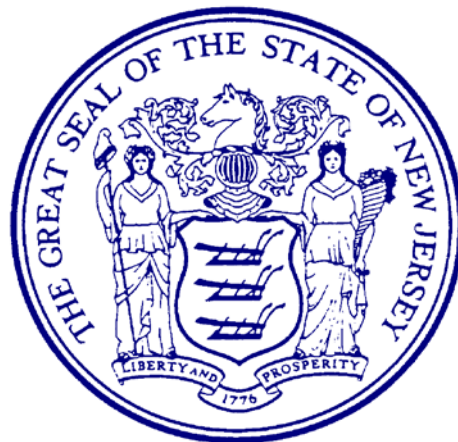


**ATLANTIC CITY SHOWBOAT, INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2014**

**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 MARCH 31, 2014 AND 2013

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2014 (c)	2013 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$10,220	\$15,558
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2014, \$2,263; 2013, \$4,570).....	4	8,433	6,988
4	Inventories		690	957
5	Other Current Assets.....	5	1,926	655
6	Total Current Assets.....		21,269	24,158
7	Investments, Advances, and Receivables.....	3,6	21,257	280,109
8	Property and Equipment - Gross.....	2,7	36,035	117,167
9	Less: Accumulated Depreciation and Amortization.....	2,7	(3,979)	(6,354)
10	Property and Equipment - Net.....	2,7	32,056	110,813
11	Other Assets.....	8	72,814	50
12	Total Assets.....		\$147,396	\$415,130
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$3,689	\$3,686
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		802	781
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	9	9,375	9,727
19	Other Current Liabilities.....		858	808
20	Total Current Liabilities.....		14,724	15,002
	Long-Term Debt:			
21	Due to Affiliates.....		0	0
22	External.....	10	254	986
23	Deferred Credits		0	(2,810)
24	Other Liabilities.....	11	721	105,930
25	Commitments and Contingencies.....		0	0
26	Total Liabilities.....		15,699	119,108
27	Stockholders', Partners', or Proprietor's Equity.....		131,697	296,022
28	Total Liabilities and Equity.....		\$147,396	\$415,130

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 MARCH 31, 2014 AND 2013

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2014 (c)	2013 (d)
	Revenue:			
1	Casino.....		\$36,976	\$44,628
2	Rooms.....		6,694	7,383
3	Food and Beverage.....		8,122	9,085
4	Other.....		1,641	2,486
5	Total Revenue.....		53,433	63,582
6	Less: Promotional Allowances.....		17,289	16,918
7	Net Revenue.....		36,144	46,664
	Costs and Expenses:			
8	Casino.....		19,703	20,027
9	Rooms, Food and Beverage.....		2,336	3,289
10	General, Administrative and Other.....		12,109	14,870
11	Total Costs and Expenses.....		34,148	38,186
12	Gross Operating Profit.....		1,996	8,478
13	Depreciation and Amortization.....	7	3,759	6,322
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	5,969	4,730
16	Income (Loss) from Operations.....		(7,732)	(2,574)
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	0
18	Interest Expense - External.....		(24)	(39)
19	CRDA Related Income (Expense) - Net.....		(384)	(710)
20	Nonoperating Income (Expense) - Net.....		206	221
21	Total Other Income (Expenses).....		(202)	(528)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(7,934)	(3,102)
23	Provision (Credit) for Income Taxes.....		(13,061)	(1,113)
24	Income (Loss) Before Extraordinary Items.....		5,127	(1,989)
25	Extraordinary Items (Net of Income Taxes - 20__, \$0; 20__, \$0).....		0	
26	Net Income (Loss).....		\$5,127	(\$1,989)

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, 2013 AND THE THREE MONTHS ENDED MARCH 31, 2014

(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, 2012.....						\$715,000		(\$416,989)	\$298,011
2	Net Income (Loss) - 2013.....								(82,991)	(82,991)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Equitization of Interco Balances								(92,342)	(92,342)
7	.....									0
8	.....									0
9	.....									0
10	Balance, December 31, 2013.....		0	0	0	0	715,000	0	(592,322)	122,678
11	Net Income (Loss) - 2013.....								5,127	5,127
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Equitization of Interco Balances						3,892			3,892
16	.....									0
17	.....									0
18	.....									0
19	Balance, March 31, 2014.....		0	\$0	0	\$0	\$718,892	\$0	(\$587,195)	\$131,697

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 THREE MONTHS ENDED MARCH, 2014 AND 2013

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2014 (c)	2013 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$1,028	(\$751)
	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.....		(8)	(744)
5	Proceeds from Disposition of Property and Equipment.....		0	20
6	CRDA Obligations		(538)	(515)
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.....		(546)	(1,239)
	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.....		482	(1,990)
25	Cash and Cash Equivalents at Beginning of Period.....		9,738	17,548
26	Cash and Cash Equivalents at End of Period.....		\$10,220	\$15,558
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$31	\$35
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 THREE MONTHS ENDED MARCH, 2014 AND 2013

