

**HARRAH'S CASINO HOTEL, ATLANTIC CITY
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**

HARRAH'S CASINO HOTEL, ATLANTIC CITY

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.....		\$44,612	\$41,062
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$1,596; 2005, \$ 860).....		13,544	15,398
4	Inventories	2	1,252	1,479
5	Other Current Assets.....	4	8,525	9,775
6	Total Current Assets.....		67,933	67,714
7	Investments, Advances, and Receivables.....	5	486,728	569,362
8	Property and Equipment - Gross.....	2 & 6	986,262	865,185
9	Less: Accumulated Depreciation and Amortization.....	2 & 6	(329,488)	(334,582)
10	Property and Equipment - Net.....	2 & 6	656,774	530,603
11	Other Assets.....	7	1,687	6,496
12	Total Assets.....		\$1,213,122	\$1,174,175
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$32,310	\$8,682
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....	2	615	0
18	Other Accrued Expenses.....	8	34,273	73,258
19	Other Current Liabilities.....		998	887
20	Total Current Liabilities.....		68,196	82,827
	Long-Term Debt:			
21	Due to Affiliates.....	9	650,000	650,000
22	External.....		0	0
23	Deferred Credits		4,217	3,638
24	Other Liabilities.....	10	41,243	41,261
25	Commitments and Contingencies.....			
26	Total Liabilities.....		763,656	777,726
27	Stockholders', Partners', or Proprietor's Equity.....		449,466	396,449
28	Total Liabilities and Equity.....		\$1,213,122	\$1,174,175

Certain 2005 amounts have been reclassified to confirm with 2006 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 CASINO HOTEL, ATLANTIC CITY

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.....		\$503,271	\$471,096
2	Rooms.....		52,069	49,386
3	Food and Beverage.....		55,864	53,884
4	Other.....		11,970	12,294
5	Total Revenue.....		623,174	586,660
6	Less: Promotional Allowances.....	2	152,960	140,009
7	Net Revenue.....		470,214	446,651
	Costs and Expenses:			
8	Cost of Goods and Services.....		236,836	220,748
9	Selling, General, and Administrative.....		56,801	49,006
10	Provision for Doubtful Accounts.....		905	353
11	Total Costs and Expenses.....		294,542	270,107
12	Gross Operating Profit.....		175,672	176,544
13	Depreciation and Amortization.....		40,239	37,515
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	16,199	13,739
16	Income (Loss) from Operations.....		119,234	125,290
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(52,000)	(52,009)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(5,324)	(2,635)
20	Nonoperating Income (Expense) - Net.....		(874)	(88)
21	Total Other Income (Expenses).....		(58,198)	(54,732)
22	Income (Loss) Before Taxes and Extraordinary Items.....		61,036	70,558
23	Provision (Credit) for Income Taxes.....	2	8,019	7,800
24	Income (Loss) Before Extraordinary Items.....		53,017	62,758
25	Extraordinary Items (Net of Income Taxes - 2006 \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$53,017	\$62,758

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 CASINO HOTEL, ATLANTIC CITY

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.....		\$125,164	\$115,573
2	Rooms.....		12,279	12,000
3	Food and Beverage.....		13,283	13,409
4	Other.....		2,415	2,450
5	Total Revenue.....		153,141	143,432
6	Less: Promotional Allowances.....	2	41,300	34,041
7	Net Revenue.....		111,841	109,391
	Costs and Expenses:			
8	Cost of Goods and Services.....		59,118	55,242
9	Selling, General, and Administrative.....		14,694	13,612
10	Provision for Doubtful Accounts.....		336	112
11	Total Costs and Expenses.....		74,148	68,966
12	Gross Operating Profit.....		37,693	40,425
13	Depreciation and Amortization.....		10,542	9,645
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,392	3,699
16	Income (Loss) from Operations.....		22,759	27,081
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	9	(13,000)	(13,009)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(2,610)	(501)
20	Nonoperating Income (Expense) - Net.....		99	98
21	Total Other Income (Expenses).....		(15,511)	(13,412)
22	Income (Loss) Before Taxes and Extraordinary Items.....		7,248	13,669
23	Provision (Credit) for Income Taxes.....	2	3,039	1,634
24	Income (Loss) Before Extraordinary Items.....		4,209	12,035
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$4,209	\$12,035

