

**Bally's Park Place Inc. ( Bally's Atlantic City)**

**QUARTERLY REPORT**

**FOR THE QUARTER ENDED JUNE 30, 2012**

**SUBMITTED TO THE  
DIVISION OF GAMING ENFORCEMENT  
OF THE  
STATE OF NEW JERSEY**



**OFFICE OF FINANCIAL INVESTIGATIONS  
REPORTING MANUAL**

# Bally's Park Place Inc. ( Bally's Atlantic City)

## BALANCE SHEETS

AS OF JUNE 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$24,801	\$20,185
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, \$7,252 ; 2011, \$8,025).....	4	23,220	12,663
4	Inventories .....		2,185	1,269
5	Other Current Assets.....	5	12,968	9,170
6	Total Current Assets.....		63,174	43,287
7	Investments, Advances, and Receivables.....	6	580,661	562,288
8	Property and Equipment - Gross.....	2,7	853,537	851,154
9	Less: Accumulated Depreciation and Amortization.....	2,7	(149,227)	(115,781)
10	Property and Equipment - Net.....	7	704,310	735,373
11	Other Assets.....	8	25,825	30,226
12	Total Assets.....		\$1,373,970	\$1,371,174
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$8,431	\$9,646
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....		46	526
17	Income Taxes Payable and Accrued.....		0	
18	Other Accrued Expenses.....	9	236,620	191,151
19	Other Current Liabilities.....		2,513	2,082
20	Total Current Liabilities.....		247,610	203,405
	Long-Term Debt:			
21	Due to Affiliates.....	10	584,000	584,000
22	External.....	10	349	394
23	Deferred Credits .....		59,736	97,137
24	Other Liabilities.....	11	78,127	43,080
25	Commitments and Contingencies.....	12		
26	Total Liabilities.....		969,822	928,016
27	Stockholders', Partners', or Proprietor's Equity.....		404,148	443,158
28	Total Liabilities and Equity.....		\$1,373,970	\$1,371,174

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

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

# Bally's Park Place Inc. ( Bally's Atlantic City)

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$159,644	\$191,839
2	Rooms.....		25,514	25,190
3	Food and Beverage.....		31,124	33,339
4	Other.....		6,488	7,285
5	Total Revenue.....		222,770	257,653
6	Less: Promotional Allowances.....		61,751	72,422
7	Net Revenue.....		161,019	185,231
	Costs and Expenses:			
8	Cost of Goods and Services.....		106,862	139,642
9	Selling, General, and Administrative.....		14,259	20,540
10	Provision for Doubtful Accounts.....		780	628
11	Total Costs and Expenses.....		121,901	160,810
12	Gross Operating Profit.....		39,118	24,421
13	Depreciation and Amortization.....		18,517	17,551
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	16,534	12,237
16	Income (Loss) from Operations.....		4,067	(5,367)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	10	(24,820)	(24,820)
18	Interest Expense - External.....		(14)	(35)
19	CRDA Related Income (Expense) - Net.....	12	(1,264)	(1,444)
20	Nonoperating Income (Expense) - Net.....		(639)	(499)
21	Total Other Income (Expenses).....		(26,737)	(26,798)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(22,670)	(32,165)
23	Provision (Credit) for Income Taxes.....	2	(7,552)	(11,035)
24	Income (Loss) Before Extraordinary Items.....		(15,118)	(21,130)
25	Extraordinary Items (Net of Income Taxes - 2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		(\$15,118)	(\$21,130)

