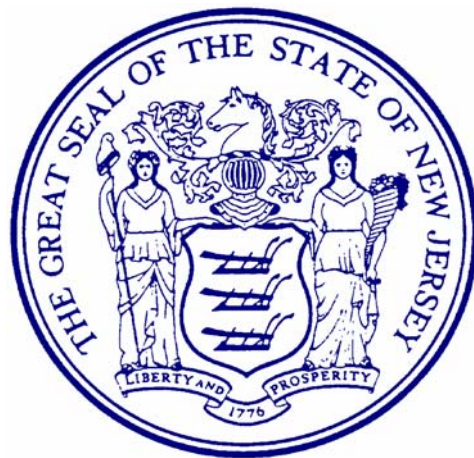


**ATLANTIC CITY SHOWBOAT, INC.
QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2006**

**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, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$26,469	\$26,994
2	Short-Term Investments.....			
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$1,245; 2005, \$1,481).....		26,024	17,872
4	Inventories	2	1,944	1,706
5	Other Current Assets.....	4	13,022	7,248
6	Total Current Assets.....		67,459	53,820
7	Investments, Advances, and Receivables.....	5, 12	1,604,775	1,510,713
8	Property and Equipment - Gross.....		727,158	718,344
9	Less: Accumulated Depreciation and Amortization.....		(283,503)	(306,184)
10	Property and Equipment - Net.....	6	443,655	412,160
11	Other Assets.....		599	856
12	Total Assets.....		\$2,116,488	\$1,977,549
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$15,186	\$10,281
14	Notes Payable.....			
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....			
16	External.....			206
17	Income Taxes Payable and Accrued.....			
18	Other Accrued Expenses.....	7	120,630	119,645
19	Other Current Liabilities.....		831	526
20	Total Current Liabilities.....		136,647	130,658
	Long-Term Debt:			
21	Due to Affiliates.....	8	715,000	715,000
22	External.....			
23	Deferred Credits		28,540	21,998
24	Other Liabilities.....	9	1,144,554	1,030,843
25	Commitments and Contingencies.....	12		
26	Total Liabilities.....		2,024,741	1,898,499
27	Stockholders', Partners', or Proprietor's Equity.....		91,747	79,050
28	Total Liabilities and Equity.....		\$2,116,488	\$1,977,549

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, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$324,940	\$308,493
2	Rooms.....		32,919	30,983
3	Food and Beverage.....		44,238	38,487
4	Other.....		7,870	6,580
5	Total Revenue.....		409,967	384,543
6	Less: Promotional Allowances.....		110,171	96,899
7	Net Revenue.....		299,796	287,644
	Costs and Expenses:			
8	Cost of Goods and Services.....		164,585	150,532
9	Selling, General, and Administrative.....		30,600	23,650
10	Provision for Doubtful Accounts.....		554	107
11	Total Costs and Expenses.....		195,739	174,289
12	Gross Operating Profit.....		104,057	113,355
13	Depreciation and Amortization.....		27,004	25,316
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	16,542	14,445
16	Income (Loss) from Operations.....		60,511	73,594
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(43,308)	(43,319)
18	Interest Expense - External.....			
19	CRDA Related Income (Expense) - Net.....		680	(1,583)
20	Nonoperating Income (Expense) - Net.....	11	462	(9,126)
21	Total Other Income (Expenses).....		(42,166)	(54,028)
22	Income (Loss) Before Taxes and Extraordinary Items.....		18,345	19,566
23	Provision (Credit) for Income Taxes.....		6,716	7,975
24	Income (Loss) Before Extraordinary Items.....		11,629	11,591
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....			
26	Net Income (Loss).....		\$11,629	\$11,591

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, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$112,761	\$118,409
2	Rooms.....		12,986	12,088
3	Food and Beverage.....		15,722	16,674
4	Other.....		3,127	3,921
5	Total Revenue.....		144,596	151,092
6	Less: Promotional Allowances.....		40,472	40,331
7	Net Revenue.....		104,124	110,761
	Costs and Expenses:			
8	Cost of Goods and Services.....		57,024	56,622
9	Selling, General, and Administrative.....		11,113	9,556
10	Provision for Doubtful Accounts.....		274	(14)
11	Total Costs and Expenses.....		68,411	66,164
12	Gross Operating Profit.....		35,713	44,597
13	Depreciation and Amortization.....		9,961	8,473
	Charges from Affiliates Other than Interest:			
14	Management Fees.....			
15	Other.....	3	5,682	5,089
16	Income (Loss) from Operations.....		20,070	31,035
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(14,432)	(14,439)
18	Interest Expense - External.....			
19	CRDA Related Income (Expense) - Net.....		417	(527)
20	Nonoperating Income (Expense) - Net.....	11	1,255	(2,843)
21	Total Other Income (Expenses).....		(12,760)	(17,809)
22	Income (Loss) Before Taxes and Extraordinary Items.....		7,310	13,226
23	Provision (Credit) for Income Taxes.....		1,939	5,397
24	Income (Loss) Before Extraordinary Items.....		5,371	7,829
	Extraordinary Items (Net of Income Taxes -			
25	2005, \$0; 2006, \$0).....			
26	Net Income (Loss).....		\$5,371	\$7,829

