
QUARTERLY REPORT

LICENSEE ATLANTIC CITY SHOWBOAT, INC

FOR THE QUARTER ENDED DECEMBER 31, 1997

TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

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FOR THE QUARTER ENDED DECEMBER 31, 1997

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BALANCE SHEETS

AS OF DECEMBER 31, 1997 AND 1996

(UNAUDITED)
(\$ IN THOUSANDS)

| LINE (a) | DESCRIPTION (b) | 1997 (c) | 1996 (d) |
|------------------------------------|---|-------------|-------------|
| ASSETS | | | |
| Current Assets: | | | |
| 1 | Cash and Cash Equivalents..... | \$ 32,802 | \$ 39,423 |
| 2 | Short-Term Investments..... | - | - |
| 3 | Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 1997, \$2,967 ; 1996, \$2,353).....NOTE 3 | 10,201 | 8,990 |
| 4 | Inventories..... | 2,537 | 2,337 |
| 5 | Prepaid Expenses and Other Current Assets..... | 10,216 | 6,779 |
| 6 | Total Current Assets..... | 55,756 | 57,529 |
| 7 | Investments, Advances, and Receivables.....NOTE 12 | 9,146 | 7,009 |
| 8 | Property and Equipment - Gross..... | 457,260 | 438,933 |
| 9 | Less: Accumulated Depreciation and Amortization..... | (184,050) | (165,929) |
| 10 | Other Assets..... | 5,634 | 6,551 |
| 11 | Total Assets..... | \$ 343,746 | \$ 344,093 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities: | | | |
| 12 | Accounts Payable..... | 9,076 | 6,192 |
| 13 | Notes Payable..... | - | - |
| Current Portion of Long-Term Debt: | | | |
| 14 | Due to Affiliates..... | - | - |
| 15 | Other..... | - | - |
| 16 | Income Taxes Payable and Accrued..... | - | 2,184 |
| 17 | Other Accrued Expenses.....NOTE 4 | 16,001 | 16,516 |
| 18 | Other Current Liabilities.....NOTE 5 | 5,533 | 5,710 |
| 19 | Total Current Liabilities..... | 30,610 | 30,602 |
| Long-Term Debt: | | | |
| 20 | Due to Affiliates.....NOTE 6 | 215,000 | 215,000 |
| 21 | Other..... | 1,928 | 1,928 |
| 22 | Deferred Credits..... | 15,767 | 15,282 |
| 23 | Other Liabilities..... | 982 | 665 |
| 24 | Commitments and Contingencies.....NOTE 13 | | |
| 25 | Total Liabilities..... | 264,287 | 263,477 |
| 26 | Stockholders', Partners', or Proprietor's Equity.....NOTE 14 | 79,459 | 80,616 |
| 27 | Total Liabilities and Equity..... | \$ 343,746 | \$ 344,093 |

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

STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997 AND 1996

(UNAUDITED)
(\$ IN THOUSANDS)

| LINE (a) | DESCRIPTION (b) | 1997 (c) | 1996 (d) |
|-------------|--|-------------|-------------|
| | Revenue: | | |
| 1 | Casino..... | \$ 355,177 | \$ 345,603 |
| 2 | Rooms..... | 19,316 | 20,042 |
| 3 | Food and Beverage..... | 41,822 | 42,511 |
| 4 | Other..... | 5,126 | 5,431 |
| 5 | Total Revenue..... | 421,441 | 413,587 |
| 6 | Less: Promotional Allowances..... | 38,403 | 37,473 |
| 7 | Net Revenue..... | 383,038 | 376,114 |
| | Costs and Expenses: | | |
| 8 | Cost of Goods and Services..... | 215,695 | 207,905 |
| 9 | Selling, General, and Administrative..... | 77,768 | 75,913 |
| 10 | Provision for Doubtful Accounts..... | 2,156 | 1,424 |
| 11 | Total Costs and Expenses..... | 295,619 | 285,242 |
| 12 | Gross Operating Profit..... | 87,419 | 90,872 |
| 13 | Depreciation and Amortization..... | 26,028 | 26,497 |
| | Charges from Affiliates Other than Interest: | | |
| 14 | Management Fees.....NOTE 2 | 20,376 | 20,236 |
| 15 | Other..... | - | - |
| 16 | Income (Loss) from Operations..... | 41,015 | 44,139 |
| | Other Income (Expenses): | | |
| 17 | Interest (Expense) - Affiliates..... | (19,887) | (19,887) |
| 18 | Interest (Expense) - External..... | (597) | (593) |
| 19 | Investment Alternative Tax and Related Income (Expense) - Net..... | (892) | (516) |
| 20 | Nonoperating Income (Expense) - Net..... | 1,208 | 1,344 |
| 21 | Total Other Income (Expenses)..... | (20,168) | (19,652) |
| 22 | Income (Loss) Before Income Taxes and Extraordinary Items..... | 20,847 | 24,487 |
| 23 | Provision (Credit) for Income Taxes.....NOTE 8 | 9,704 | 10,032 |
| 24 | Income (Loss) Before Extraordinary Items..... | 11,143 | 14,455 |
| | Extraordinary Items (Net of Income Taxes - | | |
| 25 | 1997, \$; 1996, \$)..... | - | - |
| 26 | Net Income (Loss)..... | \$ 11,143 | \$ 14,455 |

