HARRAHS ENTERTAINMENT INC
Form 10-Q
May 16, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 31, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File No. 1-10410

HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	**I.R.S. No. 62-1411755**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Caesars Palace Drive Las Vegas, Nevada	**89109**
(Address of principal executive offices)	**(Zip Code)**

(702) 407-6000

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

As of April 29, 2008, the Registrant had 10 shares of voting Common Stock and 40,758,200 shares of non-voting Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements of Harrah s Entertainment, Inc., a Delaware corporation, have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for complete financial statements in conformity with generally accepted accounting principles in the United States. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of operating results.

Results of operations for interim periods are not necessarily indicative of a full year of operations. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(UNAUDITED)

(In millions, except share amounts)	**Successor March 31, 2008**	**Predecessor December 31, 2007**
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,362.3	$ 710.0
Receivables, less allowance for doubtful accounts of $138.8 and $126.2	404.9	476.4
Deferred income taxes	143.0	200.0
Income tax receivable	9.5	5.0
Prepayments and other	243.5	216.2
Inventories	69.7	70.3
Total current assets	2,232.9	1,677.9
Land, buildings, riverboats and equipment	17,625.9	18,753.5
Less: accumulated depreciation	(121.2)	(3,182.0)
	17,504.7	15,571.5
Assets held for sale (Notes 1 and 11)	2.8	4.5
Goodwill (Note 4)	9,319.4	3,553.6
Intangible assets (Note 4)	6,685.9	2,039.5
Investments in and advances to nonconsolidated affiliates	19.1	18.6
Deferred costs and other	1,323.0	492.1
	$ 37,087.8	$ 23,357.7
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 394.3	$ 442.0
Accrued expenses	1,485.7	1,351.2
Current portion of long-term debt (Note 6)	81.3	10.8
Total current liabilities	1,961.3	1,804.0
Liabilities held for sale (Notes 1 and 11)	0.6	0.6
Long-term debt (Note 6)	23,854.0	12,429.6
Deferred credits and other	765.8	464.8
Deferred income taxes	4,496.5	1,979.6
	31,078.2	16,678.6
Minority interests	56.1	52.2
Commitments and contingencies (Notes 6, 8, 9 and 10)		
Preferred stock of Successor Entity; $0.01 par value; 40,000,000 shares authorized; 19,935,534 shares issued and outstanding at March 31, 2008	2,045.9	
Stockholders equity (Notes 5 and 6)		
Common stock non-voting and voting of Successor Entity; $0.01 par value; 80,000,020 shares authorized; 40,891,343 shares issued and outstanding at March 31, 2008	0.4	
		18.9

Common stock of Predecessor Entity; $0.10 par value, authorized - 720,000,000 shares, outstanding - 188,778,819 shares (net of 36,033,752 shares held in treasury) at December 31, 2007		
Additional paid in capital	4,034.1	5,395.4
Retained (deficit)/earnings	(86.9)	1,197.2
Accumulated other comprehensive (loss)/income	(40.0)	15.4
	3,907.6	6,626.9
	$ 37,087.8	$ 23,357.7

