ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT

FOR THE QUARTER ENDED DECEMBER 31, 2010

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

ATLANTIC CITY SHOWBOAT, INC
BALANCE SHEETS

AS OF DECEMBER 31, 2010 AND 2009

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	ASSETS:			
	Current Assets:			
1	Cash and Cash Equivalents		$15,247	$16,047
2	Short-Term Investments		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2010, $6,139 ; 2009, $5,679)	2	8,409	8,353
4	Inventories	2	1,203	1,405
5	Other Current Assets	4	10,481	9,883
6	Total Current Assets		35,340	35,688
7	Investments, Advances, and Receivables	5	216,783	175,485
8	Property and Equipment - Gross		669,451	666,387
9	Less: Accumulated Depreciation and Amortization		(72,727)	(49,454)
10	Property and Equipment - Net	6	596,724	616,933
11	Other Assets		86	10
12	Total Assets		$848,933	$828,116
	LIABILITIES AND EQUITY:			
	Current Liabilities:			
13	Accounts Payable		$4,399	$4,874
14	Notes Payable		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates		0	0
16	External		0	5
17	Income Taxes Payable and Accrued		0	0
18	Other Accrued Expenses	7	15,043	15,446
19	Other Current Liabilities		842	767
20	Total Current Liabilities		20,284	21,092
	Long-Term Debt:			
21	Due to Affiliates		0	0
22	External		0	0
23	Deferred Credits		72,360	58,676
24	Other Liabilities	8	79,729	64,365
25	Commitments and Contingencies	12	0	0
26	Total Liabilities		172,373	144,133
27	Stockholders', Partners', or Proprietor's Equity		676,560	683,983
28	Total Liabilities and Equity		$848,933	$828,116

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

ATLANTIC CITY SHOWBOAT, INC
STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	Revenue:			
1	Casino		$283,272	$314,476
2	Rooms		37,071	35,501
3	Food and Beverage		46,136	47,988
4	Other		10,376	10,987
5	Total Revenue		376,855	408,952
6	Less: Promotional Allowances		114,696	125,134
7	Net Revenue		262,159	283,818
	Costs and Expenses:			
8	Cost of Goods and Services		182,582	183,649
9	Selling, General, and Administrative		32,550	34,383
10	Provision for Doubtful Accounts		1,934	2,522
11	Total Costs and Expenses		217,066	220,554
12	Gross Operating Profit		45,093	63,264
13	Depreciation and Amortization		24,097	25,738
	Charges from Affiliates Other than Interest:			
14	Management Fees		0	0
15	Other	3	16,535	15,864
16	Income (Loss) from Operations		4,461	21,662
	Other Income (Expenses):			
17	Interest Expense - Affiliates		0	0
18	Interest Expense - External		0	(11)
19	CRDA Related Income (Expense) - Net		(2,497)	(2,532)
20	Nonoperating Income (Expense) - Net	9	1,194	842
21	Total Other Income (Expenses)		(1,303)	(1,701)
22	Income (Loss) Before Taxes and Extraordinary Items		3,158	19,961
23	Provision (Credit) for Income Taxes	10	1,974	9,223
24	Income (Loss) Before Extraordinary Items		1,184	10,738
25	Extraordinary Items (Net of Income Taxes - 2010, $0; 2009, $0)		0	0
26	Net Income (Loss)		$1,184	$10,738

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

ATLANTIC CITY SHOWBOAT, INC
STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 AND 2009

