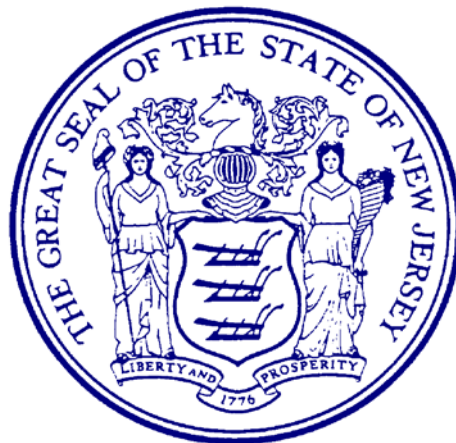


**BOARDWALK REGENCY CORPORATION  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2017**

**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 SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)  | Notes  | 2017<br>(c) | 2016<br>(d) |
|-------------|---|--------|-------------|-------------|
|             | <u>ASSETS:</u>  |        |             |             |
|             | Current Assets:   |        |             |             |
| 1           | Cash and Cash Equivalents.....  |        | \$14,718    | \$14,815    |
| 2           | Short-Term Investments.....   |        | 0           | 0           |
| 3           | Receivables and Patrons' Checks (Net of Allowance for<br>Doubtful Accounts - 2017, \$9,491; 2016, \$9,481)..... | 2 & 4  | 17,033      | 17,617      |
| 4           | Inventories .....   | 2      | 268         | 304         |
| 5           | Other Current Assets.....   | 5      | 3,736       | 3,602       |
| 6           | Total Current Assets.....   |        | 35,755      | 36,338      |
| 7           | Investments, Advances, and Receivables.....   | 6 & 12 | 3,990       | 4,989       |
| 8           | Property and Equipment - Gross.....   | 2 & 7  | 94,492      | 85,654      |
| 9           | Less: Accumulated Depreciation and Amortization.....  | 2 & 7  | (25,429)    | (17,307)    |
| 10          | Property and Equipment - Net.....   | 2 & 7  | 69,063      | 68,347      |
| 11          | Other Assets.....   | 2 & 8  | 113,849     | 116,763     |
| 12          | Total Assets.....   |        | \$222,657   | \$226,437   |
|             | <u>LIABILITIES AND EQUITY:</u>  |        |             |             |
|             | Current Liabilities:  |        |             |             |
| 13          | Accounts Payable.....   |        | \$7,743     | \$7,509     |
| 14          | Notes Payable.....  |        | 0           | 0           |
|             | Current Portion of Long-Term Debt:  |        |             |             |
| 15          | Due to Affiliates.....  |        | 0           | 0           |
| 16          | External.....   | 10     | 1,934       | 2,016       |
| 17          | Income Taxes Payable and Accrued.....   | 2      | 1,473       | 360         |
| 18          | Other Accrued Expenses.....   | 9      | 14,155      | 326,809     |
| 19          | Other Current Liabilities.....  |        | 3,027       | 2,534       |
| 20          | Total Current Liabilities.....  |        | 28,332      | 339,228     |
|             | Long-Term Debt:   |        |             |             |
| 21          | Due to Affiliates.....  | 10     | 0           | 518,330     |
| 22          | External.....   | 10     | 0           | 0           |
| 23          | Deferred Credits .....  | 2      | 0           | 0           |
| 24          | Other Liabilities.....  |        | 4,294       | 1,525       |
| 25          | Commitments and Contingencies.....  | 12     | 0           | 0           |
| 26          | Total Liabilities.....  |        | 32,626      | 859,083     |
| 27          | Stockholders', Partners', or Proprietor's Equity.....   |        | 190,031     | (632,646)   |
| 28          | Total Liabilities and Equity.....   |        | \$222,657   | \$226,437   |

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)                           | Notes | 2017<br>(c) | 2016<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | Revenue:                                     |       |             |             |
| 1           | Casino.....                                  |       | \$251,439   | \$225,714   |
| 2           | Rooms.....                                   |       | 32,687      | 29,667      |
| 3           | Food and Beverage.....                       |       | 46,116      | 44,181      |
| 4           | Other.....                                   |       | 12,526      | 12,454      |
| 5           | Total Revenue.....                           |       | 342,768     | 312,016     |
| 6           | Less: Promotional Allowances.....            |       | 95,853      | 81,726      |
| 7           | Net Revenue.....                             |       | 246,915     | 230,290     |
|             | Costs and Expenses:                          |       |             |             |
| 8           | Casino.....                                  |       | 106,418     | 99,355      |
| 9           | Rooms, Food and Beverage.....                |       | 16,266      | 17,048      |
| 10          | General, Administrative and Other.....       |       | 49,504      | 51,072      |
| 11          | Total Costs and Expenses.....                |       | 172,188     | 167,475     |
| 12          | Gross Operating Profit.....                  |       | 74,727      | 62,815      |
| 13          | Depreciation and Amortization.....           | 2     | 6,918       | 7,101       |
|             | Charges from Affiliates Other than Interest: |       |             |             |
| 14          | Management Fees.....                         |       | 0           | 0           |
| 15          | Other.....                                   | 3     | 16,781      | 16,093      |
| 16          | Income (Loss) from Operations.....           |       | 51,028      | 39,621      |
|             | Other Income (Expenses):                     |       |             |             |
| 17          | Interest Expense - Affiliates.....           | 10    | 0           | 0           |
| 18          | Interest Expense - External.....             | 10    | (4)         | (9)         |
| 19          | CRDA Related Income (Expense) - Net.....     | 12    | (144)       | (2,435)     |
| 20          | Nonoperating Income (Expense) - Net.....     | 11    | 1,716       | 2,037       |
| 21          | Total Other Income (Expenses).....           |       | 1,568       | (407)       |
| 22          | Income (Loss) Before Taxes .....             |       | 52,596      | 39,214      |
| 23          | Provision (Credit) for Income Taxes.....     | 2     | 3,845       | 500         |
| 24          | Net Income (Loss).....                       |       | \$48,751    | \$38,714    |