The accompanying notes are an integral part of the financial statements.
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HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENTS OF CHANGES IN PARTNERS', PROPRIETOR'S OR MEMBERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006
AND THE TWELVE MONTHS ENDED DECEMBER 31, 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2004.....		\$165,954	\$167,737	\$0	\$333,691
2	Net Income (Loss) - 2005.....			62,758		62,758
3	Capital Contributions.....					0
4	Capital Withdrawals.....					0
5	Partnership Distributions.....					0
6	Prior Period Adjustments.....					0
7	_____					0
8	_____					0
9	_____					0
10	Balance, December 31, 2005.....		165,954	230,495	0	396,449
11	Net Income (Loss) - 2006.....			53,017		53,017
12	Capital Contributions.....					0
13	Capital Withdrawals.....					0
14	Partnership Distributions.....					0
15	Prior Period Adjustments.....					0
16	_____					0
17	_____					0
18	_____					0
19	Balance, DECEMBER 31, 2006.....		\$165,954	\$283,512	\$0	\$449,466

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

Amended 6/12/2007

HARRAH'S CASINO HOTEL, ATLANTIC CITY 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..		\$174,220	\$41,121
	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.....		(166,358)	(41,825)
5	Proceeds from Disposition of Property and Equipment.....		200	362
6	CRDA Obligations		(6,247)	(5,745)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		1,735	2,759
9	Cash Outflows to Acquire Business Entities.....		0	0
10	Write Off Abandoned Projects		0	421
11		0	0
12	Net Cash Provided (Used) By Investing Activities.....		(170,670)	(44,028)
	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			
22			
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		3,550	(2,907)
25	Cash and Cash Equivalents at Beginning of Period.....		41,062	43,969
26	Cash and Cash Equivalents at End of Period.....		\$44,612	\$41,062 *
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$95,333	\$52,000
28	Income Taxes.....		\$7,339	\$6,665

Certain 2005 amounts have been reclassified to confirm with 2006 presentations

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 CASINO HOTEL, ATLANTIC CITY

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)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$53,017	\$62,758
30	Depreciation and Amortization of Property and Equipment.....		40,134	37,509
31	Amortization of Other Assets.....		105	6
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		(565)	(250)
34	Deferred Income Taxes - Noncurrent		579	(689)
35	(Gain) Loss on Disposition of Property and Equipment.....		(96)	(172)
36	(Gain) Loss on CRDA-Related Obligations.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		1,854	(9,249) *
39	(Increase) Decrease in Inventories		227	37
40	(Increase) Decrease in Other Current Assets.....		1,815	3,265
41	(Increase) Decrease in Other Assets.....		4,653	1,675
42	Increase (Decrease) in Accounts Payable.....		23,628	(4,018)
43	Increase (Decrease) in Other Current Liabilities		(38,259)	1,518
44	Increase (Decrease) in Other Liabilities		(18)	152
45	Other Receivables and Advances		87,146	(51,421)
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$174,220	\$41,121

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$166,358)	(\$41,825)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$166,358)	(\$41,825)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

Certain 2005 amounts have been reclassified to confirm with 2006 presentations

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 CASINO HOTEL, ATLANTIC CITY 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	494,051	\$43,032		
2	Food	2,556,502	25,565		
3	Beverage	5,738,000	14,345		
4	Travel	0	0	134,018	13,268
5	Bus Program Cash	33,172	332		
6	Other Cash Complimentaries	5,193,512	64,918		
7	Entertainment	146,352	3,658		
8	Retail & Non-Cash Gifts	222,000	1,110		
9	Parking	0	0		
10	Other	0	0		
11	Total	14,383,589	\$152,960	134,018	\$13,268

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	123,281	\$10,738		
2	Food	631,601	6,316		
3	Beverage	1,413,600	3,534		
4	Travel	0	0	30,572	3,027
5	Bus Program Cash	7,183	72		
6	Other Cash Complimentaries	1,594,833	19,935		
7	Entertainment	20,020	500		
8	Retail & Non-Cash Gifts	41,000	205		
9	Parking				
10	Other				
11	Total	3,831,518	\$41,300	30,572	\$3,027

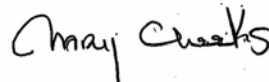
HARRAH'S CASINO HOTEL, ATLANTIC CITY STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

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.

3/31/2007

Date



Mary Cheeks

VICE PRESIDENT OF FINANCE

Title

004960-11

License Number

On Behalf of:

HARRAH'S CASINO HOTEL, ATLANTIC CITY

Casino Licensee

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Marina Associates and Subsidiary (the "Partnership") operates as a General Partnership and owns and operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey known as Harrah's Casino Hotel Atlantic City. The Partnership is an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). A substantial portion of the Partnership's revenues is derived from gaming and supporting hotel operations.

