

**ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT**

FOR THE QUARTER ENDED DECEMBER 31, 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 DECEMBER 31, 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.....		\$24,954	\$29,639
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2007, \$3,012 ; 2006, \$1,603).....		12,214	15,870
4	Inventories	2	2,029	1,725
5	Other Current Assets.....	4	11,492	11,967
6	Total Current Assets.....		50,689	59,201
7	Investments, Advances, and Receivables.....	5, 13	389,627	393,180
8	Property and Equipment - Gross.....		722,581	739,723
9	Less: Accumulated Depreciation and Amortization.....		(283,148)	(291,640)
10	Property and Equipment - Net.....	6	439,433	448,083
11	Other Assets.....		614	952
12	Total Assets.....		\$880,363	\$901,416
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$5,981	\$24,200
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		13	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	7	23,707	30,017
19	Other Current Liabilities.....		1,516	572
20	Total Current Liabilities.....		31,217	54,789
	Long-Term Debt:			
21	Due to Affiliates.....	8	715,000	715,000
22	External.....		20	0
23	Deferred Credits		21,380	31,803
24	Other Liabilities.....	9	41,560	14,195
25	Commitments and Contingencies.....	13	0	0
26	Total Liabilities.....		809,177	815,787
27	Stockholders', Partners', or Proprietor's Equity.....		71,186	85,629
28	Total Liabilities and Equity.....		\$880,363	\$901,416

*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 TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$403,133	\$424,656
2	Rooms.....		45,493	43,013
3	Food and Beverage.....		55,620	57,590
4	Other.....		13,936	10,283
5	Total Revenue.....		518,182	535,542
6	Less: Promotional Allowances.....		142,451	144,099
7	Net Revenue.....		375,731	391,443
	Costs and Expenses:			
8	Cost of Goods and Services.....		216,707	214,607 *
9	Selling, General, and Administrative.....		41,419	44,025 *
10	Provision for Doubtful Accounts.....		2,141	1,141
11	Total Costs and Expenses.....		260,267	259,773
12	Gross Operating Profit.....		115,464	131,670
13	Depreciation and Amortization.....		41,911	36,587
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	27,225	26,110 *
16	Income (Loss) from Operations.....		46,328	68,973
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(57,730)	(57,740)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(4,029)	949
20	Nonoperating Income (Expense) - Net.....	12	135	483
21	Total Other Income (Expenses).....		(61,624)	(56,308)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(15,296)	12,665
23	Provision (Credit) for Income Taxes.....		(3,938)	7,154
24	Income (Loss) Before Extraordinary Items.....		(11,358)	5,511
25	Extraordinary Items (Net of Income Taxes - 2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$11,358)	\$5,511

*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 DECEMBER 31, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$89,154	\$99,716
2	Rooms.....		10,141	10,094
3	Food and Beverage.....		12,309	13,352
4	Other.....		3,615	2,413
5	Total Revenue.....		115,219	125,575
6	Less: Promotional Allowances.....		28,706	33,928
7	Net Revenue.....		86,513	91,647
	Costs and Expenses:			
8	Cost of Goods and Services.....		52,667	51,598 *
9	Selling, General, and Administrative.....		11,523	14,440 *
10	Provision for Doubtful Accounts.....		507	587
11	Total Costs and Expenses.....		64,697	66,625
12	Gross Operating Profit.....		21,816	25,022
13	Depreciation and Amortization.....		11,168	9,583
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	6,727	6,977 *
16	Income (Loss) from Operations.....		3,921	8,462
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(14,433)	(14,432)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(1,666)	269
20	Nonoperating Income (Expense) - Net.....	12	187	21
21	Total Other Income (Expenses).....		(15,912)	(14,142)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(11,991)	(5,680)
23	Provision (Credit) for Income Taxes.....		(3,481)	438
24	Income (Loss) Before Extraordinary Items.....		(8,510)	(6,118)
	Extraordinary Items (Net of Income Taxes -			
25	2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$8,510)	(\$6,118)

*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 TWELVE MONTHS ENDED DECEMBER 31, 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.....								(11,358)	(11,358)
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....								(3,085)	(3,085)
15										0
16										0
17										0
18										0
19	Balance, December 31, 2007		1,500	\$70,492	0	\$0	\$0	\$0	\$694	\$71,186