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2014 (c)	2013 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$5,127	(\$1,989)
30	Depreciation and Amortization of Property and Equipment.....		3,759	6,322
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	(1,683)
34	Deferred Income Taxes - Noncurrent		0	(20)
35	(Gain) Loss on Disposition of Property and Equipment.....		0	0
36	(Gain) Loss on CRDA-Related Obligations.....		384	710
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(2,983)	210
39	(Increase) Decrease in Inventories		22	(8)
40	(Increase) Decrease in Other Current Assets.....		899	955
41	(Increase) Decrease in Other Assets.....		10,579	29
42	Increase (Decrease) in Accounts Payable.....		(783)	(222)
43	Increase (Decrease) in Other Current Liabilities		1,042	(556)
44	Increase (Decrease) in Other Liabilities		(20,980)	2,409
45	Net (Decrease) in Other Noncurrent Liabilities		3,962	(6,908)
46				
47	Net Cash Provided (Used) By Operating Activities.....		\$1,028	(\$751)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$8)	(\$744)
49	Less: Capital Lease Obligations Incurred.....			0
50	Cash Outflows for Property and Equipment.....		(\$8)	(\$744)
	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 THREE MONTHS ENDED MARCH 31, 2014
(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	46,224	\$3,543	0	\$0
2	Food	237,270	3,176	0	0
3	Beverage	1,719,295	2,568	0	0
4	Travel	0	0	1,398	244
5	Bus Program Cash	3,451	70	0	0
6	Promotional Gaming Credits	200,356	7,387	0	0
7	Complimentary Cash Gifts	4,874	243	0	0
8	Entertainment	5,064	21	200	21
9	Retail & Non-Cash Gifts	7,258	121	0	0
10	Parking	0	0	0	0
11	Other	18,333	160	7,748	500
12	Total	2,242,125	\$17,289	9,346	\$765

FOR THE THREE MONTHS ENDED MARCH 31, 2014

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	46,224	\$3,543	0	\$0
2	Food	237,270	3,176	0	0
3	Beverage	1,719,295	2,568	0	0
4	Travel	0	0	1,398	244
5	Bus Program Cash	3,451	70	0	0
6	Promotional Gaming Credits	200,356	7,387	0	0
7	Complimentary Cash Gifts	4,874	243	0	0
8	Entertainment	5,064	21	200	21
9	Retail & Non-Cash Gifts	7,258	121	0	0
10	Parking	0	0	0	0
11	Other	18,333	160	7,748	500
12	Total	2,242,125	\$17,289	9,346	\$765

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

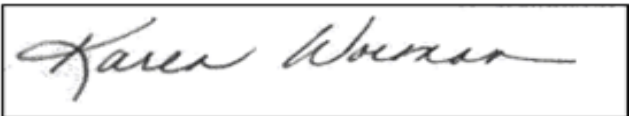
**ATLANTIC CITY SHOWBOAT, INC.
STATEMENT OF CONFORMITY,
ACCURACY, AND COMPLIANCE**

FOR THE QUARTER ENDED MARCH 31, 2014

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.

5/15/2014

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. ("CEO") (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 is subject to renewal every five years. The current license expired in July 2013. Application for license renewal was submitted and it is pending DGE review.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Companies financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the use of estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Management believes the accounting estimates are appropriate and reasonably stated; however, due to the inherent uncertainties in making these estimates, actual amounts could differ.

Principles of Consolidation - The accompanying consolidated financial statement schedules include the account balances of the Companies and their 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 and retail items, are stated at the lower of average cost.

Long-Lived Assets - The Companies have significant capital invested in long-lived assets, and judgments are made in determining the estimated useful lives of assets and salvage values and if or when an asset (or asset group) has been impaired. The accuracy of these estimates affects the amount of depreciation and amortization expense recognized in the Companies' financial results and whether the Companies have a gain or loss on the disposal of an asset. The Companies assign 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.

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

The Companies review the carrying value of their long-lived assets 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 Companies typically estimate their fair value of assets starting with a "Replacement Cost New" approach and then deducting appropriate amounts for both functional and economic obsolescence to arrive at fair value estimates. Other factors considered by management in performing this assessment may include current operating results, trends, prospects, and third-party appraisals, as well as the effect of 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 the Companies, is the individual property. These analyses are sensitive to management assumptions and the estimates of the obsolescence factors, and changes in the assumptions and estimates, could have a material impact on the analysis and the supplemental consolidated financial statements schedules.

