

**ATLANTIC CITY SHOWBOAT, INC  
QUARTERLY REPORT**

**FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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



**DIVISION OF FINANCIAL EVALUATION  
REPORTING MANUAL**

# ATLANTIC CITY SHOWBOAT, INC

## BALANCE SHEETS

AS OF SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2010<br>(c) | 2009<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | <u>ASSETS:</u>   |       |             |             |
|             | Current Assets:  |       |             |             |
| 1           | Cash and Cash Equivalents.....   |       | \$8,444     | \$10,707    |
| 2           | Short-Term Investments.....  |       | 0           | 0           |
| 3           | Receivables and Patrons' Checks (Net of Allowance for<br>Doubtful Accounts - 2010, \$5,918 ; 2009, \$5,604)..... | 2     | 8,631       | 8,724       |
| 4           | Inventories .....  | 2     | 1,027       | 1,165       |
| 5           | Other Current Assets.....  | 4     | 9,798       | 10,726      |
| 6           | Total Current Assets.....  |       | 27,900      | 31,322      |
| 7           | Investments, Advances, and Receivables.....  | 5     | 222,983     | 171,958     |
| 8           | Property and Equipment - Gross.....  |       | 668,821     | 666,649     |
| 9           | Less: Accumulated Depreciation and Amortization.....   |       | (66,809)    | (43,576)    |
| 10          | Property and Equipment - Net.....  | 6     | 602,012     | 623,073     |
| 11          | Other Assets.....  |       | 4           | 13          |
| 12          | Total Assets.....  |       | \$852,899   | \$826,366   |
|             | <u>LIABILITIES AND EQUITY:</u>   |       |             |             |
|             | Current Liabilities:   |       |             |             |
| 13          | Accounts Payable.....  |       | \$5,468     | \$5,047     |
| 14          | Notes Payable.....   |       | 0           | 0           |
|             | Current Portion of Long-Term Debt:   |       |             |             |
| 15          | Due to Affiliates.....   |       | 0           | 0           |
| 16          | External.....  |       | 0           | 9           |
| 17          | Income Taxes Payable and Accrued.....  |       | 0           | 1,380       |
| 18          | Other Accrued Expenses.....  | 7     | 15,614      | 15,088      |
| 19          | Other Current Liabilities.....   |       | 697         | 1,074       |
| 20          | Total Current Liabilities.....   |       | 21,779      | 22,598      |
|             | Long-Term Debt:  |       |             |             |
| 21          | Due to Affiliates.....   |       | 0           | 0           |
| 22          | External.....  |       | 0           | 0           |
| 23          | Deferred Credits .....   |       | 76,426      | 61,018      |
| 24          | Other Liabilities.....   | 8     | 73,342      | 60,840      |
| 25          | Commitments and Contingencies.....   |       | 0           | 0           |
| 26          | Total Liabilities.....   |       | 171,547     | 144,456     |
| 27          | Stockholders', Partners', or Proprietor's Equity.....  |       | 681,352     | 681,910     |
| 28          | Total Liabilities and Equity.....  |       | \$852,899   | \$826,366   |

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, 2010 AND 2009

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2010<br>(c) | 2009<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | Revenue:   |       |             |             |
| 1           | Casino.....  |       | \$225,605   | \$239,713   |
| 2           | Rooms.....   |       | 29,117      | 27,499      |
| 3           | Food and Beverage.....   |       | 36,585      | 37,471      |
| 4           | Other.....   |       | 8,059       | 8,752       |
| 5           | Total Revenue.....   |       | 299,366     | 313,435     |
| 6           | Less: Promotional Allowances.....  |       | 90,454      | 93,294      |
| 7           | Net Revenue.....   |       | 208,912     | 220,141     |
|             | Costs and Expenses:  |       |             |             |
| 8           | Cost of Goods and Services.....  |       | 140,435     | 139,353     |
| 9           | Selling, General, and Administrative.....                                |       | 24,576      | 25,772      |
| 10          | Provision for Doubtful Accounts.....                                     |       | 1,416       | 2,026       |
| 11          | Total Costs and Expenses.....  |       | 166,427     | 167,151     |
| 12          | Gross Operating Profit.....  |       | 42,485      | 52,990      |
| 13          | Depreciation and Amortization.....                                       |       | 18,138      | 19,347      |
|             | Charges from Affiliates Other than Interest:                             |       |             |             |
| 14          | Management Fees.....   |       | 0           | 0           |
| 15          | Other.....   | 3     | 12,620      | 12,029      |
| 16          | Income (Loss) from Operations.....                                       |       | 11,727      | 21,614      |
|             | Other Income (Expenses):   |       |             |             |
| 17          | Interest Expense - Affiliates.....                                       |       | 0           | 0           |
| 18          | Interest Expense - External.....   |       | 0           | (11)        |
| 19          | CRDA Related Income (Expense) - Net.....                                 |       | (2,231)     | (2,291)     |
| 20          | Nonoperating Income (Expense) - Net.....                                 | 9     | 983         | 588         |
| 21          | Total Other Income (Expenses).....                                       |       | (1,248)     | (1,714)     |
| 22          | Income (Loss) Before Taxes and Extraordinary Items.....                  |       | 10,479      | 19,900      |
| 23          | Provision (Credit) for Income Taxes.....                                 |       | 4,503       | 11,235      |
| 24          | Income (Loss) Before Extraordinary Items.....                            |       | 5,976       | 8,665       |
| 25          | Extraordinary Items (Net of Income Taxes -<br>2010, \$0; 2009, \$0)..... |       | 0           | 0           |
| 26          | Net Income (Loss).....   |       | \$5,976     | \$8,665     |

