

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

FOR THE QUARTER ENDED MARCH 31, 2010

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



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

HARRAH'S RESORT, ATLANTIC CITY

BALANCE SHEETS

AS OF MARCH 31, 2010 AND 2009

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$15,353	\$19,012
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2010, \$9,261; 2009, \$6,846).....		20,674	19,880
4	Inventories	2	1,289	1,488
5	Other Current Assets.....	4	13,355	17,492
6	Total Current Assets.....		50,671	57,872
7	Investments, Advances, and Receivables.....	5	634,911	645,639
8	Property and Equipment - Gross.....	2,6	1,451,247	1,441,746
9	Less: Accumulated Depreciation and Amortization.....	2,6	(105,300)	(57,011)
10	Property and Equipment - Net.....	2,6	1,345,947	1,384,735
11	Other Assets.....	7	64,933	76,954
12	Total Assets.....		\$2,096,462	\$2,165,200
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$11,532	\$24,000
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	11,032	17
18	Other Accrued Expenses.....	8	39,660	25,395
19	Other Current Liabilities.....		2,133	1,572
20	Total Current Liabilities.....		64,357	50,984
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....	9	990,682	1,160,000
23	Deferred Credits		243,554	210,178
24	Other Liabilities.....	10	13,428	14,041
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		1,312,021	1,435,203
27	Stockholders', Partners', or Proprietor's Equity.....		784,441	729,997
28	Total Liabilities and Equity.....		\$2,096,462	\$2,165,200

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

Amended 5/24/2010

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	Revenue:			
1	Casino.....		\$110,648	\$111,521
2	Rooms.....		17,670	15,046
3	Food and Beverage.....		18,697	16,035
4	Other.....		5,907	5,083
5	Total Revenue.....		152,922	147,685
6	Less: Promotional Allowances.....	2	38,338	34,631
7	Net Revenue.....		114,584	113,054
	Costs and Expenses:			
8	Cost of Goods and Services.....		68,822	66,661
9	Selling, General, and Administrative.....		12,802	12,338
10	Provision for Doubtful Accounts.....		580	1,363
11	Total Costs and Expenses.....		82,204	80,362
12	Gross Operating Profit.....		32,380	32,692
13	Depreciation and Amortization.....		13,385	12,335
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	9,481	7,581
16	Income (Loss) from Operations.....		9,514	12,776
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	(3,914)
18	Interest Expense - External.....		(11,265)	(7,930)
19	CRDA Related Income (Expense) - Net.....		(100)	(450)
20	Nonoperating Income (Expense) - Net.....		(8,748)	(1,153)
21	Total Other Income (Expenses).....		(20,113)	(13,447)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(10,599)	(671)
23	Provision (Credit) for Income Taxes.....	2	(4,011)	125
24	Income (Loss) Before Extraordinary Items.....		(6,588)	(796)
	Extraordinary Items (Net of Income Taxes - 2010, \$0; 2009, \$0).....			
25				
26	Net Income (Loss).....		(\$6,588)	(\$796)

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009 AND THE THREE MONTHS ENDED MARCH 31, 2010

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	Accumulated Comprehensive Income/Loss (h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2008.....		25	\$25			\$918,547	(\$8,314)	(\$187,779)	\$722,479
2	Net Income (Loss) - 2009.....								75,629	75,629
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....								1,129	1,129
6	Fin 48 Adjustment								(9,895)	(9,895)
7	Comprehensive Income(Loss)							4,756		4,756
8										0
9										0
10	Balance, December 31, 2009.....		25	25	0	0	918,547	(3,558)	(120,916)	794,098
11	Net Income (Loss) - 2010.....								(6,588)	(6,588)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....								(300)	(300)
15	Comprehensive Income(Loss)							(2,769)		(2,769)
16										0
17										0
18										0
19	Balance, March 31, 2010		25	\$25	0	\$0	\$918,547	(\$6,327)	(\$127,804)	\$784,441

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

HARRAH'S RESORT, ATLANTIC CITY
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$19,714)	(\$4,056)
	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.....		(3,504)	(8,795)
5	Proceeds from Disposition of Property and Equipment.....		0	0
6	CRDA Obligations		(1,466)	(1,547)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		106	385
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(4,864)	(9,957)
	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.....		(24,578)	(14,013)
25	Cash and Cash Equivalents at Beginning of Period.....		39,931	33,025
26	Cash and Cash Equivalents at End of Period.....		\$15,353	\$19,012
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$9,981	\$10,643
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.