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

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 1997 AND 1996

(UNAUDITED)
(\$ IN THOUSANDS)

| LINE (a) | DESCRIPTION (b) | 1997 (c) | 1996 (d) |
|-------------|--|-------------|-------------|
| | Revenue: | | |
| 1 | Casino..... | \$ 81,373 | \$ 79,627 |
| 2 | Rooms..... | 4,518 | 4,882 |
| 3 | Food and Beverage..... | 9,828 | 9,967 |
| 4 | Other..... | 1,106 | 1,275 |
| 5 | Total Revenue..... | 96,825 | 95,751 |
| 6 | Less: Promotional Allowances..... | 9,048 | 9,396 |
| 7 | Net Revenue..... | 87,777 | 86,355 |
| | Costs and Expenses: | | |
| 8 | Cost of Goods and Services..... | 51,200 | 51,040 |
| 9 | Selling, General, and Administrative..... | 19,182 | 17,992 |
| 10 | Provision for Doubtful Accounts..... | 527 | 660 |
| 11 | Total Costs and Expenses..... | 70,909 | 69,692 |
| 12 | Gross Operating Profit..... | 16,868 | 16,663 |
| 13 | Depreciation and Amortization..... | 6,473 | 6,666 |
| | Charges from Affiliates Other than Interest: | | |
| 14 | Management Fees.....NOTE 2 | 4,660 | 4,674 |
| 15 | Other..... | - | - |
| 16 | Income (Loss) from Operations..... | 5,735 | 5,323 |
| | Other Income (Expenses): | | |
| 17 | Interest (Expense) - Affiliates..... | (4,971) | (4,971) |
| 18 | Interest (Expense) - External..... | (140) | (148) |
| 19 | Investment Alternative Tax and Related Income (Expense) - Net..... | (156) | 465 |
| 20 | Nonoperating Income (Expense) - Net..... | (170) | 474 |
| 21 | Total Other Income (Expenses)..... | (5,437) | (4,180) |
| 22 | Income (Loss) Before Income Taxes and Extraordinary Items..... | 298 | 1,143 |
| 23 | Provision (Credit) for Income Taxes..... | 1,136 | 147 |
| 24 | Income (Loss) Before Extraordinary Items..... | (838) | 996 |
| | Extraordinary Items (Net of Income Taxes - | | |
| 25 | 1997, \$; 1996, \$)..... | - | - |
| 26 | Net Income (Loss)..... | \$ (838) | \$ 996 |

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1996 AND THE TWELVE MONTHS ENDED DECEMBER 31, 1997

(UNAUDITED)
(\$ IN THOUSANDS)

| Line (a) | Description (b) | 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, 1995..... | 1,500 | \$ 76,909 | - | \$ - | \$ 583 | \$ - | \$ 12,069 | \$ 89,561 |
| 2 | Net Income (Loss) - 1996..... | | | | | | | 14,455 | 14,455 |
| 3 | Contribution to Paid-in-Capital..... | | | | | | | | |
| 4 | Dividends..... | | | | | | | (23,400) | (23,400) |
| 5 | Prior Period Adjustments..... | | | | | | | | |
| 6 | | | | | | | | | |
| 7 | | | | | | | | | |
| 8 | | | | | | | | | |
| 9 | | | | | | | | | |
| 10 | Balance, December 31, 1996..... | 1,500 | 76,909 | - | - | 583 | - | 3,124 | 80,616 |
| 11 | Net Income (Loss) - 1997..... | | | | | | | 11,143 | 11,143 |
| 12 | Contribution to Paid-in -Capital..... | | | | | | | | |
| 13 | Dividends.....NOTE 14 | | | | | | | (12,300) | (12,300) |
| 14 | Prior Period Adjustments..... | | | | | | | | |
| 15 | | | | | | | | | |
| 16 | | | | | | | | | |
| 17 | | | | | | | | | |
| 18 | | | | | | | | | |
| 19 | Balance, December 31, 1997..... | 1,500 | \$ 76,909 | - | \$ - | \$ 583 | \$ - | \$ 1,967 | \$ 79,459 |

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

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997 AND 1996

(UNAUDITED)
(\$ IN THOUSANDS)

| LINE (a) | DESCRIPTION (b) | 1997 (c) | 1996 (d) |
|-------------|--|-------------|-------------|
| 1 | NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES..... | \$ 26,351 | \$ 31,802 |
| | CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| 2 | Purchase of Short-Term Investment Securities..... | | |
| 3 | Proceeds from the Sale of Short-Term Investment Securities..... | | |
| 4 | Cash Outflows for Property and Equipment..... | (24,655) | (15,002) |
| 5 | Proceeds from Disposition of Property and Equipment..... | 437 | 363 |
| 6 | Purchase of Casino Reinvestment Obligations..... | (4,366) | (4,140) |
| 7 | Purchase of Other Investments and Loans/Advances made..... | | |
| 8 | Proceeds from Disposal of Investments and Collection of Advances and Long-Term Receivables..... | | |
| 9 | Cash Outflows to Acquire Business Entities..... | | |
| 10 | | | |
| 11 | | | |
| 12 | Net Cash Provided (Used) By Investing Activities..... | (28,584) | (18,779) |
| | CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| 13 | Cash Proceeds from Issuance of Short-Term Debt..... | | |
| 14 | Payments to Settle Short-Term Debt..... | | |
| 15 | Cash Proceeds from Issuance of Long-Term Debt..... | | |
| 16 | Costs of Issuing Debt..... | | |
| 17 | Payments to Settle Long-Term Debt..... | | |
| 18 | Cash Proceeds from Issuing Stock or Capital Contributions..... | | |
| 19 | Purchases of Treasury Stock..... | | |
| 20 | Payments of Dividends or Capital Withdrawals..... | (4,388) | (15,436) |
| 21 | | | |
| 22 | | | |
| 23 | Net Cash Provided (Used) By Financing Activities..... | (4,388) | (15,436) |
| 24 | Net Increase (Decrease) in Cash and Cash Equivalents..... | (6,621) | (2,413) |
| 25 | Cash and Cash Equivalents at Beginning of Period..... | 39,423 | 41,836 |
| 26 | Cash and Cash Equivalents at End of Period..... | \$ 32,802 | \$ 39,423 |

