

**HARRAH'S RESORT, ATLANTIC CITY  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED MARCH 31, 2018**

**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 MARCH 31, 2018 AND 2017

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....	2	\$25,244	\$17,391
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2018, \$4,191; 2017, \$5,165).....	2,4	15,985	13,345
4	Inventories .....	2	1,010	1,623
5	Other Current Assets.....	5	2,796	3,674
6	Total Current Assets.....		45,035	36,033
7	Investments, Advances, and Receivables.....	6	6,857	9,860
8	Property and Equipment - Gross.....	2,7	233,049	211,935
9	Less: Accumulated Depreciation and Amortization.....	2,7	(40,369)	(24,439)
10	Property and Equipment - Net.....	2,7	192,680	187,496
11	Other Assets.....	8	2,539	152,601
12	Total Assets.....		\$247,111	\$385,990
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$8,495	\$10,478
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....	10		571
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	3,9	87,112	16,052
19	Other Current Liabilities.....		1,929	1,884
20	Total Current Liabilities.....		97,536	28,985
	Long-Term Debt:			
21	Due to Affiliates.....			
22	External.....			
23	Deferred Credits .....			
24	Other Liabilities.....	11		310
25	Commitments and Contingencies.....	15		
26	Total Liabilities.....		97,536	29,295
27	Stockholders', Partners', or Proprietor's Equity.....	3	149,575	356,695
28	Total Liabilities and Equity.....		\$247,111	\$385,990

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 MARCH 31, 2018 AND 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	Revenue:			
1	Casino.....		\$54,372	\$51,694 *
2	Rooms.....		19,213	19,603 *
3	Food and Beverage.....		20,749	19,400 *
4	Other.....		6,097	5,813 *
5	Net Revenue.....		100,431	96,510 *
	Costs and Expenses:			
6	Casino.....		26,996	28,369 *
7	Rooms, Food and Beverage.....		20,297	21,866 *
8	General, Administrative and Other.....		24,723	22,335 *
9	Total Costs and Expenses.....		72,016	72,570 *
10	Gross Operating Profit.....		28,415	23,940
11	Depreciation and Amortization.....		3,991	3,096
	Charges from Affiliates Other than Interest:			
12	Management Fees.....			
13	Other.....	3	7,771	8,050
14	Income (Loss) from Operations.....		16,653	12,794 *
	Other Income (Expenses):			
15	Interest Expense - Affiliates.....			
16	Interest Expense - External.....		36	207
17	CRDA Related Income (Expense) - Net.....	13	(299)	(167)
18	Nonoperating Income (Expense) - Net.....	12	24	(677)
19	Total Other Income (Expenses).....		(239)	(637)
20	Income (Loss) Before Taxes .....		16,414	12,157 *
21	Provision (Credit) for Income Taxes.....			
22	Net Income (Loss).....		\$16,414	\$12,157 *

\*Prior year balances have changed to conform with current year presentation

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

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# HARRAH'S RESORT, ATLANTIC CITY

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND THE THREE MONTHS ENDED MARCH 31, 2018

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2016.....		25	\$25	0	\$0	\$1,060,420	\$0	(\$696,184)	\$364,261
2	Net Income (Loss) - 2017.....								(1,651)	(1,651)
3	Contribution to Paid-in-Capital....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Equitization of Intercompany						(212,178)			(212,178)
7	.....									0
8	.....									0
9	.....									0
10	Balance, December 31, 2017.....		25	25	0	0	848,242	0	(697,835)	150,432
11	Net Income (Loss) - 2018.....								16,414	16,414
12	Contribution to Paid-in-Capital....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Equitization of Intercompany						(18,298)			(18,298)
16	ASC 606 Prior Year Revenue Adj	2							1,027	1,027
17	.....									0
18	.....									0
19	Balance, March 31, 2018 .....		25	\$25	0	\$0	\$829,944	\$0	(\$680,394)	\$149,575

