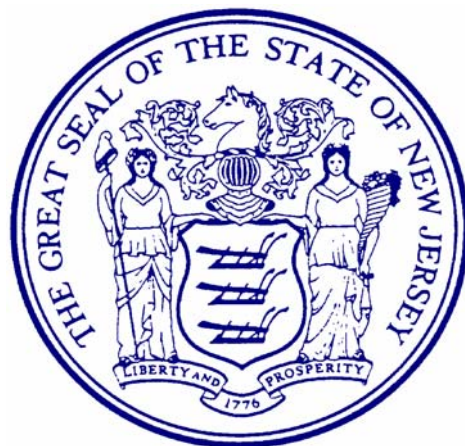


**HARRAH'S RESORT, ATLANTIC CITY
QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

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



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

HARRAH'S RESORT, ATLANTIC CITY

BALANCE SHEETS

AS OF SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|-------------|--|-------|-------------|-------------|
| | <u>ASSETS:</u> | | | |
| | Current Assets: | | | |
| 1 | Cash and Cash Equivalents..... | | \$25,932 | \$28,675 |
| 2 | Short-Term Investments..... | | | |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, \$11,064; 2011, \$9,648)..... | 4 | 16,728 | 23,649 |
| 4 | Inventories | 2 | 1,718 | 1,805 |
| 5 | Other Current Assets..... | 5 | 13,116 | 14,220 |
| 6 | Total Current Assets..... | | 57,494 | 68,349 |
| 7 | Investments, Advances, and Receivables..... | 6 | 608,317 | 604,548 |
| 8 | Property and Equipment - Gross..... | 2,7 | 1,470,052 | 1,462,187 |
| 9 | Less: Accumulated Depreciation and Amortization..... | 2,7 | (221,927) | (177,169) |
| 10 | Property and Equipment - Net..... | 2,7 | 1,248,125 | 1,285,018 |
| 11 | Other Assets..... | 8 | 42,816 | 50,294 |
| 12 | Total Assets..... | | \$1,956,752 | \$2,008,209 |
| | <u>LIABILITIES AND EQUITY:</u> | | | |
| | Current Liabilities: | | | |
| 13 | Accounts Payable..... | | \$8,840 | \$8,858 |
| 14 | Notes Payable..... | | | |
| | Current Portion of Long-Term Debt: | | | |
| 15 | Due to Affiliates..... | | | |
| 16 | External..... | 10 | 3,073 | 456 |
| 17 | Income Taxes Payable and Accrued..... | 2 | | |
| 18 | Other Accrued Expenses..... | 9 | 19,377 | 22,988 |
| 19 | Other Current Liabilities..... | | 1,283 | 1,866 |
| 20 | Total Current Liabilities..... | | 32,573 | 34,168 |
| | Long-Term Debt: | | | |
| 21 | Due to Affiliates..... | | | |
| 22 | External..... | 11 | 861,808 | 898,369 |
| 23 | Deferred Credits | | 235,451 | 258,295 |
| 24 | Other Liabilities..... | 12 | 22,775 | 22,005 |
| 25 | Commitments and Contingencies..... | 14 | | |
| 26 | Total Liabilities..... | | 1,152,607 | 1,212,837 |
| 27 | Stockholders', Partners', or Proprietor's Equity..... | | 804,145 | 795,372 |
| 28 | Total Liabilities and Equity..... | | \$1,956,752 | \$2,008,209 |

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, 2012 AND 2011

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|-------------|---|-------|-------------|-------------|
| | Revenue: | | | |
| 1 | Casino..... | | \$319,238 | \$339,185 |
| 2 | Rooms..... | | 60,717 | 60,836 |
| 3 | Food and Beverage..... | | 69,756 | 65,054 |
| 4 | Other..... | | 21,081 | 21,211 |
| 5 | Total Revenue..... | | 470,792 | 486,286 |
| 6 | Less: Promotional Allowances..... | 2 | 115,245 | 124,676 |
| 7 | Net Revenue..... | | 355,547 | 361,610 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services..... | | 221,775 | 219,440 |
| 9 | Selling, General, and Administrative..... | | 22,993 | 45,957 |
| 10 | Provision for Doubtful Accounts..... | | 2,026 | 1,970 |
| 11 | Total Costs and Expenses..... | | 246,794 | 267,367 |
| 12 | Gross Operating Profit..... | | 108,753 | 94,243 |
| 13 | Depreciation and Amortization..... | | 38,846 | 38,304 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees..... | | | |
| 15 | Other..... | 3 | 43,949 | 33,414 |
| 16 | Income (Loss) from Operations..... | | 25,958 | 22,525 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates..... | | | |
| 18 | Interest Expense - External..... | | (27,334) | (28,166) |
| 19 | CRDA Related Income (Expense) - Net..... | | (1,834) | (2,394) |
| 20 | Nonoperating Income (Expense) - Net..... | 13 | 13,273 | 7,254 |
| 21 | Total Other Income (Expenses)..... | | (15,895) | (23,306) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items..... | | 10,063 | (781) |
| 23 | Provision (Credit) for Income Taxes..... | 2 | 4,820 | 527 |
| 24 | Income (Loss) Before Extraordinary Items..... | | 5,243 | (1,308) |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 2012, \$0; 2011, \$0)..... | | | |
| 26 | Net Income (Loss)..... | | \$5,243 | (\$1,308) |

