	(Increase) Decrease in Inventories .....		568	(84)
40	(Increase) Decrease in Other Current Assets.....		(1,308)	(5,898)
41	(Increase) Decrease in Other Assets.....		2,539	338,780
42	Increase (Decrease) in Accounts Payable.....		1,735	6,742
43	Increase (Decrease) in Other Current Liabilities .....		(1,503)	3,437
44	Increase (Decrease) in Other Liabilities .....		3,136	(62)
45	(Increase)Decrease in Receivable & Advances .....		(50,290)	(332,914)
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$2,019	\$128,637

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$15,342)	(\$144,538)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$15,342)	(\$144,538)
	<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

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 STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 2009

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.

11/16/2009

Date



Mary Cheeks  
Mary Cheeks

Vice President of Finance

Title

004960-11

License Number

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY

Casino Licensee



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

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

Harrah's Atlantic City Holding, Inc. and Subsidiaries (the "Company", "HACH") 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 a wholly-owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). A substantial portion of the Company's revenues is derived from gaming 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 as published by the CCC. The Company's license is subject to renew every five years with the current license expiring June 2013.

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." Prior to the Merger, Marina Associates and Subsidiary (the "Predecessor Company") operated as a General Company and owned and operated Harrah's Casino Hotel Atlantic City. The Predecessor Company was an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary of Harrah's.

In conjunction with the Merger, the Predecessor Company, along with five affiliates, was spun off from HOC for the purpose of obtaining financing in the form of commercial mortgaged-backed securities ("CMBS") in order to effect the Merger. A series of transactions, hereinafter referred to as the "Restructuring", were executed that, among other things, dissolved the Predecessor Company and liquidated its assets, net of liabilities, to various affiliates and created the Company. CMBS financing was obtained by subsidiaries of HACH.

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

**Principles of Consolidation** - The accompanying consolidated financial statements include the account balances of HACH 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. 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, which consist primarily of food and beverage and operating supplies are stated at lower of cost or market value.

**Land, Buildings and Equipment** As a result of the application of purchase accounting, land, buildings, and equipment were recorded at their estimated fair values and useful lives as of the Merger date. Additions to 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 for the predecessor period and at the Company's borrowing rate of interest for the successor period.

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

As a result of the Restructuring, certain real property and equipment of the Company were distributed to Harrah's Atlantic City Propco, LLC ("HACPC"), a wholly-owned indirect subsidiary of HACH on January 28, 2008.

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	5 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. If undiscounted expected future cash flows are less than the carrying value, an impairment loss would be 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.

**Deferred Assets** - On January 28, 2008, the subsidiaries of HACH entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of \$1,160,000 at a LIBOR cap rate of 4.5%.

Debt issue costs are amortized as interest expense based on the related debt agreement using the straight-line method, which approximates the effective interest method. A charge of \$4,566 was included in interest expense in the statement of income for the September 30, 2009 period.

**Goodwill and Other Intangible Assets** - The Company had no goodwill recorded in the accompanying balance sheet as of September 30, 2009 as a result of an impairment charge subsequent to the acquisition date. The Company accounts for 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 for impairment.

The intangible assets include customer relationships (database) of \$ 47,687 as of September 30, 2009. The customer relationships have been determined to have a useful life of 13 years, and are being amortized using the straight-line method. Amortization expense was approximately \$1,052 for three months period ending September 30, 2009. Based on the value allocated to amortizing intangibles the annual amortization expense is expected to be approximately \$4,208 for each of the five succeeding fiscal years.

**Investment in ACES** - In 2006, the Company, an affiliate of the Company entered into an agreement with Caesars Atlantic City, an affiliate of the Predecessor 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 responsibilities of the managing member will

**HARRAH'S RESORT ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**(Dollars in Thousands)**

rotate annually among the members. The total investment in ACES was approximately \$23,400. ACES became operational on February 6, 2009.

As a result of the Restructuring, the Predecessor Company's interest in ACES was transferred to HACH on January 28, 2008.

The investment is reflected in the accompanying consolidated financial statements using the equity method. As of September 30, 2009, HACH has made capital contributions of \$7,793 which is included in deferred charges and other non-current assets in the accompanying balance sheet. HACH's share of ACES' net loss for the three months ended September 30, 2009 was \$757 and is included in other operating expenses in the accompanying Consolidated Statement of Income.

**Investments in Subsidiaries** - During 1999, the Predecessor Company, 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. As a result of the Restructuring, the Predecessor Company's interest in Reno was transferred to HOC on January 28, 2008.

**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. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

**CRDA Real Estate Project** - The Company's investment in its CRDA real estate project (the "Project") consisted of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, NJ. Based upon an agreement with the CRDA, the Company may sell certain parts of the Project and will operate certain other parts for a period of up to 20 years.