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

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$823)	(\$1,463) *
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments .....			
3	Proceeds from the Sale of Short-Term Investments .....			
4	Cash Outflows for Property and Equipment.....		(2,439)	(9,190)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(344)	0 *
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....			
9	Cash Outflows to Acquire Business Entities.....		0	0
10	.....			
11	.....			
12	Net Cash Provided (Used) By Investing Activities.....		(2,783)	(9,190)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....			
14	Payments to Settle Short-Term Debt.....			
15	Proceeds from Long-Term Debt .....			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21	ASC 606 Prior Year Revenue Adjustment .....	2		(38) *
22	.....			
23	Net Cash Provided (Used) By Financing Activities.....		0	(38) *
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(3,606)	(10,691)
25	Cash and Cash Equivalents at Beginning of Period.....		28,850	28,082
26	Cash and Cash Equivalents at End of Period.....		\$25,244	\$17,391
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....			\$15
28	Income Taxes.....			

\* Prior year balances have change to conform with 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.

# HARRAH'S RESORT, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2018 (c)	2017 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$16,414	\$12,157 *
30	Depreciation and Amortization of Property and Equipment.....		3,838	2,942
31	Amortization of Other Assets.....		153	154
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....			
34	Deferred Income Taxes - Noncurrent .....			
35	(Gain) Loss on Disposition of Property and Equipment.....		46	
36	(Gain) Loss on CRDA-Related Obligations.....	13	299	167
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(1,992)	197
39	(Increase) Decrease in Inventories .....		193	(114)
40	(Increase) Decrease in Other Current Assets.....		(1,092)	3,867
41	(Increase) Decrease in Other Assets.....		9	(86)
42	Increase (Decrease) in Accounts Payable.....		(2,117)	223
43	Increase (Decrease) in Other Current Liabilities .....		71,113	(2,684)
44	Increase (Decrease) in Other Liabilities .....		(70,451)	(12)
45	(Increase) Decrease in Other Receivables or Adv.....		(17,236)	(18,274) *
46				
47	Net Cash Provided (Used) By Operating Activities.....		(\$823)	(\$1,463) *

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$2,439)	(\$9,190)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$2,439)	(\$9,190)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

\* Prior year balances have change to conform with current year presentation

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

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

FOR THE THREE MONTHS ENDED MARCH 31, 2018  
(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	193,264	\$8,707		
2	Food	275,195	5,758		
3	Beverage	2,360,230	4,720		
4	Travel			17,193	3,118
5	Bus Program Cash	585	6		
6	Promotional Gaming Credits	263,790	7,025		
7	Complimentary Cash Gifts	29,619	1,761		
8	Entertainment	4,144	199	792	99
9	Retail & Non-Cash Gifts	25,991	520	5,106	511
10	Parking			168,974	676
11	Other	14,591	520	16,889	422
12	Total	3,167,409	\$29,216	208,954	\$4,826

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FOR THE THREE MONTHS ENDED MARCH 31, 2018

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
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2	Food	275,195	5,758		
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4	Travel			17,193	3,118
5	Bus Program Cash	585	6		
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8	Entertainment	4,144	199	792	99
9	Retail & Non-Cash Gifts	25,991	520	5,106	511
10	Parking			168,974	676
11	Other	14,591	520	16,889	422
12	Total	3,167,409	\$29,216	208,954	\$4,826

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

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

FOR THE QUARTER ENDED MARCH 31, 2018

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.S.A. 5:12-84a(1)-(5) during the quarter.

5/15/2018

Date



Karen Worman

Vice President of Finance

Title

6320-11

License Number

On Behalf of:

HARRAH'S RESORT, ATLANTIC CITY  
Casino Licensee



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

**NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS**

Caesars Entertainment Corporation ("CEC") is primarily a holding company with no independent operations of its own. CEC operates the business primarily through its wholly owned subsidiaries CEOC, LLC ("CEOC LLC") and Caesars Resort Collection, LLC ("CRC"). Through its consolidated subsidiaries, CEC operates a total of 47 casino properties in 13 U.S. states and four countries outside of the United States.

