# BOARDWALK REGENCY CORPORATION

# QUARTERLY REPORT

## FOR THE QUARTER ENDED MARCH 31, 2012

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

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

# BOARDWALK REGENCY CORPORATION
# BALANCE SHEETS

AS OF MARCH 31, 2012 AND 2011

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|---|---|---|---|---|
| | ASSETS: | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents | | $19,869 | $16,774 |
| 2 | Short-Term Investments | | | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, $12,054; 2011, $13,019) | 2 & 4 | 21,947 | 21,582 |
| 4 | Inventories | 2 | 771 | 515 |
| 5 | Other Current Assets | 5 | 14,400 | 6,930 |
| 6 | Total Current Assets | | 56,987 | 45,801 |
| 7 | Investments, Advances, and Receivables | 6 & 13 | 470,444 | 424,755 |
| 8 | Property and Equipment - Gross | 2 & 7 | 842,929 | 830,926 |
| 9 | Less: Accumulated Depreciation and Amortization | 2 & 7 | (166,152) | (127,698) |
| 10 | Property and Equipment - Net | 2 & 7 | 676,777 | 703,228 |
| 11 | Other Assets | 2 & 8 | 110,724 | 120,619 |
| 12 | Total Assets | | $1,314,932 | $1,294,403 |
| | LIABILITIES AND EQUITY: | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable | | $8,480 | $6,386 |
| 14 | Notes Payable | | | |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates | | | |
| 16 | External | 10 | | 455 |
| 17 | Income Taxes Payable and Accrued | 2 | | |
| 18 | Other Accrued Expenses | 9 | 202,736 | 161,337 |
| 19 | Other Current Liabilities | | 7,939 | 3,441 |
| 20 | Total Current Liabilities | | 219,155 | 171,619 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates | 11 | 518,330 | 518,330 |
| 22 | External | | | |
| 23 | Deferred Credits | 2 | 100,462 | 100,150 |
| 24 | Other Liabilities | 12 | 180,449 | 178,603 |
| 25 | Commitments and Contingencies | 13 | | |
| 26 | Total Liabilities | | 1,018,396 | 968,702 |
| 27 | Stockholders', Partners', or Proprietor's Equity | | 296,536 | 325,701 |
| 28 | Total Liabilities and Equity | | $1,314,932 | $1,294,403 |

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 MARCH 31, 2012 AND 2011

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|---|---|---|---|---|
| | Revenue: | | | |
| 1 | Casino | | $88,698 | $98,793 |
| 2 | Rooms | | 8,698 | 8,867 |
| 3 | Food and Beverage | | 12,743 | 10,510 |
| 4 | Other | | 3,886 | 3,303 |
| 5 | Total Revenue | | 114,025 | 121,473 |
| 6 | Less: Promotional Allowances | | 30,650 | 28,945 |
| 7 | Net Revenue | | 83,375 | 92,528 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services | | 56,506 | 60,987 |
| 9 | Selling, General, and Administrative | | 7,842 | 10,836 |
| 10 | Provision for Doubtful Accounts | | 1,011 | 266 |
| 11 | Total Costs and Expenses | | 65,359 | 72,089 |
| 12 | Gross Operating Profit | | 18,016 | 20,439 |
| 13 | Depreciation and Amortization | 2 | 11,870 | 11,954 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees | | | |
| 15 | Other | 3 | 7,223 | 7,201 |
| 16 | Income (Loss) from Operations | | (1,077) | 1,284 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates | 9 & 11 | (11,015) | (11,015) |
| 18 | Interest Expense - External | | 72 | (42) |
| 19 | CRDA Related Income (Expense) - Net | 13 | (967) | (254) |
| 20 | Nonoperating Income (Expense) - Net | | (551) | (248) |
| 21 | Total Other Income (Expenses) | | (12,461) | (11,559) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items | | (13,538) | (10,275) |
| 23 | Provision (Credit) for Income Taxes | 2 | (3,997) | (3,244) |
| 24 | Income (Loss) Before Extraordinary Items | | (9,541) | (7,031) |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 20__, $0; 20__, $0 ) | | | |
| 26 | Net Income (Loss) | | ($9,541) | ($7,031) |

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, 2011 AND THE THREE MONTHS ENDED MARCH 31, 2012