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In millions)	Successor January 28, 2008 Through March 31, 2008	Predecessor January 1, 2008 Through January 27, 2008	Predecessor Three Months Ended March 31, 2007
Revenues			
Casino	$ 1,465.7	$ 614.6	$ 2,152.4
Food and beverage	301.3	118.4	424.2
Rooms	241.5	96.4	346.3
Management fees	12.1	5.0	22.4
Other	111.8	42.7	165.5
Less: casino promotional allowances	(291.9)	(117.0)	(455.2)
Net revenues	1,840.5	760.1	2,655.6
Operating expenses			
Direct			
Casino	776.6	340.6	1,086.3
Food and beverage	124.3	50.5	171.1
Rooms	50.4	19.6	65.4
Property general, administrative and other	409.9	178.2	634.4
Depreciation and amortization	124.2	63.5	190.3
Write-downs, reserves and recoveries	(158.8)	4.7	(7.4)
Project opening costs	2.8	0.7	8.9
Corporate expense	24.7	8.5	33.4
Merger and integration costs	17.0	125.6	4.0
(Income)/loss on interests in nonconsolidated affiliates	(0.7)	(0.5)	0.1
Amortization of intangible assets	32.3	5.5	17.9
Total operating expenses	1,402.7	796.9	2,204.4
Income/(loss) from operations	437.8	(36.8)	451.2
Interest expense, net of interest capitalized	(467.9)	(89.7)	(185.8)
Losses on early extinguishments of debt	(211.3)		
Other income, including interest income	7.7	1.1	8.2
(Loss)/income from continuing operations before income taxes and minority interests	(233.7)	(125.4)	273.6
Benefit/(provision) for income taxes	58.1	26.0	(100.3)
Minority interests	1.4	(1.6)	(6.1)
(Loss)/income from continuing operations	(174.2)	(101.0)	167.2
Discontinued operations			
Income from discontinued operations	141.0	0.1	27.8
Provision for income taxes	(53.7)		(9.7)
Income from discontinued operations, net	87.3	0.1	18.1
Net (loss)/income	$ (86.9)	$ (100.9)	$ 185.3

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In millions)	Successor January 28, 2008 Through March 31, 2008	Predecessor January 1, 2008 Through January 27, 2008	Predecessor Three Months Ended March 31, 2007
Cash flows from operating activities			
Net (loss)/income	$ (86.9)	$ (100.9)	$ 185.3
Adjustments to reconcile net (loss)/income to cash flows from operating activities:			
Income from discontinued operations, before income taxes	(141.0)	(0.1)	(27.8)
Income from insurance claims for hurricane losses	(185.4)		(18.7)
Loss on early extinguishment of debt	211.3		
Depreciation and amortization	200.1	104.9	209.8
Write-downs, reserves and recoveries	12.7	(0.1)	4.9
Other non-cash items	7.7	34.4	14.6
Share-based compensation expense	1.7	50.9	12.3
Deferred income taxes	(138.4)	(19.0)	5.6
Tax benefit from stock equity plans		42.6	0.4
Minority interests share of income	(1.4)	1.6	6.1
(Income)/loss on interests in nonconsolidated affiliates	(0.8)	(0.5)	0.1
Net change in insurance receivables for hurricane damage	0.9		0.2
Returns on investment in nonconsolidated affiliate	0.3	0.1	0.5
Insurance proceeds for hurricane losses	97.9		15.6
Net losses/(gains) from asset sales	0.1	(7.4)	(7.4)
Net change in long-term accounts	132.4	68.3	(3.7)
Net change in working capital accounts	371.3	(167.6)	(62.4)
Cash flows provided by operating activities	482.5	7.2	335.4
Cash flows from investing activities			
Land, buildings, riverboats and equipment additions	(229.6)	(117.4)	(435.2)
Insurance proceeds for hurricane losses for discontinued operations	83.3		2.4
Insurance proceeds for hurricane losses for continuing operations	98.1		3.8
Payment for Merger	(17,604.2)		
Payments for businesses acquired, net of cash acquired		0.1	(4.0)
Investments in and advances to nonconsolidated affiliates			(0.4)
Proceeds from other asset sales	1.4	3.1	32.8
Increase/(decrease) in construction payables	13.0	(8.2)	2.8
Other	(3.1)	(1.7)	(62.6)
Cash flows used in investing activities	(17,641.1)	(124.1)	(460.4)
Cash flows from financing activities			
Proceeds from issuance of long-term debt, net of issue costs	20,972.1	11,316.3	5,617.6
Repayments under lending agreements	(6,922.1)	(11,288.8)	(5,046.6)
Early extinguishments of debt	(1,873.6)	(87.7)	
Premiums paid on early extinguishments of debt	(235.6)		
Scheduled debt retirements			(501.7)
Dividends paid			(74.6)
Equity contribution from buyout	6,007.0		
Minority interests distributions, net of contributions	0.5	(1.6)	(2.4)