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

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)                           | Notes | 2017<br>(c) | 2016<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | Revenue:                                     |       |             |             |
| 1           | Casino.....                                  |       | \$90,054    | \$88,270    |
| 2           | Rooms.....                                   |       | 12,600      | 11,762      |
| 3           | Food and Beverage.....                       |       | 17,829      | 16,926      |
| 4           | Other.....                                   |       | 4,930       | 5,024       |
| 5           | Total Revenue.....                           |       | 125,413     | 121,982     |
| 6           | Less: Promotional Allowances.....            |       | 35,959      | 31,684      |
| 7           | Net Revenue.....                             |       | 89,454      | 90,298      |
|             | Costs and Expenses:                          |       |             |             |
| 8           | Casino.....                                  |       | 36,583      | 35,644      |
| 9           | Rooms, Food and Beverage.....                |       | 6,334       | 6,696       |
| 10          | General, Administrative and Other.....       |       | 17,450      | 21,726      |
| 11          | Total Costs and Expenses.....                |       | 60,367      | 64,066      |
| 12          | Gross Operating Profit.....                  |       | 29,087      | 26,232      |
| 13          | Depreciation and Amortization.....           | 2     | 2,388       | 2,409       |
|             | Charges from Affiliates Other than Interest: |       |             |             |
| 14          | Management Fees.....                         |       | 0           | 0           |
| 15          | Other.....                                   | 3     | 5,340       | 5,525       |
| 16          | Income (Loss) from Operations.....           |       | 21,359      | 18,298      |
|             | Other Income (Expenses):                     |       |             |             |
| 17          | Interest Expense - Affiliates.....           | 10    | 0           | 0           |
| 18          | Interest Expense - External.....             | 10    | 0           | (2)         |
| 19          | CRDA Related Income (Expense) - Net.....     | 12    | (82)        | (1,105)     |
| 20          | Nonoperating Income (Expense) - Net.....     | 11    | 1,810       | 3,179       |
| 21          | Total Other Income (Expenses).....           |       | 1,728       | 2,072       |
| 22          | Income (Loss) Before Taxes .....             |       | 23,087      | 20,370      |
| 23          | Provision (Credit) for Income Taxes.....     | 2     | 1,825       | 500         |
| 24          | Net Income (Loss).....                       |       | \$21,262    | \$19,870    |

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

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

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

# BOARDWALK REGENCY CORPORATION

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(UNAUDITED)

(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)                   | Notes | Common Stock  |               | Preferred Stock |               | Additional<br>Paid-In<br>Capital<br>(g) | (h) | Retained<br>Earnings<br>(Accumulated<br>Deficit)<br>(i) | Total<br>Stockholders'<br>Equity<br>(Deficit)<br>(j) |
|-------------|--------------------------------------|-------|---------------|---------------|-----------------|---------------|---|-----|---|--|
|             |                                      |       | Shares<br>(c) | Amount<br>(d) | Shares<br>(e)   | Amount<br>(f) |   |     |   |  |
| 1           | Balance, December 31, 2015.....      |       | 100           | \$1,370       | 0               | \$0           | \$444,183                               |     | (\$1,070,510)   | (\$624,957)  |
| 2           | Net Income (Loss) - 2016.....        |       |               |               |                 |               |   |     | 51,521  | 51,521   |
| 3           | Contribution to Paid-in-Capital..... |       |               |               |                 |               |   |     |   | 0  |
| 4           | Dividends.....                       |       |               |               |                 |               |   |     |   | 0  |
| 5           | Prior Period Adjustments.....        |       |               |               |                 |               | (8,162)                                 |     | 8,162   | 0  |
| 6           | Equitization.....                    |       |               |               |                 |               | (48,564)                                |     |   | (48,564)   |
| 7           | .....                                |       |               |               |                 |               |   |     |   | 0  |
| 8           | .....                                |       |               |               |                 |               |   |     |   | 0  |
| 9           | .....                                |       |               |               |                 |               |   |     |   | 0  |
| 10          | Balance, December 31, 2016.....      |       | 100           | 1,370         | 0               | 0             | 387,457                                 | 0   | (1,010,827)   | (622,000)  |
| 11          | Net Income (Loss) - 2017.....        |       |               |               |                 |               |   |     | 48,751  | 48,751   |
| 12          | Contribution to Paid-in-Capital..... |       |               |               |                 |               |   |     |   | 0  |
| 13          | Dividends.....                       |       |               |               |                 |               |   |     |   | 0  |
| 14          | Prior Period Adjustments.....        |       |               |               |                 |               |   |     |   | 0  |
| 15          | Equitization.....                    |       |               |               |                 |               | (61,799)                                |     |   | (61,799)   |
| 16          | Equitization of Intercompany         |       |               |               |                 |               |   |     |   | 0  |
| 17          | Debt and Interest                    |       |               |               |                 |               | 825,079                                 |     |   | 825,079  |
| 18          | .....                                |       |               |               |                 |               |   |     |   | 0  |
| 19          | Balance, September 30, 2017 .....    |       | 100           | \$1,370       | 0               | \$0           | \$1,150,737                             | \$0 | (\$962,076)   | \$190,031  |