As described in Note 1 of CEC's audited consolidated financial statements ("CEC's Note 1"), Caesars Acquisition Company ("CAC") merged with and into CEC, with CEC as the surviving company (the "CAC Merger"). In addition, as previously disclosed, Caesars Entertainment Operating Company, Inc. ("CEOC") and certain of its United States subsidiaries (collectively, the "Debtors") voluntarily filed for reorganization under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") on January 15, 2015 at which time CEC deconsolidated CEOC due to loss of control. On October 6, 2017 (the "Effective Date"), the Debtors emerged from bankruptcy and consummated their reorganization pursuant to their third amended joint plan of reorganization.

The Plan provided for, among other things, the reorganization of CEOC into an operating company ("OpCo") and a property company ("PropCo"). PropCo holds certain real property assets formerly held by CEOC and leases those assets to OpCo. OpCo was acquired by CEC on the Effective Date and was immediately merged with and into CEOC LLC, with CEOC LLC as the surviving entity.

CRC, a wholly owned subsidiary of CEC, was created on December 22, 2017 with the merger of Caesars Entertainment Resort Properties, LLC ("CERP") into Caesars Growth Properties Holdings, LLC ("CGPH") (the "CRC Merger"). Prior to the CRC Merger, Harrah's Atlantic City was a wholly owned subsidiary of CERP.

Harrah's Atlantic City (the "Company") is a casino hotel resort located in the Marina District of Atlantic City, New Jersey. Harrah's Atlantic City is licensed to operate the facility by the New Jersey Division of Gaming Enforcement ("DGE") and is subject to its rules and regulations. The license expired in December 2017, and Harrah's Atlantic City has submitted the renewal application, which is pending at the date of this report.

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. As AC Conference NewCo, LLC is its own entity its results are not part of Harrah's Resort Atlantic City's financial statements.

**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 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 statements include the account balances of Harrah's Atlantic City 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.

**Receivables** - The Company issues credit to approved casino customers following investigations of creditworthiness. Business or economic conditions or other significant events could affect the collectibility of these receivables. Accounts receivable are typically noninterest bearing and are initially recorded at cost.

Marker play represents a portion of the Company's overall games volume. The Company maintains strict controls over the issuance of markers and aggressively pursues collection from those customers who fail to pay their marker balances timely. These

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

collection efforts include the mailing of statements and delinquency notices, personal contacts, the use of outside collection agencies and civil litigation. Markers are generally legally enforceable instruments in the United States. Markers are not legally enforceable instruments in some foreign countries, but the United States' assets of foreign customers may be reached to satisfy judgments entered in the United States. The Company considers the likelihood and difficulty of enforceability, among other factors, when issuing credit to customers who are not residents of the United States.

Accounts are written off when management deems the account to be uncollectible. Recoveries of accounts previously written off are recorded when received. The Company reserves an estimated amount for gaming receivables that may not be collected to reduce the Company's receivables to their net carrying amount. Methodologies for estimating the allowance for doubtful accounts range from specific reserves to various percentages applied to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific reserves. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the reserve for allowance for doubtful accounts. Receivables are reported net of 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 their assets based on their 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 their 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 determining whether an asset is impaired, assets are grouped at the lowest level of identifiable cash flows, which, for the Company, is the individual property. 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 consolidated financial statement 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** – The intangible assets represent a customer database with a recorded gross carrying value of \$4,352 as of March 31, 2018 and 2017, and accumulated amortization of \$2,611 and \$1,997 as of March 31, 2018 and 2017, respectively.

**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

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

be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

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 Adoption of New Revenue Recognition Standard** - In May 2014, the FASB issued a new standard related to revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*. We adopted the standard effective January 1, 2018, using the full retrospective method, which requires the Company to recast each prior reporting period presented consistent with the new standard. The most significant effects of adopting the new standard related to the accounting for our Total Rewards customer loyalty program and casino promotional allowances.