Proceeds from exercises of stock options		2.4	31.9
Excess tax benefit from stock equity plans	(50.5)	77.5	22.5
Other	7.1	(0.8)	(4.2)
Cash flows provided by financing activities	17,904.9	17.3	42.5
Cash flows from discontinued operations			
Cash flows from operating activities	5.1	0.5	28.6
Cash flows from investing activities			(0.2)
Cash flows provided by discontinued operations	5.1	0.5	28.4
Net increase/(decrease) in cash and cash equivalents	751.4	(99.1)	(54.1)
Cash and cash equivalents, beginning of period	610.9	710.0	799.6
Cash and cash equivalents, end of period	$ 1,362.3	$ 610.9	$ 745.5

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

(UNAUDITED)

(In millions)	Successor January 28, 2008 Through March 31, 2008	Predecessor January 1, 2008 Through January 27, 2008	Predecessor Three Months Ended March 31, 2007
Net (loss)/income	$ (86.9)	$ (100.9)	$ 185.3
Other comprehensive (loss)/income:			
Foreign currency translation adjustments, net of tax benefit of $3.3, $3.1 and $0.3	(7.6)	(1.8)	1.0
Reclassification of loss on derivative instruments from other comprehensive income to net income, net of tax provision of $0.1, $0.0 and $0.1	0.1		0.1
Fair market value of swap agreements, net of tax benefit of $17.7	(32.5)		
	(40.0)	(1.8)	1.1
Comprehensive (loss)/income	$ (126.9)	$ (102.7)	$ 186.4

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

MARCH 31, 2008

(UNAUDITED)

Note 1 Basis of Presentation and Organization

Harrah s Entertainment, Inc. (Harrah s Entertainment, the Company, we, our or us, and including our subsidiaries where the context requir Delaware corporation. As of March 31, 2008, we own or manage 51 casinos, primarily under the Harrah s, Caesars and Horseshoe brand names in the United States. Our casino entertainment facilities include 32 land-based casinos, 12 riverboat or dockside casinos, three managed casinos on Indian lands, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, one combination harness racetrack and casino and one managed casino in Canada. Our 32 land-based casinos include one in Uruguay, ten in the United Kingdom, two in Egypt and one in South Africa. We view each property as an operating segment and aggregate all operating segments into one reporting segment.

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. Although Harrah s Entertainment continued as the same legal entity after the Merger, the accompanying Consolidated Condensed Statement of Operations, the Consolidated Condensed Statement of Cash Flows and the Consolidated Condensed Statement of Comprehensive Income for the three months ended March 31, 2008, are presented as the Predecessor period for the period preceding the Merger and as the Successor period for the period succeeding the Merger. As a result of the application of purchase accounting as of the Merger date, the consolidated condensed financial statements for the Successor period and the Predecessor period are presented on different bases and are, therefore, not comparable.

Certain of our properties were sold in 2006, and prior to their sales, assets and liabilities of these properties were classified in our Consolidated Condensed Balance Sheets as Assets/Liabilities held for sale, and their operating results through the date of their sales were presented as discontinued operations. See Note 12 for further information regarding discontinued operations.

Note 2 The Merger

The Merger was completed on January 28, 2008, and was financed by a combination of borrowings under the Company s new term loan facility due 2015, the issuance of Senior Notes due 2016 and Senior Toggle Notes due 2018, certain real estate term loans and equity investments of Apollo/TPG, co-investors and members of management. See Note 6 for a discussion of our debt.

The purchase price was approximately $30.7 billion, including the assumption of $12.4 billion of debt and approximately $1.0 billion of transaction costs. All of the outstanding shares of Harrah s Entertainment stock were redeemed, with stockholders receiving $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 non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo/TPG, 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.

The purchase price allocation is in process and will be completed within one year of the Merger. For purposes of these financial statements, the preliminary allocation of the purchase price for property and equipment, intangible assets and deferred income taxes is based on preliminary valuation data. The purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determined 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 exceeded the fair value of the net identifiable tangible and intangible assets, such excess was allocated to goodwill. Goodwill and intangible assets that are determined to have an indefinite life are not amortized.

The following unaudited pro forma consolidated financial information assumes that the Merger was completed at the beginning of 2008 and 2007.

