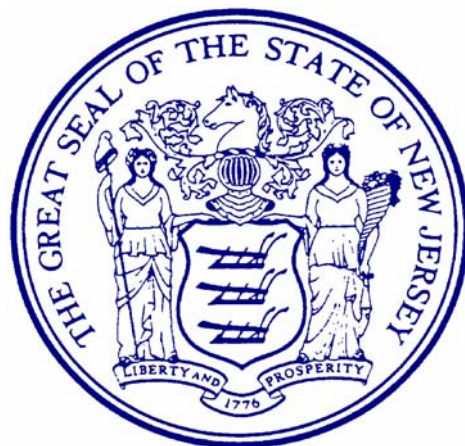


**ATLANTIC CITY SHOWBOAT, INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2012**

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



**OFFICE OF FINANCIAL INVESTIGATIONS
REPORTING MANUAL**

ATLANTIC CITY SHOWBOAT, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$15,542	\$13,283
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2012, \$5,330; 2011, \$6,369).....	4	8,433	9,859
4	Inventories		917	957
5	Other Current Assets.....	5	6,492	9,573
6	Total Current Assets.....		31,384	33,672
7	Investments, Advances, and Receivables.....	6	278,850	242,457
8	Property and Equipment - Gross.....		677,361	671,689
9	Less: Accumulated Depreciation and Amortization.....		(110,520)	(88,927)
10	Property and Equipment - Net.....	7	566,841	582,762
11	Other Assets.....		96	141
12	Total Assets.....		\$877,171	\$859,032
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$4,209	\$3,703
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		1,695	0
17	Income Taxes Payable and Accrued.....		(150)	0
18	Other Accrued Expenses.....	8	11,608	13,530
19	Other Current Liabilities.....		775	713
20	Total Current Liabilities.....		18,137	17,946
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		37	0
23	Deferred Credits		71,397	65,332
24	Other Liabilities.....	9	101,234	92,992
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		190,805	176,270
27	Stockholders', Partners', or Proprietor's Equity.....		686,366	682,762
28	Total Liabilities and Equity.....		\$877,171	\$859,032

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, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$182,806	\$200,718
2	Rooms.....		29,761	29,396
3	Food and Beverage.....		38,184	35,872
4	Other.....		9,002	8,558
5	Total Revenue.....		259,753	274,544
6	Less: Promotional Allowances.....		76,302	84,944
7	Net Revenue.....		183,451	189,600
	Costs and Expenses:			
8	Cost of Goods and Services.....		121,366	125,759
9	Selling, General, and Administrative.....		17,655	21,635
10	Provision for Doubtful Accounts.....		614	1,161
11	Total Costs and Expenses.....		139,635	148,555
12	Gross Operating Profit.....		43,816	41,045
13	Depreciation and Amortization.....		16,035	16,227
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	18,094	13,284
16	Income (Loss) from Operations.....		9,687	11,534
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(40)	0
19	CRDA Related Income (Expense) - Net.....		(2,220)	(894)
20	Nonoperating Income (Expense) - Net.....	11	316	237
21	Total Other Income (Expenses).....		(1,944)	(657)
22	Income (Loss) Before Taxes and Extraordinary Items.....		7,743	10,877
23	Provision (Credit) for Income Taxes.....		203	4,675
24	Income (Loss) Before Extraordinary Items.....		7,540	6,202
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$0; 20__, \$0).....		0	0
26	Net Income (Loss).....		\$7,540	\$6,202