Total Rewards affects revenue from our four core businesses: casino entertainment, food and beverage, rooms and hotel, and entertainment and other business operations. Previously, the Company accrued a liability based on the estimated cost of fulfilling the redemption of Reward Credits, after consideration of estimated forfeitures (referred to as "breakage"), based upon the cost of historical redemptions. Upon adoption of the new accounting standard, Reward Credits are no longer recorded at cost, and a deferred revenue model is used to account for the classification and timing of revenue recognized as well as the classification of related expenses when Reward Credits are redeemed. This results in a portion of casino revenues being recorded as deferred revenue as Reward Credits are earned. Revenue is recognized in a future period based on when and for what good or service the Reward Credits are redeemed (e.g., a hotel room).

Additionally, we previously recorded promotional allowances in a separate line item within net revenues. As part of adopting the new standard, promotional allowances are no longer presented separately. Alternatively, revenue is recognized based on relative standalone selling prices for transactions with more than one performance obligation. For example, when a casino customer is given a complimentary room, we are required to allocate a portion of the casino revenues earned from the customer to rooms revenues based on the standalone selling price of the room. As a result of this change, we are reporting substantially lower casino revenues; however, there is no material effect on total net revenues.

**Revenues** – We analyze our revenues based upon the type of services we provide and the geographic location of the related property. We recognize revenue when control over the goods and services we provide has transferred to the customer, which is generally when the services are performed and when we have no substantive performance obligation remaining. Sales and other

**HARRAH'S RESORT, ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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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.

*Casino Revenues*

Casino revenues include revenues generated by our casino operations and casino related activities such as poker, pari-mutuel wagering, and tournaments, less sales incentives and other adjustments. Casino revenues are measured by the aggregate net difference between gaming wins and losses. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. We accrue the incremental amount of progressive jackpots as the progressive machine is played, and the progressive jackpot amount increases, with a corresponding reduction to casino revenues. Funds deposited by customers in advance along with chips and slot vouchers in a customer's possession are recognized as a liability until such amounts are redeemed or used in gaming play by the customer.

*Non-Gaming Revenues*

Rooms revenue, food and beverage revenue, and entertainment and other revenue include: (i) the actual amounts paid for such services (less any amounts allocated to unperformed performance obligations, such as Reward Credits described below); (ii) the value of Reward Credits redeemed for such services; and (iii) the portion of the transaction price allocated to complimentary goods or services provided in conjunction with other revenue-generating activities. Rooms revenue is generally recognized over the course of the customer's reservation period. Food and beverage and entertainment and other revenues are recognized when services are performed or events are held. Amounts paid in advance, such as advance deposits on rooms and advance ticket sales, are recorded as a liability until the goods or services are provided to the customer (see Contract Liabilities below).

*Other Revenue*

Other revenue primarily includes revenue from third-party real estate leasing arrangements at our casino properties. Rental income is recognized ratably over the lease term with contingent rental income being recognized when the right to receive such rental income is established according to the lease agreements.

**Total Rewards Point Liability Program** – Caesars' customer loyalty program, Total Rewards, grants Reward Credits to Total Rewards Members based on on-property spending, including gaming, hotel, dining, and retail shopping at all Caesars-affiliated properties. Members may redeem Reward Credits for complimentary or discounted goods and services such as rooms, food and beverages, merchandise, entertainment, and travel accommodations. Members are able to accumulate Reward Credits over time that they may redeem at their discretion under the terms of the program. A member's Reward Credit balance is forfeited if the member does not earn a Reward Credit for a continuous six-month period.