(In millions)	First Quarter Ended March 31, 2008	First Quarter Ended March 31, 2007
Net revenues	$ 2,600.6	$ 2,655.6
Loss from continuing operations	$ (394.1)	$ (83.3)
Net loss	$ (306.7)	$ (65.2)

Pro forma results for the three months ended March 31, 2008, include non-recurring charges of $82.8 million related to the accelerated vesting of stock options, stock appreciation rights (SARs) and restricted stock and $59.8 million of other costs related to the Merger. Results for the three months ended March 31, 2007, included $4.0 million for costs related to the Merger.

The unaudited pro forma results are presented for comparative purposes only. The pro forma results are not necessarily indicative of what our actual results would have been had the Merger been completed at the beginning of the periods, or of future results.

Note 3 Stock-Based Employee Compensation

Prior to the completion of the Merger, the Company granted stock options, SARs and restricted stock for a fixed number of shares to employees and directors under share-based compensation plans. The exercise prices of the stock options were equal to the fair market value of the underlying shares at the date of grant. Compensation expense for restricted stock awards was measured at fair value on the date of grant based on the number of shares granted and the quoted market price of the Company s common stock. Such value was recognized as expense over the vesting period of the award adjusted for actual forfeitures.

In connection with the Merger, on January 28, 2008, outstanding and unexercised stock options and SARs, whether vested or unvested, were cancelled and converted into the right to receive a cash payment equal to the product of (a) the number of shares of common stock underlying the options and (b) the excess, if any, of the merger consideration over the exercise price per share of common stock previously subject to such options, less any required withholding taxes. In addition, outstanding restricted shares vested and became free of restrictions, and each holder received $90 in cash for each outstanding share.

The following is a summary of activity under the equity incentive plans that were in effect upon adoption of Statement of Financial Accounting Standards (SFAS) 123 (Revised 2004) through the effective date of the Merger, when all of the stock options and SARs were cancelled and restricted shares were vested:

	Predecessor Entity		
Plan	**Outstanding at January 1, 2008**	**Cancelled**	**Outstanding at January 28, 2008**
Stock options			
2004 Equity Incentive Award Plan	7,303,293	7,303,293	
Broad-Based Stock Incentive Plan	50,097	50,097	
2004 Long Term Incentive Plan	537,387	537,387	
1998 Caesars Plans	102,251	102,251	
Total options outstanding	7,993,028	7,993,028	
Weighted average exercise price per option	$ 57.51	$ 57.51	
Weighted average remaining contractual term per option	3.5 years		
Options exercisable at period end:			
Number of options			
Weighted average exercise price			
Weighted average remaining contractual term			
SARs			
2004 Equity Incentive Award Plan	3,229,487	3,229,487	
Broad-Based Stock Incentive Plan			
2004 Long Term Incentive Plan	27,695	27,695	
1998 Caesars Plans			
Total SARs outstanding	3,257,182	3,257,182	
Weighted average exercise price per SAR	$ 69.26	$ 69.26	
Weighted average remaining contractual term per SAR	5.7 years		
SARs exercisable at period end:			
Number of SARs			
Weighted average exercise price			
Weighted average remaining contractual term			
Restricted shares		**Vested**	
2004 Equity Incentive Award Plan	687,624	687,624	
Broad-Based Stock Incentive Plan			
2004 Long Term Incentive Plan	36,691	36,691	
1998 Caesars Plans			
Total restricted shares outstanding	724,315	724,315	
Grant date fair value per restricted share	$ 70.71	$ 70.71	

Our employees were also granted restricted stock or options to purchase shares of common stock under the Harrah s Entertainment, Inc. 2001 Broad-based Stock Incentive Plan (the 2001 Plan). Two hundred thousand shares were authorized for issuance under the 2001 Plan, which is an equity compensation plan not approved by stockholders.

There were no share-based grants during the period January 1, 2008 to January 27, 2008 (predecessor entity). There was no material award activity in the quarter ended March 31, 2007.