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 SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)                                      | Notes | 2010<br>(c) | 2009<br>(d) |
|-------------|---|-------|-------------|-------------|
|             | Revenue:  |       |             |             |
| 1           | Casino.....   |       | \$81,864    | \$86,637    |
| 2           | Rooms.....  |       | 11,109      | 10,810      |
| 3           | Food and Beverage.....                                  |       | 13,221      | 13,841      |
| 4           | Other.....  |       | 3,170       | 3,374       |
| 5           | Total Revenue.....                                      |       | 109,364     | 114,662     |
| 6           | Less: Promotional Allowances.....                       |       | 32,172      | 35,380      |
| 7           | Net Revenue.....  |       | 77,192      | 79,282      |
|             | Costs and Expenses:                                     |       |             |             |
| 8           | Cost of Goods and Services.....                         |       | 49,188      | 48,786      |
| 9           | Selling, General, and Administrative.....               |       | 8,664       | 9,250       |
| 10          | Provision for Doubtful Accounts.....                    |       | 560         | 379         |
| 11          | Total Costs and Expenses.....                           |       | 58,412      | 58,415      |
| 12          | Gross Operating Profit.....                             |       | 18,780      | 20,867      |
| 13          | Depreciation and Amortization.....                      |       | 5,976       | 6,490       |
|             | Charges from Affiliates Other than Interest:            |       |             |             |
| 14          | Management Fees.....                                    |       | 0           | 0           |
| 15          | Other.....  | 3     | 4,255       | 4,033       |
| 16          | Income (Loss) from Operations.....                      |       | 8,549       | 10,344      |
|             | Other Income (Expenses):                                |       |             |             |
| 17          | Interest Expense - Affiliates.....                      |       | 0           | 0           |
| 18          | Interest Expense - External.....                        |       | 0           | (1)         |
| 19          | CRDA Related Income (Expense) - Net.....                |       | (371)       | (1,561)     |
| 20          | Nonoperating Income (Expense) - Net.....                | 9     | 441         | 199         |
| 21          | Total Other Income (Expenses).....                      |       | 70          | (1,363)     |
| 22          | Income (Loss) Before Taxes and Extraordinary Items..... |       | 8,619       | 8,981       |
| 23          | Provision (Credit) for Income Taxes.....                |       | 3,432       | 6,262       |
| 24          | Income (Loss) Before Extraordinary Items.....           |       | 5,187       | 2,719       |
|             | Extraordinary Items (Net of Income Taxes -              |       |             |             |
| 25          | 2010, \$0; 2009, \$0).....                              |       | 0           | 0           |
| 26          | Net Income (Loss).....                                  |       | \$5,187     | \$2,719     |

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 NINE MONTHS ENDED SEPTEMBER 30, 2010

(UNAUDITED)  
(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)                   | Notes | Common Stock  |               | Preferred Stock |               | Additional<br>Paid-In<br>Capital<br>(g) | (h) | Retained<br>Earnings<br>(Accumulated<br>Deficit)<br>(i) | Total<br>Stockholders'<br>Equity<br>(Deficit)<br>(j) |
|-------------|--------------------------------------|-------|---------------|---------------|-----------------|---------------|---|-----|---|--|
|             |                                      |       | Shares<br>(c) | Amount<br>(d) | Shares<br>(e)   | Amount<br>(f) |   |     |   |  |
| 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.....        |       |               |               |                 |               |   |     | 5,976   | 5,976  |
| 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, September 30, 2010 .....    |       | 0             | \$0           | 0               | \$0           | \$715,000                               | \$0 | (\$33,648)  | \$681,352  |