Construction began in first quarter 2006 on a \$550,000 upgrade and expansion of the resort ("The Project"), which will include a new hotel tower with approximately 960 rooms, a casino expansion and retail and entertainment complex. A new buffet and most of the retail center opened on February 16, 2007. The new hotel tower is expected to open in the second quarter of 2008 (see Note 13).

The Partnership is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Partnership's license is subject to renewal every four years with the current license expiring in April 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the account balances of the Partnership and its wholly-owned subsidiary, Reno Crossroads LLC ("Reno"). As a result, all material intercompany transactions and balances have been eliminated in consolidation.

Allowance for Doubtful Accounts - The Partnership reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories - Inventories of provisions and supplies are valued at the lower of average cost, or market.

Land, Buildings and Equipment - Land, buildings, and equipment are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest. The Partnership capitalized approximately \$2,128 and \$259 of interest in 2006 and 2005, respectively.

Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

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

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

The Partnership reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Partnership in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Investments in Subsidiaries - During 1999, the Partnership, through its wholly owned subsidiary Reno Crossroads LLC ("Reno"), acquired a parcel of land in Reno, Nevada for approximately \$10,325. The existing facilities located on the parcel site were demolished and a new plaza was constructed on the site at a cost of approximately \$2,365. On February 1, 2000, Reno entered into an agreement to lease this parcel of land to HOC for a period of twenty years at a fixed rent of \$1,120 per year.

Financial Instruments - The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. 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. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates

CRDA Real Estate Project - The Partnership's investment in its CRDA real estate project (the "Project") consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, NJ. Based upon an agreement with the CRDA, the Partnership may sell certain parts of the Project and will operate certain other parts for a period of up to 20 years.

Income or loss from the operation of the Project is included in the results of operations. Buildings are being depreciated using the straight-line method based on an estimated useful life of 27.5 years.

Revenue Recognition - Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Food, beverage, rooms and other revenues include the aggregate amounts generated by those departments.

Rewards Program - Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our 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, we accrue 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 Consolidated Statements of Income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. We use historical data to assist in the determination of estimated accruals. At December 31, 2006 and 2005, \$4,279 and \$4,234, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2006 and 2005, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,449 and \$1,173, respectively.

Casino Promotional Allowances - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash at the property. The estimated costs of providing such complimentary services are classified as casino expenses in the accompanying statements of income. These costs consisted of the following at December 31:

	<u>2006</u>	<u>2005</u>
Food and beverage	\$ 29,922	\$ 25,814
Rooms	14,347	13,939
Other	5,680	5,357
Other Cash Complimentaries	<u>61,610</u>	<u>53,630</u>
	<u>\$111,559</u>	<u>\$ 98,740</u>

Income Taxes - The accompanying consolidated financial statements do not include a provision for federal income taxes, since any income or losses allocated to the partners are reportable for federal income tax purposes by each partner.

In accordance with regulations prescribed by the New Jersey Casino Control Act, the Partnership files a state income tax return on behalf of the partners. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

Use of Estimates - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 3 - RELATED PARTY TRANSACTIONS

The Partnership 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 Partnership 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.

Certain of the more significant intercompany relationships between the Partnership and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates - The Partnership transfers cash in excess of its operating and regulatory needs to HOC on a daily basis. Cash transfers from HOC to the Partnership are also made based upon the needs of the Partnership to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due from affiliates, net, in the accompanying consolidated financial statements.

Employee Benefit Plans - HOC maintains a defined contribution savings and retirement plan in which the nonunion employees of the Partnership may participate. The plan, among other things, provides for pre-tax and after-tax contributions by employees. Under the plan, participating employees may elect to contribute up to 50 percent of their eligible earnings. The employer matches 50 percent of the first six percent of employees' contributions. Amounts contributed to the plan are invested, at the participant's direction, in up to 16 separate funds, including a Harrah's company stock fund. The Partnership's contribution expense totaled \$1,278 and \$1,228 in 2006 and 2005, respectively. Participants become vested in the matching contributions over five years of credited service.

Certain employees of the Partnership are covered by union-sponsored, collectively bargained multi-employer pension plans ("the Pension Plans"). The Partnership's contribution expense totaled \$2,392 and \$2,036 in 2006 and 2005, respectively. The Pension Plan's administrators do not provide sufficient information to enable the Partnership to determine their share, if any, of unfunded vested benefits.