Additions to property and equipment are stated at cost. The Companies capitalize the costs of improvements that extend the life of the asset. The Companies expense maintenance and repair costs as incurred. Gains or losses on the disposition of property and equipment are recognized in the period of disposal. Interest expense is capitalized on internally constructed assets at the applicable weighted-average borrowing rates of interest. Capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period of time.

Useful Lives

Land improvements	12 years
Buildings	30 to 40 years
Leasehold improvements	5 to 15 years
Furniture, fixtures, and equipment	2.5 to 20 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.

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

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. Sales taxes and other taxes collected from customers on behalf of governmental authorities are accounted for on a net basis and are not included in net revenues or operating expenses.

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 March 31:

	<u>2014</u>	<u>2013</u>
Food and Beverage	\$ 5,061	\$ 4,603
Rooms	1,613	1,684
Other	145	-
Bus Program Cash	70	69
Promotional Gaming Credits	7,387	5,998
Other Cash Complimentary	243	246
	<u>\$ 14,519</u>	<u>\$ 12,600</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 March 31, 2014 and 2013, \$1,914 and \$1,788, 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.

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

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 March 31, 2014 and 2013, the liability related to outstanding NNRR points, which is based on historical redemption activity, was approximately \$224 and \$277, 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 years ended March 31, 2014 and 2013, which are included in cost of goods and services in the statement of income were approximately \$2,990 and \$3,589, respectively.

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 - During 2013, property tax for the City of Atlantic City (the "City") was increased by approximately 17%. In 2014, the Company settled with the City with respect to their challenges to the real estate tax assessment for prior years. The City approved refund/credit of prior year's property taxes during the first quarter of 2014 in the amount of \$1,751. This amount was recorded as a receivable on the accompanying balance sheet and in general, administrative and other expense in the accompanying Statement of Income. In addition, the 2014 assessment was reduced by approximately \$225 million.

Internet Gaming - The Company did not have internet gaming operations during 2014.

Seasonal Factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended March 31, 2014 are not necessarily indicative of the results of operations for the full year.

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

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

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with CEOC and Caesars' other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated, and managed by CEOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

The Company's property, assets and capital stock are pledged as collateral for certain of CEOC's outstanding debt.

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 \$5,969 and \$4,730 respectively for these services for the three months ended March 31, 2014 and 2013. 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 \$73 and \$84 for these costs for the three months ended March 31, 2014 and 2013, 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.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)
(Dollars in Thousands)

NOTE 4 – RECEIVABLES AND PATRONS’ CHECKS

Receivables and patrons’ checks as of March 31 consist of the following:

	<u>2014</u>	<u>2013</u>
Casino Receivables (Net of Allowance for Doubtful Accounts - 2014, \$2,210 & 2013, \$4,548	\$ 1,648	\$ 2,845
Other (Net of Allowance for Doubtful Accounts- 2014, \$53 & 2013, \$22	<u>6,785</u>	<u>4,143</u>
	<u><u>\$ 8,433</u></u>	<u><u>\$ 6,988</u></u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2014</u>	<u>2013</u>
Slot License	\$ 273	\$ 289
License Fee - House of Blues	833	837
Entertainment	71	145
Current Deffered Tax Asset	574	(1,128)
Other	<u>175</u>	<u>512</u>
	<u><u>\$ 1,926</u></u>	<u><u>\$ 655</u></u>

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NOTE 6 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2014</u>	<u>2013</u>
Due from Caesars Entertainment	\$ -	\$ 249,318
CRDA Deposits	4,632	18,465
CRDA Bonds	<u>25,632</u>	<u>25,942</u>
	<u>30,264</u>	<u>44,407</u>
Less: Valuation Allowance on CRDA Investments	<u>(9,007)</u>	<u>(13,616)</u>
CRDA Investments, Net	21,257	30,791
	<u>\$ 21,257</u>	<u>\$ 280,109</u>

NOTE 7 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land and Land Improvements	\$ 25,064	\$ 24,924
Building and Improvements	9,395	82,547
Furniture Fixtures & Equipment	1,576	9,264
Construction in Progress	<u>-</u>	<u>432</u>
	36,035	117,167
Less: Accumulated Depreciation and Amortization	(3,979)	(6,354)
Land, Building and Equipment, Net	<u>\$ 32,056</u>	<u>\$ 110,813</u>

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Impairment of Fixed Assets - During the fourth quarter 2013, casino property sales occurred in the Atlantic City market. The pricing of the transactions indicated a substantial decline in market price had occurred for Casinos in Atlantic City. As a result of this triggering event, the Company determined it was necessary to perform a recoverability test of the carrying amount of our Atlantic City properties. It was determined the carrying values of our Atlantic City properties were not recoverable. Therefore, we performed a fair value assessment of the properties. Impairment losses of \$71,638 and \$447,400 were recorded in 2013 and 2012 respectively, primarily as a result of the assessment.