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 CASH FLOWS**  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2017<br>(c) | 2016<br>(d) |
|-------------|--|-------|-------------|-------------|
| 1           | CASH PROVIDED (USED) BY OPERATING ACTIVITIES..               |       | \$64,354    | \$45,412    |
|             | CASH FLOWS FROM INVESTING ACTIVITIES:                        |       |             |             |
| 2           | Purchase of Short-Term Investments .....                     |       | 0           | 0           |
| 3           | Proceeds from the Sale of Short-Term Investments .....       |       | 0           | 0           |
| 4           | Cash Outflows for Property and Equipment.....                |       | (5,282)     | (8,563)     |
| 5           | Proceeds from Disposition of Property and Equipment.....     |       | 10          | 51          |
| 6           | CRDA Obligations .....                                       |       | (2,957)     | (2,599)     |
| 7           | Other Investments, Loans and Advances made.....              |       |             |             |
| 8           | Proceeds from Other Investments, Loans, and Advances .....   |       | 1,343       | 5,140       |
| 9           | Cash Outflows to Acquire Business Entities.....              |       | 0           | 0           |
| 10          |  |       |             |             |
| 11          |  |       |             |             |
| 12          | Net Cash Provided (Used) By Investing Activities.....        |       | (6,886)     | (5,971)     |
|             | CASH FLOWS FROM FINANCING ACTIVITIES:                        |       |             |             |
| 13          | Proceeds from Short-Term Debt .....                          |       | 0           | 0           |
| 14          | Payments to Settle Short-Term Debt.....                      |       | 0           | 0           |
| 15          | Proceeds from Long-Term Debt .....                           |       | 0           | 336         |
| 16          | Costs of Issuing Debt.....                                   |       | 0           | 0           |
| 17          | Payments to Settle Long-Term Debt.....                       |       | (70)        | (380)       |
| 18          | Cash Proceeds from Issuing Stock or Capital Contributions... |       | 0           | 0           |
| 19          | Purchases of Treasury Stock.....                             |       | 0           | 0           |
| 20          | Payments of Dividends or Capital Withdrawals.....            |       | 0           | 0           |
| 21          | Borrowings/Payments of Intercompany Payable .....            |       | (61,799)    | (46,403)    |
| 22          |  |       |             |             |
| 23          | Net Cash Provided (Used) By Financing Activities.....        |       | (61,869)    | (46,447)    |
| 24          | Net Increase (Decrease) in Cash and Cash Equivalents.....    |       | (4,401)     | (7,006)     |
| 25          | Cash and Cash Equivalents at Beginning of Period.....        |       | 19,119      | 21,821      |
| 26          | Cash and Cash Equivalents at End of Period.....              |       | \$14,718    | \$14,815    |
|             | CASH PAID DURING PERIOD FOR:                                 |       |             |             |
| 27          | Interest (Net of Amount Capitalized).....                    |       | \$2         | \$10        |
| 28          | Income Taxes.....  |       | \$1,805     | \$140       |

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(UNAUDITED)

(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2017<br>(c) | 2016<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                 |       |             |             |
| 29          | Net Income (Loss).....                                       |       | \$48,751    | \$38,714    |
| 30          | Depreciation and Amortization of Property and Equipment...   |       | 6,457       | 6,625       |
| 31          | Amortization of Other Assets.....                            |       | 461         | 476         |
| 32          | Amortization of Debt Discount or Premium.....                |       | 0           | 0           |
| 33          | Deferred Income Taxes - Current .....                        |       | 0           | 0           |
| 34          | Deferred Income Taxes - Noncurrent .....                     |       | 0           | (1,960)     |
| 35          | (Gain) Loss on Disposition of Property and Equipment.....    |       | 0           | (51)        |
| 36          | (Gain) Loss on CRDA-Related Obligations.....                 |       | 2,612       | 2,192       |
| 37          | (Gain) Loss from Other Investment Activities.....            |       | 0           | 0           |
| 38          | (Increase) Decrease in Receivables and Patrons' Checks ..... |       | 5,667       | (2,684)     |
| 39          | (Increase) Decrease in Inventories .....                     |       | 0           | 146         |
| 40          | (Increase) Decrease in Other Current Assets.....             |       | (752)       | (1,750)     |
| 41          | (Increase) Decrease in Other Assets.....                     |       | 355         | (93)        |
| 42          | Increase (Decrease) in Accounts Payable.....                 |       | 233         | (1,610)     |
| 43          | Increase (Decrease) in Other Current Liabilities .....       |       | (2,199)     | 3,958       |
| 44          | Increase (Decrease) in Other Liabilities .....               |       | 2,769       | 1,449       |
| 45          |  |       |             |             |
| 46          |  |       |             |             |
| 47          | Net Cash Provided (Used) By Operating Activities.....        |       | \$64,354    | \$45,412    |

