HARRAH'S RESORT, ATLANTIC CITY
QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2011

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 JUNE 30, 2011 AND 2010

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	ASSETS:			
	Current Assets:			
1	Cash and Cash Equivalents		$34,194	$17,528
2	Short-Term Investments		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2011, $9,288; 2010, $9,242)		23,177	19,550
4	Inventories	2	1,760	1,359
5	Other Current Assets	4	16,197	16,005
6	Total Current Assets		75,328	54,442
7	Investments, Advances, and Receivables	5	594,100	622,259
8	Property and Equipment - Gross	2,6	1,458,820	1,452,950
9	Less: Accumulated Depreciation and Amortization	2,6	(165,543)	(117,738)
10	Property and Equipment - Net	2,6	1,293,277	1,335,212
11	Other Assets	7	51,964	60,015
12	Total Assets		$2,014,669	$2,071,928
	LIABILITIES AND EQUITY:			
	Current Liabilities:			
13	Accounts Payable		$13,456	$10,152
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	0	126
18	Other Accrued Expenses	8	23,898	35,231
19	Other Current Liabilities		1,713	2,106
20	Total Current Liabilities		39,067	47,615
	Long-Term Debt:			
21	Due to Affiliates		0	0
22	External	9	897,928	982,362
23	Deferred Credits		261,272	244,345
24	Other Liabilities	10	20,797	13,667
25	Commitments and Contingencies	11	0	0
26	Total Liabilities		1,219,064	1,287,989
27	Stockholders', Partners', or Proprietor's Equity		795,605	783,939
28	Total Liabilities and Equity		$2,014,669	$2,071,928

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 SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino		$222,373	$226,069
2	Rooms		38,569	37,663
3	Food and Beverage		41,204	40,672
4	Other		13,080	12,518
5	Total Revenue		315,226	316,922
6	Less: Promotional Allowances	2	81,269	79,379
7	Net Revenue		233,957	237,543
	Costs and Expenses:			
8	Cost of Goods and Services		141,592	141,791
9	Selling, General, and Administrative		30,115	27,987
10	Provision for Doubtful Accounts		1,067	1,405
11	Total Costs and Expenses		172,774	171,183
12	Gross Operating Profit		61,183	66,360
13	Depreciation and Amortization		25,612	27,066
	Charges from Affiliates Other than Interest:			
14	Management Fees		0	0
15	Other	3	22,762	17,972
16	Income (Loss) from Operations		12,809	21,322
	Other Income (Expenses):			
17	Interest Expense - Affiliates		0	0
18	Interest Expense - External		(18,979)	(23,244)
19	CRDA Related Income (Expense) - Net		(1,727)	(1,317)
20	Nonoperating Income (Expense) - Net		7,924	(4,928)
21	Total Other Income (Expenses)		(12,782)	(29,489)
22	Income (Loss) Before Taxes and Extraordinary Items		27	(8,167)
23	Provision (Credit) for Income Taxes	2	468	(2,634)
24	Income (Loss) Before Extraordinary Items		(441)	(5,533)
25	Extraordinary Items (Net of Income Taxes - 2011, $0; 2010, $0)		0	0
26	Net Income (Loss)		($441)	($5,533)

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 JUNE 30, 2011 AND 2010

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino		$112,501	$115,421
2	Rooms		21,115	19,993
3	Food and Beverage		22,327	21,975
4	Other		7,019	6,611
5	Total Revenue		162,962	164,000
6	Less: Promotional Allowances	2	42,736	41,041
7	Net Revenue		120,226	122,959
	Costs and Expenses:			
8	Cost of Goods and Services		72,979	72,969
9	Selling, General, and Administrative		16,257	15,185
10	Provision for Doubtful Accounts		296	825
11	Total Costs and Expenses		89,532	88,979
12	Gross Operating Profit		30,694	33,980
13	Depreciation and Amortization		12,615	13,681
	Charges from Affiliates Other than Interest:			
14	Management Fees		0	0
15	Other	3	11,619	8,491
16	Income (Loss) from Operations		6,460	11,808
	Other Income (Expenses):			
17	Interest Expense - Affiliates		0	0
18	Interest Expense - External		(9,254)	(11,979)
19	CRDA Related Income (Expense) - Net		(1,190)	(1,217)
20	Nonoperating Income (Expense) - Net		2,107	3,820
21	Total Other Income (Expenses)		(8,337)	(9,376)
22	Income (Loss) Before Taxes and Extraordinary Items		(1,877)	2,432
23	Provision (Credit) for Income Taxes	2	(456)	1,377
24	Income (Loss) Before Extraordinary Items		(1,421)	1,055
	Extraordinary Items (Net of Income Taxes -			
25	2011, $0; 2010, $0)		0	0
26	Net Income (Loss)		($1,421)	$1,055

