

ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2008

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 MARCH 31, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$21,298	\$26,508
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2008, \$3,469 ; 2007, \$2,086).....		12,314	16,546
4	Inventories	2	1,761	1,793
5	Other Current Assets.....	4	10,311	13,819
6	Total Current Assets.....		45,684	58,666
7	Investments, Advances, and Receivables.....	5	32,131	393,775
8	Property and Equipment - Gross.....		577,019	754,777
9	Less: Accumulated Depreciation and Amortization.....		(5,906)	(301,456)
10	Property and Equipment - Net.....	6	571,113	453,321
11	Other Assets.....	7	262,045	745
12	Total Assets.....		\$910,973	\$906,507
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$5,506	\$17,412
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		14	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	8	19,432	43,071
19	Other Current Liabilities.....		1,333	680
20	Total Current Liabilities.....		26,285	61,163
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	715,000
22	External.....	10	646,016	0
23	Deferred Credits		37,933	33,295
24	Other Liabilities.....	11	16,346	15,081
25	Commitments and Contingencies.....	12	0	0
26	Total Liabilities.....		726,580	824,539
27	Stockholders', Partners', or Proprietor's Equity.....		184,393	81,968
28	Total Liabilities and Equity.....		\$910,973	\$906,507

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

Amended 3/19/2009

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$93,312	\$99,048
2	Rooms.....		9,082	10,069
3	Food and Beverage.....		11,821	13,784
4	Other.....		2,735	3,089
5	Total Revenue.....		116,950	125,990
6	Less: Promotional Allowances.....		31,978	35,520
7	Net Revenue.....		84,972	90,470
	Costs and Expenses:			
8	Cost of Goods and Services.....		52,822	52,937
9	Selling, General, and Administrative.....		10,203	10,098
10	Provision for Doubtful Accounts.....		621	608
11	Total Costs and Expenses.....		63,646	63,643
12	Gross Operating Profit.....		21,326	26,827
13	Depreciation and Amortization.....		8,738	9,823
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	6,230	7,021
16	Income (Loss) from Operations.....		6,358	9,983
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		(4,319)	(14,432)
18	Interest Expense - External.....		(10,898)	0
19	CRDA Related Income (Expense) - Net.....		(1,011)	(816)
20	Nonoperating Income (Expense) - Net.....		332	183
21	Total Other Income (Expenses).....		(15,896)	(15,065)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(9,538)	(5,082)
23	Provision (Credit) for Income Taxes.....		(3,355)	(1,421)
24	Income (Loss) Before Extraordinary Items.....		(6,183)	(3,661)
	Extraordinary Items (Net of Income Taxes - 2008, \$0; 2007, \$0).....		0	0
25				
26	Net Income (Loss).....		(\$6,183)	(\$3,661)

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, 2007 AND THE THREE MONTHS ENDED MARCH 31, 2008

(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, 2006.....		1,500	\$70,492	0	\$0	\$0	\$0	\$15,137	\$85,629
2	Net Income (Loss) - 2007.....								(11,358)	(11,358)
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....								(3,085)	(3,085)
6										0
7										0
8										0
9										0
10	Balance, December 31, 2007.....		1,500	70,492	0	0	0	0	694	71,186
11	Net Income (Loss) - 2008.....								(6,183)	(6,183)
12	Contribution to Paid-in-Capital.....		(1,500)	(70,492)			715,000			644,508
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Distribution						(646,000)			(646,000)
16	Purchase Price Adjustment						121,576		(694)	120,882
17										0
18										0
19	Balance, March 31, 2008		0	\$0	0	\$0	\$190,576	\$0	(\$6,183)	\$184,393

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

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$1,169)	\$17,480
	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.....		(1,356)	(20,315)
5	Proceeds from Disposition of Property and Equipment.....		0	100
6	CRDA Obligations		(1,128)	(396)
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.....		(2,484)	(20,611)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		(3)	0
15	Proceeds from Long-Term Debt		646,000	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.....		(646,000)	0
21	.....		0	0
22	.....		0	0
23	Net Cash Provided (Used) By Financing Activities.....		(3)	0
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(3,656)	(3,131)
25	Cash and Cash Equivalents at Beginning of Period.....		24,954	29,639
26	Cash and Cash Equivalents at End of Period.....		\$21,298	\$26,508
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$9,102	\$0
28	Income Taxes.....		\$0	\$0