(UNAUDITED)
($ IN THOUSANDS)

| | | | Common Stock | | Preferred Stock | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Line (a) | Description (b) | Notes | Shares (c) | Amount (d) | Shares (e) | Amount (f) | Additional Paid-In Capital (g) | (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
| 1 | **Balance, December 31, 2010..........** | | 100 | $1,370 | | | $915,830 | | ($584,468) | $332,732 |
| 2 | Net Income (Loss) - 2011............. | | | | | | | | (26,655) | (26,655) |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 4 | Dividends..................................... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments............. | | | | | | | | | 0 |
| 6 | | | | | | | | | | 0 |
| 7 | | | | | | | | | | 0 |
| 8 | | | | | | | | | | 0 |
| 9 | | | | | | | | | | 0 |
| 10 | **Balance, December 31, 2011..........** | | 100 | 1,370 | 0 | 0 | 915,830 | 0 | (611,123) | 306,077 |
| 11 | Net Income (Loss) - 2012............. | | | | | | | | (9,541) | (9,541) |
| 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, March 31, 2012 .......** | | 100 | $1,370 | 0 | $0 | $915,830 | $0 | ($620,664) | $296,536 |

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 THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)
($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|---|---|---|---|---|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES.. | | $20,891 | $15,957 |
| | 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..... | | (2,984) | (1,002) |
| 5 | Proceeds from Disposition of Property and Equipment..... | | | 69 |
| 6 | CRDA Obligations ..... | | (1,126) | (1,234) |
| 7 | Other Investments, Loans and Advances made..... | | | |
| 8 | Proceeds from Other Investments, Loans, and Advances ..... | | 38 | 1 |
| 9 | Cash Outflows to Acquire Business Entities..... | | 0 | 0 |
| 10 | ..... | | | |
| 11 | ..... | | | |
| 12 | Net Cash Provided (Used) By Investing Activities..... | | (4,072) | (2,166) |
| | 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 ..... | | (30,117) | (19,218) |
| 22 | ..... | | | |
| 23 | Net Cash Provided (Used) By Financing Activities..... | | (30,117) | (19,218) |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents..... | | (13,298) | (5,427) |
| 25 | Cash and Cash Equivalents at Beginning of Period..... | | 33,167 | 22,201 |
| 26 | Cash and Cash Equivalents at End of Period..... | | $19,869 | $16,774 |

| | | | | |
|---|---|---|---|---|
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized)..... | | $0 | $30 |
| 28 | Income Taxes..... | | $0 | $0 |

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

# BOARDWALK REGENCY CORPORATION
# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(UNAUDITED)

($ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|---|---|---|---|---|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss)........................................................... | | ($9,541) | ($7,031) |
| 30 | Depreciation and Amortization of Property and Equipment... | | 9,655 | 9,740 |
| 31 | Amortization of Other Assets............................................... | | 2,215 | 2,214 |
| 32 | Amortization of Debt Discount or Premium.......................... | | | |
| 33 | Deferred Income Taxes - Current ........................................ | | (35) | 1,428 |
| 34 | Deferred Income Taxes - Noncurrent .................................. | | 9,305 | (1,423) |
| 35 | (Gain) Loss on Disposition of Property and Equipment......... | | | (69) |
| 36 | (Gain) Loss on CRDA-Related Obligations........................... | | 1,007 | 734 |
| 37 | (Gain) Loss from Other Investment Activities....................... | | 116 | 119 |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks ...... | | 2,589 | (507) |
| 39 | (Increase) Decrease in Inventories ...................................... | | (62) | 117 |
| 40 | (Increase) Decrease in Other Current Assets.......................... | | (4,259) | 1,616 |
| 41 | (Increase) Decrease in Other Assets...................................... | | 85 | 340 |
| 42 | Increase (Decrease) in Accounts Payable.............................. | | (1,384) | (362) |
| 43 | Increase (Decrease) in Other Current Liabilities .................... | | 13,274 | 10,573 |
| 44 | Increase (Decrease) in Other Liabilities ............................... | | (2,074) | (1,825) |
| 45 | Increase (Decrease) in Invest., Adv. and Recvbl‹.................... | | | 293 |
| 46 | .................. | | | |
| 47 | Net Cash Provided (Used) By Operating Activities.................... | | $20,891 | $15,957 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|---|---|---|---|---|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment.................................... | | ($2,984) | ($1,002) |
| 49 | Less: Capital Lease Obligations Incurred.............................. | | | |
| 50 | Cash Outflows for Property and Equipment.............................. | | ($2,984) | ($1,002) |
| | ACQUISITION OF BUSINESS ENTITIES: | | | |
| 51 | Property and Equipment Acquired......................................... | | | |
| 52 | Goodwill Acquired................................................................ | | | |
| 53 | Other Assets Acquired - net .................................................. | | | |
| 54 | Long-Term Debt Assumed..................................................... | | | |
| 55 | Issuance of Stock or Capital Invested..................................... | | | |
| 56 | Cash Outflows to Acquire Business Entities............................. | | $0 | $0 |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | | |
| 57 | Total Issuances of Stock or Capital Contributions.................. | | $0 | $0 |
| 58 | Less: Issuances to Settle Long-Term Debt............................ | | 0 | 0 |
| 59 | Consideration in Acquisition of Business Entities................. | | 0 | 0 |
| 60 | Cash Proceeds from Issuing Stock or Capital Contributions...... | | $0 | $0 |