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

|    |  |  |           |           |
|----|--|--|-----------|-----------|
|    | <b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>                  |  |           |           |
| 48 | Additions to Property and Equipment.....                       |  | (\$5,282) | (\$8,563) |
| 49 | Less: Capital Lease Obligations Incurred.....                  |  |           |           |
| 50 | Cash Outflows for Property and Equipment.....                  |  | (\$5,282) | (\$8,563) |
|    | <b>ACQUISITION OF BUSINESS ENTITIES:</b>                       |  |           |           |
| 51 | Property and Equipment Acquired.....                           |  | \$0       | \$0       |
| 52 | Goodwill Acquired.....   |  | 0         | 0         |
| 53 | Other Assets Acquired - net .....                              |  | 0         | 0         |
| 54 | Long-Term Debt Assumed.....                                    |  | 0         | 0         |
| 55 | Issuance of Stock or Capital Invested.....                     |  | 0         | 0         |
| 56 | Cash Outflows to Acquire Business Entities.....                |  | \$0       | \$0       |
|    | <b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>                  |  |           |           |
| 57 | Total Issuances of Stock or Capital Contributions.....         |  | \$0       | \$0       |
| 58 | Less: Issuances to Settle Long-Term Debt.....                  |  | 0         | 0         |
| 59 | Consideration in Acquisition of Business Entities.....         |  | 0         | 0         |
| 60 | Cash Proceeds from Issuing Stock or Capital Contributions..... |  | \$0       | \$0       |

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

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

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)         | Promotional Allowances         |                         | Promotional Expenses           |                         |
|-------------|----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
|             |                            | Number of<br>Recipients<br>(c) | Dollar<br>Amount<br>(d) | Number of<br>Recipients<br>(e) | Dollar<br>Amount<br>(f) |
| 1           | Rooms                      | 418,440                        | \$18,063                |                                |                         |
| 2           | Food                       | 714,714                        | 18,514                  |                                |                         |
| 3           | Beverage                   | 6,347,328                      | 12,694                  |                                |                         |
| 4           | Travel                     |                                |                         | 77,271                         | 8,829                   |
| 5           | Bus Program Cash           | 1,049                          | 79                      |                                |                         |
| 6           | Promotional Gaming Credits | 1,297,177                      | 26,779                  |                                |                         |
| 7           | Complimentary Cash Gifts   | 54,829                         | 16,994                  |                                |                         |
| 8           | Entertainment              | 9,857                          | 348                     | 3,372                          | 294                     |
| 9           | Retail & Non-Cash Gifts    | 61,657                         | 1,233                   | 35,940                         | 3,807                   |
| 10          | Parking                    |                                |                         | 421,233                        | 1,888                   |
| 11          | Other                      | 2,095                          | 1,149                   | 70,368                         | 1,759                   |
| 12          | Total                      | 8,907,146                      | \$95,853                | 608,184                        | \$16,577                |

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017

| Line<br>(a) | Description<br>(b)         | Promotional Allowances         |                         | Promotional Expenses           |                         |
|-------------|----------------------------|--------------------------------|-------------------------|--------------------------------|-------------------------|
|             |                            | Number of<br>Recipients<br>(c) | Dollar<br>Amount<br>(d) | Number of<br>Recipients<br>(e) | Dollar<br>Amount<br>(f) |
| 1           | Rooms                      | 148,868                        | \$6,467                 |                                |                         |
| 2           | Food                       | 273,245                        | 7,142                   |                                |                         |
| 3           | Beverage                   | 2,355,681                      | 4,711                   |                                |                         |
| 4           | Travel                     |                                |                         | 24,669                         | 3,539                   |
| 5           | Bus Program Cash           | 409                            | 31                      |                                |                         |
| 6           | Promotional Gaming Credits | 456,477                        | 10,528                  |                                |                         |
| 7           | Complimentary Cash Gifts   | 19,095                         | 6,020                   |                                |                         |
| 8           | Entertainment              | 5,925                          | 169                     | 718                            | 90                      |
| 9           | Retail & Non-Cash Gifts    | 21,737                         | 435                     | 7,185                          | 1,097                   |
| 10          | Parking                    |                                |                         | 149,405                        | 719                     |
| 11          | Other                      | 840                            | 456                     | 17,968                         | 449                     |
| 12          | Total                      | 3,282,277                      | \$35,959                | 199,945                        | \$5,894                 |

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



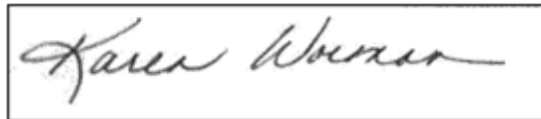
**BOARDWALK REGENCY CORPORATION  
STATEMENT OF CONFORMITY,  
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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.