| | | | |
|----|---|-----------|-----------|
| | CASH PAID DURING PERIOD FOR: | | |
| 27 | Interest (Net of Amount Capitalized)..... | \$ 20,144 | \$ 19,888 |
| 28 | Income Taxes..... | \$ 24,025 | \$ 19,738 |

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

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997 AND 1996

(UNAUDITED)
(\$ IN THOUSANDS)

| LINE (a) | DESCRIPTION (b) | 1997 (c) | 1996 (d) |
|-------------|--|-------------|-------------|
| | NET CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| 29 | Net Income (Loss)..... | \$ 11,143 | \$ 14,455 |
| | Noncash Items Included in Income and Cash Items Excluded from Income: | | |
| 30 | Depreciation and Amortization of Property and Equipment..... | 25,911 | 26,418 |
| 31 | Amortization of Other Assets..... | 459 | 418 |
| 32 | Amortization of Debt Discount or Premium..... | | |
| 33 | Deferred Income Taxes - Current..... | (164) | 2,410 |
| 34 | Deferred Income Taxes - Noncurrent..... | 485 | (415) |
| 35 | (Gain) Loss on Disposition of Property and Equipment..... | 346 | 173 |
| 36 | (Gain) Loss on Casino Reinvestment Obligations..... | 864 | 439 |
| 37 | (Gain) Loss from Other Investment Activities..... | | |
| | Net (Increase) Decrease in Receivables and Patrons' Checks..... | 179 | 601 |
| 38 | | | |
| 39 | Net (Increase) Decrease in Inventories..... | (200) | (70) |
| 40 | Net (Increase) Decrease in Other Current Assets..... | (3,273) | (222) |
| 41 | Net (Increase) Decrease in Other Assets..... | 458 | (173) |
| 42 | Net Increase (Decrease) in Accounts Payable..... | 614 | 64 |
| | Net Increase (Decrease) in Other Current Liabilities Excluding Debt..... | (10,788) | (12,760) |
| 43 | | | |
| 44 | Net Increase (Decrease) in Other Noncurrent Liabilities Excluding Debt..... | 317 | 281 |
| 45 | Valuation Allowance on Donation of CRDA deposits..... | | 183 |
| 46 | | | |
| 47 | Net Cash Provided (Used) By Operating Activities..... | \$ 26,351 | \$ 31,802 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | | |
|----|---|-----------|-----------|
| | ACQUISITION OF PROPERTY AND EQUIPMENT: | | |
| 48 | Additions to Property and Equipment..... | \$ 24,655 | \$ 15,002 |
| 49 | Less: Capital Lease Obligations Incurred..... | | |
| 50 | Cash Outflows for Property and Equipment..... | \$ 24,655 | \$ 15,002 |
| | ACQUISITION OF BUSINESS ENTITIES: | | |
| 51 | Property and Equipment Acquired..... | \$ | \$ |
| 52 | Goodwill Acquired..... | | |
| | Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment..... | | |
| 53 | | | |
| 54 | Long-Term Debt Assumed..... | | |
| 55 | Issuance of Stock or Capital Invested..... | | |
| 56 | Cash Outflows to Acquire Business Entities..... | \$ | \$ - |
| | STOCK ISSUED OR CAPITAL CONTRIBUTIONS: | | |
| 57 | Total Issuances of Stock or Capital Contributions..... | \$ | \$ |
| 58 | Less: Issuances to Settle Long-Term Debt..... | | |
| 59 | Consideration in Acquisition of Business Entities..... | | |
| 60 | Cash Proceeds from Issuing Stock or Capital Contributions..... | \$ | \$ |

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

AMENDED

5/19/98

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1997

| Line (a) | (b) | Promotional Allowances | | Promotional Expenses | |
|----------|----------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 169,522 | \$ 14,422 | | \$ |
| 2 | Food | 1,392,142 | 16,706 | | |
| 3 | Beverage | 6,660,239 | 5,835 | | |
| 4 | Travel | | | 14,677 | 2,791 |
| 5 | Bus Program Cash | | | 1,034,028 | 13,783 |
| 6 | Other Cash Complimentaries | | | 1,925,303 | 26,917 |
| 7 | Entertainment | 88,786 | 1,331 | | |
| 8 | Retail & Non-Cash Gifts | | | | |
| 9 | Parking | | | | |
| 10 | Other | 12,116 | 109 | 130,091 | 3,049 |
| 11 | Total | 8,322,805 | \$ 38,403 | 3,104,099 | \$ 46,540 |

