

**BOARDWALK REGENCY CORPORATION  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED DECEMBER 31, 2006**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# BOARDWALK REGENCY CORPORATION

## BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$48,314	\$31,446
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$10,972; 2005, \$9,256).....	2	159,220	66,675
4	Inventories .....	1	1,080	1,173
5	Other Current Assets.....	3	8,098	17,225
6	Total Current Assets.....		216,712	116,519
7	Investments, Advances, and Receivables.....	4	11,567	13,022
8	Property and Equipment - Gross.....	1 & 5	694,553	660,286
9	Less: Accumulated Depreciation and Amortization.....		(45,973)	(11,718)
10	Property and Equipment - Net.....		648,580	648,568
11	Other Assets.....	1 & 6	576,928	552,625
12	Total Assets.....		\$1,453,787	\$1,330,734
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$35,824	\$15,925
14	Notes Payable.....	7	0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....	10	0	0
16	External.....	11	37	34
17	Income Taxes Payable and Accrued.....	1	2,131	785
18	Other Accrued Expenses.....	8	49,171	27,477
19	Other Current Liabilities.....	1 & 9	79,747	34,215
20	Total Current Liabilities.....		166,910	78,436
	Long-Term Debt:			
21	Due to Affiliates.....	10	518,330	518,330
22	External.....	11	591	628
23	Deferred Credits .....	1	122,458	137,687
24	Other Liabilities.....		7,099	6,651
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		815,388	741,732
27	Stockholders', Partners', or Proprietor's Equity.....		638,399	589,002
28	Total Liabilities and Equity.....		\$1,453,787	\$1,330,734

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 TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....	1	\$551,300	\$517,734
2	Rooms.....		38,071	38,250
3	Food and Beverage.....		65,506	60,643
4	Other.....		15,607	19,154
5	Total Revenue.....		670,484	635,781
6	Less: Promotional Allowances.....	1	134,388	128,449
7	Net Revenue.....		536,096	507,332
	Costs and Expenses:			
8	Cost of Goods and Services.....		305,556	302,572
9	Selling, General, and Administrative.....		55,616	39,443
10	Provision for Doubtful Accounts.....		3,048	3,470
11	Total Costs and Expenses.....		364,220	345,485
12	Gross Operating Profit.....		171,876	161,847
13	Depreciation and Amortization.....	1	44,249	37,041
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	16,748
15	Other.....	1 & 12	10,879	8,409
16	Income (Loss) from Operations.....		116,748	99,649
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	7 & 10	(43,877)	(44,058)
18	Interest Expense - External.....	11	(513)	1,597
19	CRDA Related Income (Expense) - Net.....	1	(4,808)	(2,742)
20	Nonoperating Income (Expense) - Net.....	1 & 13	(2,846)	(1,975)
21	Total Other Income (Expenses).....		(52,044)	(47,178)
22	Income (Loss) Before Taxes and Extraordinary Items.....		64,704	52,471
23	Provision (Credit) for Income Taxes.....	1	28,450	24,089
24	Income (Loss) Before Extraordinary Items.....		36,254	28,382
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$0; 20__, \$0 ).....			
26	Net Income (Loss).....		\$36,254	\$28,382

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 DECEMBER 31, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....	1	\$141,053	\$127,614 *
2	Rooms.....		9,236	9,248
3	Food and Beverage.....		16,480	14,255
4	Other.....		3,540	4,563 *
5	Total Revenue.....		170,309	155,680
6	Less: Promotional Allowances.....	1	34,942	30,748 *
7	Net Revenue.....		135,367	124,932
	Costs and Expenses:			
8	Cost of Goods and Services.....		74,388	77,185 *
9	Selling, General, and Administrative.....		22,662	10,278 *
10	Provision for Doubtful Accounts.....		878	609
11	Total Costs and Expenses.....		97,928	88,072
12	Gross Operating Profit.....		37,439	36,860
13	Depreciation and Amortization.....	1	13,557	11,855
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	4,095
15	Other.....	12	3,591	(497) *
16	Income (Loss) from Operations.....		20,291	21,407
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	7 & 10	(10,924)	(11,105) *
18	Interest Expense - External.....	11	(128)	(105) *
19	CRDA Related Income (Expense) - Net.....	1	(898)	(1,183)
20	Nonoperating Income (Expense) - Net.....	1 & 13	(1,295)	(1,865)
21	Total Other Income (Expenses).....		(13,245)	(14,258)
22	Income (Loss) Before Taxes and Extraordinary Items.....		7,046	7,149
23	Provision (Credit) for Income Taxes.....	1	5,968	4,155
24	Income (Loss) Before Extraordinary Items.....		1,078	2,994
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$____; 20__, \$____ ).....			
26	Net Income (Loss).....		\$1,078	\$2,994

