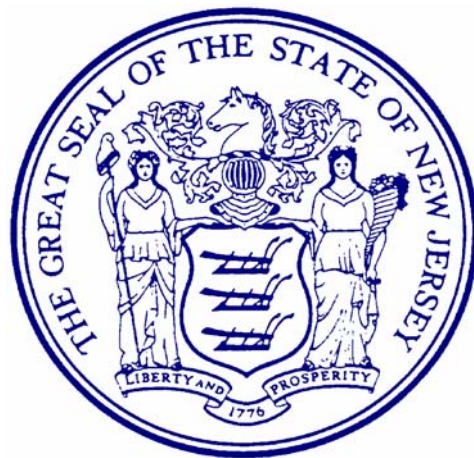


**ATLANTIC CITY SHOWBOAT, INC.  
QUARTERLY REPORT  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011**

**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 SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$13,283	\$8,444
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2011, \$6,369 ; 2010, \$5,918).....	4	9,859	8,631
4	Inventories .....		957	1,027
5	Other Current Assets.....	5	9,573	9,798
6	Total Current Assets.....		33,672	27,900
7	Investments, Advances, and Receivables.....	6	242,457	222,983
8	Property and Equipment - Gross.....	7	671,689	668,821
9	Less: Accumulated Depreciation and Amortization.....	7	(88,927)	(66,809)
10	Property and Equipment - Net.....	7	582,762	602,012
11	Other Assets.....		141	4
12	Total Assets.....		\$859,032	\$852,899
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$3,703	\$5,468
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.....		0	0
18	Other Accrued Expenses.....	8	13,530	15,614
19	Other Current Liabilities.....		713	697
20	Total Current Liabilities.....		17,946	21,779
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		0	0
23	Deferred Credits .....		65,332	76,426
24	Other Liabilities.....	9	92,992	73,342
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		176,270	171,547
27	Stockholders', Partners', or Proprietor's Equity.....		682,762	681,352
28	Total Liabilities and Equity.....		\$859,032	\$852,899

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$200,718	\$225,605
2	Rooms.....		29,396	29,117
3	Food and Beverage.....		35,872	36,585
4	Other.....		8,558	8,059
5	Total Revenue.....		274,544	299,366
6	Less: Promotional Allowances.....		84,944	90,454
7	Net Revenue.....		189,600	208,912
	Costs and Expenses:			
8	Cost of Goods and Services.....		125,759	140,435
9	Selling, General, and Administrative.....		21,635	24,576
10	Provision for Doubtful Accounts.....		1,161	1,416
11	Total Costs and Expenses.....		148,555	166,427
12	Gross Operating Profit.....		41,045	42,485
13	Depreciation and Amortization.....		16,227	18,138
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	13,284	12,620
16	Income (Loss) from Operations.....		11,534	11,727
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....	10	(894)	(2,231)
20	Nonoperating Income (Expense) - Net.....		237	983
21	Total Other Income (Expenses).....		(657)	(1,248)
22	Income (Loss) Before Taxes and Extraordinary Items.....		10,877	10,479
23	Provision (Credit) for Income Taxes.....		4,675	4,503
24	Income (Loss) Before Extraordinary Items.....		6,202	5,976
25	Extraordinary Items (Net of Income Taxes - 2011, \$0; 2010, \$0 ).....		0	0
26	Net Income (Loss).....		\$6,202	\$5,976

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 QUARTER ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$71,898	\$81,864
2	Rooms.....		10,971	11,109
3	Food and Beverage.....		12,772	13,221
4	Other.....		3,251	3,170
5	Total Revenue.....		98,892	109,364
6	Less: Promotional Allowances.....		29,301	32,172
7	Net Revenue.....		69,591	77,192
	Costs and Expenses:			
8	Cost of Goods and Services.....		44,745	49,188
9	Selling, General, and Administrative.....		7,548	8,664
10	Provision for Doubtful Accounts.....		518	560
11	Total Costs and Expenses.....		52,811	58,412
12	Gross Operating Profit.....		16,780	18,780
13	Depreciation and Amortization.....		5,332	5,976
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,694	4,255
16	Income (Loss) from Operations.....		6,754	8,549
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....	10	(324)	(371)
20	Nonoperating Income (Expense) - Net.....		104	441
21	Total Other Income (Expenses).....		(220)	70
22	Income (Loss) Before Taxes and Extraordinary Items.....		6,534	8,619
23	Provision (Credit) for Income Taxes.....		2,643	3,432
24	Income (Loss) Before Extraordinary Items.....		3,891	5,187
	Extraordinary Items (Net of Income Taxes -			
25	2011, \$0; 2010, \$0).....		0	0
26	Net Income (Loss).....		\$3,891	\$5,187