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	Revenue:			
1	Casino		$57,667	$74,763
2	Rooms		7,954	8,002
3	Food and Beverage		9,551	10,517
4	Other		2,317	2,235
5	Total Revenue		77,489	95,517
6	Less: Promotional Allowances		24,242	31,840
7	Net Revenue		53,247	63,677
	Costs and Expenses:			
8	Cost of Goods and Services		42,147	44,296
9	Selling, General, and Administrative		7,974	8,611
10	Provision for Doubtful Accounts		518	496
11	Total Costs and Expenses		50,639	53,403
12	Gross Operating Profit		2,608	10,274
13	Depreciation and Amortization		5,959	6,391
	Charges from Affiliates Other than Interest:			
14	Management Fees		0	0
15	Other	3	3,915	3,835
16	Income (Loss) from Operations		(7,266)	48
	Other Income (Expenses):			
17	Interest Expense - Affiliates		0	0
18	Interest Expense - External		0	0
19	CRDA Related Income (Expense) - Net		(266)	(241)
20	Nonoperating Income (Expense) - Net	9	211	254
21	Total Other Income (Expenses)		(55)	13
22	Income (Loss) Before Taxes and Extraordinary Items		(7,321)	61
23	Provision (Credit) for Income Taxes		(2,529)	(2,012)
24	Income (Loss) Before Extraordinary Items		(4,792)	2,073
25	Extraordinary Items (Net of Income Taxes - 2010, $0; 2009, $0)		0	0
26	Net Income (Loss)		($4,792)	$2,073

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

ATLANTIC CITY SHOWBOAT, INC
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

(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)	(h)	Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
1	**Balance, December 31, 2008..........**		0	$0	0	$0	$715,000	$0	($41,755)	$673,245
2	Net Income (Loss) - 2009.............								10,738	10,738
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....................................									0
5	Prior Period Adjustments.............									0
6	Purchase Price Adjustment									0
7										0
8										0
9										0
10	**Balance, December 31, 2009..........**		0	0	0	0	715,000	0	(31,017)	683,983
11	Net Income (Loss) - 2010.............								1,184	1,184
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....................................									0
14	Prior Period Adjustments.............									0
15	ASC 740 Adjustments	2							(8,607)	(8,607)
16										0
17										0
18										0
19	**Balance, December 31, 2010 ....**		0	$0	0	$0	$715,000	$0	($38,440)	$676,560

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

ATLANTIC CITY SHOWBOAT, INC
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2010 AND 2009

(UNAUDITED)
($ IN THOUSANDS)

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		$3,743	$242
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments		0	0
3	Proceeds from the Sale of Short-Term Investments		0	0
4	Cash Outflows for Property and Equipment		(3,899)	(1,877)
5	Proceeds from Disposition of Property and Equipment		220	47
6	CRDA Obligations		(3,770)	(3,938)
7	Other Investments, Loans and Advances made		0	0
8	Proceeds from Other Investments, Loans, and Advances		2,911	0
9	Cash Outflows to Acquire Business Entities		0	0
10			0	0
11			0	0
12	Net Cash Provided (Used) By Investing Activities		(4,538)	(5,768)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt		(5)	(15)
15	Proceeds from Long-Term Debt		0	0
16	Costs of Issuing Debt		0	0
17	Payments to Settle Long-Term Debt		0	0
18	Cash Proceeds from Issuing Stock or Capital Contributions		0	0
19	Purchases of Treasury Stock		0	0
20	Payments of Dividends or Capital Withdrawals		0	0
21			0	0
22			0	0
23	Net Cash Provided (Used) By Financing Activities		(5)	(15)
24	Net Increase (Decrease) in Cash and Cash Equivalents		(800)	(5,541)
25	Cash and Cash Equivalents at Beginning of Period		16,047	21,588
26	Cash and Cash Equivalents at End of Period		$15,247	$16,047

	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized)		$0	$11
28	Income Taxes		$0	$2,081

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

ATLANTIC CITY SHOWBOAT, INC
STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 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)...		$1,184	$10,738
30	Depreciation and Amortization of Property and Equipment...		24,069	25,721
31	Amortization of Other Assets...		28	17
32	Amortization of Debt Discount or Premium..........................		0	0
33	Deferred Income Taxes - Current		952	2,876
34	Deferred Income Taxes - Noncurrent		13,684	(2,618)
35	(Gain) Loss on Disposition of Property and Equipment.........		(213)	(33)
36	(Gain) Loss on CRDA-Related Obligations...........................		2,497	2,532
37	(Gain) Loss from Other Investment Activities.......................		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(56)	(59)
39	(Increase) Decrease in Inventories		202	(37)
40	(Increase) Decrease in Other Current Assets..........................		(1,550)	(349)
41	(Increase) Decrease in Other Assets......................................		(104)	21
42	Increase (Decrease) in Accounts Payable..............................		(475)	183
43	Increase (Decrease) in Other Current Liabilities		(328)	436
44	Increase (Decrease) in Other Liabilities		15,364	12,330
45	Net (Increase) Decrease in Invest. Advances and R...................		(51,511)	(51,516)
46	Amortization of Deferred Finance Charges		0	0
47	Net Cash Provided (Used) By Operating Activities...................		$3,743	$242