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, 2005 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(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, 2004.....		100	\$1,370			\$46,065		\$34,038	\$81,473
2	Net Income (Loss) - 2005.....								28,382	28,382
3	Contribution to Paid-in-Capital....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6										0
7	Acquisition by HET (Note 1)						523,068		(43,921)	479,147
8										0
9										0
10	Balance, December 31, 2005.....		100	1,370	0	0	569,133	0	18,499	589,002
11	Net Income (Loss) - 2006.....								36,254	36,254
12	Contribution to Paid-in-Capital....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16	Acquisition by HET (Note 1)						13,143			13,143
17										0
18										0
19	Balance, December 31, 2006 .....		100	\$1,370	0	\$0	\$582,276	\$0	\$54,753	\$638,399

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 TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$154,946	\$181,978
	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.....		(89,198)	(68,296)
5	Proceeds from Disposition of Property and Equipment.....		82	246
6	CRDA Obligations .....		(6,950)	(6,396)
7	Other Investments, Loans and Advances made.....			877
8	Proceeds from Other Investments, Loans, and Advances .....		1,419	
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(94,647)	(73,569)
	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.....		(34)	(30)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21				
22	Borrowings/Payments of Intercompany Payable .....		(43,397)	(99,370)
23	Net Cash Provided (Used) By Financing Activities.....		(43,431)	(99,400)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		16,868	9,009
25	Cash and Cash Equivalents at Beginning of Period.....		31,446	22,437
26	Cash and Cash Equivalents at End of Period.....		\$48,314	\$31,446
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$21,914	\$42,467
28	Income Taxes.....		\$9,404	\$24,124

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 TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$36,254	\$28,382
30	Depreciation and Amortization of Property and Equipment.....		31,791	26,213
31	Amortization of Other Assets.....		12,458	10,828
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current .....			(10,972)
34	Deferred Income Taxes - Noncurrent .....		(15,229)	137,687
35	(Gain) Loss on Disposition of Property and Equipment.....		135	714
36	(Gain) Loss on CRDA-Related Obligations.....		6,228	2,742
37	(Gain) Loss from Other Investment Activities.....		474	
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(3,891)	(6,505)
39	(Increase) Decrease in Inventories .....		93	1,243
40	(Increase) Decrease in Other Current Assets.....		13,232	(2,430)
41	(Increase) Decrease in Other Assets.....		(11,413)	(15,722)
42	Increase (Decrease) in Accounts Payable.....		19,899	4,825
43	Increase (Decrease) in Other Current Liabilities .....		64,467	4,554
44	Increase (Decrease) in Other Liabilities .....		448	419
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$154,946	\$181,978

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$89,198)	(\$68,296)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$89,198)	(\$68,296)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net .....			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

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

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

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

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(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	622,588	\$27,081		
2	Food	1,683,423	28,654		
3	Beverage	5,737,680	18,941		
4	Travel			17,662	7,667
5	Bus Program Cash	505,985	14,670		
6	Other Cash Complimentaries	1,013,394	39,554		
7	Entertainment	31,989	2,042	25,643	2,261
8	Retail & Non-Cash Gifts	153,240	3,049	69,371	15,087
9	Parking				
10	Other	2,106	397	794,113	8,293
11	Total	9,750,405	\$134,388	906,789	\$33,308