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, 2012 AND 2011

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	Revenue:			
1	Casino.....		\$64,051	\$71,898
2	Rooms.....		11,331	10,971
3	Food and Beverage.....		13,406	12,772
4	Other.....		3,855	3,251
5	Total Revenue.....		92,643	98,892
6	Less: Promotional Allowances.....		25,675	29,301
7	Net Revenue.....		66,968	69,591
	Costs and Expenses:			
8	Cost of Goods and Services.....		42,046	44,745
9	Selling, General, and Administrative.....		6,561	7,548
10	Provision for Doubtful Accounts.....		297	518
11	Total Costs and Expenses.....		48,904	52,811
12	Gross Operating Profit.....		18,064	16,780
13	Depreciation and Amortization.....		5,401	5,332
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	5,886	4,694
16	Income (Loss) from Operations.....		6,777	6,754
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(40)	0
19	CRDA Related Income (Expense) - Net.....		(873)	(324)
20	Nonoperating Income (Expense) - Net.....	11	122	104
21	Total Other Income (Expenses).....		(791)	(220)
22	Income (Loss) Before Taxes and Extraordinary Items.....		5,986	6,534
23	Provision (Credit) for Income Taxes.....		(712)	2,643
24	Income (Loss) Before Extraordinary Items.....		6,698	3,891
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$____; 20__, \$____).....		0	0
26	Net Income (Loss).....		\$6,698	\$3,891

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, 2011 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(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, 2010						\$715,000		(\$38,440)	\$676,560
2	Net Income (Loss) - 2011.....								4,802	4,802
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	2011 Tax Adjustment								(2,536)	(2,536)
7										0
8										0
9										0
10	Balance, December 31, 2011.....		0	0	0	0	715,000	0	(36,174)	678,826
11	Net Income (Loss) - 2012.....								7,540	7,540
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, September 30, 2012		0	\$0	0	\$0	\$715,000	\$0	(\$28,634)	\$686,366

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 CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$1,573	\$2,656
	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.....		(1,692)	(2,272)
5	Proceeds from Disposition of Property and Equipment.....		11	0
6	CRDA Obligations		(2,198)	(2,348)
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.....		(3,879)	(4,620)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		1,682	0
14	Payments to Settle Short-Term Debt.....		0	0
15	Proceeds from Long-Term Debt		0	0
16	Costs of Issuing Debt.....		0	0
17	Payments to Settle Long-Term Debt.....		0	0
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....		0	0
20	Payments of Dividends or Capital Withdrawals.....		0	0
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....		1,682	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(624)	(1,964)
25	Cash and Cash Equivalents at Beginning of Period.....		16,166	15,247
26	Cash and Cash Equivalents at End of Period.....		\$15,542	\$13,283
	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 NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2012 (c)	2011 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$7,540	\$6,202
30	Depreciation and Amortization of Property and Equipment.....		16,035	16,222
31	Amortization of Other Assets.....		0	5
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	2,599
34	Deferred Income Taxes - Noncurrent		3,021	(7,028)
35	(Gain) Loss on Disposition of Property and Equipment.....		(11)	12
36	(Gain) Loss on CRDA-Related Obligations.....		2,220	894
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		1,135	(1,450)
39	(Increase) Decrease in Inventories		(13)	246
40	(Increase) Decrease in Other Current Assets.....		(1,442)	(1,691)
41	(Increase) Decrease in Other Assets.....		7	(60)
42	Increase (Decrease) in Accounts Payable.....		(176)	(696)
43	Increase (Decrease) in Other Current Liabilities		(1,057)	(1,642)
44	Increase (Decrease) in Other Liabilities		2,797	13,263
45	Net Increase(Decrease) in Investments, Adv, & R.....		(28,483)	(24,220)
46			0	0
47	Net Cash Provided (Used) By Operating Activities.....		\$1,573	\$2,656

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$1,692)	(\$2,272)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$1,692)	(\$2,272)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
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.
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	215,596	\$16,530	0	\$0
2	Food	1,110,721	14,872	0	0
3	Beverage	5,819,404	9,142	0	0
4	Travel	0	0	5,731	1,002
5	Bus Program Cash	15,244	470	0	0
6	Promotional Gaming Credits	1,078,715	31,083	0	0
7	Complimentary Cash Gifts	42,782	1,976	0	0
8	Entertainment	20,619	688	2,299	185
9	Retail & Non-Cash Gifts	42,354	682	0	0
10	Parking	0	0	0	0
11	Other	98,309	859	19,259	1,372
12	Total	8,443,744	\$76,302	27,289	\$2,559

