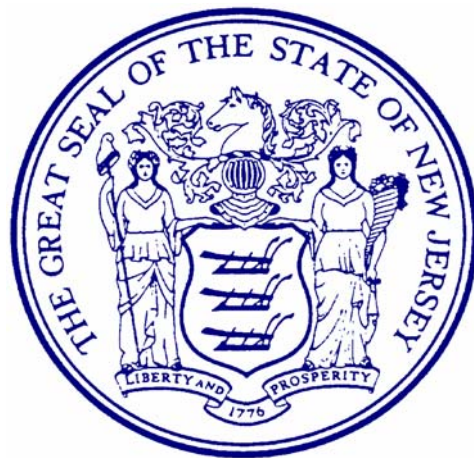


**ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT**

FOR THE QUARTER ENDED DECEMBER 31, 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 DECEMBER 31, 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.....		\$16,166	\$15,247
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2011, \$5,882 ; 2010, \$6,139).....	4	9,568	8,409
4	Inventories	2	904	1,203
5	Other Current Assets.....	5	5,050	10,481
6	Total Current Assets.....		31,688	35,340
7	Investments, Advances, and Receivables.....	6	253,739	216,783
8	Property and Equipment - Gross.....		672,049	669,451
9	Less: Accumulated Depreciation and Amortization.....		(94,215)	(72,727)
10	Property and Equipment - Net.....	7	577,834	596,724
11	Other Assets.....		103	86
12	Total Assets.....		\$863,364	\$848,933
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$4,385	\$4,399
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		13	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	8	12,473	15,043
19	Other Current Liabilities.....		817	842
20	Total Current Liabilities.....		17,688	20,284
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		42	0
23	Deferred Credits		68,376	72,360
24	Other Liabilities.....	9	98,432	79,729
25	Commitments and Contingencies.....	14	0	0
26	Total Liabilities.....		184,538	172,373
27	Stockholders', Partners', or Proprietor's Equity.....		678,826	676,560
28	Total Liabilities and Equity.....		\$863,364	\$848,933

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, 2011 AND 2010

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$256,790	\$283,272
2	Rooms.....		37,439	37,071
3	Food and Beverage.....		45,706	46,136
4	Other.....		11,077	10,376
5	Total Revenue.....		351,012	376,855
6	Less: Promotional Allowances.....		108,753	114,696
7	Net Revenue.....		242,259	262,159
	Costs and Expenses:			
8	Cost of Goods and Services.....		164,823	182,582
9	Selling, General, and Administrative.....		27,764	32,550
10	Provision for Doubtful Accounts.....		1,257	1,934
11	Total Costs and Expenses.....		193,844	217,066
12	Gross Operating Profit.....		48,415	45,093
13	Depreciation and Amortization.....		21,516	24,097
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	17,725	16,535
16	Income (Loss) from Operations.....		9,174	4,461
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(5)	0
19	CRDA Related Income (Expense) - Net.....	14	(1,138)	(2,497)
20	Nonoperating Income (Expense) - Net.....	13	306	1,194
21	Total Other Income (Expenses).....		(837)	(1,303)
22	Income (Loss) Before Taxes and Extraordinary Items.....		8,337	3,158
23	Provision (Credit) for Income Taxes.....	12	3,535	1,974
24	Income (Loss) Before Extraordinary Items.....		4,802	1,184
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0).....		0	0
26	Net Income (Loss).....		\$4,802	\$1,184