HOC also maintains deferred compensation plans and an Executive Supplemental Savings Plan, under which certain employees of the partnership may defer a portion of their compensation. The expenses charged by HOC to the Partnership for its employees' participation in these programs are included in the administrative and other services charge discussed below.

Equity Incentive Awards - Harrah's maintains equity incentive awards plans in which employees of the Partnership 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 Partnership and members of Harrah's Board of Directors. Currently, only non-qualified stock options, SARs and restricted stock are outstanding under these plans.

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

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 Partnership.

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 Partnership recognized approximately \$437 for stock option expense in 2006. This expense is included in charges from affiliates 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 Partnership recognized approximately \$108 for SARs expense in 2006. This expense is included in charges from affiliates 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 Partnership recognized approximately \$250 of compensation expense in 2006 related to Harrah's restricted stock. This expense is included in charges from affiliates in the accompanying statements of income.

Administrative and Other Services - The Partnership is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Partnership was charged \$15,404 and \$13,739 for these services for the twelve months ended December 31, 2006 and 2005, respectively and \$ 3,597 and \$ 3,699 for three months ended December 31, 2006 and 2005 respectively. The fee is included in charges from affiliates in the accompanying consolidated statements of income

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2006</u>	<u>2005</u>
Prepaid State Income Tax	0	744
Prepaid Air Charters	3,680	4,093
Prepaid Deferred State Income Tax	2,595	2,029
Prepaid Taxes	935	1,037
Prepaid Marketing	728	1,505
Prepaid Other	443	203
Prepaid Insurance	<u>144</u>	<u>164</u>
	<u>\$ 8,525</u>	<u>\$ 9,775</u>

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2006</u>	<u>2005</u>
Due from Affiliates	\$ 468,507	\$ 554,038
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$3,109 and \$2,948 at December 31, 2006 and 2005, respectively	12,965	10,298
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,691 and \$3,821 at December 31, 2006 and 2005, respectively	4,259	4,272
Other	<u>997</u>	<u>754</u>
	<u>\$486,728</u>	<u>\$569,362</u>

Due from Affiliates as of December 31 consisted of the following unsecured, non-interest bearing intercompany amounts:

	<u>2006</u>	<u>2005</u>
Harrah's New Jersey, Inc.	\$ 18,962	\$ 18,962
I/C- Embassy Suites	435,680	509,429
Northeast Regional Office	2,773	3,961
Harrah's Lake Tahoe	218	132
Embassy Suites, Inc.	1,940	1,940
Harrah's Del Rio	185	185
Harrah's Reno	7,400	6,376
Harrah's Las Vegas	-	-
Bill's Casino	111	111
Harrah's Vicksburg	23	23
Harrah's Joliet	342	342
Harrah's New Orleans	1	1
Harrah's Shreveport	1	1
Harrah's St. Louis	74	74
City	-	-
Harrah's Cherokee	762	762
Harrah's Prairie Band	9	8
Showboat Atlantic City	(6,418)	10,013
Harrah's Tunic	225	225
Harrah's Ak Chin	43	42
Harrah's East Chicago	729	729
Caesar's	4,093	512
Bally's	1,262	115
Harvey's	45	47
Harrah's Gold Card	<u>47</u>	<u>47</u>
	<u>\$ 468,507</u>	<u>\$554,037</u>

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 93,183	\$ 93,179
Buildings, Leaseholds and Improvements	585,191	564,077
Furniture, Fixtures and Equipment	166,363	188,651
Construction in Progress	<u>141,525</u>	<u>19,278</u>
	986,262	865,185
Less Accumulated Depreciation	<u>(329,488)</u>	<u>(334,582)</u>
Property and Equipment, Net	<u>\$656,774</u>	<u>\$530,603</u>

NOTE 7 - OTHER ASSETS

Other Assets as of December 31 consisted of the following:

	<u>2006</u>	<u>2005</u>
Deposits	\$ 41	\$ 41
Deferred Other	15	15
Long-term Portion of Prepaid Insurance	31	57
Deferred and Prepaid CRDA Obligations	<u>1,600</u>	<u>6,383</u>
	<u>\$ 1,687</u>	<u>\$ 6,496</u>

NOTE 8 - OTHER ACCRUED EXPENSES

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

	<u>2006</u>	<u>2005</u>
Accrued Salaries, Wages and Benefits	\$7,780	\$ 8,229
Taxes Payable	3,113	3,572
Accrued In-House Progressive Slot Liability	536	403
Accrued City Wide Progressive Slot Liability	600	399
Accrued Interest, Long-term debt	8,667	52,000
Accrued Casino Control Commission / Department		
Gaming Enforcement Casino License Fees	644	336
Other Accrued Expenses	<u>12,933</u>	<u>8,319</u>
	<u>\$34,273</u>	<u>\$73,258</u>