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 TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$41,540	\$65,500
	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.....		(41,367)	(64,775)
5	Proceeds from Disposition of Property and Equipment.....		338	512
6	CRDA Obligations		(5,188)	(4,679)
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.....		(46,217)	(68,942)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		(8)	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.....		(8)	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(4,685)	(3,442)
25	Cash and Cash Equivalents at Beginning of Period.....		29,639	33,081
26	Cash and Cash Equivalents at End of Period.....		\$24,954	\$29,639
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$62,170	\$105,210
28	Income Taxes.....		\$2	\$2,337

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 TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$11,358)	\$5,511
30	Depreciation and Amortization of Property and Equipment...		41,911	36,587
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		873	884
34	Deferred Income Taxes - Noncurrent		(10,423)	2,911
35	(Gain) Loss on Disposition of Property and Equipment.....		(331)	(225)
36	(Gain) Loss on CRDA-Related Obligations.....		4,029	(949)
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		3,656	8,068
39	(Increase) Decrease in Inventories		(304)	129
40	(Increase) Decrease in Other Current Assets.....		(398)	189
41	(Increase) Decrease in Other Assets.....		(3)	(137)
42	Increase (Decrease) in Accounts Payable.....		(9,794)	6,196
43	Increase (Decrease) in Other Current Liabilities		(5,366)	(43,225)
44	Increase (Decrease) in Other Liabilities		24,280	(11,393) *
45	Net (Increase) Decrease in Inves., Advances and R.....		4,427	60,614 *
46	Amortization of Deferred Finance Charges		341	340
47	Net Cash Provided (Used) By Operating Activities.....		\$41,540	\$65,500

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$41,408)	(\$64,775)
49	Less: Capital Lease Obligations Incurred.....		41	
50	Cash Outflows for Property and Equipment.....		(\$41,367)	(\$64,775)
	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 TWELVE MONTHS ENDED DECEMBER 31, 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	386,385	\$36,762	0	\$0
2	Food	1,821,308	24,387	0	0
3	Beverage	8,585,957	13,906	0	0
4	Travel	0	0	8,643	1,513
5	Bus Program Cash	812,876	17,108	0	0
6	Other Cash Complimentaries	1,215,774	45,600	0	0
7	Entertainment	57,098	3,011	0	0
8	Retail & Non-Cash Gifts	88,419	1,268	0	0
9	Parking	0	0	0	0
10	Other	46,678	409	27,286	2,071
11	Total	13,014,495	\$142,451	35,929	\$3,584

*

FOR THE THREE MONTHS ENDED DECEMBER 31, 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	86,499	\$7,767	0	\$0
2	Food	338,382	4,531	0	0
3	Beverage	1,964,983	3,129	0	0
4	Travel	0	0	2,077	364
5	Bus Program Cash	161,792	3,390	0	0
6	Other Cash Complimentaries	237,240	8,576	0	0
7	Entertainment	17,752	922	0	0
8	Retail & Non-Cash Gifts	17,496	317	0	0
9	Parking	0	0	0	0
10	Other	8,429	74	7,068	530
11	Total	2,832,573	\$28,706	9,145	\$894

*Included in the other Promotional Expenses is the cost of House of Blues complimentary in the amount of \$290,938 and Boardwalk Hall complimentary in the amount of 414,659.

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

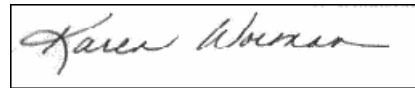
ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 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.

5/1/2008

Date



Karen Worman

Vice President of Finance

Title

6320-11

License Number

On Behalf of:

ATLANTIC CITY SHOWBOAT, INC

Casino Licensee

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

AMENDED 5/1/2008

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.

Inventories - Inventories, which consist primarily of food, beverage, and operating supplies, are stated at the lower of average cost or market value.

Land, Buildings and Equipment - Land, buildings, and equipment 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. Capitalized interest for the years ended December 31, 2007 and 2006, was approximately \$112, and \$1,134, respectively.

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

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

Land improvements	12 years
Buildings and improvements	10 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.

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 net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

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

AMENDED 5/1/2008

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 December 31, 2007 and 2006, \$3,116 and \$3,613, 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 December 31, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,013 and \$1,205, 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 December 31:

	2007	2006
Food and Beverage	\$ 29,901	\$ 31,684
Rooms	12,398	12,241
Other	2,877	1,663
Bus Program Cash	17,108	15,480
Other Cash Complimentary	45,600	47,666
	\$ 107,884	\$ 108,734

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.

