

ATLANTIC CITY SHOWBOAT, INC.

QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2013

**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 JUNE 30, 2013 AND 2012

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$16,677	\$16,987
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2013, \$4,240; 2012, \$5,321).....	4	6,939	10,959
4	Inventories		821	1,242
5	Other Current Assets.....	5	1,232	4,764
6	Total Current Assets.....		25,669	33,952
7	Investments, Advances, and Receivables.....	6	30,911	265,727
8	Property and Equipment - Gross.....		119,205	673,378
9	Less: Accumulated Depreciation and Amortization.....		(8,355)	(104,630)
10	Property and Equipment - Net.....	7	110,850	568,748
11	Other Assets.....		22	28
12	Total Assets.....		\$167,452	\$868,455
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$5,110	\$6,889
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		765	13
17	Income Taxes Payable and Accrued.....		0	114
18	Other Accrued Expenses.....	8	11,745	12,119
19	Other Current Liabilities.....		833	909
20	Total Current Liabilities.....		18,453	20,044
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....		809	42
23	Deferred Credits		(2,651)	69,184
24	Other Liabilities.....	9	293,387	99,517
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		309,998	188,787
27	Stockholders', Partners', or Proprietor's Equity.....		(142,546)	679,668
28	Total Liabilities and Equity.....		\$167,452	\$868,455

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 SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	Revenue:			
1	Casino.....		\$94,508	\$118,755
2	Rooms.....		16,239	18,430
3	Food and Beverage.....		19,866	24,778
4	Other.....		5,184	5,147
5	Total Revenue.....		135,797	167,110
6	Less: Promotional Allowances.....		37,280	50,627
7	Net Revenue.....		98,517	116,483
	Costs and Expenses:			
8	Cost of Goods and Services.....		70,323	79,320
9	Selling, General, and Administrative.....		9,832	11,094
10	Provision for Doubtful Accounts.....		375	317
11	Total Costs and Expenses.....		80,530	90,731
12	Gross Operating Profit.....		17,987	25,752
13	Depreciation and Amortization.....	7	8,148	10,634
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	9,362	12,208
16	Income (Loss) from Operations.....		477	2,910
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(74)	0
19	CRDA Related Income (Expense) - Net.....		(1,173)	(1,347)
20	Nonoperating Income (Expense) - Net.....		2,980	194
21	Total Other Income (Expenses).....		1,733	(1,153)
22	Income (Loss) Before Taxes and Extraordinary Items.....		2,210	1,757
23	Provision (Credit) for Income Taxes.....		1,201	915
24	Income (Loss) Before Extraordinary Items.....		1,009	842
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0).....		0	0
26	Net Income (Loss).....		\$1,009	\$842

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 JUNE 30, 2013 AND 2012

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	Revenue:			
1	Casino.....		\$49,880	\$58,940
2	Rooms.....		8,856	10,078
3	Food and Beverage.....		10,781	13,554
4	Other.....		2,698	2,857
5	Total Revenue.....		72,215	85,429
6	Less: Promotional Allowances.....		20,362	25,866
7	Net Revenue.....		51,853	59,563
	Costs and Expenses:			
8	Cost of Goods and Services.....		37,256	40,404
9	Selling, General, and Administrative.....		4,910	5,184
10	Provision for Doubtful Accounts.....		178	157
11	Total Costs and Expenses.....		42,344	45,745
12	Gross Operating Profit.....		9,509	13,818
13	Depreciation and Amortization.....	7	1,826	5,328
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,632	6,207
16	Income (Loss) from Operations.....		3,051	2,283
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(35)	0
19	CRDA Related Income (Expense) - Net.....		(463)	(838)
20	Nonoperating Income (Expense) - Net.....		2,759	152
21	Total Other Income (Expenses).....		2,261	(686)
22	Income (Loss) Before Taxes and Extraordinary Items.....		5,312	1,597
23	Provision (Credit) for Income Taxes.....		2,314	790
24	Income (Loss) Before Extraordinary Items.....		2,998	807
	Extraordinary Items (Net of Income Taxes -			
25	20__, \$____; 20__, \$____).....		0	0
26	Net Income (Loss).....		\$2,998	\$807