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

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|-------------|---|-------|-------------|-------------|
| | Revenue: | | | |
| 1 | Casino..... | | \$110,862 | \$116,812 |
| 2 | Rooms..... | | 22,435 | 22,267 |
| 3 | Food and Beverage..... | | 22,584 | 23,850 |
| 4 | Other..... | | 7,731 | 8,131 |
| 5 | Total Revenue..... | | 163,612 | 171,060 |
| 6 | Less: Promotional Allowances..... | 2 | 37,955 | 43,407 |
| 7 | Net Revenue..... | | 125,657 | 127,653 |
| | Costs and Expenses: | | | |
| 8 | Cost of Goods and Services..... | | 74,998 | 77,848 |
| 9 | Selling, General, and Administrative..... | | 7,525 | 15,842 |
| 10 | Provision for Doubtful Accounts..... | | 458 | 903 |
| 11 | Total Costs and Expenses..... | | 82,981 | 94,593 |
| 12 | Gross Operating Profit..... | | 42,676 | 33,060 |
| 13 | Depreciation and Amortization..... | | 13,313 | 12,692 |
| | Charges from Affiliates Other than Interest: | | | |
| 14 | Management Fees..... | | | |
| 15 | Other..... | 3 | 13,808 | 10,652 |
| 16 | Income (Loss) from Operations..... | | 15,555 | 9,716 |
| | Other Income (Expenses): | | | |
| 17 | Interest Expense - Affiliates..... | | | |
| 18 | Interest Expense - External..... | | (9,031) | (9,187) |
| 19 | CRDA Related Income (Expense) - Net..... | | 416 | (667) |
| 20 | Nonoperating Income (Expense) - Net..... | 13 | 72 | (670) |
| 21 | Total Other Income (Expenses)..... | | (8,543) | (10,524) |
| 22 | Income (Loss) Before Taxes and Extraordinary Items..... | | 7,012 | (808) |
| 23 | Provision (Credit) for Income Taxes..... | 2 | 3,211 | 59 |
| 24 | Income (Loss) Before Extraordinary Items..... | | 3,801 | (867) |
| | Extraordinary Items (Net of Income Taxes - | | | |
| 25 | 2012, \$0; 2011, \$0)..... | | | |
| 26 | Net Income (Loss)..... | | \$3,801 | (\$867) |

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

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | Common Stock | | Preferred Stock | | Additional Paid-In Capital (g) | Accumulated Comprehensive Income/Loss (h) | Retained Earnings (Accumulated Deficit) (i) | Total Stockholders' Equity (Deficit) (j) |
|-------------|--------------------------------------|-------|---------------|---------------|-----------------|---------------|---|--|---|--|
| | | | Shares (c) | Amount (d) | Shares (e) | Amount (f) | | | | |
| 1 | Balance, December 31, 2010..... | | 25 | \$25 | | | \$918,547 | (\$5,014) | (\$118,689) | \$794,869 |
| 2 | Net Income (Loss) - 2011..... | | | | | | | | (12,265) | (12,265) |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 4 | Dividends..... | | | | | | | | | 0 |
| 5 | Prior Period Adjustments..... | 2 | | | | | | | 12,460 | 12,460 |
| 6 | Comprehensive Income/Loss | | | | | | 1,614 | | | 1,614 |
| 7 | | | | | | | | | | 0 |
| 8 | | | | | | | | | | 0 |
| 9 | | | | | | | | | | 0 |
| 10 | Balance, December 31, 2011..... | | 25 | 25 | 0 | 0 | 918,547 | (3,400) | (118,494) | 796,678 |
| 11 | Net Income (Loss) - 2012..... | | | | | | | | 5,243 | 5,243 |
| 12 | Contribution to Paid-in-Capital..... | | | | | | | | | 0 |
| 13 | Dividends..... | | | | | | | | | 0 |
| 14 | Prior Period Adjustments..... | | | | | | | | | 0 |
| 15 | Comprehensive Income/Loss | | | | | | 2,224 | | | 2,224 |
| 16 | | | | | | | | | | 0 |
| 17 | | | | | | | | | | 0 |
| 18 | | | | | | | | | | 0 |
| 19 | Balance, September 30, 2012 | | 25 | \$25 | 0 | \$0 | \$918,547 | (\$1,176) | (\$113,251) | \$804,145 |