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, 2010 AND 2009

(UNAUDITED)

(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2010<br>(c) | 2009<br>(d) |
|-------------|--|-------|-------------|-------------|
| 1           | CASH PROVIDED (USED) BY OPERATING ACTIVITIES..               |       | (\$1,861)   | (\$6,418)   |
|             | 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.....                |       | (3,212)     | (1,618)     |
| 5           | Proceeds from Disposition of Property and Equipment.....     |       | 222         | 16          |
| 6           | CRDA Obligations .....                                       |       | (2,747)     | (2,850)     |
| 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.....        |       | (5,737)     | (4,452)     |
|             | CASH FLOWS FROM FINANCING ACTIVITIES:                        |       |             |             |
| 13          | Proceeds from Short-Term Debt .....                          |       | 0           | 0           |
| 14          | Payments to Settle Short-Term Debt.....                      |       | (5)         | (11)        |
| 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)         | (11)        |
| 24          | Net Increase (Decrease) in Cash and Cash Equivalents.....    |       | (7,603)     | (10,881)    |
| 25          | Cash and Cash Equivalents at Beginning of Period.....        |       | 16,047      | 21,588      |
| 26          | Cash and Cash Equivalents at End of Period.....              |       | \$8,444     | \$10,707    |
|             | CASH PAID DURING PERIOD FOR:                                 |       |             |             |
| 27          | Interest (Net of Amount Capitalized).....                    |       | \$0         | \$0         |
| 28          | Income Taxes.....  |       | \$230       | \$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

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)

(\$ IN THOUSANDS)

| Line<br>(a) | Description<br>(b)   | Notes | 2010<br>(c) | 2009<br>(d) |
|-------------|--|-------|-------------|-------------|
|             | <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                 |       |             |             |
| 29          | Net Income (Loss).....                                       |       | \$5,976     | \$8,665     |
| 30          | Depreciation and Amortization of Property and Equipment..... |       | 18,132      | 19,333      |
| 31          | Amortization of Other Assets.....                            |       | 6           | 14          |
| 32          | Amortization of Debt Discount or Premium.....                |       | 0           | 0           |
| 33          | Deferred Income Taxes - Current .....                        |       | 3,654       | 6,530       |
| 34          | Deferred Income Taxes - Noncurrent .....                     |       | 17,750      | (276)       |
| 35          | (Gain) Loss on Disposition of Property and Equipment.....    |       | (221)       | (13)        |
| 36          | (Gain) Loss on CRDA-Related Obligations.....                 |       | 2,231       | 2,291       |
| 37          | (Gain) Loss from Other Investment Activities.....            |       | 0           | 0           |
| 38          | (Increase) Decrease in Receivables and Patrons' Checks ..... |       | (278)       | (430)       |
| 39          | (Increase) Decrease in Inventories .....                     |       | 378         | 203         |
| 40          | (Increase) Decrease in Other Current Assets.....             |       | (3,569)     | (4,846)     |
| 41          | (Increase) Decrease in Other Assets.....                     |       | 0           | 21          |
| 42          | Increase (Decrease) in Accounts Payable.....                 |       | 594         | 356         |
| 43          | Increase (Decrease) in Other Current Liabilities .....       |       | 98          | 1,765       |
| 44          | Increase (Decrease) in Other Liabilities .....               |       | 8,977       | 8,805       |
| 45          | Net (Increase) Decrease in Invest. Advances and R.....       |       | (55,589)    | (48,836)    |
| 46          | Amortization of Deferred Finance Charges .....               |       | 0           | 0           |
| 47          | Net Cash Provided (Used) By Operating Activities.....        |       | (\$1,861)   | (\$6,418)   |

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

|    |  |  |           |           |
|----|--|--|-----------|-----------|
|    | <b>ACQUISITION OF PROPERTY AND EQUIPMENT:</b>                  |  |           |           |
| 48 | Additions to Property and Equipment.....                       |  | (\$3,212) | (\$1,618) |
| 49 | Less: Capital Lease Obligations Incurred.....                  |  | 0         | 0         |
| 50 | Cash Outflows for Property and Equipment.....                  |  | (\$3,212) | (\$1,618) |
|    | <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, 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.