Income Taxes - The Company accounts for income taxes under SFAS No. 109, Accounting for Income Taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statement or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases, 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 Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the January 1, 2007, balance of retained earnings was increased by approximately \$3.1 million.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense.

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

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

AMENDED 5/1/2008

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.

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.

Employee Benefit Plans – Harrah’s maintains a defined contribution savings and retirement plan in which the non-union employees of the Company may participate. The plan, among other things, provides for pre-tax and after-tax contributions by employees. Under the plan, participating employees may elect to contribute up to 50 percent of their eligible earnings. The employer matches 50 percent for the first six percent of employees’ contributions. Amounts contributed to the plan are invested, at the participant’s direction, in up to 20 separate funds, prior to January 2008 this also included a Harrah’s company stock fund. Participants become vested in the matching contributions over five years of credited service. The Company’s contribution expense for the years ended December 31, 2007 and 2006 was approximately \$887 and \$886, respectively.

HOC also maintains deferred compensation plans, stock option plans and an Executive Supplemental Savings Plan, under which certain employees of the Company may defer a portion of their compensation. The expenses charged by HOC to the Company for its employees’ participation in these programs are included in the administrative and other services charge discussed below.

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 hours worked. Contributions to the plans were \$1,873 and \$1,459 during the twelve months ended December 31, 2007 and 2006, respectively.

Equity Incentive Plans - Harrah’s maintains equity incentive awards plans in which employees of the Company may participate. Harrah’s allocates an appropriate amount of cost for these awards to each subsidiary where employees participate.

Under these plans, non-qualified stock options, restricted stock, stock appreciation rights (“SARs”), performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards may be granted to employees or consultants of Harrah’s and its subsidiaries, including the Company and members of Harrah’s Board of Directors. In connection with the acquisition of Harrah’s, in January 2008 (see note 14), outstanding SARs and stock options, whether vested or unvested, and unvested restricted stock were cancelled and converted into the right to receive cash. New equity incentive award plans are expected to replace the terminated plans.

Effective January 1, 2006, Harrah’s adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective. The effect of the adoption relates to the stock option and stock appreciation rights expense discussed in the following paragraphs.

Stock Options – Until the January 2008 acquisition stock option awards typically vested in equal installments on January 1 following the grant date and on January 1 in each of the two subsequent years and allowed the option holder to purchase stock over specified periods of time, generally seven years from the date of grant, at a fixed price equal to the market value at the date of grant. The Company recognized approximately \$234 and \$357 for stock option expense in 2007 and 2006, respectively. This expense is included in charges from affiliates in the accompanying statements of income.

Stock Appreciation Rights – Until the January 2008 acquisition SARs typically vested in equal installments on June 30 of the year following the year of the grant date and on June 30 in each of the two subsequent years. SARs allowed the holder to receive a payment, in cash or stock, equal to the excess of the fair market value of a specified number of shares of stock on the date the SARs were exercised over an exercise price per share, which typically is the fair market value on the date the SARs were granted. The Company recognized approximately \$200 and \$140 for SARs expense in 2007 and 2006 respectively. This expense is included in charges from affiliates in the accompanying statements of income.

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

AMENDED 5/1/2008

Restricted Stock – Until the January 2008 acquisition restricted share grants of Harrah’s stock had restrictions that may included, but were not be limited to, the right to vote, receive dividends on or transfer the restricted stock. Restricted shares were subject to forfeiture during a specified period or periods prior to vesting. These shares issued generally vested in equal annual installments over a three year period. The compensation arising from a restricted stock grant is based upon the market price of Harrah’s stock at the grant date. Such expense was deferred and amortized to expense over the vesting period. The Company recognized approximately \$336 and \$139 of compensation expense in 2007 and 2006, respectively related to Harrah’s restricted stock. This expense is included in charges from affiliates in the accompanying statements of income in 2007.