*Prior year amounts have been restated to conform to current year presentation.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2006

(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, 2004.....		1,500	\$70,492					(\$3,033)	\$67,459
2	Net Income (Loss) - 2005.....								12,659	12,659
3	Contribution to Paid-in-Capital....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6										0
7										0
8										0
9										0
10	Balance, December 31, 2005.....		1,500	70,492	0	0	0	0	9,626	80,118
11	Net Income (Loss) - 2006.....								11,629	11,629
12	Contribution to Paid-in-Capital....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, September 30, 2006.....		1,500	\$70,492	0	\$0	\$0	\$0	\$21,255	\$91,747

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, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$53,313	\$47,271
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments			
4	Cash Outflows for Property and Equipment.....		(56,559)	(59,202)
5	Proceeds from Disposition of Property and Equipment.....		512	3
6	CRDA Obligations		(3,878)	(3,348)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances			
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(59,925)	(62,547)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....			(25)
15	Proceeds from Long-Term Debt			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....			(146)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	(171)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(6,612)	(15,447)
25	Cash and Cash Equivalents at Beginning of Period.....		33,081	42,441
26	Cash and Cash Equivalents at End of Period.....		\$26,469	\$26,994
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....			
28	Income Taxes.....		\$1,729	\$1,740

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, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$11,629	\$11,591
30	Depreciation and Amortization of Property and Equipment.....		27,004	25,316
31	Amortization of Other Assets.....			*
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current			(103)
34	Deferred Income Taxes - Noncurrent		(352)	(114)
35	(Gain) Loss on Disposition of Property and Equipment.....		(232)	29
36	(Gain) Loss on CRDA-Related Obligations.....		(680)	1,583
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks		(6,338)	(13,935)
39	(Increase) Decrease in Inventories		(90)	(265)
40	(Increase) Decrease in Other Current Assets.....		18	(2,188)
41	(Increase) Decrease in Other Assets.....		301	173
42	Increase (Decrease) in Accounts Payable.....		2,984	(1,390)
43	Increase (Decrease) in Other Current Liabilities		47,647	45,643
44	Increase (Decrease) in Other Liabilities		42,644	44,631
45	Net (Increase) Decrease in Inves., Advances and R.....		(71,477)	(64,041)
46	Amortization of Deferred Finance Charges		255	341
47	Net Cash Provided (Used) By Operating Activities.....		\$53,313	\$47,271

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$56,559)	(\$59,202)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$56,559)	(\$59,202)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

*Prior year amounts have been restated to conform to current year presentation.

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC. SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(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	329,759	\$27,660		
2	Food	1,618,542	21,672		
3	Beverage	6,818,273	10,442		
4	Travel			4,485	785
5	Bus Program Cash	640,998	12,005		
6	Other Cash Complimentaries	1,093,887	36,074		
7	Entertainment	37,126	890		
8	Retail & Non-Cash Gifts	103,993	1,176		
9	Parking				
10	Other	28,576	252	36,659	2,749 *
11	Total	10,671,154	\$110,171	41,144	\$3,534

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	124,544	\$10,562		
2	Food	560,206	7,501		
3	Beverage	2,348,694	3,808		
4	Travel			1,714	300
5	Bus Program Cash	220,783	4,160		
6	Other Cash Complimentaries	388,428	13,627		
7	Entertainment	14,704	352		
8	Retail & Non-Cash Gifts	32,192	356		
9	Parking				
10	Other	11,857	106	17,054	1,279
11	Total	3,701,408	\$40,472	18,768	\$1,579

*Included in the other Promotional Expenses is the cost of House of Blues complimentaries in the amount of \$1,148,191, golf complimentaries in the amount of 227,026 and Boardwalk Hall complimentaries in the

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

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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.