11/15/2010

Date



Scott Noey

Financial Controller

Title

009094-11

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 Harrah's Operating Company, Inc. ("HOC"). OSI is a holding company with its principal assets being investments in the Company and other subsidiaries. OSI is an indirect wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). 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").

On January 28, 2008, Harrah's was acquired by affiliates of Apollo Global Management, LLC and TPG Capital, LP. hereinafter referred to as the "Acquisition." Prior to the Acquisition, Atlantic City Showboat, Inc. (the "Predecessor Company") operated and owned the Showboat Hotel and Casino. The Predecessor Company was an indirect, wholly-owned subsidiary of HOC, which is a direct wholly-owned subsidiary Harrah's.

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.

**Acquisition of Harrah's** - As a result of the Acquisition, total equity was adjusted based on the purchase price assigned to the Company, retained earnings of the Company were eliminated and the assets and liabilities of the Company were adjusted to fair value with goodwill recorded for the excess of the purchase price over the fair value of the net tangible and intangible assets. Harrah's determined the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and estimates made by management.

**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** - As a result of the application of purchase accounting, land, buildings and equipment were recorded at their estimated fair values and useful lives as of the Acquisition date. Additions to land, buildings, and equipment are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

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

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

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.

**Goodwill** - The Company had no goodwill recorded in the accompanying consolidated balance sheet as of September 30, 2010 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 Standards Codification (“ASC”) 350, “Intangible Assets – Goodwill and Other.” The Company performs at least an annual review of goodwill for impairment.

**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. 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.

**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, 2010 and 2009, \$2,623 and \$2,979, respectively, was accrued for the cost of anticipated Total 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 in the accompanying statements of income. At September 30, 2010 and 2009, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$495 and \$510, respectively.

**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:

|                            | 2010             | 2009             |
|----------------------------|------------------|------------------|
| Food and Beverage          | \$ 18,439        | \$ 19,184        |
| Rooms                      | 5,904            | 6,786            |
| Other                      | 1,362            | 2,065            |
| Bus Program Cash           | 731              | 4,970            |
| Promotional Gaming Credits | 40,377           | 29,782           |
| Other Cash Complimentary   | 6,809            | 12,432           |
|                            | <u>\$ 73,622</u> | <u>\$ 75,219</u> |

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**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 nine months ended September 30, 2010 and 2009, which are included in cost of goods and services in the statement of income were approximately \$18,079 and \$19,287, respectively.

**Income Taxes** - The Company is included in the consolidated federal tax return of Harrah's and files a separate New Jersey tax return. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the statutory New Jersey tax.

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

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

**Reclassification** - Certain prior year balances have been reclassified to conform to the current year presentation.

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

The Company participates with HOC and Harrah's other subsidiaries in marketing, purchasing, insurance, employee benefit, and other programs that are defined and negotiated by HOC 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.

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

**Cash Activity with Harrah's 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 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 \$60 and \$75 for these costs for the nine months ended September 30, 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 approximately \$12,620 and \$12,029 respectively for these services for the nine months ended September 30, 2010 and 2009. 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)**  
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**NOTE 4 - OTHER CURRENT ASSETS**

Other Current Assets as of September 30 consisted of the following:

|                              | <u>2010</u>     | <u>2009</u>      |
|------------------------------|-----------------|------------------|
| Slot License                 | \$ 996          | \$ 1,068         |
| License Fee - House of Blues | 2,083           | 2,083            |
| Horse Tracks                 | 1,811           | 1,756            |
| Income Taxes                 | -               | 822              |
| Contracts / Utilities        | 344             | 381              |
| Entertainment                | 134             | 288              |
| Current Deffered Tax Asset   | 3,730           | 3,606            |
| Other                        | 700             | 722              |
|                              | <u>\$ 9,798</u> | <u>\$ 10,726</u> |

**NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES**

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

|   | <u>2010</u>       | <u>2009</u>       |
|---|-------------------|-------------------|
| Due from Affiliates                           | \$ 193,536        | \$ 139,356        |
| CRDA Deposits                                 | 17,745            | 24,105            |
| CRDA Bonds                                    | 21,048            | 21,417            |
|   | <u>38,793</u>     | <u>45,522</u>     |
| Less: Valuation Allowance on CRDA Investments | <u>(9,346)</u>    | <u>(12,920)</u>   |
| CRDA Investments, Net                         | 29,447            | 32,602            |
|   | <u>\$ 222,983</u> | <u>\$ 171,958</u> |