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 \$15,909 and \$14,688 respectively for these services for the twelve months ended December 31, 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 twelve months ended December 31, 2007 and 2006 was \$11,316 and \$11,421 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 December 31, consisted of the following:

	<u>2007</u>	<u>2006</u>
Prepaid Slot License	\$ 887	\$ 914
Prepaid Licenses-Non Gaming	1,458	-
Prepaid Insurance	18	-
Deposits	45	48
Prepaid Advertising	129	1,268
Prepaid Contracts/Utilities	167	172
Prepaid Income taxes	66	50
Prepaid rent	968	972
Current Deferred Tax Asset	7,100	7,973
Other	654	570
	<u>\$ 11,492</u>	<u>\$ 11,967</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2007</u>	<u>2006</u>
Due from Affiliates	\$ 358,129	\$ 362,556
CRDA Deposits	20,512	18,892
CRDA Bonds	22,213	21,519
	<u>42,725</u>	<u>40,411</u>
Less: Valuation Allowance on CRDA Investments	<u>(11,227)</u>	<u>(9,787)</u>
CRDA Investments, Net	31,498	30,624
	<u>\$ 389,627</u>	<u>\$ 393,180</u>

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

AMENDED 5/1/2008

Due from Affiliates as of December 31, consisted of the following unsecured, non-interest bearing intercompany amounts:

	<u>2007</u>	<u>2006</u>
Harrah's Entertainment	\$ 358,129	\$ 360,623
Atlantic City Region	-	1,933
	<u>\$ 358,129</u>	<u>\$ 362,556</u>

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

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Land and land Improvements	\$ 23,180	\$ 23,247
Building and Improvements	533,647	508,491
Capital Leases	44	-
Furniture Fixtures & Equipment	162,386	178,842
Construction in Progress	2,807	28,636
Other Property and Equipment	<u>517</u>	<u>507</u>
	722,581	739,723
Less: Accumulated Depreciation and Amortization	(283,148)	(291,640)
Land, Building and Equipment, Net	<u>\$ 439,433</u>	<u>\$ 448,083</u>

NOTE 7 - OTHER ACCRUED EXPENSES

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

	<u>2007</u>	<u>2006</u>
Salaries and Wages	\$ 8,907	\$ 8,576
Taxes, Other Than taxes on Income	1,883	2,656
Accrued Advertising and Promotion	-	1,363
Accrued Interest	4,782	9,565
Other	<u>8,135</u>	<u>7,857</u>
	<u>\$ 23,707</u>	<u>\$ 30,017</u>

NOTE 8 - LONG-TERM DEBT

On May 18, 1993, SBO issued \$275,000 of 9¼% First Mortgage Bonds ("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 negative covenants, certain events of default and made other changes to the respective indentures governing the 9¼% Bonds.

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

AMENDED 5/1/2008

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. 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 December 31, 2007 and 2006, there was accrued interest of approximately \$4,782 and \$9,565, 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 December 31 consisted of the following:

	<u>2007</u>	<u>2006</u>
Atlantic City Region	\$ 10,960	\$ -
Adjustment for Adoption of FIN 48	15,740	-
Other	14,860	14,195
	<u>\$ 41,560</u>	<u>\$ 14,195</u>

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

NOTE 10 – LEASES

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2011. Rental expense included in the accompanying statement of income for the twelve months ended December 31, 2007 and 2006 was approximately \$2,977 and \$4,071, respectively.

Future minimum lease payments due under the non-cancelable capital and operating leases as of December 31, 2007, are as follows:

	<u>Lease Obligations</u>	
	<u>Capital</u>	<u>Operating</u>
2008	\$ 16	\$ 107
2009	16	99
2010	5	99
2011	-	99
Total minimum lease payments	<u>37</u>	<u>\$ 404</u>
Less: Imputed Interest	<u>(4)</u>	
Present value of net minimum lease payments	<u>\$ 33</u>	

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

AMENDED 5/1/2008

NOTE 11 – INCOME TAXES (BENEFIT)

The Company is included in the consolidated federal tax return of Harrah's, but files a separate New Jersey tax return. The provision for income taxes is computed based on a separate return basis.

The provision for income taxes for the years ended December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Federal		
Current	\$ 3,731	\$ 1,222
Deferred	<u>(7,700)</u>	<u>3,252</u>
	<u>\$ (3,969)</u>	<u>\$ 4,474</u>
State		
Current	\$ 1,881	\$ 2,137
Deferred	<u>(1,850)</u>	<u>543</u>
	<u>\$ 31</u>	<u>\$ 2,680</u>
Total		
Current	\$ 5,612	\$ 3,359
Deferred	<u>(9,550)</u>	<u>3,795</u>
	<u>\$ (3,938)</u>	<u>\$ 7,154</u>
(Benefit) provision for income taxes		