The accompanying notes are an integral part of the financial statements.
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ATLANTIC CITY SHOWBOAT, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012 AND THE SIX MONTHS ENDED JUNE 30, 2013
(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, 2011.....						\$715,000		(\$36,336)	\$678,664
2	Net Income (Loss) - 2012.....								(380,653)	(380,653)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	.....									0
7	.....									0
8	.....									0
9	.....									0
10	Balance, December 31, 2012.....		0	0	0	0	715,000	0	(416,989)	298,011
11	Net Income (Loss) - 2013.....								1,009	1,009
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Equitization of Interco Balances						(441,566)			(441,566)
16	.....									0
17	.....									0
18	.....									0
19	Balance, June 30, 2013		0	\$0	0	\$0	\$273,434	\$0	(\$415,980)	(\$142,546)

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 SIX MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$2,556	\$3,823
	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.....		(2,371)	(1,548)
5	Proceeds from Disposition of Property and Equipment.....		20	1
6	CRDA Obligations		(1,076)	(1,455)
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.....		(3,427)	(3,002)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	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.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(871)	821
25	Cash and Cash Equivalents at Beginning of Period.....		17,548	16,166
26	Cash and Cash Equivalents at End of Period.....		\$16,677	\$16,987
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$35	\$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 SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2013 (c)	2012 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$1,009	\$842
30	Depreciation and Amortization of Property and Equipment.....		8,148	10,634
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		(1,524)	808
34	Deferred Income Taxes - Noncurrent		(15)	(1)
35	(Gain) Loss on Disposition of Property and Equipment.....		1,173	1,347
36	(Gain) Loss on CRDA-Related Obligations.....		0	0
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		259	(1,391)
39	(Increase) Decrease in Inventories		128	(338)
40	(Increase) Decrease in Other Current Assets.....		378	286
41	(Increase) Decrease in Other Assets.....		57	75
42	Increase (Decrease) in Accounts Payable.....		1,202	2,504
43	Increase (Decrease) in Other Current Liabilities		1,471	(148)
44	Increase (Decrease) in Other Liabilities		(348)	1,085
45	Net Increase(Decrease) in Investments, Adv, & R		(9,382)	(11,880)
46	Impairment of Tangible Assets		0	0
47	Net Cash Provided (Used) By Operating Activities.....		\$2,556	\$3,823

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$2,371)	(\$1,548)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$2,371)	(\$1,548)
	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 SIX MONTHS ENDED JUNE 30, 2013
(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	116,369	\$8,918	0	\$0
2	Food	550,981	7,379	0	0
3	Beverage	3,863,025	5,791	0	0
4	Travel	0	0	2,680	469
5	Bus Program Cash	6,420	205	0	0
6	Promotional Gaming Credits	448,282	13,618	0	0
7	Complimentary Cash Gifts	29,298	754	0	0
8	Entertainment	9,345	92	900	81
9	Retail & Non-Cash Gifts	15,288	254	0	0
10	Parking	0	0	0	0
11	Other	31,023	269	19,360	1,363
12	Total	5,070,031	\$37,280	22,940	\$1,913

FOR THE THREE MONTHS ENDED JUNE 30, 2013

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	60,846	\$4,663	0	\$0
2	Food	307,521	4,118	0	0
3	Beverage	1,947,678	2,986	0	0
4	Travel	0	0	1,368	239
5	Bus Program Cash	3,004	136	0	0
6	Promotional Gaming Credits	247,926	7,620	0	0
7	Complimentary Cash Gifts	19,017	508	0	0
8	Entertainment	6,995	55	300	29
9	Retail & Non-Cash Gifts	7,928	132		0
10	Parking	0	0	0	0
11	Other	16,625	144	12,349	920
12	Total	2,617,540	\$20,362	14,017	\$1,188

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

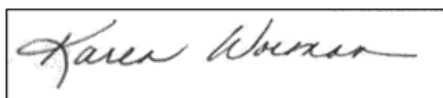
ATLANTIC CITY SHOWBOAT, INC. STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2013

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.