Because of the significance of the Total Rewards program and the ability for customers to accumulate Reward Credits based on their past play, we have determined that Reward Credits granted in conjunction with other earning activity represent a performance obligation. As a result, for transactions in which Reward Credits are earned, we allocate a portion of the transaction price to the Reward Credits that are earned based upon the relative standalone selling prices ("SSP") of the goods and services involved. When the activity underlying the "earning" of the Reward Credits has a wide range of selling prices and is highly variable, such as in the case of gaming activities, we use the residual approach in this allocation by computing the value of the Reward Credits as described below and allocating the residual amount to the gaming activity. This allocation results in a significant portion of the transaction price being deferred and presented as a Contract Liability on our accompanying Balance Sheets. Any amounts allocated to the Contract Liabilities are recognized as revenue when the Reward Credits are redeemed in accordance with the specific recognition policy of the activity for which the credits are redeemed. This balance is further described below under Contract Liabilities.

Our Total Rewards loyalty program includes various tiers that offer different benefits, and members are able to earn credits towards tier status, which generally enables them to receive discounts similar to those provided as complimentary described below. We have determined that any such discounts received as a result of tier status do not represent material rights, and therefore, we do not account for them as distinct performance obligations.

We have determined the SSP of a Reward Credit by computing the redemption value of credits expected to be redeemed. Because Reward Credits are not otherwise independently sold, we analyzed all Reward Credit redemption activity over the preceding calendar year and determined the redemption value based on the fair market value of the goods and services for which the Reward Credits were redeemed. We have applied the practical expedient under the portfolio approach to our Reward Credit transactions because of the similarity of gaming and other transactions and the homogeneity of Reward Credits.

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As part of determining the SSP for Reward Credits, we also determined that there is generally an amount of Reward Credits that are not redeemed, which is considered "breakage." We recognize the expected breakage proportionally with the pattern of revenue recognized related to the redemption of Reward Credits. We periodically reassess our customer behaviors and revise our expectations as deemed necessary on a prospective basis.

In addition to Reward Credits, customers can earn points based on play that are redeemable in Non-Negotiable Reel Rewards ("NNRR"). The Company accrues the cost of NNRR, 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 March 31, 2018 and 2017, the liability related to outstanding NNRR, which is based on historical redemption activity, were \$843 and \$926 respectively.

**Complimentaries** - As part of our normal business operations, we often provide lodging, transportation, food and beverage, entertainment and other goods and services to our customers at no additional charge. Such complimentaries are provided in conjunction with other revenue earning activities and are generally provided to encourage additional customer spending on those activities. Accordingly, we allocate a portion of the transaction price we receive from such customers to the complimentary goods and services. We perform this allocation based on the SSP of the underlying goods and services, which is determined based upon the weighted-average cash sales prices received for similar services at similar points during the year.

**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 three months ended March 31, 2018 and 2017, which are included in cost of goods and services in the statement of income, were approximately \$6,674 and \$6,978 respectively.

**City of Atlantic City Real Property Tax and Interim Payment in Lieu of Taxes (PILOT) Financial Management** - Beginning for calendar year 2017, each casino licensee entered into a 10-year financial agreement with the City of Atlantic City requiring 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 pays its respective quarterly obligations in February, May, August and November. 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 \$85,874. In October 2017, the Company received a payment of \$3,315 due to the reduction in assessed value and is included in Non-Operating Income in the statement of income.

**Income Taxes** - The Company is not treated as a corporation for federal and state income tax purposes and is included in the consolidated income tax returns of CEC. Effective in 2017, the accompanying Consolidating Schedules do not include a provision for income taxes for the Company since any income or loss from the Company is reportable for income tax purposes by CEC.

**Internet Gaming** - Harrah's Resort Atlantic City did not have Internet gaming operations during 2018 or 2017.

**Seasonal factors** - The Company's operations are subject to seasonal factors and, therefore, the results of operations for the three months ended March 31, 2018 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 Caesars and other Caesars subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by Caesars on a company-wide basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the cost and terms for similar programs that it could negotiate on a standalone basis.

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

**Administrative and Other Services** - Pursuant to a shared services agreement, CEOC provides the Company certain corporate and administrative services, and the costs of these services are allocated to the Company. Certain of these corporate and administrative services are now provided by Caesars Enterprise Services. The Company was charged \$7,771 and \$8,050 for these services for the three months ended March 31, 2018 and 2017 respectively. The fee is included in charges from affiliates in the accompanying statements of income.