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Line (a)	Description (b)	Notes	2010 (c)	2009 (d)
	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment...................................		($3,899)	($1,877)
49	Less: Capital Lease Obligations Incurred..............................		0	0
50	Cash Outflows for Property and Equipment.............................		($3,899)	($1,877)
	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.

ATLANTIC CITY SHOWBOAT, INC
STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 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.

Karen Worman

3/31/2011
Date

Karen Worman

Vice President of Finance
Title

6320-11
License Number

On Behalf of:

ATLANTIC CITY SHOWBOAT, INC
Casino Licensee

ATLANTIC CITY SHOWBOAT, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Showboat Atlantic City Operating Company, LLC (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc. ("OSI"), which is a wholly-owned subsidiary of Showboat Holding, Inc. ("SHI"). SHI is a wholly owned subsidiary of Caesars Entertainment Operating Company, Inc. ("CEOC") (formerly Harrah's Operating Company, Inc.). OSI is a holding company with its principal assets being investments in the Company and other subsidiaries (collectively, the "Company"). OSI is an indirect wholly owned subsidiary of Caesars Entertainment Corporation ("Caesars") (formerly Harrah's Entertainment, Inc.). On November 23, 2010, Harrah's Entertainment, Inc changed its name to Caesars Entertainment, Inc. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey ("Atlantic City Showboat").

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 was renewed July 1, 2008 and will expire on June 30, 2013.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the account balances of OSI 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. As with many estimates management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories - Inventories, 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 when ever 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 were 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 results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

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

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.

(Dollars in Thousands)

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.

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

	2010	2009
Food and Beverage	$ 23,942	$ 25,146
Rooms	7,754	8,878
Other	1,737	2,655
Bus Program Cash	929	5,204
Promotional Gaming Credits	52,001	43,346
Other Cash Complimentary	7,317	16,906
	$ 93,680	$ 102,135

Total Rewards Program Liability - The Company's customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of the affiliated casinos throughout the United States of America. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, the Company accrues the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The estimated cost to provide Reward Credits is expensed at the property where they are earned and is included in casino expenses in the 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 December 31, 2010 and 2009, $2,715 and $3,007, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to reward credits, the Company's customers can earn points based on play that are redeemable in cash ("cash-back points"). The Company accrues the costs 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 in the accompanying statements of income. At December 31, 2010 and 2009, the liability related to outstanding cash-back points, which is based on historical redemption activity, was approximately $437 and $519, respectively. Of this, $215 and $519, respectively, reside on Caesars Balance Sheet and thus are included in the due from affiliates balance in the accompanying consolidated balance sheets of the company.

Advertising Expenses – Advertising costs are expensed as incurred. Advertising expenses are $3,137 and $3,565 for the years ended December 31, 2010 and 2009, respectively. Advertising expenses are included in the Selling, General and Administrative expenses in the statement of income.

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 twelve months ended December 31, 2010 and 2009, which are included in cost of goods and services in the statement of income were approximately $22,803 and $25,334, respectively.

Income Taxes – The Company is included in the consolidated federal tax return of Caesars 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 recognized 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.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with CEOC and Caesars' other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated, and managed 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.

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 note.

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 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.

Employee Benefit Plans – Caesars maintains a defined contribution savings and retirement plan in which the non-union employees of the Company may participate. The plan, among other things, provides for pretax and after-tax contributions by employees. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings. Through February 2009, the employer match was 50% for the first six percent of employees' contributions. In February 2009, Harrah's announced suspension of the employer match for all participating employees, where allowed by law or not in violation of an existing agreement. Amounts contributed to the plan are invested, at the participant's direction, in up to 19 separate funds. Participants become vested in the matching contributions over five years of credited service. The Company's contribution expense was approximately $68 during the twelve months ended December 31, 2009.

