HARRAHS ENTERTAINMENT INC
Form 10-K
February 29, 2008

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 1-10410

HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**62-1411755**

(State of incorporation)	(I.R.S. Employer Identification No.)
One Caesars Palace Drive, Las Vegas, Nevada	**89109**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code:

(702) 407-6000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

voting common stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 29, 2007, based upon the closing price of $85.26 for the Common Stock on the New York Stock Exchange on that date, was $15,894,715,035.

As of February 25, 2008, the Registrant had 10 shares of voting Common Stock and 40,709,745 shares of non-voting Common Stock outstanding.

PART I

ITEM 1. Business.

Overview

Harrah s Entertainment, Inc., a Delaware corporation, is one of the largest casino entertainment providers in the world. Our business is primarily conducted through a wholly-owned subsidiary, Harrah s Operating Company, Inc., although certain material properties are not owned by Harrah s Operating Company, Inc. As of December 31, 2007, we owned or managed through various subsidiaries 50 casinos in six countries, but primarily in the United States and the United Kingdom. Our casino entertainment facilities operate primarily under the Harrah s, Caesars and Horseshoe brand names in the United States, and include land-based casinos, casino clubs, riverboat or dockside casinos, casinos on Indian reservations, a combination greyhound racing facility and casino and combination thoroughbred racetrack and a harness racetrack and slot facility. As of December 31, 2007, our facilities have an aggregate of approximately 3 million square feet of gaming space and approximately 38,000 hotel rooms. We have a customer loyalty program, Total Rewards, which has over 40 million members that we use for marketing promotions and to generate play by our customers when they travel among our markets in the United States. We also own and operate the World Series of Poker tournament and brand. Unless otherwise noted or indicated by the context, the terms Harrah s, Harrah s Entertainment. Company, we, us, and our refer to Harrah s Entertainment, Inc.

We were incorporated on November 2, 1989 in Delaware, and prior to such date operated under predecessor companies. Our principal executive offices are located at One Caesars Palace Drive, Las Vegas, Nevada 89109, telephone (702) 407-6000. Until January 28, 2008, our common stock was traded on the New York Stock Exchange under the symbol HET.

On December 19, 2006, our board of directors approved and we entered into an Agreement and Plan of Merger, (the Merger Agreement, and the transactions contemplated thereby, the Merger) by and among Hamlet Holdings LLC, a Delaware limited liability company (Hamlet Holdings), Hamlet Merger Inc., a Delaware corporation and a wholly-owned subsidiary of Hamlet Holdings (Merger Sub) and Harrah s pursuant to which Hamlet Holdings would acquire all of our outstanding shares of common stock for $90.00 per share. Hamlet Holdings is controlled by certain individuals affiliated with Apollo Global Management, LLC and TPG Capital, L.P. (collectively, the Sponsors). The Merger was completed on January 28, 2008. As a result of the Merger, the issued and outstanding shares of non-voting common stock and the non-voting preferred stock of Harrah s are owned by entities affiliated with the Sponsors and certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s are owned by Hamlet Holdings. The Merger, the financing transactions related to the Merger and other related transactions consummated on January 28, 2008, had a transaction value of approximately $29.7 billion.

Description of Business

Our casino business commenced operations in 1937. We own or manage casino entertainment facilities in more areas throughout the United States than any other participant in the casino industry. In addition to casinos, our facilities typically include hotel and convention space, restaurants and non-gaming entertainment facilities. Three of our properties are racetracks at which we have installed slot machines. The descriptions below are as of December 31, 2007, except where otherwise noted.

In southern Nevada, Harrah s Las Vegas, Rio All-Suite Hotel & Casino, Caesars Palace, Bally s Las Vegas, Flamingo Las Vegas, Paris Las Vegas, Imperial Palace Hotel & Casino and Bill s Gamblin Hall & Saloon are located in Las Vegas, and draw customers from throughout the United States. Harrah s Laughlin is located near both the Arizona and California borders and draws customers primarily from the southern California and Phoenix metropolitan areas and, to a lesser extent, from throughout the U.S. via charter aircraft.

In northern Nevada, Harrah s Lake Tahoe, Harveys Resort & Casino and Bill s Casino are located near Lake Tahoe and Harrah s Reno is located in downtown Reno, and these facilities draw customers primarily from Northern California, the Pacific Northwest and Canada.

Our Atlantic City casinos, Harrah s Atlantic City, Showboat Atlantic City, Caesars Atlantic City and Bally s Atlantic City, draw customers primarily from the Philadelphia metropolitan area, New York and New Jersey.

Harrah s Chester is a combination harness racetrack and slot facility located approximately six miles south of Philadelphia International Airport which draws customers primarily from the Philadelphia metropolitan area and Delaware.

Our Chicagoland dockside casinos, Harrah s Joliet in Joliet, Illinois, and Horseshoe Hammond in Hammond, Indiana, draw customers primarily from the greater Chicago metropolitan area. In southern Indiana, we own Caesars Indiana, a dockside casino complex located in Elizabeth, Indiana, which draws customers primarily from Northern Kentucky, including the Louisville metropolitan area, and Southern Indiana, including Indianapolis.

In Louisiana, we own Harrah s New Orleans, a land-based casino located in downtown New Orleans, which attracts customers primarily from the New Orleans metropolitan area. In northwest Louisiana, Horseshoe Bossier City, a dockside casino, and Harrah s Louisiana Downs, a thoroughbred racetrack with slot machines, located in Bossier City, cater to customers in northwestern Louisiana and east Texas, including the Dallas/Fort Worth metropolitan area.

On the Mississippi gulf coast, we own the Grand Casino Biloxi, located in Biloxi, Mississippi, which caters to customers in Southern Mississippi, Southern Alabama and Northern Florida.

Harrah s North Kansas City and Harrah s St. Louis, both dockside casinos, draw customers from the Kansas City and St. Louis metropolitan areas, respectively. Harrah s Metropolis is a dockside casino located in Metropolis, Illinois, on the Ohio River, drawing customers from Southern Illinois, Western Kentucky and Central Tennessee.

Horseshoe Tunica, Grand Casino Tunica and Sheraton Casino & Hotel Tunica, dockside casino complexes located in Tunica, Mississippi, are approximately 30 miles from Memphis, Tennessee and draw customers primarily from the Memphis area.

Horseshoe Council Bluffs, a land-based casino, and Harrah s Council Bluffs, a dockside casino facility, are located in Council Bluffs, Iowa, across the Missouri River from Omaha, Nebraska. The Bluffs Run Greyhound Racetrack is in operation at Horseshoe Council Bluffs as well. These facilities are located in Council Bluffs, Iowa, across the Missouri River from Omaha, Nebraska. At Bluffs Run, we own the assets other than gaming equipment, and lease these assets to the Iowa West Racing Association, or IWRA, a nonprofit corporation, and we manage the facility for the IWRA under a management agreement expiring in October 2024. Iowa law requires that a qualified nonprofit corporation hold Bluffs Run s gaming and pari-mutuel licenses and its gaming equipment.

Casino Windsor, located in Windsor, Ontario, draws customers primarily from the Detroit metropolitan area and the Conrad Resort & Casino located in Punta Del Este, Uruguay, draws customers primarily from Argentina and Uruguay.

As part of the acquisition of London Clubs in December 2006, we own or manage five casinos in London: the Sportsman, the Golden Nugget, the Rendezvous, Fifty and The Casino at the Empire. Our casinos in London draw customers primarily from the London metropolitan area as well as international visitors. We also own Alea Nottingham, Alea Glasgow (which opened on February 6, 2008), Manchester235, Rendezvous Brighton and Rendezvous Southend-on-Sea in the provinces of the United Kingdom, which primarily draw customers from their local areas. We also manage two casinos in Cairo, Egypt at the Nile Hilton and Ramses Hilton, which draw customers primarily from other countries in the Middle East. Emerald Safari, located in the province of Gauteng in South Africa, draws customers primarily from South Africa.

We also earn fees through our management of three casinos for Indian tribes:

- Harrah s Phoenix Ak-Chin, located near Phoenix, Arizona, which we manage for the Ak-Chin Indian Community under a management agreement that expires in December 2009. Harrah s Phoenix Ak-Chin draws customers from the Phoenix metropolitan area;

- Harrah s Rincon Casino and Resort, located near San Diego, California, which we manage for the Rincon San Luiseno Band of Mission Indians under a management agreement that expires in November 2011. Harrah s Rincon draws customers from the San Diego metropolitan area and Orange County, California; and

- Harrah s Cherokee Casino and Hotel, which we manage for the Eastern Band of Cherokee Indians on their reservation in Cherokee, North Carolina under a management contract that expires November 2011. Harrah s Cherokee draws customers from eastern Tennessee, western North Carolina, northern Georgia and South Carolina.

Until June 30, 2007, we managed Harrah s Prairie Band Casino-Topeka, located near Topeka, Kansas, for the Prairie Band Potawatomi Nation.

We own and operate Bluegrass Downs, a harness racetrack located in Paducah, Kentucky, and own a one-half interest in Turfway Park LLC, which is the owner of the Turfway Park thoroughbred racetrack in Boone County, Kentucky. Turfway Park LLC owns a minority interest in Kentucky Downs LLC, which is the owner of the Kentucky Downs racetrack located in Simpson County, Kentucky.

We also operate the World Series of Poker tournament circuit and license trademarks for merchandise related to this brand.

Additional information about our casino entertainment properties is set forth below in Item 2, Properties.

Sales and Marketing

We believe that our distribution system of casino entertainment facilities provides us the ability to generate play by our customers when they travel among markets, which we refer to as cross-market play. In addition, with the Caesars acquisition in June 2005, we have several critical multi-property markets like Las Vegas, Atlantic City and Tunica, and we have seen increased revenue from customers visiting multiple properties in the same market. We believe our customer loyalty program, Total Rewards, in conjunction with this distribution system, allows us to capture a growing share of our customers gaming budget and generate increasing same-store revenue.

Our Total Rewards customers are able to earn Reward Credits and redeem those Reward Credits at substantially all of our casino entertainment facilities located in the U.S. and Canada. Total Rewards is structured in tiers, providing customers an incentive to consolidate their play at our casinos. Depending on their level of play with us in a calendar year, customers may be designated as either Gold, Platinum, Diamond, or Seven Stars customers. Customers who do not participate in Total Rewards are encouraged to join, and those with a Total Rewards card are encouraged to consolidate their play through targeted promotional offers and rewards.

We have developed a database containing information for our customers and aspects of their casino gaming play. We use this information for marketing promotions, including through direct mail campaigns and the use of electronic mail and our website.

Patents and Trademarks

We own the following trademarks used in this document: Harrah s®, Caesars®, Grand Casino℠, Bally s®, Flamingo®, Paris®, Caesars Palace®, Rio®, Showboat®, Bill s®, Harveys®, Total Rewards®, Bluffs Run®, Louisiana Downs®, Reward Credits®, Horseshoe®, Seven Stars®, Winners Circle®, and World Series of Poker®. Trademark rights are perpetual provided that the mark remains in use by us. We consider all of these marks, and the associated name recognition, to be valuable to our business.

We have been issued five U.S. patents covering some of the technology associated with our Total Rewards program-U.S. Patent No. 5,613,912 issued March 25, 1997, expiring April 5, 2015 (which is the subject of a license agreement with Mikohn Gaming Corporation); U.S. Patent No. 5,761,647 issued June 2, 1998, expiring May 24, 2016; U.S. Patent No. 5,809,482 issued September 15, 1998, expiring September 15, 2015; U.S. Patent No. 6,003,013 issued December 14, 1999, expiring May 24, 2016; and U.S. Patent No. 6,183,362, issued February 6, 2001, expiring May 24, 2016. In 2001, we sued a competitor casino company in Federal Court seeking to enforce three of these patents. In June 2004, the trial court ruled against us on the competitor s motion for summary judgment, holding that the claims of Patent Nos. 5,761,647 and 6,183,362 and portions of the claims of Patent No. 6,003,013 were invalid. The appeals court affirmed the trial court s motion for summary judgment and we elected to not appeal this decision. We do not believe that the ruling will adversely affect our business or operations.

Competition

We own or manage land-based, dockside, riverboat and Indian casino facilities in most U.S. casino entertainment jurisdictions. We also own or manage properties in Canada, the United Kingdom, South Africa, Egypt and Uruguay. We compete with numerous casinos and casino hotels of varying quality and size in the market areas where our properties are located. We also compete with other non-gaming resorts and vacation areas, and with

various other entertainment businesses. The casino entertainment business is characterized by competitors that vary considerably by their size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity.

In most markets, we compete directly with other casino facilities operating in the immediate and surrounding market areas. In some markets, we face competition from nearby markets in addition to direct competition within our market areas.

In recent years, with fewer new markets opening for development, competition in existing markets has intensified. Many casino operators, including us, have invested in expanding existing facilities, developing new facilities, and acquiring established facilities in existing markets, such as our acquisition of the casinos owned by Rio, Showboat, Players, Harveys, Horseshoe, Caesars and Imperial Palace. This expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors has increased competition in many markets in which we compete, and this intense competition can be expected to continue.

We believe we are well-positioned to take advantage of any further legalization of casino gaming in the U.S. and abroad, the continued positive consumer acceptance of casino gaming as an entertainment activity, and increased visitation to casino facilities. However, the expansion of casino entertainment into new markets, such as the recent expansion of tribal casino opportunities in New York and California and the approval of gaming facilities in Pennsylvania and Florida, could also present competitive issues for us. At this time, the ultimate impact that these events may have on the industry and on us is uncertain.

The casino entertainment industry is also subject to political and regulatory uncertainty. See also Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Overall Operating Results and Regional Results and Development Plans.

Acquisitions and Development

Macau

In September 2007, we acquired Macau Orient Golf, located on 175 acres on Cotai adjacent to the Lotus Bridge, one of the two border crossings into Macau from China, and rights to a land concession contract for a total consideration of approximately $577.7 million. The government of Macau owns most of the land in Macau, and private interests are obtained through long-term leases and other grants of rights to use land from the government. The term of the land concession is 25 years from its inception in 2001, with rights to renew for additional periods until 2049. Annual rental payments are approximately $90,000 and are adjustable at five-year intervals. Macau Orient Golf is one of only two golf courses in Macau and is the only course that is semi-private.

Las Vegas

On February 27, 2007, we exchanged certain real estate that we owned on Las Vegas Boulevard for property formerly known as the Barbary Coast, which is located between Bally s Las Vegas and Flamingo Las Vegas. We began operating the acquired property on March 1, 2007, as Bill s Gamblin Hall & Saloon.

In July 2007, we announced plans for an expansion and renovation of Caesars Palace Las Vegas, which is expected to cost approximately $1.3 billion and will include a 650-room hotel tower, including 75 luxury suites, additional meeting space, a remodeled and expanded pool area, and other renovations and improvements to the property. This expansion is slated for completion in 2009.

In August 2007, Harrah s and AEG, a leading sports and entertainment developer and operator, announced plans to enter into a 50/50 joint venture to develop a 20,000-seat arena, which is expected to commence operations in 2010. This development is subject to completion of definitive documents and other customary conditions.

Chicagoland

Construction continues on the renovation and expansion of Horseshoe Hammond, which will include a two-level entertainment vessel including a 108,000 square-foot casino. The project is expected to cost approximately $485 million and is scheduled for completion in the second half of 2008.

Biloxi

Construction began in third quarter 2007 on Margaritaville Casino & Resort in Biloxi, a resort project to be developed and operated by Harrah s. We license the Margaritaville name from an entity affiliated with the singer/songwriter Jimmy Buffett. The project, which is expected to cost approximately $700 million, is expected to include approximately 75,000 square feet of casino space, 250,000 square feet of retail, a Margaritaville Restaurant, 420 new hotel rooms, and other amenities. We expect Simon Property Group, Inc. to be involved in developing and operating the retail space. We expect to complete the project in the spring of 2010.

Atlantic City

Construction continued on an upgrade and expansion of Harrah s Atlantic City, which will include a new hotel tower with approximately 960 rooms, a casino expansion and a retail and entertainment complex. A new buffet and most of the retail center opened on February 16, 2007. The new hotel tower is expected to open in phases with final completion in mid-2008.

Spain

We continue to work on a joint venture casino and hotel development in the master-planned community of Ciudad Real, 118 miles south of Madrid. The joint venture between a subsidiary of the Company and El Reino de Don Quijote de La Mancha, S.A. is owned 60% and 40%, respectively. The project contemplates the development of a Caesars branded casino and hotel. Completion of this project is subject to a number of conditions, including governmental approvals and changes in certain laws.

The Bahamas

In January 2007, we signed agreements to form a joint venture agreement with a subsidiary of Baha Mar Resort Holdings Ltd. to create the Caribbean s largest single-phase destination in the Bahamas. The joint venture has also signed management agreements with subsidiaries of Starwood Hotels & Resorts Worldwide, Inc. The joint venture is expected to be 57% owned by a subsidiary of Baha Mar Resort Holdings Ltd. and 43% by a subsidiary of the Company effective upon confirmation by the Bahamian Government of certain required approvals and concessions and satisfaction of certain other conditions. The project contemplates the development of a Caesars branded casino and hotel. Completion of this project is subject to a number of conditions.

Governmental Regulation

The gaming industry is highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our casinos is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interests in the gaming operations. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99 to this Annual Report on Form 10-K, which Exhibit is incorporated herein by reference.

Our businesses are subject to various foreign, federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Employee Relations

We have approximately 87,000 employees through our various subsidiaries. Despite a strike in Atlantic City in 2004 that was settled, we consider our labor relations with employees to be good. Approximately 28,000 employees are covered by collective bargaining agreements with certain of our subsidiaries, relating to certain casino, hotel and restaurant employees at certain of our properties. Most of our employees covered by collective bargaining agreements are located at our properties in Las Vegas and Atlantic City. Our collective bargaining agreements with employees located at our Las Vegas properties expires in May 2012 and at our Atlantic City properties in September 2009.

Available Information

Our internet address is *www.harrahs.com.* We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or SEC. We also make available through our website all filings of our executive officers and directors on Forms 3, 4 and 5 under Section 16 of the Exchange Act. These filings are also available on the SEC s website at *www.sec.gov.* Our Code of Conduct and our Code of Business Conduct and Ethics for Principal Officers are available on our website under the Investor Relations link. We will provide a copy of these documents without charge to any person upon receipt of a written request addressed to Harrah s Entertainment, Inc., Attn: Corporate Secretary, One Harrah s Court, Las Vegas, Nevada 89119. Reference in this document to our website address does not constitute incorporation by reference of the information contained on the website.

ITEM 1A. Risk Factors.

If we are unable to effectively compete against our competitors, our profits will decline.

The gaming industry is highly competitive and our competitors vary considerably in size, quality of facilities, number of operations, brand identities, marketing and growth strategies, financial strength and capabilities, level of amenities, management talent and geographic diversity. We also compete with other non- gaming resorts and vacation areas, and with various other entertainment businesses. Our competitors in each market may have substantially greater financial, marketing and other resources than we do and there can be no assurance that they will not in the future engage in aggressive pricing action to compete with us. Although we believe we are currently able to compete effectively in each of the various markets in which we participate, we cannot assure you that we will be able to continue to do so or that we will be capable of maintaining or further increasing our current market share. Our failure to compete successfully in our various markets could adversely affect our business, financial condition, results of operations and cash flow.

In recent years, with fewer new markets opening for development, many casino operators have been reinvesting in existing markets to attract new customers or to gain market share, thereby increasing competition in those markets. As companies have completed expansion projects, supply has typically grown at a faster pace than demand in some markets and competition has increased significantly. The expansion of existing casino entertainment properties, the increase in the number of properties and the aggressive marketing strategies of many of our competitors have increased competition in many markets in which we operate, and this intense competition is expected to continue. These competitive pressures have and are expected to continue to adversely affect our financial performance in certain markets.

In particular, our business may be adversely impacted by the additional gaming and room capacity in Nevada, New Jersey, New York, Pennsylvania, Mississippi, Missouri, Michigan, Indiana, Iowa, Kansas, Kentucky, Illinois, Louisiana, Ontario, Spain, Uruguay, United Kingdom, Egypt, Bahamas and/or other projects not yet announced which may be competitive in the other markets where we operate or intend to operate. Several states and Native American tribes are also considering enabling the development and operation of casinos or casino- like operations in their jurisdictions. In addition, our operations located in New Jersey and Nevada may be adversely impacted by the expansion of Native American gaming in New York and California, respectively.

We are subject to extensive governmental regulation and taxation policies, the enforcement of which could adversely impact our business, financial condition and results of operations.

We are subject to extensive gaming regulations and political and regulatory uncertainty. Regulatory authorities in the jurisdictions where we operate have broad powers with respect to the licensing of casino operations and may revoke, suspend, condition or limit our gaming or other licenses, impose substantial fines and take other actions, any one of which could adversely impact our business, financial condition and results of operations. For example, revenues and income from operations were negatively impacted during July 2006 in Atlantic City by a three-day government imposed casino shutdown.

From time to time, individual jurisdictions have also considered legislation or referendums, such as bans on smoking in casinos and other entertainment and dining facilities, which could adversely impact our operations. For example, the City Council of Atlantic City passed an ordinance in 2007 requiring that we segregate at least 75% of the casino gaming floor as a nonsmoking area, leaving no more than 25% of the casino gaming floor as a smoking

area. The ordinance imposed timelines during which we had to construct physical separation for such space on the casino gaming floor and provide a ventilation system that separately exhausted the air from the nonsmoking areas and has impacted our financial results for the Atlantic City facilities since its enactment. Illinois has also passed the Smoke Free Illinois Act which became effective January 1, 2008, and bans smoking in nearly all public places, including bars, restaurants, work places, schools and casinos. The Act also bans smoking within 15 feet of any entrance, window or air intake area of these public places. These smoking bans could adversely affect revenues and operating results at our properties. The likelihood or outcome of similar legislation in other jurisdictions and referendums in the future cannot be predicted.

The casino entertainment industry represents a significant source of tax revenues to the various jurisdictions in which casinos operate. From time to time, various state and federal legislators and officials have proposed changes in tax laws, or in the administration of such laws, including increases in tax rates, which would affect the industry. If adopted, such changes could adversely impact our business, financial condition and results of operations.

The development and construction of new hotels, casinos and gaming venues and the expansion of existing ones are susceptible to delays, cost overruns and other uncertainties, which could have an adverse effect on our business, financial condition and results of operations.

We may decide to develop, construct and open new hotels, casinos and other gaming venues in response to opportunities that may arise, including developments in Mississippi, Las Vegas, Atlantic City, Chicagoland, Spain and the Bahamas previously disclosed. Future development projects and acquisitions may require significant capital commitments, the incurrence of additional debt, guarantees of third party-debt, the incurrence of contingent liabilities and an increase in amortization expense related to intangible assets, which could have an adverse effect upon our business, financial condition and results of operations. The development and construction of new hotels, casinos and gaming venues and the expansion of existing ones, such as our developments in Mississippi, Las Vegas, Atlantic City, Chicagoland, Spain, and the Bahamas, are susceptible to various risks and uncertainties, such as:

- the existence of acceptable market conditions and demand for the completed project;
- general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences;
- changes and concessions required by governmental or regulatory authorities;
- the ability to finance the projects, especially in light of the substantial indebtedness incurred by the Company related to the Merger;
- delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and
- disruption of our existing operations and facilities.

Our failure to complete any new development or expansion project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on our business, financial condition and results of operations.

Acts of terrorism and war and natural disasters may negatively impact our future profits.

Terrorist attacks and other acts of war or hostility have created many economic and political uncertainties. We cannot predict the extent to which terrorism, security alerts or war, or hostilities in Iraq and other countries throughout the world will continue to directly or indirectly impact our business and operating results. As a consequence of the threat of terrorist attacks and other acts of war or hostility in the future, premiums for a variety of insurance products have increased, and some types of insurance are no longer available. Given current conditions in the global insurance markets, we are substantially uninsured for losses and interruptions caused by terrorist acts and acts of war. If any such event were to affect our properties, we would likely be adversely impacted.

In addition, natural disasters such as major fires, floods, hurricanes and earthquakes could also adversely impact our business and operating results.

For example, four of our properties were closed due to the damage sustained from Hurricanes Katrina and Rita in August and September 2005. Such events could lead to the loss of use of one or more of our properties for an extended period of time and disrupt our ability to attract customers to certain of our gaming facilities. If any such event were to affect our properties, we would likely be adversely impacted.

In most cases, we have insurance that covers portions of any losses from a natural disaster, but it is subject to deductibles and maximum payouts in many cases. Although we may be covered by insurance from a natural disaster, the timing of our receipt of insurance proceeds, if any, is out of our control.

Additionally, a natural disaster affecting one or more of our properties may affect the level and cost of insurance coverage we may be able to obtain in the future, which may adversely affect our financial position.

Work stoppages and other labor problems could negatively impact our future profits.

Some of our employees are represented by labor unions. A lengthy strike or other work stoppage at one of our casino properties or construction projects could have an adverse effect on our business and results of operations. From time to time, we have also experienced attempts to unionize certain of our non union employees. While these efforts have achieved only limited success to date, we cannot provide any assurance that we will not experience additional and more successful union activity in the future. There has been a trend towards unionization for employees in Atlantic City and Las Vegas. For example, certain dealers, slot technicians and security guards at certain of our Atlantic City properties have voted to be represented by the United Auto Workers and the International Union, Security, Police and Fire Professionals of America, respectively. However, to date, there are no collective bargaining agreements in place. In addition, Caesars Palace dealers in Las Vegas recently signed union authorization cards to be represented by the Transport Workers Union (the TWU). The TWU held elections supervised by the National Labor Relations Board on December 22, 2007 and won representation of the dealers. The impact of this union activity is undetermined and could negatively impact our profits.