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.

In January 2008, The Predecessor Company sold the apartment building, for \$15,000 to Atlantic City Ocean Terrace LLC. The Predecessor Company realized a gain of \$6,300 in connection with this transaction in January 2008 which is included in other non-operating expenses in the accompanying consolidated statements of income.

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

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

deducted as promotional allowances. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

**Total Rewards Program Liability** - The Company's customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of affiliated 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 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. At September 30, 2009 and 2008, \$4,255 and \$3,794, were 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 on the accompanying Consolidated Statements of Income. At September 30, 2009 and 2008, the liability related to outstanding cash-back points, which is based on historical redemption activity, were \$840 and \$1,160 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 consolidated statements of income.

	<u>2009</u>	<u>2008</u>
Food and beverage	\$ 24,679	\$ 28,914
Room	13,317	13,228
Other	4,317	8,361
Other Cash Complimentaries	17,635	33,159
Promotional Gaming Credits	<u>25,878</u>	<u>10,165</u>
	<u>\$ 85,826</u>	<u>\$ 93,827</u>

**Income Taxes** - The accompanying consolidated financial statements do not include a provision for federal income taxes for any periods prior to January 28, 2008, since any income or losses allocated to the partners for those periods are reportable for federal income tax purposes by each partner of the Company. In accordance with regulations prescribed by the New Jersey Casino Control Act, the Company filed a state income tax return on behalf of the partners for periods ending through January 28, 2008. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes. For periods subsequent to January 28, 2008, the Company's consolidated financial statements include a provision for federal income taxes as the Company will be included in the consolidated federal tax return of Harrah's. As such, 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.

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

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the consolidated 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.

**Use of Estimates** - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 consolidated financial statements, and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Seasonal factors** - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended September 30, 2009 are not necessarily indicative of the results of operations for the full year.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

The Company participates with HOC and other Harrah's 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.

The Company's property assets and capital stock are pledged as collateral for certain of HOC's outstanding debt securities.

Certain of the more significant intercompany relationships among the Company, HOC and other affiliates are discussed in this footnote.

**Cash Activity with HOC and Affiliates** - The Company transfers cash in excess of its operating and regulatory needs to Harrah's on a daily basis. Cash transfers from Harrah's 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 the amount shown as due from affiliates, net in the accompanying consolidated financial statements.

**Atlantic City Country Club** - Atlantic City Country Club 1, LLC ("ACCC") is a wholly owned subsidiary of Bally's Atlantic City ("Bally's"), an affiliate of the Company. The net operating costs of ACCC are allocated to the Company and Bally's as well as Caesars Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately \$104 and \$144 for these costs for the nine months ended September 30, 2009 and 2008, respectively. The costs are included in selling, general and administrative in the accompanying consolidated statements of income.

**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 \$24,461 and \$20,351 for these services for nine months ended September 30, 2009 and

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2008, respectively. The costs are included in charges for affiliates in the accompanying consolidated statements of income.

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

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

	<u>2009</u>	<u>2008</u>
Prepaid Air Charters	\$ 2,970	\$ 4,190
Prepaid State Income Tax	2,899	0
Prepaid Deferred State Income Tax	5,738	5,377
Prepaid Taxes	1,183	1,463
Prepaid Marketing	195	681
Prepaid Other	<u>4,355</u>	<u>2,423</u>
	<u>\$17,340</u>	<u>\$14,134</u>

**NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES**

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

	<u>2009</u>		<u>2008</u>
Due from Affiliates	\$ 630,158	\$	195,199
Investment in ACES	5,725		4,388
Notes Receivable	9,720		9,110
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$9,298 and \$6,253 at September 30, 2009 and 2008, respectively	18,208		18,378
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,672 and \$3,922 at September 30, 2009 and 2008, respectively	3,845		4,005
Other	<u>2,308</u>		<u>2,432</u>
	<u>\$669,964</u>		<u>\$233,512</u>

As a result of the Restructuring, all Due from Affiliate balances were assigned to Harrah's on January 28, 2008.

