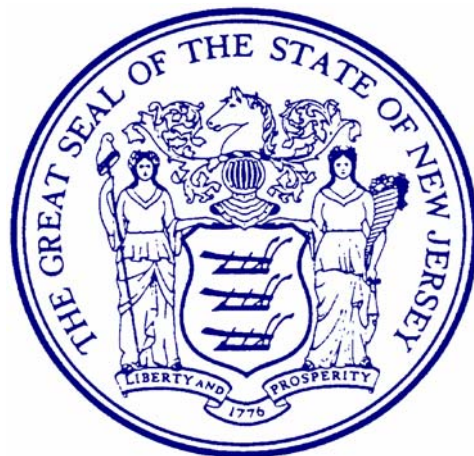


ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2009

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, 2009 AND 2008

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$12,176	\$21,298
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2009, \$5,500 ; 2008, \$3,469).....	2	8,222	12,314
4	Inventories	2	1,193	1,761
5	Other Current Assets.....	4	11,455	10,311
6	Total Current Assets.....		33,046	45,684
7	Investments, Advances, and Receivables.....	5	143,575	32,131
8	Property and Equipment - Gross.....		665,870	577,019
9	Less: Accumulated Depreciation and Amortization.....		(30,870)	(5,906)
10	Property and Equipment - Net.....	6	635,000	571,113
11	Other Assets.....		68	262,045
12	Total Assets.....		\$811,689	\$910,973
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$3,510	\$5,506
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		15	14
17	Income Taxes Payable and Accrued.....		352	0
18	Other Accrued Expenses.....	7	15,575	19,432
19	Other Current Liabilities.....		858	1,333
20	Total Current Liabilities.....		20,310	26,285
	Long-Term Debt:			
21	Due to Affiliates.....	8	0	0
22	External.....	9	1	646,016
23	Deferred Credits		60,782	37,933
24	Other Liabilities.....	10	55,481	16,346
25	Commitments and Contingencies.....	12	0	0
26	Total Liabilities.....		136,574	726,580
27	Stockholders', Partners', or Proprietor's Equity.....		675,115	184,393
28	Total Liabilities and Equity.....		\$811,689	\$910,973

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 MARCH 31, 2009 AND 2008

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	Revenue:			
1	Casino.....		\$71,376	\$93,312
2	Rooms.....		7,609	9,082
3	Food and Beverage.....		10,816	11,821
4	Other.....		2,634	2,735
5	Total Revenue.....		92,435	116,950
6	Less: Promotional Allowances.....		25,127	31,978
7	Net Revenue.....		67,308	84,972
	Costs and Expenses:			
8	Cost of Goods and Services.....		43,786	52,822
9	Selling, General, and Administrative.....		8,294	10,203
10	Provision for Doubtful Accounts.....		1,015	621
11	Total Costs and Expenses.....		53,095	63,646
12	Gross Operating Profit.....		14,213	21,326
13	Depreciation and Amortization.....		6,382	8,738
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	3,917	6,230
16	Income (Loss) from Operations.....		3,914	6,358
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....		0	(4,319)
18	Interest Expense - External.....		0	(10,898)
19	CRDA Related Income (Expense) - Net.....		(433)	(1,011)
20	Nonoperating Income (Expense) - Net.....	11	191	332
21	Total Other Income (Expenses).....		(242)	(15,896)
22	Income (Loss) Before Taxes and Extraordinary Items.....		3,672	(9,538)
23	Provision (Credit) for Income Taxes.....		1,802	(3,355)
24	Income (Loss) Before Extraordinary Items.....		1,870	(6,183)
25	Extraordinary Items (Net of Income Taxes - 2009, \$0; 2008, \$0).....		0	0
26	Net Income (Loss).....		\$1,870	(\$6,183)

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, 2008 AND THE THREE MONTHS ENDED MARCH 31, 2009

(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, 2007.....		1,500	\$70,492	0	\$0	\$0	\$0	\$694	\$71,186
2	Net Income (Loss) - 2008.....								(44,712)	(44,712)
3	Contribution to Paid-in-Capital.....		(1,500)	(70,492)			715,000			644,508
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6	Distribution									0
7	Purchase Price Adjustment								2,263	2,263
8										0
9										0
10	Balance, December 31, 2008.....		0	0	0	0	715,000	0	(41,755)	673,245
11	Net Income (Loss) - 2009.....								1,870	1,870
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15	Distribution									0
16										0
17										0
18										0
19	Balance, March 31, 2009		0	\$0	0	\$0	\$715,000	\$0	(\$39,885)	\$675,115