We may not realize all of the anticipated benefits of potential future acquisitions.

Our ability to realize the anticipated benefits of potential future acquisitions will depend, in part, on our ability to integrate the businesses of such acquired company with our businesses. The combination of two independent companies is a complex, costly and time consuming process. This process may disrupt the business of either or both of the companies, and may not result in the full benefits expected. The difficulties of combining the operations of the companies include, among others:

- coordinating marketing functions;
- unanticipated issues in integrating information, communications and other systems;
- unanticipated incompatibility of purchasing, logistics, marketing and administration methods;
- retaining key employees;
- consolidating corporate and administrative infrastructures;
- the diversion of management s attention from ongoing business concerns; and
- coordinating geographically separate organizations.

There is no assurance that we will realize the full benefits anticipated for any future acquisitions.

The risks associated with our international operations could reduce our profits.

Some of our properties are located in countries outside the United States, and our acquisition of London Clubs in 2006 has increased the percentage of our revenue derived from operations outside the United States. Additionally, we have announced intentions to build additional facilities outside the United States in the Bahamas and Spain. International operations are subject to inherent risks including:

variation in local economies;

currency fluctuation;

greater difficulty in accounts receivable collection;

trade barriers;

burden of complying with a variety of international laws; and

political and economic instability.

The loss of the services of key personnel could have a material adverse effect on our business.

The leadership of our chief executive officer, Mr. Loveman, and other executive officers has been a critical element of our success. The death or disability of Mr. Loveman or other extended or permanent loss of his services, or any negative market or industry perception with respect to him or arising from his loss, could have a material adverse effect on our business. Our other executive officers and other members of senior management have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also adversely affect us. We are not protected by key man or similar life insurance covering our senior management. We have employment agreements with our executive officers, but these agreements do not guarantee that any given executive will remain with the company.

If we are unable to attract, retain and motivate employees, we may not be able to compete effectively and will not be able to expand our business.

Our success and ability to grow are dependent, in part, on our ability to hire, retain and motivate sufficient numbers of talented people, with the increasingly diverse skills needed to serve clients and expand our business, in many locations around the world. Competition for highly qualified, specialized technical and managerial, and particularly consulting personnel, is intense. Recruiting, training, retention and benefits costs place significant demands on our resources. The inability to attract qualified employees in sufficient numbers to meet particular demands or the loss of a significant number of our employees could have an adverse effect on us.

We are controlled by the Sponsors, whose interests may not be aligned with ours.

As a result of the Merger, all of the voting common stock of Harrah s is held by Hamlet Holdings, the members of which are comprised of an equal number of individuals affiliated with each of the Sponsors. As such, the Sponsors will have the power to control our affairs and policies. The Sponsors also control the election of our board of directors, the appointment of management, the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions.

Eight of our nine directors are affiliated with the Sponsors. The members affiliated with the Sponsors have the authority, subject to the terms of our debt, to issue additional shares, implement share repurchase programs, declare dividends, pay advisory fees and make other decisions, and they may have an interest in our doing so. Furthermore, the Sponsors are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us, as well as businesses that represent major customers of our businesses. The Sponsors may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as the individuals affiliated with the Sponsors continue to control a significant amount of our outstanding voting common stock, the Sponsors will continue to be able to strongly influence or effectively control our decisions.

We are or may become involved in legal proceedings that, if adversely adjudicated or settled, could impact our financial condition.

From time to time, we are defendants in various lawsuits relating to matters incidental to our business. The nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors, business partners, Native American tribes and others in the ordinary course of business. As with all litigation, no assurance can be provided as to the outcome of these matters and in general, litigation can be expensive and time consuming. For example, we have an ongoing dispute with the St. Regis Mohawk Tribe. We may not be successful in the defense of these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations.

Our debt agreements contain restrictions that will limit our flexibility in operating our business.

Our senior secured credit facilities, the senior unsecured interim loan agreement, real estate facility loans and the indenture governing our senior notes contain, and any future indebtedness of ours would likely contain, a number of covenants that will impose significant operating and financial restrictions on us, including restrictions on our and our subsidiaries ability to, among other things:

- incur additional debt or issue certain preferred shares;

- pay dividends on or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;
- create liens on certain assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- designate our subsidiaries as unrestricted subsidiaries.

As a result of these covenants, we will be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs.

We have pledged a significant portion of our assets as collateral under our senior secured credit facilities. If any of the lenders under our senior secured credit facilities accelerate the repayment of borrowings, there can be no assurance that we will have sufficient assets to repay our indebtedness.

Under our senior secured credit facilities we will be required to satisfy and maintain specified financial ratios. Our ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance that we will meet those ratios. A failure to comply with the covenants contained in our senior secured credit facilities or our other indebtedness could result in an event of default under the facilities or the existing agreements, which, if not cured or waived, could have a material adverse affect on our business, financial condition and results of operations. In the event of any default under our senior secured credit facilities or our other indebtedness, the lenders thereunder:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable and terminate all commitments to extend further credit; or
- require us to apply all of our available cash to repay these borrowings.

Such actions by the lenders could cause cross defaults under our other indebtedness. If we were unable to repay those amounts, the lenders under our new senior secured credit facilities and real estate facilities could proceed against the collateral granted to them to secure that indebtedness. We will pledge a significant portion of our assets as collateral under our new senior secured credit facilities and real estate facilities.

If the indebtedness under our senior secured credit facilities, real estate facilities or our other indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full.

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from making debt service payments.

As of the closing of the Merger on January 28, 2008, we are a highly leveraged company. As of December 31, 2007, on a pro forma basis assuming the completion of the Merger, we would have had $25,246.2 million face value of outstanding indebtedness, and for the twelve months ended December 31, 2007, pro forma debt service payment obligations of $1,229.6 million (including approximately $999.6 million of debt

service on fixed rate obligations) and pro forma cash interest expense of $1,989.1 million.

Our substantial indebtedness could:

- limit our ability to borrow money for our working capital, capital expenditures, development projects, debt service requirements, strategic initiatives or other purposes;

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing our indebtedness;

- require us to dedicate a substantial portion of our cash flow from operations to the repayment of our indebtedness thereby reducing funds available to us for other purposes;

- limit our flexibility in planning for, or reacting to, changes in our operations or business;

- make us more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;

- make us more vulnerable to downturns in our business or the economy;

- restrict us from making strategic acquisitions, developing new gaming facilities, introducing new technologies or exploiting business opportunities; and

- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds or dispose of assets.

Furthermore, our interest expense could increase if interest rates increase because certain of our debt is variable-rate debt.

Despite our substantial indebtedness, we may still be able to incur significantly more debt. This could intensify the risks described above.

We and our subsidiaries may be able to incur substantial indebtedness in the future. Although the terms of the agreements governing our indebtedness contain restrictions on our ability to incur additional indebtedness, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. For example, as of December 31, 2007, on a pro forma basis, we would have had $1,811.9 million available for additional borrowing under our revolving credit facility, all of which would be secured.

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.

Our ability to satisfy our debt obligations will depend upon, among other things:

- our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control; and

- our future ability to borrow under our senior secured credit facilities, the availability of which depends on, among other things, our complying with the covenants in our senior secured credit facilities.

We cannot assure you that our business will generate sufficient cash flow from operations, or that we will be able to draw under our senior secured credit facilities or otherwise, in an amount sufficient to fund our liquidity needs.

If our cash flows and capital resources are insufficient to service our indebtedness, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt agreements may restrict us from adopting some of these alternatives. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such dispositions may not be adequate to meet our debt service obligations then due. The Sponsors have no continuing obligation to provide us with debt or equity financing.

PRIVATE SECURITIES LITIGATION REFORM ACT

This Annual Report on Form 10-K contains or may contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. Further, statements that include words such as may, will, project, might, expect, believe, anticipate, intend, could, would, estimate, the negative of these words or other words or expressions of similar meaning may identify forward-looking statements. These forward-looking statements are found at various places throughout the report. These forward-looking statements, including, without limitation, those relating to

future actions, new projects, strategies, future performance, the outcome of contingencies such as legal proceedings, and future financial

results, wherever they occur in this report, are necessarily estimates reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors set forth above and from time to time in our filings with the Securities and Exchange Commission.

In addition to the risk factors set forth above, important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include without limitation:

- the impact of the substantial indebtedness incurred to finance the consummation of the Merger;
- the effects of local and national economic, credit and capital market conditions on the economy in general, and on the gaming and hotel industry in particular;
- construction factors, including delays, increased costs for labor and materials, availability of labor and materials, zoning issues, environmental restrictions, soil and water conditions, weather and other hazards, site access matters and building permit issues;
- the effects of environmental and structural building conditions relating to our properties;
- our ability to timely and cost-effectively integrate companies that we acquire into our operations;
- access to available and reasonable financing on a timely basis;
- changes in laws, including increased tax rates, smoking bans, regulations or accounting standards, third-party relations and approvals, and decisions of courts, regulators and governmental bodies;
- litigation outcomes and judicial actions, including gaming legislative action, referenda and taxation;
- the ability of our customer-tracking, customer loyalty and yield-management programs to continue to increase customer loyalty and same store or hotel sales;
- the ability to recoup costs of capital investments through higher revenues;
- acts of war or terrorist incidents or natural disasters;
- access to insurance on reasonable terms for our assets;
- abnormal gaming holds;
- the potential difficulties in employee retention as a result of the Merger;

the effects of competition, including locations of competitors and operating and market competition; and

the other factors set forth under Risk Factors above.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events, except as required by law.

ITEM 1B. Unresolved Staff Comments.

None.

ITEM 2. Properties.

The following table sets forth information about our casino entertainment facilities:

Summary of Property Information*

Property	Type of Casino	Casino Space Sq. Ft.[a]	Slot Machines[a]	Table Games[a]	Hotel Rooms & Suites[a]
Atlantic City, New Jersey					
Harrah s Atlantic City[m]	Land-based	160,800	3,890	120	1,630
Showboat Atlantic City[m]	Land-based	124,200	3,530	110	1,330
Bally s Atlantic City	Land-based	225,800	5,120	220	1,740
Caesars Atlantic City	Land-based	145,000	3,180	170	1,140
Las Vegas, Nevada					
Harrah s Las Vegas[m]	Land-based	90,600	1,600	110	2,530
Rio[m]	Land-based	107,000	1,220	110	2,520
Caesars Palace	Land-based	129,900	1,440	160	3,600
Paris Las Vegas	Land-based	85,000	1,170	110	2,920
Bally s Las Vegas	Land-based	66,400	1,130	60	2,810
Flamingo Las Vegas[b][m]	Land-based	76,800	1,420	120	3,460
Imperial Palace	Land-based	75,000	800	50	2,640
Bill s Gamblin Hall & Saloon	Land-based	42,500	440	40	210
Laughlin, Nevada					
Harrah s Laughlin	Land-based	47,000	940	40	1,510
Reno, Nevada					
Harrah s Reno	Land-based	39,700	890	50	930
Lake Tahoe, Nevada					
Harrah s Lake Tahoe[m]	Land-based	57,600	870	70	510
Harveys Lake Tahoe[m]	Land-based	63,300	910	80	740
Bill s Lake Tahoe[m]	Land-based	18,000	280	20	
Chicago, Illinois area					
Harrah s Joliet (Illinois)[c]	Dockside	38,900	1,190	20	200
Horseshoe Hammond (Indiana)	Dockside	48,300	1,940	60	
Metropolis, Illinois					
Harrah s Metropolis[d]	Dockside	31,000	1,170	30	260
Southern Indiana					
Caesars Indiana	Dockside	70,400	1,750	90	500
Council Bluffs, Iowa					
Harrah s Council Bluffs	Dockside	28,000	1,050	20	250
Horseshoe Council Bluffs[e]	Greyhound racing facility and land-based casino	78,800	1,880	70	
Tunica, Mississippi					
Horseshoe Tunica	Dockside	63,000	1,740	90	510
Grand Casino Tunica	Dockside	136,000	1,880	80	1,360
Sheraton Casino & Hotel	Dockside	31,000	1,080	40	130
Mississippi Gulf Coast					
Grand Casino Biloxi	Dockside	26,500	830	40	490
St. Louis, Missouri					
Harrah s St. Louis	Dockside	111,500	2,830	100	500

Property	Type of Casino	Casino Space Sq. Ft.[a]	Slot Machines[a]	Table Games[a]	Hotel Rooms & Suites[a]
North Kansas City, Missouri					
Harrah s North Kansas City	Dockside	60,100	1,780	60	390
New Orleans, Louisiana					
Harrah s New Orleans	Land-based	125,100	2,040	130	450
Bossier City, Louisiana					
Louisiana Downs	Thoroughbred racing facility and land-based casino	14,900	1,340		
Horseshoe Bossier City	Dockside	29,900	1,540	70	610
Chester, Pennsylvania					
Harrah s Chester[f]	Harness racing facility and land-based casino	92,000	2,790		
Phoenix, Arizona					
Harrah s Ak-Chin[g]	Indian Reservation	48,000	950	30	150
Cherokee, North Carolina					
Harrah s Cherokee[g]	Indian Reservation	88,000	3,330	40	580
San Diego, California					
Harrah s Rincon[g]	Indian Reservation	69,900	1,600	70	650
Punta del Este, Uruguay					
Conrad Punta del Este Resort and Casino[h]	Land-based	44,500	490	70	300
Ontario, Canada					
Casino Windsor[i]	Land-based	100,000	2,610	80	390
United Kingdom					
Golden Nugget	Land-based	6,500	20	40	
Rendezvous Casino	Land-based	9,100	20	40	
The Sportsman	Land-based	7,100	10	40	
Fifty[j]	Land-based	3,200		20	
Rendezvous Brighton	Land-based	13,100	20	70	
Rendezvous Southend-on-Sea	Land-based	11,900	20	60	
Manchester235	Land-based	17,600	20	100	
The Casino at the Empire	Land-based	26,400	20	80	
Alea Nottingham	Land-based	5,500	20	60	
Alea Glasgow[k]	Land-based				
Egypt					
London Club Cairo-Nile[g]	Land-based	2,000	40	10	
Rendezvous Cairo-Ramses[g]	Land-based	2,400	30	20	
South Africa					
Emerald Safari(l)[m]	Land-based	37,700	660	20	190

* As of December 31, 2007, unless otherwise noted.

(a) Approximate.

(b) Information includes O Shea s Casino, which is adjacent to this property.

(c) We have an 80 percent ownership interest in and manage this property.

(d) A hotel, in which we own a 12.5% special limited partnership interest, is adjacent to the Metropolis facility. A second 260-room hotel owned by us opened in 2006.
(e) The property is owned by the Company, leased to the operator, and managed by the Company for the operator for a fee pursuant to an agreement that expires in October 2024. This information includes the Bluffs Run greyhound racetrack that operates at the property.
(f) We have a 50 percent ownership interest in and manage this property. The slot facility at Harrah s Chester opened on January 22, 2007.
(g) Managed.
(h) We have an approximate 95 percent ownership interest in and manage this property.
(i) We have a 50 percent interest in Windsor Casino Limited, which manages this property. The province of Ontario owns the complex.
(j) We have a 50 percent ownership interest in and manage this property.
(k) Opened February 6, 2008.
(l) We have a 70 percent interest in and manage this property.
(m) Properties not owned by Harrah s Operating Company, Inc. or its subsidiaries as of the closing of the Merger. See also Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Debt and Liquidity Commercial Mortgage Based Securities (CMBS) Financing.

ITEM 3. Legal Proceedings.
Litigation Related to our Operations

In April 2000, the Saint Regis Mohawk Tribe (the Tribe) granted Caesars the exclusive rights to develop a casino project in the State of New York. On April 26, 2000, certain individual members of the Tribe purported to commence a class action proceeding in a Tribal Court in Hogansburg, New York, against Caesars seeking to nullify Caesars agreement with the Tribe. On March 20, 2001, the Tribal Court purported to render a default judgment against Caesars in the amount of $1,787 million. Prior to our acquisition of Caesars in June 2005, it was believed that this matter was settled pending execution of final documents and mutual releases. Although fully executed settlement documents were never provided, on March 31, 2003, the United States District Court for the Northern District of New York dismissed litigation concerning the validity of the judgment, without prejudice, while retaining jurisdiction to reopen that litigation, if, within three months thereof, the settlement had not been completed. On June 22, 2007, a lawsuit was filed in the United States District Court for the Northern District of New York against us by certain trustees of the Catskill Litigation Trust alleging the Catskill Litigation Trust had been assigned the Tribal Court judgment and seeks to enforce it, with interest. According to a Tribal Court order, accrued interest through July 9, 2007, was approximately $1,014 million. We filed a motion to dismiss the case which was denied the first week of December 2007 on procedural grounds. In the Court s ruling, we were granted leave to renew our request for relief as a summary judgment motion, seeking the same relief (dismissal of the case), but employing a different procedural rule following limited discovery on the issues raised in the motion. Such limited discovery is now proceeding. We believe this matter to be without merit and will vigorously contest any attempt to enforce the judgment.

Litigation Related to the Merger

Delaware Lawsuits.

On October 5, 2006, Henoch Kaiman and Joseph Weiss filed a purported class action complaint in the Delaware Court of Chancery, Civil Action No. 2453-N, against Harrah s, its board of directors and the Sponsors, challenging the proposed transaction as inadequate and unfair to Harrah s public stockholders. Two similar putative class actions were subsequently filed in the Delaware Court of Chancery: Phillips v. Loveman, et al., Civil Action No. 2456-N; and Momentum Partners v. Atwood, et al., Civil Action No. 2455-N. On October 19, 2006, the Delaware Court of Chancery consolidated the three Delaware cases under the heading In Re Harrah s Entertainment, Inc. Shareholder Litigation.

On December 22, 2006, Delaware plaintiffs counsel filed an amended and consolidated class action complaint against Harrah s, its directors, the Sponsors, and added as defendants Apollo Management V, L.P., Hamlet Holdings and Merger Sub. The consolidated complaint alleges that Harrah s board of directors breached their fiduciary duties and that the Sponsors aided and abetted the alleged breaches of fiduciary duty in entering into the merger agreement. The consolidated complaint seeks, among other relief, class certification of the lawsuit, an injunction against the proposed transaction, compensatory and/or rescissory damages to the class, and an award of attorneys fees and expenses to plaintiffs. On February 14, 2007, defendants began to produce documents in response to plaintiff s initial discovery request. See Settlement Procedures below for an update.

Initial Nevada Lawsuits.

On October 3, 2006, Natalie Gordon filed a putative class action lawsuit in the state district court in Clark County, Nevada, Case No. A529183, against Harrah s, its board of directors and the Sponsors, challenging the proposed transaction as inadequate and unfair to Harrah s public stockholders.

Eight similar putative class actions were subsequently filed in the Clark County district court: Phillips v. Harrah s Entertainment, Inc., et al., Case No. A529184; Murphy v. Harrah s Entertainment, Inc., et al., Case No. A529246; Shapiro v. Alexander, et al., Case No. A529247; Barnum v. Alexander, et al., Case No. A529277; Iron Workers Tennessee Valley Pension Fund v. Harrah s Entertainment, Inc., et al., Case No. A529449; Staehr v. Harrah s Entertainment, Inc., et al., Case No. A529385; Berliner v. Harrah s Entertainment, Inc., et al., Case No. A529508; and Frechter v. Harrah s Entertainment, Inc., et al., Case No. A529680. All of the complaints name Harrah s and its current directors as defendants. Four of the complaints also name the Sponsors as defendants. One complaint further names two former directors of Harrah s, Joe M. Henson and William Barron Hilton, as defendants. On October 6, 2006, the Clark County district court consolidated these complaints under the heading In Re Harrah s Shareholder Litigation and appointed liaison counsel for the consolidated action.

On October 17, 2006, a consolidated class action complaint was filed naming Harrah s, Entertainment, its current board of directors and the Sponsors as defendants. The consolidated complaint alleges that Harrah s Entertainment s board of directors breached their fiduciary duties and the Sponsors aided and abetted the alleged breaches of fiduciary duty in connection with the proposed transaction. The consolidated complaint seeks, among other relief, class certification of the lawsuit, an injunction against the proposed transaction, declaratory relief, compensatory and/or rescissory damages to the class, and an award of attorneys fees and expenses to plaintiffs.

On October 25, 2006, Harrah s removed the consolidated action to the United States District Court for the District of Nevada as In Re Harrah s Shareholder Litigation, Case 2:06-CV-01356, pursuant to the Securities Litigation Uniform Standards Act (SLUSA). On November 27, 2006, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a motion for remand. Also on that date, plaintiff Iron Workers Tennessee Valley Pension Fund filed a separate motion for remand. On December 5, 2006, plaintiff Frechter joined Iron Workers motion for remand. On January 5, 2007, the plaintiff in Iron Workers filed notice of its intention to voluntarily dismiss its action. On that same date, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a notice of withdrawal of their motion for remand. The court approved these notices on January 9, 2007. On January 23, 2007, defendants moved to dismiss the remaining actions pursuant to SLUSA. On February 5, 2007, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a First Amended Consolidated Class Action Complaint, adding a claim that the December 2006 14A filings by Harrah s with the SEC in connection with the merger were false and misleading. Accordingly, eight consolidated cases currently remain in the United States District Court for the District of Nevada. On February 12, 2007, the court denied the Frechter motion for remand under the SLUSA. On February 23, 2007, the defendants filed a reply brief renewing their request that the court dismiss the actions in their entirety. See Settlement Procedures below for an update.

Subsequent Nevada Lawsuits.

On November 22, 2006, two putative class action lawsuits were filed in the state district court in Clark County, Nevada against Harrah s and its board of directors: Eisenstein v. Harrah s Entertainment, Inc., et al., Case No. A531963; and NECA-IBEW Pension Fund v. Harrah s Entertainment, Inc., et al., Case No. A531965. Both complaints allege that Harrah s board of directors breached their fiduciary duties in connection with the proposed transaction. The complaints seek, among other things, declaratory and injunctive relief; neither of them seeks damages.

On January 3, 2007, plaintiffs in both actions filed a joint Motion to Designate Litigation as Complex, Consolidate Cases, and for Appointment of Lead Counsel. A hearing on plaintiffs motion, which had been scheduled for January 30, 2007, was vacated pursuant to a stipulation between the parties, dated January 25, 2007.

On January 26, 2007, in accordance with the parties January 25, 2007 stipulation, the Clark County district court ordered the consolidation of the Eisenstein and NECA-IBEW Pension Fund complaints and appointed lead and liaison counsel. See Settlement Procedures below for an update.

Settlement Procedures.

On March 8, 2007, Harrah s, its board of directors, and the other named defendants in the Delaware and Nevada Lawsuits above entered into a memorandum of understanding with plaintiffs counsel in those lawsuits. Under the terms of the memorandum, Harrah s, its board of directors, the other named defendants, and the plaintiffs

have agreed in principle that the Initial Nevada Lawsuits and the Delaware Lawsuit will be dismissed without prejudice and, subject to court approval, the Subsequent Nevada Lawsuits would be dismissed with prejudice. The parties subsequently entered into a stipulation of settlement (Stipulation) incorporating the terms of the memorandum of understanding.

Harrah s, its board of directors, and the other defendants deny all of the allegations in the lawsuits. Nevertheless, the defendants agreed in principle to settle the purported class action litigations in order to avoid costly litigation and mitigate the risk that the litigation may have caused a delay to the closing of the Merger. Pursuant to the terms of the Stipulation, Harrah s agreed to provide certain additional information to stockholders that was included in its definitive proxy statement dated March 8, 2007. In addition, Harrah s or its successor has agreed to pay the legal fees and expenses of plaintiffs counsel, up to a certain limit and subject to approval by the court, and the costs of providing notice to the class. Class members have the right to opt out of the proposed settlement; however, Defendants have the right to terminate the proposed settlement if the holders of more than a designated amount of shares elect to opt out. The entry of a final judgment and the grant of a release against Harrah s, its board of directors and the other named defendants will not affect the rights of any stockholders who timely and validly request exclusion from the settlement class pursuant to applicable law.

On February 4, 2008, the Stipulation was submitted to a district court in Nevada, where it was approved and an order was entered for notice and a hearing in this matter. Per the court s order, a settlement hearing is to be held on April 21, 2008.

Additional details of the settlement in principle are set forth in a separate notice that has been sent to stockholders of the Company prior to the Merger prior to a court hearing to consider the settlement, including any award of attorneys fees.

In addition, the Company is party to ordinary and routine litigation incidental to our business. We do not expect the outcome of any pending litigation to have a material adverse effect on our consolidated financial position or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

ITEM 5. Market for the Company s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our outstanding common stock is privately held and there is no established public trading market for our common stock. Until January 28, 2008, our common stock was listed on the New York Stock Exchange and traded under the ticker symbol HET. Until January 28, 2008, our common stock was also listed on the Chicago Stock Exchange and the Philadelphia Stock Exchange.

The following table sets forth the high and low sales prices per share of our common stock, as reported by the New York Stock Exchange, for the last two fiscal years:

	High	Low
2007		
First Quarter	$ 85.58	$ 82.31
Second Quarter	86.26	83.60
Third Quarter	87.79	78.77
Fourth Quarter	89.35	86.21
2006		
First Quarter	$ 79.80	$ 70.50
Second Quarter	83.33	68.46
Third Quarter	70.59	59.04
Fourth Quarter	84.25	73.50

The approximate number of holders of record of our non-voting common stock as of February 25, 2008, was 108.