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 THREE MONTHS ENDED MARCH 31, 2012
(UNAUDITED)
($ IN THOUSANDS)

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| **1** | Rooms | 126,066 | $4,976 | | |
| **2** | Food | 176,366 | 5,899 | | |
| **3** | Beverage | 1,535,715 | 3,071 | | |
| **4** | Travel | | | 39,811 | 1,413 |
| **5** | Bus Program Cash | 76 | 7 | | |
| **6** | Promotional Gaming Credits | 162,026 | 11,511 | | |
| **7** | Complimentary Cash Gifts | 88,030 | 4,054 | | |
| **8** | Entertainment | 2,703 | 154 | 1,179 | 258 |
| **9** | Retail & Non-Cash Gifts | 21,482 | 430 | | |
| **10** | Parking | | | | |
| **11** | Other | 27,139 | 548 | 49,419 | 1,396 |
| **12** | Total | 2,139,603 | $30,650 | 90,409 | $3,067 |

FOR THE THREE MONTHS ENDED MARCH 31, 2012

| | | Promotional Allowances | | Promotional Expenses | |
|---|---|---|---|---|---|
| **Line (a)** | **Description (b)** | **Number of Recipients (c)** | **Dollar Amount (d)** | **Number of Recipients (e)** | **Dollar Amount (f)** |
| **1** | Rooms | 126,066 | $4,976 | | |
| **2** | Food | 176,366 | 5,899 | | |
| **3** | Beverage | 1,535,715 | 3,071 | | |
| **4** | Travel | | | 39,811 | 1,413 |
| **5** | Bus Program Cash | 76 | 7 | | |
| **6** | Promotional Gaming Credits | 162,026 | 11,511 | | |
| **7** | Complimentary Cash Gifts | 88,030 | 4,054 | | |
| **8** | Entertainment | 2,703 | 154 | 1,179 | 258 |
| **9** | Retail & Non-Cash Gifts | 21,482 | 430 | | |
| **10** | Parking | | | | |
| **11** | Other | 27,139 | 548 | 49,419 | 1,396 |
| **12** | Total | 2,139,603 | $30,650 | 90,409 | $3,067 |

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

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

FOR THE QUARTER ENDED MARCH 31, 2012

1. I have examined this Quarterly Report.

2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.

3. To the best of my knowledge and belief, the information contained in this report is accurate.

4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

5/15/2012
Date

Scott Noey

Scott Noey

Vice President of Finance
Title

009094-11
License Number

On Behalf of:

BOARDWALK REGENCY CORPORATION
Casino Licensee

**Boardwalk Regency Corporation (Caesars Atlantic City)**
**NOTES TO CONSOLIDATED 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 Caesars Entertainment Operating Company, Inc. ("CEOC") (formerly Harrah's Operating Company), a direct wholly owned subsidiary of Caesars Entertainment, Inc. ("Caesars") (formerly Harrah's Entertainment Inc.). 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 Division of Gaming Enforcement (the "DGE") and is subject to rules and regulations established by the DGE. The Company's license is subject to renewal every five years with the current license expiring June 2013.

In January 2008, Caesars was acquired by affiliates of Apollo Global Management LLC and TPG Capital, L.P. in an all cash transaction, hereinafter referred to as the "Acquisition".