HARRAH'S RESORT, ATLANTIC CITY

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$6,588)	(\$796)
30	Depreciation and Amortization of Property and Equipment.....		12,333	11,283
31	Amortization of Other Assets.....		1,052	1,052
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		(6,823)	(891)
35	(Gain) Loss on Disposition of Property and Equipment.....		0	0
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		(1,464)	318
39	(Increase) Decrease in Inventories		353	379
40	(Increase) Decrease in Other Current Assets.....		(1,036)	(1,460)
41	(Increase) Decrease in Other Assets.....		4,627	5,503
42	Increase (Decrease) in Accounts Payable.....		1,018	8,895
43	Increase (Decrease) in Other Current Liabilities		7,065	(855)
44	Increase (Decrease) in Other Liabilities		(272)	425
45	(Increase) Decrease in Other Receivable or Adva.....		(38,445)	(27,909)
46	(Gain) Loss on early retirement of Debt		8,466	0
47	Net Cash Provided (Used) By Operating Activities.....		(\$19,714)	(\$4,056)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$3,504)	(\$8,795)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$3,504)	(\$8,795)
	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

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 MARCH 31, 2010

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.

5/15/2010

Date

Mary Cheeks

Mary Cheeks

Vice President of Finance

Title

004960-11

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 Harrah's Entertainment, Inc. ("Harrah's"). 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 January 28, 2008, Harrah's 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 Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly owned subsidiary of Harrah's.

In conjunction with the Acquisition, the Predecessor Company, along with five affiliates, was spun off from HOC 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 - Land, buildings, and equipment were stated at cost, through January 27, 2008 and revalued to fair value on January 28, 2008 in connection with the Acquisition, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

As a result of the Restructuring, certain real property and equipment of the Company were distributed to Harrah's Atlantic City Propco, LLC ("HACPC"), a wholly-owned indirect subsidiary of HACH on January 28, 2008.

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

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 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.

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%.

Debt issue costs are amortized as interest expense based on the related debt agreement using the straight-line method, which approximates the effective interest method. A charge of \$1,288 and \$1,522 were included in interest expense in the statement of income for the March 31, 2010 and 2009 respectively.

Goodwill and Other Intangible Assets — The Company had no goodwill recorded in the accompanying balance sheet as of March 31, 2010 and 2009, as a result of an impairment charge subsequent to the acquisition date. The Company accounts for goodwill and other intangible assets in accordance with Accounting Standard Codification (“ASC”) 350 (formerly known as Statement of Financial Accounting Standards (“SFAS”) No. 142, Goodwill and Other Intangible Assets). The Company performs at least an annual review of goodwill for impairment. The Company completed its annual assessment for impairment management in the fourth quarter of 2008 and determined that goodwill had been impaired. A charge of \$185,410 was recorded in the statements of income in 2008.

The intangible assets include customer relationships (database) of \$45,583 and \$49,791 as of March 31, 2010 and 2009 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 March 31, 2010 and 2009 respectively. Based on the value allocated to amortizing

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

intangibles the annual amortization expense is expected to be approximately \$4,208 for each of the five succeeding fiscal years.

Investment in ACES - In 2006, The Company entered into an agreement with Caesars Atlantic City, an affiliate of the Company and one other Atlantic City casino to form Atlantic City Express Service, LLC ("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 was approximately \$16,000. ACES became operational on February 6, 2009.

As a result of the Restructuring, the Company's interest in ACES was transferred to HACH on January 28, 2008.

The investment is reflected in the accompanying financial statements using the equity method. As of March 31, 2010, HACH has made capital contributions of \$5,368 which is included in Investment, Advances and Receivable in the accompanying balance sheet. HACH's share of ACES' net loss were \$494 and \$722 for the three months ended March 31, 2010 and 2009 respectively, are included in the accompanying statements of income.

Investments in Subsidiaries - During 1999, the Company, 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. As a result of the Restructuring, the Company's interest in Reno was transferred to HOC on January 28, 2008.

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. 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 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

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

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.

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 March 31:

	<u>2010</u>	<u>2009</u>
Food and beverage	\$ 7,260	\$ 7,077
Rooms	4,097	4,090
Other	1,219	1,885
Other Cash Complimentaries	5,912	5,685
Promotional Gaming Credits	<u>8,591</u>	<u>6,568</u>
	<u>\$ 27,079</u>	<u>\$ 25,305</u>

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 March 31, 2010 and 2009, \$4,151 and \$3,935, 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 March 31, 2010 and 2009, the liability related to outstanding cash-back points, which is based on historical redemption activity, were \$787 and \$921 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 \$1,056 and \$437 for the three months ended March 31, 2010 and 2009 respectively. Advertising expenses are included in selling, general and administrative expenses in the accompanying statements of income.

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

Gaming Tax – The Company remits weekly to the CCC a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the CCC for the three months ended March 31, 2010 and 2009, included in casino expenses in the accompanying statements of income, were approximately \$8,907 and \$8,913, 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.

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 three months ended March 31, 2010 are not necessarily indicative of the results of operations for the full year.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company is charged a fee by HOC for administrative and other services (including marketing, purchasing, insurance, employee benefits and other programs). The Company has a service provider agreement with Harrah's Entertainment whereby a portion of the corporate expense of Harrah's Entertainment is allocated to the Company and another portion is allocated to HOC. 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.