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, 2010 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(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, 2009.....						\$715,000		(\$31,017)	\$683,983
2	Net Income (Loss) - 2010.....								1,184	1,184
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	ASC 740 Adjustments								(8,607)	(8,607)
7										0
8										0
9										0
10	Balance, December 31, 2010.....		0	0	0	0	715,000	0	(38,440)	676,560
11	Net Income (Loss) - 2011.....								6,202	6,202
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, September 30, 2011 .....		0	\$0	0	\$0	\$715,000	\$0	(\$32,238)	\$682,762

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$2,656	(\$1,861)
	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.....		(2,272)	(3,212)
5	Proceeds from Disposition of Property and Equipment.....		0	222
6	CRDA Obligations .....		(2,348)	(2,747)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances .....		0	0
9	Cash Outflows to Acquire Business Entities.....		0	0
10	.....		0	0
11	.....		0	0
12	Net Cash Provided (Used) By Investing Activities.....		(4,620)	(5,737)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt .....		0	0
14	Payments to Settle Short-Term Debt.....		0	(5)
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	.....			
22	.....			
23	Net Cash Provided (Used) By Financing Activities.....		0	(5)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(1,964)	(7,603)
25	Cash and Cash Equivalents at Beginning of Period.....		15,247	16,047
26	Cash and Cash Equivalents at End of Period.....		\$13,283	\$8,444
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$0	\$230

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
29	Net Income (Loss).....		\$6,202	\$5,976
30	Depreciation and Amortization of Property and Equipment.....		16,222	18,132
31	Amortization of Other Assets.....		5	6
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current .....		2,599	3,654
34	Deferred Income Taxes - Noncurrent .....		(7,028)	17,750
35	(Gain) Loss on Disposition of Property and Equipment.....		12	(221)
36	(Gain) Loss on CRDA-Related Obligations.....		894	2,231
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks .....		(1,450)	(278)
39	(Increase) Decrease in Inventories .....		246	378
40	(Increase) Decrease in Other Current Assets.....		(1,691)	(3,569)
41	(Increase) Decrease in Other Assets.....		(60)	0
42	Increase (Decrease) in Accounts Payable.....		(696)	594
43	Increase (Decrease) in Other Current Liabilities .....		(1,642)	98
44	Increase (Decrease) in Other Liabilities .....		13,263	8,977
45	Net Increase (Decrease) in Investments, Advanc.....		(24,220)	(55,589)
46			0	0
47	Net Cash Provided (Used) By Operating Activities.....		\$2,656	(\$1,861)

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	<b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>			
48	Additions to Property and Equipment.....		(\$2,272)	(\$3,212)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$2,272)	(\$3,212)
	<b>ACQUISITION OF BUSINESS ENTITIES:</b>			
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
	<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.

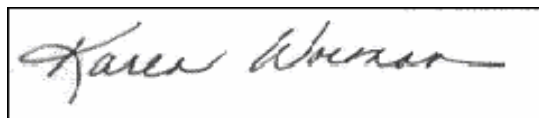
**ATLANTIC CITY SHOWBOAT, INC.  
STATEMENT OF CONFORMITY,  
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division of Gaming Enforcement's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability requirements contained in N.J.S.A. 5:12-84(a)1-5 during the quarter.

11/15/2011

Date



Karen Worman

Vice President of Finance

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. 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**

**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.

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

**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 tournaments. Jackpots, other than the incremental amounts 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 September 30:

	2011	2010
Food and Beverage	\$ 22,371	\$ 18,439
Rooms	17,468	5,904
Other	2,037	1,362
Bus Program Cash	729	731
Promotional Gaming Credits	39,577	40,377
Other Cash Complimentary	2,762	6,809
	\$ 84,944	\$ 73,622

**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 September 30, 2011 and 2010, \$2,567 and \$2,623, 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 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 September 30, 2011 and 2010, the liability related to outstanding cash-back points, which is based on historical redemption activity, was approximately \$442 and \$495, respectively.

**Advertising Expenses** - Advertising costs are expensed as incurred. Advertising expenses are \$1,773 and \$2,537 for the years ended September 30, 2011 and 2010, 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 DGE a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the DGE for the nine months ended September 30, 2011 and 2010, which are included in cost of goods and services in the statement of income were approximately \$14,395 and \$18,079, 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.

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

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.