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** - The accompanying financial statements include the account balances of its wholly-owned subsidiaries. As a result, all material intercompany transactions and balances have been eliminated in consolidation.

**Allowance for Doubtful Accounts** - The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances.

**Inventories** - Inventories 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 Acquisition, including capitalized interest on intercompany funds used to finance construction calculated at CEOC'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:

**(All dollar amounts in thousands)**

| | |
|---|---|
| Land improvements | 12 years |
| Buildings and improvements | 5 to 40 years |
| Furniture, fixtures and equipment | 3 to 20 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.

The Company wrote off $1,024 of assets associated with the indefinite deferral of certain capital projects, and is recorded to our Statements of Income in Non-Operating Income (Expense) for the year ended December 31, 2011.

**Goodwill and Other Intangible Assets** – The company accounts for goodwill and other intangible assets in accordance with ASC 350, "Intangible Assets – Goodwill and Other", which provides guidance regarding the recognition and measurement of intangible assets, eliminates amortization of certain intangibles and requires assessment for impairment of intangible assets that are subject to amortization at least annually.

In accordance with ASC 820, Fair Value Measurements and Disclosures, the guidance establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring non-financial assets or liabilities at fair value.

Goodwill is measured using level 3 inputs, which consist of a discounted cash flow analysis. Level 3 inputs are unobservable inputs that are corroborated by market data. Significant assumptions and factors influencing the measurement of fair value include future cash flows, discount rates, exit multiples, and capital expenditures.

The Company maintains customer relationships (database) totaling $106,200. The customer relationships have been determined to have a useful life of twelve years and are being amortized using the straight-line method. Estimated annual amortization expense for customer relationships for each of the years ending December 31, 2012, 2013, 2014, and 2015, is approximately $8,850. Amortization expense for the three months ending March 31, 2012 and 2011 was approximately $2,213 and $2,213 respectively.

**Investment in Atlantic City Express Service, LLC "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. 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 investment in ACES as of March 31, 2012 and 2011 was approximately $26,873 and $26,873 respectively. ACES became operational on February 6, 2009.

In June 2009, the FASB issued *ASU 2009-17 (ASC Topic 810), "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* which is effective as of January 1, 2010. The new standard amends existing consolidation guidance for variable interest entities and requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the company that has both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and either the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. As a result of the adoption of ASU 2009-17, ACES was consolidated within our financial statements for all periods prior to December 31, 2009, and is no longer consolidated beginning in January 2010. As a result of the consolidation of ACES, a prior period adjustment of $5,560 was made to retained earnings in March 2010 which is reflected in the accompanying statement of shareholders equity.

We evaluate our investment in the unconsolidated subsidiary for impairment when events or changes in circumstance indicate that the carrying value of such investment may have experienced an other than temporary decline in value. If such conditions exist, we compare the estimated fair value of the investment to its carrying value to determine if an impairment is indicated and determine whether such impairment is other than temporary based upon our assessment of all relevant factors. ACES suspended services during the year ended December 31, 2011, and accordingly, the joint venture agreement terminated, which will force a liquidation of the joint venture's assets. We recorded a non-cash impairment charge to the Company's investment in affiliates in the amount of $1,083, representing the amount by which the carrying value of the investment exceeded its potential liquidated value.

**Fair Value of Financial Instruments** - The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. 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.

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

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

**Total Rewards Program Liability** — Caesars' 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 forfeitures referred to as "breakage", as they are earned. The estimated cost to provide reward credits is expensed as the reward credits are earned and is included in casino expense in the accompanying consolidated statements of operations. 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 March 31, 2012 and 2011, $3,253 and $3,467 respectively, was accrued for the cost of anticipated Total reward credit redemptions. These amounts reside on Caesars' Balance Sheet and thus are included in the due from affiliates balance in the accompanying consolidated balance sheets of the company.

In addition to Reward Credits, the Company's customers can earn points based on play that are redeemable in cash ("cash-back points"). The Company accrues the costs 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 consolidated statements of operations. At March 31, 2012 and 2011, the liability related to outstanding cash-back points, which is based on historical redemption, was approximately $659 and $587, 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 March 31, 2012 and 2011:

**(All dollar amounts in thousands)**

| | 2012 | 2011 |
|---|---|---|
| Food & Beverage | $ 7,244 | $ 5,933 |
| Rooms | 2,146 | 2,408 |
| Other | 751 | 850 |
| Bus Program Cash | 7 | - |
| Promotional Gaming Credits | 11,551 | 10,080 |
| Other Cash Complimentaries | 4,054 | 5,683 |
| | $ 25,753 | $ 24,954 |

**Advertising Expenses** – Advertising costs are expensed as incurred. Advertising expenses are $1,067 and $2,627 for the three months ended March 31, 2012 and 2011 respectively. Advertising expenses are included in selling, general and administrative expenses in the accompanying statements of income.