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

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Contributions to the plans were $2,682 and $2,672 during the twelve months ended December 31, 2010 and 2009, respectively.

Equity Incentive Awards - Caesars maintains equity incentive awards plans in which employees of the Company may participate. Caesars allocates an appropriate amount of cost for these awards to each subsidiary where employees participate.

(Dollars in Thousands)

The Equity Plan authorizes equity award options to be granted to management and other personnel and key service providers. Grants may be either shares of time-based options or shares of performance-based options, or a combination. Time-based options generally vest in equal increments of 20% on each of the first five anniversaries of the grant date. The performance-based options vest based on the investment returns of Caesars stockholders. One-half of the performance-based options become eligible to vest upon the stockholders receiving cash proceeds equal to two times their amount vested, and one-half of the performance-based options become eligible to vest upon the stockholders receiving cash proceeds equal to three times their amount vested subject to certain conditions and limitations. In addition, the performance-based options may vest earlier at lower thresholds upon liquidity events prior to December 31, 2011, as well as pro rata, in certain circumstances. The Company recognized approximately $255 and $218 for equity award options in 2010 and 2009 respectively.

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 Harrah’s Atlantic City, also affiliates of the Company. The Company was charged approximately $107 and $139 for these costs for the twelve months ended December 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 CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately $16,535 and $15,864 respectively for these services for the twelve months ended December 31, 2010 and 2009. These fees are included in charges from affiliates other than interest in the statements of income.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2010	2009
Slot License	$ 664	$ 712
License Fee - House of Blues	1,458	1,458
Horse Tracks	1,801	1,805
Income Taxes	3,085	1,136
Contracts / Utilities	173	191
Entertainment	215	101
Current Deffered Tax Asset	2,702	3,654
Other	383	826
	$ 10,481	$ 9,883

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

(Dollars in Thousands)

	2010	2009
Due from Caesars Entertaiment	$ 186,932	$ 142,217
CRDA Deposits	18,479	24,947
CRDA Bonds	20,915	21,381
	39,394	46,328
Less: Valuation Allowance on CRDA Investments	(9,543)	(13,060)
CRDA Investments, Net	29,851	33,268
	$ 216,783	$ 175,485

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

As a result of the Restructuring, all Due from Affiliate balances as of January 28, 2008 were assigned to Caesars. As a result of the Post-Closing Restructuring, all Due from Affiliate balances as of January 28, 2008 were assigned back to the Company.

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	2010	2009
Land and Land Improvements	$ 216,374	$ 216,245
Building and Improvements	380,309	380,231
Capital Leases	-	-
Furniture Fixtures & Equipment	70,476	69,648
Construction in Progress	2,292	227
Other Property and Equipment	-	36
	669,451	666,387
Less: Accumulated Depreciation and Amortization	(72,727)	(49,454)
Land, Building and Equipment, Net	$ 596,724	$ 616,933

NOTE 7 - OTHER ACCRUED EXPENSES

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

(Dollars in Thousands)

	2010	2009
Salaries and Wages	$ 6,694	$ 6,320
Taxes, other than taxes on Income	1,190	1,392
Progressive Liability	1,467	1,449
Other	5,692	6,285
	15,043	15,446

NOTE 8 – OTHER LIABILITIES

Other Liabilities as of December 31 consisted of the following:

	2010	2009
Due to Affiliates, Long-Term	$ 62,470	$ 51,885
FIN 48 - Tax Reserve	16,979	12,221
Other	280	259
	79,729	64,365
Atlantic City Region	21,727	17,583
Other	40,743	34,302
	$ 62,470	$ 51,885

The Atlantic City Region consists of Caesars casino licenses operating in Atlantic City, New Jersey.

NOTE 9 – LEASES

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2013. Rental expense included in the accompanying statement of income for the twelve months ended December 31, 2010 and 2009 was approximately $3,132 and $3,052, respectively.