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

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

	<u>2009</u>	<u>2008</u>
Land and Land Improvements	\$439,957	\$442,974
Buildings, Leaseholds and Improvements	878,451	757,682

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Furniture, Fixtures and Equipment	124,055	88,787
Construction in Progress	<u>4,833</u>	<u>136,205</u>
	1,447,296	1,425,648
Less Accumulated Depreciation	<u>( 81,182)</u>	<u>( 34,530)</u>
Property and Equipment, Net	<u>\$1,366,114</u>	<u>\$1,391,118</u>

**NOTE 7 - OTHER ASSETS**

Other Assets as of September 30 consisted of the following:

	<u>2009</u>	<u>2008</u>
Goodwill	\$ 0	\$ 182,406
Intangible Assets	47,687	51,895
Deferred Finance Charge	20,293	26,381
Interest Rate Cap Derivative	9,814	25,338
Other	<u>530</u>	<u>0</u>
	<u>\$ 78,324</u>	<u>\$286,020</u>

**NOTE 8 - OTHER ACCRUED EXPENSES**

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

	<u>2009</u>	<u>2008</u>
Accrued Salaries, Wages and Benefits	\$ 6,455	\$ 8,022
Taxes Payable	2,580	3,578
Accrued In-House Progressive Slot Liability	804	989
Accrued City Wide Progressive Slot Liability	122	107
Accrued Interest, Long-term debt	1,581	2,830
Accrued Casino Control Commission / Department Gaming Enforcement Casino License Fees	740	671
Accrued Utilities	705	1,263
Accrued Health & Welfare Union	1,582	1,476
Accrued Charter Services	1,330	2,140
Other Accrued Expenses	<u>8,007</u>	<u>8,260</u>
	<u>\$23,906</u>	<u>\$29,336</u>

**NOTE 9 - LONG-TERM DEBT**

The Predecessor Company had a \$650,000 long-term promissory note agreement with HOC. On January 28, 2008, in connection with the Merger, HOC contributed the promissory note to the Predecessor Company. The Predecessor Company then transferred the promissory note to HEL in satisfaction of its payable to HEL. There was no interest payable as of the Merger date. Because the note payable was due to an affiliate, a determination of fair value was not considered meaningful.

In connection with the Restructuring, the Company borrowed \$1,160,000 in commercial mortgaged- backed securities financing at an interest rate of LIBOR plus 3%. Principal repayment on the debt is due in full on

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February 13, 2013. Accrued Interest as of September 30, 2009 and 2008 was \$1,581 and \$ 2,830 respectively. The Company's property and related assets are pledged as collateral for the CMBS debt.

**NOTE 10 - OTHER LIABILITIES**

Other Liabilities as of September 30 consisted of the following:

	<u>2009</u>	<u>2008</u>
Reported Claims	\$ 1,723	\$ 344
CRDA-ACIA funding	219	243
Deferred CRDA grant	471	523
FIN 48- Tax Reserve	<u>12,625</u>	<u>11,769</u>
	<u>\$15,038</u>	<u>\$12,879</u>

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

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

**Insurance Reserve** - The Company is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheet include insurance allowances of \$1,715 and \$332 as of September 30, 2009 and 2008, 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 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, include net of valuation allowance, funds on deposit and CRDA investment bonds in Deferred Charges and Other Non Current Assets in the accompanying balance sheets totaling \$17,966 and \$18,377, respectively, at September 30, 2009 and 2008. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment.

The estimate for Valuation Allowance for the CRDA Bonds considered guidance primarily under FAS 115 "Accounting for Certain Investments in Debt and Equity Securities," FASB SOP FAS 115-1/124-1 "The Meaning of Other-than-temporary Impairment and its Application to Certain Investments" and SFAS 157 "Fair Value Measurements." Since there is no market for the bonds issued through the CRDA, initial obligation deposits are marked down by 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 due to their nature. The bonds held by the Company through CRDA are held to maturity since the Company has the ability



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and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such, as of September 30, 2009 the CRDA Bonds are measured at amortized cost.

The Company also considered whether any impairment indicators were present for its CRDA bonds that would indicate whether the CRDA Bond's fair value was less than its cost. As noted above, there is no market for the CRDA Bonds and as such 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 and amortizes the cost subsequent to that date. The discount for the bonds is being amortized over the remaining life of the bonds.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2008, the Company 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 Company of approximately \$54,573. The Company had a repayment of the Company's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset was being amortized over the related Atlantic City obligation period, which ended in 2007.

The Company has committed approximately \$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. This expense is included in other operating expenses in the accompanying consolidated statement of income.

The Atlantic City casino properties (the "AC Industry") and the CRDA have entered into 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 provides \$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 Company's obligation is equal to its fair-share of AC Industry casino revenues which is \$ 3,289. The Company's obligation was being charged to operations on a straight line basis through June 30, 2008. 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.

In August 2008, the AC Industry entered into a new agreement with the NJSEA that will provide \$90 million in funding to subsidize New Jersey's horseracing industry. The funding will be provided in installments through 2011. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to December 31, 2011. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company's estimated obligation is \$ 10,465. The total commitment will be charged to operations on a straight line basis beginning January 2009 through December 31, 2011.