The total intrinsic value of stock options and SARs cancelled and restricted shares vested due to the Merger was approximately $456.9 million, $225.3 million and $46.9 million, respectively, for the period January 1, 2008 to January 27, 2008 (predecessor entity). The total intrinsic value of stock options and SARs exercised during the quarter ended March 31, 2007 was approximately $25.1 million and $0.2 million, respectively. The total intrinsic value of restricted shares vested was approximately $38.4 million during the quarter ended March 31, 2007.

The following is a summary of the activity for nonvested stock option and SAR grants and restricted share awards as of January 27, 2008 and the changes for the period January 1, 2008 to January 27, 2008:

	Predecessor Entity					
	Stock Options		SARs		Restricted Shares	
	Options	Fair Value [1]	SARs	Fair Value [1]	Shares	Fair Value [1]
Nonvested at January 1, 2008	2,157,766	$ 19.87	2,492,883	$ 19.51	724,315	$ 70.71
Grants						
Vested	(1,505,939)	19.82	(16,484)	23.71	(724,315)	70.71
Cancelled	(651,827)	20.00	(2,476,399)	19.48		
Nonvested at January 27, 2008		$		$		$

(1) Represents the weighted-average grant date fair value per share-based unit, using the Black-Scholes option-pricing model for stock options and SARs and the average high/low market price of the Company s common stock for restricted shares.

The total fair value of stock options and SARs cancelled and restricted shares vested during the period from January 1, 2008, to January 27, 2008, (predecessor entity) was approximately $42.9 million, $48.6 million and $51.2 million, respectively. The total fair value of stock options, SARs and restricted shares vested during the quarter ended March 31, 2007 was $44.1 million, $0.8 million and $25.3 million, respectively.

As of December 31, 2007, there was approximately $12.7 million, $38.2 million and $36.6 million of total unrecognized compensation cost related to stock option grants, SARs and restricted share awards, respectively, under the stock-based compensation plans. The consummation of the Merger accelerated the recognition of compensation cost of $82.8 million, which was included in Merger and integration costs in the Consolidated Condensed Statements of Operations in the period from January 1, 2008, to January 27, 2008, (predecessor entity).

The compensation cost that has been charged against income for stock option grants, SARs grants and restricted share grants was approximately $7.7 million, $4.6 million and $4.7 million, respectively, for the quarter ended March 31, 2007.

Share-based Compensation Plans Successor Entity

In February 2008, the Board of Directors approved and adopted the Harrah s Entertainment, Inc. Management Equity Incentive Plan (the Equity Plan). The Board of Directors approved the grant of options to purchase 3,218,020 shares of our non-voting common stock in February 2008. The Equity Plan authorizes equity award options to be granted to management and other personnel and key service providers. Grants may be either shares of time-based options or shares of performance-based options, or a combination. Time-based options generally vest in equal increments of 20% on each of the first five anniversaries of the grant date and have a strike price equivalent to fair market value on the date of grant. The performance-based options vest based on the investment returns of our stockholders. One-half of the performance-based options become eligible to vest upon the stockholders receiving cash proceeds equal to two times their amount vested, and one-half of the performance-based options become eligible to vest upon the stockholders receiving cash proceeds equal to three times their amount vested subject to certain conditions and limitations. In addition, the performance-based options may vest earlier at lower thresholds upon liquidity events prior to December 31, 2009 and 2011, as well as pro-rata, in certain circumstances.

The following is a summary of share-based option activity for the period January 28, 2008 to March 31, 2008:

		Successor Entity	
Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at January 28, 2008		$	
Options granted	3,214,480	100.00	
Exercised			
Canceled	(59,005)	100.00	
Outstanding at March 31, 2008	3,155,475	$ 100.00	5.2

Exercisable at March 31, 2008

There are no provisions in the Equity Plan for the issuance of SARs or restricted shares.

The weighted-average grant date fair value of options granted during the quarter ended March 31, 2008 was $36.50. There were no stock option exercises during the period January, 28, 2008 to March 31, 2008 (successor entity).

The following is a summary of the activity for nonvested stock option grants as of March 31, 2008 and the changes for the period January 28, 2008 to March 31, 2008:

	Successor Entity Stock Options	
	Options	Fair Value(1)
Nonvested at January 28, 2008		$
Grants	3,214,480	36.50
Cancelled	(59,005)	36.50
Nonvested at March 31, 2008	3,155,475	$ 36.50

(1) Represents the weighted-average grant date fair value per option, using the Monte Carlo simulation option-pricing model for performance-based options, and the Black-Scholes option-pricing model for time-based options.