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

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		(\$6,183)	(\$3,661)
30	Depreciation and Amortization of Property and Equipment.....		8,738	9,823
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		16,553	(891)
35	(Gain) Loss on Disposition of Property and Equipment.....		0	(100)
36	(Gain) Loss on CRDA-Related Obligations.....		1,011	816
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		(100)	(676)
39	(Increase) Decrease in Inventories		268	(68)
40	(Increase) Decrease in Other Current Assets.....		1,181	531
41	(Increase) Decrease in Other Assets.....		(282)	122
42	Increase (Decrease) in Accounts Payable.....		(368)	(1,371)
43	Increase (Decrease) in Other Current Liabilities		(4,458)	13,162
44	Increase (Decrease) in Other Liabilities		(25,214)	887
45	Net (Increase) Decrease in Inves., Advances and R.....		7,219	(1,179)
46	Amortization of Deferred Finance Charges		466	85
47	Net Cash Provided (Used) By Operating Activities.....		(\$1,169)	\$17,480

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$1,356)	(\$20,315)
49	Less: Capital Lease Obligations Incurred.....		0	
50	Cash Outflows for Property and Equipment.....		(\$1,356)	(\$20,315)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....		\$0	\$0
52	Goodwill Acquired.....		0	0
53	Other Assets Acquired - net		0	0
54	Long-Term Debt Assumed.....		0	0
55	Issuance of Stock or Capital Invested.....		0	0
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

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

ATLANTIC CITY SHOWBOAT, INC
SCHEDULE OF PROMOTIONAL
EXPENSES AND ALLOWANCES

FOR THE THREE MONTHS ENDED MARCH 31, 2008

(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	91,945	\$7,047	0	\$0
2	Food	331,691	4,441	0	0
3	Beverage	2,086,717	3,207	0	0
4	Travel	0	0	2,426	425
5	Bus Program Cash	146,033	3,104	0	0
6	Other Cash Complimentaries	284,111	13,234	0	0
7	Entertainment	10,262	541	0	0
8	Retail & Non-Cash Gifts	18,992	316	0	0
9	Parking	0	0	0	0
10	Other	10,066	88	3,921	294
11	Total	2,979,817	\$31,978	6,347	\$719

FOR THE THREE MONTHS ENDED MARCH 31, 2008

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	91,945	\$7,047	0	\$0
2	Food	331,691	4,441	0	0
3	Beverage	2,086,717	3,207	0	0
4	Travel	0	0	2,426	425
5	Bus Program Cash	146,033	3,104	0	0
6	Other Cash Complimentaries	284,111	13,234	0	0
7	Entertainment	10,262	541	0	0
8	Retail & Non-Cash Gifts	18,992	316	0	0
9	Parking	0	0	0	0
10	Other	10,066	88	3,921	294
11	Total	2,979,817	\$31,978	6,347	\$719

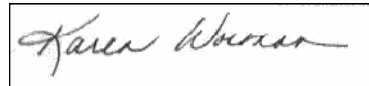
ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 2008

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.

5/15/2008

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 3/19/2009

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Showboat Atlantic City Operating Company, LLC (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc. (OSI), which is a wholly-owned subsidiary of Showboat, Inc. ("SBO"). SBO is a 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 and other subsidiaries. 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 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." Prior to the Merger, Atlantic City Showboat, Inc. (the "Predecessor Company") operated and owned the Showboat Hotel and Casino. The Predecessor Company was an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary Harrah's.

In conjunction with the Merger, the Predecessor Company, along with five affiliates, was spun off from HOC for the purpose of obtaining financing in the form of commercial mortgaged-backed securities ("CMBS") in order to effect the Merger. A series of transactions, hereinafter referred to as the "Restructuring", were executed that, among other things, dissolved the Predecessor Company and liquidated its assets, net of liabilities, to various affiliates (Note 2) and created the Company. CMBS financing was obtained by subsidiaries of OSI (Note 10).

