

**ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT**

FOR THE QUARTER ENDED JUNE 30, 2007

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



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

ATLANTIC CITY SHOWBOAT, INC

BALANCE SHEETS

AS OF JUNE 30, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$21,571	\$30,011
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2007, \$2,518 ; 2006, \$1,216).....		17,164	22,900
4	Inventories	2	1,888	1,933
5	Other Current Assets.....	4	14,987	14,437
6	Total Current Assets.....		55,610	69,281
7	Investments, Advances, and Receivables.....	5, 10	409,837	459,998
8	Property and Equipment - Gross.....		761,535	763,236
9	Less: Accumulated Depreciation and Amortization.....		(308,339)	(323,245)
10	Property and Equipment - Net.....	6	453,196	439,991
11	Other Assets.....		437	709
12	Total Assets.....		\$919,080	\$969,979
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$14,292	\$20,590
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	44
18	Other Accrued Expenses.....	7	56,743	102,974
19	Other Current Liabilities.....		1,034	629
20	Total Current Liabilities.....		72,069	124,237
	Long-Term Debt:			
21	Due to Affiliates.....	8	715,000	715,000
22	External.....		0	0
23	Deferred Credits		34,026	27,381
24	Other Liabilities.....	9	18,713	16,985
25	Commitments and Contingencies.....	10	0	0
26	Total Liabilities.....		839,808	883,603
27	Stockholders', Partners', or Proprietor's Equity.....		79,272	86,376
28	Total Liabilities and Equity.....		\$919,080	\$969,979

*Prior year amounts have been restated to conform to current year presentation

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, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$203,885	\$212,179
2	Rooms.....		20,999	19,933
3	Food and Beverage.....		28,312	28,516
4	Other.....		6,295	4,743
5	Total Revenue.....		259,491	265,371
6	Less: Promotional Allowances.....		75,038	69,699
7	Net Revenue.....		184,453	195,672
	Costs and Expenses:			
8	Cost of Goods and Services.....		106,589	106,511 *
9	Selling, General, and Administrative.....		20,541	18,750 *
10	Provision for Doubtful Accounts.....		1,031	280
11	Total Costs and Expenses.....		128,161	125,541
12	Gross Operating Profit.....		56,292	70,131
13	Depreciation and Amortization.....		20,068	17,043
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	14,038	12,647 *
16	Income (Loss) from Operations.....		22,186	40,441
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(28,864)	(28,876)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(1,513)	263
20	Nonoperating Income (Expense) - Net.....		(118)	(793)
21	Total Other Income (Expenses).....		(30,495)	(29,406)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(8,309)	11,035
23	Provision (Credit) for Income Taxes.....		(1,952)	4,777
24	Income (Loss) Before Extraordinary Items.....		(6,357)	6,258
25	Extraordinary Items (Net of Income Taxes - 2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$6,357)	\$6,258

*Prior year amounts have been restated to conform to current year presentation

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, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$104,837	\$109,001
2	Rooms.....		10,930	10,504
3	Food and Beverage.....		14,528	14,337
4	Other.....		3,206	2,722
5	Total Revenue.....		133,501	136,564
6	Less: Promotional Allowances.....		39,518	36,172
7	Net Revenue.....		93,983	100,392
	Costs and Expenses:			
8	Cost of Goods and Services.....		53,652	53,654 *
9	Selling, General, and Administrative.....		10,443	9,418 *
10	Provision for Doubtful Accounts.....		423	148
11	Total Costs and Expenses.....		64,518	63,220
12	Gross Operating Profit.....		29,465	37,172
13	Depreciation and Amortization.....		10,245	8,470
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	7,017	6,477 *
16	Income (Loss) from Operations.....		12,203	22,225
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(14,432)	(14,444)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(697)	136
20	Nonoperating Income (Expense) - Net.....		(301)	(926)
21	Total Other Income (Expenses).....		(15,430)	(15,234)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(3,227)	6,991
23	Provision (Credit) for Income Taxes.....		(531)	2,960
24	Income (Loss) Before Extraordinary Items.....		(2,696)	4,031
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		(\$2,696)	\$4,031