As of March 31, 2008, there was approximately $115.6 million of total unrecognized compensation cost related to stock option grants. This cost is expected to be recognized over a remaining weighted-average period of 5.2 years. The compensation cost that has been charged against income for stock option grants was approximately $1.7 million for the quarter ended March 31, 2008 (successor entity), of which $1.3 million was included in Corporate expense expense and $0.4 million was included in Property general, administrative and other in the Consolidated Condensed Statements of Operations.

The Company utilized historical optionee behavioral data to estimate the option exercise and termination rates used in the Black-Scholes option-pricing model. The expected term of the options represents the period of time the options were expected to be outstanding based on historical trends. Expected volatility was based on the historical volatility of the common stock of Harrah s Entertainment and its competitor peer group for a period approximating the expected life. The Company does not expect to pay dividends on common stock. The risk-free interest rate within the expected term was based on the U.S. Treasury yield curve in effect at the time of grant.

The assumptions and fair value of options granted during the quarter ended March 31, 2008 (successor entity) are as follows:

	Quarter Ended March 31, 2008 Successor Entity
Expected volatility	34.9%
Expected dividend yield	
Expected term (in years)	5.2
Risk-free interest rate	3.3%
Weighted average fair value per share of options granted	$ 36.50

Note 4 Goodwill and Other Intangible Assets

The following table sets forth changes in our goodwill for the quarter ended March 31, 2008.

(In millions)	
Balance at December 31, 2007 (Predecessor)	$ 3,553.6
Additions or adjustments	(3.9)
Balance at January 27, 2008 (Predecessor)	3,549.7
Elimination of Predecessor Goodwill	(3,549.7)
Goodwill assigned in preliminary purchase price allocation	9,319.4
Balance at March 31, 2008 (Successor)	$ 9,319.4

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

	Predecessor			
(In millions)	**As of December 31, 2007**	**Additions**	**Amortization**	**As of January 27, 2008**
Amortizing intangible assets				
Trademarks	$ 15.2	$	$ (0.4)	$ 14.8
Gaming rights	34.2		(0.1)	34.1
Contract rights	100.8		(1.3)	99.5
Customer relationships	511.2		(3.7)	507.5
	661.4		(5.5)	655.9
Nonamortizing intangible assets				
Trademarks	570.4			570.4
Gaming rights	807.7	(3.8)		803.9
	1,378.1	(3.8)		1,374.3
Total	$ 2,039.5	$ (3.8)	$ (5.5)	$ 2,030.2

	Successor			
(In millions)	As of January 28, 2008	Additions/ Other Changes	Amortization	As of March 31, 2008
Amortizing intangible assets				
Patented technology	$ 93.8	$	$ (1.6)	$ 92.2
Gaming rights	257.1		(1.7)	255.4
Contract rights	172.3		(6.9)	165.4
Customer relationships	1,516.3		(22.1)	1,494.2
	2,039.5		(32.3)	2,007.2
Nonamortizing intangible assets				
Trademarks	2,802.7			2,802.7
Gaming rights	1,875.7	0.3		1,876.0
	4,678.4	0.3		4,678.7
Total	$ 6,717.9	$ 0.3	$ (32.3)	$ 6,685.9

The aggregate amortization for the quarter ended March 31, 2008, for those assets that are amortized under the provisions of SFAS No. 142 was $37.8 million. Estimated annual amortization expense for those assets for the years ending December 31, 2008, 2009, 2010, 2011 and 2012 is $179.0 million, $193.5 million, $182.9 million, $178.8 million and $170.7 million, respectively. The amount of amortization to be recorded in future periods is subject to change as the purchase price allocation is refined and finalized.

Note 5 Preferred and Common Stock

Preferred Stock

As of March 31, 2008, the authorized Preferred Stock shares are 40,000,000, par value $0.01 per share, stated value $100.00 per share.