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, 2009 AND 2008

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		(\$7,902)	(\$1,169)
	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.....		(588)	(1,356)
5	Proceeds from Disposition of Property and Equipment.....		7	0
6	CRDA Obligations		(925)	(1,128)
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.....		(1,506)	(2,484)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt		0	0
14	Payments to Settle Short-Term Debt.....		(4)	(3)
15	Proceeds from Long-Term Debt		0	646,000
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	(646,000)
21	.....		0	0
22	.....		0	0
23	Net Cash Provided (Used) By Financing Activities.....		(4)	(3)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(9,412)	(3,656)
25	Cash and Cash Equivalents at Beginning of Period.....		21,588	24,954
26	Cash and Cash Equivalents at End of Period.....		\$12,176	\$21,298
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$0	\$9,102
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, 2009 AND 2008

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2009 (c)	2008 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$1,870	(\$6,183)
30	Depreciation and Amortization of Property and Equipment.....		6,377	8,738
31	Amortization of Other Assets.....		5	0
32	Amortization of Debt Discount or Premium.....		0	0
33	Deferred Income Taxes - Current		417	0
34	Deferred Income Taxes - Noncurrent		(512)	16,553
35	(Gain) Loss on Disposition of Property and Equipment.....		(5)	0
36	(Gain) Loss on CRDA-Related Obligations.....		433	1,011
37	(Gain) Loss from Other Investment Activities.....		0	0
38	(Increase) Decrease in Receivables and Patrons' Checks		72	(100)
39	(Increase) Decrease in Inventories		175	268
40	(Increase) Decrease in Other Current Assets.....		538	1,181
41	(Increase) Decrease in Other Assets.....		(25)	(282)
42	Increase (Decrease) in Accounts Payable.....		(1,181)	(368)
43	Increase (Decrease) in Other Current Liabilities		1,008	(4,458)
44	Increase (Decrease) in Other Liabilities		3,446	(25,214)
45	Net (Increase) Decrease in Invest., Advances and F.....		(20,520)	7,219
46	Amortization of Deferred Finance Charges		0	466
47	Net Cash Provided (Used) By Operating Activities.....		(\$7,902)	(\$1,169)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$588)	(\$1,356)
49	Less: Capital Lease Obligations Incurred.....		0	0
50	Cash Outflows for Property and Equipment.....		(\$588)	(\$1,356)
	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 STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED MARCH 31, 2009

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.

5/15/2009

Date

Mary Cheeks

Mary Cheeks

Vice President of Finance

Title

004960-11

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

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, Inc. ("HOC"). OSI is a holding company with its principal assets being investments in the Company and other subsidiaries. OSI is an indirect wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). 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, LP. 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 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 consolidated 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.

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

Land, Buildings and Equipment - As a result of the application of purchase accounting, land, buildings and equipment were recorded at their estimated fair values and useful lives as of the Merger date. Additions to land, buildings, and equipment 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. The Company capitalized approximately \$5 of interest for the period March 31, 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.

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

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	5 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. If undiscounted expected future cash flows were less than the carrying value, an impairment loss would be recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Deferred Financing Cost - 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%.

Costs associated with the issuance of debt were deferred and were being amortized to interest expense over the life of the related indebtedness using the effective interest method.

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

Goodwill - The Company had no goodwill recorded in the accompanying consolidated balance sheet as of March 31, 2009 as a result of an impairment charge subsequent to the acquisition date. The Company accounts for 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 for impairment. The Company completed its annual assessment for impairment in the fourth quarter of 2008 and determined that goodwill had been impaired. A charge of \$53,654 was recorded as a non-operating expense in the consolidated statement of income for the period ending December 31, 2008.

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 - The Company's loyalty program, Total Rewards, offers incentives to customers who gamble at certain of the affiliated casinos throughout the United States of America. 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 estimated cost to provide Reward Credits is expensed at the property where they are earned and is included in casino expenses in the consolidated 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, 2009 and 2008, \$2,999 and \$2,983, 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 March 31, 2009 and 2008, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$510 and \$905, respectively.

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

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 and gaming credits 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:

	2009	2008
Food and Beverage	\$ 5,700	\$ 6,403
Rooms	2,218	2,565
Other	329	606
Bus Program Cash	2,946	3,104
Promotional Gaming Credits	4,969	-
Other Cash Complimentary	3,837	13,234
	\$ 19,999	\$ 25,912

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.

Use of Estimates - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Company 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 reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Seasonal factors - The Company's operations are subject to seasonal factors and, therefore, the results of operations of the three months ended March 31, 2009 are not necessarily indicative of the results of operations for the full year.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Company participates with HOC and Harrah's 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 \$110 and \$138 for these costs for the three months ended March 31, 2009 and 2008, 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 \$3,917 and \$5,262 respectively for these services for the three months ended March 31, 2009 and 2008. These fees are included in charges from affiliates other than interest in the statements of income.