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

HARRAH'S RESORT, ATLANTIC CITY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND THE SIX MONTHS ENDED JUNE 30, 2011

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock Shares (c)	Common Stock Amount (d)	Preferred Stock Shares (e)	Preferred Stock Amount (f)	Additional Paid-In Capital (g)	Accumulated Comprehensive Income/Loss (h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
1	**Balance, December 31, 2009..........**		25	$25			$918,547	($3,558)	($120,916)	$794,098
2	Net Income (Loss) - 2010.............								7,201	7,201
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....................................									0
5	Prior Period Adjustments.............	2							(300)	(300)
6	Comprehensive Income(Loss)							(1,456)		(1,456)
7	Fin 48 Adjustment	2							(4,674)	(4,674)
8										0
9										0
10	**Balance, December 31, 2010..........**		25	25	0	0	918,547	(5,014)	(118,689)	794,869
11	Net Income (Loss) - 2011.............								(441)	(441)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....................................									0
14	Prior Period Adjustments.............									0
15	Comprehensive Income(Loss)							1,177		1,177
16										0
17										0
18										0
19	**Balance, June 30, 2011….….......**		25	$25	0	$0	$918,547	($3,837)	($119,130)	$795,605

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 SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		$28,367	($10,630)
	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..........................		(5,201)	(5,077)
5	Proceeds from Disposition of Property and Equipment..........			
6	CRDA Obligations		(2,604)	(2,857)
7	Other Investments, Loans and Advances made......................			
8	Proceeds from Other Investments, Loans, and Advances		170	202
9	Cash Outflows to Acquire Business Entities..........................		0	0
10	....			
11	....			
12	Net Cash Provided (Used) By Investing Activities....................		(7,635)	(7,732)
	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......................................		(19,363)	(4,041)
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..................		(19,363)	(4,041)
24	Net Increase (Decrease) in Cash and Cash Equivalents.............		1,369	(22,403)
25	Cash and Cash Equivalents at Beginning of Period...................		32,825	39,931
26	Cash and Cash Equivalents at End of Period............................		$34,194	$17,528

	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized)......................................		$14,960	$23,256
28	Income Taxes..		$560	$11,620

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 SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(UNAUDITED)

($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss)...		($441)	($5,533)
30	Depreciation and Amortization of Property and Equipment...		23,508	24,962
31	Amortization of Other Assets...		2,104	2,104
32	Amortization of Debt Discount or Premium..........................			0
33	Deferred Income Taxes - Current		(203)	0
34	Deferred Income Taxes - Noncurrent		(2,941)	(6,032)
35	(Gain) Loss on Disposition of Property and Equipment.........		(27)	0
36	(Gain) Loss on CRDA-Related Obligations...........................		1,727	0
37	(Gain) Loss from Other Investment Activities.......................			0
38	(Increase) Decrease in Receivables and Patrons' Checks		(1,360)	(340)
39	(Increase) Decrease in Inventories		249	283
40	(Increase) Decrease in Other Current Assets..........................		(1,828)	(3,686)
41	(Increase) Decrease in Other Assets......................................		6,618	6,816
42	Increase (Decrease) in Accounts Payable..............................		2,652	(637)
43	Increase (Decrease) in Other Current Liabilities		(248)	(8,297)
44	Increase (Decrease) in Other Liabilities		96	(33)
45	(Increase) Decrease in Other Receivable or Adva...................		6,946	(24,544)
46	(Gain) Loss on early retirment of Debt		(8,485)	4,307
47	Net Cash Provided (Used) By Operating Activities...................		$28,367	($10,630)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment..................................		($5,201)	($5,077)
49	Less: Capital Lease Obligations Incurred..............................			
50	Cash Outflows for Property and Equipment..............................		($5,201)	($5,077)
	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.................			
58	Less: Issuances to Settle Long-Term Debt...........................			
59	Consideration in Acquisition of Business Entities.................			
60	Cash Proceeds from Issuing Stock or Capital Contributions......		$0	$0

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

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

FOR THE QUARTER ENDED JUNE 30, 2011

1. I have examined this Quarterly Report.

2. All the information contained in this Quarterly Report has been prepared in conformity with the Division of Gaming Enforcement'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 requirements contained in N.J.S.A. 5:12-84(a)1-5 during the quarter.

