

**ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT**

FOR THE QUARTER ENDED SEPTEMBER 30, 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 SEPTEMBER 30, 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.....		\$14,004	\$19,275
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2008, \$3,929 ; 2007, \$2,674).....		8,768	13,656
4	Inventories	2	1,510	1,983
5	Other Current Assets.....	4	12,207	16,097
6	Total Current Assets.....		36,489	51,011
7	Investments, Advances, and Receivables.....	5	549,565	442,339
8	Property and Equipment - Gross.....		664,407	744,453
9	Less: Accumulated Depreciation and Amortization.....		(18,291)	(298,232)
10	Property and Equipment - Net.....	6	646,116	446,221
11	Other Assets.....	7	47,390	319
12	Total Assets.....		\$1,279,560	\$939,890
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$4,485	\$7,120
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		14	13
17	Income Taxes Payable and Accrued.....		2,034	0
18	Other Accrued Expenses.....	8	17,692	71,085
19	Other Current Liabilities.....		791	980
20	Total Current Liabilities.....		25,016	79,198
	Long-Term Debt:			
21	Due to Affiliates.....	9	0	715,000
22	External.....		9	23
23	Deferred Credits		72,924	34,146
24	Other Liabilities.....	10	477,903	28,742
25	Commitments and Contingencies.....	11	0	0
26	Total Liabilities.....		575,852	857,109
27	Stockholders', Partners', or Proprietor's Equity.....		703,708	82,781
28	Total Liabilities and Equity.....		\$1,279,560	\$939,890

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, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$285,447	\$313,979
2	Rooms.....		29,937	35,352
3	Food and Beverage.....		40,977	43,311
4	Other.....		10,328	10,321
5	Total Revenue.....		366,689	402,963
6	Less: Promotional Allowances.....		99,668	113,745
7	Net Revenue.....		267,021	289,218
	Costs and Expenses:			
8	Cost of Goods and Services.....		167,769	164,040
9	Selling, General, and Administrative.....		31,343	29,896
10	Provision for Doubtful Accounts.....		1,853	1,634
11	Total Costs and Expenses.....		200,965	195,570
12	Gross Operating Profit.....		66,056	93,648
13	Depreciation and Amortization.....		21,088	30,743
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	15,203	20,498
16	Income (Loss) from Operations.....		29,765	42,407
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		(4,447)	(43,297)
18	Interest Expense - External.....		(14,472)	0
19	CRDA Related Income (Expense) - Net.....		(2,754)	(2,363)
20	Nonoperating Income (Expense) - Net.....		917	(52)
21	Total Other Income (Expenses).....		(20,756)	(45,712)
22	Income (Loss) Before Taxes and Extraordinary Items.....		9,009	(3,305)
23	Provision (Credit) for Income Taxes.....		3,466	(457)
24	Income (Loss) Before Extraordinary Items.....		5,543	(2,848)
25	Extraordinary Items (Net of Income Taxes - 2008, \$0; 2007, \$0).....			
26	Net Income (Loss).....		\$5,543	(\$2,848)

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, 2008 AND 2007

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	Revenue:			
1	Casino.....		\$99,289	\$110,094
2	Rooms.....		10,688	14,353
3	Food and Beverage.....		15,088	14,999
4	Other.....		4,310	4,026
5	Total Revenue.....		129,375	143,472
6	Less: Promotional Allowances.....		34,689	38,707
7	Net Revenue.....		94,686	104,765
	Costs and Expenses:			
8	Cost of Goods and Services.....		59,165	57,451
9	Selling, General, and Administrative.....		10,663	9,355
10	Provision for Doubtful Accounts.....		511	603
11	Total Costs and Expenses.....		70,339	67,409
12	Gross Operating Profit.....		24,347	37,356
13	Depreciation and Amortization.....		4,774	10,675
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	4,042	6,460
16	Income (Loss) from Operations.....		15,531	20,221
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		(128)	(14,433)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		(882)	(850)
20	Nonoperating Income (Expense) - Net.....		292	66
21	Total Other Income (Expenses).....		(718)	(15,217)
22	Income (Loss) Before Taxes and Extraordinary Items.....		14,813	5,004
23	Provision (Credit) for Income Taxes.....		5,403	1,495
24	Income (Loss) Before Extraordinary Items.....		9,410	3,509
	Extraordinary Items (Net of Income Taxes -			
25	2008, \$0; 2007, \$0).....		0	0
26	Net Income (Loss).....		\$9,410	\$3,509