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, 2011 AND 2010

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	Revenue:			
1	Casino.....		\$56,072	\$57,667
2	Rooms.....		8,043	7,954
3	Food and Beverage.....		9,834	9,551
4	Other.....		2,519	2,317
5	Total Revenue.....		76,468	77,489
6	Less: Promotional Allowances.....		23,809	24,242
7	Net Revenue.....		52,659	53,247
	Costs and Expenses:			
8	Cost of Goods and Services.....		39,064	42,147
9	Selling, General, and Administrative.....		6,129	7,974
10	Provision for Doubtful Accounts.....		96	518
11	Total Costs and Expenses.....		45,289	50,639
12	Gross Operating Profit.....		7,370	2,608
13	Depreciation and Amortization.....		5,289	5,959
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,441	3,915
16	Income (Loss) from Operations.....		(2,360)	(7,266)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(5)	0
19	CRDA Related Income (Expense) - Net.....	14	(244)	(266)
20	Nonoperating Income (Expense) - Net.....	13	69	211
21	Total Other Income (Expenses).....		(180)	(55)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(2,540)	(7,321)
23	Provision (Credit) for Income Taxes.....	12	(1,140)	(2,529)
24	Income (Loss) Before Extraordinary Items.....		(1,400)	(4,792)
25	Extraordinary Items (Net of Income Taxes - 2011, \$0; 2010, \$0).....		0	0
26	Net Income (Loss).....		(\$1,400)	(\$4,792)

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 TWELVE MONTHS ENDED DECEMBER 31, 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.....								4,802	4,802
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	2011 Tax Adjustment								(2,536)	(2,536)
16										0
17										0
18										0
19	Balance, December 31, 2011		0	\$0	0	\$0	\$715,000	\$0	(\$36,174)	\$678,826

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, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$6,748	\$3,743
	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.....		(2,565)	(3,899)
5	Proceeds from Disposition of Property and Equipment.....		(67)	220
6	CRDA Obligations		(3,252)	(3,770)
7	Other Investments, Loans and Advances made.....		0	0
8	Proceeds from Other Investments, Loans, and Advances		0	2,911
9	Cash Outflows to Acquire Business Entities.....		0	0
10		0	0
11		0	
12	Net Cash Provided (Used) By Investing Activities.....		(5,884)	(4,538)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		13	0
14	Payments to Settle Short-Term Debt.....		0	(5)
15	Proceeds from Long-Term Debt		42	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.....		55	(5)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		919	(800)
25	Cash and Cash Equivalents at Beginning of Period.....		15,247	16,047
26	Cash and Cash Equivalents at End of Period.....		\$16,166	\$15,247
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$0	\$0

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

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2011 AND 2010

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2011 (c)	2010 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$4,802	\$1,184
30	Depreciation and Amortization of Property and Equipment.....		21,510	24,069
31	Amortization of Other Assets.....		6	28
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		580	952
34	Deferred Income Taxes - Noncurrent		(3,984)	13,684
35	(Gain) Loss on Disposition of Property and Equipment.....		12	(213)
36	(Gain) Loss on CRDA-Related Obligations.....		1,138	2,497
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(1,159)	(56)
39	(Increase) Decrease in Inventories		299	202
40	(Increase) Decrease in Other Current Assets.....		4,851	(1,550)
41	(Increase) Decrease in Other Assets.....		(23)	(104)
42	Increase (Decrease) in Accounts Payable.....		(14)	(475)
43	Increase (Decrease) in Other Current Liabilities		(2,595)	(328)
44	Increase (Decrease) in Other Liabilities		18,703	15,364
45	Net Increase(Decrease) in Investments, Adv, & R.....		(37,378)	(51,511)
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$6,748	\$3,743

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$2,565)	(\$3,899)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$2,565)	(\$3,899)
	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.

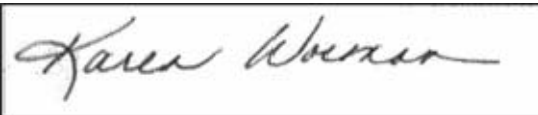
ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 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.

3/31/2012

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 doubtful accounts.

Inventories - Inventories, which consist primarily of food, beverage, and operating supplies, are stated at the lower of average cost or market value.

Land, Buildings and Equipment - Land, buildings and equipment are stated at historical cost, including capitalized interest on funds used to finance construction calculated at the borrowing rate applicable to the long-term debt. The Company capitalized no interest in 2011 and 2010, respectively. 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	3 to 40 years
Furniture, fixtures and equipment	1 to 40 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. No impairment of land, buildings and equipment was recognized by the company for all periods presented in the accompanying consolidated statement of operations.