August 15, 2011
Date

Maureen Adams
Maureen Adams

Vice President of Finance
Title

0086701-11
License Number

On Behalf of:

HARRAH'S RESORT, 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

Harrah’s Atlantic City Holding, Inc. and Subsidiaries (the “Company”, “HACH”) operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey, known as Harrah’s Resort Atlantic City. The Company is a wholly owned subsidiary of Caesars Entertainment, Inc. (“Caesars”) (formerly Harrah’s Entertainment, Inc.). A substantial portion of the Company’s revenues is derived from gaming and supporting hotel operations.

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the “CCC”) and is subject to rules and regulations as published by the CCC. The Company’s license is subject to renew every five years with the current license expiring June 2013.

On February 1, 2011 the Governor signed into law a bill which transferred certain regulatory authority from the New Jersey Casino Control Commission (“CCC”) to the New Division of Gaming Enforcement (“DGE”).

On January 28, 2008, Caesars was acquired by affiliates of Apollo Global Management, LLC and TPG Capital, L.P. in an all cash transaction, hereinafter referred to as the “Acquisition.” Prior to the Acquisition, Marina Associates and Subsidiary (the “Predecessor Company”) operated as a General Company and owned and operated Harrah’s Casino Hotel Atlantic City. The Predecessor Company was an indirect, wholly owned subsidiary of Caesars Entertainment Operating Company (“CEOC”) (formerly Harrah’s Operating Company, Inc.), which is a direct wholly owned subsidiary of Caesars.

In conjunction with the Acquisition, the Predecessor Company, along with five affiliates, was spun off from CEOC for the purpose of obtaining financing in the form of commercial mortgaged-backed securities (“CMBS”) in order to effect the Acquisition. A series of transactions, hereinafter referred to as the “Restructuring”, were executed that, among other things, dissolved the Predecessor Company and liquidated its assets, net of liabilities, to various affiliates and created the Company. CMBS financing was obtained by subsidiaries of HACH (Note 9).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Allowance for Doubtful Accounts - The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances.

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

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

(Dollars in Thousands)

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	3 to 40 years
Furniture, fixtures and equipment	3 to 20 years

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. No impairment of land, building and equipment were recognized by the Company for all periods presented in the consolidated statements of operations.

Deferred Assets - Debt issue costs are amortized to interest expense based on the related debt agreement using the straight-line method, which approximates the effective interest method. A charge of $1,242 and $2,605 were included in interest expense in the statement of income for the June 30, 2011 and 2010 respectively.

On January 28, 2008, the subsidiaries of HACH entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of $1,160,000 at a LIBOR cap rate of 4.5%.

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

The intangible assets include customer relationships (database) of $40,324 and $44,531 as of June 30, 2011 and 2010 respectively. The customer relationships have been determined to have a useful life of 13 years, and are being amortized using the straight-line method. Amortization expense was approximately $1,052 for three months period ending June 30, 2011 and 2010 respectively. Based on the value allocated to amortizing intangibles the annual amortization expense is expected to be approximately $4,208 for each of the five succeeding fiscal years.

Investment in Atlantic City Express Service, LLC "ACES" - In 2006, the Company entered into an agreement with Harrah's Atlantic City, an affiliate of the Company, and one other Atlantic City casino to form ACES. With each member having a 33% interest, this New Jersey limited liability company was formed for the purpose of contracting with New Jersey Transit to operate express rail service between Manhattan, New York, and Atlantic City. The responsibilities of the managing member will rotate annually among the members. The total investment in ACES as of June 30, 2011 and 2010 was approximately $26,873 and $25,718 respectively. ACES became operational on February 6, 2009. ACES net loss for the three months ended June 30, 2011 and 2010 was $755 and $1,750 respectively.

In June 2009, the FASB issued *ASU 2009-17 (ASC Topic 810), "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* which is effective as of January 1, 2010. The new standard amends existing consolidation guidance for variable interest entities and requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the company that has both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and either the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. As a result of the adoption of ASU 2009-17, ACES was consolidated within our financial statements for all periods prior to December 31, 2009, and is no longer consolidated beginning in January 2010. As a result of the consolidation of ACES, a prior period adjustment of $300 was made to retained earnings in March 2010 which is reflected in the accompanying statement of shareholders equity.

Fair Value of Financial Instruments - The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. After giving effect to their allowances, the Casino Reinvestment Development Authority ("CRDA") bonds and deposits approximately reflect their fair value based upon their below market interest rates.