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

# Bally's Park Place Inc. ( Bally's Atlantic City)

## STATEMENTS OF INCOME

FOR THE QUARTER ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$79,496	\$101,213
2	Rooms.....		13,737	13,928
3	Food and Beverage.....		16,896	18,774
4	Other.....		3,394	4,243
5	Total Revenue.....		113,523	138,158
6	Less: Promotional Allowances.....		31,301	39,769
7	Net Revenue.....		82,222	98,389
	Costs and Expenses:			
8	Cost of Goods and Services.....		58,407	71,717
9	Selling, General, and Administrative.....		6,176	10,338
10	Provision for Doubtful Accounts.....		273	300
11	Total Costs and Expenses.....		64,856	82,355
12	Gross Operating Profit.....		17,366	16,034
13	Depreciation and Amortization.....		9,257	8,883
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	8,470	6,314
16	Income (Loss) from Operations.....		(361)	837
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	10	(12,410)	(12,410)
18	Interest Expense - External.....		(7)	(31)
19	CRDA Related Income (Expense) - Net.....	12	(387)	(975)
20	Nonoperating Income (Expense) - Net.....		25	(661)
21	Total Other Income (Expenses).....		(12,779)	(14,077)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(13,140)	(13,240)
23	Provision (Credit) for Income Taxes.....	2	(4,319)	(4,332)
24	Income (Loss) Before Extraordinary Items.....		(8,821)	(8,908)
	Extraordinary Items (Net of Income Taxes -			
25	2012, \$0; 2011, \$0 ).....		0	0
26	Net Income (Loss).....		(\$8,821)	(\$8,908)

The accompanying notes are an integral part of the financial statements.  
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**Bally's Park Place Inc. ( Bally's Atlantic City)**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND THE SIX MONTHS ENDED JUNE 30, 2012

(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, 2010.....		100	\$1			\$597,787		(\$133,500)	\$464,288
2	Net Income (Loss) - 2011.....								(45,022)	(45,022)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	ASC - 740 Adjustment									0
7										0
8										0
9										0
10	Balance, December 31, 2011.....		100	1	0	0	597,787	0	(178,522)	419,266
11	Net Income (Loss) - 2012.....								(15,118)	(15,118)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, June 30, 2012		100	\$1	0	\$0	\$597,787	\$0	(\$193,640)	\$404,148

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

# Bally's Park Place Inc. ( Bally's Atlantic City)

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$9,854	\$21,326
	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.....		(1,440)	(5,782)
5	Proceeds from Disposition of Property and Equipment.....			
6	CRDA Obligations .....		(998)	(2,250)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances .....			
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(2,438)	(8,032)
	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	Change in Payable to / Receivable from affiliates .....		(12,549)	(20,499)
22				
23	Net Cash Provided (Used) By Financing Activities.....		(12,549)	(20,499)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(5,133)	(7,205)
25	Cash and Cash Equivalents at Beginning of Period.....		29,934	27,390
26	Cash and Cash Equivalents at End of Period.....		\$24,801	\$20,185
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$35
28	Income Taxes.....		\$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.

# Bally's Park Place Inc. ( Bally's Atlantic City)

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		(\$15,118)	(\$21,130)
30	Depreciation and Amortization of Property and Equipment.....		17,029	16,517
31	Amortization of Other Assets.....		1,488	1,034
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		637	609
34	Deferred Income Taxes - Noncurrent .....		(1,154)	(2,901)
35	(Gain) Loss on Disposition of Property and Equipment.....		0	0
36	(Gain) Loss on CRDA-Related Obligations.....		1,264	1,444
37	(Gain) Loss from Other Investment Activities.....			0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(10,185)	170
39	(Increase) Decrease in Inventories .....		(557)	33
40	(Increase) Decrease in Other Current Assets.....		(6,491)	1,579
41	(Increase) Decrease in Other Assets.....		168	162
42	Increase (Decrease) in Accounts Payable.....		1,277	(363)
43	Increase (Decrease) in Other Current Liabilities .....		23,462	22,886
44	Increase (Decrease) in Other Liabilities .....		(1,966)	1,286
45				
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$9,854	\$21,326

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$1,440)	(\$5,782)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$1,440)	(\$5,782)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
51	Property and Equipment Acquired.....		\$0	
52	Goodwill Acquired.....		0	
53	Other Assets Acquired - net .....		0	
54	Long-Term Debt Assumed.....		0	
55	Issuance of Stock or Capital Invested.....		0	
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	<b>STOCK ISSUED OR CAPITAL CONTRIBUTIONS:</b>			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