FOR THE THREE MONTHS ENDED DECEMBER 31, 2006

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	171,658	\$7,467		
2	Food	385,911	6,568		
3	Beverage	1,674,382	5,401		
4	Travel			181	78
5	Bus Program Cash	28,547	3,502		
6	Other Cash Complimentaries	258,556	10,824		
7	Entertainment	5,851	370	7,338	647
8	Retail & Non-Cash Gifts	35,897	718	10,219	4,861
9	Parking				
10	Other	488	92	196,459	3,499
11	Total	2,561,290	\$34,942	214,197	\$9,085

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

FOR THE QUARTER ENDED DECEMBER 31, 2006

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

4/30/2007

Date



Kimberly Coker  
Kimberly Coker

Vice President of Finance

Title

008692-11

License Number

On Behalf of:

BOARDWALK REGENCY CORPORATION  
Casino Licensee

Amended 4/30/2007

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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 Caesars Atlantic City Hotel/Casino ("CAC") in Atlantic City, New Jersey. CNJ is a wholly owned subsidiary of Caesars World, Inc. ("CWI"), a Florida corporation, and CWI is a wholly owned subsidiary of Harrah's Operating Company, Inc. ("HOC"). The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations.

Prior to June 13, 2005, the Company was 100% owned by Caesars Entertainment, Inc. ("CEI"). On June 13, 2005, Harrah's Entertainment, Inc. ("Harrah's") completed the acquisition of 100 percent of the outstanding shares of CEI. Following the purchase, the Company became an indirect wholly-owned subsidiary of HOC.

In conjunction with the acquisition, total equity was adjusted to the purchase price assigned to the Company, retained earnings of the Company were eliminated and the assets and liabilities of the Company were adjusted to fair value with goodwill recorded for the excess of the purchase price over the fair value of the net tangible and intangible assets. Harrah's determined the estimated fair values based on independent appraisals, discounted cash flows, quoted market prices and estimates made by management. The purchase price allocation related to the CEI acquisition has been completed and refinements have been recorded in these statements. The following table summarizes the estimated fair value of the Company's assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	\$ 45,691
Land, buildings and equipment	633,387
Other assets	40,199
Due from affiliates (net)	42,797
Goodwill	271,285
Intangible assets	<u>278,000</u>
Total assets acquired	<u>\$ 1,311,359</u>
Current liabilities	\$ 63,887
Deferred income taxes	138,412
Other liabilities	6,422
Long-term debt	<u>518,992</u>
Total liabilities assumed	<u>\$ 727,713</u>

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

For purposes of this regulatory filing, adjustments to the historical assets of the Company were reflected on December 31, 2005 and in its statement of operations for the three months and twelve months ended December 31, 2005 and in its statement of cash flows for the twelve months ended December 31, 2005. The operations of the Company for the periods prior to June 13, 2005 are considered as the "Predecessor Company." The operations of the Company for the period from June 14, 2005 are referred to in these financial statements as the "Company." The Company's balance sheet, statements of income and statements of cash flow are not comparable to the Predecessor Company. Reclassifications have been made in the prior period financial statements in order to conform to the presentation used in the current period. For information on prior year, please refer to the Quarterly Report at December 31, 2005. The Company has assumed all Predecessor Company's obligations.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenue and expenses reported during the period. Actual results could differ from such estimates.

**Revenue Recognition**

Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

**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.

**Inventories**

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost method.

Amended 4/30/2007

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

**Property and equipment**

Depreciation is provided on the straight-line basis over the estimated economic lives of the related assets. Depreciation expense was \$10,308 for the three months ended December 31, 2006, and \$31,792 for the twelve months ended December 31, 2006.

<u>Asset class</u>	<u>Life</u>
Land improvements	12 years
Building and improvements	30-40 years
Furniture, Fixtures and Equipment	3-10 years

On November 28, 2005, the Company entered into an agreement to sell a 7.7 acre parcel of land, known as the Traymore Lot, to an unrelated third party. The value of the land was adjusted to its fair value through the purchase price allocation.