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

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

Revenue Recognition - Gaming revenue is (a) the win from gaming activities, which is the difference between gaming wins and losses, less sales incentives and other adjustments and (b) revenue from gaming related activities such as poker and tournament. Jackpots, other than incremental amount of progressive jackpots, are recognized at the time they are won by customers. The Company accrues the incremental amount of progressive jackpots as the progressive machine is played, and the progressive jackpot amount increases, with a corresponding reduction of gaming revenue. The retail value of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is included in gross revenue and then deducted as promotional allowances. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

(Dollars in Thousands)

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 June 30:

	2011	2010
Food and beverage	$15,766	$ 15,755
Rooms	8,422	8,266
Other	2,823	2,653
Other Cash Complimentaries	2,117	7,736
Promotional Gaming Credits	14,460	21,457
	$ 43,588	$ 55,867

Total Rewards Program Liability - The Company's customer loyalty program, Total Rewards, offers incentives to customers who gamble and shop at certain of affiliated casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, the expense of Reward Credits is accrued after consideration of estimated breakage, as they are earned. The estimated cost to provide Reward Credits is expensed at the property where they are earned and is included in casino expense on the accompanying consolidated statements of income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. The Company uses historical data to assist in the determination of estimated accruals. At June 30, 2011 and 2010, $4,163 and $3,970, were accrued for the cost of anticipated Rewards Credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash ("cash-back points"). The Company accrues the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in casino promotional allowances on the accompanying Consolidated Statements of Income. At June 30, 2011 and 2010, the liability related to outstanding cash-back points, which is based on historical redemption activity, were $541 and $93 respectively.

These amounts are included in the net intercompany balances within the Investment, Advances and Receivables section of the Company's accompanying balance sheet.

Advertising Expenses – Advertising costs are expensed as incurred. Advertising expenses are $3,608 and $2,807 for the six months ended June 30, 2011 and 2010 respectively. Advertising expenses are included in selling, general and administrative expenses in the accompanying statements of income.

Gaming Tax – The Company remits weekly to the DGE a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the DGE for the six months ended June 30, 2011 and 2010, included in casino expenses in the accompanying statements of income, were approximately $17,808 and $18,246, respectively.

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 tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date. The Company follows the provisions of ASC 740- Income Taxes. The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

During 2010, management transferred these reserves and the cumulative impact of the related tax expense to the Company in order to reflect the reserve associated with the uncertain income tax position on the Company's general ledger. Similar transfers were performed for all affiliates of CEOC that had uncertain income tax positions reflected at CEOC. In order to properly reflect the transfer of the reserve for uncertain income tax positions to the Company, an offsetting adjustment to equity at the Company was required.

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

Seasonal factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the six months ended June 30, 2011 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 is charged a fee by CEOC for administrative and other services (including marketing, purchasing, insurance, employee benefits and other programs). The Company has a service provider agreement with Caesars Entertainment whereby a portion of the corporate expense of Caesars Entertainment is allocated to the Company and another portion is allocated to CEOC. These charges are included in charges from affiliates in the consolidated statements of income. 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.

(Dollars in Thousands)

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

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

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

Atlantic City Country Club - Atlantic City Country Club 1, LLC ("ACCC") is a wholly owned subsidiary of Bally's Atlantic City ("Bally's"), an affiliate of the Company. The net operating costs of ACCC are allocated to the Company and Bally's as well as Caesars Atlantic City and Showboat Atlantic City, also affiliates of the Company. The Company was charged approximately $145 and $134 for these costs for the three months ended June 30, 2011 and 2010, respectively. The costs are included in other operating expenses in the accompanying statements of income.

Administrative and Other Services - The Company is charged a fee by CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged $22,762 and $17,972 for these services for the three months ended June 30, 2011 and 2010, respectively. The fee is included in charges from affiliates in the accompanying statements of income.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2011	2010
Prepaid Air Charters	$ 3,692	$ 3,415
Prepaid State Income Tax	1,082	0
Prepaid Deferred State Income Tax	6,712	5,315
Prepaid Taxes	1,435	1,436
Prepaid Marketing	628	765
Prepaid Other	2,648	5,074
	$16,197	$16,005

(Dollars in Thousands)

NOTE 5 – INVESTMENTS, ADVANCES AND RECEIVABLES

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

	2011	2010
Due from Affiliates	$ 551,070	$ 582,023
Investment in ACES	4,587	5,205
Notes Receivable	10,888	10,205
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of $9,076 and $10,495 at June 30, 2011 and 2010, respectively	18,647	17,156
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of $3,581 and $3,626 at June 30, 2011 and 2010, respectively	3,841	3,851
CRDA Other Investment	3,474	2,045
Other	1,593	1,774
	$ 594,100	$ 622,259