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

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

Cash Activity with HOC and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to Harrah's on a daily basis. Cash transfers from Harrah's 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

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

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 \$147 and \$154 for these costs for the three months ended March 31, 2010 and 2009, 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 HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged \$9,481 and \$7,581 for these services for the three months ended March 31, 2010 and 2009, 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 March 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Prepaid Air Charters	\$ 2,980	\$ 4,199
Prepaid State Income Tax	0	2,899
Prepaid Deferred State Income Tax	5,315	6,024
Prepaid Taxes	394	487
Prepaid Marketing	397	108
Prepaid Other	<u>4,269</u>	<u>3,775</u>
	<u>\$13,355</u>	<u>\$17,492</u>

NOTE 5 – INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2010</u>	<u>2009</u>
Due from Affiliates	\$ 594,008	\$ 606,811
Investment in ACES	4,873	5,527
Notes Receivable	10,041	9,410
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$9,816 and \$8,543		

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at March 31, 2010 and 2009, respectively	19,004	17,576
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,639 and \$3,728 at March 31, 2010 and 2009, respectively	3,847	3,886
CRDA Other Investment	1,304	322
Other	<u>1,834</u>	<u>2,107</u>
	<u>\$ 634,911</u>	<u>\$645,639</u>

As a result of the Restructuring, all Due from Affiliate balances were assigned to Harrah's on January 28, 2008.

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land and Land Improvements	\$ 439,998	\$ 439,957
Buildings, Leaseholds and Improvements	883,589	862,394
Furniture, Fixtures and Equipment	124,669	119,275
Construction in Progress	<u>2,991</u>	<u>20,120</u>
	1,451,247	1,441,746
Less Accumulated Depreciation	<u>(105,300)</u>	<u>(57,011)</u>
Property and Equipment, Net	<u>\$1,345,947</u>	<u>\$1,384,735</u>

NOTE 7 - OTHER ASSETS

Other Assets as of March 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Intangible Assets	\$45,583	\$ 49,791
Deferred Finance Charge	15,195	23,337
Interest Rate Cap Derivative	3,609	3,826
Other	<u>546</u>	<u>0</u>
	<u>\$ 64,933</u>	<u>\$ 76,954</u>

NOTE 8 - OTHER ACCRUED EXPENSES

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

	<u>2010</u>	<u>2009</u>
Accrued Salaries, Wages and Benefits	\$ 5,673	\$ 6,308
Taxes Payable	3,390	4,043
Accrued In-House Progressive Slot Liability	1,029	858
Accrued City Wide Progressive Slot Liability	125	110
Accrued Interest, Long-term debt	1,422	1,950
Accrued Casino Control Commission / Department Gaming Enforcement Casino License Fees	683	690

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Accrued Utilities	737	1,281
Accrued Health & Welfare Union	1,537	1,332
Accrued Charter Services	1,163	1,812
Other Accrued Expenses	<u>23,901</u>	<u>7,011</u>
	<u>\$39,660</u>	<u>\$25,395</u>

NOTE 9 – OTHER LONG TERM DEBT

Secured debt as of March 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
CMBS financing, 4.20% at March 31, 2010, maturity 2013	<u>\$ 990,682</u>	<u>\$1,160,000</u>

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 March 31, 2010 and 2009 was \$1,427 and \$1,950 respectively. The Company's property and related assets are pledged as collateral for the CMBS debt.

During the 2009 fourth quarter, Company paid \$42,329 and purchased approximately \$169,318 face value of outstanding loans recognizing a pre-tax gain on the transactions of approximately \$122,792.

NOTE 10 - OTHER LIABILITIES

Other Liabilities as of March 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Reported Claims	\$ 1,905	\$ 344
CRDA-ACIA funding	207	231
Deferred CRDA grant	445	497
FIN 48- Tax Reserve	<u>10,871</u>	<u>12,969</u>
	<u>\$13,428</u>	<u>\$14,041</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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 \$1,905 and \$332 as of March 31, 2010 and 2009, respectively. Actual results may differ from these reserve amounts.

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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 March 31, CRDA related assets were as follows:

	2010	2009
CRDA Bonds — net of amortized cost	\$ 3,847	\$ 3,886
Deposit — net of reserves	19,004	17,576
Direct Investments — net of reserves	<u>1,392</u>	<u>2,720</u>
	<u>\$ 24,243</u>	<u>\$ 24,182</u>

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 \$82 and \$436 for the three months ended March 31, 2010 and 2009, respectively, and is included in CRDA related expenses, in the statement of income.

The funds on deposits are held in an interest-bearing account by the CRDA. Initial obligation deposits are marked down by approximately 33% to represent their fair value and eventual expected conversion into bonds by the CRDA.

Once CRDA Bonds are issued we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the three months ended March 31, 2010 and 2009 were \$11 and \$12, 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

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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 totaling \$3,289, 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 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 \$10,465, 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 recognized \$929 for payments to NJSEA in first quarter of 2010.

To satisfy current Atlantic City obligations as well as those projected beyond the year 2008, the Company 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 Company of approximately \$54,573. The Company had a repayment of the Company's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset was being amortized over the related Atlantic City obligation period, which ended in 2007.

The Company 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. This expense is included in other operating expenses in the accompanying consolidated statements of operations.