**Goodwill and Other Intangible Assets**

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, the Company performs at least an annual review of goodwill and non-amortizing intangibles. The purchase price allocation related to the CEI acquisition is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement. The Company completed its annual assessment for impairment during the fourth quarter of 2006 and 2005, respectively, and determined that goodwill and non-amortizing intangible assets had not been impaired. In accordance with the provisions of SFAS No. 142, the Company does not amortize goodwill.

The intangible assets include trademark totaling \$83,000 and customer relationships (database) totaling \$195,000. The trademark has been determined to have an indefinite life and accordingly is not amortized. The customer relationships have been determined to have a useful life of 15 years and are being amortized using the straight-line method. Amortization expense for the twelve months ending December 31, 2006, was approximately \$12,453. Based on the value allocated to amortizing intangibles as of December 31, 2006, estimated annual amortization expense for each of the years ending December 31, 2007, 2008, 2009, 2010 and 2011, is \$13,000.

**Total Rewards / Connection Card liability**

Prior to April 2006, the Company participated in CEI’s customer rewards program, Connection Card, which offered incentives to customers who gambled at affiliate casinos. Under the program, customers were able to accumulate credits that they could redeem at their discretion under

Amended 4/30/2007

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

the terms of the program. The credit balance was forfeited if the customer was inactive for a one-year period. The estimated incremental costs of the goods or services to be provided when the credits are redeemed, after consideration of estimated forfeitures, were expensed as related revenues were recognized. The Company used historical and projected data to assist in the determination of estimated cost accruals.

I In December 2005, the Company changed the method of calculating its liability by applying a Harrah's company-wide method. This resulted in an increase to the liability of \$3,880. Of this amount, \$1,310 was attributed to pre-acquisition balances and adjusted the purchase price. Of the remaining amount, \$1,193 was attributed to a change in method and was charged as Non Operating Expense on the accompanying Statements of Income. \$1,377 was considered current operating expense and is included in Casino Expense on the accompanying Statements of Operations.

The accrued cost of anticipated credit redemptions was \$7,439 as of December 31, 2005.

In addition to Connection Card credits, customers could earn points based on play that were redeemable in cash ("cash-back points"). The cost of cash-back points were accrued, after consideration of estimated breakage, as they were earned. The cost was recorded as contra-revenue and included in Casino promotional allowances in the Statements of Income. At December 31, 2005, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,475.

In April 2006, the Company converted the outstanding Connection Card credits and cash-back points to Harrah's customer loyalty program, Total Rewards, which offers incentives to customers who gamble at certain of Harrah's 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 breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense on our Statements of Income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. Historical data is used to assist in the determination of estimated accruals. At December 31, 2006 \$6,095 was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers can earn cash-back points based on play. The cost of cash-back points are accrued, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Statements

Amended 4/30/2007

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

of Income. At December 31, 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,313.

**Fair values of financial instruments**

The fair values of the Company's financial instruments including receivables, payables and debt, approximate their recorded book values at December 31, 2006.

**Accounting Pronouncements**

There were no accounting standards issued in 2006 that are expected to materially impact the Company.

**Income taxes**

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The income tax provision or benefit for the periods ended December 31, 2006 and December 31, 2005 are as follows:

Amended 4/30/2007

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

<u>Income Tax Provision/(Benefit)</u>		<u>2006</u>	<u>2005</u>
Federal:			
	Current	\$ 35,147	\$ 15,629
	Deferred	(17,006)	(50)
		<u>\$ 18,141</u>	<u>\$ 15,579</u>
State:			
	Current	\$ 13,150	\$ 8,518
	Deferred	(2,841)	(8)
		<u>\$ 10,309</u>	<u>\$ 8,510</u>
Total:			
	Current	\$ 48,297	\$ 24,147
	Deferred	(19,847)	(58)
		<u>\$ 28,450</u>	<u>\$ 24,089</u>