8/14/2013

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)

AMENDED SEPTEMBER 23, 2013 - FOOTNOTE #7

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.). 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.

The Operating Company is licensed to operate the facility by the New Jersey Division of Gaming (the "DGE") and is subject to rules and regulations established by the DGE. The Company's license was renewed July 1, 2008, and will expire on June 30, 2013.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and retail items, are stated at the lower of average cost.

Property and Equipment - The Company has significant capital invested in property and equipment, and judgments are made in determining the estimated useful lives of assets, salvage values to be assigned to assets, and if or when an asset has been impaired. The accuracy of these estimates affects the amount of depreciation and amortization expense recognized in the Company's financial results and whether the Company has a gain or loss on the disposal of an asset. The Company assigns lives to their assets based on their standard policy, which is established by management as representative of the useful life of each category of asset. The Company reviews the carrying value of their property and equipment 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. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition, and other economic, legal, and regulatory factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the lowest level of identifiable cash flows, which, for most of our assets, is the individual property.

Additions to property and equipment are stated at cost. The Company capitalizes the costs of improvements that extend the life of the asset. The Company expenses maintenance and repair costs as incurred. Gains or losses on the dispositions of property and equipment are included in the determination of income. Interest expense is capitalized on internally constructed assets at the applicable weighted-average borrowing rates of interest.

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

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	2 1/2 to 40 years

Fair Value - The fair value hierarchy defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. The fair value hierarchy establishes three tiers, which prioritize the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Entities are permitted to choose to measure certain financial instruments and other items at fair value. We have not elected the fair value measurement option for any of our assets or liabilities that meet the criteria for this option.

The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature.

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.

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

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 June 30:

	<u>2013</u>	<u>2012</u>
Food and Beverage	\$ 9,929	\$ 12,719
Rooms	3,541	3,531
Other	349	699
Bus Program Cash	205	342
Promotional Gaming Credits	13,618	21,019
Other Cash Complimentary	<u>754</u>	<u>1,581</u>
	<u>\$ 28,396</u>	<u>\$ 39,891</u>

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 June 30, 2013 and 2012, \$1,766 and \$2,349, 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 June 30, 2013 and 2012, the liability related to outstanding NNRR points, which is based on historical redemption activity, was approximately \$272 and \$328, respectively.

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 six months ended June 30, 2013 and 2012, which are included in cost of goods and services in the statement of income were approximately \$6,800 and \$8,678, 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.

Property Tax – The City of Atlantic City increased property taxes approximately 17% for the year 2013.

Use of Estimates - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Seasonal Factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the six months ended June 30, 2013 are not necessarily indicative of the results of operations for the full year.

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

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

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 \$9,362 and \$12,208 respectively for these services for the six months ended June 30, 2013 and 2012. 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 \$85 and \$90 for these costs for the six months ended June 30, 2013 and 2012, respectively. The costs are included in other operating expenses in the accompanying statements of income.

Equitization of Intercompany Balances - During June 2013, the Company elected to equitize certain intercompany balances with its parent and affiliates that were previously classified as a receivable/liability. Offset to this was Additional Paid in Capital. This is separately shown on the Statement of Changes in Stockholder's Equity.

ATLANTIC CITY SHOWBOAT, INC.
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(Unaudited)
(Dollars in Thousands)

NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS

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

	<u>2013</u>	<u>2012</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2013, \$4,216 & 2012, \$5,273	\$ 2,702	\$ 3,826
Other (Net of Allowance for Doubtful Accounts- 2013, \$24 & 2012, \$48	4,237	7,133
	<u>\$ 6,939</u>	<u>\$ 10,959</u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2013</u>	<u>2012</u>
Slot License	\$ 1,091	\$ 1,300
License Fee - House of Blues	208	208
Entertainment	31	311
Current Deffered Tax Asset	(1,128)	2,111
Other	1,030	834
	<u>\$ 1,232</u>	<u>\$ 4,764</u>