NOTE 9 - LONG-TERM DEBT

Long-term Debt as of December 31 consisted of the following:

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

	<u>2006</u>	<u>2005</u>
Promissory Note	<u>\$650,000</u>	<u>\$650,000</u>

On October 31, 2001, the Partnership and HOC consummated a promissory note for \$650,000. All principal and interest outstanding on the promissory note is due and payable on demand to HOC. Interest is computed on an annual basis using 360 days for the actual number of days elapsed during a year, and an annual rate of eight percent. Any amount of principal not paid by the Partnership to HOC when due will bear an additional two percent annual interest rate. On March 12, 2003, the eight percent Promissory Note was assigned to Harrah's Entertainment Limited ("HEL"). Neither the term nor the amount of debt was affected by this assignment. Based on the affiliate's agreement not to demand repayment prior to January 1, 2008, these amounts have been classified as non-current in the accompanying balance sheet. As of December 31, 2006 and 2005, there was accrued interest of \$8,667 and \$52,000, respectively, on the balance sheet related to the intercompany note. Since the eight percent Promissory Note is due to an affiliate, a determination of fair value is not considered meaningful.

NOTE 10 - OTHER LIABILITIES

Other Liabilities as of December 31 consisted of the following:

	<u>2006</u>	<u>2005</u>
Due to Affiliates, Long-term	\$40,068	\$40,210
Other	<u>1,175</u>	<u>1,051</u>
	<u>\$41,243</u>	<u>\$41,261</u>

Due to Affiliates at December 31 consisted of the following unsecured, non-interest bearing inter-company accounts:

	<u>2006</u>	<u>2005</u>
Harrah's Holdings, Inc.,	\$ 603	\$ 603
Harrah's Atlantic City, Inc.	38,855	38,855
Harrah's Kansas City	57	44
Harrah's Las Vegas	276	396
Harrah's Jazz Casino	(15)	20
Harrah's Holiday Inns of New Jersey, Inc.	<u>292</u>	<u>292</u>
	<u>\$40,068</u>	<u>\$40,210</u>

NOTE 11 – LEASES

The Partnership has operating leases for a storage warehouse, parking areas and computer equipment. These leases have various expiration dates through 2009. Rental expense for the years ended December 31, 2006 and 2005 was \$3,589 and \$3,012, respectively.

Future minimum lease payments due under these leases are as follows:

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

2007	833
2008	319
2009	143
2010	105
2011	105
	<u>\$ 1,505</u>

NOTE 12 – STATE INCOME TAXES

The provision for income taxes consisted of the following at December 31:

	2006	2005
State:		
Current	8,005	8,739
Deferred	14	(939)
Provision for income taxes	<u>\$ 8,019</u>	<u>\$ 7,800</u>

The components of the Partnership's net deferred state income tax liability included in the balance sheets were as follows as of December 31:

	2006	2005
<u>Deferred tax assets:</u>		
Allowance for doubtful accounts	144	77
Self-insurance reserves	40	15
Accrued compensation and related benefits	250	264
Grantor trusts	670	1,276
Land	978	978
CRDA Investment	2,120	1,633
Other	40	40
Total deferred state tax assets	<u>\$ 4,242</u>	<u>\$4,283</u>
 <u>Deferred tax liabilities:</u>		
Land, buildings and equipment	(5,569)	(5,536)
Other	(296)	(356)
Total deferred state tax liabilities	<u>(5,865)</u>	<u>(5,892)</u>
 Net deferred state tax liability	<u>\$(1,623)</u>	<u>\$(1,609)</u>

NOTE 13 – COMMITMENTS AND CONTINGENCIES

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

Litigation - The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Partnership's financial position or results of operations.

Insurance Reserve - The Partnership is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of \$275 and \$75 as of December 31, 2006 and 2005, respectively. Actual results may differ from these reserve amounts.

CRDA Investment Obligation - The New Jersey Casino Control Act provides, among other things, for an assessment of 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 Partnership may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Partnership includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets totaling \$4,259 and \$12,965, respectively, at December 31, 2006 and \$4,272 and \$10,298, respectively, at December 31, 2005. The Partnership records charges to operations to reflect the estimated net realizable value of its CRDA investment.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2003, the Partnership received approval from the CRDA for a qualified direct investment project to construct various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City ("CRDA real estate project") at an estimated cost to the Partnership of approximately \$54,573. As of December 31, 2006 and 2005, approximately \$1,594 and \$6,044, respectively, represents a prepayment of the Partnership's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset is being amortized over the related Atlantic City obligation period and is included in deferred charges and other non-current assets in the accompanying balance sheets.