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

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

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.

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:

	2011	2010
Food and Beverage	\$ 23,072	\$ 23,942
Rooms	7,317	7,754
Other	2,101	1,737
Bus Program Cash	954	929
Promotional Gaming Credits	50,812	52,001
Other Cash Complimentary	3,592	7,317
	\$ 87,848	\$ 93,680

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, 2011 and 2010, \$2,393 and \$2,715, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions. These amounts are recorded on Caesars’ balance sheets with the incremental charges included in due to affiliates, net in the accompanying balance sheet as the Company settles this liability with Caesars on a monthly basis.

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 December 31, 2011 and 2010, the liability related to outstanding cash-back points, which is based on historical redemption activity, was approximately \$384 and \$437, respectively.

Advertising Expenses – Advertising costs are expensed as incurred. Advertising expenses are \$2,433 and \$3,336 for the years ended December 31, 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 NJ Division of Taxation a tax equal to eight percent of the gross gaming revenue, as defined. Gaming taxes paid to the NJ Division of Taxation for the twelve months ended December 31, 2011 and 2010, which are included in cost of goods and services in the statement of income were approximately \$20,663 and \$22,803, respectively.

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

Income Taxes — The Company is included in the consolidated federal tax return of Caesars and files a separate New Jersey income 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 income tax rate.

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 recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

Recently Issued Accounting Pronouncements — In May 2011, the FASB issued ASU 2011-04, “*Fair Value Measurement*” to provide updated guidance related to fair value measurement and disclosure requirements. The changes result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (“IFRS”) and change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. The changes were originally to be effective for the Company on January 1, 2012. In December 2011, the FASB issued updated guidance deferring the effective date indefinitely pending further deliberations by the FASB at a future date.

In September 2011, the FASB issued ASU 2011-09, “*Compensation — Retirement Benefits — Multiemployer Plans*” to provide updated guidance related to disclosures around employer's participation in multiemployer benefit plans. The updated guidance increases the quantitative and qualitative disclosures an employer will be required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. This update relates only to disclosures. There was no impact on the Company's financial position, results of operations, or cash flows upon adoption.

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.

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 CEOC on a daily basis. Cash transfers from CEOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. The balance shown as “due from affiliates – net,” in the accompanying balance sheets is non interest bearing.

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 \$17,725 and \$16,535 respectively for these services for the twelve months ended December 31, 2011 and 2010. These fees are included in charges from affiliates other than interest in the statements of income.

Employee Benefit Plans — Caesars maintains a defined contribution savings and retirement plan in which 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. Due to economic conditions, Caesars suspended the employer match for all participating employees. As such, there were no Company contributions for the years ended December 31, 2011 and 2010, respectively.

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

Caesars also maintains deferred compensation plans, stock-option plans, and an executive supplemental savings plan under which certain employees of the Company's management may defer a portion of their compensation. The expenses charged by Caesars to the Company for employees' participation in these programs are included in the administrative and other services charge discussed above.

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. The Company recognized approximately \$251 and \$255 for equity award options in 2011 and 2010 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 \$142 and \$107 for these costs for the twelve months ended December 31, 2011 and 2010, respectively. The costs are included in other operating expenses in the accompanying statements of income.