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2012

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	76,863	\$5,897	0	\$0
2	Food	399,100	5,344	0	0
3	Beverage	1,878,340	2,929	0	0
4	Travel	0	0	1,882	330
5	Bus Program Cash	5,495	128	0	0
6	Promotional Gaming Credits	319,620	10,064	0	0
7	Complimentary Cash Gifts	13,334	395	0	0
8	Entertainment	9,483	374	180	18
9	Retail & Non-Cash Gifts	13,474	202	0	0
10	Parking	0	0	0	0
11	Other	39,187	342	8,746	666
12	Total	2,754,896	\$25,675	10,808	\$1,014

*No item in this category (Other) exceeds 5%.

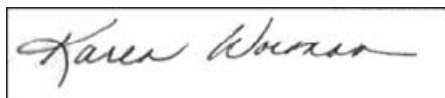
ATLANTIC CITY SHOWBOAT, INC. STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Division'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.S.A. 5:12-84a(1)-(5) during the quarter.

11/15/2012

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 2012 and 2011, 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	5 to 40 years
Furniture, fixtures and equipment	3 to 20 years

The Company reviews the carrying value of land, buildings, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If undiscounted expected future cash flows 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 - Casino revenues are measured by the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers’ possession. Food and beverage, rooms, and other operating revenues are recognized when services are performed. Advance deposits on rooms and advance ticket sales are recorded as customer deposits until services are provided to the customer. The Company does not recognize as revenue taxes collected on goods or services sold to its customers.

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:

	2012	2011
Food and Beverage	\$ 23,256	\$ 22,371
Rooms	6,418	17,468
Other	4,516	2,037
Bus Program Cash	470	729
Promotional Gaming Credits	31,083	39,577
Other Cash Complimentary	1,976	2,762
	\$ 67,719	\$ 84,944

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, 2012 and 2011, \$2,066 and \$2,567, 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 September 30, 2012 and 2011, the liability related to outstanding NNRR points, which is based on historical redemption activity, was approximately \$342 and \$442, respectively.

Advertising Expenses – Advertising costs are expensed as incurred. Advertising expenses are \$2,486 and \$1,773 for the nine months ended September 30, 2012 and 2011, 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 nine months ended September 30, 2012 and 2011, which are included in cost of goods and services in the statement of income were approximately \$12,989 and \$14,395, respectively.

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

In House Progressive Liability - In March 2012, the DGE approved a regulation which allowed casinos to remove in-house progressives from the floor. Casinos were no longer required to keep in-house progressives once established on the floor, as a result, the regulations allowed us to remove the liability (reset and incremental portion) from the progressive slot liability account. The offset was an increase to the slot revenue.

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.

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 \$18,094 and \$13,284 respectively for these services for the nine months ended September 30, 2012 and 2011. These fees are included in charges from affiliates other than interest in the statements of income.

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 \$101 for these costs for the nine months ended September 30, 2012 and 2011, respectively. The costs are included in other operating expenses in the accompanying statements of income.

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

NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS

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

	<u>2012</u>	<u>2011</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2012, \$5,319 & 2011, \$5,864	\$ 3,460	\$ 4,077
Other (Net of Allowance for Doubtful Accounts- 2012, \$11 & 2011, \$505	<u>4,973</u>	<u>5,782</u>
	<u>\$ 8,433</u>	<u>\$ 9,859</u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2012</u>	<u>2011</u>
Slot License	\$ 975	\$ 993
License Fee - House of Blues	2,083	2,083
Horse Tracks	-	-
Real Estate Taxes	-	2,400
Entertainment	116	103
Current Deffered Tax Asset	2,111	2,945
Other	<u>1,207</u>	<u>1,049</u>
	<u>\$ 6,492</u>	<u>\$ 9,573</u>

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NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2012</u>	<u>2011</u>
Due from Caesars Entertainment	\$ 247,253	\$ 211,170
CRDA Deposits	19,337	20,840
CRDA Bonds	<u>24,547</u>	<u>20,552</u>
	<u>43,884</u>	<u>41,392</u>
Less: Valuation Allowance on CRDA Investments	<u>(12,287)</u>	<u>(10,105)</u>
CRDA Investments, Net	31,597	31,287
	<u>\$ 278,850</u>	<u>\$ 242,457</u>