Due from Affiliates as of September 30, consisted of the following unsecured, non-interest bearing intercompany amounts:

|                        | <u>2010</u>       | <u>2009</u>       |
|------------------------|-------------------|-------------------|
| Harrah's Entertainment | \$ 193,536        | \$ 139,356        |
|                        | <u>\$ 193,536</u> | <u>\$ 139,356</u> |

**ATLANTIC CITY SHOWBOAT, INC.**  
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**NOTE 6 – LAND, BUILDINGS AND EQUIPMENT**

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

|   | <u>2010</u>       | <u>2009</u>       |
|---|-------------------|-------------------|
| Land and land Improvements                      | \$ 216,245        | \$ 216,245        |
| Building and Improvements                       | 380,307           | 379,870           |
| Furniture Fixtures & Equipment                  | 70,275            | 69,684            |
| Construction in Progress                        | 1,952             | 815               |
| Other Property and Equipment                    | <u>42</u>         | <u>35</u>         |
|   | 668,821           | 666,649           |
| Less: Accumulated Depreciation and Amortization | (66,809)          | (43,576)          |
| Land, Building and Equipment, Net               | <u>\$ 602,012</u> | <u>\$ 623,073</u> |

**NOTE 7 - OTHER ACCRUED EXPENSES**

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

|                                   | <u>2010</u>   | <u>2009</u>   |
|-----------------------------------|---------------|---------------|
| Salaries and Wages                | \$ 6,706      | \$ 6,113      |
| Taxes, other than taxes on Income | 1,483         | 1,918         |
| Marketing                         | 219           | 553           |
| Utilities                         | 665           | 456           |
| Regulatory Fees                   | 651           | 656           |
| Slot Tickets                      | 182           | 452           |
| Progressive Liability             | 1,663         | 1,590         |
| Advanced Sales                    | 574           | -             |
| Other                             | <u>3,471</u>  | <u>3,350</u>  |
|                                   | <u>15,614</u> | <u>15,088</u> |

**NOTE 8 – OTHER LIABILITIES**

Other Liabilities as of September 30 consisted of the following:

**ATLANTIC CITY SHOWBOAT, INC.**  
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|                              | <u>2010</u>      | <u>2009</u>      |
|------------------------------|------------------|------------------|
| Due to Affiliates, Long-Term | \$ 59,432        | \$ 48,941        |
| ASC 740 - Tax Reserve        | 13,570           | 11,636           |
| Other                        | <u>340</u>       | <u>263</u>       |
|                              | <u>73,342</u>    | <u>60,840</u>    |
| Atlantic City Region         | 20,347           | 15,746           |
| Other                        | <u>39,085</u>    | <u>33,195</u>    |
|                              | <u>\$ 59,432</u> | <u>\$ 48,941</u> |

The Atlantic City Region consists of Harrah's casino licenses operating in Atlantic City, New Jersey.

**NOTE 9 – NON-OPERATING INCOME (EXPENSE)**

For the nine months ended September 30, 2010 and 2009, Non-Operating Income (Expense) consisted of the following:

|                                | <u>2010</u> | <u>2009</u> |
|--------------------------------|-------------|-------------|
| Interest Income                | 762         | 786         |
| Project Write Downs & Reserves | -           | (181)       |
| Gain/Loss on Asset Sales       | 221         | 13          |
| Other Non Operating            | <u>-</u>    | <u>(30)</u> |
|                                | <u>983</u>  | <u>588</u>  |

**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.

**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>2010</u>   | <u>2009</u>   |
|--------------------------------------|---------------|---------------|
| CRDA Bonds - Net of amortized cost   | 14,131        | 14,074        |
| Deposits - Net of reserves           | 13,846        | 16,766        |
| Direct investments - Net of reserves | <u>1,470</u>  | <u>1,762</u>  |
|                                      | <u>29,447</u> | <u>32,602</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 \$1,015 and \$1,073, for the nine months ended September 30, 2010 and 2009, respectively, and is included in CRDA related expense, in the statement of income.

**ATLANTIC CITY SHOWBOAT, INC.**  
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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, 2010 and 2009 was \$118 and \$112, 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 \$6,061 to the NJSEA under the new agreement as of September 30, 2010.