FOR THE THREE MONTHS ENDED DECEMBER 31, 1997

| Line (a) | (b) | Promotional Allowances | | Promotional Expenses | |
|----------|----------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | | Number of Recipients (c) | Dollar Amount (d) | Number of Recipients (e) | Dollar Amount (f) |
| 1 | Rooms | 33,339 | \$ 3,411 | | \$ |
| 2 | Food | 338,967 | 4,068 | | |
| 3 | Beverage | 1,584,116 | 1,390 | | |
| 4 | Travel | | | 3,872 | 900 |
| 5 | Bus Program Cash | | | 238,794 | 3,203 |
| 6 | Other Cash Complimentaries | | | 412,493 | 7,222 |
| 7 | Entertainment | 10,155 | 152 | | |
| 8 | Retail & Non-Cash Gifts | | | | |
| 9 | Parking | | | | |
| 10 | Other | 3,142 | 27 | 38,491 | 902 |
| 11 | Total | 1,969,719 | \$ 9,048 | 693,650 | \$ 12,227 |

Year-to-date entertainment recipients has been amended

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
December 31, 1997 and 1996

(1) **Summary of Significant Accounting Policies**

Nature of Operations

Atlantic City Showboat, Inc. (the Company), is a wholly-owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly-owned subsidiary of Showboat, Inc. (SBO). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar, bowling, and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (Atlantic City Showboat).

Casino Revenue and Complimentaries

In accordance with common industry practice, casino revenues are the net of gaming wins less losses.

Complimentaries primarily consist of rooms, food, and beverage furnished gratuitously to customers. The retail value of such services are included in their respective revenue classification and are then deducted as complimentaries. Complimentary rates are periodically reviewed and adjusted by management.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Fair Value of Certain Financial Instruments

The carrying amount of cash and cash equivalents, accounts receivable and all current liabilities approximates fair value because of the short maturity of these instruments.

Property and Equipment

Property and equipment are carried at cost. Depreciation including amortization of capitalized leases, is computed using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives for property and equipment are 5 to 15 years for land improvements, 10 to 40 years for buildings and 2 to 10 years for furniture and equipment.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

Summary of Significant Accounting Policies (continued)

Use of Estimates

Management of the Company has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Post employment and Postretirement Benefits

Certain key executives of the Company participate in a defined benefit pension plan sponsored by SBO. The Company does not fund any of the benefits provided under this plan.

Income Taxes

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the asset liability method of FAS 109, deferred tax assets and liabilities are recognized for 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. Under FAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company is included in the consolidated federal income group of SBO and subsidiaries and is under a tax allocation agreement with SBO. Accordingly income taxes are allocated based on the agreement which reflects the separate return method except that tax benefits available to the Company are recognized when generated by the Company to the extent utilized by the group, including carrybacks. The Company filed for and received a change in tax year-end with the Internal Revenue Service. The Company's tax-year end has been changed from June 30 to December 31 effective December 31, 1996.

Amortization of Debt Issuance Costs

Costs associated with the issuance of debt have been deferred and are being amortized over the life of the related indebtedness using a weighted average method based on retirement schedules specified in the debt indentures.

Reclass

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

ATLANTIC CITY SHOWBOAT, INC.

Notes to Financial Statements

(2) Related Party Transactions

The Company and SBO are parties to a Parent Services Agreement whereby SBO provides the Company with executive, financial, data processing, legal, marketing, tax planning and compliance, and administrative services. SBO's services are intended to support and supplement the routine functions and responsibilities of the Company's staff and are not intended to substitute for the Company's performance or OSI's oversight responsibilities. In addition to the services outlined above, SBO has also granted the Company a non-exclusive right to the use of each of SBO's trademarks, service marks, tradenames, and logos in the operations of the Company's business, including the registered trademark "Showboat." In consideration for such services and license, the Company has agreed to pay SBO a fee equal to five percent of gross revenues.

During the year ended December 31, 1997 and 1996, the Company paid to SBO management fees of \$20,325,000 and \$20,256,000 respectively. At December 31, 1997 and 1996, the Company owed \$1,395,000 and \$1,344,000 respectively, in accrued fees, to SBO for services rendered to the Company in accordance with the Parent Services Agreement.

(3) Receivables and Patrons' Checks

As of December 31, 1997 and 1996, receivables consisted of the following (dollars in thousands):

| | <u>1997</u> | <u>1996</u> |
|--------------------------------------|------------------|--------------|
| Casino | \$ 7,059 | 6,336 |
| Hotel | 289 | 613 |
| Other | <u>5,820</u> | <u>4,394</u> |
| | 13,168 | 11,343 |
| Less allowance for doubtful accounts | <u>2,967</u> | <u>2,353</u> |
| | <u>\$ 10,201</u> | <u>8,990</u> |

(4) Other Accrued Expenses

As of December 31, 1997 and 1996, other accrued expenses consisted of the following (dollars in thousands):

| | <u>1997</u> | <u>1996</u> |
|-----------------------------------|------------------|---------------|
| Salaries and wages | \$ 8,523 | 8,894 |
| Taxes, other than taxes on income | 1,457 | 1,620 |
| Medical and liability claims | 1,145 | 1,354 |
| Accrued advertising and promotion | 1,846 | 1,608 |
| Settlement Claims | 1,396 | 1,261 |
| Other | <u>1,632</u> | <u>1,779</u> |
| | <u>\$ 16,001</u> | <u>16,516</u> |