11/10/2017

Date



Karen Worman

Vice President of Finance

Title

006320-11

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”), a direct wholly owned subsidiary of Caesars Entertainment Corp. (“CEC”).

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 resubmission every five years.

**CEOC Reorganization Petition** - On January 15, 2015 (the “Petition Date”), CEOC and certain of its United States subsidiaries, including the Company, (the “Debtors”) voluntarily filed for reorganization under Chapter 11 of the Bankruptcy Code. As a result of this filing, CEOC and the Companies operate as debtors-in-possession under the Bankruptcy Code. On January 17, 2017, the Bankruptcy Court entered an order approving and confirming the Debtors’ third amended joint plan of reorganization (the “Plan”), and on October 6, 2017, the Debtors consummated their reorganization pursuant to the Plan. The Plan provided for, among other things:

- A global settlement of all claims the Debtors may have against CEC and its affiliates;
- Comprehensive releases for CEC and its affiliates; and
- The reorganization of CEOC into an operating company (“OpCo”) and a property company (“PropCo”). OpCo became a limited liability company on October 6, 2017 by merging with and into CEOC, LLC (“New CEOC”), a wholly-owned subsidiary of CEC, with New CEOC as the surviving entity. New CEOC will operate properties and facilities formerly held by CEOC, including the Company. PropCo will hold certain real property assets and related fixtures formerly held by CEOC and will lease those assets to New CEOC. OpCo, or New CEOC, is CEOC’s successor and a wholly owned consolidated subsidiary of CEC subsequent to CEOC’s emergence. PropCo is a separate entity that will not be consolidated by CEC and is owned by certain of CEOC’s former creditors.

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

**Basis of Presentation** - The Company’s financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of

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contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Management believes the accounting estimates are appropriate and reasonably stated; however, due to the inherent uncertainties in making these estimates, actual amounts could differ.

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

**Cash and Cash Equivalents** - Cash equivalents are highly liquid investments with original maturities of three months or less from the date of purchase and are stated at the lower of cost or market value.

**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 doubtful accounts.

**Inventories** - Inventories, which consist primarily of food, beverage, and operating supplies, are stated at the lower of average cost or market value.

**Long-Lived Assets** – The Company has significant capital invested in long-lived assets, and judgments are made in determining the estimated useful lives of assets and salvage values and if or when an asset (or asset group) has been impaired. The accuracy of these estimates affects the amount of depreciation and amortization expense recognized in the Company's financial results and whether the Company has a gain or loss on the disposal of an asset. The Company assigns lives to its assets based on its standard policy, which is established by management as representative of the useful life of each category of asset.

The Company reviews the carrying value of its long-lived assets 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. The Company typically estimates its fair value of assets starting with a "Replacement Cost New" approach and then deducting appropriate amounts for both functional and economic obsolescence to arrive at fair value estimates. Other factors considered by management in performing this assessment may include current operating results, trends, prospects, and third-party appraisals, as well as the effect of demand, competition, and other economic, legal, and regulatory factors. In estimating expected future cash flows for

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determining whether an asset is impaired, assets are grouped at the lowest level of identifiable cash flows. These analyses are sensitive to management assumptions and the estimates of the obsolescence factors, and changes in the assumptions and estimates, could have a material impact on the analysis and the supplemental consolidated financial statements schedules.

Additions to property and equipment are stated at cost. The Company capitalizes the costs of improvements that extend the life of the asset. The Company expenses maintenance and repair costs as incurred. Gains or losses on the disposition of property and equipment are recognized in the period of disposal. Interest expense is capitalized on internally constructed assets at the applicable weighted-average borrowing rates of interest. Capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period of time.

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

**Useful Lives**

|                                    |                 |
|------------------------------------|-----------------|
| Land improvements                  | 12 years        |
| Buildings                          | 20 to 40 years  |
| Leasehold improvements             | 5 to 20 years   |
| Furniture, fixtures, and equipment | 2.5 to 20 years |

**Intangible Assets Other Than Goodwill** – Intangible assets other than goodwill represents the customer database with a gross carrying value of \$3,737 as of September 30, 2017 and 2016, respectively, with accumulated amortization of \$2,304 and \$1,690 as of September 30, 2017 and 2016, respectively. The customer database was determined to have a 12 year life based upon attrition rates and computations of incremental value derived from existing relationships.

**Impairment of Intangible Assets** - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principle market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

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We assess the inputs used to measure fair value using the three-tier hierarchy promulgated under GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

- Level 1: Inputs include quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets in active markets, quoted prices from identical or similar assets in inactive markets, and observable inputs such as interest rates and yield curves.
- Level 3: Inputs that are significant to the measurement of fair value that are not observable in the market and include management's judgments about assumptions market participants would use in pricing the asset or liability (including assumptions about risk).

Our assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs.

**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.

**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. Sales taxes and other taxes collected from customers on behalf of governmental authorities are accounted for on a net basis and are not included in net revenues or operating expenses.