Future minimum lease payments due under the non-cancelable capital and operating leases as of December 31, 2010, are as follows:

	Lease Obligations
	Operating
2011	351
2012	125
2013	39
Total minimum lease payments	515
Less: Imputed Interest	-
Present value of net minimum lease payments	$ 515

NOTE 10 – INCOME TAXES (BENEFIT)

The Company is included in the consolidated federal tax return of Caesars, but files a separate New Jersey tax return. The provision for income taxes is computed based on a separate return basis.

The tax years that remain open for examination for Caesars major jurisdictions are 2002 through 2009 for New Jersey due to our execution of New Jersey statute of limitations extensions and 2005 through 2009 for the United States.

Significant components of the provision (benefit) for income taxes for the years ended December 31, 2010 and 2009 are as follows (in thousands) :

	2010	2009
Current		
Federal	$ (11,533)	$ 5,629
State	(439)	2,396
	$ (11,972)	$ 8,025
Deferred	$ 13,946	$ 1,198
Provision (benefit) for income taxes	$ 1,974	$ 9,223

. A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows:

Balance at January 1, 2009	$ 7,434
Additions based on tax positions related to the current year	1,167
Additions for tax positions of prior years	-
Reductions for tax positions of prior years	-
Expiration of statutes	(169)
Settlements	-
Balance at December 31, 2009	$ 8,432
Additions based on tax positions related to the current year	-
Additions for tax positions of prior years	3,174
Reductions for tax positions of prior years	(998)
Expiration of statutes	-
Settlements	-
Balance at December 31, 2010	10,608

(Dollars in Thousands)

The provision (benefit) for income taxes for the year ended December 31, 2010 and 2009 differ from the federal statutory rate of 35% primarily due to state income taxes, the impact of nondeductible expenses, federal tax credits, and the accrual for uncertain tax positions.

The company does not have a formal tax sharing agreement in place with its parent entity for federal income tax purposes. Therefore Caesars or CEOC reports all of the Company's federal income taxes of which the company's portion was $11,533 in 2010 and $5,629 in 2009.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax asset s and liabilities as of December 31, 2010 and 2009 relate primarily to property, investments, and federal net operating loss and tax credits carryovers.

As of December 31, 2010, the company had Federal and New Jersey net operating loss ("NOL") carry forwards of $11,472 and $30,183 respectively. These NOLs will begin to expire in 2029. In addition, the Company had federal general business tax credits carry forward of $646 which will begin to expire in 2029. As of December 31, 2010 no valuation allowance has been established for the company's NOL carry forwards or general business tax credits carry forward deferred tax assets because the company has sufficient future tax liabilities arising within the carry forward periods. However, the Company will continue to assess the need for an allowance in future periods.

We recognize interest and penalties related to unrecognized tax benefits to income tax expense. We accrued approximately $743 and $1,288 during 2010 and 2009 respectively. In total, we accrued $6,371 and $5,628 for the payment of interest and penalties at December 31, 2010 and December 31, 2009 respectively.

It is reasonably possible that the amount of unrecognized tax benefits could increase or decrease within the next twelve months. Management estimates that the amount of unrecognized tax benefits will not change significantly within the next twelve months.

NOTE 11 – NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2010 and 2009, Non-Operating Income (Expense) consisted of the following:

	2010	2009
Interest Income	982	995
Project Write Downs & Reserves	-	(181)
Gain/Loss on Asset Sales	212	32
Other Non Operating	-	(4)
	1,194	842

NOTE 12 – 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 include insurance allowances of approximately $260 and $310 as of December 31, 2010 and 2009, 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.

(Dollars in Thousands)

As of December 31, CRDA related assets were as follows:

	2010	2009
CRDA Bonds - Net of amortized cost	14,111	14,142
Deposits - Net of reserves	14,337	17,451
Direct investments - Net of reserves	1,403	1,675
	29,851	33,268

The CRDA related assets are held in other 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 $2,497 and $2,532, for the twelve months ended December 31, 2010 and 2009, respectively, and is included in CRDA related expense, 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 twelve months ended December 31, 2010 and 2009 was $147 and $144, respectively, and is included in CRDA related expense, 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 totaling $2,807, 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 $7,265, 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 paid $2,409 and 2,391 for the years ended December 31, 2010 and 2009, respectively, to the NJSEA under the new agreement.