11/15/2006

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
(Dollars In Thousands)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Atlantic City Showboat, Inc. (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc.(OSI), which is a wholly-owned subsidiary of Showboat, Inc. ("SBO"). SBO is a wholly owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey ("Atlantic City Showboat"). On June 1, 1998, Harrah's, a Delaware corporation, purchased SBO and its subsidiaries.

The Company is licensed to operate the facility by the New Jersey Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current license expiring April 2008.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Doubtful Accounts

The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories

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

Land, Buildings and Equipment

Land, buildings, and equipment additions are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

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	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

ATLANTIC CITY SHOWBOAT, INC.

Notes to Financial Statements

(Dollars In Thousands)

Land, Building & Equipment (Cont.)

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Deferred Financing Cost

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

Financial Instruments

The carrying amount of cash equivalents, 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 indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current 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

Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our 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, we accrue 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 on our 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. We use historical data to assist in the determination of estimated accruals. At [September 30, 2006 and 2005](#), [\\$3,797 and \\$3,448](#) million, 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”). We accrue 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 on our Statements of Income. At [September 30, 2006 and 2005](#), the liability related to outstanding cash-back points, which is based on historical redemption activity, was [\\$1,259 and \\$1,072](#) million, respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Promotional Allowances

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. Recent accounting pronouncements on promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the nine months ended September 30, 2006 and 2005, respectively, were as follows:

	<u>2006</u>	<u>2005</u>
Food and Beverage	\$23,950	\$19,484
Rooms	9,190	8,779
Other	1,368	1,180
Bus Program Cash	12,005	11,943
Other Cash Complimentaries	<u>36,074</u>	<u>31,234</u>
	<u>\$82,587</u>	<u>\$72,620</u>

Income Taxes

The Company is included in the consolidated federal tax return of Harrah's and files a separate New Jersey tax return. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the statutory New Jersey tax.

Deferred income taxes reflect the net tax effects of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Omission of Disclosures

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Annual Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations, Employee Benefits and certain Income Tax disclosures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(3) RELATED PARTY TRANSACTIONS

The Company participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. In addition, the Company transfers cash to HOC to reimburse HOC for payroll costs of certain HOC employees who provide services to the Company. No interest is earned on the amount shown as due from affiliates, net, in the accompanying financial statements.

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 \$8,038 and \$6,331 respectively for these services for the nine months ended September 30, 2006 and 2005. These fees are included in Charges from Affiliates Other than Interest in the statement of income.

Rental Agreement

The Company leases 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly are adjusted annually based upon changes in the Consumer Price Index. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the nine months ended September 30, 2006 and 2005 was \$8,504 and \$8,114 respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

AMENDED 1/15/2007

(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of [September 30, 2006](#) and [2005](#), Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2006</u>	<u>2005</u>
Prepaid Slot License	\$ 1,296	\$1,517
Prepaid Insurance	0	70
Deposits	47	154
Prepaid Advertising	836	1,099
Current Deferred Tax Asset	8,857	1,822
Prepaid Income Taxes	114	808
Prepaid Contracts / Utilities	344	326
Prepaid Rent	972	911
Prepaid Air Charters	55	0
Other	<u>501</u>	<u>541</u>
	<u>\$13,022</u>	<u>\$7,248</u>

(5) INVESTMENTS, ADVANCES AND RECEIVABLES

As of [September 30, 2006](#) and [2005](#), Investments, Advances and Receivables consisted of the following:

	<u>2006</u>	<u>2005</u>
CRDA Deposits (Note 12)	\$ 23,577	\$ 18,928
CRDA Bonds (Note 12)	<u>21,910</u>	<u>21,229</u>
	<u>45,487</u>	<u>40,157</u>
Less: Valuation Allowance on CRDA		
Investments	<u>(11,681)</u>	<u>(11,575)</u>
CRDA Investments, Net	33,806	28,582
Due From Affiliates	<u>1,570,969</u>	<u>1,482,131</u>
	<u>\$1,604,775</u>	<u>\$1,510,713</u>

Due From Affiliates consisted of the following:

	<u>2006</u>	<u>2005</u>
HARRAH'S	\$1,570,553	\$1,481,757
Harrah's Atlantic City	74	61
Showboat Indiana	14	14
Harrah's Lake Tahoe	19	19
Harrah's Joliet	10	8
Harrah's Ak-Chin	238	238
Harrah's North Kansas City	<u>61</u>	<u>34</u>
	<u>\$1,570,969</u>	<u>\$1,482,131</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(6) LAND, BUILDINGS AND EQUIPMENT