On January 28, 2008, the Board adopted a resolution authorizing the creation and issuance of a series of Preferred Stock to be known as the Non-Voting Perpetual Preferred Stock. The number of shares constituting such series shall be 20,000,000.

On a quarterly basis, each share of non-voting preferred stock accrues dividends at a rate of 15.0% per annum, compounded quarterly. Dividends will be paid in cash, when, if and as declared by the board of directors, subject to approval by relevant regulators. It is expected that cash dividends will not be paid on a current basis. Dividends on Non-Voting Perpetual Preferred Stock are cumulative. As of March 31, 2008 such dividends in arrears are $52.3 million. Shares of the non-voting preferred stock rank prior in right of payment to the non-voting and voting common stock and are entitled to a liquidation preference.

Upon the occurrence of any liquidating event, each holder of non-voting preferred stock shall have the right to require the Company to repurchase each outstanding share of non-voting preferred stock before any payment or distribution shall be made to the holders of non-voting common stock, voting common stock or any other junior stock. After the payment to the holders of non-voting preferred stock of the full preferential amounts, the holders of non-voting preferred stock shall have no right or claim to any of the remaining assets of the Company. Non-voting preferred stock may be converted into non-voting common stock on a pro rata basis with the consent of the holders of a majority of the non-voting preferred stock. Neither the non-voting preferred stock nor the non-voting common stock will have any voting rights.

Common Stock

As of March 31, 2008, the authorized Common Stock of the Company totaled 80,000,020 shares, consisting of 20 shares of Voting Common Stock, par value $0.01 per share and 80,000,000 shares of Non-Voting Common Stock, par value $.01 per share. The voting common stock represents less than 1% of the capital stock of Harrah s Entertainment, with the non-voting common stock and non-voting preferred stock together representing the remainder.

The Voting Common Stock shall have no economic rights or privileges, including rights in liquidation. The holders of Voting Common Stock shall be entitled to one vote per share on all matters to be voted on by the stockholders of the Company.

Subject to the rights of holders of Preferred Stock, when, as and if dividends are declared on the Common Stock, the holders of Non-Voting Common Stock shall be entitled to share in dividends equally, share for share.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of Non-Voting Common Stock will receive a pro rata distribution of any remaining assets after payment of or provision for liabilities and the liquidation preference on preferred stock (including the Non-Voting Preferred Stock), if any.

Note 6 Debt

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 for the successor entity. The discussion that follows is intended to update the information provided in our 2007 Annual Report on Form 10-K, which provides details related to the debt structure as of December 31, 2007, and subsequent to the Merger.

Charges of $211.3 million were recorded in the first quarter of 2008 for premiums paid and write-offs of unamortized deferred financing costs and market value premiums associated with the early retirement of debt in connection with the Merger.

At March 31, 2008, $5.7 million, face amount, of our 8.875% Senior Subordinated Notes due September 15, 2008, and $5.1 million, face amount, of our 7.5% Senior Notes due January 15, 2009, are classified as long-term in our Consolidated Condensed Balance Sheet because the Company has both the intent and the ability to refinance these notes.

Credit Agreement

As of March 31, 2008, our senior secured credit facilities (the Credit Facilities) provide for senior secured financing of up to $9.25 billion, consisting of (i) senior secured term loan facilities in an aggregate principal amount of up to $7.25 billion maturing on January 28, 2015 and (ii) a senior secured revolving credit facility in an aggregate principal amount of $2.0 billion, maturing January 28, 2014, including both a letter of credit sub-facility and a swingline loan sub-facility. Interest on the Credit Agreement is based on our debt ratings and leverage ratio and is subject to change. In addition, we 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. As of March 31, 2008, $7.25 billion in borrowings was outstanding under the Credit Facilities with an additional $0.2 billion committed to back letters of credit. After consideration of these borrowings and letters of credit, $1.8 billion of additional borrowing capacity was available to the Company under the Credit Facilities as of March 31, 2008.