ATLANTIC CITY SHOWBOAT, INC.

ANNUAL FILINGS

FOR THE YEAR ENDED DECEMBER 31, 2010

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

OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL

ATLANTIC CITY SHOWBOAT, INC.
SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE YEAR ENDED DECEMBER 31, 2010

(UNAUDITED)
($ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES				
Line (a)	**Description (b)**	**Account Balance (c)**	**Allowance (d)**	**Accounts Receivable (Net of Allowance) (e)**
	Patrons' Checks:			
1	Undeposited Patrons' Checks................................	$2,115		
2	Returned Patrons' Checks....................................	8,256		
3	Total Patrons' Checks..	10,371	$5,755	$4,616
4	Hotel Receivables..	723	384	$339
	Other Receivables:			
5	Receivables Due from Officers and Employees....	-		
6	Receivables Due from Affiliates..........................	-		
7	Other Accounts and Notes Receivables................	3,454		
8	Total Other Receivables....................................	3,454		$3,454
9	Totals (Form CCC-205)..	$14,548	$6,139	$8,409

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	**Description (g)**	**Amount (h)**
10	Beginning Balance (January 1)...	$2,646
11	Counter Checks Issued...	72,206
12	Checks Redeemed Prior to Deposit..	(47,925)
13	Checks Collected Through Deposits..	(20,536)
14	Checks Transferred to Returned Checks..	(4,276)
15	Other Adjustments...	0
16	Ending Balance...	$2,115
17	"Hold" Checks Included in Balance on Line 16...	0
18	Provision for Uncollectible Patrons' Checks...	$2,522
19	Provision as a Percent of Counter Checks Issued...	3.5%

ATLANTIC CITY SHOWBOAT, INC.
EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2010

($ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages: Other Employees (d)	Salaries and Wages: Officers & Owners (e)	Salaries and Wages: Totals (f)
	CASINO:				
1	Table and Other Games	530			
2	Slot Machines	75			
3	Administration	10			
4	Casino Accounting	108			
5	Simulcasting	2			
6	Other	78			
7	Total - Casino	803	$21,648	$216	$21,864
8	ROOMS	299	6,854	0	6,854
9	FOOD AND BEVERAGE	811	17,439	0	17,439
10	GUEST ENTERTAINMENT	206	1,512		1,512
11	MARKETING	6	312	252	564
12	OPERATION AND MAINTENANCE	185	7,275	0	7,275
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	3	458	405	863
14	Accounting and Auditing	47	2,205	102	2,307
15	Security	122	4,140	0	4,140
16	Other Administrative and General	35	2,281	0	2,281
	OTHER OPERATED DEPARTMENTS:				
17	PBX	10	293	0	293
18	Parking	12	246	0	246
19					0
20					0
21					0
22					0
23	TOTALS - ALL DEPARTMENTS	2,539	$64,663	$975	$65,638

SHOWBOAT

ANNUAL GROSS REVENUE TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2010

Line		
	CASINO WIN:	
1.	Table and Other Games	$ 50,910,168
2.	Slot Machines	234,116,753
3.	Total Casino Win	285,026,921
4.	Adjustments	11,275
5.	Gross Revenue (line 3 plus line 4)	285,038,196
6.	Deduction for Eligible Promotional Gaming Credits	24,824,343
7.	Taxable Gross Revenue (line 5 minus line 6)	260,213,853
8.	Tax on Gross Revenue - Reporting Year (8% of line 7)	20,817,108
9.	Audit or Other Adjustments to Tax on Gross Revenues in Prior Years	2,004
10.	Total Taxes on Gross Revenue (the sum of lines 8 and 9)	20,819,112

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

March 11, 2011
Date

Gail Myers

Operations Controller (3470-11)
Title (License Number)