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, 2012 AND 2011
(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|-------------|--|-------|-------------|-------------|
| 1 | CASH PROVIDED (USED) BY OPERATING ACTIVITIES.. | | \$7,853 | \$26,137 |
| | 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..... | | (4,953) | (7,171) |
| 5 | Proceeds from Disposition of Property and Equipment..... | | 91 | |
| 6 | CRDA Obligations | | (3,840) | (4,017) |
| 7 | Other Investments, Loans and Advances made..... | | | |
| 8 | Proceeds from Other Investments, Loans, and Advances | | 265 | 264 |
| 9 | Cash Outflows to Acquire Business Entities..... | | 0 | 0 |
| 10 | | | | |
| 11 | | | | |
| 12 | Net Cash Provided (Used) By Investing Activities..... | | (8,437) | (10,924) |
| | 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..... | | (21,767) | (19,363) |
| 18 | Cash Proceeds from Issuing Stock or Capital Contributions... | | 0 | 0 |
| 19 | Purchases of Treasury Stock..... | | | |
| 20 | Payments of Dividends or Capital Withdrawals..... | | | |
| 21 | | | | |
| 22 | | | | |
| 23 | Net Cash Provided (Used) By Financing Activities..... | | (21,767) | (19,363) |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents..... | | (22,351) | (4,150) |
| 25 | Cash and Cash Equivalents at Beginning of Period..... | | 48,283 | 32,825 |
| 26 | Cash and Cash Equivalents at End of Period..... | | \$25,932 | \$28,675 |
| | CASH PAID DURING PERIOD FOR: | | | |
| 27 | Interest (Net of Amount Capitalized)..... | | \$21,710 | \$22,295 |
| 28 | Income Taxes..... | | \$0 | \$1,020 |

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, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

| Line (a) | Description (b) | Notes | 2012 (c) | 2011 (d) |
|-------------|--|-------|-------------|-------------|
| | CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| 29 | Net Income (Loss)..... | | \$5,243 | (\$1,308) |
| 30 | Depreciation and Amortization of Property and Equipment..... | | 35,690 | 35,148 |
| 31 | Amortization of Other Assets..... | | 3,156 | 3,156 |
| 32 | Amortization of Debt Discount or Premium..... | | | |
| 33 | Deferred Income Taxes - Current | | 0 | (203) |
| 34 | Deferred Income Taxes - Noncurrent | | (5,230) | (5,918) |
| 35 | (Gain) Loss on Disposition of Property and Equipment..... | | (91) | (27) |
| 36 | (Gain) Loss on CRDA-Related Obligations..... | | 1,834 | 2,394 |
| 37 | (Gain) Loss from Other Investment Activities..... | | | |
| 38 | (Increase) Decrease in Receivables and Patrons' Checks | | 5,158 | (1,990) |
| 39 | (Increase) Decrease in Inventories | | (31) | 204 |
| 40 | (Increase) Decrease in Other Current Assets..... | | 386 | 149 |
| 41 | (Increase) Decrease in Other Assets..... | | 4,148 | 7,870 |
| 42 | Increase (Decrease) in Accounts Payable..... | | (2,130) | (2,447) |
| 43 | Increase (Decrease) in Other Current Liabilities | | (4,001) | (1,005) |
| 44 | Increase (Decrease) in Other Liabilities | | 550 | 1,323 |
| 45 | (Increase) Decrease in Other Receivables or Adv | | (22,825) | (2,724) |
| 46 | (Gain) Loss on early retirement of Debt | | (14,004) | (8,485) |
| 47 | Net Cash Provided (Used) By Operating Activities..... | | \$7,853 | \$26,137 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | | | |
|----|--|----|-----------|-----------|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | | |
| 48 | Additions to Property and Equipment..... | | (\$8,026) | (\$8,068) |
| 49 | Less: Capital Lease Obligations Incurred..... | 10 | 3,073 | 897 |
| 50 | Cash Outflows for Property and Equipment..... | | (\$4,953) | (\$7,171) |
| | 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.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(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 | 390,292 | \$31,708 | | |
| 2 | Food | 1,057,252 | 23,023 | | |
| 3 | Beverage | 1,726,294 | 12,947 | | |
| 4 | Travel | | | 45,203 | 12,489 |
| 5 | Bus Program Cash | 325 | 3 | | |
| 6 | Promotional Gaming Credits | 1,039,826 | 36,394 | | |
| 7 | Complimentary Cash Gifts | 106,225 | 7,048 | | |
| 8 | Entertainment | 20,160 | 907 | | |
| 9 | Retail & Non-Cash Gifts | 101,096 | 2,022 | | |
| 10 | Parking | | | | |
| 11 | Other | 242,464 | 1,193 | | |
| 12 | Total | 4,683,934 | \$115,245 | 45,203 | \$12,489 |