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 as of December 31, 2007 and 2006, were as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets		
Grantor trust	5,473	7,143
Accrued compensation and related benefits allowance for doubtful accounts	1,361	1,177
Self-insurance reserves	1,230	655
Contingencies	74	31
Other	5,633	-
	<u>7,538</u>	<u>4,963</u>
Total deferred tax assets	21,309	13,969
Deferred tax liabilities		
Land, building and equipment	<u>(35,589)</u>	<u>(37,799)</u>
Net deferred tax liability	<u>(14,280)</u>	<u>(23,830)</u>

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

AMENDED 5/1/2008

As discussed in Note 2, the Company adopted the provisions of FIN 48, on January 1, 2007. As a result of the implementation of FIN 48, the January 1, 2007, balance of retained earnings was decreased by approximately \$3,085. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

Balance at January 1, 2007	\$ 10,645
Additions based on tax positions related to the current year	1,033
Additions for tax positions of prior years	192
Reductions for tax positions of prior years	-
Settlements	-
Expiration of Statutes	-
	-
Balance at December 31, 2007	\$ 11,870

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. The Company accrued approximately \$1,400 during 2007. Additionally, the Company had approximately \$2,469 and \$3,869 for the payment of interest and penalties accrued at January 1, 2007, and December 31, 2007, respectively. Included in the balance of unrecognized tax benefits at January 1, 2007, and December 31, 2007, are \$10,164 and \$11,197 respectively, of unrecognized tax benefits that, if recognized, would impact the effective tax rate. As a result of the expected resolution of examination issues with both federal and state tax authorities, the lapsing of various state statutes, and the remittance of tax payments, the Company believes it is reasonably possible that the amount unrecognized tax benefits will decrease during 2008 between \$0 and \$8,000.

The Company is included in the federal consolidated return of its parent (“Harrah’s”) which, as a large taxpayer, Harrah’s is under continual audit by the Internal Revenue Service (“IRS”) on open tax positions. Harrah’s is participating in the IRS’s Compliance Assurance Program for the 2007 tax year. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. The IRS is currently examining in a traditional audit process the 2004, 2005, and 2006 consolidated federal income tax returns filed by Harrah’s. Additionally, the Company is subject to exam by state tax authorities, and open tax years are 1999 through 2007.

NOTE 12 – NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2007 and 2006, Non-Operating Income (Expense) consisted of the following:

	2007	2006
Interest Income	1,370	1,573
Preopening / Demolition Expense	(1,411)	(1,314)
Gain/Loss on Asset Sales	331	225
Other Non Operating Expense	(155)	(1)
	135	483

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.

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 \$20,512 and \$22,213, respectively, at

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

AMENDED 5/1/2008

December 31, 2007 and \$18,892 and \$21,519 respectively, at December 31, 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 is providing \$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 is being 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.

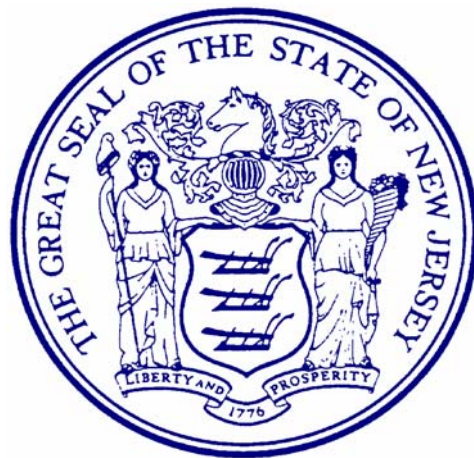
During 2007, the Company was informed by the CRDA that the parent company of the issuer (the "Debtor") of certain CRDA backed bonds held by the Company had filed for Chapter 11 bankruptcy. The face value of the bonds held by the company is \$3,302. The CRDA has informed the Company that the Bankruptcy Court has approved a settlement between the CRDA and the Debtor for continued assumption of the Bonds with modifications upon its emergence from Bankruptcy. The sale of the Debtor to post petition lenders is awaiting final regulatory approvals. Based on the terms of the settlement, the Company believes that its reserves are adequate.

NOTE 14 - SUBSEQUENT EVENTS

On January 28, 2008, Harrah's was acquired by affiliates of Apollo Global Management, LLC and TPG Capital, L.P. in an all cash transaction, hereinafter referred to as the "Merger." The underlying assets acquired and liabilities assumed in the Merger will be revalued based upon their estimated fair values at the date of acquisition. The estimated fair values will be determined after review and consideration of relevant information including discounted cash flows analyses, quoted market prices and our own estimates. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess will be allocated to goodwill. The purchase price allocation is expected to be completed within one year of the acquisition, and the purchase price is expected to be pushed-down to the applicable reporting unit. Financial statements of the Company, subsequent to the Merger, may be significantly different from the Company's pre-Merger financial statements.