*Prior year amounts have been restated to conform to current year presentation

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, 2006 AND THE SIX MONTHS ENDED JUNE 30, 2007

(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, 2005.....		1,500	\$70,492	0	\$0	\$0	\$0	\$9,626	\$80,118
2	Net Income (Loss) - 2006.....								5,511	5,511
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, 2006.....		1,500	70,492	0	0	0	0	15,137	85,629
11	Net Income (Loss) - 2007.....								(6,357)	(6,357)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, June 30, 2007		1,500	\$70,492	0	\$0	\$0	\$0	\$8,780	\$79,272

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, 2007 AND 2006
(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$26,786	\$38,410
	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.....		(32,537)	(39,479)
5	Proceeds from Disposition of Property and Equipment.....		211	512
6	CRDA Obligations		(2,528)	(2,513)
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.....		(34,854)	(41,480)
	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	.....		0	0
22	.....		0	0
23	Net Cash Provided (Used) By Financing Activities.....		0	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(8,068)	(3,070)
25	Cash and Cash Equivalents at Beginning of Period.....		29,639	33,081
26	Cash and Cash Equivalents at End of Period.....		\$21,571	\$30,011
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$2	\$1,676

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, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$6,357)	\$6,258
30	Depreciation and Amortization of Property and Equipment.....		20,068	17,043
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		0	0
34	Deferred Income Taxes - Noncurrent		(160)	(1,511)
35	(Gain) Loss on Disposition of Property and Equipment.....		(189)	(233)
36	(Gain) Loss on CRDA-Related Obligations.....		1,513	(263)
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(1,294)	(3,491)
39	(Increase) Decrease in Inventories		(163)	(79)
40	(Increase) Decrease in Other Current Assets.....		(637)	(1,397)
41	(Increase) Decrease in Other Assets.....		345	276
42	Increase (Decrease) in Accounts Payable.....		(2,474)	4,995
43	Increase (Decrease) in Other Current Liabilities		27,188	29,833
44	Increase (Decrease) in Other Liabilities		4,519	(8,603) *
45	Net (Increase) Decrease in Inves., Advances and R.....		(15,743)	(4,588) *
46	Amortization of Deferred Finance Charges		170	170
47	Net Cash Provided (Used) By Operating Activities.....		\$26,786	\$38,410

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$32,537)	(\$39,479)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$32,537)	(\$39,479)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

* Prior year amounts have been restated to conform to current year presentation

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, 2007

(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	204,366	\$18,143	0	\$0
2	Food	1,045,048	13,993	0	0
3	Beverage	4,151,218	6,923	0	0
4	Travel	0	0	3,708	649
5	Bus Program Cash	419,074	8,985	0	0
6	Other Cash Complimentaries	649,973	25,000	0	0
7	Entertainment	20,231	1,143	0	0
8	Retail & Non-Cash Gifts	52,980	628	0	0
9	Parking	0	0	0	0
10	Other	25,497	223	12,965	997
11	Total	6,568,387	\$75,038	16,673	\$1,646

*

FOR THE THREE MONTHS ENDED JUNE 30, 2007

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	103,045	\$9,228	0	\$0
2	Food	526,221	7,046	0	0
3	Beverage	2,168,082	3,602	0	0
4	Travel	0	0	1,877	329
5	Bus Program Cash	235,387	5,106	0	0
6	Other Cash Complimentaries	345,550	13,545	0	0
7	Entertainment	9,733	566	0	0
8	Retail & Non-Cash Gifts	26,287	307	0	0
9	Parking	0	0	0	0
10	Other	13,497	118	7,485	586
11	Total	3,427,802	\$39,518	9,362	\$915

*Included in the other Promotional Expenses is the cost of House of Blues complimentaries in the amount of \$252,522 and Boardwalk Hall complimentaries in the amount of 133,535.

*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.

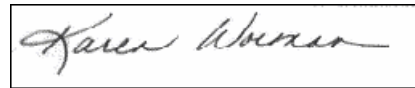
ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED JUNE 30, 2007

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.