NOTE 4 – RECEIVABLES AND PATRONS' CHECKS

Receivables and patrons' checks as of December 31 consist of the following:

	<u>2011</u>	<u>2010</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2011, \$5,733 & 2010, \$5,755	\$ 4,406	\$ 4,615
Other (Net of Allowance for Doubtful Accounts- 2011, \$149 & 2010, \$384	<u>5,162</u>	<u>3,794</u>
	<u>\$ 9,568</u>	<u>\$ 8,409</u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2011</u>	<u>2010</u>
Slot License	\$ 652	\$ 664
License Fee - House of Blues	1,458	1,458
Horse Tracks	-	1,801
Income Taxes	203	3,085
Contracts / Utilities	173	173
Entertainment	81	215
Current Deferred Tax Asset	2,111	2,702
Other	<u>372</u>	<u>383</u>
	<u>\$ 5,050</u>	<u>\$ 10,481</u>

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

NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2011</u>	<u>2010</u>
Due from Caesars Entertainment	\$ 222,116	\$ 186,932
CRDA Deposits	20,749	18,479
CRDA Bonds	<u>21,161</u>	<u>20,915</u>
	<u>41,910</u>	<u>39,394</u>
Less: Valuation Allowance on CRDA Investments	<u>(10,287)</u>	<u>(9,543)</u>
CRDA Investments, Net	31,623	29,851
	<u>\$ 253,739</u>	<u>\$ 216,783</u>

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2011</u>	<u>2010</u>
Land and Land Improvements	\$ 216,379	\$ 216,374
Building and Improvements	381,165	380,309
Capital Leases	38	-
Furniture Fixtures & Equipment	74,214	70,476
Construction in Progress	253	2,292
Other Property and Equipment	<u>-</u>	<u>-</u>
	672,049	669,451
Less: Accumulated Depreciation and Amortization	(94,215)	(72,727)
Land, Building and Equipment, Net	<u>\$ 577,834</u>	<u>\$ 596,724</u>

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

NOTE 8 - OTHER ACCRUED EXPENSES

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

	2011	2010
Salaries and Wages	\$ 4,434	\$ 6,694
Taxes, other than taxes on Income	1,842	1,190
Progressive Liability	1,315	1,467
Other	4,882	5,692
	<u>12,473</u>	<u>15,043</u>

NOTE 9 – OTHER LIABILITIES

Other Liabilities as of December 31 consisted of the following:

	2011	2010
Due to Affiliates, Long-Term	\$ 77,113	\$ 62,470
FIN 48 - Tax Reserve	20,931	16,979
Other	388	280
	<u>98,432</u>	<u>79,729</u>
Atlantic City Region	28,826	21,727
Other	48,287	40,743
	<u>\$ 77,113</u>	<u>\$ 62,470</u>

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

NOTE 10 – LEASES

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2014. Rental expense included in the accompanying statement of income for the twelve months ended December 31, 2011 and 2010 was approximately \$3,037 and \$3,132, respectively.

Future minimum lease payments due under the non-cancelable capital and operating leases as of December 31, 2011, are as follows:

	Lease Obligations	
	Capital	Operating
2012	\$ 16	\$ 542
2013	16	369
2014	16	98
2015	15	
Total minimum lease payments	<u>\$ 63</u>	<u>\$ 1,009</u>
Less: Imputed Interest	\$ (8)	
Present value of net minimum lease payments	<u>\$ 55</u>	<u>\$ 1,009</u>

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

NOTE 11 - HOUSE OF BLUES

The Company and HOB Boardwalk, Inc., (HOB) executed a lease dated as of September 14, 2004 (the “Original Lease”) which was amended as of February 18, 2005 (the Original Lease, as amended being the “Lease”) in which the Company leased to HOB certain space in the Casino/Hotel, and the Parties agreed that HOB would operate a House of Blues branded restaurant and entertainment facility.

As of February 18, 2005 the Parties entered into a License and Marketing Agreement (the “Original License Agreement”), whereby HOB licensed certain trademarks, service marks and trade dress to the Company to use outside of the Venue in specific areas known as Themed Areas.