**Equitization of Intercompany Balances** - During June 2013, the Company began the process to equitize certain intercompany balances with its parent and affiliates that were previously classified as a receivable/liability. The offset to this entry was Additional Paid in Capital. This is separately shown on the statements of changes in stockholders' equity.

**VICI Call Right Agreement** - On the Effective Date, in accordance with the Plan, VICI, CEC, Caesars Entertainment Resort Properties, LLC ("CERP") and Caesars Growth Properties Holdings, LLC ("CGPH") entered into certain call right agreements (collectively, the "VICI Call Right Agreements") with VICI. VICI received a call right (the "VICI Call Right") for up to five years to purchase and leaseback the real property assets associated with Harrah's Atlantic City, Harrah's Laughlin, and Harrah's New Orleans for a cash purchase price of 10 times the agreed upon annual rent for each property (subject to the terms of the CGPH and CERP credit agreements). Subsequent to the CRC Merger the VICI Call Right is subject to the terms of the CRC Credit Agreement. Our accrual represents the estimated fair value of the call right as of the Effective Date.

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

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

	<u>2018</u>	<u>2017</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2018, \$3,590 & 2017, \$4,309)	\$ 5,858	\$ 4,152
Other (Net of Allowance for Doubtful Accounts- 2018, \$601 & 2017, \$856)	10,127	9,193
	<u>\$ 15,985</u>	<u>\$ 13,345</u>

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

Prepaid Expenses and Other Current Assets as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Prepaid State Income Tax	\$ 362	\$ 533
Prepaid Taxes	267	273
Prepaid Marketing & Entertainment	43	181
Prepaid Other & Other Current Assets	497	1,287
Prepaid Contracts / Utilities	1,627	1,400
	<u>\$ 2,796</u>	<u>\$ 3,674</u>

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

Investments, Advances and Receivables as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
CRDA obligation deposit-Net of Valuation Allowance of \$1,786 and \$1,055 at March 31, 2018 and 2017, respectively	221	3,488
CRDA obligation bonds-Net of Valuation Allowance of \$6,355 and \$6,350 at March 31, 2018 and 2017, respectively	6,636	6,212
Other	-	160
	<u>\$ 6,857</u>	<u>\$ 9,860</u>

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

Land, Buildings and Equipment as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Land and Land Improvements	\$ 56,838	\$ 57,640
Building and Improvements	139,513	115,463
Furniture Fixtures & Equipment	33,743	24,147
Construction in Progress	<u>2,955</u>	<u>14,685</u>
	233,049	211,935
Less: Accumulated Depreciation and Amortization	<u>(40,369)</u>	<u>(24,439)</u>
Land, Building and Equipment, Net	<u>\$ 192,680</u>	<u>\$ 187,496</u>

**NOTE 8 - OTHER ASSETS**

Other Assets as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Intangible Asstes	\$ 1,741	\$ 2,355
Deferred Income Taxes	-	149,386
Other	<u>798</u>	<u>860</u>
	<u>\$ 2,539</u>	<u>\$ 152,601</u>

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**NOTE 9 - OTHER ACCRUED EXPENSES**

Other Accrued Expenses as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Accrued Salaries, Wages and Benefits	\$ 2,923	\$ 2,953
Taxes Payable	2,538	2,202
Accrued City Wide Progressive Slot Liability	226	162
Accrued Interest, Long-term debt	-	(2)
Accrued CCC/DGE Casino License Fees	667	341
Accrued Utilities	977	732
Accrued Health and Welfare Union	1,869	2,326
VICI Call Right (1)	70,451	-
Other Accrued Expenses	7,461	7,338
	<u>\$ 87,112</u>	<u>\$ 16,052</u>

(1) As described in Note 3, CRC is party to the VICI Call Right Agreements that provided VICI with a call right for up to five years to purchase and leaseback the real property assets associated with three of CRC's properties, including the Company, for a cash purchase price of 10 times the agreed upon annual rent for each property (subject to the terms of the CRC's credit agreements). Our accrual represents the estimated fair value of the call right related to the Company as of the Effective Date.