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

| Line (a) | Description (b) | Promotional Allowances | | Promotional Expenses | |
|-------------|----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
| | | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 134,884 | \$10,979 | | |
| 2 | Food | 334,723 | 7,438 | | |
| 3 | Beverage | 534,566 | 4,009 | | |
| 4 | Travel | | | 15,719 | 4,345 |
| 5 | Bus Program Cash | 150 | 1 | | |
| 6 | Promotional Gaming Credits | 336,400 | 11,774 | | |
| 7 | Complimentary Cash Gifts | 35,471 | 2,272 | | |
| 8 | Entertainment | 9,851 | 443 | | |
| 9 | Retail & Non-Cash Gifts | 29,855 | 597 | | |
| 10 | Parking | | | | |
| 11 | Other | 93,203 | 442 | | |
| 12 | Total | 1,509,103 | \$37,955 | 15,719 | \$4,345 |

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

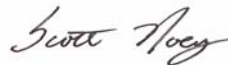
HARRAH'S RESORT, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 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.

11/15/2012

Date



Scott Noey

Vice President of Finance

Title

009094-11

License Number

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY

Casino Licensee

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

NOTE 1 - ORGANIZATION AND 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 Caesars Entertainment, Inc. ("Caesars") (formerly Harrah's Entertainment, Inc.). 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, 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." Prior to the Acquisition, 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 Caesars Entertainment Operating Company ("CEOC") (formerly Harrah's Operating Company, Inc.), which is a direct wholly owned subsidiary of Caesars.

In conjunction with the Acquisition, the Predecessor Company, along with five affiliates, was spun off from CEOC for the purpose of obtaining financing in the form of commercial mortgaged-backed securities ("CMBS") in order to effect the Acquisition. 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 11).

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, beverage, and operating supplies, are stated at the lower of average cost or market value.

Land, Buildings and Equipment - Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs costs 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 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. If 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.

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

Deferred Assets - Debt issue costs are amortized to interest expense based on the related debt agreement using the straight-line method, which approximates the effective interest method. A charge of \$1,720 and \$1,863 were included in interest expense in the statement of income for the periods ending September 30, 2012 and 2011 respectively.

Goodwill and Other Intangible Assets – The Company accounts for goodwill and other intangible assets in accordance with Accounting Standard Codification (“ASC”) 350, Intangible Assets, Goodwill and Other. The Company performs at least an annual review of intangible assets for impairment.

The intangible assets include customer relationships (database) of \$35,064 and \$39,272 as of September 30, 2012 and 2011 respectively. 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 the three months ending September 30, 2012 and 2011 respectively. 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 Atlantic City Express Service, LLC “ACES” - In 2006, the Company entered into an agreement with Caesars Atlantic City, an affiliate of the Company, and one other Atlantic City casino to form 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 September 30, 2012 and 2011 was approximately \$26,873 and \$26,873 respectively.

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.

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 \$748, 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.

CRDA Real Estate Project - The Company’s investment in its CRDA real estate project (the “Project”) consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, 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.

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

Revenue Recognition - Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. 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.

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

| | 2012 | 2011 |
|----------------------------|-----------|-----------|
| Food and Beverage | \$ 27,487 | \$ 24,735 |
| Rooms | 11,028 | 12,606 |
| Other | 4,962 | 4,994 |
| Other Cash Complimentary | 7,048 | 8,230 |
| Promotional Gaming Credits | 36,394 | 41,175 |
| | \$ 86,919 | \$ 91,740 |

Total Rewards Program Liability - The Company's customer loyalty program, Total Rewards, offers incentives to customers who gamble and shop 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. These amounts are recorded on Caesars' balance sheets with the incremental charges included in due from affiliates, net in the balance sheets. At September 30, 2012 and 2011, the accrued balance for the estimated cost of Total Rewards credit redemptions was \$3,760 and \$4,460 respectively.