On July 30, 2007 the parties entered into an agreement (“Agreement”) to restructure their relationship under which the Lease and Original License Agreement and other associated agreements were terminated. The Company paid HOB compensation for the benefits which it has enjoyed through the association with and use of the licensed marks since the beginning of the lease. The Company assumed possession and operation of the Venue and ownership of certain personal property of HOB. Under the Agreement the Company pays a fixed annual brand license fee to HOB and various other royalty fees associated with sales in the Venue and other HOB themed areas. The Agreement commenced July 30, 2007 and shall, unless sooner terminated in accordance with the terms, continue until December 31, 2020. The Company paid approximately \$2,700 for these costs for each of the years ended December 31, 2011 and 2010. This expense is included in the property, general, administrative, and other operating expense section in the accompanying consolidated statements of operations.

NOTE 12 – 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 2010 for New Jersey due to our execution of New Jersey statute of limitations extensions and 2005 through 2010 for the United States.

Significant components of the provision (benefit) for income taxes for the years ended December 31, 2011 and 2010 are as follows:

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

	<u>2011</u>	<u>2010</u>
Current		
Federal	\$ 4,011	\$ (10,725)
State	<u>-</u>	<u>(439)</u>
	\$ 4,011	\$ (11,164)
Deferred	<u>(476)</u>	<u>13,138</u>
Provision for income taxes	<u>\$ 3,535</u>	<u>\$ 1,974</u>

The provision for income taxes for the years ended December 31, 2011 and 2010, 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 reports all of the Company's federal income taxes of which the Company's portion was an expense of \$900 in 2011 and a benefit of \$10,400 in 2010.

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 components of the Company's deferred tax assets and liabilities as of December 31, 2011 and 2010, were as follows:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Allowance for doubtful accounts	\$ 2,403	\$ 547
Contingencies	12,329	8,663
CRDA investment obligation	5,040	4,131
Grantor trust	96	2,819
Tax credit carryovers	838	646
Net Operating loss carryovers	<u>-</u>	<u>1,652</u>
	<u>20,706</u>	<u>18,458</u>
Deferred tax liabilities:		
Depreciation and other property related items	(87,393)	(85,793)
Other	<u>(110)</u>	<u>(824)</u>
	<u>(87,503)</u>	<u>(86,617)</u>
Net deferred tax liability	<u>\$ (66,797)</u>	<u>\$ (68,159)</u>

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

As of December 31, 2011 and 2010, the Company had New Jersey net operating loss (NOL) carryforwards of \$8,800 and \$22,500, respectively. These NOLs will begin to expire in 2029. In addition, the Company has an alternative minimum tax credit carryforward of \$2,000 which will not expire. The NOL and alternative minimum tax credit carryforwards per the income tax returns included unrecognized tax benefits taken in prior years. Due to application of ASC Topic 740, the NOLs and credits reflected on the tax returns are larger than the related deferred tax assets recognized for financial statement purposes. As of December 31, 2011, 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.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company accrued approximately \$1,100 and \$700 of interest during 2011 and 2010, respectively. In total, the Company accrued \$7,500 and \$6,400 for the payment of interest and penalties at December 31, 2011 and 2010, respectively.

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

During 2011, the Company identified certain deferred tax liabilities generated before 2009 related, primarily, to depreciation expense that were recorded on the financial statements of CEOC, the Company's parent, rather than being pushed down and recorded on the Company's financial statements. The net impact on the financial statements included in this report of correcting this error was to increase deferred tax liabilities and decrease retained earnings by \$2,536 thousand in the current year. There were no cash or income statement impacts as a result of this correction.

NOTE 13 – NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2011 and 2010, Non-Operating Income (Expense) consisted of the following:

	2011	2010
Interest Income	\$ 584	\$ 982
Project Write Downs & Reserves	(266)	-
Gain/Loss on Asset Sales	(12)	212
	<u>\$ 306</u>	<u>\$ 1,194</u>

NOTE 14 – 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 \$220 and \$260 as of December 31, 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

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

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 December 31, CRDA related assets were as follows:

	<u>2011</u>	<u>2010</u>
CRDA Bonds - Net of amortized cost	\$ 14,522	\$ 14,111
Deposits - Net of reserves	15,953	14,337
Direct investments - Net of reserves	<u>1,148</u>	<u>1,403</u>
	<u>\$ 31,623</u>	<u>\$ 29,851</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 \$1,138 and \$2,497, for the twelve months ended December 31, 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 twelve months ended December 31, 2011 and 2010 was \$153 and \$147, 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 \$418 and \$2,409 for the years ended December 31, 2011 and 2010, respectively, to the NJSEA under the new agreement.