Significant components of the Company's deferred tax assets and liabilities for the periods ended December 31, 2006 and December 31, 2005 are as follows (in thousands):

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

Net Deferred Tax Liability:

	<u>2006</u>	<u>2005</u>
Deferred Tax Assets:		
Allowance for Doubtful Accounts	\$ 4,482	\$ 3,781
Compensation Programs	1,889	640
Progressive Jackpots		1,656
CRDA Investment Obligations	5,019	4,190
Other	3,687	5,124
	<u>\$ 15,077</u>	<u>\$ 15,391</u>
Deferred Tax Liabilities:		
Property	\$ (30,429)	\$ (59,209)
Intangibles	(105,346)	(82,655)
Self-Insurance Reserves	(845)	(242)
Progressive Jackpot Liability	(1,473)	
	<u>\$ (138,093)</u>	<u>\$ (142,106)</u>
Net Deferred Tax Liability	<u>\$ (123,016)</u>	<u>\$ (126,715)</u>

**Casino Reinvestment Development Authority**

The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company has satisfied this investment obligation by (i) investing in qualified eligible direct investments, (ii) making qualified contributions or (iii) depositing funds with the Casino Reinvestment Development Authority (“CRDA”). Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have varying terms of up to fifty years and bear interest at below market rates. The Company records a charge to reflect the estimated realizable value of its CRDA investments.

The twelve Atlantic City casino properties (the “AC Industry”) and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the “NJSEA”) to provide funding to subsidize New Jersey’s horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34,000 over a four year period to the NJSEA and must deposit another \$62,000 into the Casino Expansion Fund (managed

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**Boardwalk Regency Corporation (Caesars Atlantic City)**  
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by the CRDA). The \$62,000 will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be a total of \$3,700, the first payment of which was made November 2004. The total estimated commitment will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62,000, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

**NOTE 2 – RECEIVABLES AND PATRONS' CHECKS**

Receivables and patrons' checks as of December 31, 2006 and December 31, 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2006, \$10,734 & 2005, \$9,040)	\$ 17,023	\$ 13,478
Other (Net of Allowance for Doubtful Accounts - 2006, \$238 & 2005, \$216)	7,306	6,960
Due from Harrah's	133,633	45,959
Due from Affiliates	1,258	278
	<u>\$ 159,220</u>	<u>\$ 66,675</u>

**NOTE 3 – PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	<u>2006</u>	<u>2005</u>
Tax Deferred Asset	\$ 4,708	\$ 10,972
Other	3,390	6,253
	<u>\$ 8,098</u>	<u>\$ 17,225</u>

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**Boardwalk Regency Corporation (Caesars Atlantic City)**  
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**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 4 - INVESTMENTS, ADVANCES AND RECEIVABLES**

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

	<u>2006</u>	<u>2005</u>
CRDA Deposits	\$ 14,817	\$ 12,256
CRDA Bonds Receivable	6,302	6,513
CRDA Long Term Note Receivable	780	809
Other		20
	<u>\$ 21,899</u>	<u>\$ 19,598</u>
Less Valuation Allowance on CRDA Investments	<u>(10,332)</u>	<u>(6,576)</u>
	<u>\$ 11,567</u>	<u>\$ 13,022</u>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2006 and December 31, 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Land	\$ 86,723	\$ 85,564
Buildings and Improvements	440,704	438,698
Furniture, Fixtures, and Equipment	90,633	67,496
Asset Held for Sale		58,240
Construction in Progress	76,493	10,288
	<u>\$ 694,553</u>	<u>\$ 660,286</u>
Less Accumulated Depreciation & Amortization	<u>(45,973)</u>	<u>(11,718)</u>
	<u>\$ 648,580</u>	<u>\$ 648,568</u>

Refer to Note 1 for discussion of asset revaluation

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**Boardwalk Regency Corporation (Caesars Atlantic City)**  
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**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 6 – OTHER ASSETS**

Other assets as of December 31, 2006 and December 31, 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Goodwill	\$ 271,285	\$ 253,512
Customer Database less Accumulated Amortization of \$20,114 in 2006 & \$7,661 in 2005	174,886	202,339
Trademark	83,000	63,000
Deferred Lease Incentive	42,580	25,060
CRDA Investment	758	4,239
Other, Net	4,419	4,475
	<u>\$ 576,928</u>	<u>\$ 552,625</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 commences upon completion of the Pier’s construction which was completed in 2006. The lease agreement provides for the repayment of certain qualified pier development costs incurred by the developers.