As of [September 30, 2006](#) and [2005](#), Land, Building and Equipment consisted of the following:

	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$23,247	\$ 23,213
Building and Improvements	505,672	442,549
Furniture, Fixtures and Equipment	171,857	192,165
Construction in Progress	25,875	59,910
Other property and equipment	<u>507</u>	<u>507</u>
	727,158	718,344
Less-accumulated depreciation and amortization	<u>(283,503)</u>	<u>(306,184)</u>
	<u>\$443,655</u>	<u>\$412,160</u>

(7) OTHER ACCRUED EXPENSES

As of [September 30, 2006](#) and [2005](#), Other Accrued Expenses consisted of the following:

	<u>2006</u>	<u>2005</u>
Salaries and Wages	\$8,022	\$ 7,901
Taxes, Other Than Taxes on Income	2,582	2,477
Accrued Advertising and Promotion	1,567	2,600
Accrued Interest	100,428	100,428
Other	<u>8,031</u>	<u>6,239</u>
	<u>\$120,630</u>	<u>\$119,645</u>

(8) LONG-TERM DEBT

On May 18, 1993, SBO issued \$275,000 of 9 ¼% First Mortgage Bonds due 2008 (“9¼% Bonds”) and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9¼% Bonds. Subsequent to the acquisition of SBO 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 intercompany promissory note with HOC. The debt terms are consistent with the provisions of third party credit agreements arranged by HOC. The intercompany note is due on January 15, 2009, and is secured by the assets of the Company. Interest is payable semiannually at a rate of 7½%.

On March 12, 2003, both the 9¼% Bonds and the 7½% Promissory Note were assigned by their respective holders to Harrah’s Entertainment Limited. The terms and amounts of the debt were not affected by this

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Long-Term Debt (Cont.)

assignment. The only notable change resulting from the assignment was a change in the timing of interest payments.

Prior to the assignment interest payments were made semiannually. Throughout the remainder of 2003 interest payments were made on a monthly basis. However, for subsequent tax years, interest payments will be remitted annually, payable in the following year. As of [September 30, 2006 and 2005](#), there was accrued interest of \$100,428 and \$100,428 respectively.

(9) OTHER LIABILITIES

As of [September 30, 2006 and 2005](#), Other Liabilities consisted of the following:

	<u>2006</u>	<u>2005</u>
Due to Affiliates, Long-Term	\$1,144,479	\$1,030,553
Other	<u>75</u>	<u>290</u>
	<u>\$1,144,554</u>	<u>\$1,030,843</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2006</u>	<u>2005</u>
HARRAH'S	\$747,488	\$631,262
SBO	380,566	380,566
Harrah's Las Vegas	6,447	6,441
Harrah's Reno	45	45
Harvey's Tahoe	691	691
Harrah's Laughlin	87	95
Horeshoe Tunica	5	0
Rio Las Vegas	123	102
OSI	38	38
Harrah's Atlantic City	6,575	10,778
Bally's Atlantic City	1,295	0
Caesars Atlantic City	251	195
Showboat Operating Company	<u>868</u>	<u>340</u>
	<u>\$1,144,479</u>	<u>\$1,030,553</u>

(10) LEASES

The Company leased a warehouse under a long-term lease agreement that was capitalized as a capital lease. The Company had the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928. As of January 31, 2006 the warehouse lease was terminated.

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2006. Rental expense included in the accompanying statement of income for the nine months ended [September 30, 2006 and 2005](#) was approximately \$3,088 and \$2,367 respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(11) NON-OPERATING INCOME (EXPENSE)

For the [nine months ended September 30, 2006](#) and [2005](#), Non-Operating Income (Expense) consisted of the following:

	2006	2005
Interest Income	\$ 1,174	\$ 884
Preopening/Demolition Expense	(944)	(6,365)
Gain/Loss on Asset Sales	232	(29)
Other Non Operating Expense	<u>0</u>	<u>(3,616)</u>
	<u>\$462</u>	<u>\$(9,126)</u>

(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 used for donations designated by 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 deferred charges and other non-current assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at [September 30, 2006 and 2005](#), Investments, Advances, and Receivables include [\\$33,806](#) and [\\$28,582](#) respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34 million over a four year period to the NJSEA and must deposit another \$62 million into the Casino Expansion Fund (managed by the CRDA). The \$62

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

CRDA Investment Obligation (Cont)

million 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 November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62 million, 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.