18

The following table sets forth the dates and amounts of cash dividends per share paid by the Company during the last two fiscal years:

	Record Date	Paid On
2007		
$0.40	February 12, 2007	February 21, 2007
0.40	May 9, 2007	May 23, 2007
0.40	August 8, 2007	August 22, 2007
0.40	November 8, 2007	November 21, 2007
2006		
$0.3625	February 15, 2006	February 22, 2006
0.3625	May 10, 2006	May 24, 2006
0.40	August 9, 2006	August 23, 2006
0.40	November 8, 2006	November 22, 2006

We did not repurchase any shares of our common stock in 2007.

ITEM 6. Selected Financial Data.

The selected financial data set forth below for the five years ended December 31, 2007, should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto.

(In millions, except common stock data and financial percentages and ratios)	**2007[(a)]**	**2006[(b)]**	**2005[(c)]**	**2004[(d)]**	**2003[(e)]**
OPERATING DATA					
Revenues	$ 10,825.2	$ 9,673.9	$ 7,010.0	$ 4,396.8	$ 3,808.4
Income from operations	1,652.0	1,556.6	1,029.0	772.8	663.7
Income from continuing operations	527.2	523.9	316.3	319.3	252.7
Net income	619.4	535.8	236.4	367.7	292.6
COMMON STOCK DATA					
Earnings per share-diluted					
From continuing operations	2.77	2.79	2.10	2.83	2.29
Net income	3.25	2.85	1.57	3.26	2.65
Cash dividends declared per share	1.60	1.53	1.39	1.26	0.60
FINANCIAL POSITION					
Total assets	23,357.7	22,284.9	20,517.6	8,585.6	6,578.8
Long-term debt	12,429.6	11,638.7	11,038.8	5,151.1	3,671.9
Stockholders equity	6,626.9	6,071.1	5,665.1	2,035.2	1,738.4
FINANCIAL PERCENTAGES AND RATIOS					
Return on revenues-continuing	4.9%	5.4%	4.5%	7.3%	6.6%
Return on average invested capital					
Continuing operations	4.8%	5.0%	4.4%	8.2%	8.1%
Net income	5.3%	5.0%	3.6%	8.0%	7.6%
Return on average equity					
Continuing operations	8.2%	8.8%	7.6%	16.9%	15.5%
Net income	9.7%	9.1%	5.7%	19.5%	18.0%
Ratio of earnings to fixed charges [(f)]	2.1	2.2	2.1	2.8	2.7

Note references are to our Notes to Consolidated Financial Statements. See Item 8.

(a) 2007 includes $109.7 million in pretax charges for write-downs, reserves and recoveries (see Note 10), $13.4 million in pretax charges related to the proposed sale of the Company, and $2.0 million in pretax charges for premiums paid for, and write-offs associated with, debt retired before maturity. 2007 also includes the financial results of Bill s Gamblin Hall & Saloon, from its February 27, 2007, date of acquisition and Macau Orient Golf, from its September 12, 2007, date of acquisition.

(b) 2006 includes $83.3 million in pretax charges for write-downs, reserves and recoveries (see Note 10), $37.0 million in pretax charges related to the review of certain strategic matters by the special committee of our Board of Directors and the integration of Caesars in Harrah s Entertainment, and $62.0 million in pretax charges for premiums paid for, and write-offs associated with, debt retired before maturity. 2006 also includes the financial results of London Clubs International from the date of our acquisition of a majority ownership interest in November 2006.

(c) 2005 includes $194.7 million in pretax charges for write-downs, reserves and recoveries (see Note 10), $55.0 million in pretax charges related to our acquisition of Caesars Entertainment, Inc., and $3.3 million in pretax charges for premiums paid for, and write-offs associated with, debt retired before maturity. 2005 also includes the financial results of Caesars Entertainment, Inc., from its June 13, 2005, date of acquisition.

(d) 2004 includes $9.6 million in pretax charges for write-downs, reserves and recoveries and $2.3 million in pretax charges related to our pending acquisition of Caesars Entertainment, Inc. 2004 also includes the financial results of Horseshoe Gaming Holding Corp. from its July 1, 2004, date of acquisition.

(e) 2003 includes $10.5 million in pretax charges for write-downs, reserves and recoveries and $19.1 million in pretax charges for premiums paid for, and write-offs associated with, debt retired before maturity.

(f) Ratio computed based on Income from continuing operations. For details of the computation of this ratio, see Exhibit 12.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Harrah s Entertainment, Inc., a Delaware corporation, was incorporated on November 2, 1989, and prior to such date operated under predecessor companies. In this discussion, the words Harrah s Entertainment, Company, we, our, and us refer to Harrah s Entertainment, Inc., together subsidiaries where appropriate.

OVERVIEW

We are one of the largest casino entertainment providers in the world. As of December 31, 2007, we operated 50 casinos in six countries, but primarily in the United States and the United Kingdom. Our facilities operate primarily under the Harrah s, Caesars and Horseshoe brand names in the United States. Our properties include land-based casinos and casino hotels, dockside and riverboat casinos, a greyhound racetrack, a thoroughbred racetrack, a harness racetrack, casino clubs and managed casinos. We are focused on building customer loyalty through a unique combination of customer service, excellent products, unsurpassed distribution, operational excellence and technology leadership and on exploiting the value of our five major brands Harrah s, Caesars, Horseshoe, Total Rewards and the World Series of Poker. We believe that the customer-relationship marketing and business-intelligence capabilities fueled by Total Rewards, our customer loyalty program, are constantly bringing us closer to our customers so we better understand their preferences, and from that understanding, we are able to improve entertainment experiences we offer accordingly.

On January 28, 2008, Harrah s Entertainment was acquired by affiliates of Apollo Global Management, LLC (Apollo) and TPG Capital, LP (TPG) in an all cash transaction, hereinafter referred to as the Merger, valued at approximately $30.9 billion, including the assumption of $12.4 billion of debt and approximately $1.2 billion of acquisition costs. Holders of Harrah s Entertainment stock received $90.00 in cash for each outstanding share of common stock. As a result of the Merger, the issued and outstanding shares of non-voting common stock and the non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo/TPG and certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo/TPG. As a result of the Merger, our stock is no longer publicly traded.

DEBT AND LIQUIDITY

We generate substantial cash flows from operating activities, as reflected on the Consolidated Statements of Cash Flows. These cash flows reflect the impact on our consolidated operations of the success of our strategic acquisitions, our marketing programs and on-going cost containment focus. For each of the years ended December 31, 2007 and 2006, we reported cash flows from operating activities of $1.5 billion, and 2005 cash flows from operating activities were $595.2 million. We use the cash flows generated by our operations to fund debt service, to reinvest in existing properties for both refurbishment and expansion projects, to pursue additional growth opportunities via strategic acquisitions of existing companies and new development opportunities and, prior to the closing of the Merger, to return capital to our stockholders in the form of dividends. When necessary, we supplement the cash flows generated by our operations with funds provided by financing activities to balance our cash requirements.

Our cash and cash equivalents totaled $710.0 million at December 31, 2007, compared to $799.6 million at December 31, 2006. The following provides a summary of our cash flows for the years ended December 31.

(In millions)	**2007**	**2006**	**2005**
Cash provided by operating activities	$ 1,508.8	$ 1,539.6	$ 595.2
Capital investments	(1,376.7)	(2,500.1)	(1,108.5)
Payments for business acquisitions	(584.3)	(562.5)	(1,942.5)
Proceeds from sales of discontinued operations		457.3	649.5
Insurance proceeds for hurricane losses for continuing operations	15.7	124.9	69.0
Insurance proceeds for hurricane losses for discontinued operations	13.4	174.7	32.1
Other investing activities	8.3	62.0	11.3
Cash used in operating/investing activities	(414.8)	(704.1)	(1,693.9)
Cash provided by financing activities	236.5	764.8	1,956.1
Cash provided by/(used in) discontinued operations	88.7	14.5	(26.8)
Net (decrease)/increase in cash and cash equivalents	$ (89.6)	$ 75.2	$ 235.4

22

We believe that our cash and cash equivalents balance, our cash flows from operations and the financing sources discussed herein, will be sufficient to meet our normal operating requirements during the next twelve months and to fund additional investments. In addition, we may consider issuing additional debt in the future to fund potential acquisitions or growth or to refinance existing debt. We continue to review additional opportunities to acquire or invest in companies, properties and other investments that meet our strategic and return on investment criteria. If a material acquisition or investment is completed, our operating results and financial condition could change significantly in future periods. In connection with the Merger, we have incurred substantial additional debt, which will significantly change our financial position.

The majority of our debt is due in 2010 and beyond. Payments of short-term debt obligations and other commitments are expected to be made from operating cash flows and from borrowings under our established debt programs. Long-term obligations are expected to be paid through operating cash flows, refinancing of debt, joint venture partners or, if necessary, additional debt offerings.

Debt as of December 31, 2007

Long-term debt consisted of the following as of December 31:

(In millions)	**2007**	**2006**
Credit facilities		
4.05% 6.25% at December 31, 2007, maturities to 2011	$ 5,768.1	$ 4,307.0
Secured Debt		
6.0%, maturity 2010	25.0	25.0
7.1%, maturity 2028	87.7	89.3
LIBOR plus 1% 2.75%, maturity 2011		67.0
S. African prime less 1.5%, maturity 2009	10.5	11.4
4. 5% 11.0%, maturities to 2036	4.4	6.8
Unsecured Senior Notes		
7.125%, maturity 2007		497.8
Floating Rate Notes, maturity 2008	250.0	250.0
7.5%, maturity 2009*	136.2	136.2
7.5%, maturity 2009	442.4	452.4
5.5%, maturity 2010	747.1	746.0
8.0%, maturity 2011	71.7	71.7
5.375%, maturity 2013	497.7	497.4
7.0%, maturity 2013*	324.4	328.4
5.625%, maturity 2015	996.3	995.9
6.5%, maturity 2016	744.3	743.8
5.75%, maturity 2017	745.8	745.5
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	370.6	367.8
Unsecured Senior Subordinated Notes		
9.375%, maturity 2007*		499.2
8.875%, maturity 2008*	409.6	423.3
7.875%, maturity 2010*	394.9	403.4
8.125%, maturity 2011*	380.3	388.2
Other Unsecured Borrowings		
LIBOR plus 4.5%, maturity 2010	29.1	33.9
Other, various maturities	1.6	1.6
Capitalized Lease Obligations		
5.77% 10.0%, maturities to 2011	2.7	0.9
	12,440.4	12,089.9
Current portion of long-term debt	(10.8)	(451.2)
	$ 12,429.6	$ 11,638.7

* Assumed in our acquisition of Caesars

We recorded the debt assumed in the Caesars acquisition at its market value, and the premium recorded is being amortized as a credit to interest expense using the effective interest method. The debt was assumed by Harrah s Operating Company, Inc. (Harrah s Operating or HOC), a wholly-owned subsidiary of Harrah s Entertainment, and is guaranteed by Harrah s Entertainment.

$400 million, face amount, of our 8.875% Senior Subordinated Notes due in September 2008, and $250 million, face amount, of our Floating Rate Senior Notes due in February 2008, are classified as long-term in our Consolidated Balance Sheet as of December 31, 2007, because the Company has both the intent and the ability to refinance that portion of these notes.

Debt Following the January 28, 2008, Acquisition and Financing

In connection with the Merger, $7.7 billion, face amount, of our debt was retired, $4.6 billion, face amount, of our debt was retained and $20.5 billion, face amount, of new debt was issued, resulting in a very different debt structure from the one in place at December 31, 2007. The remainder of our discussion related to debt will refer to the debt structure after the Merger.

Following the Merger, long-term debt consisted of the following:

(In millions)	HOC and Subsidiaries	Other Subsidiaries of Harrah s Entertainment	Total Harrah s Entertainment, Inc.
Credit facilities			
Term loans, 6.244% at January 28, 2008, maturities to 2015	$ 7,250.0		$ 7,250.0
Subsidiary guaranteed debt			
10.75% Senior Notes due 2016, including senior interim loans of $342.6, 9.25% at January 28, 2008	5,275.0		5,275.0
10.75%/11.5% Senior PIK Toggle Notes due 2018, including senior interim loans of $97.4, 9.25% at January 28, 2008	1,500.0		1,500.0
Unsecured Senior Notes			
7.5%, maturity 2009	0.9		0.9
7.5%, maturity 2009	5.0		5.0
5.5%, maturity 2010	669.1		669.1
8.0%, maturity 2011	62.7		62.7
5.375%, maturity 2013	342.3		342.3
7.0%, maturity 2013	0.7		0.7
5.625%, maturity 2015	640.6		640.6
6.5%, maturity 2016	486.0		486.0
5.75%, maturity 2017	443.0		443.0
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	0.2		0.2
Unsecured Senior Subordinated Notes			
8.875%, maturity 2008	5.9		5.9
7.875%, maturity 2010	349.5		349.5
8.125%, maturity 2011	307.4		307.4
Other Secured Borrowings			
CMBS financing, 6.244% at January 28, 2008, maturity 2013		$ 6,500.0	6,500.0
S. Africa, prime less 1.5%, maturity 2009		10.3	10.3
6.0%, maturity 2010	25.0		25.0
4.25% 10.125%, maturities to 2035	3.8		3.8
Other Unsecured Borrowings			
LIBOR plus 4.5%, maturity 2010	29.1		29.1
Other, various maturities	1.6		1.6
Capitalized Lease Obligations			
5.77% 10.0%, maturities to 2011	2.5		2.5
	17,400.3	6,510.3	23,910.6
Current portion of long-term debt	(71.4)	(1.5)	(72.9)
	$ 17,328.9	$ 6,508.8	$ 23,837.7

As of January 28, 2008, aggregate annual principal maturities for the four years subsequent to 2008 were: 2009, $96.8 million; 2010, $1.2 billion; 2011, $0.5 billion; and 2012, $0.2 billion.

In connection with the Merger, the following debt was retired on or about January 28, 2008:

Debt Extinguished	Face Value (in millions)
Credit Facilities due 2011	$ 5,795.8
7. 5% Senior Notes due 2009	131.2
8.875% Senior Subordinated Notes due 2008	394.3
7. 5% Senior Notes due 2009	424.2
7. 0% Senior Notes due 2013	299.4
Floating Rate Notes due 2008	250.0
Floating Rate Contingent Convertible Senior Notes due 2024	374.7

In connection with the Merger, the following debt was issued on or about January 28, 2008:

Debt Issued	Face Value (in millions)
Term loan facility, maturity 2015	$ 7,250.0
10.75% Senior Notes due 2016 [a]	5,275.0
10.75%/11.5% Senior PIK Toggle Notes due 2018 [b]	1,500.0
CMBS financing	6,500.0

(a) includes senior unsecured cash pay interim loans of $342.6 million
(b) includes senior unsecured PIK toggle interim loans of $97.4 million

New Senior Secured Credit Facility

Overview. HOC s new senior secured credit facilities provide for senior secured financing of up to $9.25 billion, consisting of senior secured term loan facilities in an aggregate principal amount of up to $7.25 billion with a maturity of seven years, and a senior secured revolving credit facility in an aggregate principal amount of $2.0 billion with a maturity of six years, including both a letter of credit sub-facility and a swingline loan sub-facility. None of the $2.0 billion credit facility was drawn at the closing of the Merger; however, approximately $188.1 million in letters of credit were outstanding under this facility at closing.

In addition, HOC may request one or more incremental term loan facilities and/or increase commitments under our revolving facility in an aggregate amount of up to $1.75 billion, subject to certain conditions and receipt of commitments by existing or additional financial institutions or institutional lenders.

All borrowings under the senior secured revolving credit facility are subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties, and the requirement that such borrowing does not reduce the amount of obligations otherwise permitted to be secured under our new senior secured credit facilities without ratably securing the retained notes.

Proceeds from the term loan drawn on the closing date were used to repay extinguished debt in the table above, pay expenses related to the Merger and contribute equity to the Company. Proceeds of the revolving loan draws, swingline and letters of credit will be used for working capital and general corporate purposes.

Interest Rates and Fees. Borrowings under the senior secured facilities will bear interest at a rate equal to the then-current LIBOR rate or at a rate equal to the alternate base, in each case, plus an applicable margin.

In addition, on a quarterly basis, HOC is required to pay each lender a commitment fee in respect of any unused commitments under the revolving credit facility and a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the revolving credit facility.

Amortization. HOC s new senior secured credit facilities require scheduled quarterly payments on the term loans of $18.125 million each for six years and three quarters, with the balance paid at maturity.

Collateral and Guarantors. HOC s new senior secured credit facilities are guaranteed by Harrah s Entertainment, and are secured by a pledge of HOC s capital stock, and by substantially all of the existing and future property and assets of HOC and its material, wholly-owned domestic subsidiaries, including a pledge of the capital stock of HOC s material, wholly-owned domestic subsidiaries and 65% of the capital stock of the first-tier foreign subsidiaries in each case subject to exceptions.

Restrictive Covenants and Other Matters. HOC s new senior credit facilities require, after an initial grace period, compliance on a quarterly basis with a maximum net senior secured first lien debt leverage test. In addition, the new senior secured credit facilities include negative covenants, subject to certain exceptions, restricting or limiting HOC s ability and the ability of its restricted subsidiaries to, among other things: (i) incur additional debt; (ii) create liens on certain assets; (iii) enter into sale and lease-back transactions (iv) make certain investments, loans and advances; (v) consolidate, merge, sell or otherwise dispose of all or any part of its assets or to puchase, lease or otherwise acquire all or any substantial part of assets of any other person; (vi) pay dividends or make distributions or make other restricted payments; (vii) enter into certain transactions with its affiliates; (viii) engage in any business other than the business activity conducted at the closing date of the loan or business activities incidental or related thereto; (ix) amend or modify the articles or certificate of incorporation, by-laws and certain agreements or make certain payments or modifications of indebtedness; and (x) designate or permit the designation of any indebtedness as Designated Senior Debt .

Harrah s Entertainment will not be bound by any financial or negative covenants contained in HOC s credit agreement, other than with respect to the incurrence of liens on and the pledge of its stock of HOC.

HOC s new senior secured credit facilities also contain certain customary affirmative covenants and events of default.

10.75% Senior Notes, 10.75%/11.5% Senior PIK Toggle Notes and Senior Interim Loans

On January 28, 2008, HOC entered into a Senior Interim Loan Agreement for $6.775 billion, consisting of $5.275 billion Senior Interim Cash Pay Loans and $1.5 billion Interim Toggle Loans. On February 1, 2008, $4,932.4 billion of the Senior Interim Cash Pay Loans and $1,402.6 billion of the Interim Toggle Loans were repaid, and $4,932.4 billion of 10.75% Senior Notes due 2016 and $1,402.6 billion of 10.75%/11.5% Senior Toggle Notes due 2018 were issued.

The indenture governing the 10.75% Senior Notes, 10.75%/11.5% Senior Toggle Notes and the agreements governing the other cash pay debt and PIK toggle debt will limit HOC s (and most of its subsidiaries) ability to among other things: (i) incur additional debt or issue certain preferred shares; (ii) pay dividends or make distributions in respect of our capital stock or make other restricted payments; (iii) make certain investments; (iv) sell certain assets; (v) with respect to HOC only, engage in any business or own any material asset other than all of the equity interest of HOC so long as certain investors hold a majority of the notes; (vi) create or permit to exist dividend and/or payment restrictions affecting its restricted subsidiaries; (vii) create liens on certain assets to secure debt; (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; (ix) enter into certain transactions with its affiliates; and (x) designate its subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes and the agreements governing the other cash pay debt and PIK toggle debt will permit us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

Commercial Mortgaged-Backed Securities (CMBS) Financing

In connection with the Merger, eight of our properties and their related operating assets were spun off from HOC to Harrah s Entertainment through a series of distributions, liquidations, transfers and contributions (the CMBS Spin-Off). The eight properties, as of the closing, are Harrah s Las Vegas, Rio, Flamingo Las Vegas, Harrah s Atlantic City, Showboat Atlantic City, Harrah s Lake Tahoe, Harveys Lake Tahoe and Bill s Lake Tahoe. Subsequent to the closing of the Merger and subject to regulatory approvals, Paris Las Vegas and Harrah s Laughlin and their related operating assets will be spun off from HOC and its subsidiaries to Harrah s Entertainment, and Harrah s Lake Tahoe, Harveys Lake Tahoe, Bill s Lake Tahoe and Showboat Atlantic City and their related operating assets will be transferred to subsidiaries of HOC from Harrah s Entertainment (the Post-Close CMBS exchange). The properties to be spun off from HOC and owned by Harrah s Entertainment, whether at closing or after the subsequent transfer, will collectively be referred to as the CMBS properties. At closing, the CMBS properties borrowed $6.5 billion of mortgage loans and/or related mezzanine financing and/or real estate term loans (the CMBS Financing). The CMBS Financing is secured by the assets of the CMBS properties and certain aspects of the financing is guaranteed by Harrah s Entertainment.

Derivative Instruments

We account for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and all amendments thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value. Any changes in fair value are recorded in the income statement or in other comprehensive income, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair values of our derivative instruments are based on market prices obtained from dealer quotes. Such quotes represent the estimated amounts we would receive or pay to terminate the contracts.

Our derivative instruments contain a credit risk that the counterparties may be unable to meet the terms of the agreements. We minimize that risk by evaluating the creditworthiness of our counterparties, which are limited to major banks and financial institutions, and we do not anticipate nonperformance by the counterparties.

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of December 31, 2007, we had seven variable-to-fixed interest rate swap agreements for a total notional amount of $1.5 billion. The difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received pursuant to the terms of the interest rate swap agreement will have a corresponding effect on future cash flows. The major terms of the interest rate swaps are as follows:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of Dec. 31, 2007	Next Reset Date	Maturity Date
April 25, 2007	$ 200	4.898%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.896%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.925%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.917%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.907%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.809%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.775%	5.08375%	April 25, 2008	April 25, 2011

Our interest rate swap agreements are not designated as hedging instruments; therefore, gains or losses resulting from changes in the fair value of the swaps are recognized in earnings in the period of the change. Interest rate swaps increased our 2007 and 2006 interest expense by $44.0 million and $7.2 million, respectively. The income statement impact for 2006 includes a charge to terminate $300 million of interest rate swaps.

In addition to the swaps in place at December 31, 2007, in January 2008, at or about the date of the Merger, we entered into the following forward interest rate swap agreements:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received	Next Reset Date	Maturity Date
April 25, 2008	$ 1,000	4.172%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.276%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.263%	3 month LIBOR	April 25, 2008	April 25, 2013

Additionally, on January 28, 2008, we entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of $6.5 billion at a LIBOR cap rate of 4.5%.

Guarantees of Third-Party Debt and Other Obligations and Commitments

The following tables summarize our contractual obligations and other commitments as of December 31, 2007.

		Payments Due by Period			
Contractual Obligations[a]	**Total**	**Less than 1 year**	**1-3 years (In millions)**	**4-5 years**	**After 5 years**
Debt[b]	$ 12,360.4	$ 664.3	$ 3,271.1	$ 5,047.2	$ 3,377.8
Capital lease obligations	2.7	1.0	1.6	0.1	
Estimated interest payments[c]	2,444.2	434.3	681.3	463.1	865.5
Operating lease obligations	2,447.3	95.4	146.6	131.8	2,073.5
Purchase orders obligations	82.9	82.9			
Guaranteed payments to State of Louisiana	134.8	60.0	74.8		
Community reinvestment	130.5	6.3	12.7	12.3	99.2
Construction commitments	1,289.6	1,289.6			
Entertainment obligations	132.8	59.2	66.9	3.9	2.8
Other contractual obligations	100.2	55.2	9.2	5.7	30.1
	$ 19,125.4	$ 2,748.2	$ 4,264.2	$ 5,664.1	$ 6,448.9

(a) In addition to the contractual obligations disclosed in this table, we have unrecognized tax benefits that, based on uncertainties associated with the items, we are unable to make reasonably reliable estimates of the period of potential cash settlements, if any, with taxing authorities. (See Note 11 to our Consolidated Financial Statements.)

(b) As of January 28, 2008, our debt obligations totaled $25,230.1 million with $72.9 million due in less than 1 year, $1,339.3 million due in 1-3 years, $644.8 million due in 4-5 years and $23,173.1 million due after 5 years.

(c) Estimated interest for variable rate debt included in this table is based on rates at December 31, 2007. As of January 28, 2008, our interest obligations totaled $13,999.0 million with $1,629.2 million due in less than 1 year, $3,506.8 million due in 1-3 years, $3,308.8 million due in 4-5 years and $5,554.2 million due after 5 years.

	Amount of Commitment Expiration Per Period				
Other Commitments	**Total amounts committed**	**Less than 1 year**	**1-3 years (In millions)**	**4-5 years**	**After 5 years**
Guarantees of loans	$ 170.6	$ 170.6	$	$	$
Letters of credit	193.2	192.9	0.3		
Minimum payments to tribes	55.3	13.8	27.0	13.4	1.1

The agreements pursuant to which we manage casinos on Indian lands contain provisions required by law that provide that a minimum monthly payment be made to the tribe. That obligation has priority over scheduled repayments of borrowings for development costs and over the management fee earned and paid to the manager. In the event that insufficient cash flow is generated by the operations to fund this payment, we must pay the shortfall to the tribe. Subject to certain limitations as to time, such advances, if any, would be repaid to us in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. Our aggregate monthly commitment for the minimum guaranteed payments pursuant to the contracts for the three managed Indian-owned facilities now open, which extend for periods of up to 71 months from December 31, 2007, is $1.2 million. Each of these casinos currently generates sufficient cash flows to cover all of its obligations, including its debt service.