**NOTE 10- SHORT-TERM DEBT**

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

	<u>2018</u>	<u>2017</u>
Current Portion of Capitalized Leases / Financing Obligations	-	571
	<u>\$ -</u>	<u>\$ 571</u>

**NOTE 11 - OTHER LIABILITIES**

Other Liabilities as of March 31 consisted of the following:

	<u>2018</u>	<u>2017</u>
Executive Deferred Comp Liability	\$ -	\$ 310
	<u>\$ -</u>	<u>\$ 310</u>

**NOTE 12 – NON-OPERATING INCOME (EXPENSE)**

For the three months ended March 31, 2018 and 2017, Non-Operating Income (Expense) consisted of the following:

	<u>2018</u>	<u>2017</u>
Interest Income	\$ 41	\$ 39
Demolition Costs	-	(715)
Other	(17)	(1)
	<u>\$ 24</u>	<u>\$ (677)</u>



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**NOTE 13 – CASINO REINVESTMENT DEVELOPMENT AUTHORITY INVESTMENT**

**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 was redirected to the City of Atlantic City to be used for debt service. The CRDA investment obligation was reduced by previously pledged for bonds issued by the CRDA or otherwise contractually obligated Credit Agreements committed by the Authority.

In July 2016, the Company and Boardwalk Regency Corporation (BRC), Caesars Interactive Entertainment New Jersey LLC (CIE), Showboat Atlantic City Operating Company LLC and Bally’s Park Place Inc.(BPP) (the Companies) entered into a Donation Credit agreement with the CRDA. The agreement provides that the Companies will donate their 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 nongaming eligible projects. The agreement also includes \$1,490 of reallocated IATs from the Grant Agreement for the Atlantic City Conference Center Project.

As of March 31 CRDA related assets were as follows:

	2018	2017
CRDA Bonds-net of amortized cost	\$ 6,636	\$ 6,212
Deposit - net reserves	221	3,488
	\$ 6,857	\$ 9,700

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 \$299 and \$167 for the three months ended March 31, 2018 and 2017, 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 three months ended March 31, 2018 and 2017 were \$33 and \$34 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 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.

**Atlantic City Alliance** - 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. 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 estimated obligation for 2018 is \$1,444. The Company’s obligation for 2017 was \$2,166. The company expensed \$361 and \$628 for the three months ending March 31, 2018 and 2017, respectively.

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**NOTE 14 – ATLANTIC CITY CONFERENCE CENTER**

As described in Note 2, 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 million (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).

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

<b>Existing Credits</b>	
Harrah's Atlantic City Holding, Inc and Subsidiaries	\$ 23,400
Bally's Park Place, Inc.	10,600
Boardwalk Regency Corporation	7,000
Ocean Showboat, Inc. and Subsidiaries	5,200
Total	<u>\$ 46,200</u>
<b>Donation Credits</b>	
Ocean Showboat, Inc. and Subsidiaries	<u>\$ 9,500</u>
<b>Marketplace Parcels</b>	
Bally's Park Place, Inc.	\$ 4,600
Boardwalk Regency Corporation	2,700
Total	<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 paripassu basis via reimbursements to NewCo based on amounts paid for the Project by NewCo. As of March 31, 2018, Caesars received \$43,375 in reimbursements from the Project Fund.

**NOTE 15 – COMMITMENTS AND CONTINGENCIES**

**Litigation** - The Company is involved in various legal proceedings relating to routine matters of its business. The Company believes that all the actions brought against it are without merit and will continue to vigorously defend against them. While any proceedings or litigation has an element of uncertainty, the Company believes that the final outcome of these matters, in the aggregate, is not likely to have a material adverse effect upon the Company’s results of operations, financial position, or cash flows.