As financing for the qualified pier development costs, the Company and certain of its Atlantic City affiliates entered into a credit agreement (the “Credit Agreement”) with the CRDA. The Credit Agreement provides for funding from the CRDA of up to \$42,800 for qualified development costs. The CRDA funding will come from amounts either currently on deposit or to be deposited with the CRDA pursuant to the Company’s and its affiliates’ investment obligations. Repayments to the developers are limited to the funds received from the CRDA. As of December 31, 2006, the Company has received \$4,879 of previously deposited funds from the CRDA.

As of December 31, 2006, the Company repaid the developers approximately \$42,800 through CRDA funds previously deposited by an affiliate. These payments are considered lease incentive payments and will be amortized over the life of the lease.

Refer to Note 1 for discussion of Goodwill and Other Intangible Assets.

**NOTE 7 – NOTES PAYABLE**

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**Boardwalk Regency Corporation (Caesars Atlantic City)**  
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**(Unaudited)**  
**(All dollar amounts in thousands)**

At December 31, 2000, the Company entered into an uncommitted \$50,000 credit facility with Caesars Entertainment Finance Corporation (CEFC), a wholly owned subsidiary of CEI. At December 31, 2006, there was no outstanding balance.

**NOTE 8 - OTHER ACCRUED EXPENSES**

Other accrued expenses as of December 31, 2006 and December 31, 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Accrued Payroll & Benefits	\$ 12,346	\$ 11,523
Accrued Interest Payable	22,045	
Real Estate Taxes		3,136
Other	14,780	12,818
	<u>\$ 49,171</u>	<u>\$ 27,477</u>

**NOTE 9- OTHER CURRENT LIABILITIES**

Other current liabilities as of December 31, 2006 and December 31, 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Due To Bally's Atlantic City	\$ 37,989	\$ 21,309
Due to Affiliates, Other	32,342	
Unredeemed Chip and Token Liability	3,391	2,634
Unredeemd Slot Promotions Liability		1,475
Total Rewards/Connection Card Liability		7,439
Other	6,025	1,358
	<u>\$ 79,747</u>	<u>\$ 34,215</u>

**NOTE 10 - LONG-TERM DEBT - DUE TO AFFILIATES**

Long-term debt, due to affiliates as of December 31, 2006 and December 31, 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Notes Payable to Harrah's Entertainment, Ltd. ("HEL") due December 31, 2010	\$ 518,330	\$ 518,330
Interest at 8.5%	<u>\$ 518,330</u>	<u>\$ 518,330</u>

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

On December 31, 2000, the Company executed a \$518,330 note payable to Park Place Finance Corporation with interest at a rate of 8.5% per annum, payable on the last business day of each month. On March 9, 2004, Park Place Finance Corporation changed its name to Caesars Entertainment Finance Corporation ("CEFC").

On July 1, 2006, the note was assigned to HEL. 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 December 31, 2006, accrued interest related to the intercompany note totaled \$22,045.

**NOTE 11 – LONG-TERM DEBT, OTHER**

Long-term debt, other as of December 31, 2006 and December 31, 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Mortgage Note due October 15, 2011 Interest at 10.0%	\$ 628	\$ 662
Less: Current Maturities	(37)	(34)
	<u>\$ 591</u>	<u>\$ 628</u>

**NOTE 12 – RELATED PARTY TRANSACTIONS**

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

**Cash Activity with HOC and Affiliates**

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. In addition, the Company transfers cash to HOC to reimburse HOC for payroll costs of certain HOC employees who provide services to the Company. No interest is earned on the amount shown as due from affiliates, net, in the accompanying financial statements.