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Land and Land Improvements	\$ 216,379	\$ 216,374
Building and Improvements	383,218	381,109
Capital Leases	-	-
Furniture Fixtures & Equipment	77,486	73,544
Construction in Progress	278	662
Other Property and Equipment	<u>-</u>	<u>-</u>
	677,361	671,689
Less: Accumulated Depreciation and Amortization	(110,520)	(88,927)
Land, Building and Equipment, Net	<u>\$ 566,841</u>	<u>\$ 582,762</u>

NOTE 8 - OTHER ACCRUED EXPENSES

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

	<u>2012</u>	<u>2011</u>
Salaries and Wages	\$ 4,142	\$ 4,574
Taxes, other than taxes on Income	1,245	1,507
Progressive Liability	99	1,276
Other	<u>6,122</u>	<u>6,173</u>
	<u>\$ 11,608</u>	<u>\$ 13,530</u>

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NOTE 9 – OTHER LIABILITIES

Other Liabilities as of September 30 consisted of the following:

	<u>2012</u>	<u>2011</u>
Due to Affiliates, Long-Term	\$ 81,058	\$ 71,655
FIN 48 - Tax Reserve	19,286	20,976
Other	890	361
	<u>101,234</u>	<u>92,992</u>
Atlantic City Region	30,250	26,296
Other	50,808	45,359
	<u>\$ 81,058</u>	<u>\$ 71,655</u>

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

NOTE 10 - 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 brand license and royalties for a total of \$2,009 and \$1,988 as of September 30, 2012 and 2011, respectively. This expense is included in the property, general, administrative, and other operating expense section in the accompanying consolidated statements of operations.

NOTE 11 – NON-OPERATING INCOME (EXPENSE)

For the nine months ended September 30, 2012 and 2011, Non-Operating Income (Expense) consisted of the following:

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	<u>2012</u>	<u>2011</u>
Interest Income	\$ 568	\$ 410
Gain/Loss on Asset Sales	(56)	(173)
Severance-Project Renewal	(196)	
	<u>\$ 316</u>	<u>\$ 237</u>

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation - The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

Insurance Reserve - The Company is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets include insurance allowances of approximately \$90 and \$235 as of September 30, 2012 and 2011, respectively. Actual results may differ from these reserve amounts.

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

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

	<u>2012</u>	<u>2011</u>
CRDA Bonds - Net of amortized cost	\$ 16,990	\$ 14,059
Deposits - Net of reserves	13,651	16,013
Direct investments - Net of reserves	956	1,214
	<u>\$ 31,597</u>	<u>\$ 31,286</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 \$2,220 and \$894, for the nine months ended September 30, 2012 and 2011, respectively, and is included in CRDA related expense, in the statement of income.

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

Once CRDA Bonds are issued we have concluded that the bonds are held-to-maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such the CRDA Bonds are measured at amortized cost. As there is no market for the CRDA Bonds, its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value. The Company accretes such discount over the remaining life of the bonds. Accretion for the nine months ended September 30, 2012 and 2011 was \$123 and \$97, respectively, and is included in CRDA related expense, in the statement of income.

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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 was provided in installments through 2011. In exchange for this funding, the NJSEA and the three active New Jersey racetracks could not conduct any casino gaming at the racetracks until December 31, 2011. The Company paid \$7,265, equal to its fair-share of AC Industry casino revenues

The AC Industry and the CRDA entered into an agreement with the Atlantic City Alliance (the "ACA") to provide funding to subsidize the Atlantic City market. This agreement was signed on November 2, 2011 and is set to expire on December 31, 2016. The agreement provides that in exchange for funding, the ACA will create and implement a marketing plan for Atlantic City. 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 has paid \$1,634 for the nine months ended September 30, 2012. The Company's obligation for its portion of future payments is estimated at \$9,264 equal to its fair-share of AC Industry casino revenues.