8/15/2007

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

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”). SBO is a wholly owned subsidiary of Harrah’s Operating Company, Inc. (“HOC”), which is a direct wholly owned subsidiary of Harrah’s Entertainment, Inc. (“Harrah’s”). 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 and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey (“Atlantic City Showboat”). On June 1, 1998, Harrah’s, a Delaware corporation, purchased SBO and its subsidiaries.

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the “CCC”) and is subject to rules and regulations established by the CCC. The Company’s license is subject to renewal every four years with the current license expiring April 2008.

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 bad debts.

Inventories - Inventories of provisions and supplies are valued at the lower of average cost, or market.

Land, Buildings and Equipment - Land, buildings, and equipment additions are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah’s overall weighted-average borrowing rate of interest.

Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	7 to 40 years
Furniture, fixtures and equipment	3 to 12 years

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

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

Deferred Financing Cost - Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the effective interest method.

Financial Instruments - The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (“CRDA”) bonds and deposits approximately reflect their fair value based upon their below market interest rates.

Revenue Recognition - Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Food, beverage, rooms and other revenues include the aggregate amounts generated by those departments.

Total Rewards Program Liability - Harrah's customer loyalty program, Total Rewards, offers incentives to customers who gamble at the Company's property and certain affiliate casinos throughout the United States. 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 value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense in the accompanying 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, 2007 and 2006, \$3,541 and \$3,927, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash (“cash-back points”). The Company accrues the cost of cash-back 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, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,209 and \$1,172, respectively.

Casino Promotional Allowances - Casino promotional allowances consist of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of the coupons redeemed for cash 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:

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

	<u>2007</u>	<u>2006</u>
Food and Beverage	\$15,710	\$15,740
Rooms	6,245	6,105
Other	955	797
Bus Program Cash	8,985	7,845
Other Cash Complimentary	<u>25,000</u>	<u>22,447</u>
	<u>\$56,895</u>	<u>\$52,934</u>

Omission of Disclosures - In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the “CCC”), 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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those 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, 2007 are not necessarily indicative of the results of operations for the full year.

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

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC 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.

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to HOC on a daily basis. Cash transfers from HOC 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. No interest is earned on the amount shown as due from affiliates, net, in the accompanying balance sheets.

Administrative and Other Services - The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately \$8,204 and \$7,060 respectively for these services for the six months

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

ended June 30, 2007 and 2006. These fees are included in Charges from Affiliates Other than Interest in the statements of income.

Rental Agreement - The Company leases 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly are adjusted annually based upon changes in the Consumer Price Index. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the six months ended June 30, 2007 and 2006 was \$5,834 and \$5,587 respectively. The rent is included in Charges from Affiliates Other than Interest in the statements of income.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	<u>2007</u>	<u>2006</u>
Prepaid Slot License	\$ 1,771	\$1,727
Prepaid Insurance	0	0
Deposits	46	47
Prepaid Advertising	485	687
Prepaid Contracts/Utilities	501	516
Prepaid Income Taxes	368	633
Prepaid Rent	645	972
Current Deferred Tax Asset	10,356	8,857
Prepaid Air Charters	0	356
Other	<u>815</u>	<u>642</u>
	<u>\$14,987</u>	<u>\$14,437</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2007</u>	<u>2006</u>
Due from Affiliates	\$378,298	\$ 427,759
CRDA Deposits	19,968	22,257
CRDA Bonds	<u>21,871</u>	<u>21,812</u>
	<u>41,839</u>	<u>44,069</u>
Less: Valuation Allowance on		
CRDA Investments	<u>(10,300)</u>	<u>(11,830)</u>
CRDA Investments, Net	31,539	32,239
	<u>\$409,837</u>	<u>\$459,998</u>

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

Due from Affiliates as of June 30, consisted of the following unsecured, non-interest bearing intercompany amounts:

