

**ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT**

FOR THE QUARTER ENDED SEPTEMBER 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 SEPTEMBER 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.....		\$19,275	\$26,469
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2007, \$2,674 ; 2006, \$1,245).....		13,656	26,024
4	Inventories	2	1,983	1,944
5	Other Current Assets.....	4	16,097	13,022
6	Total Current Assets.....		51,011	67,459
7	Investments, Advances, and Receivables.....	5, 10	442,339	478,225
8	Property and Equipment - Gross.....		744,453	727,158
9	Less: Accumulated Depreciation and Amortization.....		(298,232)	(283,503)
10	Property and Equipment - Net.....	6	446,221	443,655
11	Other Assets.....		319	599
12	Total Assets.....		\$939,890	\$989,938
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$7,120	\$15,186
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	71,085	120,630
19	Other Current Liabilities.....		980	831
20	Total Current Liabilities.....		79,198	136,647
	Long-Term Debt:			
21	Due to Affiliates.....	8	715,000	715,000
22	External.....		23	0
23	Deferred Credits		34,146	28,540
24	Other Liabilities.....	9	28,742	18,004
25	Commitments and Contingencies.....	10	0	0
26	Total Liabilities.....		857,109	898,191
27	Stockholders', Partners', or Proprietor's Equity.....		82,781	91,747
28	Total Liabilities and Equity.....		\$939,890	\$989,938

*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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$313,979	\$324,940
2	Rooms.....		35,352	32,919
3	Food and Beverage.....		43,311	44,238
4	Other.....		10,321	7,870
5	Total Revenue.....		402,963	409,967
6	Less: Promotional Allowances.....		113,745	110,171
7	Net Revenue.....		289,218	299,796
	Costs and Expenses:			
8	Cost of Goods and Services.....		164,040	163,009 *
9	Selling, General, and Administrative.....		29,896	29,585 *
10	Provision for Doubtful Accounts.....		1,634	554
11	Total Costs and Expenses.....		195,570	193,148
12	Gross Operating Profit.....		93,648	106,648
13	Depreciation and Amortization.....		30,743	27,004
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	20,498	19,133 *
16	Income (Loss) from Operations.....		42,407	60,511
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(43,297)	(43,308)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(2,363)	680
20	Nonoperating Income (Expense) - Net.....		(52)	462
21	Total Other Income (Expenses).....		(45,712)	(42,166)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(3,305)	18,345
23	Provision (Credit) for Income Taxes.....		(457)	6,716
24	Income (Loss) Before Extraordinary Items.....		(2,848)	11,629
25	Extraordinary Items (Net of Income Taxes - 2007, \$0; 2006, \$0).....		0	0
26	Net Income (Loss).....		(\$2,848)	\$11,629

*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 SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
	Revenue:			
1	Casino.....		\$110,094	\$112,761
2	Rooms.....		14,353	12,986
3	Food and Beverage.....		14,999	15,722
4	Other.....		4,026	3,127
5	Total Revenue.....		143,472	144,596
6	Less: Promotional Allowances.....		38,707	40,472
7	Net Revenue.....		104,765	104,124
	Costs and Expenses:			
8	Cost of Goods and Services.....		57,451	56,498 *
9	Selling, General, and Administrative.....		9,355	10,835 *
10	Provision for Doubtful Accounts.....		603	274
11	Total Costs and Expenses.....		67,409	67,607
12	Gross Operating Profit.....		37,356	36,517
13	Depreciation and Amortization.....		10,675	9,961
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	6,460	6,486 *
16	Income (Loss) from Operations.....		20,221	20,070
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(14,433)	(14,432)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(850)	417
20	Nonoperating Income (Expense) - Net.....		66	1,255
21	Total Other Income (Expenses).....		(15,217)	(12,760)
22	Income (Loss) Before Taxes and Extraordinary Items.....		5,004	7,310
23	Provision (Credit) for Income Taxes.....		1,495	1,939
24	Income (Loss) Before Extraordinary Items.....		3,509	5,371
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		\$3,509	\$5,371