**Gaming Tax** — The Company remits weekly to the State of New Jersey a tax equal to 8% of the gross gaming revenue, as defined. Gaming taxes paid to the State of New Jersey for the three months ended March 31, 2012 and 2011, which are included in casino expenses in the accompanying consolidated statements of income were approximately $7,125 and $7,898, respectively.

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

**Income Taxes** - The Company is included in the consolidated federal tax return of Caesars and files a separate New Jersey tax return. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the statutory New Jersey tax.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date. The Company follows the provisions of ASC 740- Income Taxes. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

During 2010, management transferred these reserves and the cumulative impact of the related tax expense to the Company in order to reflect the reserve associated with the uncertain income tax position on the Company's general ledger. Similar transfers were performed for all affiliates of CEOC that had uncertain income tax positions reflected at CEOC. In order to properly reflect the transfer of the reserve for uncertain income tax positions to the Company, an offsetting adjustment to equity at the Company was required.

**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.

**Seasonal factors** - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended March 31, 2012 are not necessarily indicative of the results of operations for the full year.

**Omission of Disclosures** - In accordance with the Financial Reporting guidelines provided by the Division of Gaming Enforcement, 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.

## NOTE 3 - RELATED PARTY TRANSACTIONS

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

**Cash Activity with CEOC and Affiliates** - The Company transfers cash in excess of its operating and regulatory needs to CEOC on a daily basis. Cash transfers from CEOC to the Company are also made based upon the needs of the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due from affiliates in the accompanying 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 Harrah's Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately $131 and $134 for these costs for the three months ended March 31, 2012 and 2011, respectively. The costs are included in other operating expenses in the accompanying statements of income.

**(All dollar amounts in thousands)**

**Administrative and Other Services -** The Company is charged a fee by CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged $7,223 and $7,201 for these services for the three months ended March 31, 2012 and 2011, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

## NOTE 4 – RECEIVABLES AND PATRONS' CHECKS

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

| | 2012 | 2011 |
|---|---|---|
| Casino Receivables (Net of Allowance for Doubtful Accounts - 2012, $11,926 & 2011, $12,726) | $ 16,554 | $ 17,604 |
| Other (Net of Allowance for Doubtful Accounts - 2012, $128 & 2011, $293) | 5,393 | 3,978 |
| | $ 21,947 | $ 21,582 |

## NOTE 5 –OTHER CURRENT ASSETS

Other Current Assets as of March 31 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Tax Deferred Asset | $ 6,649 | $ 1,818 |
| Purse Enhancement Agreement | | 1,783 |
| Other | 7,751 | 3,329 |
| | $ 14,400 | $ 6,930 |

## NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

Investments, advances and receivables as of March 31 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Due from Caesars | $ 448,401 | $ 400,112 |
| Casino Reinvestment Development Authority Obligation ("CRDA") (net of valuation reserves- 2011, $11,749 and 2010, $13,157) | 19,553 | 19,805 |
| Investment In ACES | 2,490 | 4,838 |
| | $ 470,444 | $ 424,755 |

The amounts due from Caesars as of March 31 are unsecured and non-interest bearing.

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

## NOTE 7 – PROPERTY AND EQUIPMENT

Property and Equipment as of March 31 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Land | $ 182,580 | $ 182,580 |
| Buildings and Improvements | 529,210 | 527,353 |
| Furniture, Fixtures, and Equipment | 124,284 | 120,055 |
| Construction in Progress | 6,855 | 938 |
| | $ 842,929 | $ 830,926 |
| Less Accumulated Depreciation & Amortization | (166,152) | (127,698) |
| | $ 676,777 | $ 703,228 |

## NOTE 8 – OTHER ASSETS

Other assets as of March 31 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Customer Database (less Accumulated Amortization of $36,875 in 2012 & $28,025 in 2011) | $ 69,325 | $ 78,175 |
| Other | 41,399 | 42,444 |
| | $ 110,724 | $ 120,619 |

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 in 2006. The lease agreement provides for the repayment of certain qualified pier development costs incurred by the developers.