NOTE 8 – OTHER ASSETS

Other assets as of March 31 consist of the following:

	<u>2014</u>	<u>2013</u>
L/T Deferred Income Tax	72,789	-
Other	<u>25</u>	<u>50</u>
	<u><u>72,814</u></u>	<u><u>50</u></u>

NOTE 9 - OTHER ACCRUED EXPENSES

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

	<u>2014</u>	<u>2013</u>
Salaries and Wages	\$ 3,880	\$ 4,041
Taxes, other than taxes on Income	1,142	1,328
Progressive Liability	71	70
Other	<u>4,282</u>	<u>4,288</u>
	<u><u>\$ 9,375</u></u>	<u><u>\$ 9,727</u></u>

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NOTE 10 – LONG-TERM DEBT

Our current and non-current long term debt include required interim principal payments on capitalized lease obligations.

	<u>2014</u>	<u>2013</u>
Capitalized Leases	1,056	1,767
Less: Current Portion of Capitalized Leases	<u>(802)</u>	<u>(781)</u>
Total Long Term Portion of Capitalized Leases	<u><u>254</u></u>	<u><u>986</u></u>

NOTE 11 – OTHER LIABILITIES

Other Liabilities as of March 31 consisted of the following:

	<u>2014</u>	<u>2013</u>
Due to Affiliates, Long-Term	\$ -	\$ 85,120
FIN 48 - Tax Reserve	-	20,034
Other	<u>721</u>	<u>776</u>
	<u><u>721</u></u>	<u><u>105,930</u></u>
Atlantic City Region	-	32,408
Other	<u>-</u>	<u>52,712</u>
	<u><u>\$ -</u></u>	<u><u>\$ 85,120</u></u>

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

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NOTE 12 - 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 \$662 and \$668 as of March 31, 2014 and 2013, respectively. This expense is included in the general, administrative, and other operating expense section in the accompanying consolidated statements of income.

NOTE 13 – 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 \$0 and \$60 as of March 31, 2014 and 2013, 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

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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 March 31, CRDA related assets were as follows:

	<u>2014</u>	<u>2013</u>
CRDA Bonds - Net of amortized cost	\$ 17,833	\$ 17,734
Deposits - Net of reserves	3,088	12,488
Direct investments - Net of reserves	<u>336</u>	<u>569</u>
	<u>\$ 21,257</u>	<u>\$ 30,791</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 \$384 and \$710, for the three months ended March 31, 2014 and 2013, 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 three months ended March 31, 2014 and 2013 was \$37 and \$40, 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.

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 \$510 for the three months ended March 31, 2014. The Company's obligation for its portion of future payments is estimated at \$5,070 equal to its fair-share of AC Industry casino revenues.

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Atlantic City Conference Center - In June 2013, Caesars established, AC Conference NewCo, LLC ("NewCo") to construct and operate a new conference center (the "Project") adjacent to Harrah's Atlantic City. NewCo is a direct wholly owned subsidiary of AC Conference HoldCo, LLC, which is a direct wholly owned subsidiary of Caesars.

Also in June 2013, Caesars signed an agreement with the CRDA regarding a grant for financial assistance in the amount of \$45,000 (the "Project Grant") wherein the CRDA will provide Caesars cash to help fund the construction of the Project. Under the Project Grant, Caesars is obligated to contribute to the CRDA the following:

- \$46,200 of Atlantic City Economic Development Investment Alternative Tax Obligation balances ("Existing Credits"), of which \$1,200 represents a 2.75% administrative fee,
- \$9,500 of CRDA Credits that the CRDA will use towards the construction of the CRDA's marketplace-style retail development project (the "Donation Credits"), and
- Land parcels with an appraised value of \$7,300 on which the CRDA's Marketplace Project will be developed (the Marketplace Parcels).

The gross value of the credits and land parcels described above held by the Companies immediately prior to the transaction were as follows:

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Existing Credits	
Bally's Park Place, Inc	\$23,400
Boardwalk Regency Corporation	10,600
Harrah's Atlantic City Holding, Inc. and Subsidiaries	7,000
Ocean Showboat, Inc and Subsidiaries	5,200
	<u>\$46,200</u>
Donation Credits	
Ocean Showboat, Inc and Subsidiaries	<u>\$9,500</u>
Marketplace Parcels	
Bally's Park Place, Inc	\$4,600
Boardwalk Regency Corporation	2,700
	<u>\$7,300</u>

In return for the above, the CRDA will deposit \$45,000 into a Project Fund from which Caesars can draw on a pari-passu basis via reimbursements to NewCo based on amounts paid for the Project by NewCo. To date, Caesars has received \$5,826 in reimbursements from the Project Fund.