*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 NINE MONTHS ENDED SEPTEMBER 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.....								(2,848)	(2,848)
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, September 30, 2007		1,500	\$70,492	0	\$0	\$0	\$0	\$12,289	\$82,781

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 NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2007 (c)	2006 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$30,266	\$53,313
	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.....		(36,993)	(56,559)
5	Proceeds from Disposition of Property and Equipment.....		211	512
6	CRDA Obligations		(3,843)	(3,878)
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.....		(40,625)	(59,925)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		(5)	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.....		(5)	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(10,364)	(6,612)
25	Cash and Cash Equivalents at Beginning of Period.....		29,639	33,081
26	Cash and Cash Equivalents at End of Period.....		\$19,275	\$26,469
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$0
28	Income Taxes.....		\$2	\$1,729

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 NINE MONTHS ENDED SEPTEMBER 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).....		(\$2,848)	\$11,629
30	Depreciation and Amortization of Property and Equipment.....		30,743	27,004
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		(40)	(352)
35	(Gain) Loss on Disposition of Property and Equipment.....		(182)	(232)
36	(Gain) Loss on CRDA-Related Obligations.....		2,363	(680)
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		2,214	(6,338)
39	(Increase) Decrease in Inventories		(258)	(90)
40	(Increase) Decrease in Other Current Assets.....		(1,747)	18
41	(Increase) Decrease in Other Assets.....		378	301
42	Increase (Decrease) in Accounts Payable.....		(8,918)	2,984
43	Increase (Decrease) in Other Current Liabilities		41,476	47,647
44	Increase (Decrease) in Other Liabilities		14,548	(7,584) *
45	Net (Increase) Decrease in Inves., Advances and R.....		(47,718)	(21,249) *
46	Amortization of Deferred Finance Charges		255	255
47	Net Cash Provided (Used) By Operating Activities.....		\$30,266	\$53,313

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$37,034)	(\$56,559)
49	Less: Capital Lease Obligations Incurred.....		41	
50	Cash Outflows for Property and Equipment.....		(\$36,993)	(\$56,559)
	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 NINE MONTHS ENDED SEPTEMBER 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	299,886	\$28,995	0	\$0
2	Food	1,482,926	19,856	0	0
3	Beverage	6,620,974	10,777	0	0
4	Travel	0	0	6,566	1,149
5	Bus Program Cash	651,084	13,718	0	0
6	Other Cash Complimentaries	978,534	37,024	0	0
7	Entertainment	39,346	2,089	0	0
8	Retail & Non-Cash Gifts	70,923	951	0	0
9	Parking	0	0	0	0
10	Other	38,249	335	20,218	1,541
11	Total	10,181,922	\$113,745	26,784	\$2,690

FOR THE THREE MONTHS ENDED SEPTEMBER 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	95,520	\$10,852	0	\$0
2	Food	437,878	5,863	0	0
3	Beverage	2,469,756	3,854	0	0
4	Travel	0	0	2,858	500
5	Bus Program Cash	232,010	4,733	0	0
6	Other Cash Complimentaries	328,561	12,024	0	0
7	Entertainment	19,115	946	0	0
8	Retail & Non-Cash Gifts	17,943	323	0	0
9	Parking	0	0	0	0
10	Other	12,752	112	7,253	544
11	Total	3,613,535	\$38,707	10,111	\$1,044

*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 303,156.

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

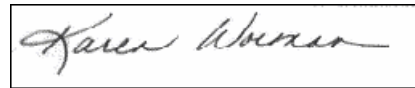
ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED SEPTEMBER 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.