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**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 September 30, 2017 and 2016:

|                            | <u>2017</u>      | <u>2016</u>      |
|----------------------------|------------------|------------------|
| Food & Beverage            | \$ 22,877        | \$ 22,498        |
| Rooms                      | 7,451            | 6,836            |
| Other                      | 1,572            | 1,534            |
| Bus Program Cash           | 79               | 87               |
| Promotional Gaming Credits | 26,779           | 23,714           |
| Other Cash Complimentaries | 16,994           | 11,272           |
|                            | <u>\$ 75,752</u> | <u>\$ 65,941</u> |

**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 September 30, 2017 and 2016, \$2,972 and \$2,885 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 Non-Negotiable Reel Rewards (“NNRR”). The Company accrues the costs of NNRR, 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 September 30, 2017 and 2016, the liability related to outstanding NNRR, which is based on historical redemption, was approximately \$914 and \$730, respectively.

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**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 nine months ended September 30, 2017 and 2016, which are included in casino expenses in the accompanying consolidated statements of income, were approximately \$20,214 and \$18,204, respectively.

**Advertising Expenses** – Advertising costs are expensed as incurred. Advertising expenses are \$736 and \$790 for the nine months ended September 30, 2017 and 2016 respectively. Advertising expenses are included in general, administrative and other expenses in the accompanying statements of income.

**City of Atlantic City Real Property Tax and Interim Payment in Lieu of Taxes (PILOT) Financial Management** – In 2015, the Company settled with the City with respect to their challenges to the real estate tax assessment for prior years. The City allowed the Company to use Showboat Casino’s prior year property tax credit, in the amount of \$4,193, against future tax payments in 2015 and the 1<sup>st</sup> quarter of 2016. In 2016, the City approved refunds/credits of the Company’s prior year’s property taxes in the amount of \$3,249 to be applied in five installments. Four of the installments were applied in 2016. The credits were recorded in Non-Operating Income in the statements of income. The City increased the property tax rate by approximately 12.8% for the year ending 2016. Beginning for calendar year 2017, each casino licensee entered into a 10-year financial agreement with the City of Atlantic City promising to make quarterly payments in lieu of real estate taxes. The Company will be responsible for the payments based on its share as referenced in the agreement and will be subject to lien provisions if the payments are not made. The total amount of the payment in lieu of property taxes owed to the City of Atlantic City for 2017 will total \$120,000. The company paid its respective quarterly obligations in February and May 2017. For calendar year 2017, the City decreased its property tax rate by approximately 11% for the properties not included in PILOT program. In September 2017, the Company settled the 2016 tax appeal with the City and the assessed value of the company was reduced by \$54,000. A credit of \$2,084 was received due to the reduction in the assessed value and is included in Non-Operating Income in the statements of income. The remaining installment of the 2016 credit was received in October 2017.

**Income Taxes** - The Company is included in the consolidated federal tax return of Caesars and files a separate New Jersey tax return. The (benefit)/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.

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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.

**Use of Estimates** - The preparation of these financial statements in conformity with generally accepted accounting principles (GAAP) 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 and assumption.

**Internet Gaming** - Caesars Interactive Entertainment New Jersey, LLC as the affiliate of Boardwalk Regency Corporation, was issued an internet gaming permit on November 20, 2013 to conduct real money online gaming in the State of New Jersey. All real money online gaming is reported in the financial statements of Caesars Interactive Entertainment New Jersey, LLC.

**Seasonal factors** - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended September 30, 2017 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 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 debts.



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**Cash Activity with CEOC and Affiliates** - The Company transfers cash in excess of its operating and regulatory needs to its parent on a daily basis. Cash transfers from its parent to the Company are also made based upon the needs of the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is charged on transfers made to or from the companies.

**Administrative and Other Services** – Pursuant to a shared services agreement, CEOC provides certain corporate and administrative services to the Companies and allocates the costs of these services to the companies. In May 2014, Caesars Enterprise Service (“CES”) was formed, and the Members entered into the Omnibus License and Enterprise Services Agreement (see below). Certain of these corporate and administrative services are now provided by CES. The Company was charged \$16,781 and \$16,093 for these services for the nine months ended September 30, 2017 and 2016, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

**Omnibus License and Enterprise Services Agreement** - On May 20, 2014, CEOC, Caesars Entertainment Resort Properties (“CERP”), and Caesars Growth Properties Holdings, LLC (“CGPH”) (the “Members” and each a “Member”) entered into a services joint venture, CES. CES manages certain Enterprise Assets and the other assets it owns, licenses or controls, and employs certain of the corresponding employees and other employees who previously provided services to CEOC, CERP and CGPH, their affiliates and their respective properties and systems under each property’s corresponding property management agreement. Corporate expenses that are not allocated to the properties directly are allocated by CES to CEOC, CERP, and CGPH according to their allocation percentages. Operating expenses will be allocated to each Member with respect to their respective properties serviced by CES in accordance with historical allocation methodologies, subject to annual revisions and certain prefunding requirements.

**Equitization of Intercompany Balances** - During June 2013, the Company elected to equitize certain intercompany balances with its parent and affiliates that were previously classified as a receivable/liability. The offset to this was Additional Paid in Capital and Retained Earnings. This is shown separately on the Statement of Changes in Stockholder’s Equity.