The Partnership has committed approximately \$9,589 of its current and future CRDA deposit obligations for the refurbishment of the Atlantic City Convention Center. The amount is amortized on a straight-line basis over a 15-year period commencing September 2001.

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 in the Casino Expansion Fund (managed by the CRDA). The \$62,000 will be derived from funds either currently on

HARRAH'S CASINO HOTEL ATLANTIC CITY
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

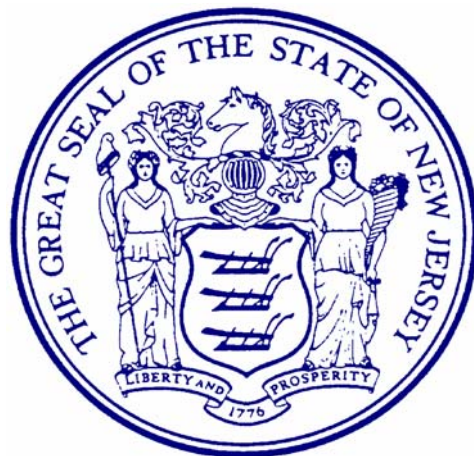
deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Partnership's obligation is equal to its fair-share of AC Industry casino revenues. The Partnership estimates this commitment over the four year period to be \$3,215 the first payment of which was made November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Partnership meets its deposit obligation related to its fair share of the \$62,000, the Partnership is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Partnership 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.

Purchases - At December 31, 2006, the Partnership is obligated under purchase commitments totaling approximately \$187,732 relating to the Project. Costs incurred under the Project were approximately \$115,580 and are included in Construction in Progress in Property and Equipment - Gross in the accompanying balance sheet as of December 31, 2006.

**HARRAH'S CASINO HOTEL , ATLANTIC CITY
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**

HARRAH'S CASINO HOTEL , ATLANTIC CITY
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.....	\$5,405		
2	Returned Patrons' Checks.....	2,950		
3	Total Patrons' Checks.....	8,355	\$1,334	\$7,021
4	Hotel Receivables.....	468	262	\$206
	Other Receivables:			
5	Receivables Due from Officers and Employees....	3		
6	Receivables Due from Affiliates.....	-		
7	Other Accounts and Notes Receivables.....	6,314		
8	Total Other Receivables.....	6,317		\$6,317
9	Totals (Form CCC-205).....	\$15,140	\$1,596	\$13,544

UNDEPOSITED PATRONS' CHECKS ACTIVITY

Line (f)	Description (g)	Amount (h)
10	Beginning Balance (January 1).....	\$4,153
11	Counter Checks Issued.....	134,859
12	Checks Redeemed Prior to Deposit.....	(62,617)
13	Checks Collected Through Deposits.....	(66,242)
14	Checks Transferred to Returned Checks.....	(4,748)
15	Other Adjustments.....	0
16	Ending Balance.....	\$5,405
17	"Hold" Checks Included in Balance on Line 16.....	0
18	Provision for Uncollectible Patrons' Checks.....	(\$905)
19	Provision as a Percent of Counter Checks Issued.....	-0.7%

HARRAH'S CASINO HOTEL , ATLANTIC CITY 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	650			
2	Slot Machines	148			
3	Administration				
4	Casino Accounting	32			
5	Simulcasting	0			
6	Other	381			
7	Total - Casino	1,211	\$31,820	\$409	\$32,229
8	ROOMS	501	9,221	203	9,424
9	FOOD AND BEVERAGE	853	16,921	179	17,100
10	GUEST ENTERTAINMENT	127	1,973	0	1,973
11	MARKETING	10	428	70	498
12	OPERATION AND MAINTENANCE	253	9,303	0	9,303
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	13	131	779	910
14	Accounting and Auditing	38	1,103	194	1,297
15	Security	101	3,117	0	3,117
16	Other Administrative and General	198	6,536	148	6,684
	OTHER OPERATED DEPARTMENTS:				
17	Cafeteria	14	968	0	968
18	Communications	23	296		296
19	Gift Shop	13	317		317
20					0
21					0
22					0
23	TOTALS - ALL DEPARTMENTS	3,355	\$82,134	\$1,982	\$84,116