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

(5) **Other Current Liabilities**

As of December 31, 1997 and 1996, other current liabilities consisted of the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|--------------------------------------|----|--------------|--------------|
| Due to affiliates - interest | \$ | 3,315 | 3,315 |
| Due to affiliates - other | | 849 | 932 |
| Outstanding chip and token liability | | 1,095 | 1,310 |
| Other | | <u>274</u> | <u>153</u> |
| | \$ | <u>5,533</u> | <u>5,710</u> |

(6) **Long Term Debt, Due to Affiliates**

As of December 31, 1997 and 1996 long-term debt, due to affiliates consisted of the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|-----------------------------------|----|----------------|----------------|
| 9 1/4% Promissory Note - Due 2008 | \$ | <u>215,000</u> | <u>215,000</u> |

On May 18, 1993 SBO issued \$275,000,000 of 9 1/4% First Mortgage Bonds due 2008 (9 1/4% Bonds). The proceeds from the sale of the 9 1/4% Bonds were \$268,469,000 net of underwriting discounts and commissions. Approximately \$215,000,000 of the proceeds of the offering were loaned by SBO to the Company which loan is evidenced by an intercompany note with terms and conditions consistent with those of the 9 1/4% Bonds.

The 9 1/4% Bonds are unconditionally guaranteed by OSI, Showboat Operating Company, a wholly owned subsidiary of SBO and the Company. Interest on the 9 1/4% Bonds will be payable semi-annually on May 1 and November 1 of each year. The 9 1/4% Bonds will not be redeemable prior to May 1, 2000. Thereafter, the 9 1/4% Bonds will be redeemable at any time at the option of SBO, in whole or in part, at redemption prices specified in the Indenture for the 9 1/4% Bonds (Indenture). The 9 1/4% Bonds will be senior secured obligations of SBO and will rank senior in right of payment to all existing and future subordinated indebtedness of OSI and pari passu with OSI's senior indebtedness. The 9 1/4% Bonds will be secured by a deed of trust representing a first lien on the Las Vegas hotel casino (other than certain assets), by a pledge of all outstanding shares of capital stock of OSI and an intercompany note by the Company in favor of SBO and a pledge of certain intellectual property rights of SBO. OSI's obligation under its guaranty will be secured by a pledge of all outstanding shares of capital stock of the Company. The Company's obligations under its guaranty will be secured by a leasehold deed of trust representing a first lien on the Company's hotel casino (other than certain assets). Showboat Operating Company's guaranty will be secured by a pledge of certain of its assets related to a Las Vegas hotel casino.

The Indenture, as amended, places significant restrictions on the incurrence of additional indebtedness by SBO and its subsidiaries, the creation of additional liens on collateral securing the Bonds, transactions with affiliates and payment of certain restricted payments (as defined), including certain investments made by SBO and its subsidiaries. In a regular quarterly dividend (as defined), SBO must among other things, meet a specified fixed charge coverage ratio.

The fair value of the Company's Promissory note at December 31, 1997 and 1996 was \$232,200,000 and \$211,775,000 respectively, based on quoted market prices of SBO's public debt.

(Continued)

ATLANTIC CITY SHOWBOAT, INC.

Notes to Financial Statements

At December 31, 1997, the Company had available an unsecured line of credit with SBO totaling \$15,000,000. Interest is payable monthly at money center banks average prime rate as published in the Wall Street Journal on the first day of each month, plus 1%. The line of credit expires in March 1998. At December 31, 1997 no funds had been drawn on this line of credit.

On August 10, 1994 SBO issued \$120,000,000 Senior Subordinated Notes due 2009 (Notes). The Company is a guarantor of these Notes.

(7) **Leases**

The Company leases a warehouse under a long-term lease agreement which is capitalized as a capital lease. The Company has the option to purchase the warehouse from January 1, 1996 through March 31, 2001 at an option price of approximately \$1,928,000.

Property and equipment included the following leased property under capital leases by major classes at December 31, 1997 and 1996 (dollars in thousands) :

| | <u>1997</u> | <u>1996</u> |
|-------------------------------|---------------|--------------|
| Building - warehouse | \$ 2,050 | 2,050 |
| less accumulated amortization | <u>1,560</u> | <u>1,423</u> |
| | <u>\$ 490</u> | <u>627</u> |

The Company is leasing 10 1/2 acres of Boardwalk property in Atlantic City, New Jersey for a term of 99 years commencing October 1983. Annual rent payments, which are payable monthly, commenced upon opening of the Atlantic City Showboat. The rent is adjusted annually based upon changes in the Consumer Price Index. In April 1997, the annual rent increased \$242,000 to \$9,047,000. Under the lease, the Company is responsible for taxes, assessments, insurance and utilities.

On January 28, 1998 a subsidiary of SBO acquired the underlying fee interest of the land leased by the Company. The company's obligations under the lease remain intact and SBO's subsidiary will assume the duties as Lessor.

The following is a schedule of future minimum lease payments for capital leases and operating leases (with initial or remaining terms in excess of one year) as of December 31, 1997:

| | <u>Capital Lease</u> | <u>Operating Leases</u> |
|---|--------------------------|-----------------------------|
| Year ending December 31, | | |
| 1998 | \$ 253 | 9,820 |
| 1999 | 253 | 9,047 |
| 2000 | 253 | 9,047 |
| 2001 | 1,991 | 9,047 |
| 2002 | ---- | 9,047 |
| Thereafter | ---- | - 723,730 |
| Total minimum lease payments | <u>2,750</u> | <u>769,737</u> |
| Less amount representing interest | <u>822</u> | |
| Present value of minimum lease payments | <u>\$ 1,928</u> | |

(Continued)

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

Leases (continued)

The carrying amount of the capital lease approximates fair value at December 31, 1997.