As of December 31, 2007, we had guaranteed debt incurred by the Rincon San Luiseno Band of Mission Native Americans in California, to fund development of the casino on the tribe s land. The outstanding balance of that debt as of December 31, 2007, was $164.4 million. In January 2008, the Rincon tribe secured new financing to replace that debt, and we do not guarantee the new debt.

CAPITAL SPENDING AND DEVELOPMENT

Part of our plan for growth and stability includes disciplined capital improvement projects, and 2007, 2006 and 2005 were all years of significant capital reinvestment.

In addition to the specific development and expansion projects discussed in REGIONAL RESULTS AND DEVELOPMENT PLANS, we perform on-going refurbishment and maintenance at our casino entertainment facilities to maintain our quality standards. We also continue to pursue development and acquisition opportunities for additional casino entertainment facilities that meet our strategic and return on investment criteria. Prior to the receipt of necessary regulatory approvals, the costs of pursuing development projects are expensed as incurred. Construction-related costs incurred after the receipt of necessary approvals are capitalized and depreciated over the estimated useful life of the resulting asset. Project opening costs are expensed as incurred.

Our capital spending for 2007 totaled approximately $1.5 billion, excluding our acquisitions of a golf course in Macau and Bill s Gamblin Hall and Saloon. Capital spending in 2006 was approximately $2.5 billion, excluding the cost of our acquisition of London Clubs. 2005 capital spending was approximately $1.2 billion, excluding the cost of our acquisitions of Caesars and Imperial Palace Hotel & Casino (Imperial Palace). Estimated total capital expenditures for 2008 are expected to be between $2.0 billion and $2.2 billion.

Our planned development projects, if they go forward, will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. The commitment of capital, the timing of completion and the commencement of operations of casino entertainment development projects are contingent upon, among other things, negotiation of final agreements and receipt of approvals from the appropriate political and regulatory bodies. We must also comply with the covenants and restrictions set forth in our debt agreements. Cash needed to finance projects currently under development as well as additional projects being pursued is expected to be made available from operating cash flows, established debt programs (see DEBT AND LIQUIDITY), joint venture partners, specific project financing, guarantees of third-party debt and additional debt offerings.

OVERALL OPERATING RESULTS

Certain of our properties were sold during each of the periods presented, and prior to their sales, their operating results were included in discontinued operations, if appropriate. Note 4 to our Consolidated Financial Statements provides information regarding dispositions. The discussion that follows is related to our continuing operations.

(In millions, except earnings per share)	**2007**	**2006**	**2005**	**Percentage Increase/(Decrease) 07 vs 06**	**06 vs 05**
Casino revenues	$ 8,831.0	$ 7,868.6	$ 5,966.5	12.2%	31.9%
Total revenues	10,825.2	9,673.9	7,010.0	11.9%	38.0%
Income from operations	1,652.0	1,556.6	1,029.0	6.1%	51.3%
Income from continuing operations	527.2	523.9	316.3	0.6%	65.6%
Net income	619.4	535.8	236.4	15.6%	N/M
Earnings per share diluted					
From continuing operations	2.77	2.79	2.10	(0.7)%	32.9%
Net income	3.25	2.85	1.57	14.0%	81.5%
Operating margin	15.3%	16.1%	14.7%	(0.8)pt	1.4pts

N/M = Not Meaningful

The increase in 2007 revenues was driven by strong results from our properties in Las Vegas, the opening of slot play at Harrah s Chester in January 2007, contributions from properties included in our acquisition of London Clubs International Limited (London Clubs) in late 2006 and a full year s results from Harrah s New Orleans and Grand Casino Biloxi, which were closed for a portion of 2006 due to hurricane damage in 2005. Income from

operations was impacted by insurance proceeds, impairment charges related to certain intangible assets and the effect on the Atlantic City market of slot operations at facilities in Pennsylvania and New York and the implementation of new smoking regulations in New Jersey, all of which are discussed in the following regional discussions.

Increases in 2006 were the result of a full year s results from properties acquired in the Caesars acquisition compared to 6 1/2 months in 2005 and from results from Imperial Palace, which was acquired in December 2005. 2006 results were also impacted by higher development costs, expensing of stock-based compensation in compliance with SFAS No. 123(R), Share-Based Payment, and charges for impairment of certain assets.

2005 included results from properties acquired in the Caesars acquisition subsequent to June 13, 2005. Caesars properties contributed $2.1 billion in revenues and $321.4 million in income from operations in the approximate six months that we owned them in 2005.

HURRICANE DAMAGED PROPERTIES

Hurricanes Katrina and Rita hit the Gulf Coast in third quarter 2005 and caused significant damage to our assets in Biloxi and Gulfport, Mississippi, and New Orleans and Lake Charles, Louisiana. The current status of the impacted operations is as follows:

- Our New Orleans property re-opened on February 17, 2006.

- We sold the Gulfport assets in their as is condition during first quarter 2006. No gain or loss was recognized as a result of this disposition. We are retaining all insurance proceeds related to the Gulfport property.

- Grand Casino Biloxi re-opened in August 2006 in a smaller facility.

- We sold the two subsidiaries that owned our Lake Charles operations to another casino company in fourth quarter 2006. We retained all insurance proceeds related to the Lake Charles operations.

Insurance proceeds have exceeded the net book value of the impacted assets and costs and expenses that are expected to be reimbursed under our business interruption claims, and the excess is recorded as income in the line item, Write-downs, reserves and recoveries, for properties included in continuing operations and in the line item, Income/(loss) from discontinued operations, for properties included in discontinued operations. As of December 31, 2007, we have received approximately $849.5 million in advances and settlements from our insurance carriers related to the hurricane damaged properties, including those properties that were subsequently sold, and we have recorded $130.3 million and $10.2 million as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Write-downs, reserves and recoveries and $141.6 million and $3.2 million, as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Discontinued operations in our Consolidated Condensed Statements of Income. In February 2008, we entered into a settlement agreement with our insurance carriers related to claims associated with damages incurred from Hurricane Katrina in Mississippi. Pursuant to the settlement agreement, the insurance carriers agreed to pay us approximately $950.2 million to settle all outstanding claims associated with damages incurred from the hurricane, including all property damage and business interruptions claims. Of the total settled amount, we had received approximately $612.0 million as of December 31, 2007. We received the remaining $338.2 million during the first quarter of 2008.

REGIONAL RESULTS AND DEVELOPMENT PLANS

The executive decision makers of our Company review operating results, assess performance and make decisions related to the allocation of resources on a property-by-property basis. We, therefore, consider each property to be an operating segment and that it is appropriate to aggregate and present the operations of our Company as one reportable segment. In order to provide more detail in a more understandable manner than would be possible on a consolidated basis, our properties have been grouped as follows to facilitate discussion of our operating results:

Las Vegas	**Atlantic City**	**Louisiana/Mississippi**	**Iowa/Missouri**
Caesars Palace	Harrah s Atlantic City	Harrah s New Orleans	Harrah s St. Louis
Bally s Las Vegas	Showboat Atlantic City	Harrah s Louisiana Downs	Harrah s North Kansas City

Flamingo Las Vegas	Bally s Atlantic City	Horseshoe Bossier City	Harrah s Council Bluffs
Harrah s Las Vegas	Caesars Atlantic City	Grand Biloxi	Horseshoe Council Bluffs/
Paris Las Vegas			
	Harrah s Chester[1]	Grand Tunica	Bluffs Run
Rio		Horseshoe Tunica	
Imperial Palace		Sheraton Tunica	
Bill s Gamblin Hall & Saloon			

Illinois/Indiana
Caesars Indiana
Harrah s Joliet[1]
Harrah s Metropolis
Horseshoe Hammond

Other Nevada
Harrah s Reno
Harrah s Lake Tahoe
Harveys Lake Tahoe
Bill s Lake Tahoe
Harrah s Laughlin

Managed/International/Other
Harrah s Ak-Chin[2]
Harrah s Cherokee[2]
Harrah s Prairie Band (through 6/30/07)[2]
Harrah s Rincon[2]
Conrad Punta del Este[1]
CasinoWindsor[3]
London Clubs International[4]

(1) Not wholly owned by Harrah s Entertainment.

(2) Managed, not owned.

(3) We have a 50 percent interest in Windsor Casino Limited, which manages this property. The province of Ontario owns the complex.

(4) Operates 10 casino clubs in the United Kingdom (including 1 that opened in first quarter 2008), 2 in Egypt and 1 in South Africa.

Included in income from operations for each grouping are project opening costs and write-downs, reserves and recoveries. Project opening costs include costs incurred in connection with the integration of acquired properties into Harrah s Entertainment s systems and technology and costs incurred in connection with expansion and renovation projects at various properties.

Write-downs, reserves and recoveries include various pretax charges to record asset impairments, contingent liability reserves, project write-offs, demolition costs and recoveries of previously recorded reserves and other non-routine transactions. The components of Write-downs, reserves and recoveries were as follows:

(In millions)	**2007**	**2006**	**2005**
Impairment of goodwill and other intangible assets	$ 169.6	$ 20.7	$ 138.6
Litigation awards and settlements	8.5	32.5	2.6
Corporate efficiencies project	21.5	5.2	
Write-off of abandoned assets	21.0	0.2	0.8
Demolition costs	7.3	11.4	6.0
Other	12.1	(0.1)	12.2
Insurance proceeds in excess of deferred costs	(130.3)	(10.2)	
Impairment of investment securities		23.6	
Hurricane expense			24.5
Contribution to The Harrah s Foundation			10.0
	$ 109.7	$ 83.3	$ 194.7

Discussion of the charges for impairment of goodwill and other intangible assets are included in the discussion of our Illinois/Indiana, Louisiana/Mississippi and Managed/International/Other results.

Impairment to investment securities resulted from an assessment of certain bonds classified as held-to-maturity and the determination that they were highly uncollectible.

See HURRICANE DAMAGED PROPERTIES (above) for a discussion of insurance proceeds in excess of deferred costs.

Hurricane expense in 2005 includes insurance deductibles on policies for Harrah s New Orleans, as well as expenses not reimbursable under our insurance plans.

32

The Harrah s Foundation is a 501(c)(3) non-profit corporation that provides charitable contributions to qualifying organizations in the communities where employees of Harrah s Entertainment and its subsidiaries work. The Harrah s Foundation was formed in order to centralize certain of the various charitable contributions made by the Company and its subsidiaries. The Harrah s Foundation is governed by a Board of Trustees that is comprised of officers of the Company and its subsidiaries. Larger discretionary donations to The Harrah s Foundation, which are approved by our Board of Directors, are based on the financial performance of Harrah s Entertainment.

Las Vegas Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 1,986.6	$ 1,726.5	$ 1,054.8	15.1%	63.7%
Total revenues	3,626.7	3,267.2	1,950.0	11.0%	67.5%
Income from operations	886.4	828.2	441.1	7.0%	87.8%
Operating margin	24.4%	25.3%	22.6%	(0.9)pt	2.7pts

N/M= Not meaningful

Increases in revenues and income from operations in 2007 were generated by increased visitor volume, cross-market play (defined as gaming by customers at Harrah s Entertainment properties other than their home casinos) and the acquisition of Bill s Gamblin Hall & Saloon.

On February 27, 2007, we exchanged certain real estate that we owned on the Las Vegas Strip for property formerly known as the Barbary Coast, located at the northeast corner of Flamingo Road and Las Vegas Boulevard, between Bally s Las Vegas and Flamingo Las Vegas. We began operating the acquired property on March 1, 2007, as Bill s Gamblin Hall & Saloon, and its results are included in our operating results from the date of its acquisition.

In July 2007, we announced plans for an expansion and renovation of Caesars Palace Las Vegas, which is expected to cost approximately $1.3 billion and will include a 650-room hotel tower, including 75 luxury suites, additional meeting space, a remodeled and expanded pool area and other renovations and improvements. As of December 31, 2007, $81.4 million had been spent on this project. This expansion is slated for completion in 2009. In August 2007, Harrah s Entertainment and AEG, a leading sports and entertainment developer and operator, announced plans to enter into a 50/50 joint venture to develop a 20,000-seat arena, which is expected to commence operations in 2010. This development is subject to completion of definitive documents and other customary conditions.

The increases in 2006 revenues and income from operations were driven by the results from the Caesars properties for the full year in 2006 vs. approximately 6 1/2 months in 2005 and results from Imperial Palace, which was acquired in December 2005. Increased visitation and cross-market and cross-property play also contributed to the strong performance. The Caesars properties contributed $2.1 billion in revenues and $525.5 million in income from operations in 2006 vs. $975.5 million in revenues and $192.7 million in income from operations for the 6 1/2 months of 2005.

Construction was completed in August 2005 on a 949-room, 26-story hotel tower and convention center at Caesars Palace. This project also included a fourth swimming pool, the upgrade and expansion of existing hotel registration areas, a VIP lounge, wedding chapels, new retail space and new dining and restaurant facilities.

Atlantic City Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 2,429.9	$ 2,147.2	$ 1,540.4	13.2%	39.4%
Total revenues	2,372.0	2,071.4	1,485.7	14.5%	39.4%
Income from operations	351.4	420.5	353.6	(16.4)%	18.9%
Operating margin	14.8%	20.3%	23.8%	(5.5)pts	(3.5)pts

Atlantic City regional revenues were higher in 2007 due to the inclusion of Harrah s Chester, which opened for simulcasting and live harness racing on September 10, 2006, and for slot play on January 22, 2007. The Atlantic City market was affected by the opening of slot operations at three racing facilities in eastern Pennsylvania and one in Yonkers, New York, and the implementation of new smoking regulations in New Jersey, resulting in lower revenues for the market. Additionally, promotional and marketing costs aimed at attracting and retaining customers and a shift of revenues from Atlantic City to Pennsylvania, where tax rates are higher, resulted in higher operating expenses as compared to 2006.

Increases in revenues and income from operations in 2006 were due to the contributions from the Caesars properties for the full year vs. approximately 6 1/2 months of 2005. The two properties acquired from Caesars contributed $1.2 billion in total revenues and $235.7 million in income from operations in 2006 vs. $651.2 million in total revenues and $140.1 million in income from operations for the 6 1/2 months of 2005.

2006 revenues and income from operations were negatively impacted by a three-day government-imposed casino shutdown during the year and increased competitive activity. Casinos in Atlantic City were closed from July 5 until July 8, 2006, as non-essential state agencies, including the New Jersey Casino Control Commission, were shut down by the state due to lack of a budget agreement for the state. In New Jersey, Casino Control Commission Inspectors must be on site in order for casinos to operate.

Construction continues on an upgrade and expansion of Harrah s Atlantic City, which will include a new hotel tower with approximately 960 rooms, a casino expansion and a retail and entertainment complex. A new 620-seat buffet and substantially all of a retail promenade opened on February 16, 2007. We expect the new hotel tower to open in mid-2008. This project is expected to cost approximately $550 million, $376.2 million of which had been spent as of December 31, 2007.

Louisiana/Mississippi Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 1,462.5	$ 1,351.4	$ 1,069.1	8.2%	26.4%
Total revenues	1,538.7	1,384.3	1,067.3	11.2%	29.7%
Income from operations	352.1	233.4	21.1	50.9%	N/M
Operating margin	22.9%	16.9%	2.0%	6.0pts	14.9pts

N/M = Not meaningful

Grand Casino Gulfport was sold in March 2006, and Harrah s Lake Charles was sold in November 2006. Results of Grand Casino Gulfport and Harrah s Lake Charles, through their sales dates, are classified as discontinued operations and are, therefore, not included in our Louisiana/Mississippi grouping.

Combined 2007 revenues from our operations in Louisiana and Mississippi were higher than in 2006 due to contributions from Harrah s New Orleans and Grand Casino Biloxi, which were closed for a portion of 2006 due to damages caused by Hurricane Katrina. Income from operations for the years ended December 31, 2007 and 2006, includes insurance proceeds of $130.3 million and $10.2 million, respectively, that are in excess of the net book value of the impacted assets and costs and expenses that are expected to be reimbursed under our business interruption claims. Income from operations was negatively impacted by increased promotional spending in the Tunica market and higher depreciation expense related to the 26-story, 450-room hotel at Harrah s New Orleans that opened in September 2006.

In October 2007, Grand Casino Resort in Tunica, Mississippi, announced a strategic alliance with Food Network star Paula Deen and a renovation of its facility. Paula Deen s Buffet is expected to open in May 2008. In conjunction with the renovation of Grand Casino Resort, which is expected to cost approximately $45 million and to be completed in May 2008, the casino will be rebranded to be Harrah s Casino Tunica.

For 2006, combined revenues and income from operations from our properties in Louisiana and Mississippi were higher than in 2005 due to contributions of the Caesars properties that were acquired in June 2005 and strong performances by other properties in the grouping. Harrah s New Orleans re-opened February 17, 2006, after being closed for almost six months as a result of Hurricane Katrina. The Caesars properties contributed $399.6 million in total revenues and $68.1 million in income from operations in 2006.

After being closed for a year due to Hurricane Katrina, Grand Casino Biloxi opened in August 2006 with approximately 650 slot machines and 20 table games, a 500-room hotel, restaurants and other amenities. In November 2006, we acquired the remaining assets of Casino Magic Biloxi, which is adjacent to the site of Grand Casino Biloxi. Construction began in third quarter 2007 on Margaritaville Casino & Resort in Biloxi, a resort project to be developed by Harrah s Entertainment. We license the Margaritaville name from an entity affiliated with the singer/songwriter Jimmy Buffett. The project, which is expected to cost more than $700 million, is expected to include approximately 75,000 square feet of casino space, 250,000 square feet of retail space, a Margaritaville restaurant, 420 new hotel rooms and other amenities. Completion of the project is projected for the spring of 2010. As of December 31, 2007, $49.1 million had been spent on this project.

In 2005, Caesars Mississippi properties contributed $221.7 million in revenues and losses from operations of $48.0 million. A charge of $88.7 million was recorded to our Consolidated Statement of Income in fourth quarter 2005 as a result of impairment of intangible assets at Grand Casino Biloxi, which was damaged by Hurricane Katrina.

We perform annual assessments for impairment of goodwill and other intangible assets that are not subject to amortization as of September 30 each year. Based on the historical performance and projected performance of Harrah s Louisiana Downs, a thoroughbred racetrack that was expanded to include slot machines in 2003, our 2006 analysis indicated that intangible assets of that property had been impaired. A charge of $20.7 million was recorded to our Consolidated Statement of Income in fourth quarter 2006. Our 2007 analysis indicated that the remaining intangible assets at Harrah s Louisiana Downs were not impaired. In 2005, the entire $49.9 million of goodwill associated with this property was impaired, and a charge was recorded to our Consolidated Statement of Income in fourth quarter 2005. Harrah s Louisiana Downs tangible assets were assessed for impairment applying the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and our analysis indicated that the carrying value of the tangible assets was not impaired.

Iowa/Missouri Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 764.1	$ 770.6	$ 729.3	(0.8)%	5.7%
Total revenues	811.4	809.7	734.9	0.2%	10.2%
Income from operations	143.6	132.2	119.1	8.6%	11.0%
Operating margin	17.7%	16.3%	16.2%	1.4pts	0.1pt

The increases in combined revenues and income from operations for 2007 were driven primarily by the capital improvements completed in March 2006 at Horseshoe Council Bluffs and higher operating margins at most properties in the group, driven by efficiencies and cost savings.

Combined 2006 revenues and income from operations at our Iowa and Missouri properties increased over 2005, driven by increased visitation and capital investments in those markets, including improved performance at our re-branded Horseshoe Council Bluffs. In March 2006, following an $87 million renovation and expansion, the former Bluffs Run Casino became Horseshoe Council Bluffs. Horseshoe Council Bluffs is the first property to be converted to a Horseshoe since we acquired the brand. The Bluffs Run Greyhound Racetrack remains in operation at the property.

Illinois/Indiana Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 1,330.8	$ 1,277.3	$ 1,045.4	4.2%	22.2%
Total revenues	1,285.8	1,239.5	999.5	3.7%	24.0%
Income from operations	135.3	225.2	177.1	(39.9)%	27.2%
Operating margin	10.5%	18.2%	17.7%	(7.7)pts	0.5pt

Combined 2007 revenues from our properties in Illinois and Indiana increased over last year s revenues; however, income from operations was lower than last year due primarily to an impairment charge in 2007 related to certain intangible assets at Caesars Indiana. Our 2007 annual assessments for impairment of goodwill and other intangible assets that are not subject to amortization indicated that, based on the projected performance of Caesars Indiana, its intangible assets were impaired, and a charge of $60.4 million was taken in fourth quarter 2007. Also contributing to the decline in income from operations are increased real estate taxes in Indiana and a 3% tax assessed by Illinois against certain gaming operations in July 2006. In second quarter 2007, a State court declared that the 3% tax that was assessed on Harrah s Joliet and three unrelated riverboats was unconstitutional. A motion has been filed asking the court to declare that the riverboats can cease making payments, and we will ask for the return of the money that has been paid for this tax; however, given that the State has appealed the decision to the Illinois Supreme Court and the situation is still uncertain, we are continuing to accrue and pay this tax. As of December 31, 2007, Harrah s Joliet has paid approximately $17.7 million for this tax since it was first assessed in July 2006. Higher non-operating expenses in 2007 also impacted income from operations.

Combined 2006 revenues and income from operations increased over last year s revenues and income from operations due to results from Caesars Indiana for the full year vs. 6 1/2 months in 2005 and strong performance at Harrah s Joliet. Caesars Indiana contributed $347.1 million in total revenues and $57.7 million in income from operations in 2006. Also contributing to the improved results was the new 258-room hotel and event center at Harrah s Metropolis that opened in late June of 2006.

Caesars Indiana contributed $174.1 million in revenues and $28.6 million in income from operations to 2005 Illinois/Indiana results.

Construction began in third quarter 2006 on the renovation and expansion of Horseshoe Hammond, which will include a two-level entertainment vessel including a 108,000 square-foot casino. The project is expected to cost approximately $485 million, $225.2 million of which had been spent as of December 31, 2007. The project is scheduled for completion in mid-2008.

Other Nevada Results

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Casino revenues	$ 508.0	$ 511.0	$ 489.4	(0.6)%	4.4%
Total revenues	632.4	640.8	615.7	(1.3)%	4.1%
Income from operations	93.0	107.7	103.3	(13.6)%	4.3%
Operating margin	14.7%	16.8%	16.8%	(2.1)pts	pts

2007 revenues and income from operations from our Nevada properties outside of Las Vegas were lower than 2006 due to higher customer complimentary costs and lower unrated play and retail customer visitation. We define retail customers as Total Rewards customers who typically spend up to $50 per visit. Also contributing to the year-over-year declines were poor ski conditions in the Lake Tahoe market in the first quarter of 2007, a poor end to the spring ski season and fires in the Lake Tahoe area in late June.

Combined 2006 revenues and income from operations from our Nevada properties outside of Las Vegas were higher than in 2005 driven by strong visitation to the markets and favorable weather conditions in northern Nevada during first quarter of 2006.

Managed, International and Other

				Percentage Increase/(Decrease)	
(In millions)	**2007**	**2006**	**2005**	**07 vs 06**	**06 vs 05**
Revenues					
Managed	$ 81.5	$ 89.1	$ 75.6	(8.5)%	17.9%
International	396.4	99.8	44.8	N/M	N/M
Other	80.3	72.1	36.5	11.4%	97.5%
Total Revenues	$ 558.2	$ 261.0	$ 156.9	N/M	66.3%
Loss from operations					
Managed	$ 64.7	$ 72.1	$ 60.9	(10.3)%	18.4%

International	(128.6)	12.8	1.5	N/M	N/M
Other	(94.4)	(261.0)	(96.0)	63.8%	N/M
Total Loss from operations	$ (158.3)	$ (176.1)	$ (33.6)	10.1	N/M

N/M = Not meaningful

Managed

We manage three tribal casinos and have consulting arrangements with casino companies in Australia. The table below gives the location and expiration date of the current management contracts for our Indian properties as of December 31, 2007.

Casino	Location	Expiration of Management Agreement
Harrah s Ak-Chin	near Phoenix, Arizona	December 2009
Harrah s Rincon	near San Diego, California	November 2011
Harrah s Cherokee	Cherokee, North Carolina	November 2011

Revenues from our managed casinos were lower in 2007 due to the termination of our contract with the Prairie Band Potawatomi Nation on June 30, 2007.

2006 management revenues were higher than in 2005 primarily due to a full year of management consultant fees from an Australian gaming company pursuant to an agreement assumed in the Caesars acquisition and to improved performance at two casinos on Indian lands.

A $60 million expansion of Harrah s Cherokee Smoky Mountains Casino in Cherokee, North Carolina, that included a 15-story hotel tower with approximately 320 rooms opened in July 2005. The Eastern Band of Cherokees have announced a $650 million plan to add another hotel tower, retail stores and more gaming space at its casino. The five-year project also calls for a new spa, a 3,000-seat showroom and new restaurants near the casino.

International

Revenues from our international properties increased in 2007 due to the inclusion of London Clubs, which was acquired fourth quarter 2006. Fourth quarter 2007 income from operations was impacted by project opening costs for two new casino clubs in the United Kingdom and a charge of $109.2 million in fourth quarter 2007 for the impairment of certain intangible assets. In performing our annual assessments for impairment of goodwill and other intangible assets that are not subject to amortization as of September 30, 2007, we determined that, based on projected performance, intangible assets of London Clubs were impaired. Our 2007 analysis indicated that the remaining intangible assets of London Clubs were not impaired.

The increase in 2006 international results was primarily due to the inclusion of results from Punta del Este for a full year vs. approximately 6 $^1/2$ months in 2005.