ATLANTIC CITY SHOWBOAT, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2013</u>	<u>2012</u>
Due from Caesars Entertainment	\$ -	\$ 234,060
CRDA Deposits	18,958	19,762
CRDA Bonds	<u>25,909</u>	<u>23,377</u>
	<u>44,867</u>	<u>43,139</u>
Less: Valuation Allowance on CRDA Investments	<u>(13,956)</u>	<u>(11,472)</u>
CRDA Investments, Net	30,911	31,667
	<u>\$ 30,911</u>	<u>\$ 265,727</u>

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land and Land Improvements	\$ 25,748	\$ 216,379
Building and Improvements	79,281	381,446
Furniture Fixtures & Equipment	13,714	75,178
Construction in Progress	<u>462</u>	<u>375</u>
	119,205	673,378
Less: Accumulated Depreciation and Amortization	(8,355)	(104,630)
Land, Building and Equipment, Net	<u>\$ 110,850</u>	<u>\$ 568,748</u>

ATLANTIC CITY SHOWBOAT, INC.
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(Unaudited)
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The Company reviews the carrying value of property and equipment for impairment whenever events or circumstances indicate that the carrying value may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. There has been growing competitive and economic pressure in Atlantic City due to new competition in surrounding markets, exacerbated by significant hurricane-related closures in 2012 and 2011. The collective effect of these trends has resulted in downward pressure on the Company's actual results from operations compared with prior years and with previous forecasts. As a result, Caesars continues to evaluate its options for participation in the market. In connection with that evaluation, Caesars determined it was necessary to complete an assessment for impairment for the Company. Upon the failure of step one of the assessment, the Company performed a fair value assessment of the property (level 3 of the fair value hierarchy). As a result of this assessment, in December 2012, the Company recorded a tangible asset impairment of \$447,400 related to the property, comprised of \$251,500 related to building and improvements, \$189,900 for land and \$6,000 for furniture, fixtures, and equipment. With the help of a third-party valuation firm, the Company estimated the fair value of the property starting with a "Replacement Cost New" approach, and then deducting appropriate amounts for both functional and economic obsolescence to arrive at the fair value estimate. This analysis is sensitive to management assumptions and the estimates of the obsolescence factors, and increases or decreases in these assumptions and estimates would have a material impact on the analysis.

NOTE 8 - OTHER ACCRUED EXPENSES

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

	<u>2013</u>	<u>2012</u>
Salaries and Wages	\$ 4,687	\$ 4,173
Taxes, other than taxes on Income	2,522	1,690
Progressive Liability	131	247
Other	4,405	6,009
	<u>\$ 11,745</u>	<u>\$ 12,119</u>

ATLANTIC CITY SHOWBOAT, INC.
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NOTE 9 – OTHER LIABILITIES

Other Liabilities as of June 30 consisted of the following:

	<u>2013</u>	<u>2012</u>
Due to Affiliates, Long-Term	\$ 272,291	\$ 79,368
FIN 48 - Tax Reserve	20,294	19,286
Other	<u>802</u>	<u>863</u>
	<u>293,387</u>	<u>99,517</u>
Atlantic City Region	36,513	29,646
Other	<u>235,778</u>	<u>49,722</u>
	<u>\$ 272,291</u>	<u>\$ 79,368</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 royalty fees of \$1,337 and \$1,335 as of June 30, 2013 and 2012, respectively. This expense is included in the property, general, administrative, and other operating expense section in the accompanying consolidated statements of operations.

ATLANTIC CITY SHOWBOAT, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – 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 \$20 and \$140 as of June 30, 2013 and 2012, 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 June 30, CRDA related assets were as follows:

	<u>2013</u>	<u>2012</u>
CRDA Bonds - Net of amortized cost	\$ 17,780	\$ 16,132
Deposits - Net of reserves	12,619	14,517
Direct investments - Net of reserves	<u>512</u>	<u>1,018</u>
	<u>\$ 30,911</u>	<u>\$ 31,667</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 \$1,060 and \$1,223, for the six months ended June 30, 2013 and 2012, 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 six months ended June 30, 2013 and 2012 was \$30 and \$86, 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 \$90,000 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 \$967 for the six months ended June 30, 2013. The Company’s obligation for its portion of future payments is estimated at \$7,120 equal to its fair-share of AC Industry casino revenues.