Rent expense for all operating leases (except those with terms of a month or less that were not renewed) was \$9,820,000 and \$9,621,000 for the years ended December 31, 1997 and 1996 respectively.

(8) INCOME TAXES

For the years ended, December 31, 1997 and 1996, income tax expense from continuing operations consisted of the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|----------|----|--------------|---------------|
| Federal: | | | |
| Current | \$ | 6,925 | 6,122 |
| Deferred | | <u>591</u> | <u>1671</u> |
| | | 7,516 | 7,793 |
| State : | | | |
| Current | | 2,459 | 1,915 |
| Deferred | | <u>(271)</u> | <u>324</u> |
| | | 2,188 | 2,239 |
| Total | | | |
| Current | | 9,384 | 8,037 |
| Deferred | | <u>320</u> | <u>1,995</u> |
| | \$ | <u>9,704</u> | <u>10,032</u> |

Total income tax expense differed from the amounts computed by applying the federal income tax rate of 35% for the years ended December 31, 1997 and 1996, respectively, to pretax income from continuing operations as a result of the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|--|----|--------------|---------------|
| Computed "expected" tax expense | \$ | 7,296 | 8,570 |
| Increase (reduction) in income taxes resulting from: | | | |
| State income taxes, net of federal tax benefit. | | 1,422 | 1,457 |
| Permanent difference for Employee Cafeteria Meals | | 833 | 0 |
| Other, net | | <u>153</u> | <u>5</u> |
| Income tax expense | \$ | <u>9,704</u> | <u>10,032</u> |

-(Continued)

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

Income taxes (continued)

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the net deferred tax liability relate to the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|--|----|----------------|----------------|
| Deferred tax assets: | | | |
| Casino Reinvestment Development Authority obligation | \$ | (1,334) | (1,085) |
| Accrued bonuses | | 0 | (123) |
| Accrued vacations | | (1,490) | (1,460) |
| Allowance doubtful accounts | | (1,211) | (961) |
| Other | | <u>(3,103)</u> | <u>(3,066)</u> |
| Total deferred tax assets | | (7,138) | (6,695) |
| Deferred tax liabilities: | | | |
| Depreciation and amortization | | <u>18,786</u> | <u>18,022</u> |
| Net deferred tax liability | \$ | <u>11,648</u> | <u>11,327</u> |

(9) **STOCK PLANS**

The Company has various incentive plans under which restricted shares or stock options may be granted to key employees and all other full and part-time employees. A total of 3,600,000 shares of SBI stock has been reserved for issuance as restricted shares or stock options under these plans. Restricted shares and options granted to key employees vest over a five year period. All other options vest over a one year period. The options are exercisable, subject to vesting, over ten years at option prices not less than 100% of fair market value SBI's common stock determined on the date of grant of the options.

Unearned compensation in connection with restricted stock issued for services is recorded on the date of grant at the fair market value of SBI's common stock and is being amortized ratably from date of the grant over a five year vesting period as earned. Compensation expense of \$320,000 and \$788,000 was recognized for the years ended December 31, 1997 and 1996, respectively. Unearned compensation at December 31, 1997 and 1996 is \$285,000 and \$633,000, respectively, and is included on the balance sheets in Other Assets.

(10) **NON-OPERATING INCOME(EXPENSE)**

For the years ended, December 31, 1997 and 1996 non-operating income(expense) consisted of the following (dollars in thousands):

| | | <u>1997</u> | <u>1996</u> |
|--|----|--------------|--------------|
| Interest income | \$ | 1,554 | 1,519 |
| Loss on disposal of property & equipment | | <u>(346)</u> | - (174) |
| | \$ | <u>1,208</u> | <u>1,345</u> |

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements

(11) EMPLOYEE BENEFIT PLANS

The Company maintains a retirement and savings plan for eligible employees who are not covered by a collective bargaining agreement. Under the terms of the plan, eligible employees may defer up to 3% of their compensation, as defined, of which 100% of the deferral is matched by the Company. Eligible employees may contribute an additional 12% of their compensation which will not be matched by the Company. Amounts contributed by the Company vest over a five-year period. The Company contributed \$1,456,000 and \$1,531,000 to this plan for the years ended December 31, 1997 and 1996, respectively.

The Company's union employees are covered by union-sponsored, collectively-bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of man-hours worked. Contributions to the plans were \$592,000 and \$535,000 during the years ended December 31, 1997 and 1996, respectively.

(12) NEW JERSEY INVESTMENT OBLIGATION

The New Jersey Casino Control Act (the Act) provides, among other things, for an assessment on a gaming license based upon its gross casino revenues after completion of its first full year of operation. This assessment may be satisfied by investing in qualified direct investments, purchasing bonds issued by the Casino Reinvestment Development Authority (CRDA), or paying an "alternative tax". In order for direct investments to be eligible, they must be approved by the CRDA.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. At December 31, 1997 and 1996, Deposits and Other Assets include \$9,146,000 and \$7,009,000, respectively, representing the Company's bond purchases and deposits with the CRDA of \$13,616,000 at December 31, 1997 and \$10,616,000 at December 31, 1996 net of a valuation allowance of \$4,470,000 and \$3,607,000, respectively. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The Company is eligible to receive approximately \$8.8 million in funding credits reserved by the Casino Reinvestment Development Authority (CRDA), as a result of the completion of the hotel expansion program at the Atlantic City Showboat, completed in 1994. To date, the Company has received approximately \$2.9 million of the \$8.8 million. As of December 31, 1997, approximately \$4.9 million in funding credits is available for distribution to the company. The remaining \$1.0 million of reserved funding credits will be distributed in the future.