## NOTE 9 - OTHER ACCRUED EXPENSES

Other accrued expenses as of March 31 consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Accrued Payroll | $ 7,730 | $ 9,793 |
| Accrued Interest Payable | 183,931 | 139,895 |
| Other | 11,075 | 11,649 |
| | $ 202,736 | $ 161,337 |

(All dollar amounts in thousands)

## NOTE 10- SHORT-TERM DEBT

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

| | 2012 | 2011 |
|---|---|---|
| **Due to Other** | | |
| Mortgage Note due October 15, 2011 Interest at 10.0% | $ - | $ 455 |
| | | - |
| | $ - | $ 455 |

## NOTE 11- LONG-TERM DEBT

Long-term debt, due to affiliates and other as of March 31, consists of the following:

| | 2012 | 2011 |
|---|---|---|
| **Due to Affiliates** | | |
| 8.5% Note Payable to Caesars Entertainment, Ltd. ("HEL") due December 1, 2020 | $ 518,330 | $ 518,330 |
| Total Long Term Debt | $ 518,330 | $ 518,330 |

On July 1, 2006, the note formerly held by CEFC was assigned to CEL. 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 March 31, 2012, accrued interest related to the intercompany note totaled $183,931. Since the note is due to an affiliate, a determination of fair value is not considered meaningful.

## NOTE 12 – OTHER LIABILITIES

Other Liabilities as of March 31 consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Due to Affiliates, Atlantic City Region | $ 107,021 | $ 98,624 |
| Due to Affiliates, Other | 37,271 | 39,806 |
| CRDA-Seat Licenses | | 2,154 |
| Deferred Tax Liability | 36,157 | 38,019 |
| | $ 180,449 | $ 178,603 |

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

**(All dollar amounts in thousands)**

## NOTE 13 – 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 sheets include insurance allowances of $295 and $210 as of March 31, 2012 and 2011, 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 licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate.

As of March 31, CRDA related assets were as follows:

| | 2012 | 2011 |
|---|---|---|
| CRDA Bonds — net of amortized costs | $ 4,070 | $ 3,969 |
| Deposits — net of reserves of $9,584 and $11,525 | 15,483 | 15,836 |
| Total | $ 19,553 | $ 19,805 |

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were $851 and $136 for the three months ended March 31, 2012 and 2011, respectively, and is included in CRDA Expense, in the consolidated statements of operations.

The funds on deposits are held in an interest-bearing account by the CRDA. Initial obligation deposits are marked down by approximately 33% to represent their fair value and eventual expected conversion into bonds by the CRDA.

Once CRDA Bonds are issued, we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and, under the CRDA, they are not permitted to do otherwise. As such, the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the three months ended March 31, 2012 and 2011 was $16 and $8, respectively, and is included in CRDA Expense in the consolidated statements of operations.

After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its affect on reported amount based upon the ability and likelihood of bonds to be repaid. When considering recoverability of the CRDA Bonds, the Company considers the relative credit-worthiness of each bondholder, historical collection experience and other information received from the CRDA. If indications exist that the amount expected to be recovered is less than its carrying value, the asset will be written down to its expected realizable amount.

All the Atlantic City casino properties (the "AC Industry") and the CRDA entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. This agreement expired on January 1, 2009. The agreement provided that in exchange for funding, the NJSEA and the three active New Jersey racetracks would not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry provided $34,000 over a four year period to the NJSEA and deposited another $62,000 into the Casino Expansion Fund (managed by the CRDA). The Company's obligation was equal to its fair-share of AC Industry casino revenues totaling $2,812, and the Company is eligible to receive funds deposited as a result of this obligation 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 was $10,657, equal to its fair-share of AC Industry casino revenues. The total commitment was being charged to operations on a straight-line basis beginning January 2009 through December 31, 2011.

All the Atlantic City casino properties (the "AC Industry") and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize Atlantic City casino marketing. This agreement was signed on November 2, 2011 and is set to expire on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of $5,000 in December 2011 and will continue to pay $30,000 annually for the next five years. The Company's obligation was $914 for the three months ended March 31, 2012. The Company's obligation for its portion of future payments is estimated at 18,286, equal to its fair-share of AC Industry casino revenues.