**Administrative and Other Services**

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

Harrah's allocates certain expenses to the Company, such as information technology, internal audit and risk management. These expenses are allocated using various formulas based on estimates of utilization of such expenses. Management believes that the methods used to allocate these costs are reasonable. The Company was allocated \$10,879 for these services for the twelve months ended December 31, 2006.

### **Equity Incentive Awards**

Harrah's maintains equity incentive awards plans in which employees of the Company may participate. Harrah's allocates an appropriate amount of cost for these awards to each subsidiary where employees participate.

Under these plans, non-qualified stock options, restricted stock, stock appreciation rights ("SARs"), performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards may be granted to employees or consultants of Harrah's and its subsidiaries, including the Company and members of Harrah's Board of Directors. Currently, only non-qualified stock options, SARs and restricted stock are outstanding under these plans.

Effective January 1, 2006, Harrah's adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective application and, therefore, Harrah's results for prior periods were not restated and no expense was allocated to the Company.

### **Stock Options**

Stock option awards typically vest in equal installments on January 1 following the grant date and on January 1 in each of the two subsequent years and allow the option holder to purchase stock over specified periods of time, generally seven years from the date of grant, at a fixed price equal to the market value at the date of grant. The Company recognized approximately \$600 for stock option expense in 2006. This expense is included in general and administrative expenses in the accompanying statements of income.

### **Stock Appreciation Rights**

SARs typically vest in equal installments on June 30 of the year following the year of the grant date and on June 30 in each of the two subsequent years. SARs allow the holder to receive a payment, in cash or stock, equal to the excess of the fair market value of a specified number of shares of stock on the date the SARs are exercised over an exercise price per share, which typically is the fair market value on the date the SARs were granted. The Company recognized approximately

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

\$100 for SARs expense in 2006. This expense is included in general and administrative expenses in the accompanying statements of income.

**Restricted Stock**

Restricted share grants of Harrah's stock have restrictions that may include, but not be limited to, the right to vote, receive dividends on or transfer the restricted stock. Restricted shares may be subject to forfeiture during a specified period or periods prior to vesting. These shares issued generally vest in equal annual installments over a three year period. The compensation arising from a restricted stock grant is based upon the market price of Harrah's stock at the grant date. Such expense is deferred and amortized to expense over the vesting period. The Company recognized approximately \$210 of compensation expense in 2006 related to Harrah's restricted stock. This expense is included in general and administrative expenses in the accompanying statements of income.

**NOTE 13 - NONOPERATING INCOME (EXPENSE) - NET**

Nonoperating income (expense) for the three months ended December 31, 2006 and December 31, 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Interest Income	\$ 187	\$ 129
Demolition Expense	(191)	(48)
Project Write Downs and Reserves	(1,295)	
Other, Net	4	(1,946)
	<u>\$ (1,295)</u>	<u>\$ (1,865)</u>

Nonoperating income (expense) for the twelve months ended December 31, 2006 and December 31, 2005 consists of the following:

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**Boardwalk Regency Corporation (Caesars Atlantic City)**  
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**(Unaudited)**  
**(All dollar amounts in thousands)**

	<u>2006</u>	<u>2005</u>
Interest Income	\$ 696	\$ 488
Project Opening Expense	(332)	
Demolition Expense	(1,629)	(275)
Gain/(Loss) on Disposal of Equipment	(136)	(714)
Project Write Downs and Reserves	(1,306)	
Other, Net	(139)	(1,474)
	<u>\$ (2,846)</u>	<u>\$ (1,975)</u>

**BOARDWALK REGENCY CORPORATION  
ANNUAL FILINGS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

**BOARDWALK REGENCY CORPORATION**  
**SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS**  
 FOR THE YEAR ENDED DECEMBER 31, 2006