(13) COMMITMENTS AND CONTINGENCIES

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 adverse effect on the Company's financial position or results of operation.

(14) DIVIDENDS

In May of 1995 the Company's Board of Directors approved the monthly payment of dividends to OSI. Dividends are calculated at 15% of earnings before interest, taxes, depreciation and management fees, rounded down to the next hundred thousand dollars. In February of 1996 the Company's Board of Directors approved a special dividend in the amount of \$10.0 million. Non-cash dividends have been recorded as an increase to the payable to affiliate account.


STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

STATE OF New Jersey :
 : SS
COUNTY OF Atlantic :

Kathleen M. Caracciolo being duly sworn according to law upon my oath

deposes and says:

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



Signature

Vice President of Finance

Title

3472-11

License Number

Subscribed and sworn to
before me this 26th day
of March, 1998



Signature

MARCI A. HOMOVIH
NOTARY PUBLIC OF NEW JERSEY

My Commission Expires Sept. 19, 1999
Basis of Authority
to Take Oaths

Atlantic City Showboat, Inc.

Casino Licensee

**SCHEDULE OF RECEIVABLES AND
PATRONS' CHECKS**

ATLANTIC CITY SHOWBOAT, INC

FOR THE YEAR ENDED DECEMBER 31, 1997

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

SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE TWELVE MONTHS ENDED DECEMBER, 1997

(UNAUDITED)
(\$ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES

| LINE (a) | DESCRIPTION (b) | ACCOUNT BALANCE (c) | ALLOWANCE (d) | ACCOUNTS RECEIVABLE NET OF ALLOWANCE (e) |
|-------------|--|------------------------|------------------|--|
| | Patrons' Checks: | | | |
| 1 | Undeposited Patrons' Checks..... | \$ 3,219 | | |
| 2 | Returned Patrons' Checks..... | \$ 3,840 | | |
| 3 | Total Patrons' Checks..... | \$ 7,059 | \$ 2,896 | \$ 4,163 |
| 4 | Hotel Receivables..... | \$ 289 | \$ 71 | \$ 218 |
| | Other Receivables: | | | |
| 5 | Receivables Due from Officers and Employees..... | - | | |
| 6 | Receivables Due from Affiliates..... | - | | |
| 7 | Other Accounts and Notes Receivables..... | \$ 5,820 | | |
| 8 | Total Other Receivables..... | \$ 5,820 | | \$ 5,820 |
| 9 | Totals (Form CCC-205)..... | \$ 13,168 | \$ 2,967 | \$ 10,201 |

UNDEPOSITED PATRONS' CHECKS ACTIVITY

| LINE (f) | DESCRIPTION (g) | AMOUNT (h) |
|-------------|---|---------------|
| 10 | Beginning Balance (January 1)..... | \$ 3,020 |
| 11 | Counter Checks Issued (Excluding Counter Checks Issued Through Transactions Relating to Consolidations, Partial Redemptions, Substitutions, and Patrons' Cash Deposits)..... | \$ 118,961 |
| 12 | Checks Redeemed Prior to Deposit (Excluding the Unredeemed Portion of Counter Checks Redeemed Through Partial Redemptions, and Excluding Checks Redeemed Through Transactions Relating to Consolidations, Substitutions, and Patrons' Cash Deposits)..... | \$ (83,588) |
| 13 | Checks Collected Through Deposits..... | \$ (29,853) |
| 14 | Checks Transferred to Returned Checks..... | \$ (5,321) |
| 15 | Other Adjustments..... | - |
| 16 | Ending Balance..... | \$ 3,219 |
| 17 | "Hold" Checks Included in Balance on Line 16..... | - |
| 18 | Provision for Uncollectible Patrons' Checks..... | \$ 2,075 |
| 19 | Provision as a Percent of Counter Checks Issued..... | 1.7 % |

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

**ANNUAL EMPLOYMENT AND
PAYROLL REPORT**

ATLANTIC CITY SHOWBOAT, INC

FOR THE YEAR ENDED DECEMBER 31, 1997

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

ANNUAL EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 1997
(\$ in Thousands)