11/15/2007

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 September 30, 2007 and 2006, \$3,428 and \$3,797, 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 September 30, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,174 and \$1,259, 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 September 30:

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

	<u>2007</u>	<u>2006</u>
Food and Beverage	\$23,243	\$23,950
Rooms	9,469	9,190
Other	1,636	1,368
Bus Program Cash	13,718	12,005
Other Cash Complimentary	<u>37,024</u>	<u>36,074</u>
	<u>\$85,090</u>	<u>\$82,587</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 nine months ended September 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 \$12,084 and \$10,629 respectively for these services for the nine

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

months ended September 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 nine months ended September 30, 2007 and 2006 was \$8,414 and \$8,504 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 September 30, consisted of the following:

	<u>2007</u>	<u>2006</u>
Prepaid Slot License	\$1,331	\$ 1,296
Prepaid Licenses-Non Gaming	2,083	0
Prepaid Insurance	0	0
Deposits	48	47
Prepaid Advertising	1,185	836
Prepaid Contracts/Utilities	334	344
Prepaid Income Taxes	50	114
Prepaid Rent	0	972
Current Deferred Tax Asset	10,356	8,857
Prepaid Air Charters	0	55
Other	<u>710</u>	<u>501</u>
	<u>\$16,097</u>	<u>\$13,022</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2007</u>	<u>2006</u>
Due from Affiliates	\$410,273	\$444,419
CRDA Deposits	20,554	23,577
CRDA Bonds	<u>22,031</u>	<u>21,910</u>
	42,585	45,487
Less: Valuation Allowance on CRDA Investments	<u>(10,519)</u>	<u>(11,681)</u>
CRDA Investments, Net	32,066	33,806
	<u>\$442,339</u>	<u>\$478,225</u>

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

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

Harrah's Entertainment	<u>\$410,273</u>	<u>\$444,419</u>
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NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2007</u>	<u>2006</u>
Land and Land Improvements	\$23,180	\$23,247
Building and Improvements	537,397	505,672
Capital Leases	45	0
Furniture, Fixtures and Equipment	176,042	171,857
Construction in Progress	7,272	25,875
Other property and equipment	<u>517</u>	<u>507</u>
	744,453	727,158
Less-accumulated depreciation and amortization	<u>(298,232)</u>	<u>(283,503)</u>
	<u>\$446,221</u>	<u>\$443,655</u>

NOTE 7 - OTHER ACCRUED EXPENSES

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

	<u>2007</u>	<u>2006</u>
Salaries and Wages	\$8,390	\$8,022
Taxes, Other Than Taxes on Income	2,554	2,582
Accrued Advertising and Promotion	0	1,567
Accrued Interest	52,605	100,428
Other	<u>7,536</u>	<u>8,031</u>
	<u>\$71,085</u>	<u>\$120,630</u>

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

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

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.

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 September 30, 2007 and 2006, there was accrued interest of approximately \$52,605 and \$100,428, 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 September 30 consisted of the following:

	<u>2007</u>	<u>2006</u>
Due to Affiliates, Long-Term	\$28,589	\$17,929
Other	<u>153</u>	<u>75</u>
	<u>\$28,742</u>	<u>\$18,004</u>
	<u>2007</u>	<u>2006</u>
Atlantic City Region	\$14,257	\$2,753
Other	<u>14,332</u>	<u>15,176</u>
	<u>\$28,589</u>	<u>\$17,929</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

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

accompanying balance sheets totaling \$20,554 and \$22,031, respectively, at September 30, 2007 and \$23,577 and \$21,910 respectively, at September 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.

The parent company of the issuer (“Debtor”) of certain CRDA-backed bonds held by the Company is in Chapter 11 bankruptcy. Debtor is currently in active negotiations to sell its company and has an identified buyer. The CRDA is representing the interest of the casino industry, including the Company, in negotiations with Debtor to restructure the bonds. The face value of the bonds held by the Company is \$3,324 however, the Company maintains a reserve on these bonds and on all of its other CRDA-backed bonds. While it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the bond agreement, the Company has concluded that its reserves are currently adequate and will continue to monitor developments of this case.