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 is currently in the process of renewing its operating license. The current license expires June 30, 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying financial statements include the account balances of OSI and its wholly-owned subsidiaries. As a result, all material intercompany transactions and balances have been eliminated in consolidation.

Acquisition of Harrah's - As a result of the Merger, the assets acquired and liabilities assumed in the Merger were revalued based upon their estimated fair values at the date of acquisition. The estimated fair values were determined after review and consideration of relevant information including discounted cash flows analyses, quoted market prices and Harrah's own estimates. The purchase price that exceeds the fair value of the net identifiable tangible and intangible assets acquired was allocated to goodwill. The purchase price allocation is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement.

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 were stated at cost through January 27, 2008 and revalued to fair value on January 28, 2008 in connection with the Merger, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

As a result of the Restructuring, certain real property and equipment of the Predecessor Company were distributed to Showboat Atlantic City Propco, LLC ("SACPC"), a wholly owned indirect subsidiary of OSI on January 28, 2008.

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

Amended 3/19/2009

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.

Goodwill and Other Intangible Assets - In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, the Company performs at least an annual review of goodwill and non-amortizing intangibles. The purchase price allocation related to the Merger is in process and will be completed within one year of the Merger; thus, the allocation of the purchase price is subject to refinement. In accordance with the provisions of SFAS No. 142, the Company does not amortize goodwill.

The intangible asset includes computer systems totaling \$3,500. The computer systems have been determined to have a useful life of eight years and are being amortized using the straight-line method. Amortization expense for the three months ended March 31, 2008 was approximately \$73. Based on the value allocated to amortizing intangibles as of March 31, 2008 per the preliminary purchase price allocation, estimated annual amortization expense for the year ending December 31, 2008 is approximately \$401 and for each of the years ending December 31, 2009, 2010, 2011 and 2012 is approximately \$437.

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.

On January 28, 2008, the subsidiaries of OSI entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of \$646,000 at a LIBOR cap rate of 4.5%.

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.

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 March 31, 2008 and 2007, \$2,983 and \$3,604, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

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

Amended 3/19/2009

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 March 31, 2008 and 2007, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$905 and \$1,214, 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 March 31:

	2008	2007
Food and Beverage	\$ 6,403	\$ 7,881
Rooms	2,565	3,061
Other	606	473
Bus Program Cash	3,104	3,879
Other Cash Complimentary	13,234	11,455
	\$ 25,912	\$ 26,749

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.

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 Harrah’s and Affiliates - The Company transfers cash in excess of its operating and regulatory needs to Harrah’s on a daily basis. Cash transfers from Harrah’s 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.

Atlantic City Country Club - Atlantic City Country Club 1, LLC (“ACCC”) is a wholly owned subsidiary of Bally’s Atlantic City (“Bally’s”), an affiliate of the Company. The net operating costs of ACCC are allocated to the Company and Bally’s as well as Caesars Atlantic City and Harrah’s Atlantic City, also affiliates of the Company. The Company was charged approximately \$138 and \$134 for these costs for the three months ended March 31, 2008 and 2007, respectively. The costs are included in other operating expenses in the accompanying statements of income

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

Amended 3/19/2009

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 \$5,262 and \$4,104 respectively for these services for the three months ended March 31, 2008 and 2007. These fees are included in charges from affiliates other than interest in the statements of income.

Rental Agreement - The Predecessor Company leased 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which were payable monthly were adjusted annually based upon changes in the Consumer Price Index. The Predecessor Company was responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the three months ended March 31, 2008 and 2007 was \$968 and \$2,917 respectively. The rent is included in charges from affiliates other than interest in the statements of income.

As a result of the Restructuring, on January 28, 2008, the property was transferred to the Predecessor Company from the affiliate and the lease was cancelled.

NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2008	2007
Prepaid Slot License	\$ 444	\$ 457
Prepaid Licenses-Non Gaming	833	-
Prepaid Insurance	12	-
Deposits	45	58
Prepaid Advertising	178	397
Prepaid Income taxes	622	745
Prepaid rent	-	972
Current Deferred Tax Asset	7,100	10,356
Other	1,077	834
	<u>\$ 10,311</u>	<u>\$ 13,819</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	2008	2007
Due from Affiliates	\$ 481	\$ 362,734
CRDA Deposits	21,149	19,887
CRDA Bonds	<u>22,694</u>	<u>21,764</u>
	<u>43,843</u>	<u>41,651</u>
Less: Valuation Allowance on CRDA Investments	<u>(12,193)</u>	<u>(10,610)</u>
CRDA Investments, Net	31,650	31,041
	<u>\$ 32,131</u>	<u>\$ 393,775</u>

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

	<u>2008</u>	<u>2007</u>
Harrah's Entertainment	\$ -	\$ 362,734
Atlantic City Region	481	-
	<u>\$ 481</u>	<u>\$ 362,734</u>

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

As a result of the Restructuring, all Due from Affiliate balances were assigned to Harrah's on January 28, 2008.

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land and land Improvements	\$ 134,356	\$ 23,247
Building and Improvements	380,743	511,717
Capital Leases	-	-
Furniture Fixtures & Equipment	59,727	184,409
Construction in Progress	1,676	34,897
Other Property and Equipment	<u>517</u>	<u>507</u>
	577,019	754,777
Less: Accumulated Depreciation and Amortization	(5,906)	(301,456)
Land, Building and Equipment, Net	<u>\$ 571,113</u>	<u>\$ 453,321</u>

NOTE 7 - OTHER ASSETS

Other Assets as of March 31 consisted of the following:

	<u>2008</u>	<u>2007</u>
Goodwill	232,571	-
Intangible Assets	3,427	-
Interest rate cap derivative	9,798	-
Debt issuance cost	15,902	383
Other	347	362
	<u>262,045</u>	<u>745</u>

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NOTE 8 - OTHER ACCRUED EXPENSES

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

	2008	2007
Salaries and Wages	\$ 7,637	\$ 8,488
Taxes, Other Than taxes on Income	1,936	2,699
Accrued Advertising and Promotion	-	1,214
Accrued Interest	1,775	23,911
Other	8,084	6,759
	\$ 19,432	\$ 43,071

NOTE 9 – NOTE PAYABLE TO AFFILIATE

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.

On January 15, 1999, the Company entered into a \$500,000 promissory note (the “Promissory Note”) with HOC. The debt terms were consistent with the provisions of third-party credit agreements arranged by HOC. Interest was 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 (“HEL”). The terms and amounts of the debt were not affected by this assignment. As of March 31, 2008 and 2007, accrued interest was approximately \$0 and \$23,911, respectively. Prior to December 31, 2003, accrued interest was paid by the Company on a monthly basis. However, for subsequent tax years, interest payments were remitted annually. Because the 9¼% Bonds and the 7½% Promissory Note are due to an affiliate, a determination of fair value was not considered meaningful.

As a result of the Restructuring, HOC and SBO contributed the promissory notes to the Predecessor Company, The Predecessor Company then transferred the promissory note to HEL in satisfaction of its payable to HEL.

NOTE 10 – OTHER LONG TERM DEBT

LTD debt as of March 31 consisted of the following:

	2008	2007
Capital Lease	16	-
CMBS financing, 5.818% at March 31, 2008, maturity 2013	646,000	-
	646,016	-

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NOTE 11 – OTHER LIABILITIES

Other Liabilities as of March 31 consisted of the following:

	2008	2007
Due to Affiliates, Long-Term	\$ -	\$ 15,031
FIN 48 - Tax Reserve	16,095	-
Other	251	50
	16,346	15,081
Atlantic City Region	-	768
Other	-	14,263
	-	14,263
	\$ -	\$ 15,031

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

NOTE 12 – 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 \$22,694 and \$21,149, respectively, at March 31, 2008 and \$21,764 and \$19,887 respectively, at March 31, 2007. 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.