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	2011	2010
Land and Land Improvements	$ 439,998	$ 439,998
Buildings, Leaseholds and Improvements	887,193	884,402
Furniture, Fixtures and Equipment	126,225	124,998
Construction in Progress	5,404	3,552
	1,458,820	1,452,950
Less Accumulated Depreciation	(165,543)	(117,738)
Property and Equipment, Net	$1,293,277	$1,335,212

NOTE 7 - OTHER ASSETS

Other Assets as of June 30 consisted of the following:

	2011	2010
Intangible Assets	$40,324	$ 44,531
Deferred Finance Charge	10,818	13,768
Interest Rate Cap Derivative	128	1,175
Other	694	541
	$ 51,964	$ 60,015

(Dollars in Thousands)

NOTE 8 - OTHER ACCRUED EXPENSES

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

	2011	2010
Accrued Salaries, Wages and Benefits	$ 4,365	$ 5,772
Taxes Payable	3,306	3,072
Accrued In-House Progressive Slot Liability	1,454	1,340
Accrued City Wide Progressive Slot Liability	232	248
Accrued Interest, Long-term debt	1,277	1,463
Accrued Casino Control Commission / Department Gaming Enforcement Casino License Fees	621	765
Accrued Utilities	982	932
Accrued Health & Welfare Union	1,748	1,629
Accrued Charter Services	1,630	1,951
Other Accrued Expenses	8,283	18,059
	$23,898	$35,231

NOTE 9 – OTHER LONG TERM DEBT

Secured debt as of June 30 consisted of the following:

	2011	2010
CMBS financing, 4.20% at June 30, 2011, maturity 2013	$ 897,928	$ 982,362

In connection with the Restructuring, the Company borrowed $1,160,000 in commercial mortgaged- backed securities financing at an interest rate of LIBOR plus 3%. Principal repayment on the debt is due in full on February 13, 2013. Accrued Interest as of June 30, 2011 and 2010 was $1,277 and $1,463 respectively. The Company's property and related assets are pledged as collateral for the CMBS debt.

NOTE 10 - OTHER LIABILITIES

Other Liabilities as of June 30 consisted of the following:

	2011	2010
Reported Claims	$ 2,077	$ 1,904
CRDA-ACIA funding	176	200
Deferred CRDA grant	380	432
FIN 48- Tax Reserve	18,164	11,131
	$20,797	$13,667

NOTE 11 – COMMITMENTS AND CONTINGENCIES

(Dollars in Thousands)

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

Insurance Reserve - The Company is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of $2,077 and $1,905 as of June 30, 2011 and 2010, 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 licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate.

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

	2011	**2010**
CRDA Bonds — net of amortized cost	$ 3,841	$ 3,851
Deposit — net of reserves	18,647	17,156
Direct Investments — net of reserves	3,474	1,459
	$ 25,962	$ 22,466

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

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were $1,714 and $1,468 for the six months ended June 30, 2011 and 2010, 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 six months ended June 30, 2011 and 2010 were $20 and $21, respectively, and is included in CRDA related three months expenses, in the statement of income.

After the initial determination of fair value, the Company will analyze the recoverability of the CRDA Bonds on a quarterly basis and its affect on reported amount based upon the ability and likelihood of bonds to be repaid. When considering recoverability of the CRDA Bonds, the Company considers the relative credit-worthiness of each bondholder, historical collection experience and other information received from the CRDA. If indications exist that the amount expected to be recovered is less than its carrying value, the asset will be written down to its expected realizable amount.

All the Atlantic City casino properties (the "AC Industry") and the CRDA entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. This agreement expired on January 1, 2009. The agreement provided that in exchange for funding, the NJSEA and the three active New Jersey racetracks would not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry provided $34,000 over a four year period to the NJSEA and deposited another $62,000 into the Casino Expansion Fund (managed by the CRDA). The Company's obligation was equal to its fair-share of AC Industry casino revenues, and the Company is eligible to receive funds deposited as a result of this obligation from the Casino Expansion Fund for qualified construction expenditures. The Company has until December 31, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

In August 2008, the AC Industry entered into a new agreement with the NJSEA that will provide $90 million in funding to subsidize New Jersey's horseracing industry. The funding will be provided in installments through 2011. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to December 31, 2011. The Company's obligation is estimated at $10,616 equal to its fair-share of AC Industry casino revenues. The total commitment is being charged to operations on a straight line basis beginning January 2009 through December 31, 2011. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company paid $0 and $929 for the three months ended June 30, 2011 and 2010, respectively, to the NJSEA under the new agreement. Total obligation paid as of June 30, 2011 is $ 9,687.