In September 2007, we acquired Macau Orient Golf, located on 175 acres on Cotai adjacent to the Lotus Bridge, one of the two border crossings into Macau from China, and rights to a land concession contract for a total consideration of approximately $577.7 million. The government of Macau owns most of the land in Macau, and private interests are obtained through long-term leases and other grants of rights to use land from the government. The term of the land concession is 25 years from its inception in 2001, with rights to renew for additional periods until 2049. Annual rental payments are approximately $90,000 and are adjustable at five-year intervals. Macau Orient Golf is one of only two golf courses in Macau and is the only course that is semi-private. The acquisition was funded through our existing credit facilities.

In December 2006, we completed our acquisition of all of the ordinary shares of London Clubs, which owns or manages ten casinos in the United Kingdom (including one that opened in first quarter 2008), two in Egypt and one in South Africa. London Clubs also has one casino under development in the United Kingdom. London Clubs results that were included in our consolidated financial statements were not material to our 2006 financial results.

In November 2005, we signed an agreement to develop a joint venture casino and hotel in the master-planned community of Ciudad Real, 118 miles south of Madrid, Spain. The joint venture between a subsidiary of the Company and El Reino de Don Quijote de La Mancha, S.A. is owned 60% and 40%, respectively. We expect to develop and operate a Caesars branded casino and hotel within the project. Completion of this project is subject to a number of conditions, including governmental approvals and changes in certain laws.

In January 2007, we signed a joint venture agreement with a subsidiary of Baha Mar Resort Holdings Ltd. to create the Caribbean s largest single-phase destination in the Bahamas. The joint venture partners have also signed management agreements with subsidiaries of Starwood Hotels & Resorts Worldwide, Inc. The joint venture is 57% owned by a subsidiary of Baha Mar Resort Holdings Ltd. and 43% by a subsidiary of the Company and will become effective upon confirmation by the Bahamian Government of certain required approvals and concessions. We expect to develop and operate a Caesars branded casino and hotel within the project. Completion of this project is subject to a number of conditions.

Other

Other results include certain marketing and administrative expenses, including development costs, results from domestic World Series of Poker marketing, and income from nonconsolidated subsidiaries. The favorable results in 2007 are due to lower development costs in 2007.

The unfavorable results in 2006 were driven by significantly higher development costs, charges for the impairment of certain assets and the accrual of anticipated litigation costs. Costs for pursuit of projects and concept development were $71.2 million in 2006 compared to $32.5 million in 2005.

Other Factors Affecting Net Income

(Income)/Expense (In millions)	2007	2006	2005	Percentage Increase/(Decrease) 07 vs 06	 06 vs 05
Corporate expense	$ 138.1	$ 177.5	$ 97.7	(22.2)%	81.7%
Merger and integration costs	13.4	37.0	55.0	(63.8)%	(32.7)%
Amortization of intangible assets	73.5	70.7	49.9	4.0%	41.7%
Interest expense, net	800.8	670.5	479.6	19.4%	39.8%
Losses on early extinguishments of debt	2.0	62.0	3.3	(96.8)%	N/M
Other income	(43.3)	(10.7)	(8.0)	N/M	33.8%
Effective tax rate	39.2%	35.4%	40.8%	3.8pts	(5.4)pts
Minority interests	$ 15.2	$ 15.3	$ 11.9	(0.7)%	28.6%
Discontinued operations, net of income taxes	(92.2)	(11.9)	79.9	N/M	N/M

N/M = Not meaningful

Corporate expense decreased in 2007 from the prior year due to allocation of stock-based compensation expense to the applicable reporting unit and implementation of cost savings and efficiencies, which were identified in a project that began in September 2006 and continued through 2007.

Corporate expense increased in 2006 from the prior year due primarily to the implementation of SFAS No. 123(R), Share-Based Payment, in first quarter 2006, incremental corporate expense arising from the Caesars transaction and the cost of transforming our corporate centers to manage the combined company. Our 2006 financial results include $52.8 million in expense due to the implementation of SFAS No. 123(R).

2007 merger and integration costs include costs in connection with the Merger. 2006 merger and integration costs include costs in connection with the review of certain strategic matters by the special committee appointed by our Board of Directors and costs for consultants and dedicated internal resources executing the plans for the integration of Caesars into Harrah s Entertainment. 2005 merger and integration costs represented costs related to the acquisition and integration of Caesars.

Higher amortization of intangible assets in 2007 was due primarily to amortization of intangible assets related to London Clubs. 2006 amortization of intangible assets was higher than in 2005 due to a full year of amortization of intangible assets acquired from Caesars vs. approximately six months of amortization in 2005.

Interest expense increased in 2007 due to increased borrowings. Included in interest expense for 2007 is $45.4 million representing the losses from the change in the fair values of our interest rate swaps. The average interest rate on our variable-rate debt, including the impact of our swap agreements, was 5.7% at December 31, 2007, compared to 5.9% at December 31, 2006. A change in interest rates will impact our financial results. For example, assuming a constant outstanding balance for our variable-rate debt (after consideration of the Merger and financing thereof) for the next twelve months, a hypothetical 1% change in corresponding interest rates would change interest expense for the next twelve months by approximately $49.3 million. At December 31, 2007, our variable-rate debt, excluding $1.5 billion of variable-rate debt for which we have entered into interest rate swap agreements, represented approximately 39.6% of our total debt, while our fixed-rate debt was approximately 60.4% of our total debt. Immediately after the Merger and related financing, our variable rate debt, adjusted for the debt for which we have swap and interest cap agreements, was 31.6% of our total debt, while our fixed rate is 68.4% of our total debt.

Included in 2006 interest expense is $3.6 million to adjust the liability to market value of interest rate swaps that were terminated during the first quarter of 2006. (For discussion of our interest rate swap agreements, see DEBT AND LIQUIDITY, Derivative Instruments.)

Losses on early extinguishments of debt represent premiums paid and the write-offs of unamortized deferred financing costs. The charges in 2007 were incurred in connection with the retirement of a $120.1 million credit facility of London Clubs. 2006 losses on early extinguishments of debt represented premiums paid and the write-off of unamortized deferred financing costs associated with the June 2006 retirement of portions of our 7.5% Senior Notes due in January 2009 and our 8.0% Senior Notes due in February 2011 and with the February 2005 retirement of a portion of our 7.875% Senior Subordinated Notes due in December 2005.

Other income in 2007 and 2006 included gains on the sales of corporate assets. Also included in other income for all years presented is interest income on the cash surrender value of life insurance policies. 2005 other income also included the receipt of a death benefit and collection of a previously reserved investment.

The effective tax rates for all periods are higher than the federal statutory rate due primarily to state income taxes. Our 2007 effective tax rate was increased by the recording of a valuation allowance against certain foreign net operating losses. The effective tax rate was lower in 2006 than in 2005 due to provision-to-return adjustments and adjustments to income tax reserves resulting from settlement of outstanding issues in 2006. Our effective tax rate for 2005 was affected by non-deductible goodwill impairment charges, the change in the mix of taxable income among various states and the addition of foreign income subsequent to our acquisition of Caesars.

Minority interests reflect minority owners shares of income from our majority-owned subsidiaries.

2007 Discontinued operations reflect insurance proceeds of $89.6 million, after taxes, that are in excess of the net book value of the impacted assets and costs and expenses that are expected to be reimbursed under our business interruption claims for Harrah s Lake Charles and Grand Casino Gulfport, both of which were sold in 2006. Pursuant to the terms of the sales agreements, we will retain all insurance proceeds related to Harrah s Lake Charles and Grand Casino Gulfport. Discontinued operations for 2006 also included Reno Hilton, Flamingo Laughlin, Harrah s Lake Charles and Grand Casino Gulfport, all of which were sold in 2006. 2006 Discontinued operations reflect the results of Harrah s Lake Charles, Grand Casino Gulfport, Reno Hilton and Flamingo Laughlin through their respective sales dates and include any gain/loss on the sales. 2005 discontinued operations reflect the results of Harrah s East Chicago and Harrah s Tunica through the date of their sale in April 2005, including the gain on the sale, Harrah s Lake Charles and subsequent to their acquisition on June 13, 2005, the operating results of Reno Hilton, Flamingo Laughlin, Grand Casino Gulfport and a hotel in Halifax, Nova Scotia through its sale in November 2005. 2005 results for Grand Casino Gulfport and Harrah s Lake Charles include write-offs of $115.5 million, after taxes, for the impairment of goodwill and other intangible assets. (See Notes 3 and 4 to our Consolidated Financial Statements.)

STRATEGIC ACQUISITIONS

In the three-year period ended December 31, 2007, we acquired two casino companies and two casinos in Las Vegas, Nevada. For each of these acquisitions, the purchase price is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and our own estimates. For each transaction, the allocation of the purchase price was, or will be, completed within one year from the date of the acquisition. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill. Goodwill and intangible assets that are determined to have an indefinite life are not amortized.

The table below summarizes our acquisition transactions completed in the three-year period ending December 31, 2007. Following the table is a brief review of our acquisitions. All of our acquisition transactions were accounted for as purchases. The number notation in the Geographic Location refers to the number of casino properties in that location.

Company	Date Acquired	Total Purchase Price(a)	Goodwill Assigned	Number of Casinos	Geographic Location
Bill s Gamblin Hall & Saloon	February 2007	$ 371 million	$	1	Las Vegas, Nevada
London Clubs	December 2006	$ 591 million	$ 322 million	10	United Kingdom(7)[(b)] Egypt(2) South Africa(1)[(c)]
Imperial Palace	December 2005	$ 373 million	$	1	Las Vegas, Nevada
Caesars	June 2005	$ 9.3 billion	$ 2 billion	15	Atlantic City, New Jersey(2) Las Vegas, Nevada(4) Reno, Nevada[(d)] Laughlin, Nevada[(d)] Biloxi, Mississippi Gulfport, Mississippi[(e)] Tunica, Mississippi(2) Elizabeth, Indiana Punta del Este, Uruguay[(f)] Ontario, Canada[(g)]

(a) Total purchase price includes the market value of debt assumed determined as of the acquisition date.

(b) We have a 50% ownership interest in the company that owns 50 St. James Limited in London, and we manage the facility. Other properties in the United Kingdom are 100% owned. In addition to the ten properties acquired, four properties were under development in the United Kingdom at the time of the acquisition. Three of those properties are now open.

(c) We have a 70% ownership interest in the company that owns Emerald Safari Resort, and we manage the facility.

(d) Subsequently sold.

(e) Closed due to hurricane damage in August 2005. Remaining assets sold.

(f) We have an approximate 95% ownership interest in the company that owns Conrad Punta del Este and we manage the property.

(g) We have a 50% interest in the company that manages Casino Windsor. The province of Ontario owns the complex.

Bill s Gamblin Hall & Saloon

In February 2007, we exchanged certain real estate, acquired for $371.4 million, that we owned on the Las Vegas Strip for property formerly known as the Barbary Coast, located at the northeast corner of Flamingo Road and Las Vegas Boulevard, between Bally s Las Vegas and Flamingo Las Vegas. We began operating the acquired property on March 1, 2007, as Bill s Gamblin Hall & Saloon, and its results are included in our operating results from the date of its acquisition. For purposes of these financial statements, we have assumed that the excess of the purchase price over the net book value of the assets acquired is land costs. Values assigned to assets, including land, will be revised upon finalization of the purchase price allocation, which will be within one year of the acquisition.

40

London Clubs

In December 2006, we completed our acquisition of 100% of the ordinary shares of London Clubs for approximately $590.5 million, including acquisition costs, and assumed the entity s debt of approximately $78.5 million. At the time of the acquisition, London Clubs owned or managed seven casinos in the United Kingdom, two in Egypt and one in South Africa. London Clubs currently owns or manages ten casinos in the United Kingdom and has one casino under development in the United Kingdom.

The results for London Clubs are included in our operating results subsequent to its acquisition. With the initial acquisition of 29.6% of the shares of London Clubs in November 2006, we accounted for our ownership interest on the equity basis, and for the period subsequent to the acquisition of the remaining shares in December 2006, we consolidate their results. Results of London Clubs are consolidated into our financial results one month in arrears. London Clubs results were not material to our 2006 financial results.

Imperial Palace Hotel & Casino

On December 23, 2005, we acquired the assets of the Imperial Palace Hotel & Casino (Imperial Palace) in Las Vegas, Nevada, for approximately $373.3 million, including acquisition costs. No debt was assumed in the transaction. The Imperial Palace occupies an 18.5 acre site on the Las Vegas Strip that is situated between Harrah s Las Vegas and the Flamingo and is across the Strip from Caesars Palace. The results for Imperial Palace are included in our operating results subsequent to its acquisition on December 23, 2005.

Caesars Entertainment

On June 13, 2005, we completed our acquisition of 100% of the outstanding shares of Caesars. The aggregate purchase price was approximately $9.3 billion, which consisted of $1.9 billion of cash, $3.3 billion of Harrah s Entertainment s common stock, assumption of Caesars debt with a fair value of approximately $4.0 billion (including value assigned to conversion rights of contingent convertible notes), assumption of employee stock grants valued at $98 million and acquisition costs of approximately $59 million. We issued approximately 67.9 million shares of our common stock, the fair value of which was based on a five-day average of the closing price two days before and two days after the terms of the acquisition were agreed to and announced.

The results of the Caesars properties are included with our operating results subsequent to their acquisition on June 13, 2005.

In connection with the Caesars acquisition, we engaged consultants and dedicated internal resources to plan for and execute the merger and integration of Caesars into Harrah s Entertainment. These costs are included in Merger and integration costs in our Consolidated Condensed Statements of Income.

COMPETITIVE PRESSURES

Due to the limited number of new markets opening for development in recent years, many casino operators are reinvesting in existing markets to attract new customers or gain market share, thereby increasing competition in those markets. As companies have completed expansion projects, supply has typically grown at a faster pace than demand in some markets and competition has increased significantly. Furthermore, several operators, including Harrah s Entertainment, have announced plans for additional developments or expansions in some markets.

Several states and Indian tribes are also considering enabling the development and operation of casinos or casino-like operations in their jurisdictions.

Although the short-term effect of such competitive developments on our Company generally has been negative, we are not able to determine the long-term impact, whether favorable or unfavorable, that these trends and events will have on current or future markets. We believe that the geographic diversity of our operations; our focus on multi-market customer relationships; our service training, our rewards and customer loyalty programs; and our continuing efforts to establish our brands as premier brands upon which we have built strong customer loyalty have well-positioned us to face the challenges present within our industry. We utilize the capabilities of WINet, a sophisticated nationwide customer database, and Total Rewards, a nationwide loyalty program that allows our

customers to earn cash, comps and other benefits for playing at Harrah s Entertainment casinos. We believe these sophisticated marketing tools provide us with competitive advantages, particularly with players who visit more than one casino or market.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We prepare our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the estimated lives assigned to our assets, the determination of bad debt, asset impairment, fair value of self-insurance reserves and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. The policies and estimates discussed below are considered by management to be those in which our policies, estimates and judgments have a significant impact on issues that are inherently uncertain.

Property and Equipment

We have significant capital invested in our property and equipment, which represents approximately 67% of our total assets. Judgments are made in determining the estimated useful lives of assets, salvage values to be assigned to assets and if or when an asset has been impaired. The accuracy of these estimates affects the amount of depreciation expense recognized in our financial results and whether we have a gain or loss on the disposal of the asset. We assign lives to our assets based on our standard policy, which is established by management as representative of the useful life of each category of asset. We review the carrying value of our property and equipment 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. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the operating unit level, which for most of our assets is the individual casino.

Goodwill and Other Intangible Assets

We have approximately $5.6 billion in goodwill and other intangible assets in our Consolidated Balance Sheets resulting from our acquisition of other businesses. The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values based on independent appraisals, discounted cash flows, quoted market prices and estimates made by management. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill.

An accounting standard adopted in 2002 requires a review at least annually of goodwill and other nonamortizing intangible assets for impairment. We complete our annual assessment for impairment in fourth quarter each year. Based on the projected performance of Caesars Indiana, which we acquired in June 2005, and London Clubs, which we acquired in late 2006, our 2007 analysis indicated that intangible assets of those reporting units had been impaired. A charge of $169.6 million was recorded to our Consolidated Statement of Income in fourth quarter 2007.

Based on the historical performance and projected performance of Harrah s Louisiana Downs, a thoroughbred racetrack that was expanded to include slot machines in 2003, our 2006 analysis indicated that intangible assets of that property had been impaired. A charge of $20.7 million was recorded in fourth quarter 2006. At December 31, 2006, Harrah s Louisiana Downs had $27.3 million of intangible assets that were not deemed to be impaired.

With our 2005 annual assessment, we determined that certain goodwill had been impaired, and we recorded impairment charges of $106.0 million in fourth quarter 2005. These charges relate to goodwill acquired in our 2000 acquisition of a property in Lake Charles, Louisiana, and in our 2002 acquisition of Louisiana Downs. Since our acquisition of the Lake Charles property, competition has intensified in the market and the operating performance was declining. As a result of the operating trends, compounded by the impact of hurricane damage in September 2005, calculations indicated that the entire $56.1 million of goodwill was impaired. Based on the historical performance and projected performance of Louisiana Downs, our analysis indicated that the entire $49.9

million of goodwill associated with this property was impaired. Due to hurricane damage to our businesses in Biloxi and Gulfport, Mississippi, in the fourth quarter of 2005, we also wrote off $181.9 million, before taxes, of goodwill and intangible assets that were assigned to those properties in our preliminary purchase price allocation of the Caesars acquisition. Since Grand Casino Gulfport and Harrah s Lake Charles were reported in our Discontinued operations, the write-off of goodwill and intangible assets for those properties of $115.5 million, after taxes, was included in Discontinued operations.

The annual evaluation of goodwill and other nonamortizing intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of goodwill or other intangible assets has been recorded, it cannot be reversed.

Total Rewards Point Liability Program

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 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. We use historical data to assist in the determination of estimated accruals. At December 31, 2007 and 2006, $72.8 million and $76.6 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers at certain of our properties can earn points based on play that are redeemable in cash (cash-back points). In 2007, certain of our properties introduced a modification to the cash-back program whereby points are redeemable in playable credits at slot machines where, after one play-through, the credits can be cashed out. We accrue the cost of cash-back points and the modified program, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was $16.9 million and $21.3 million, respectively.

Bad Debt Reserves

We reserve an estimated amount for receivables that may not be collected. Methodologies for estimating bad debt reserves range from specific reserves to various percentages applied to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific reserves. At December 31, 2007 and 2006, we had $126.2 million and $94.7 million, respectively, in our bad debt reserve. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating our reserves for bad debts.

Self-Insurance Accruals

We are self-insured up to certain limits for costs associated with general liability, workers compensation and employee health coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims. At December 31, 2007 and 2006, we had total self-insurance accruals reflected in our Consolidated Balance Sheets of $210.5 million and $193.8 million, respectively. In estimating these costs, we consider historical loss experience and make judgments about the expected levels of costs per claim. We also rely on consultants to assist in the determination of estimated accruals. These claims are accounted for based on actuarial estimates of the undiscounted claims, including those claims incurred but not reported. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. We continually monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

Income Taxes

We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. We account 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 statements or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets 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 effect on the income tax provision and deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. As indicated in Note 11, we have provided a valuation allowance on foreign tax credits, certain foreign and state net operating losses (NOLs), and other deferred foreign and state tax assets. U.S. tax rules require us to allocate a portion of our total interest expense to our foreign operations for purposes of determining allowable foreign tax credits. Consequently, this decrease to taxable income from foreign operations results in a diminution of the foreign taxes available as a tax credit. Although we consistently generate taxable income on a consolidated basis, certain foreign and state NOLs and other deferred foreign and state tax assets were not deemed realizable because they are attributable to subsidiaries that are not expected to produce future earnings. Other than these exceptions, we are unaware of any circumstances that would cause the remaining deferred tax assets to not be realizable.

We 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, we recognized approximately a $12 million reduction to the January 1, 2007, balance of retained earnings.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. As a large taxpayer, we are under continual audit by the Internal Revenue Service (IRS) on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. We are participating in the IRS s Compliance Assurance Program for the 2007 tax year. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Our 2004, 2005, and 2006 federal income tax returns are currently being examined by the IRS in a traditional audit process.

We also are subject to exam by various state and foreign tax authorities, although tax years prior to 2004 are generally closed as the statutes of limitations have lapsed. However, various subsidiaries are still being examined by the New Jersey Division of Taxation for tax years as far back as 1999.

We classify reserves for tax uncertainties within Accrued expenses and Deferred credits and other in our Consolidated Balance Sheets, separate from any related income tax payable or deferred income taxes. In accordance with FIN 48, reserve amounts relate to any uncertain tax position, as well as potential interest or penalties associated with those items.

RECENTLY ISSUED AND PROPOSED ACCOUNTING STANDARDS

The following are accounting standards adopted or issued in 2007 that could have an impact to our Company.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which became effective for the Company on January 1, 2007. The Interpretation prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. See Notes 1 and 11 to our Consolidated Financial Statements for discussions of our implementation of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, but it does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS No. 157 could impact fair values assigned to assets and liabilities in any future acquisition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115, which permits an entity to measure certain financial assets and financial liabilities at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the first fiscal year beginning after November 15, 2007. At this time, we do not expect to adopt the fair value option for assets and liabilities; however, future events and circumstances may impact that decision.

44

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations. SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Assets that an acquirer does not intend to use will be recorded at fair value reflecting the assets highest and best use.
- Noncontrolling interests (formerly known as minority interests see Statement 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact of this statement on our financial statements.

In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests In Consolidated Financial Statements An Amendment of Accounting Research Bulletin No. 51, the provisions of which are effective for periods beginning after December 15, 2008. This statement requires an entity to classify noncontrolling interests in subsidiaries as a separate component of equity. Additionally, transactions between an entity and noncontrolling interests are required to be treated as equity transactions. We are currently evaluating the impact of this statement on our financial statements.

HARRAH S OPERATING COMPANY DEBT COVENANT COMPLIANCE

Certain covenants contained in the credit agreement governing our new senior secured credit facilities, the indenture and other agreements governing our new senior notes, senior toggle notes and senior interim loans (i) require the maintenance of a senior secured debt to Adjusted EBITDA ratio and (ii) restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges, senior secured debt to Adjusted EBITDA and consolidated debt to Adjusted EBITDA ratios. The most restrictive of these covenants, the covenants to incur additional indebtedness and the ability to make future acquisitions, require an Adjusted EBITDA to Fixed Charges ratio (measured on a trailing four-quarter basis) of 2.0: 1.0. Failure to comply with these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions.

EBITDA is defined as income from continuing operations plus interest, income taxes, depreciation and amortization. EBITDA is not a recognized term under U.S. GAAP and does not purport to be an alternative to income from continuing operations as a measure of operating performance or to cash flows from operations as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Our presentation of EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to

company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than U.S. GAAP results alone. Because not all companies use identical calculations, these presentations of EBITDA may not be comparable to other similarly titled measures of other companies. Adjusted EBITDA is defined as EBITDA further adjusted to exclude unusual items and other adjustments required or permitted in calculating covenant compliance under the indenture and other agreements

governing the senior notes, senior toggle notes and senior interim loans and/or our new senior credit facilities. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors about certain material non-cash items and about unusual items that we do not expect to continue at the same level in the future. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

The following table reconciles EBITDA and Adjusted EBITDA of Harrah s Operating for the year ended December 31, 2007 and takes into consideration the CMBS Spin-Off, the transfer of London Clubs and its subsidiaries, with the exception of the subsidiaries related to the South Africa operations, to Harrah s Operating and the Post-Close CMBS exchange:

(in millions)	**Year Ended December 31, 2007**
Income from continuing operations	$ 163.1
Interest expense, net of interest income	776.0
Provision for income taxes	170.1
Depreciation and amortization	727.2
EBITDA	1,836.4
Project opening costs, abandoned projects and development costs[a]	26.9
Merger and integration costs[b]	9.4
Losses on early extinguishment of debt[c]	2.0
Minority interests, net of distributions[d]	(3.7)
Impairment of goodwill, intangible assets and investment securities[e]	155.9
Non-cash expense for stock compensation benefits[f]	38.2
Income from insurance claims for hurricane losses[g]	(130.3)
Other non-recurring or non-cash items[h]	55.6
Pro forma adjustment for acquired, new or disposed properties[i]	3.3
Pro forma adjustment for yet-to-be realized cost savings[j]	59.2
Adjusted EBITDA	$ 2,052.9

(a) Represents (i) project opening costs incurred in connection with the integration of acquired properties and with expansion and renovation projects at various properties, (ii) write-off of abandoned development projects and (iii) non-recurring strategic planning and restructuring costs.

(b) Represents costs in connection with the Acquisition, including review of certain strategic matters by the special committee established by Harrah s Entertainment s Board of Directors.

(c) Represents premiums paid and the write-off of historical unamortized deferred financing costs.

(d) Represents minority owners share of income from our majority-owned subsidiaries, net of cash distributions to minority owners.

(e) Represents impairment of intangible assets related to London Clubs and Caesars Indiana and impairment of investment securities.

(f) Represents non-cash compensation expense related to stock options.

(g) Represents non-recurring insurance recoveries related to Hurricanes Katrina and Rita.

(h) Represents the elimination of other non-recurring and non-cash items such as litigation awards and settlements, severance and relocation costs, excess gaming taxes, gains and losses from disposal of assets, equity in non-consolidated subsidiaries (net of distributions) and one-time costs relating to new state gaming legislation.

(i) Represents the full year/period estimated impact of acquired, new and disposed properties.

(j) Represents the annualized additional cost savings expected to be realized from our previously announced profitability improvement program.