**Seasonal factors** - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the nine months ended September 30, 2011 are not necessarily indicative of the results of operations for the full year.

**Omission of Disclosures** - In accordance with the Financial Reporting guidelines provided by the Division of Gaming Enforcement, the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Annual Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations, Employee Benefits and certain Income Tax disclosures.

### **NOTE 3 - RELATED PARTY TRANSACTIONS**

The Company 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.

**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 \$101 and \$60 for these costs for the nine months ended September 30, 2011 and 2010, respectively. The costs are included in other operating expenses in the accompanying statements of income

**Administrative and Other Services** - The Company is charged a fee by CEOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately \$13,284 and \$12,620, respectively for these services for the nine months ended September 30, 2011 and 2010. These fees are included in charges from affiliates other than interest in the statements of income.

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

**NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS**

Receivables and patrons’ checks as of September 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Casino Receivables (Net of Allowance for Doubtful Accounts- 2011, \$5,864 & 2010, \$5,621)	\$ 4,077	\$ 4,696
Other (Net of Allowance for Doubtful Accounts- 2011, \$505 & 2010, \$297)	<u>5,782</u>	<u>3,935</u>
	<u>\$ 9,859</u>	<u>\$ 8,631</u>

**NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid Expense and Other Current Assets as of September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Slot License	\$ 993	\$ 996
License Fee - House of Blues	2,083	2,083
Horse Tracks	-	1,811
Real Estate Taxes	2,400	-
Income Taxes	207	-
Contracts / Utilities	338	344
Entertainment	103	134
Current Deffered Tax Asset	2,945	3,730
Other	<u>504</u>	<u>700</u>
	<u>\$ 9,573</u>	<u>\$ 9,798</u>

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

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

	<u>2011</u>	<u>2010</u>
Due from Caesars Entertainment	\$ 211,170	\$ 193,536
CRDA Deposits	20,840	17,745
CRDA Bonds	<u>20,552</u>	<u>21,048</u>
	<u>41,392</u>	<u>38,793</u>
Less: Valuation Allowance on CRDA Investments	<u>(10,105)</u>	<u>(9,346)</u>
CRDA Investments, Net	31,287	29,447
	<u>\$ 242,457</u>	<u>\$ 222,983</u>

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

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**NOTE 7 – LAND, BUILDINGS AND EQUIPMENT**

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

	<u>2011</u>	<u>2010</u>
Land and Land Improvements	\$ 216,374	\$ 216,245
Building and Improvements	381,109	380,307
Capital Leases	-	-
Furniture Fixtures & Equipment	73,544	70,275
Construction in Progress	662	1,952
Other Property and Equipment	-	42
	<u>671,689</u>	<u>668,821</u>
Less: Accumulated Depreciation and Amortization	(88,927)	(66,809)
Land, Building and Equipment, Net	<u>\$ 582,762</u>	<u>\$ 602,012</u>

**NOTE 8 - OTHER ACCRUED EXPENSES**

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

	<u>2011</u>	<u>2010</u>
Salaries and Wages	\$ 4,574	\$ 6,706
Taxes, other than taxes on Income	1,507	1,483
Progressive Liability	1,276	1,663
Other	6,173	5,762
	<u>\$ 13,530</u>	<u>\$ 15,614</u>

**NOTE 9 – OTHER LIABILITIES**

Other Liabilities as of September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Due to Affiliates, Long-Term	\$ 71,655	\$ 59,432
FIN 48 - Tax Reserve	20,976	13,570
Other	361	340
	<u>92,992</u>	<u>73,342</u>
Atlantic City Region	26,296	20,347
Other	45,359	39,085
	<u>\$ 71,655</u>	<u>\$ 59,432</u>

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

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**NOTE 10 – 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 \$235 and \$260 as of September 30, 2011 and 2010, respectively. Actual results may differ from these reserve amounts.

**CRDA Investment Obligation** - The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate.

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

	<u>2011</u>	<u>2010</u>
CRDA Bonds - Net of amortized cost	\$ 14,059	\$ 14,131
Deposits - Net of reserves	16,013	13,846
Direct investments - Net of reserves	1,214	1,470
	<u>\$ 31,286</u>	<u>\$ 29,447</u>

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 \$1,091 and \$1,015, for the nine months ended September 30, 2011 and 2010, 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 nine months ended September 30, 2011 and 2010 was \$97 and \$118, 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,

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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 \$0 and 602 for the nine months ended September 30, 2011 and 2010, respectively, to the NJSEA under the new agreement. The total obligation paid as of September 30, 2011 is \$6,663.