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 NINE MONTHS ENDED SEPTEMBER 30, 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.....								5,543	5,543
12	Contribution to Paid-in-Capital.....		(1,500)	(70,492)			715,000		0	644,508
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Distribution									0
16	Purchase Price Adjustment						(9,433)		1,993	(7,440)
17	FIN 48 Adjustment						(10,089)			(10,089)
18										0
19	Balance, September 30, 2008		0	\$0	0	\$0	\$695,478	\$0	\$8,230	\$703,708

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, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$3,843)	\$30,266
	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.....		(3,760)	(36,993)
5	Proceeds from Disposition of Property and Equipment.....		75	211
6	CRDA Obligations		(3,410)	(3,843)
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.....		(7,095)	(40,625)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		(12)	(5)
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.....		(12)	(5)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(10,950)	(10,364)
25	Cash and Cash Equivalents at Beginning of Period.....		24,954	29,639
26	Cash and Cash Equivalents at End of Period.....		\$14,004	\$19,275
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$13,303	\$0
28	Income Taxes.....		\$137	\$2

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, 2008 AND 2007

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2008 (c)	2007 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$5,543	(\$2,848)
30	Depreciation and Amortization of Property and Equipment.....		21,088	30,743
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		1,093	0
34	Deferred Income Taxes - Noncurrent		51,544	(40)
35	(Gain) Loss on Disposition of Property and Equipment.....		(2)	(182)
36	(Gain) Loss on CRDA-Related Obligations.....		2,754	2,363
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		3,446	2,214
39	(Increase) Decrease in Inventories		519	(258)
40	(Increase) Decrease in Other Current Assets.....		(1,808)	(1,747)
41	(Increase) Decrease in Other Assets.....		183,697	378
42	Increase (Decrease) in Accounts Payable.....		(1,420)	(8,918)
43	Increase (Decrease) in Other Current Liabilities		(4,706)	41,476
44	Increase (Decrease) in Other Liabilities		436,343	14,548
45	Net (Increase) Decrease in Invest., Advances and F.....		(696,955)	(47,718)
46	Amortization of Deferred Finance Charges		(4,979)	255
47	Net Cash Provided (Used) By Operating Activities.....		(\$3,843)	\$30,266

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$3,760)	(\$37,034)
49	Less: Capital Lease Obligations Incurred.....		0	41
50	Cash Outflows for Property and Equipment.....		(\$3,760)	(\$36,993)
	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 NINE MONTHS ENDED SEPTEMBER 30, 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	284,698	\$21,734	0	\$0
2	Food	1,215,072	16,269	0	0
3	Beverage	6,542,635	10,096	0	0
4	Travel	0	0	7,202	1,260
5	Bus Program Cash	577,548	12,850	0	0
6	Promotional Gaming Credits	1,520	19	0	0
7	Complimentary Cash Gifts	887,694	35,272	0	0
8	Entertainment	42,660	2,084	0	0
9	Retail & Non-Cash Gifts	66,480	1,056	0	0
10	Parking	0	0	0	0
11	Other	32,937	288	16,584	1,244
12	Total	9,651,244	\$99,668	23,786	\$2,504

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 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	95,499	\$7,327	0	\$0
2	Food	472,543	6,327	0	0
3	Beverage	2,201,448	3,452	0	0
4	Travel	0	0	2,622	459
5	Bus Program Cash	222,674	4,972	0	0
6	Promotional Gaming Credits	1,520	19	0	0
7	Complimentary Cash Gifts	301,175	11,163	0	0
8	Entertainment	20,078	932	0	0
9	Retail & Non-Cash Gifts	26,047	390	0	0
10	Parking	0	0	0	0
11	Other	12,264	107	6,903	518
12	Total	3,353,248	\$34,689	9,525	\$977

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

FOR THE QUARTER ENDED SEPTEMBER 30, 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.

11/15/2008

Date



Brian Carr

Vice President of Finance

Title

008992-11

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 Holding, Inc. ("SHI"). SHI is a wholly owned subsidiary of Harrah's Operating Company ("HOC"). SHI 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 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.

On May 22, 2008, two additional affiliates and their related operating assets were spun out of HOC to Harrah's and the Company, along with one of the original five affiliates, was transferred to HOC from Harrah's as contemplated under the debt agreements effective pursuant to the Merger. An additional series of transactions, hereinafter referred to as the "Post-Closing Restructuring", were executed that, among other things, contributed the CMBS financing to Harrah's and released the Company from the CMBS financing liabilities and created SHI and merged Showboat, Inc. ("SBO"), into SHI. Prior to the Post-Closing Restructuring, OSI was a wholly-owned subsidiary of SBO.