The following tables present the condensed combined balance sheet and statement of operations of Harrah s Operating Company, Inc. as of and for the year ended December 31, 2007, taking into consideration the CMBS Spin-Off, the London Clubs Transfer and the Post-Close CMBS Transactions:

Harrah s Operating Company, Inc.

Unaudited Condensed Combined Balance Sheet

As of December 31, 2007

	Historical Harrah s Entertainment(1)	Other Harrah s Entertainment Subsidiaries and Accounts(2)	Historical Harrah s Operating(3)	CMBS Spin-Off(4)	London Clubs Transfer(5)	Harrah s Operating Restructured	Post-Closing CMBS Transaction(6)	Harrah s Operating for the Post-Closing CMBS Transaction
Assets								
Current assets								
Cash and cash equivalents	$ 710.0	$ (137.2)	$ 572.8	$ (147.4)	$ 23.0	$ 448.4	$ 14.7	$ 463.1
Receivables, net of allowance for doubtful accounts	476.4	(18.6)	457.8	(101.8)	8.7	364.7	12.7	377.4
Deferred income taxes	200.0	(7.7)	192.3	(34.6)		157.7	15.0	172.7
Prepayments and other	221.2	(51.6)	169.6	(44.5)	5.6	130.7	(1.8)	128.9
Inventories	70.3	(2.3)	68.0	(18.4)	1.3	50.9	1.4	52.3
Total current assets	1,677.9	(217.4)	1,460.5	(346.7)	38.6	1,152.4	42.0	1,194.4
Land, buildings, riverboats and equipment, net of accumulated depreciation	15,571.5	(230.7)	15,340.8	(3,823.0)	161.4	11,679.2	(274.9)	11,404.3
Assets held for sale	4.5		4.5			4.5		4.5
Intangible assets	2,039.5	(563.8)	1,475.7	(516.1)	460.6	1,420.2	(78.7)	1,341.5
Goodwill	3,553.6	(13.1)	3,540.5	(79.4)	13.1	3,474.2	30.2	3,504.4
Deferred costs and other	510.7	(0.1)	510.6			510.6		510.6
Intercompany receivables				1,365.0		1,365.0	(715.0)	650.0
	$ 23,357.7	$ (1,025.1)	$ 22,332.6	$ (3,400.2)	$ 673.7	$ 19,606.1	$ (996.4)	$ 18,609.7
Liabilities and Stockholders Equity								
Current liabilities								
Accounts payable	$ 442.0	$ (14.9)	$ 427.1	$ (73.3)	$ 13.0	$ 366.8	$ 5.3	$ 372.1
Accrued expenses	1,351.2	(166.2)	1,185.0	(193.8)	41.2	1,032.4	9.5	1,041.9
Current portion of long-term debt	10.8	(1.5)	9.3	(1.9)		7.4	1.8	9.2
Total current liabilities	1,804.0	(182.6)	1,621.4	(269.0)	54.2	1,406.6	16.6	1,423.2
Long-term debt	12,429.6	(9.1)	12,420.5	(86.0)		12,334.5	85.8	12,420.3
Intercompany notes				215.0		215.0	(215.0)	
Liabilities held for sale	0.6		0.6			0.6		0.6
Deferred credits and other	464.8	(18.0)	446.8	(3.9)	17.2	460.1	(0.2)	459.9

Deferred income taxes	1,979.6	(58.8)	1,920.8	(426.7)	51.3	1,545.4	(103.0)	1,442.4
	16,678.6	(268.5)	16,410.1	(570.6)	122.7	15,962.2	(215.8)	15,746.4
Minority interests	52.2		52.2	(4.9)		47.3		47.3
Total stockholders equity	6,626.9	(756.6)	5,870.3	(2,824.7)	551.0	3,596.6	(780.6)	2,816.0
	$ 23,357.7	$ (1,025.1)	$ 22,332.6	$ (3,400.2)	$ 673.7	$ 19,606.1	$ (996.4)	$ 18,609.7

(1) Represents the historical financial information of Harrah s Entertainment.

(2) Represents the removal of (i) the historical financial information of subsidiaries of Harrah s Entertainment that have historically not been a component of Harrah s Operating, namely, captive insurance companies and London Clubs and its subsidiaries; and (ii) account balances at Harrah s Entertainment.

(3) Represents the historical financial information of Harrah s Operating.

(4) Reflects the removal of the historical assets and liabilities of the CMBS properties, pursuant to the CMBS Spin-Off, in which certain properties and operations of Harrah s Operating were spun-off into a separate borrowing structure and held side-by-side with Harrah s Operating under Harrah s Entertainment.

(5) Reflects the inclusion of the London Clubs assets and liabilities, pursuant to the London Clubs Transfer, in which London Clubs and its subsidiaries, with the exception of the subsidiaries related to the South African operations, became subsidiaries of Harrah s Operating.

(6) Reflects the exchange of certain operating assets and liabilities between Harrah s Operating and the CMBS properties subsequent to the closing of the Merger and the CMBS Spin-Off. The exchange is subject to regulatory approval.

Unaudited Condensed Combined Statement of Operations

Harrah s Operating Company, Inc.

For the Year Ended

December 31, 2007

	Historical Harrah s Entertainment[1]	Other Harrah s Entertainment Subsidiaries and Accounts[2]	Historical Harrah s Operating[3]	CMBS Spin-Off[4]	London Clubs Transfer[5]	Harrah s Operating Restructured	Post-Closing CMBS Transaction[6]	Harrah s Operating for the Post-Closing CMBS Transaction
Revenues								
Casino	$ 8,831.0	$ (262.6)	$ 8,568.4	$ (2,006.8)	$ 222.1	$ 6,783.7	$ 258.6	$ 7,042.3
Food and beverage	1,698.8	(35.5)	1,663.3	(587.1)	30.1	1,106.3	(34.8)	1,071.5
Rooms	1,353.6	(2.8)	1,350.8	(473.2)		877.6	(88.7)	788.9
Management fees	81.5	(0.5)	81.0		0.5	81.5		81.5
Other	695.9	(10.3)	685.6	(204.3)	4.4	485.7	(34.8)	450.9
Less: casino promotional allowances	(1,835.6)	14.1	(1,821.5)	587.1	(12.9)	(1,247.3)	(93.7)	(1,341.0)
Net revenues	10,825.2	(297.6)	10,527.6	(2,684.3)	244.2	8,087.5	6.6	8,094.1
Operating expenses								
Direct								
Casino	4,595.2	(218.0)	4,377.2	(915.8)	185.6	3,647.0	101.3	3,748.3
Food and beverage	716.5	(13.5)	703.0	(263.9)	11.4	450.5	(37.2)	413.3
Rooms	266.3	(1.2)	265.1	(92.2)		172.9	(27.8)	145.1
Property general, administrative and other	2,421.7	(61.8)	2,359.9	(636.0)	60.5	1,784.4	27.6	1,812.0
Depreciation and amortization	817.2	(14.2)	803.0	(227.6)	14.2	589.6	22.8	612.4
Write-downs, reserves and recoveries	109.7	(109.2)	0.5	(28.8)	95.5	67.2	6.3	73.5
Project opening costs	25.5	(15.6)	9.9	(1.9)	15.7	23.7		23.7
Corporate expense	138.1	(0.2)	137.9	(38.8)		99.1		99.1
Merger and integration costs	13.4		13.4			13.4		13.4
(Income)/losses on interests in nonconsolidated affiliates	(3.9)	(0.5)	(4.4)	(0.1)	0.5	(4.0)		(4.0)
Amortization of intangible assets	73.5	(2.2)	71.3	(1.2)		70.1	0.7	70.8
Total operating expenses	9,173.2	(436.4)	8,736.8	(2,206.3)	383.4	6,913.9	93.7	7,007.6
Income from operations	1,652.0	138.8	1,790.8	(478.0)	(139.2)	1,173.6	(87.1)	1,086.5
Interest expense, net of interest capitalized	(800.8)	15.5	(785.3)	6.8	(3.3)	(781.8)	(6.8)	(788.6)
Losses on early extinguishment of debt	(2.0)	2.0			(2.0)	(2.0)		(2.0)
Other income, including interest income	43.3	(12.4)	30.9	42.0	11.8	84.7	(38.1)	46.6
Income/(losses) from continuing operations before income taxes and minority interests	892.5	143.9	1,036.4	(429.2)	(132.7)	474.5	(132.0)	342.5
	(350.1)	(44.6)	(394.7)	148.9	30.9	(214.9)	44.8	(170.1)

(Provision)/benefit for income taxes								
Minority interests	(15.2)	(3.7)	(18.9)	5.9	3.7	(9.3)		(9.3)
Income/(loss) from continuing operations	$ 527.2	$ 95.6	$ 622.8	$ (274.4)	$ (98.1)	$ 250.3	$ (87.2)	$ 163.1

(1) Represents the historical financial information of Harrah s Entertainment.

(2) Represents the historical financial information of (i) all subsidiaries of Harrah s Entertainment that have historically not been a component of Harrah s Operating, namely, captive insurance companies and London Clubs and its subsidiaries; and (ii) accounts at Harrah s Entertainment.

(3) Represents the historical financial information of Harrah s Operating.

(4) Reflects the removal of the historical operating results of the CMBS Borrowers, pursuant to the CMBS Spin-Off in which certain properties and operations of Harrah s Operating were spun-off into a separate borrowing structure and held side-by-side with Harrah s Operating under Harrah s Entertainment. The historical operating expenses of Harrah s Operating include unallocated costs attributable to services that have been performed by Harrah s Operating on behalf of the CMBS Borrowers. These costs are primarily related to corporate functions such as accounting, tax, treasury, payroll and benefits administration, risk management, legal, and information management and technology. The CMBS spin-off reflects the push-down of corporate expense of $38.8 million that was unallocated at December 31, 2007. Following the Merger, many of these services will continue to be provided by Harrah s Operating pursuant to a shared services agreement with the CMBS Borrowers.

(5) Reflects the inclusion of the London Clubs operating results pursuant to the London Clubs Transfer, in which London Clubs and its subsidiaries, with the exception of the subsidiaries related to the South African operations, became subsidiaries of Harrah s Operating.

(6) Reflects the exchange of certain properties and operations between Harrah s Operating and the CMBS borrowers subsequent to the closing of the Merger and the CMBS spin-off. The exchange is subject to regulatory approval.

OVERALL OPERATING RESULTS FOR HARRAH S OPERATING COMPANY

(In millions)	2007	2006
Casino revenues	$ 7,042.3	$ 6,192.3
Total revenues	8,094.1	7,134.9
Income from operations	1,086.5	996.1
Income from continuing operations	163.1	167.2
Operating margin	13.4%	14.0%

N/M = Not Meaningful

The increase in 2007 revenues was driven by strong results from our properties in Las Vegas, the opening of slot play at Harrah s Chester in January 2007, contributions from properties included in our acquisition of London in late 2006 and a full year s results from Harrah s New Orleans and Grand Casino Biloxi, which were closed for a portion of 2006 due to hurricane damage in 2005.

The favorable increase in income from operations was impacted by the strong results in Las Vegas, partially offset by the effect on the Atlantic City market of slot operations at facilities in Pennsylvania and New York and the implementation of new smoking regulations in New Jersey, as well a decrease in retail visitation in certain of our mid-Western markets. Income from operations for 2007 and 2006 include $130.3 million and $10.2 million, respectively, of insurance proceeds that were in excess of the net book value of impacted assets and costs and expenses under our business interruption claims and impairment charges of $169.3 million in 2007 related to certain intangible assets of London Clubs and Caesars Indiana.

ITEM 7A. Quantitative and Qualitative Disclosure About Market Risk.

We are exposed to market risk, primarily changes in interest rates. We attempt to limit our exposure to interest rate risk by managing the mix of our debt between fixed rate and variable rate obligations. Of our approximate $12.4 billion total debt at December 31, 2007, $4.9 billion, excluding $1.5 billion of variable-rate debt for which we have entered into interest rate swap agreements, is subject to variable interest rates. The average interest rate on our variable-rate debt, including the impact of our swap agreements, was 5.7% at December 31, 2007. A change in interest rates will impact our financial results. For example, assuming a constant outstanding balance for our variable-rate debt (after consideration of the Merger and financing thereof) for the next twelve months, a hypothetical 1% change in corresponding interest rates would change interest expense for the next twelve months by approximately $49.3 million. We utilize interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. We do not purchase or hold any derivative financial instruments for trading purposes.

The table below provides information as of December 31, 2007, about our financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents principal cash flows and related weighted average interest rates by contractual maturity dates. Principal amounts are used to calculate the contractual payments to be exchanged under the contract and weighted average variable rates are based on implied forward rates in the yield curve as of December 31, 2007.

(In millions)	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
Liabilities								
Long-term debt								
Fixed rate	$ 407.3	$ 564.2	$ 1,153.0	$ 425.0	$ 2.4	$ 3,377.7	$ 5,929.6	$ 6,305.0(1)
Average interest rate	8.9%	7.5%	6.3%	8.1%	7.1%	6.0%	6.5%	
Variable rate	$ 258.0	$ 390.3	$ 1,165.1	$ 4,620.0	$	$	$ 6,433.4	$ 5,418.1(1)
Average interest rate	4.6%	5.5%	5.5%	5.7%			5.7%	
Interest Rate Derivatives								
Interest rate swaps								
Fixed to variable				$ 1,500.0			$ 1,500.0	$ (45.9)
Average pay rate	4.9%	4.9%	4.9%	4.9%			4.9%	
Average receive rate	2.9%	2.7%	3.6%	4.1%			3.2%	

(1) The fair values are based on the borrowing rates currently available for debt instruments with similar terms and maturities and market quotes of the Company s publicly traded debt.

As of December 31, 2007, our long-term variable rate debt reflects borrowings under revolving credit and letter of credit facilities provided to us by a consortium of banks with a total capacity of $7.25 billion. The interest rates charged on borrowings under these facilities are a function of the London Inter-Bank Offered Rate, or LIBOR, and prime rate. As such, the interest rates charged to us for borrowings under the facilities are subject to change as LIBOR changes. These revolving credit and letter of credit facilities were terminated as of the closing of the Merger.

Foreign currency translation gains and losses were not material to our results of operations for the year ended December 31, 2007. Our only material ownership interests in businesses in foreign countries during 2007 were London Clubs and an approximate 95% ownership of a casino in Uruguay. Therefore, we have not been subject to material foreign currency exchange rate risk from the effects of exchange rate movements of foreign currencies in the past; however, with our currently planned international developments, foreign currency exchange rate risk may become material in the future.

In connection with the Merger, we retired $7.7 billion, face amount, of our debt and issued fixed and floating-rate debt subject to variation in interest rates in respect of our floating rate-debt. Borrowings under our new senior secured credit facilities and mortgage loans entered by the CMBS properties accrue interest at variable rates.

On or about January 28, 2008, we entered into forward interest rate swap agreements for a notional amount of $5 billion with respect to LIBOR borrowings under our new senior secured credit facilities to fix the floating rate of interest thereunder to a fixed rate.

Additionally, on January 28, 2008, we 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 on February 13, 2013, is for a notional amount of $6.5 billion at a LIBOR cap rate of 4.5%.

ITEM 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Harrah s Entertainment, Inc.

Las Vegas, Nevada

We have audited the accompanying consolidated balance sheets of Harrah s Entertainment, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Harrah s Entertainment, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 11 to the Consolidated Financial Statements, the Company changed its method of accounting for uncertainty in income taxes to conform to Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109,* in 2007. As discussed in Notes 1 and 15 to the Consolidated Financial Statements, the Company changed its method of accounting for stock-based employee compensation costs to conform to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, in 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 29, 2008 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Las Vegas, Nevada

February 29, 2008

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)

	December 31,	
	2007	**2006**
Assets		
Current assets		
Cash and cash equivalents	$ 710.0	$ 799.6
Receivables, less allowance for doubtful accounts of $126.2 and $94.7	476.4	429.6
Deferred income taxes (Note 11)	200.0	143.6
Income tax receivable	5.0	28.5
Prepayments and other	216.2	166.5
Inventories	70.3	63.0
Total current assets	1,677.9	1,630.8
Land, buildings, riverboats and equipment		
Land and land improvements	5,392.8	4,821.5
Buildings, riverboats and improvements	9,270.7	8,165.6
Furniture, fixtures and equipment	3,186.6	2,993.1
Construction in progress	903.4	764.7
	18,753.5	16,744.9
Less: accumulated depreciation	(3,182.0)	(2,723.9)
	15,571.5	14,021.0
Assets held for sale (Note 4)	4.5	387.3
Goodwill (Notes 2 and 5)	3,553.6	3,689.4
Intangible assets (Notes 2 and 5)	2,039.5	2,044.5
Investments in and advances to nonconsolidated affiliates (Note 16)	18.6	25.9
Deferred costs and other	492.1	486.0
	$ 23,357.7	$ 22,284.9
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 442.0	$ 465.0
Accrued expenses (Note 7)	1,351.2	1,324.8
Current portion of long-term debt (Note 8)	10.8	451.2
Total current liabilities	1,804.0	2,241.0
Liabilities held for sale (Note 4)	0.6	0.6
Long-term debt (Note 8)	12,429.6	11,638.7
Deferred credits and other	464.8	384.2
Deferred income taxes (Note 11)	1,979.6	1,896.9
	16,678.6	16,161.4
Minority interests	52.2	52.4
Stockholders equity (Notes 6, 8, 15 and 16)		
	18.9	18.6

Common stock, $0.10 par value, authorized 720,000,000 shares, outstanding-188,778,819 and 186,146,738 shares (net of 36,033,752 and 35,735,329 shares held in treasury)		
Capital surplus	5,395.4	5,148.2
Retained earnings	1,197.2	907.1
Accumulated other comprehensive income/(loss)	15.4	(2.8)
	6,626.9	6,071.1
	$ 23,357.7	$ 22,284.9

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

	Year Ended December 31,		
	2007	**2006**	**2005**
Revenues			
Casino	$ 8,831.0	$ 7,868.6	$ 5,966.5
Food and beverage	1,698.8	1,577.7	1,086.7
Rooms	1,353.6	1,240.7	786.2
Management fees	81.5	89.1	75.6
Other	695.9	611.0	424.7
Less: casino promotional allowances	(1,835.6)	(1,713.2)	(1,329.7)
Net revenues	10,825.2	9,673.9	7,010.0
Operating expenses			
Direct			
Casino	4,595.2	3,902.6	2,984.6
Food and beverage	716.5	697.6	482.3
Rooms	266.3	256.6	151.5
Property general, administrative and other	2,421.7	2,206.8	1,464.4
Depreciation and amortization	817.2	667.9	485.7
Write-downs, reserves and recoveries (Note 10)	109.7	83.3	194.7
Project opening costs	25.5	20.9	16.4
Corporate expense	138.1	177.5	97.7
Merger and integration costs	13.4	37.0	55.0
Income on interests in nonconsolidated affiliates (Note 16)	(3.9)	(3.6)	(1.2)
Amortization of intangible assets (Note 5)	73.5	70.7	49.9
Total operating expenses	9,173.2	8,117.3	5,981.0
Income from operations	1,652.0	1,556.6	1,029.0
Interest expense, net of interest capitalized (Note 12)	(800.8)	(670.5)	(479.6)
Losses on early extinguishments of debt (Note 8)	(2.0)	(62.0)	(3.3)
Other income, including interest income	43.3	10.7	8.0
Income from continuing operations before income taxes and minority interests	892.5	834.8	554.1
Provision for income taxes (Note 11)	(350.1)	(295.6)	(225.9)
Minority interests	(15.2)	(15.3)	(11.9)
Income from continuing operations	527.2	523.9	316.3
Discontinued operations (Note 4)			
Income from discontinued operations (including gain on disposal of $119.6 in 2005)	145.4	16.4	16.6
Provision for income taxes	(53.2)	(4.5)	(96.5)
Income/(loss) from discontinued operations	92.2	11.9	(79.9)
Net income	$ 619.4	$ 535.8	$ 236.4
Earnings per share basic			
Income from continuing operations	$ 2.83	$ 2.85	$ 2.14

Discontinued operations, net	0.50	0.06	(0.54)
Net income	$ 3.33	$ 2.91	$ 1.60
Earnings per share diluted			
Income from continuing operations	$ 2.77	$ 2.79	$ 2.10
Discontinued operations, net	0.48	0.06	(0.53)
Net income	$ 3.25	$ 2.85	$ 1.57
Dividends declared per share	$ 1.60	$ 1.53	$ 1.39
Weighted average common shares outstanding	186.3	184.0	148.0
Additional shares based on average market price for period applicable to:			
Restricted stock	0.2	0.8	0.5
Stock options	2.4	2.1	1.5
Stock appreciation rights	0.2		
Convertible debt	1.5	1.1	0.2
Weighted average common and common equivalent shares outstanding	190.6	188.0	150.2

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(In millions)

(Notes 6, 8, 15 and 16)

	Common Stock					Deferred Compensation		
	Shares Outstanding	Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Related to Restricted Stock	Total	Comprehensive Income
Balance December 31, 2004	112.7	$ 11.3	$ 1,394.5	$ 638.4	$ 1.0	$ (10.0)	$ 2,035.2	
Net income				236.4			236.4	$ 236.4
Net loss on derivative instruments qualifying as cash flow hedges, net of tax benefit of $3.4					(6.3)		(6.3)	(6.3)
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.2					0.4		0.4	0.4
Foreign currency translation adjustments, net of tax benefit of $0.2					(0.4)		(0.4)	(0.4)
Cash dividends				(208.2)			(208.2)	
Net shares issued in acquisition of Caesars	67.9	6.8	3,302.7				3,309.5	
Market value of conversion option on convertible debt, net of tax provision of $38.3			70.4				70.4	
Net shares issued under incentive compensation plans, including income tax benefit of $29.9	3.2	0.3	240.8	(12.2)		(0.8)	228.1	
2005 Comprehensive Income								$ 230.1
Balance December 31, 2005	183.8	18.4	5,008.4	654.4	(5.3)	(10.8)	5,665.1	
Reclassification of deferred compensation to Capital Surplus			(10.8)			10.8		
Net income				535.8			535.8	$ 535.8
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.3					0.6		0.6	0.6
Foreign currency translation adjustments, net of tax provision of $1.0					1.9		1.9	1.9
Cash dividends				(282.7)			(282.7)	
Net shares issued under incentive compensation plans, including share-based	2.3	0.2	150.6	(0.4)			150.4	

compensation expense of $52.8 and income tax benefit of $23.0								
2006 Comprehensive Income								$ 538.3
Balance December 31, 2006	186.1	18.6	5,148.2	907.1	(2.8)		6,071.1	
Net income				619.4			619.4	$ 619.4
Pension adjustment related to London Clubs International, net of tax benefit of $0.8					(1.8)		(1.8)	(1.8)
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.3					0.6		0.6	0.6
Foreign currency translation adjustments, net of tax provision of $15.5					19.4		19.4	19.4
Cash dividends				(299.2)			(299.2)	
Adjustment for initial adoption of FIN 48				(12.3)			(12.3)	
Net shares issued under incentive compensation plans, including share-based compensation expense of $53.0 and income tax benefit of $47.7	2.7	0.3	247.2	(17.8)			229.7	
2007 Comprehensive Income								$ 637.6
Balance December 31, 2007	188.8	$ 18.9	$ 5,395.4	$ 1,197.2	$ 15.4	$	$ 6,626.9	

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Note 12)

	Year Ended December 31,		
	2007	**2006**	**2005**
Cash flows from operating activities			
Net income	$ 619.4	$ 535.8	$ 236.4
Adjustments to reconcile net income to cash flows from operating activities:			
Income from discontinued operations, before income taxes	(145.4)	(16.4)	(16.6)
Income from insurance claims for hurricane damage	(130.3)		
Losses on early extinguishments of debt	2.0	62.0	3.3
Depreciation and amortization	905.8	711.4	523.0
Write-downs, reserves and recoveries	195.8	39.9	160.8
Deferred income taxes	(35.0)	73.7	(30.1)
Share-based compensation expense	53.0	52.8	
Tax benefit from stock equity plans	1.8	1.7	29.9
Other noncash items	134.6	37.2	26.5
Minority interests share of net income	15.2	15.3	11.9
Income on interests in nonconsolidated affiliates	(3.9)	(3.6)	(1.2)
Net change in insurance receivables for hurricane damage	(0.7)	81.8	(87.3)
Insurance proceeds for hurricane losses from business interruption	119.1		
Returns on investment in nonconsolidated affiliate	1.8	2.5	1.2
Net (gains)/losses from asset sales	(8.0)	(5.5)	14.6
Net change in long-term accounts	(45.1)	(35.4)	(80.5)
Net change in working capital accounts	(171.3)	(13.6)	(196.7)
Cash flows provided by operating activities	1,508.8	1,539.6	595.2
Cash flows from investing activities			
Land, buildings, riverboats and equipment additions	(1,379.5)	(2,511.3)	(1,149.5)
Payments for businesses acquired, net of cash acquired	(584.3)	(562.5)	(1,942.5)
Insurance proceeds for hurricane losses for continuing operations	15.7	124.9	69.0
Insurance proceeds for hurricane losses for discontinued operations	13.4	174.7	32.1
Proceeds from other asset sales	99.6	47.1	37.0
Purchase of minority interest in subsidiary	(8.5)	(2.3)	
Investments in and advances to nonconsolidated affiliates	(1.8)	(0.9)	(5.5)
Increase in construction payables	2.8	11.2	41.0
Proceeds from sales of discontinued operations		457.3	649.5
Proceeds from sale of long-term investments		49.4	2.7
Other	(81.0)	(31.3)	(22.9)
Cash flows used in investing activities	(1,923.6)	(2,243.7)	(2,289.1)
Cash flows from financing activities			
Borrowings under lending agreements, net of financing costs of $6.4, $4.4 and $7.6	39,124.4	6,946.5	11,599.4
Repayments under lending agreements	(37,619.5)	(5,465.8)	(10,522.9)
Early extinguishments of debt	(120.1)	(1,195.0)	(690.5)
Scheduled debt retirements	(1,001.7)	(5.0)	(307.5)
Dividends paid	(299.2)	(282.7)	(208.2)
Proceeds from exercises of stock options	126.2	66.3	106.7
Excess tax benefit from stock equity plans	51.7	21.3	

Minority interests distributions, net of contributions	(20.0)	(1.9)	(12.2)
Proceeds from issuance of senior notes, net of discount and issue costs of $-, $10.9 and $20.7		739.1	2,004.3
Premiums paid on early extinguishments of debt		(56.7)	(4.9)
Losses on derivative instruments		(2.6)	(7.9)
Other	(5.3)	1.3	(0.2)
Cash flows provided by financing activities	236.5	764.8	1,956.1
Cash flows from discontinued operations			
Cash flows from operating activities	88.9	19.3	(3.7)
Cash flows from investing activities	(0.2)	(4.8)	(23.1)
Cash flows provided by/(used in) discontinued operations	88.7	14.5	(26.8)
Net (decrease)/increase in cash and cash equivalents	(89.6)	75.2	235.4
Cash and cash equivalents, beginning of year	799.6	724.4	489.0
Cash and cash equivalents, end of year	$ 710.0	$ 799.6	$ 724.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In these footnotes, the words Company, Harrah s Entertainment, we, our and us refer to Harrah s Entertainment, Inc., a Delaware corporation, and its wholly-owned subsidiaries, unless otherwise stated or the context requires otherwise.