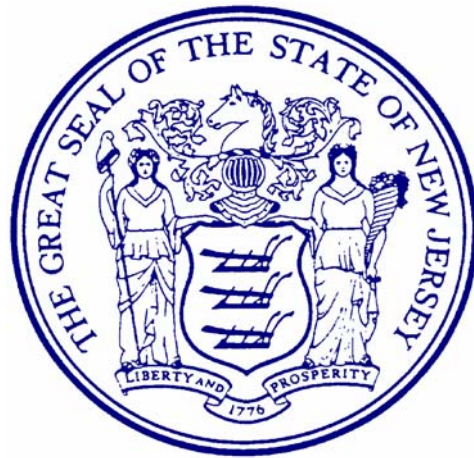
The AC Industry and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize Atlantic City casino marketing. This agreement was signed on November 2, 2011 and is set to expire on December 31,

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

2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for the AC Industry. As part of the agreement, the AC Industry provided an initial deposit of \$5,000 in December 2011 and will continue to pay \$30,000 annually for the next five years. The Company's obligation was \$243 in 2011. The Company's obligation for its portion of future payments is estimated at 11,679 equal to its fair-share of AC Industry casino revenues

**ATLANTIC CITY SHOWBOAT, INC.
ANNUAL FILINGS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

ATLANTIC CITY SHOWBOAT, INC.
ANNUAL SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS
FOR THE YEAR ENDED DECEMBER 31, 2011

(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.....	\$2,358		
2	Returned Patrons' Checks.....	7,780		
3	Total Patrons' Checks.....	10,138	\$5,733	\$4,405
4	Hotel Receivables.....	510	149	\$361
	Other Receivables:			
5	Receivables Due from Officers and Employees....	-		
6	Receivables Due from Affiliates.....	-		
7	Other Accounts and Notes Receivables.....	4,802		
8	Total Other Receivables.....	4,802		\$4,802
9	Totals (Form DGE-205).....	\$15,450	\$5,882	\$9,568

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	Description (g)	Amount (h)
10	Beginning Balance (January 1).....	\$2,115
11	Counter Checks Issued.....	73,750
12	Checks Redeemed Prior to Deposit.....	(53,047)
13	Checks Collected Through Deposits.....	(17,724)
14	Checks Transferred to Returned Checks.....	(2,736)
15	Other Adjustments.....	0
16	Ending Balance.....	\$2,358
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.....	3.4%

ATLANTIC CITY SHOWBOAT, INC. ANNUAL EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2011

(\$ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages		
			Other Employees (d)	Officers & Owners (e)	Totals (f)
	CASINO:				
1	Table and Other Games	649			
2	Slot Machines	69			
3	Administration	0			
4	Casino Accounting	97			
5	Simulcasting	1			
6	Other	0			
7	Total - Casino	816	\$15,452	\$0	\$15,452
8	ROOMS	275	6,747		6,747
9	FOOD AND BEVERAGE	728	16,109		16,109
10	GUEST ENTERTAINMENT	191	1,634		1,634
11	MARKETING	86	3,700	281	3,981
12	OPERATION AND MAINTENANCE	169	6,769		6,769
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	5	138	864	1,002
14	Accounting and Auditing	39	1,894	0	1,894
15	Security	120	3,854		3,854
16	Other Administrative and General	34	1,791	277	2,068
	OTHER OPERATED DEPARTMENTS:				
17	PBX	6	247		247
18	PARKING	19	219		219
19					0
20					0
21					0
22					0
23	TOTALS - ALL DEPARTMENTS	2,488	\$58,554	\$1,422	\$59,976