| LINE (a) | DEPARTMENT (b) | NUMBER OF EMPLOYEES AT DECEMBER 31, (c) | SALARIES AND WAGES | | |
|-------------|--|--|------------------------|--------------------------|---------------|
| | | | Other Employees (d) | Officers & Owners (e) | Totals (f) |
| 1 | CASINO Administration | 29 | | | |
| 2 | Gaming | 693 | | | |
| 3 | Slots | 193 | | | |
| 4 | Casino Accounting | 338 | | | |
| 5 | Simulcasting | 7 | | | |
| 6 | Other | 165 | | | |
| 7 | Total - Casino | 1,425 | \$ 34,063 | \$ 932 | \$ 34,995 |
| 8 | ROOMS | 299 | 5,523 | 290 | 5,813 |
| 9 | FOOD AND BEVERAGE | 938 | 17,882 | | 17,882 |
| 10 | OTHER OPERATED DEPARTMENTS BOWLING | 13 | 258 | | 258 |
| 11 | PBX | 22 | 474 | | 474 |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | | | | | |
| 16 | | | | | |
| 17 | | | | | |
| 18 | | | | | |
| 19 | | | | | |
| 20 | ADMINISTRATIVE AND GENERAL Executive office | 15 | 4,656 | 480 | 5,136 |
| 21 | Accounting and auditing | 135 | 3,583 | 288 | 3,871 |
| 22 | Security | 221 | 6,073 | | 6,073 |
| 23 | Other administrative and general department | 70 | 3,528 | 352 | 3,880 |
| 24 | MARKETING | 8 | 120 | 292 | 412 |
| 25 | GUEST ENTERTAINMENT | 93 | 1,048 | | 1,048 |
| 26 | PROPERTY OPERATION AND MAINTENANCE | 313 | 9,325 | | 9,325 |
| 27 | TOTALS - ALL DEPARTMENTS | 3,552 | \$ 86,533 | \$ 2,634 | \$ 89,167 |

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

**ANNUAL EMPLOYMENT AND PAYROLL REPORT
SIGNATURE PAGE**

FOR THE YEAR ENDED DECEMBER 31, 1997

Under Penalties provided by law, I declare that I have examined this report, and to the best of my knowledge and belief, no material discrepancies were noted for the period covered by this report, or if material discrepancies were noted, a detailed explanation is included on the attached page.

Robert A. Malon
Signature

Financial Controller
Title

3/30/98
Date

AMENDED

**GROSS REVENUE
ANNUAL TAX RETURN**

LICENSEE ATLANTIC CITY SHOWBOAT, INC

FOR THE YEAR ENDED DECEMBER 31, 1997

TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY

AMENDED

TRADING NAME OF LICENSEE ATLANTIC CITY SHOWBOAT, INC

GROSS REVENUE ANNUAL TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 1997
(\$ in Thousands)

Amended
4-1-98

Line

CASINO WIN:

| | | | |
|----|--------------------------------|----|---------|
| 1. | Table and Other Games Win..... | \$ | 71,509 |
| 2. | Slot Machines Win..... | \$ | 281,871 |
| 3. | Total Win..... | \$ | 353,380 |

Less - Adjustment for Uncollectible Patrons' Checks:

| | | | |
|-----|--|----|---------|
| 4. | Provision for Uncollectible Patrons' Checks | \$ | 2,075 |
| 5. | Maximum Adjustment (4% of line 3) | \$ | 14,135 |
| 6. | Adjustment (the lesser of line 4 or line 5) | \$ | 2,075 |
| 7. | Gross Revenue (line 3 less line 6)..... | \$ | 351,305 |
| 8. | Tax on Gross Revenue - Reporting Year (8% of line 7)..... | \$ | 28,104 |
| 9. | Audit or Other Adjustments to Tax on Gross Revenues in Prior Years | | 4 1 |
| 10. | Total Taxes on Gross Revenue (the sum of lines 8 and 9)..... | \$ | 28,108 |

DEPOSITS MADE FOR TAX ON REPORTING YEAR'S GROSS REVENUES:

| | | | |
|-----|--|----|--------|
| 11. | January | \$ | 1,824 |
| 12. | February | \$ | 1,742 |
| 13. | March | \$ | 2,748 |
| 14. | April | \$ | 2,066 |
| 15. | May | \$ | 2,421 |
| 16. | June | \$ | 3,037 |
| 17. | July | \$ | 2,269 |
| 18. | August | \$ | 2,137 |
| 19. | September | \$ | 3,150 |
| 20. | October | \$ | 1,924 |
| 21. | November | \$ | 1,984 |
| 22. | December | \$ | 2,670 |
| 23. | January | \$ | 135 |
| 24. | Total Deposits Made for Tax on Reporting Year's Gross Revenue..... | \$ | 28,107 |

Settlement of Prior Years' Tax on Gross Revenue

| | | | |
|-----|--|----|---|
| 25. | Resulting from Audit or Other Adjustments - (Deposits) Credits | | - |
| 26. | Gross Revenue Taxes Payable (the net of lines 10, 24 and 25) | \$ | 1 |

1 - Tax assessment related to \$50,150 of stolen chips from 1992-1996. Deposit reflected in April 1997.

STATE OF New Jersey :
COUNTY OF Atlantic : ss

Sworn
2-1-98

Robert A. Malone being duly sworn according to law upon my oath

deposes and says:

- 1. I have examined this Gross Revenue Annual Tax Return.
- 2. To the best of my knowledge, all the information contained in this Return has been prepared in conformity with the Casino Control Commission's Gross Revenue Annual Tax Return Instructions and Uniform Chart of Accounts.
- 3. To the best of my knowledge and belief, the information contained in this Return is accurate.

Robert A. Malone

Signature

Financial Controller

Title

3649-11

License Number

Subscribed and sworn to
before me this 30TH day
of MARCH, 1998

Blanca N. Matos-Maychak

Signature

On Behalf Of:

Atlantic City Showboat, Inc.
Casino Licensee

Basis of Authority
to Take Oaths

BLANCA N. MATOS-MAYCHAK -
NOTARY PUBLIC OF NEW JERSEY -
My Commission Expires June 27, 2002