Harrah's Entertainment	\$378,298	\$427,759
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NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	2007	2006
Land and Land Improvements	\$ 23,247	\$ 23,217
Building and Improvements	511,868	490,704
Furniture, Fixtures and Equipment	183,962	209,171
Construction in Progress	41,941	39,637
Other property and equipment	517	507
	761,535	763,236
Less-accumulated depreciation and amortization	(308,339)	(323,245)
	\$453,196	\$439,991

NOTE 7 - OTHER ACCRUED EXPENSES

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

	2007	2006
Salaries and Wages	\$ 8,331	\$ 7,978
Taxes, Other Than Taxes on Income	2,902	2,368
Accrued Advertising and Promotion	0	1,482
Accrued Interest	38,258	86,081
Other	7,252	5,065
	\$56,743	\$102,974

NOTE 8 - LONG-TERM DEBT

On May 18, 1993, SBO issued \$275,000 of 9¼% First Mortgage Bonds due 2008 ("9¼% Bonds") and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9¼% Bonds. Subsequent to the acquisition of SBO by Harrah's on June 1, 1998, Harrah's completed tender offers and consent solicitations for SBO's 9¼% Bonds. As a result of the receipt of the requisite consents, Harrah's eliminated or modified substantially all of the

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negative covenants, certain events of default and made other changes to the respective indentures governing the 9¼% Bonds.

On January 15, 1999, the Company entered into a \$500,000 promissory note (the “Promissory Note”) with HOC. The debt terms are consistent with the provisions of third-party credit agreements arranged by HOC. The Promissory Note is due on January 15, 2009, and interest is payable semiannually at a rate of 7½%.

On March 12, 2003, both the 9¼% Bonds and the 7½% Promissory Note were assigned by their respective holders to Harrah’s Entertainment Limited. The terms and amounts of the debt were not affected by this assignment. As of June 30, 2007 and 2006, there was accrued interest of approximately \$38,258 and \$86,081, respectively. Prior to December 31, 2003, accrued interest was paid by the Company on a monthly basis. However, for subsequent tax years, interest payments will be remitted annually. Because the 9¼% Bonds and the 7½% Promissory Note are due to an affiliate, a determination of fair value is not considered meaningful.

NOTE 9 – OTHER LIABILITIES

Other Liabilities as of June 30 consisted of the following:

	<u>2007</u>	<u>2006</u>
Due to Affiliates, Long-Term	\$18,663	\$16,870
Other	<u>50</u>	<u>115</u>
	<u>\$18,713</u>	<u>\$16,985</u>
	<u>2007</u>	<u>2006</u>
Atlantic City Region	\$4,384	\$1,779
Other	<u>14,279</u>	<u>15,091</u>
	<u>\$18,663</u>	<u>\$16,870</u>

The Atlantic City Region consists of Harrah’s casino licenses operating in Atlantic City, New Jersey.

NOTE 10 – 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.

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. The Company includes CRDA investment bonds and funds on deposit in Investments, Advances, and Receivables in the accompanying balance sheets totaling \$21,871 and \$19,968, respectively, at June 30, 2007 and \$21,812 and

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\$22,257 respectively, at June 30, 2006. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment.

The twelve Atlantic City casino properties (the “AC Industry”) and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the “NJSEA”) to provide funding to subsidize New Jersey’s horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34,000 over a four-year period to the NJSEA and must deposit another \$62,000 in the Casino Expansion Fund (managed by the CRDA). The \$62,000 will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property’s investment obligation. The Company’s obligation is equal to its fair share of AC Industry casino revenues. The Company estimates this commitment over the four-year period to be \$2,717, the first payment of which was made in November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62,000, the Company is eligible to receive funds 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.

By letter dated March 27, 2007, the Company was informed by the CRDA that the parent company of the issuer of certain CRDA-backed bonds held by the Company has filed for Chapter 11 bankruptcy and does not intend to make future debt service payments on such bonds. The face value of the bonds held by the Company is \$3,302; however, the Company maintains a reserve on these bonds and on all of its other CRDA-backed bonds. Based on the information currently available and remedies available to the Company, the Company is not in a position to determine if impairment has occurred, therefore, the Company has not adjusted its reserve on these bonds and will continue to monitor development of this case.