Note 1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION AND ORGANIZATION. As of December 31, 2007, we operated 50 casinos in six countries, primarily under the Harrah s, Caesars and Horseshoe brand names in the United States, including 31 land-based casinos, 12 riverboat or dockside casinos, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, one harness racetrack and casino, three managed casinos on Indian lands and one managed casino in Canada. We view each property as an operating segment and aggregate all operating segments into one reporting segment.

Certain of our properties were sold during some of the periods presented, and prior to their sales, assets and liabilities of these properties were classified in our Consolidated Balance Sheets as Assets/Liabilities held for sale, and their operating results through the dates of their sales were presented as discontinued operations, if appropriate. In addition to the completed sales, we also have announced plans to sell certain assets and liabilities of other properties that we have classified as Assets/Liabilities held for sale in our Consolidated Balance Sheets and, if appropriate, have included their results in discontinued operations. See Note 4 for further information regarding dispositions and planned sales.

ACQUISITION BY PRIVATE EQUITY FIRMS. On January 28, 2008, Harrah s Entertainment was acquired by affiliates of Apollo Global Management, LLC (Apollo) and TPG Capital, LP (TPG) in an all cash transaction, hereinafter referred to as the Merger, valued at approximately $30.9 billion, including the assumption of $12.4 billion of debt and approximately $1.2 billion of acquisition costs. Holders of Harrah s Entertainment stock received $90.00 in cash for each outstanding share of common stock. As a result of the Merger, the issued and outstanding shares of non-voting common stock and the non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo/TPG and certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo/TPG. As a result of the Merger, our stock is no longer publicly traded. (See Note 18.)

PRINCIPLES OF CONSOLIDATION. Our Consolidated Financial Statements include the accounts of Harrah s Entertainment and its subsidiaries after elimination of all significant intercompany accounts and transactions.

CASH AND CASH EQUIVALENTS. Cash includes the minimum cash balances required to be maintained by state gaming commissions or local and state governments, which totaled approximately $25.4 million and $27.5 million at December 31, 2007 and 2006, respectively. Cash equivalents are highly liquid investments with an original maturity of less than three months and are stated at the lower of cost or market value.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. We reserve an estimated amount for receivables that may not be collected. Methodologies for estimating the allowance for doubtful accounts range from specific reserves to various percentages applied to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific reserves.

INVENTORIES. Inventories, which consist primarily of food, beverage, retail merchandise and operating supplies, are stated at average cost.

LAND, BUILDINGS, RIVERBOATS AND EQUIPMENT. Land, buildings, riverboats and equipment are stated at cost. Land includes land not currently identified for use in our operations, which totaled $113.3 million and $119.6 million at December 31, 2007 and 2006, respectively. We capitalize the costs of improvements that extend the life of the asset. We expense maintenance and repairs cost as incurred. Gains or losses on the dispositions of land, buildings, riverboats or equipment are included in the determination of income. Interest expense is capitalized on internally constructed assets at our overall weighted average borrowing rate of interest. Capitalized interest amounted to $20.4 million, $24.3 million and $14.1 million in 2007, 2006 and 2005, respectively.

We depreciate our buildings, riverboats and equipment using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Buildings and improvements	10 to 40 years
Riverboats and barges	30 years
Furniture, fixtures and equipment	2 to 15 years

We review the carrying value of land, buildings, riverboats 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. In cases where 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 management in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the operating unit level, which for most of our assets is the individual casino.

GOODWILL AND OTHER INTANGIBLE ASSETS. We have approximately $5.6 billion in goodwill and other intangible assets on our balance sheet resulting from our acquisitions of other businesses. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, we perform an annual assessment of goodwill and intangible assets with indefinite lives for impairment during the fourth quarter of each year. (See Note 5.)

The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and our own estimates. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill. Intangible assets determined to have a finite life are amortized on a straight-line basis over the determined useful life of the asset. (See Note 5.)

UNAMORTIZED DEBT ISSUE COSTS. Debt discounts or premiums incurred in connection with the issuance of debt are capitalized and amortized to interest expense using the effective interest method. Debt issuance costs are amortized to interest expense based on the related debt agreements using the straight-line method, which approximates the effective interest method. Unamortized deferred financing charges are included in Deferred costs and other on our Consolidated Balance Sheets.

TOTAL REWARDS POINT LIABILITY PROGRAM. 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 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. We use historical data to assist in the determination of estimated accruals. At December 31, 2007 and 2006, $72.8 million and $76.6 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers at certain of our properties can earn points based on play that are redeemable in cash (cash-back points). In 2007, certain of our properties introduced a modification to the cash-back program whereby points are redeemable in playable credits at slot machines where, after one play-through, the credits can be cashed out. We accrue the cost of cash-back points and the modified program, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was $16.9 million and $21.3 million, respectively.

SELF-INSURANCE ACCRUALS. We are self-insured up to certain limits for costs associated with general liability, workers compensation and employee health coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims. At December 31, 2007 and 2006, we had total self-insurance accruals reflected on our Consolidated Balance Sheets of $210.5 million and

$193.8 million, respectively. In estimating those costs, we consider historical loss experience and make judgments about the expected levels of costs per claim. We also rely on consultants to assist in the determination of estimated accruals. These claims are accounted for based on actuarial estimates of the undiscounted claims, including those claims incurred but not reported. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. We continually monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

TREASURY STOCK. The shares of Harrah s Entertainment common stock were held in treasury at December 31, 2007 and 2006, are reflected in our Consolidated Balance Sheets and our Consolidated Statements of Stockholders Equity and Comprehensive Income as if those shares were retired.

REVENUE RECOGNITION. Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments at all consolidated casinos and casino hotels.

Casino promotional allowances consist principally of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of coupons redeemed for cash at our properties. The estimated costs of providing such complimentary services, which we classify as casino expenses for continuing operations through interdepartmental allocations, were as follows:

(In millions)	2007	2006	2005
Food and beverage	$ 582.9	$ 544.0	$ 387.5
Rooms	192.3	168.0	121.6
Other	95.6	75.2	70.8
	$ 870.8	$ 787.2	$ 579.9

ADVERTISING. The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense for continuing operations was $294.9 million, $287.5 million and $203.4 million for the years 2007, 2006 and 2005, respectively.

STOCK-BASED EMPLOYEE COMPENSATION. Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment, using the modified prospective application, and, therefore, results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R), we recognized $53.0 million and $52.8 million for stock option and stock appreciation rights (SARs) expense in 2007 and 2006, respectively. In 2007, we began allocating a portion of the expense related to stock options and SARs to the applicable reporting segment, whereas, in 2006 that expense was included in Corporate expense in our Consolidated Statement of Income. For the year ended December 31, 2007, $10.3 million of the expense is included in Property general, administrative and other, and $42.7 million is included in Corporate expense. The total income tax benefit recognized for 2007 and 2006, was approximately $21.1 million and $20.4 million, respectively.

Prior to the adoption of SFAS No. 123(R), we accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, under which no compensation expense was recorded as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had adopted SFAS No. 123(R) in the prior period. Had compensation expense for the stock option plans been determined in accordance with SFAS No. 123(R), total stock-based employee compensation expense, net of tax effects, would have been $31.7 million for the year ended December 31, 2005, and our pro forma Net income and Earnings per share for the indicated period would have been:

	2005	
(In millions, except per share amounts)	As Reported	Pro Forma
Net income	$ 236.4	$ 204.7
Earnings per share		
Basic	1.60	1.38

Diluted	1.57	1.32

The fair value of each option and SARs grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006	2005
Expected dividend yield	1.9%	2.4%	2.1%
Expected stock price volatility	25.1%	30.3%	32.9%
Risk-free interest rate	4.6%	5.0%	3.9%
Expected average life of options (years)	5	5	5

INCOME TAXES. We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. We account 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 statements or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets 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 effect on the income tax provision and deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. As indicated in Note 11, we have provided a valuation allowance on foreign tax credits, certain foreign and state net operating losses (NOLs), and other deferred foreign and state tax assets. U.S. tax rules require us to allocate a portion of our total interest expense to our foreign operations for purposes of determining allowable foreign tax credits. Consequently, this decrease to taxable income from foreign operations results in a diminution of the foreign taxes available as a tax credit. Although we consistently generate taxable income on a consolidated basis, certain foreign and state NOLs and other deferred foreign and state tax assets were not deemed realizable because they are attributable to subsidiaries that are not expected to produce future taxable earnings. Other than these exceptions, we are unaware of any circumstances that would cause the remaining deferred tax assets to not be realizable.

We 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, we recognized an approximate $12 million reduction to the January 1, 2007, balance of retained earnings.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. As a large taxpayer, we are under continual audit by the Internal Revenue Service (IRS) on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. We are participating in the IRS s Compliance Assurance Program for the 2007 tax year. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Our 2004, 2005, and 2006 federal income tax returns are currently being examined by the IRS in a traditional audit process.

We also are subject to exam by various state and foreign tax authorities, although tax years prior to 2004 are generally closed as the statutes of limitations have lapsed. However, various subsidiaries are still being examined by the New Jersey Division of Taxation for tax years as far back as 1999.

We classify reserves for tax uncertainties within Accrued expenses and Deferred credits and other in our Consolidated Balance Sheets, separate from any related income tax payable or deferred income taxes. In accordance with FIN 48, reserve amounts relate to any uncertain tax position, as well as potential interest or penalties associated with those items.

EARNINGS PER SHARE. In accordance with the provisions of SFAS No. 128, Earnings Per Share, we compute our Basic earnings per share by dividing Net income by the number of Weighted average common shares outstanding during the year. Our Diluted earnings per share is computed by dividing Net income by the number of Weighted average common and common equivalent shares outstanding during the year. For each of the three years ended December 31, 2007, common equivalent shares included net restricted shares of 190,771, 789,776 and 539,844, respectively, and stock options outstanding of 2,358,826, 2,157,811 and 1,481,765, respectively, under our employee stock benefit plans. For the years ended December 31, 2007 and 2006, respectively, common equivalent shares also included 1,502,534 and 1,085,144 potential shares related to the conversion spread of our convertible debt. For the years ended December 31, 2007 and 2006, common equivalent shares also included 230,592 and 3,055 SARs, respectively. (See Note 15.)

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we 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. Our actual results could differ from those estimates.

Note 2 Acquisitions

In the three-year period ended December 31, 2007, we acquired two casino companies and two casinos in Las Vegas, Nevada. For each of these acquisitions, the purchase price is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and our own estimates. For each transaction, the allocation of the purchase price was, or will be, completed within one year from the date of the acquisition. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill. Goodwill and intangible assets that are determined to have an indefinite life are not amortized.

The table below summarizes our acquisition transactions completed in the three-year period ending December 31, 2007.

Company	Date Acquired	Total Purchase Price(a)	Goodwill Assigned	Number of Casinos	Geographic Location
Bill s Gamblin Hall & Saloon	February 2007	$ 371 million	$	1	Las Vegas, Nevada
London Clubs	December 2006	$ 591 million	$ 322 million	10	United Kingdom(7)[b] Egypt(2) South Africa(1)[c]
Imperial Palace	December 2005	$ 373 million	$	1	Las Vegas, Nevada
Caesars	June 2005	$ 9.3 billion	$ 2 billion	15	Atlantic City, New Jersey(2) Las Vegas, Nevada(4) Reno, Nevada[d] Laughlin, Nevada[d] Biloxi, Mississippi Gulfport, Mississippi[e] Tunica, Mississippi(2) Elizabeth, Indiana Punta del Este, Uruguay[f] Ontario, Canada[g]

(a) Total purchase price includes the market value of debt assumed determined as of the acquisition date.
(b) We have a 50% ownership interest in the company that owns 50 St. James Limited in London, and we manage the facility. Other properties in the United Kingdom are 100% owned. In addition to the ten properties acquired, four properties were under development in the United Kingdom at the time of the acquisition. Three of those properties are now open.
(c) We have a 70% ownership interest in the company that owns Emerald Safari Resort, and we manage the facility.
(d) Subsequently sold.
(e) Closed due to hurricane damage in August 2005. Remaining assets sold.
(f) We have an approximate 95% ownership interest in the company that owns Conrad Punta del Este and we manage the property.
(g) We have a 50% interest in the company that manages Casino Windsor. The province of Ontario owns the complex.

BILL S GAMBLIN HALL & SALOON. In February 2007, we exchanged certain real estate, acquired for $371.4 million, that we owned on the Las Vegas Strip for property formerly known as the Barbary Coast, located at the northeast corner of Flamingo Road and Las Vegas Boulevard, between Bally s Las Vegas and Flamingo Las Vegas. We began operating the acquired property on March 1, 2007, as Bill s Gamblin Hall & Saloon, and its results are included in our operating results from the date of its acquisition. For purposes of these financial statements, we have assumed that the excess of the purchase price over the net book value of the assets acquired is land costs. Values assigned to assets, including land, will be revised upon finalization of the purchase price allocation, which will be within one year of the acquisition.

LONDON CLUBS. In December 2006, we completed our acquisition of 100% of the ordinary shares of London Clubs for approximately $590.5 million, including acquisition costs, and assumed the entity s debt of approximately $78.5 million. At the time of the acquisition, London Clubs owned or managed seven casinos in the United Kingdom, two in Egypt and one in South Africa. London Clubs currently owns and/or manages ten casinos in the United Kingdom, two in Egypt and one in South Africa and has one casino under development in the United Kingdom.

The results for London Clubs are included in our operating results subsequent to its acquisition. With the initial acquisition of 29.6% of the shares of London Clubs in November 2006, we accounted for our ownership interest on the equity basis. For the period subsequent to the acquition of the remaining shares in December 2006, we consolidate their results. Results of London Clubs are consolidated into our financial results one month in arrears. London Clubs results were not material to our 2006 financial results.

The purchase price allocation for London Clubs was completed in 2007. The following table summarizes the values assigned to the assets acquired and liabilities assumed at the date of acquisition.

(In millions)	
Current assets	$ 56.1
Land, buildings and equipment	153.7
Goodwill and other intangible assets	646.6
Total assets acquired	856.4
Current liabilities	64.5
Long-term debt	76.4
Other long-term liabilities	43.9
Deferred income tax	81.1
Liabilities assumed	265.9
Net assets acquired	$ 590.5

Of the approximate $325.0 million of acquired intangible assets, $304.1 million has been assigned to gaming rights that are not subject to amortization, and $20.9 million has been assigned to contract rights with a 6-12 year life that are subject to amortization.

The goodwill related to the London Clubs acquisition will not be deductible for tax purposes.

IMPERIAL PALACE HOTEL & CASINO. On December 23, 2005, we acquired the assets of the Imperial Palace Hotel & Casino (Imperial Palace) in Las Vegas, Nevada, for approximately $373.3 million, including acquisition costs. No debt was assumed in the transaction. The Imperial Palace occupies an 18.5 acre site on the Las Vegas Strip that is situated between Harrah s Las Vegas and the Flamingo and is across the Strip from Caesars Palace. The results of Imperial Palace are included in our operating results subsequent to its acquisition on December 23, 2005.

The purchase price allocation for Imperial Palace was completed in fourth quarter 2006, and there were no material changes from the initial purchase price allocation.

CAESARS ENTERTAINMENT. On June 13, 2005, we completed our acquisition of 100 percent of the outstanding shares of Caesars. The aggregate estimated purchase price was approximately $9.3 billion, which consisted of $1.9 billion of cash, $3.3 billion of Harrah s Entertainment s common stock, assumption of Caesars debt with a fair value of approximately $4.0 billion (including value assigned to conversion rights of contingent convertible notes), assumption of employee stock grants valued at $98 million and acquisition costs of approximately $59 million. We issued approximately 67.9 million shares of our common stock, the fair value of which was based on a five-day average of the closing price two days before and two days after the terms of the acquisition were agreed to and announced.

The results of the Caesars properties are included with our operating results subsequent to their acquisition on June 13, 2005.

In May 2005, Caesars reached an agreement to sell the Reno Hilton, and that sale closed in June 2006. Also included in the Caesars acquisition were the Flamingo Laughlin Casino and a hotel in Halifax, Nova Scotia, that we determined to classify as Assets held for sale in our Consolidated Balance Sheets, along with Reno Hilton. We sold the Halifax hotel in November 2005 and Flamingo Laughlin in May 2006. No gains or losses were recorded on these sales.

Note 3 Hurricane Damaged Properties

Hurricanes Katrina and Rita hit the Gulf Coast in third quarter 2005 and caused significant damage to our assets in Biloxi and Gulfport, Mississippi, and New Orleans and Lake Charles, Louisiana. The current status of the impacted operations is as follows:

Our New Orleans property re-opened on February 17, 2006.

We sold the Gulfport assets in their as is condition during first quarter 2006. No gain or loss was recognized as a result of this disposition. We are retaining all insurance proceeds related to the Gulfport property.

Grand Casino Biloxi re-opened in August 2006 in a smaller facility.

We sold the two subsidiaries that owned our Lake Charles operations to another casino company in fourth quarter 2006. We are retaining all insurance proceeds related to the Lake Charles operations.

Insurance proceeds have exceeded the net book value of the impacted assets and costs and expenses that are expected to be reimbursed under our business interruption claims, and the excess is recorded as income in the line item, Write-downs, reserves and recoveries, for properties included in continuing operations and in the line item, Income/(loss) from discontinued operations, for properties included in discontinued operations. As of December 31, 2007, we have received approximately $849.5 million in advances and settlements from our insurance carriers related to the hurricane damaged properties, including those properties that were subsequently sold, and we have recorded $130.3 million and $10.2 million as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Write-downs, reserves and recoveries and $141.6 million and $3.2 million, as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Discontinued operations in our Consolidated Condensed Statements of Income. In February 2008, we entered into a settlement agreement with our insurance carriers related to claims associated with damages incurred from Hurricane Katrina in Mississippi. Pursuant to the settlement agreement, the insurance carriers agreed to pay us approximately $950.2 million to settle all outstanding claims associated with damages incurred from the hurricane, including all property damage and business interruption claims. Of the total settled amount, we had received approximately $612.0 million as of December 31, 2007. We received the remaining $338.2 million during the first quarter of 2008.

Note 4 Dispositions

The following properties were sold in the three-year period ended December 31, 2007.

HARRAH S LAKE CHARLES. In first quarter 2006, we determined that Harrah s Lake Charles should be classified as assets held for sale and discontinued operations. These assets were classified in Assets held for sale in our Consolidated Balance Sheets, and we ceased depreciating these assets. Results for Harrah s Lake Charles, until its sale in November 2006, are presented as discontinued operations in each of the years presented. We reported a pretax gain of approximately $10.9 million on this sale in fourth quarter 2006.

RENO HILTON. Prior to our acquisition of Caesars, an agreement was reached to sell the Reno Hilton, and that sale closed in June 2006. Prior to its sale, Reno Hilton s results are presented as discontinued operations. No depreciation was recorded subsequent to its acquisition, and no gain or loss was recorded on the sale.

FLAMINGO LAUGHLIN. Included in the Caesars acquisition was the Flamingo Laughlin Casino in Laughlin, Nevada, that we determined to classify as Assets/Liabilities held for sale in our 2005 Consolidated Balance Sheet. Operating results for Flamingo Laughlin are presented as discontinued operations from its acquisition until its sale in May 2006, and no depreciation was recorded. No gain or loss was recorded on this sale.

GRAND GULFPORT. In March 2006, we sold the assets of Grand Casino Gulfport, which had been damaged in a hurricane in August 2005, in their as is condition (see Note 3), and those assets were included in Assets/Liabilities held for sale in our 2005 Consolidated Balance Sheet.

Operating results for Grand Casino Gulfport are presented as discontinued operations until its sale. No gain or loss was recorded on this sale.

HALIFAX HOTEL. Included in the Caesars acquisition was a hotel in Halifax, Nova Scotia, that we determined as of the acquisition date to classify as Assets/Liabilities held for sale in our Consolidated Balance Sheet, and its operating results were presented as part of our discontinued operations. The hotel was sold in November 2005. No gain or loss was recorded on the sale.

HARRAH S EAST CHICAGO AND HARRAH S TUNICA. On April 26, 2005, we sold the assets and certain related liabilities of Harrah s East Chicago and Harrah s Tunica. Until their sale, Harrah s East Chicago and Harrah s Tunica were classified in Assets/Liabilities held for sale in our Consolidated Balance Sheets, and we ceased depreciating their assets in September 2004. Results for Harrah s East Chicago and Harrah s Tunica are presented as discontinued operations for all periods presented. We reported a pretax gain of approximately $119.6 million on the sale of these two properties in the second quarter of 2005.

SUMMARY FINANCIAL INFORMATION

Summary operating results for the discontinued operations reflect the results of Harrah s Lake Charles through the date of its sale in November 2006, including the gain on the sale and insurance recoveries; the operating results of Reno Hilton, Flamingo Laughlin, Grand Casino Gulfport and a hotel in Halifax, Nova Scotia beginning June 13, 2005 through the dates of their sales in June 2006, May 2006, March 2006 and November 2005, respectively, including insurance recoveries related to Grand Casino Gulfport; and Harrah s East Chicago and Harrah s Tunica through the date of their sale in April 2005, including the gain on the sale. 2005 results for Grand Casino Gulfport and Harrah s Lake Charles include the write-off of $115.5 million, after taxes, for the impairment of intangible assets.

(In millions)	2007	2006	2005
Net revenues	$ 0.2	$ 106.8	$ 401.1
Pretax income from discontinued operations	$ 145.4	$ 16.4	$ 16.6
Discontinued operations, net of tax	$ 92.2	$ 11.9	$ (79.9)

Assets held for sale at December 31, 2007, primarily consists of non-operating land parcels.

Note 5 Goodwill and Other Intangible Assets

We account for our goodwill and other intangible assets in accordance with SFAS No. 142, which provides guidance regarding the recognition and measurement of intangible assets, eliminates the amortization of certain intangibles and requires assessments for impairment of intangible assets that are not subject to amortization at least annually.

We determine the fair value of a reporting unit as a function, or multiple, of earnings before interest, taxes, depreciation and amortization (EBITDA), or by using discounted cash flows, common measures used to value and buy or sell cash intensive businesses such as casinos. Based on our annual assessment for impairment as of September 30, 2007, we determined that, based on historical and projected performance, intangible assets at London Clubs and Caesars Indiana had been impaired, and we recorded impairment charges of $169.6 million in fourth quarter 2007. These charges are included Write-downs, reserves and recoveries in our 2007 Consolidated Statement of Income. At December 31, 2007, London Clubs and Caesars Indiana had intangible assets of $225.1 million and $193.4 million, respectively, that were not deemed to be impaired. The properties tangible assets were assessed for impairment applying the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and our analysis indicated that the carrying value of the tangible assets was not impaired.

Our annual assessment for impairment as of September 30, 2006, indicated that intangible assets at Harrah s Louisiana Downs were impaired, and a charge of $20.7 million was recorded in fourth quarter 2006. At December 31, 2006, Harrah s Louisiana Downs had $27.3 million of intangible assets that were not deemed to be impaired.

Our annual assessment for impairment as of September 30, 2005, indicated that the entire $49.9 million of goodwill associated with Harrah s Louisiana Downs was impaired, and a charge was recorded in fourth quarter 2005. Due to hurricane damage to our business in Biloxi, Mississippi, in the fourth quarter of 2005, we also wrote off $88.7 million of goodwill and intangible assets that were assigned to that property in our purchase price allocation of the Caesars acquisition. These charges are included in Write-downs, reserves and recoveries in our 2005 Consolidated Statement of Income.