ATLANTIC CITY SHOWBOAT, INC.
ANNUAL FILINGS
FOR THE YEAR ENDED DECEMBER 31, 2007

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



DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL

ATLANTIC CITY SHOWBOAT, INC.
SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS
FOR THE YEAR ENDED DECEMBER 31, 2007

(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.....	\$3,441		
2	Returned Patrons' Checks.....	5,405		
3	Total Patrons' Checks.....	8,846	\$2,871	\$5,975
4	Hotel Receivables.....	485	141	\$344
	Other Receivables:			
5	Receivables Due from Officers and Employees....	-		
6	Receivables Due from Affiliates.....	-		
7	Other Accounts and Notes Receivables.....	5,895		
8	Total Other Receivables.....	5,895		\$5,895
9	Totals (Form CCC-205).....	\$15,226	\$3,012	\$12,214

UNDEPOSITED PATRONS' CHECKS ACTIVITY		
Line (f)	Description (g)	Amount (h)
10	Beginning Balance (January 1).....	\$4,613
11	Counter Checks Issued.....	101,608
12	Checks Redeemed Prior to Deposit.....	(63,590)
13	Checks Collected Through Deposits.....	(32,253)
14	Checks Transferred to Returned Checks.....	(6,937)
15	Other Adjustments.....	0
16	Ending Balance.....	\$3,441
17	"Hold" Checks Included in Balance on Line 16.....	0
18	Provision for Uncollectible Patrons' Checks.....	\$2,141
19	Provision as a Percent of Counter Checks Issued.....	2.1%

ATLANTIC CITY SHOWBOAT, INC. EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2007

(\$ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages		
			Other Employees (d)	Officers & Owners (e)	Totals (f)
	CASINO:				
1	Table and Other Games	541			
2	Slot Machines	117			
3	Administration	11			
4	Casino Accounting	139			
5	Simulcasting	1			
6	Other	81			
7	Total - Casino	890	\$26,180	\$203	\$26,383
8	ROOMS	357	8,603		8,603
9	FOOD AND BEVERAGE	1,066	19,663	162	19,825
10	GUEST ENTERTAINMENT	213	1,461		1,461
11	MARKETING	7	392	141	533
12	OPERATION AND MAINTENANCE	223	8,287		8,287
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	5	86	812	898
14	Accounting and Auditing	59	2,525	217	2,742
15	Security	134	4,408		4,408
16	Other Administrative and General	18	3,771	0	3,771
	OTHER OPERATED DEPARTMENTS:				
17	PBX	8	287		287
18	Parking	13	264		264
19					0
20					0
21					0
22					0
23	TOTALS - ALL DEPARTMENTS	2,993	\$75,927	\$1,535	\$77,462

SHOWBOAT

ANNUAL GROSS REVENUE TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2007

Line

GROSS REVENUE:	
1.	Table and Other Games..... \$ 73,740,876
2.	Slot Machines 333,680,749
3.	Total Gross Revenue..... <u>407,421,625</u>
4.	Adjustments..... <u>27,212</u>
5.	Taxable Gross Revenue (line 3 plus line 4)..... <u>407,448,837</u>
6.	Tax on Gross Revenue - Reporting Year (8% of line 5)..... <u>32,595,907</u>
7.	Audit or Other Adjustments to Tax on Gross Revenues in Prior Years <u>53,240</u>
8.	Total Taxes on Gross Revenue (the sum of lines 6 and 7)..... <u>32,649,147</u>
9.	Total Deposits Made for Tax on Reporting Year's Gross Revenue..... <u>(32,595,907)</u>
Settlement of Prior Years' Tax on Gross Revenue	
10.	Resulting from Audit or Other Adjustments - (Deposits) Credits <u>(53,240)</u>
11.	Gross Revenue Taxes Payable (the net of lines 8, 9 and 10) <u>\$ (0)</u>

Under penalties of perjury, I declare that I have examined this Annual Gross Revenue Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

March 13, 2008
Date



Gail Myers

Operations Controller (3470-11)

Title (License Number)