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

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 was \$968. 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:

	2009	2008
Slot License	\$ 414	\$ 444
License Fee - House of Blues	833	833
Horse Tracks	1,827	-
Income Taxes	822	622
Contracts / Utilities	378	-
Entertainment	184	-
Advertising	-	178
Current Deffered Tax Asset	6,113	7,100
Other	884	1,134
	<u>\$ 11,455</u>	<u>\$ 10,311</u>

NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES

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

	2009	2008
Due from Affiliates	\$ 110,978	\$ 481
CRDA Deposits	22,529	21,149
CRDA Bonds	21,489	22,694
	<u>44,018</u>	<u>43,843</u>
Less: Valuation Allowance on CRDA Investments	<u>(11,421)</u>	<u>(12,193)</u>
CRDA Investments, Net	32,597	31,650
	<u>\$ 143,575</u>	<u>\$ 32,131</u>

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

	2009	2008
Harrahs	\$ 110,978	\$ -
Atlantic City Region	-	481
	<u>\$ 110,978</u>	<u>\$ 481</u>

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

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 March 31 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land and land Improvements	\$ 216,245	\$ 134,356
Building and Improvements	379,407	380,743
Furniture Fixtures & Equipment	69,883	59,727
Construction in Progress	335	1,676
Other Property and Equipment	<u>-</u>	<u>517</u>
	665,870	577,019
Less: Accumulated Depreciation and Amortization	(30,870)	(5,906)
Land, Building and Equipment, Net	<u><u>\$ 635,000</u></u>	<u><u>\$ 571,113</u></u>

NOTE 7 - OTHER ACCRUED EXPENSES

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

	<u>2009</u>	<u>2008</u>
Salaries and Wages	\$ 6,625	\$ 7,637
Taxes, Other Than taxes on Income	1,502	1,936
Progressive Liability	1,447	1,775
Utilities	795	-
Regulatory Fees	675	-
Slot Tickets	867	-
Marketing	828	-
Other	<u>2,836</u>	<u>8,084</u>
	<u><u>\$ 15,575</u></u>	<u><u>\$ 19,432</u></u>

NOTE 8 – 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 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 December 31, 2007, accrued interest was approximately \$4,782. Prior to December 31, 2003, accrued interest was paid by the Company on a monthly basis. However, for

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

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 9 – OTHER LONG TERM DEBT

LTD debt as of March 31 consisted of the following:

	2009	2008
Capital Lease	\$ 1	\$ 16
CMBS financing, 5.818% at March 31, 2008, maturity 2013	-	646,000
	<u>\$ 1</u>	<u>\$ 646,016</u>

NOTE 10 – OTHER LIABILITIES

Other Liabilities as of March 31 consisted of the following:

	2009	2008
Due to Affiliates, Long-Term	\$ 42,956	\$ -
FIN 48 - Tax Reserve	12,067	16,095
Other	458	251
	<u>55,481</u>	<u>16,346</u>
Atlantic City Region	12,972	-
Other	29,984	-
	<u>\$ 42,956</u>	<u>\$ -</u>

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

NOTE 11 – NON-OPERATING INCOME (EXPENSE)

For the three months ended March 31, 2009 and 2008, Non-Operating Income (Expense) consisted of the following:

	2009	2008
Interest Income	\$ 342	\$ 332
Project Write Downs & Reserves	(129)	-
Gain/Loss on Asset Sales	5	-
Other Non Operating	(27)	-
	<u>\$ 191</u>	<u>\$ 332</u>

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

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

depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below-market rate. The Company includes CRDA investment bonds and funds on deposit in Investments, Advances, and Receivables in the accompanying balance sheets totaling \$21,489 and \$22,529, respectively, at March 31, 2009 and \$22,694 and \$21,149 respectively, at March 31, 2008. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment.

The estimate for Valuation Allowance for the CRDA Bonds considered guidance primarily under FAS 115 "Accounting for Certain Investments in Debt and Equity Securities," FASB SOP FAS 115-1/124-1 "The Meaning of Other-than-temporary Impairment and its Application to Certain Investments" and FAS 157 "Fair Value Measurements." Since there is no market for the bonds issued through the CRDA, initial obligation deposits are marked down by 33% to represent their fair value and eventual expected conversion into bonds by the CRDA. Once CRDA Bonds are issued we have concluded that the bonds are held-to-maturity due to their nature. The bonds held by the Company through CRDA are held to maturity since the Company has the ability and the intent to hold these bonds to maturity and under the CRDA, they are not permitted to do otherwise. As such the CRDA Bonds are measured at amortized cost.

The Company also considered whether any impairment indicators were present for its CRDA bonds that would indicate whether the CRDA Bond's fair value was less than its cost. As noted above, there is no market for the CRDA Bonds and as such its fair value could only be determined based on unobservable inputs. Such inputs are limited to the historical carrying value of the CRDA Bonds that are reduced, consistent with industry practice, by 1/3 of their face value at the time of issuance to represent fair value and amortizes the cost subsequent to that date. The discount for the bonds is being amortized over the remaining life of the bonds.

The 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 which is \$ 2,807. The Company's obligation was being charged to operations on a straight line basis through June 30, 2008. 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 Company's estimated obligation is \$ 7,261. The total commitment will be charged to operations on a straight line basis beginning January 2009 through December 31, 2011.