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

**Bally's Park Place Inc. ( Bally's Atlantic City)**  
**SCHEDULE OF PROMOTIONAL**  
**EXPENSES AND ALLOWANCES**

FOR THE SIX MONTHS ENDED JUNE 30, 2012  
(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	370,646	\$13,830		
2	Food	659,096	11,815		
3	Beverage	3,538,414	7,077		
4	Travel			6,007	1,454
5	Bus Program Cash	4,694	94		
6	Promotional Gaming Credits	218,370	21,552		
7	Complimentary Cash Gifts	115,255	5,304		
8	Entertainment	1,558	55	4,010	1,017
9	Retail & Non-Cash Gifts	48,807	1,161		
10	Parking	0	0		
11	Other	140,746	863		
12	Total	5,097,586	\$61,751	10,017	\$2,471

FOR THE THREE MONTHS ENDED JUNE 30, 2012

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	188,242	\$7,151	0	\$0
2	Food	359,121	6,505	0	0
3	Beverage	1,806,486	3,613	0	0
4	Travel	0	0	2,947	663
5	Bus Program Cash	3,126	63	0	0
6	Promotional Gaming Credits	98,556	9,701	0	0
7	Complimentary Cash Gifts	59,373	3,203	0	0
8	Entertainment	214	7	1,930	530
9	Retail & Non-Cash Gifts	22,614	520	0	0
10	Parking	0	0	0	0
11	Other	84,786	538	0	0
12	Total	2,622,518	\$31,301	4,877	\$1,193

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

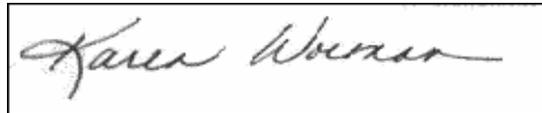
**Bally's Park Place Inc. ( Bally's Atlantic City)**  
**STATEMENT OF CONFORMITY,**  
**ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED JUNE 30, 2012

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.

8/15/2012

Date



Karen Worman

Vice President of Finance

Title

6320-11

License Number

On Behalf of:

Bally's Park Place Inc. ( Bally's Atlantic City)

Casino Licensee

**BALLY’S PARK PLACE, INC. (Bally’s Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

**NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION**

The accompanying financial statements include the accounts of Bally’s Park Place, Inc., a New Jersey corporation (the “Company”), an indirect, wholly owned subsidiary of Caesars Operating Company, Inc. (“CEOC”), (formerly Harrah’s Operating Company, Inc.) which is a direct wholly owned subsidiary of Caesars Entertainment, Inc. (“Caesars”), (formerly Harrah's Entertainment, Inc.). On November 23, 2010 Harrah's Entertainment, Inc. was changed to Caesars Entertainment Corporation. The Company owns and operates the casino hotel resort in Atlantic City, New Jersey known as “Bally’s Atlantic City.”

The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations. The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the “CCC”) and is subject to rules and regulations established by the CCC. The Company’s license is subject to renewal every five years with the current license expiring July 2013. On February 1, 2011, the Governor signed into law a bill which transferred certain regulatory authority from the New Jersey Casino Control Commission to the New Jersey Division of Gaming Enforcement, (the “DGE”).

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

**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.

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	5 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 would be 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

**BALLY’S PARK PLACE, INC. (Bally’s Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. No impairment was recognized by the Company for all periods presented in the statements of operations.

**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 Company maintains customer relationships (database) totaling \$24,700. The customer relationships have been determined to have a useful life of twelve years and are being amortized using the straight-line method. Amortization expense for the six months ended June 30, 2012, and 2011 was \$1,029. Estimated annual amortization expense for customer relationships for each of the years ending December 31, 2012, 2013 and 2014 is approximately \$2,058.

**Fair Value of Financial Instruments** — The carrying amount of current assets 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 CRDA bonds and deposits approximately reflect their fair value based upon their below-market interest rates.

**Revenue Recognition** — Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers’ possession. Food and beverage, rooms, and other operating revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. The Company does not recognize as revenue taxes collected on goods or services sold to its customers.

**Casino Promotional Allowances** - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash at the property. The estimated costs of providing such complimentary services are classified as casino expenses in the accompanying statements of income. These costs consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Rooms	\$5,308	\$6,329
Food and Beverage	15,370	16,223
Other	1,193	2,881
Bus Program Cash	94	117
Promotional Gaming Credits	21,552	28,636
Other Cash Complimentaries	5,304	5,602
	<u>\$48,821</u>	<u>\$59,788</u>

**Total Rewards Program Liability** - The Company’s customer loyalty program, Total Rewards,

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

offers incentives to customers who gamble 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 forfeitures (defined as "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 operations. To arrive at the estimated cost associated with reward credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which reward credits will be redeemed. The Company uses historical data to assist in the determination of estimated accruals. At June 30, 2012 and 2011, \$2,944 and \$3,367, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions. These amounts reside on Caesars balance sheet and thus are included in the due from affiliates balance in the accompanying balance sheets of the Company.