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

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

|   | <u>2017</u>      | <u>2016</u>      |
|---|------------------|------------------|
| Casino Receivables (Net of Allowance for Doubtful Accounts - 2017, \$8,384 & 2016, \$8,886) | \$ 10,604        | \$ 14,243        |
| Other (Net of Allowance for Doubtful Accounts - 2017, \$1,107 & 2016, \$595)                | 6,429            | 3,374            |
|   | <u>\$ 17,033</u> | <u>\$ 17,617</u> |

**NOTE 5 – OTHER CURRENT ASSETS**

Other Current Assets as of September 30 consist of the following:

|                           | <u>2017</u>     | <u>2016</u>     |
|---------------------------|-----------------|-----------------|
| Prepaid Real Estate Taxes |                 |                 |
| Other                     | \$ 3,736        | \$ 3,602        |
|                           | <u>\$ 3,736</u> | <u>\$ 3,602</u> |

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

Investments, advances and receivables as of September 30 consist of the following:

|   | <u>2017</u>     | <u>2016</u>     |
|---|-----------------|-----------------|
| Casino Reinvestment Development Authority Investment Obligation ("CRDA") (net of valuation reserves- 2017, \$5,660 and 2016, \$7,336) | \$ 3,990        | \$ 4,989        |
|   | <u>\$ 3,990</u> | <u>\$ 4,989</u> |

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**NOTE 7 – LAND, BUILDINGS AND EQUIPMENT**

Property and Equipment as of September 30 consist of the following:

|  | <u>2017</u>             | <u>2016</u>             |
|--|-------------------------|-------------------------|
| Land   | \$ 12,414               | \$ 12,411               |
| Buildings and Improvements                   | 42,838                  | 41,958                  |
| Furniture, Fixtures, and Equipment           | 33,214                  | 29,852                  |
| Construction in Progress                     | 6,026                   | 1,433                   |
|  | <u>\$ 94,492</u>        | <u>\$ 85,654</u>        |
| Less Accumulated Depreciation & Amortization | (25,429)                | (17,307)                |
|  | <u><u>\$ 69,063</u></u> | <u><u>\$ 68,347</u></u> |

**NOTE 8 – OTHER ASSETS**

Other assets as of September 30 consist of the following:

|   | <u>2017</u>              | <u>2016</u>              |
|---|--------------------------|--------------------------|
| Customer Database (less Accumulated<br>Amortization of \$2,304 in 2017 & \$1,690 in 2016) | \$ 1,433                 | \$ 2,048                 |
| L/T Deferred Income Tax   | 111,900                  | 110,979                  |
| Other   | 516                      | 3,736                    |
|   | <u><u>\$ 113,849</u></u> | <u><u>\$ 116,763</u></u> |

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

As of December 31, 2006, Caesars Atlantic City repaid the Developer approximately \$42,800 through CRDA funds previously deposited by the Companies. In December 2013, Caesars recognized an impairment of the lease incentive payments of \$36,060 reducing the balance to \$2,947. These payments are considered lease incentive payments and are being amortized over the life of the lease.

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**NOTE 9 - OTHER ACCRUED EXPENSES**

Other accrued expenses as of September 30 consist of the following:

|                          | <u>2017</u>      | <u>2016</u>       |
|--------------------------|------------------|-------------------|
| Accrued Payroll          | \$ 4,023         | \$ 6,004          |
| Accrued Interest Payable | -                | 308,995           |
| Other                    | 10,132           | 11,810            |
|                          | <u>\$ 14,155</u> | <u>\$ 326,809</u> |

**NOTE 10- LONG-TERM DEBT**

Long-term debt, due to affiliates and other as of September 30, consists of the following:

|  | <u>2017</u> | <u>2016</u>       |
|--|-------------|-------------------|
| <b>Due to Affiliates</b>   |             |                   |
| 8.5% Note Payable to Caesars Entertainment, Ltd.<br>("CEL") due December 1, 2020 | \$ -        | \$ 518,330        |
| <b>Due to Other</b>  |             |                   |
| Notes Payable  | 1,854       | \$ 1,854          |
| Less: Current Portion of Notes Payable   | (1,854)     | \$ (1,854)        |
| Capitalized Leases   | 80          | 162               |
| Less: Current Portion of Capitalized Leases                                      | <u>(80)</u> | <u>(162)</u>      |
| Long Term Portion of Other Debt  | -           | -                 |
| Total Long Term Debt   | <u>\$ -</u> | <u>\$ 518,330</u> |

On July 1, 2006, the note formerly held by Caesars Entertainment Finance Corp. ("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 September 30, 2017 and 2016, accrued interest related to the intercompany note totaled \$0 and \$306,748. Since the note is due to an affiliate, a determination of fair value is not considered meaningful.

In preparation for the Debtors' emergence from bankruptcy, which occurred on October 6, 2017, all intercompany receivables and payables among the debtor entities were dissolved. This resulted in our long-term debt due to affiliates being forgiven and no longer outstanding as of September 30, 2017.