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 was renewed July 1, 2008 and will expire on June 30, 2013.

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.

Deferred Financing Cost - Costs associated with the issuance of debt have been deferred and were 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, was for a notional amount of \$646,000 at a LIBOR cap rate of 4.5%.

As a result of the Post-Closing Restructuring, the deferred finance costs and interest rate cap asset were transferred to Harrah’s.

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 September 30, 2008 and 2007, \$3,458 and \$3,428, 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 September 30, 2008 and 2007, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$673 and \$1,174, 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:

	2008	2007
Food and Beverage	\$ 21,221	\$ 23,243
Rooms	7,695	9,469
Other	2,621	1,636
Bus Program Cash	12,850	13,718
Other Cash Complimentary	35,272	37,024
	\$ 79,659	\$ 85,090

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 \$103 and \$172 for these costs for the nine months ended September 30, 2008 and 2007, respectively. The costs are included in other operating expenses in the accompanying statements of income

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

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\$14,236 and \$12,084 respectively for these services for the nine months ended September 30, 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 nine months ended September 30, 2008 and 2007 was \$967 and \$8,414 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 September 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Slot License	\$ 1,241	\$ 1,331
License Fee - House of Blues	2,083	2,083
Income Taxes	1,545	50
Contracts / Utilities	326	334
Entertainment	254	-
Deposits	45	48
Advertising	12	1,185
Other	694	710
Current Deffered Tax Asset	6,007	10,356
	<u>\$ 12,207</u>	<u>\$ 16,097</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	<u>2008</u>	<u>2007</u>
Due from Affiliates	\$ 517,290	\$ 410,273
CRDA Deposits	20,921	20,554
CRDA Bonds	22,893	22,031
	<u>43,814</u>	<u>42,585</u>
Less: Valuation Allowance on CRDA Investments	(11,539)	(10,519)
CRDA Investments, Net	32,275	32,066
	<u>\$ 549,565</u>	<u>\$ 442,339</u>

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

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	2008	2007
Harrah's Entertainment	\$ 517,290	\$ 410,273
Atlantic City Region	-	-
	\$ 517,290	\$ 410,273

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 as of January 28, 2008 were assigned to Harrah's. As a result of the Post-Closing Restructuring, all Due from Affiliate balances as of January 28, 2008 were assigned back to the Company.

NOTE 6 – LAND, BUILDINGS AND EQUIPMENT

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

	2008	2007
Land and land Improvements	\$ 219,616	\$ 23,180
Building and Improvements	381,018	537,397
Capital Leases	-	45
Furniture Fixtures & Equipment	62,619	176,042
Construction in Progress	746	7,272
Other Property and Equipment	408	517
	664,407	744,453
Less: Accumulated Depreciation and Amortization	(18,291)	(298,232)
Land, Building and Equipment, Net	\$ 646,116	\$ 446,221

NOTE 7 - OTHER ASSETS

Other Assets as of September 30 consisted of the following:

	2008	2007
Goodwill	46,691	-
Debt issuance cost	-	213
Other	699	106
	47,390	319

NOTE 8 - OTHER ACCRUED EXPENSES

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

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	2008	2007
Salaries and Wages	\$ 7,502	\$ 8,390
Taxes, Other Than taxes on Income	1,680	2,554
Accrued Advertising and Promotion	613	-
Accrued Interest	-	52,605
Other	7,897	7,536
	\$ 17,692	\$ 71,085

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 September 30, 2008 and 2007, accrued interest was approximately \$0 and \$52,605, 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 were 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 LIABILITIES

Other Liabilities as of September 30 consisted of the following:

	2008	2007
Due to Affiliates, Long-Term	\$ 461,624	\$ 28,589
FIN 48 - Tax Reserve	15,974	-
Other	305	153
	477,903	28,742
Atlantic City Region	366,802	14,257
Other	94,822	14,332
	\$ 461,624	\$ 28,589

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

NOTE 11 – 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.

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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 \$20,921 and \$22,893, respectively, at September 30, 2008 and \$20,554 and \$22,031 respectively, at September 30, 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 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 provides \$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's obligation 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.

In August 2008, the AC Industry entered into a new agreement with the NJSEA that will provide \$90 million in funding to subsidize New Jersey's horseracing industry. The funding will be provided in installments through 2011. 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 December 31, 2011. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The total commitment will be charged to operations on a straight line basis beginning January 2009 through December 31, 2011.