In addition to reward credits, the Company's customers can earn points based on play that are redeemable in Non Negotiable Reel Rewards ("NNRR"). The Company accrues the costs of NNRR points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in casino promotional allowances in the accompanying statements of income. At June 30, 2012 and 2011, the liability related to the outstanding NNRR points, which is based on historical redemption activity, was approximately \$427 and \$539, respectively.

**Investments in Subsidiaries** - The Company has an investment in Atlantic City Country Club 1, LLC ("ACCC") reflected in the accompanying financial statements using the equity method.

**Advertising Expenses** — Advertising costs are expensed as incurred. Advertising expenses are approximately \$2,516 and \$1,242 for the six months ended June 30, 2012 and 2011, respectively. Advertising expenses are included in selling, general and administrative expenses in the statements of income.

**Gaming Tax** — The Company remits weekly to the NJ Division of Taxation a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the NJ Division of Taxation for the six months ended June 30, 2012 and 2011, which are included in cost of sales in the accompanying statements of income, were approximately \$11,426 and \$15,351, respectively.

**In House Progressive Liability** - In March 2012, the DGE approved a regulation which allowed casinos to remove in-house progressives from the floor. Casinos were no longer required to keep in-house progressives once established on the floor, as a result, the regulations allowed us to remove the liability (reset and incremental portion) from the progressive slot liability account. The offset was an increase to the slot revenue.

**Property Taxes** - In March 2012, the City of Atlantic City approved the property tax refund to the Company in the amount of \$10,600 which related to the years 2009 through 2011. This amount is booked as a receivable on the Balance Sheet.

**Income Taxes** - The Company is included in the consolidated federal tax return of Caesars and files

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
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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.

**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.

### **NOTE 3 – RELATED PARTY TRANSACTIONS**

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

**Cash Activity With CEOC and Affiliates** - The Company transfers cash in excess of its operating and regulatory needs to CEOC on a daily basis. Cash transfers from CEOC 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. No interest is earned on the amount shown as due from affiliates, net, in the accompanying balance sheets.

**Atlantic City Country Club 1, LLC.** - The net operating costs of ACCC are allocated to the Company as well as Caesars Atlantic City, Showboat Atlantic City and Harrah's Atlantic City, affiliates of the Company. The Company was charged approximately \$140 and \$162 for the six months ended June 30, 2012 and 2011, respectively, for these services. 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 approximately \$16,534 and \$12,237 for the six months ended June 30, 2012 and 2011, respectively, for these services.

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

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

Receivables and patrons' checks as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Casino Receivable (Net of allowance for doubtful accounts \$7,158 in 2012 and \$7,825 in 2011)	\$6,701	\$6,301
Other (Net of allowance for doubtful accounts of \$94 in 2012 and \$200 in 2011)	16,189	6,042
Current Portion of Notes Receivable	330	320
	<u>\$23,220</u>	<u>\$12,663</u>

**NOTE 5- OTHER CURRENT ASSETS**

Prepaid Expense and Other Current Assets as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Tax Deferred Asset	\$3,646	\$2,949
NJ Sports and Expo Purse Agreement	0	634
Other	9,322	5,587
	<u>\$12,968</u>	<u>\$9,170</u>

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

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

	<u>2012</u>	<u>2011</u>
Due from Caesars:	\$536,363	\$520,073
Investment in wholly owned subsidiaries(see Note 2)	14,398	14,776
Atlantic City Country Club 1, LLC		
Casino Reinvestment Development Authority Investment obligations	28,630	27,331
(net of valuation reserves of \$16,713 in 2012 and \$18,838 in 2011)		
Other	1,270	108
	<u>\$580,661</u>	<u>\$562,288</u>

The amounts due from Caesars as of June 30 are unsecured and non-interest bearing.