Our 2005 assessment for impairment also indicated that certain goodwill and intangible assets related to properties reported as part of our Discontinued operations were impaired. These charges related to goodwill acquired in our 2000 acquisition of a property in Lake Charles, Louisiana, and to our 2005 acquisition of a property in Gulfport, Mississippi, which was severely damaged by Hurricane Katrina in August 2005. Since our acquisition of the Lake Charles property, competition had intensified in the market and the operating performance was declining. As a result of the operating trends, compounded by the impact of hurricane damage in September 2005, calculations indicated that the entire $56.1 million of

goodwill was impaired. This property had no other intangible assets. All of the goodwill and intangible assets related to Grand Casino Gulfport were deemed to be impaired, and a charge of $93.2 million was taken in fourth quarter 2005. Since Harrah s Lake Charles and Grand Casino Gulfport are reported in our Discontinued operations, the write-off of goodwill and intangible assets for those properties of $115.5 million, after taxes, is included in Discontinued operations.

The following table sets forth changes in goodwill for the years ended December 31, 2006, and December 31, 2007.

(In millions)	
Balance at December 31, 2005	$ 3,135.5
Additions or adjustments:	
Acquisition of London Clubs	467.9
Finalization of purchase price allocation for Caesars	83.5
Adjustments for taxes related to acquisitions	2.5
Balance at December 31, 2006	3,689.4
Additions or adjustments:	
Finalization of purchase price allocation for London Clubs	(146.3)
Foreign currency translation	17.0
Adjustments for taxes related to acquisitions	(14.9)
Purchase of additional interest in subsidiary	8.4
Balance at December 31, 2007	$ 3,553.6

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets.

	December 31, 2007			**December 31, 2006**		
(In millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizing intangible assets:						
Trademarks	$ 31.0	$ 15.8	$ 15.2	$ 31.0	$ 9.6	$ 21.4
Gaming rights	37.5	3.3	34.2	37.4	2.0	35.4
Contract rights	153.5	52.7	100.8	131.7	36.6	95.1
Customer relationships	654.2	143.0	511.2	654.2	93.0	561.2
	$ 876.2	$ 214.8	661.4	$ 854.3	$ 141.2	713.1
Nonamortizing intangible assets:						
Trademarks			570.4			570.2
Gaming rights			807.7			761.2
			1,378.1			1,331.4
Total			$ 2,039.5			$ 2,044.5

The aggregate amortization expense for the years ended December 31, 2007, 2006 and 2005 for those assets that continue to be amortized under provisions of SFAS No. 142 was $73.5 million, $70.7 million and $49.9 million, respectively. Estimated annual amortization expense for those assets for the years ending December 31, 2008, 2009, 2010, 2011 and 2012 is $71.9 million, $70.4 million, $63.3 million, $57.7 million and $57.6 million, respectively. The amount of amortization to be recorded in future periods is subject to change as the purchase price allocations are refined and finalized.

Note 6 Stockholders Equity

In addition to its common stock, Harrah s Entertainment had the following classes of stock authorized but unissued as of December 31, 2007:

Preferred stock, $100 par value, 150,000 shares authorized

Special stock, $1.125 par value, 5,000,000 shares authorized
Series A Special Stock, 4,000,000 shares designated

Under the terms of our equity incentive award programs in place as of December 31, 2007, we had reserved shares of Harrah s Entertainment common stock for issuance under the Amended and Restated 2004 Equity Incentive Award Plan and the 2001 Broad-based Incentive Plan. (See Note 15 for a description of the plans.) The 2004 Equity Incentive Award Plan was an equity compensation plan approved by our stockholders and the 2001 Broad-based Incentive Plan was an equity compensation plan not approved by our stockholders. As of December 31, 2007, 7,939,543 shares were authorized and unissued under the 2004 Equity Incentive Award Plan and 8,897 shares were authorized and unissued under the 2001 Broad-based Incentive Plan. Incentive award programs in place at December 31, 2007, were terminated in connection with the Merger.

In connection with the Caesars acquisition, we assumed various equity award plans of Caesars; however, amendments to those plans provide that no further shares will be issued under the plans.

In connection with the Caesars acquisition, at a special meeting held in March 2005, our stockholders voted to approve an amendment to Harrah s Entertainment s certificate of incorporation to increase the number of authorized shares of Harrah s Entertainment common stock from 360 million to 720 million. Upon consummation of the Caesars acquisition, we issued 67.9 million shares of Harrah s Entertainment common stock. Since these additional shares were outstanding only since June 13, 2005, our average shares outstanding calculation for 2005 was only partially impacted by the transaction.

In connection with the Merger, the Company was recapitalized with 120,000,020 shares of stock, consisting of: (1) 20 shares of Voting Common Stock, par value $0.01 per share, (2) 80,000,000 shares of Non-Voting Common Stock, par value $0.01 per share, and (3) 40,000,000 shares of Preferred Stock, par value $0.01 per share, 20,000,000 of which have been designated as Non-Voting Perpetual Preferred Stock.

The table below presents quarterly cash dividends per common share that were declared and paid in 2007, 2006 and 2005:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007	$ 0.40	$ 0.40	$ 0.40	$ 0.40
2006	0.3625	0.3625	0.40	0.40
2005	0.33	0.33	0.3625	0.3625

Note 7 Detail of Certain Balance Sheet Accounts

Accrued expenses consisted of the following as of December 31:

(In millions)	2007	2006
Payroll and other compensation	$ 309.3	$ 312.3
Insurance claims and reserves	210.5	193.8
Accrued interest payable	107.8	145.3
Accrued taxes	139.1	128.8
Other accruals	584.5	544.6
	$ 1,351.2	$ 1,324.8

Note 8 Debt

Long-term debt consisted of the following as of December 31:

(In millions)	2007	2006
Credit facilities		
5.825% 7.25% at December 31, 2006, maturities to 2011	$ 5,768.1	$ 4,307.0
Secured Debt		
6.0%, maturity 2010	25.0	25.0
7.1%, maturity 2028	87.7	89.3
LIBOR plus 1% 2.75%, maturity 2011		67.0
S. African prime less 1.5%, maturity 2009	10.5	11.4
4.25% 10.125%, maturities to 2035	4.4	6.8
Unsecured Senior Notes		
7.125%, maturity 2007		497.8
Floating Rate Notes, maturity 2008	250.0	250.0
7.5%, maturity 2009*	136.2	136.2
7.5%, maturity 2009	442.4	452.4

5.5%, maturity 2010	747.1	746.0
8.0%, maturity 2011	71.7	71.7
5.375%, maturity 2013	497.7	497.4
7.0%, maturity 2013*	324.4	328.4
5.625%, maturity 2015	996.3	995.9
6.5%, maturity 2016	744.3	743.8
5.75%, maturity 2017	745.8	745.5
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	370.6	367.8
Unsecured Senior Subordinated Notes		
9.375%, maturity 2007*		499.2
8.875%, maturity 2008*	409.6	423.3
7.875%, maturity 2010*	394.9	403.4
8.125%, maturity 2011*	380.3	388.2
Other Unsecured Borrowings		
LIBOR plus 4.5%, maturity 2010	29.1	33.9
Other, various maturities	1.6	1.6
Capitalized Lease Obligations		
5.77% 11.5%, maturities to 2011	2.7	0.9
	12,440.4	12,089.9
Current portion of long-term debt	(10.8)	(451.2)
	$ 12,429.6	$ 11,638.7

* Assumed in our acquisition of Caesars

We recorded the debt assumed in the Caesars acquisition at its market value, and the premium recorded is being amortized as a credit to interest expense using the effective interest method. The debt was assumed by Harrah s Operating Company, Inc. (Harrah s Operating or HOC), a wholly-owned subsidiary of Harrah s Entertainment, and is guaranteed by Harrah s Entertainment.

$400 million, face amount, of our 8.875% Senior Subordinated Notes due in September 2008, and $250 million, face amount, of our Floating Rate Senior Notes due in February 2008, are classified as long-term in our Consolidated Balance Sheet as of December 31, 2007, because the Company has both the intent and the ability to refinance that portion of these notes.

As of December 31, 2007, aggregate annual principal maturities for the four years subsequent to 2008 were: 2009, $954.5 million; 2010, $2.3 billion; 2011, $5.0 billion; and 2012, $2.4 million.

DEBT FOLLOWING THE JANUARY 28, 2008, ACQUISITION AND FINANCING (Unaudited)

In connection with the Merger, $7.7 billion, face amount, of our debt was retired, $4.6 billion, face amount of our debt was retained and $20.5 billion, face amount, of new debt was issued, resulting in a very different debt structure from the one in place at December 31, 2007. The remainder of our discussion related to debt will refer to the debt structure after the Merger.

Following the Merger, long-term debt consisted of the following:

(In millions)	HOC and Subsidiaries	Other Subsidiaries of Harrah s Entertainment	Total Harrah s Entertainment, Inc.
Credit facilities			
Term loans, 6.244% at January 28, 2008, maturities to 2015	$ 7,250.0		$ 7,250.0
Subsidiary guaranteed debt			
10.75% Senior Notes due 2016, including senior interim loans of $342.6, 9.25% at January 28, 2008	5,275.0		5,275.0
10.75%/11.5% Senior PIK Toggle Notes due 2018, including senior interim loans of $97.4, 9.25% at January 28, 2008	1,500.0		1,500.0
Unsecured Senior Notes			
7.5%, maturity 2009	0.9		0.9
7.5%, maturity 2009	5.0		5.0
5.5%, maturity 2010	669.1		669.1
8.0%, maturity 2011	62.7		62.7
5.375%, maturity 2013	342.3		342.3
7.0%, maturity 2013	0.7		0.7
5.625%, maturity 2015	640.6		640.6
6.5%, maturity 2016	486.0		486.0
5.75%, maturity 2017	443.0		443.0
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	0.2		0.2
Unsecured Senior Subordinated Notes			
8.875%, maturity 2008	5.9		5.9
7.875%, maturity 2010	349.5		349.5
8.125%, maturity 2011	307.4		307.4
Other Secured Borrowings			
CMBS financing, 6.244% at January 28, 2008, maturity 2013		$ 6,500.0	6,500.0
S. Africa, prime less 1.5%, maturity 2009		10.3	10.3
6.0%, maturity 2010	25.0		25.0
4.25% 10.125%, maturities to 2035	3.8		3.8
Other Unsecured Borrowings			
LIBOR plus 4.5%, maturity 2010	29.1		29.1
Other, various maturities	1.6		1.6
Capitalized Lease Obligations			
5.77% 10.0%, maturities to 2011	2.5		2.5
	17,400.3	6,510.3	23,910.6

Current portion of long-term debt	(71.4)	(1.5)	(72.9)
	$ 17,328.9	$ 6,508.8	$ 23,837.7

As of January 28, 2008, aggregate annual principal maturities for the four years subsequent to 2008 were: 2009, $96.8 million; 2010, $1.2 billion; 2011, $0.5 billion; and 2012, $0.2 billion.

In connection with the Merger, the following debt was retired on or about January 28, 2008:

Debt Extinguished	**Face Value (in millions)**
Credit Facilities due 2011	$ 5,795.8
7. 5% Senior Notes due 2009	131.2
8.875% Senior Subordinated Notes due 2008	394.3
7. 5% Senior Notes due 2009	424.2
7. 0% Senior Notes due 2013	299.4
Floating Rate Notes due 2008	250.0
Floating Rate Contingent Convertible Senior Notes due 2024	374.7

In connection with the Merger, the following debt was issued on or about January 28, 2008:

Debt Issued	**Face Value (in millions)**
Term loan facility, maturity 2015	$ 7,250.0
10.75% Senior Notes due 2016[a]	5,275.0
10.75%/11.5% Senior PIK toggle debt due 2018[b]	1,500.0
CMBS financing	6,500.0

(a) includes senior unsecured cash pay interim loans of $342.6 million

(b) includes senior unsecured PIK toggle interim loans of $97.4 million

New Senior Secured Credit Facility

Overview. HOC s new senior secured credit facilities provide for senior secured financing of up to $9.25 billion, consisting of senior secured term loan facilities in an aggregate principal amount of up to $7.25 billion with a maturity of seven years, and a senior secured revolving credit facility in an aggregate principal amount of $2.0 billion with a maturity of six years, including both a letter of credit sub-facility and a swingline loan sub-facility. None of the $2.0 billion credit facility was drawn at the closing of the Merger; however, approximately $188.1 million in letters of credit were outstanding under this facility at closing.

In addition, HOC may request one or more incremental term loan facilities and/or increase commitments under our revolving facility in an aggregate amount of up to $1.75 billion, subject to certain conditions and receipt of commitments by existing or additional financial institutions or institutional lenders.

All borrowings under the senior secured revolving credit facility are subject to the satisfaction of customary conditions, including the absence of a default and the accuracy of representations and warranties, and the requirement that such borrowing does not reduce the amount of obligations otherwise permitted to be secured under our new senior secured credit facilities without ratably securing the retained notes.

Proceeds from the term loan drawn on the closing date were used to repay extinguished debt in the table above, pay expenses related to the Merger and contribute equity to the Company. Proceeds of the revolving loan draws, swingline and letters of credit will be used for working capital and general corporate purposes.

Interest Rates and Fees. Borrowings under the senior secured facilities will bear interest at a rate equal to the then-current LIBOR rate or at a rate equal to the alternate base, in each case, plus an applicable margin.

In addition, on a quarterly basis, HOC is required to pay each lender a commitment fee in respect of any unused commitments under the revolving credit facility and a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the revolving credit facility.

Amortization. HOC s new senior secured credit facilities require scheduled quarterly payments on the term loans of $18.125 million each for six years and three quarters, with the balance paid at maturity.

Collateral and Guarantors. HOC s new senior secured credit facilities are guaranteed by Harrah s Entertainment, and are secured by a pledge of HOC s capital stock, and by substantially all of the existing and future property and assets of HOC and its material, wholly-owned domestic subsidiaries, including a pledge of the capital stock of HOC s material, wholly-owned domestic subsidiaries and 65% of the capital stock of the first-tier foreign subsidiaries in each case subject to exceptions.

Restrictive Covenants and Other Matters. HOC s new senior credit facilities require, after an initial grace period, compliance on a quarterly basis with a maximum net senior secured first lien debt leverage test. In addition, the new senior secured credit facilities include negative covenants, subject to certain exceptions, restricting or limiting HOC s ability and the ability of its restricted subsidiaries to, among other things: (i) incur additional debt; (ii) create liens on certain assets; (iii) enter into sale and lease-back transactions (iv) make certain investments, loans and advances; (v) consolidate, merge, sell or otherwise dispose of all or any part of its assets or to puchase, lease or otherwise acquire all or any substantial part of assets of any other person; (vi) pay dividends or make distributions or make other restricted payments; (vii) enter into certain transactions with its affiliates; (viii) engage in any business other than the business activity conducted at the closing date of the loan or business activities incidental or related thereto; (ix) amend or modify the articles or certificate of incorporation, by-laws and certain agreements or make certain payments or modifications of indebtedness; and (x) designate or permit the designation of any indebtedness as Designated Senior Debt .

Harrah s Entertainment will not be bound by any financial or negative covenants contained in HOC s credit agreement, other than with respect to the incurrence of liens on and the pledge of its stock of HOC.

HOC s new senior secured credit facilities also contain certain customary affirmative covenants and events of default.

10.75% Senior Notes, 10.75%/11.5% Senior PIK Toggle Notes and Senior Interim Loans

On January 28, 2008, HOC entered into a Senior Interim Loan Agreement for $6.775 billion, consisting of $5.275 billion Senior Interim Cash Pay Loans and $1.5 billion Interim Toggle Loans. On February 1, 2008, $4,932.4 billion of the Senior Interim Cash Pay Loans and $1,402.6 billion of the Interim Toggle Loans were repaid, and $4,932.4 billion of 10.75% Senior Notes due 2016 and $1,402.6 billion of 10.75%/11.5% Senior Toggle Notes due 2018 were issued.

The indenture governing the 10.75% Senior Notes, 10.75%/11.5% Senior Toggle Notes and the agreements governing the other cash pay debt and PIK toggle debt will limit HOC s (and most of its subsidiaries) ability to among other things: (i) incur additional debt or issue certain preferred shares; (ii) pay dividends or make distributions in respect of our capital stock or make other restricted payments; (iii) make certain investments; (iv) sell certain assets; (v) with respect to HOC only, engage in any business or own any material asset other than all of the equity interest of HOC so long as certain investors hold a majority of the notes; (vi) create or permit to exist dividend and/or payment restrictions affecting its restricted subsidiaries; (vii) create liens on certain assets to secure debt; (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; (ix) enter into certain transactions with its affiliates; and (x) designate its subsidiaries as unrestricted subsidiaries. Subject to certain exceptions, the indenture governing the notes and the agreements governing the other cash pay debt and PIK toggle debt will permit us and our restricted subsidiaries to incur additional indebtedness, including secured indebtedness.

Commercial Mortgaged-Backed Securities (CMBS) Financing

In connection with the Merger, eight of our properties and their related operating assets were spun off from HOC to Harrah s Entertainment through a series of distributions, liquidations, transfers and contributions. The eight properties, as of the closing, are Harrah s Las Vegas, Rio, Flamingo Las Vegas, Harrah s Atlantic City, Showboat Atlantic City, Harrah s Lake Tahoe, Harveys Lake Tahoe and Bill s Lake Tahoe. Subsequent to the closing of the Merger and subject to regulatory approvals, Paris Las Vegas and Harrah s Laughlin and their related operating assets will be spun off from HOC and its subsidiaries to Harrah s Entertainment, and Harrah s Lake Tahoe, Harveys Lake Tahoe, Bill s Lake Tahoe and Showboat Atlantic City and their related operating assets will be transferred to subsidiaries of HOC from Harrah s Entertainment. The properties to be spun off from HOC and owned by Harrah s Entertainment, whether at closing or after the subsequent transfer, will collectively be referred to as the CMBS properties. At closing, the CMBS properties borrowed $6.5 billion of mortgage loans and/or related mezzanine financing and/or real estate term loans (the CMBS Financing). The CMBS Financing is secured by the assets of the CMBS properties and certain aspects of the financing is guaranteed by Harrah s Entertainment.

DERIVATIVE INSTRUMENTS

We account for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and all amendments thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value. Any changes in fair value are recorded in the income statement or in other comprehensive income, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair values of our derivative instruments are based on market prices obtained from dealer quotes. Such quotes represent the estimated amounts we would receive or pay to terminate the contracts.

Our derivative instruments contain a credit risk that the counterparties may be unable to meet the terms of the agreements. We minimize that risk by evaluating the creditworthiness of our counterparties, which are limited to major banks and financial institutions, and we do not anticipate nonperformance by the counterparties.

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of December 31, 2007, we had seven variable-to-fixed interest rate swap agreements for a total notional amount of $1.5 billion. The difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received pursuant to the terms of the interest rate swap agreement will have a corresponding effect on future cash flows. The major terms of the interest rate swaps are as follows:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of Dec. 31, 2007	Next Reset Date	Maturity Date
April 25, 2007	$ 200	4.898%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.896%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.925%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.917%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.907%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.809%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.775%	5.08375%	April 25, 2008	April 25, 2011

Our interest rate swap agreements are not designated as hedging instruments; therefore, gains or losses resulting from changes in the fair value of the swaps are recognized in earnings in the period of the change. Interest rate swaps increased our 2007 and 2006 interest expense by $44.0 million and $7.2 million, respectively. The income statement impact for 2006 includes a charge to terminate $300 million of interest rate swaps.

In addition to the swaps in place at December 31, 2007, in January 2008, at or about the date of the Merger, we entered into the following forward interest rate swap agreements:

(Unaudited)

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received	Next Reset Date	Maturity Date
April 25, 2008	$ 1,000	4.172%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.276%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.263%	3 month LIBOR	April 25, 2008	April 25, 2013

Additionally, on January 28, 2008, we entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of $6.5 billion at a LIBOR cap rate of 4.5%.

FAIR MARKET VALUE

Based on the borrowing rates available as of December 31, 2007, for debt with similar terms and maturities and market quotes of our publicly traded debt, the fair value of our long-term debt at December 31 was as follows:

(In millions)	2007		2006	
	Carrying Value	Market Value	Carrying Value	Market Value
Outstanding debt	$ 12,440.4	$ 11,723.1	$ 12,089.9	$ 11,876.4
Interest rate swaps (used for hedging purposes)	45.9	45.9	2.0	2.0

Note 9 Leases

We lease both real estate and equipment used in our operations and classify those leases as either operating or capital leases following the provisions of SFAS No. 13, Accounting for Leases. At December 31, 2007, the remaining lives of our operating leases ranged from one to 85 years, with various automatic extensions totaling up to 86 years.

Rental expense associated with operating leases for continuing operations is charged to expense in the year incurred and was included in the Consolidated Statements of Income as follows:

(In millions)	**2007**	**2006**	**2005**
Noncancelable			
Minimum	$ 88.9	$ 70.0	$ 57.1
Contingent	5.2	3.0	3.5
Sublease	(1.2)	(0.2)	(0.2)
Other	33.9	35.7	26.9
	$ 126.8	$ 108.5	$ 87.3

Our future minimum rental commitments as of December 31, 2007, were as follows:

(In millions)	Noncancelable Operating Leases
2008	$ 95.4
2009	76.7
2010	69.9
2011	67.4
2012	64.4
Thereafter	2,073.5
Total minimum lease payments	$ 2,447.3

In addition to these minimum rental commitments, certain of these operating leases provide for contingent rentals based on a percentage of revenues in excess of specified amounts.

Note 10 Write-downs, Reserves and Recoveries

Our operating results include various pretax charges to record asset impairments, contingent liability reserves, project write-offs, demolition costs, recoveries of previously recorded reserves and other non-routine transactions. The components of Write-downs, reserves and recoveries for continuing operations were as follows:

(In millions)	2007	2006	2005
Impairment of goodwill and other intangible assets	$ 169.6	$ 20.7	$ 138.6
Litigation awards and settlements	8.5	32.5	2.6
Corporate efficiencies project	21.5	5.2	
Write-off of abandoned assets	21.0	0.2	0.8
Demolition costs	7.3	11.4	6.0
Other	12.1	(0.1)	12.2
Insurance proceeds in excess of deferred costs	(130.3)	(10.2)	
Impairment of investment securities		23.6	
Hurricane expense			24.5
Contribution to The Harrah s Foundation			10.0
	$ 109.7	$ 83.3	$ 194.7

See Note 5 for a discussion of the charges for impairment of goodwill and other intangible assets.

Litigation awards and settlements for 2006 represent an accrual for damages awarded.

Impairment to investment securities resulted from an assessment of certain bonds classified as held-to-maturity and the determination that they were highly uncollectible.

We began a project in September 2006 to identify efficiencies and cost savings in our corporate organization. This project continued through 2007.

Hurricane expense includes insurance deductibles on policies for Harrah s New Orleans and Harrah s Lake Charles and payroll and benefits that we believe are not reimbursable under our insurance plans.

The Harrah s Foundation is a 501(c)(3) non-profit corporation that provides charitable contributions to qualifying organizations in the communities where employees of Harrah s Entertainment and its subsidiaries work. The Harrah s Foundation was formed in order to centralize all of the various charitable contributions made by the Company and its subsidiaries. The Harrah s Foundation is governed by a Board of Trustees

that is comprised of officers of the Company and its subsidiaries. Larger discretionary donations to The Harrah s Foundation, which are approved by our Board of Directors, are based on the financial performance of Harrah s Entertainment.

We account for the impairment of long-lived assets to be held and used by evaluating the carrying value of the long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying operating unit when indications of impairment are present. Long-lived assets to be disposed of are evaluated in relation to the estimated fair value of such assets less costs to sell.

Note 11 Income Taxes

Our federal and state income tax provision/(benefit) allocable to our Consolidated Statements of Income and our Consolidated Balance Sheets line items was as follows:

(In millions)	2007	2006	2005
Income from continuing operations before income taxes and minority interests	$ 350.1	$ 295.6	$ 225.9
Discontinued operations	53.2	4.5	96.5
Stockholders equity			
Unrealized gain/(loss) on available-for-sale securities			
Unrealized gain/(loss) on derivatives qualifying as cash flow hedges	0.3	0.3	(3.2)
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(47.7)	(23.0)	(29.9)
	$ 355.9	$ 277.4	$ 289.3

Income tax expense attributable to Income from continuing operations before income taxes and minority interests consisted of the following:

(In millions)	2007	2006	2005
United States			
Current			
Federal	$ 341.2	$ 245.0	$ 189.3
State	24.9	28.9	33.7
Deferred	7.1	13.7	(0.7)
Other countries			
Current	11.0	7.2	6.4
Deferred	(34.1)	0.8	(2.8)
	$ 350.1	$ 295.6	$ 225.9

The differences between the statutory federal income tax rate and the effective tax rate expressed as a percentage of Income from continuing operations before income taxes and minority interests were as follows:

	2007	2006	2005
Statutory tax rate	35.0%	35.0%	35.0%
Increases/(decreases) in tax resulting from:			
State taxes, net of federal tax benefit	1.3	2.1	3.6
Foreign income taxes, net of credit	3.1	0.6	0.5
Goodwill amortization			6.2
Tax credits	(0.5)	(0.7)	(2.1)
Political contributions/lobbying expenses	0.1	1.0	0.3
Officers life insurance/insurance proceeds	(0.5)	(0.6)	(0.6)
Merger and acquisition costs	0.5	0.4	
Meals and entertainment	0.1	0.1	0.1
Minority interests in partnership earnings	(0.6)	(0.6)	(0.8)
Income tax reserve	0.4	(1.5)	
Other	0.3	(0.4)	(1.4)
Effective tax rate	39.2%	35.4%	40.8%

The components of our net deferred tax balance included in our Consolidated Balance Sheets at December 31 were as follows:

(In millions)	**2007**	**2006**
Deferred tax assets		
Compensation programs	$ 169.6	$ 159.2
Bad debt reserve	61.2	59.8
Self-insurance reserves	38.5	40.0