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**NOTE 11- NON-OPERATING INCOME (EXPENSE)**

For the nine months ended September 30, 2017 and 2016, Non-Operating Income (Expense) consisted of the following:

|                                     | 2017     | 2016     |
|-------------------------------------|----------|----------|
| Interest Income                     | \$ 44    | \$ 100   |
| Write Downs & Reserves              | (162)    | (893)    |
| 2016 Property Tax Appeal Settlement | 2,084    | 3,249    |
| Reorganization                      | (164)    | (470)    |
| Other                               | \$ (86)  | \$ 51    |
|                                     | \$ 1,716 | \$ 2,037 |

**NOTE 12 – 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 \$0 as of September 30, 2017 and 2016. 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 previously satisfied 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 were used to purchase bonds designated by the CRDA or, under certain circumstances, used to donate 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. Effective May 27, 2016 the CRDA investment obligation of 1.25% of gross gaming revenues will be redirected to the City of Atlantic City to be used for debt service. The CRDA investment obligation will be reduced by previously contractually obligated Credit Agreements committed by the Authority.

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**CRDA Donation Credit Agreement** - In July 2016, the Company, Bally’s Park Place Inc.(BPP), Caesars Interactive Entertainment New Jersey LLC (CIE), Showboat Atlantic City Operating Company LLC and Harrah’s Operating Company (the Companies) entered into a Donation Credit Agreement with the CRDA. The agreement provides that the Companies donate their current Investment Alternative Tax (IAT) funds on deposit with the CRDA, through the first quarter of 2016, in exchange for a donation credit of 50%, to be used by the Companies for any eligible nongaming project.

Upon execution of the Donation Credit Agreement, BPP entered into an agreement with CIE. CIE agreed to sell and assign all of its rights to the released IAT funds, which was approximately \$700 to the company and BPP, and, in exchange, the company, on behalf of BPP and itself, agrees to and shall apply a \$200 Rent Credit to CIE.

As of September 30, CRDA related assets were as follows:

|                                     | 2017     | 2016     |
|-------------------------------------|----------|----------|
| CRDA Bonds — net of amortized costs | \$ 3,374 | \$ 2,467 |
| Deposits — net of reserves          | 616      | 2,522    |
| Total                               | \$ 3,990 | \$ 4,989 |

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$144 and \$2,435 for the nine months ended September 30, 2017 and 2016, respectively, and is included in CRDA Income (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 nine months ended September 30, 2017 and 2016 was \$64 and \$4, respectively, and is included in CRDA Expense in the consolidated statements of operations.

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After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its effect 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 and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize the Atlantic City market. This agreement was signed on November 2, 2011 and expired 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 paid \$30,000 annually until December 31, 2016. A new agreement effective 2017, as part of the PILOT program, requires the AC industry to provide \$15,000 in 2017, \$10,000 in 2018 and \$5,000 from 2019 thru 2023. The Company's obligation for 2017 is \$1,827. The Company expensed \$1,761 and \$2,787 for the nine months ending September 30, 2017 and 2016. Expense for 2017 includes a \$391 adjustment related to 2016 expense.

**Atlantic City Conference Center** - In June 2013, Caesars established, AC Conference NewCo, LLC ("NewCo") to construct and operate a new conference center (the "Project") adjacent to Harrah's Atlantic City. NewCo is a direct wholly owned subsidiary of AC Conference HoldCo, LLC, which is a direct wholly owned subsidiary of Caesars.

Also in June 2013, Caesars signed an agreement with the CRDA regarding a grant for financial assistance in the amount of \$45,000 (the "Project Grant") wherein the CRDA will provide Caesars cash to help fund the construction of the Project. Under the Project Grant, Caesars is obligated to contribute to the CRDA the following:

- \$46,200 of Atlantic City Economic Development Investment Alternative Tax Obligation balances ("Existing Credits"), of which \$1,200 represents a 2.75% administrative fee,
- \$9,500 of CRDA Credits that the CRDA will use towards the construction of the CRDA's marketplace-style retail development project (the "Donation Credits"), and
- Land parcels with an appraised value of \$7,300 on which the CRDA's Marketplace Project will be developed (the Marketplace Parcels).

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The gross value of the credits and land parcels described above held by the Companies immediately prior to the transaction were as follows:

Existing Credits

|  |                  |
|--|------------------|
| Harrah's Atlantic City Holding, Inc. and Subs. | \$ 23,400        |
| Bally's Park Place Inc.                        | 10,600           |
| Boardwalk Regency Corporation                  | 7,000            |
| Ocean Showboat, Inc. and Subsidiaries          | 5,200            |
|  | <u>\$ 46,200</u> |

Donation Credits

|                                       |                 |
|---------------------------------------|-----------------|
| Ocean Showboat, Inc. and Subsidiaries | <u>\$ 9,500</u> |
|---------------------------------------|-----------------|

Marketplace Parcels

|                               |                 |
|-------------------------------|-----------------|
| Bally's Park Place, Inc.      | \$ 4,600        |
| Boardwalk Regency Corporation | 2,700           |
|                               | <u>\$ 7,300</u> |

In return for the above, the CRDA will deposit \$45,000 into a Project Fund from which Caesars can draw on a pari-passu basis via reimbursements to NewCo based on amounts paid for the Project by NewCo. As of September 30, 2017, Caesars has received \$43,375 in reimbursements from the Project Fund.