**NOTE 7- LAND, BUILDING AND EQUIPMENT**

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

Property and equipment as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Land	\$277,433	\$277,961
Buildings and Improvements	471,060	467,387
Furniture, Fixtures and Equipment	105,044	102,407
Construction in progress	0	3,399
	<u>\$853,537</u>	<u>\$851,154</u>
Less accumulated depreciation	<u>(149,227)</u>	<u>(115,781)</u>
	<u>\$704,310</u>	<u>\$735,373</u>

**NOTE 8- OTHER ASSETS**

Other assets as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Intangible asset (net of accumulated amortization of \$9,549 in 2012 and \$7,032 in 2011)	\$15,150	\$17,667
Notes Receivable-Net of current portion	9,760	10,591
Non-Current CRDA	500	1,533
Other	415	435
	<u>\$25,825</u>	<u>\$30,226</u>

See Note 2 for discussion of Goodwill and Other Intangible Assets.

**NOTE 9- OTHER ACCRUED EXPENSES**

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

	<u>2012</u>	<u>2011</u>
Accrued Interest	\$219,644	\$170,004
Accrued Payroll	7,800	8,358
Other	9,176	12,789
	<u>\$236,620</u>	<u>\$191,151</u>

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

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts in thousands)**

Long-term debt-due to affiliates and other as of June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
8.5% Note payable to Harrah's Entertainment Ltd. ("HEL") due January 1, 2019	\$500,000	\$500,000
8.5% Note Payable To HEL due May 31, 2021	33,500	33,500
8.5% Note Payable To HEL due May 31, 2021	50,000	50,000
8.5% Note Payable To HEL due January 1, 2019	<u>500</u>	<u>500</u>
	<u>\$584,000</u>	<u>\$584,000</u>
Long-term debt-other:	<u>\$349</u>	<u>\$394</u>

On July 1, 2006, the four promissory notes formerly held by Caesars Entertainment Finance Corporation ("CEFC") were 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 June 30, 2012 and 2011, accrued interest related to the four inter-company notes totaled \$219,644 and \$170,004 respectively. Since the notes are due to an affiliate, a determination of fair value is not considered meaningful.

The Company amended and restated its notes payable to HEL originally due January 1, 2009 in the amount of \$500,500. The new amended and restated note payable has the same terms and conditions and at the same interest rate but with a new maturity date of January 1, 2019.

The Company also amended and restated its notes payable to HEL originally due May 31, 2011 in the amount of \$83,500. The new amended and restated note payable has the same terms and conditions and at the same interest rate but with a new maturity date of May 31, 2021.

**NOTE 11 - OTHER LIABILITIES**

As of June 30, Other Liabilities were as follows:

	<u>2012</u>	<u>2011</u>
Retirement and Other Employee benefit Plans	\$389	\$417
Deferred Tax Liability	<u>77,738</u>	<u>42,663</u>
	<u>\$78,127</u>	<u>\$43,080</u>

**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(All dollar amounts 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 include insurance allowances of \$200 and \$395 as of June 30, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
CRDA Bonds - net of amortized costs	\$10,758	\$8,997
Deposit - net of reserve	15,520	15,537
Direct Investments - net of reserves	<u>2,352</u>	<u>2,797</u>
	<u>\$28,630</u>	<u>\$27,331</u>

The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment. Charges to operations were \$1,264 and \$1,444 for the six months ended June 30, 2012 and 2011, respectively, and is included in CRDA (income) expense, in the statements 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.

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

**BALLY'S PARK PLACE, INC. (Bally's Atlantic City)**  
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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 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.

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 was provided in installments through 2011. In exchange for this funding, the NJSEA and the three active New Jersey racetracks could not conduct any casino gaming at the racetracks prior to December 31, 2011. The Company paid \$11,228, equal to its fair-share of AC Industry casino revenues.

All the Atlantic City casino properties and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize the Atlantic City market. This agreement was signed on November 2, 2011 and is set to expire on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of \$5,000 in December 2011 and will continue to pay \$30,000 annually for the next five years. The Company paid \$1,710 in the six months ending June 30, 2012. The Company's obligation for its portion of future payments is estimated at \$14,253, equal to its fair-share of AC Industry casino revenues.