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, 2012 and 2011, the liability related to outstanding cash-back points, which is based on historical redemption activity, were \$911 and \$734 respectively.

Advertising Expenses - Advertising costs are expensed as incurred. Advertising expenses are \$5,383 and \$5,773 for the nine months ended September 30, 2012 and 2011 respectively. Advertising expenses are included in selling, general and administrative expenses and charges from affiliates in the accompanying statements of income.

Gaming Tax - The Company remits weekly to the State of New Jersey a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the State of New Jersey for the nine months ended September 30, 2012 and 2011, which are included in cost of goods and services in the statement of income, were approximately \$25,639 and \$27,270 respectively.

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

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

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 2011, the Company identified certain deferred tax assets generated before 2009 related, primarily, to depreciation expense that were recorded on the financial statements of CEOC, the Company's parent, rather than being pushed down and recorded on the Company's financial statements. The net impact on the financial statements included in this report of correcting this error was to increase deferred tax assets and to increase retained earnings by \$12,460 in the prior year. There were no cash or income statement impacts as a result of this correction.

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 nine months ended September 30, 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 Caesars' other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated, and managed by CEOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

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

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

Cash Activity with CEOC and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to Caesars 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.

Administrative and Other Services - The Company is charged a fee by CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged \$43,949 and \$33,414 for these services for the nine months ended September 30, 2012 and 2011, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

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

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 \$83 and \$140 for these costs for the nine months ended September 30, 2012 and 2011, respectively. The costs are included in other operating expenses in the accompanying statements of income

NOTE 4 – RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks as of September 30 consist of the following:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|------------------|
| Casino Receivables (Net of Allowance for Doubtful Accounts - 2012, \$10,894 & 2011, \$9,137 | \$ 8,794 | \$ 14,884 |
| Other (Net of Allowance for Doubtful Accounts- 2012, \$170 & 2011, \$511) | 7,934 | 8,765 |
| | <u>\$ 16,728</u> | <u>\$ 23,649</u> |

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|------------------|------------------|
| Prepaid Air Charter | \$ 1,906 | \$ 3,932 |
| Prepaid State Income Tax | 716 | 1,082 |
| Prepaid Deferred State Income Tax | 6,534 | 6,509 |
| Prepaid Taxes | 986 | 1,076 |
| Prepaid Marketing | 155 | 669 |
| Prepaid Other | 2,819 | 952 |
| | <u>\$ 13,116</u> | <u>\$ 14,220</u> |

NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Due from Affiliates | \$ 565,058 | \$ 560,955 |
| Investment of ACES | 2,800 | 5,575 |
| Notes Receivable | 11,807 | 11,066 |
| CRDA obligation deposit-Net of Valuation Allowance of \$9,847 and \$9,522 at September 30, 2012 and 2011, respectively | 20,184 | 19,539 |
| CRDA obligation bonds-Net of Valuation Allowance of \$4,153 and \$3,569 at September 30, 2012 and 2011, respectively | 5,173 | 3,850 |
| CRDA Investments, Net | 2,658 | 3,312 |
| Other | 637 | 251 |
| | <u>\$ 608,317</u> | <u>\$ 604,548</u> |

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

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

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

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Land and Land Improvements | \$ 440,594 | \$ 439,998 |
| Building and Improvements | 892,440 | 889,242 |
| Furniture Fixtures & Equipment | 135,523 | 127,882 |
| Construction in Progress | 1,495 | 5,065 |
| | <u>1,470,052</u> | <u>1,462,187</u> |
| Less: Accumulated Depreciation and Amortization | <u>(221,927)</u> | <u>(177,169)</u> |
| Land, Building and Equipment, Net | <u>\$ 1,248,125</u> | <u>\$ 1,285,018</u> |

NOTE 8 - OTHER ASSETS

Other Assets as of September 30 consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|------------------------------|------------------|------------------|
| Intangible Asstes | \$ 35,064 | \$ 39,272 |
| Deferred Finance Charge | 7,151 | 10,125 |
| Interest Rate Cap Derivative | - | 43 |
| Other | 601 | 854 |
| | <u>\$ 42,816</u> | <u>\$ 50,294</u> |