(UNAUDITED)  
 (\$ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES				
Line (a)	Description (b)	Account Balance (c)	Allowance (d)	Accounts Receivable (Net of Allowance) (e)
	Patrons' Checks:			
1	Undeposited Patrons' Checks.....	\$13,965		
2	Returned Patrons' Checks.....	13,793		
3	Total Patrons' Checks.....	27,758	\$10,734	\$17,024
4	Hotel Receivables.....	5,504	238	\$5,266
	Other Receivables:			
5	Receivables Due from Officers and Employees....	1		
6	Receivables Due from Affiliates.....	108,067		
7	Other Accounts and Notes Receivables.....	28,862		
8	Total Other Receivables.....	136,930		\$136,930
9	Totals (Form CCC-205).....	\$170,192	\$10,972	\$159,220

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	Description (g)	Amount (h)
10	Beginning Balance (January 1).....	\$10,858
11	Counter Checks Issued.....	307,769
12	Checks Redeemed Prior to Deposit.....	(282,264)
13	Checks Collected Through Deposits.....	(9,473)
14	Checks Transferred to Returned Checks.....	(12,925)
15	Other Adjustments.....	0
16	Ending Balance.....	\$13,965
17	"Hold" Checks Included in Balance on Line 16.....	0
18	Provision for Uncollectible Patrons' Checks.....	\$2,987
19	Provision as a Percent of Counter Checks Issued.....	1.0%

# BOARDWALK REGENCY CORPORATION EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2006

(\$ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages		
			Other Employees (d)	Officers & Owners (e)	Totals (f)
	CASINO:				
1	Table and Other Games	1,132			
2	Slot Machines	122			
3	Administration	0			
4	Casino Accounting	213			
5	Simulcasting	15			
6	Other	0			
7	Total - Casino	1,482	\$35,539	\$2,289	\$37,828
8	ROOMS	323	8,743	232	8,975
9	FOOD AND BEVERAGE	1,249	21,765	131	21,896
10	GUEST ENTERTAINMENT	205	1,253		1,253
11	MARKETING	181	7,985		7,985
12	OPERATION AND MAINTENANCE	295	10,050		10,050
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	5	367	890	1,257
14	Accounting and Auditing	43	1,875		1,875
15	Security	151	4,252		4,252
16	Other Administrative and General	90	6,884		6,884
	OTHER OPERATED DEPARTMENTS:				
17	Parking Operations	111	1,592		1,592
18	Health Club/Pool Services	9	158		158
19	Telephone	19	480		480
20	Retail Stores	17	601		601
21	Coat Check	2	20		20
22					0
23	TOTALS - ALL DEPARTMENTS	4,182	\$101,564	\$3,542	\$105,106

# BOARDWALK REGENCY CORPORATION

## ANNUAL GROSS REVENUE TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2006\_\_

Line

GROSS REVENUE:	
1.	Table and Other Games..... \$ 184,891,060
2.	Slot Machines ..... 370,351,996
3.	Total Gross Revenue..... <u>555,243,056</u>
4.	Adjustments..... <u>85,891</u>
5.	Taxable Gross Revenue (line 3 plus line 4)..... <u>555,328,947</u>
6.	Tax on Gross Revenue - Reporting Year (8% of line 5)..... <u>44,426,316</u>
7.	Audit or Other Adjustments to Tax on Gross Revenues in Prior Years ..... <u>100,351</u>
8.	Total Taxes on Gross Revenue (the sum of lines 6 and 7)..... <u>44,526,667</u>
9.	Total Deposits Made for Tax on Reporting Year's Gross Revenue..... <u>(44,426,316)</u>
Settlement of Prior Years' Tax on Gross Revenue	
10.	Resulting from Audit or Other Adjustments - (Deposits) Credits ..... <u>(100,351)</u>
11.	Gross Revenue Taxes Payable (the net of lines 8, 9 and 10) ..... <u>\$ (0)</u>

Under penalties of perjury, I declare that I have examined this Annual Gross Revenue Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

March 16, 2007

**Date**

**Donna Hogan**

Operations Controller 7752-11

**Title (License Number)**