NOTE 9 - OTHER ACCRUED EXPENSES

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

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| Accrued Salaries, Wages and Benefits | \$ 4,311 | \$ 3,875 |
| Taxes Payable | 3,400 | 3,148 |
| Accrued In-House Progressive Slot Liability | - | 1,490 |
| Accrued City Wide Progressive Slot Liability | 230 | 116 |
| Accrued Interest, Long-term debt | 1,263 | 1,281 |
| Accrued CCC/DGE Casino License Fees | 530 | 630 |
| Accrued Utilities | 776 | 911 |
| Accrued Health and Welfare Union | 1,484 | 1,585 |
| Accrued Charter Services | - | 1,468 |
| Other accrued Expenses | 7,383 | 8,484 |
| | <u>\$ 19,377</u> | <u>\$ 22,988</u> |

NOTE 10- SHORT-TERM DEBT

Short-term debt, due to other as of September 30, consists of the following:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|-----------------|---------------|
| Due to Other | | |
| Current Portion of Capitalized Leases | \$ 3,073 | \$ 456 |
| | <u>\$ 3,073</u> | <u>\$ 456</u> |

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

NOTE 11 – LONG TERM DEBT

Long-term debt, due to others as of September 30 consists of the following:

| | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| CMBS Financing - 3.28% & 4.20% at September 30, 2012 and 2011, respectively - Maturity 2015* | 861,808 | 898,369 |

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

CMBS Financing — Caesars Entertainment obtained the CMBS Financing pursuant to the Loan Agreement and related First through Ninth mezzanine Loan Agreements, all dated January 28, 2008 (collectively, the “Loan Agreements”) On August 31, 2010, Caesars executed an agreement with the lenders to amend the terms of the CMBS Financing to, among other things, (i) provide the right to extend the maturity of the Loan Agreements, subject to certain conditions, by up to 2 years until February 2015, (ii) amend certain terms of the CMBS Loans with respect to reserve requirements, collateral rights, property release prices and the payment of management fees, (iii) provide for ongoing mandatory offers to repurchase CMBS Loans using excess cash flow from the CMBS Properties at discounted prices, (iv) provide for the amortization of the mortgage loan in certain minimum amounts upon the occurrence of certain conditions and (v) provide for certain limitations with respect to the amount of excess cash flow from the CMBS Properties that may be distributed to Caesars Entertainment. Any CMBS Loan purchased pursuant to the amendments will be canceled.

NOTE 12 - OTHER LIABILITIES

Other Liabilities as of September 30 consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|---------------------|------------------|------------------|
| Reported Claims | \$ 2,423 | \$ 2,617 |
| CRDA-ACIA Funding | 146 | 170 |
| Deferred CRDA grant | 315 | 367 |
| Fin 48- Tax Reserve | 19,891 | 18,851 |
| | <u>\$ 22,775</u> | <u>\$ 22,005</u> |

NOTE 13 – NON-OPERATING INCOME (EXPENSE)

For the nine months ended September 30, 2012 and 2011, Non-Operating Income (Expense) consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|------------------------------------|------------------|-----------------|
| Interest Income | \$ 173 | \$ 136 |
| Gain/Loss on Early Retirement Debt | 14,004 | 8,485 |
| Other | (904) | (1,367) |
| | <u>\$ 13,273</u> | <u>\$ 7,254</u> |

NOTE 14 – 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 \$2,423 and \$2,617 as of September 30, 2012 and 2011, respectively. Actual results may differ from these reserve amounts.

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

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 September 30, CRDA related assets were as follows:

| | 2012 | 2011 |
|--------------------------------------|-----------|-----------|
| CRDA Bonds-net of amortized cost | \$ 5,173 | \$ 3,850 |
| Deposit - net reserves | 20,184 | 19,539 |
| Direct Investments - net of reserves | 2,658 | 3,312 |
| | \$ 28,015 | \$ 26,701 |

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

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$1,730 and \$2,336 for the nine months ended September 30, 2012 and 2011, respectively, and is included in CRDA related expenses, in the statement of income.

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

Once CRDA Bonds are issued we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the nine months ended September 30, 2012 and 2011 were \$43 and \$30, respectively, and is included in CRDA related expenses, in the statement of income.

After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its 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, 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.

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NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The Company's obligation is estimated at \$10,616 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 ending 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 \$2,784 for the nine months ended September 30, 2012. The Company's obligation for its portion of future payments is estimated at \$15,774 equal to its fair-share of AC Industry casino revenues.