Borrowings under the Credit Facilities bear interest at a rate equal to the then-current LIBOR rate or at a rate equal to the alternate base rate, in each case plus an applicable margin. In addition, on a quarterly basis, we are required to pay each lender (i) a commitment fee in respect of any unused commitments under the revolving credit facility and the delayed draw portion of the term facility and (ii) a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the revolving credit facility. As of March 31, 2008, the Credit Facilities bore interest based upon 300 basis points over LIBOR and bore a commitment fee for unborrowed amounts of 50 basis points.

The Credit Facilities require scheduled quarterly payments on the term loans in amounts equal to 0.25% of the original principal amount of the term loans for six years and three quarters, with the balance paid at maturity.

Derivative Instruments

We account for derivative instruments in accordance with 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 statements of operations or in other comprehensive income/(loss), 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 March 31, 2008, we have ten interest rate swap agreements for notional amounts totaling $6.5 billion, $5.0 billion of which became effective after March 31, 2008. The difference to be paid or received under the terms of the interest rate swap agreement 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 swap agreements are as follows.

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of March 31, 2008	Next Reset Date	Maturity Date
April 25, 2007	$ 200	4.898%	3.33125%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.896%	3.33125%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.925%	3.33125%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.917%	3.33125%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.907%	3.33125%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.809%	3.33125%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.775%	3.33125%	April 25, 2008	April 25, 2011
April 25, 2008	1,000	4.172%	3 month LIBOR	April 25, 2008	April 25, 2012
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

Until February 15, 2008, our interest rate swap agreements were not designated as hedging instruments; therefore, gains or losses resulting from changes in the fair value of the swaps were recognized in earnings in the period of the change. On February 15, 2008, eight of our interest rate swap agreements for notional amounts totaling $3.5 billion were designated as hedging instruments; therefore, only any measured ineffectiveness will be recognized in earnings in the period of change. Interest rate swaps increased our first quarter 2008 and 2007 interest expense by $145.5 million and $1.1 million, respectively.

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 our commercial mortgage-backed securities. 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%.

Note 7 Fair Value Measurements

We adopted the required provisions of SFAS No. 157, Fair Value Measurements, on January 1, 2008. SFAS No. 157 outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

FASB Staff Position 157-2, Effective Date of FASB Statement No. 157, defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually). At this time, we have chosen not to apply Statement 157 early for nonrecurring measurements made for nonfinancial assets and nonfinancial liabilities. There were no nonfinancial assets or nonfinancial liabilities recognized or disclosed at fair value during first quarter 2008.

Under SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, entities are permitted to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value measurement option under SFAS No. 159 for any of our financial assets or financial liabilities.

In accordance with the fair value hierarchy described in SFAS No. 157, the following table shows the fair value of our financial assets and financial liabilities that are required to be measured at fair value as of March 31, 2008.

(In millions)	**Balance at March 31, 2008**	**Level 1**	**Level 2**	**Level 3**
Assets:				
Derivative instruments	$ 98.6	$	$ 98.6	$
Deferred compensation plan assets	233.9		233.9	
Liabilities:				
Derivative instruments	330.5		330.5	
Deferred compensation plan liabilities	206.3		206.3	

The following section describes the valuation methodologies used to measure fair value, key inputs, and significant assumptions:

Derivative instruments 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. Derivative instruments are included in the Deferred costs and other and Deferred credits and other lines of our Consolidated Condensed Balance Sheets. See Note 6 for more information on our derivative instruments.

Deferred compensation plan assets and liabilities The estimated fair values of our deferred compensation plan assets and liabilities are based on the market values of the underlying account funds. Deferred compensation plan assets and liabilities are included in Deferred costs and other and Deferred credits and other lines of our Consolidated Condensed Balance Sheets.

Note 8 Supplemental Cash Flow Disclosures

Cash Paid for Interest and Taxes

The following table reconciles our Interest expense, net of interest capitalized, per the Consolidated Condensed Statements of Operations, to cash paid for interest:

(In millions)	**Successor January 28, 2008 Through March 31, 2008**	**Predecessor January 1, 2008 Through January 27, 2008**	**Predecessor Three Months Ended March 31, 2007**
Interest expense, net of interest capitalized	$ 467.9	$ 89.7	$ 185.8
Adjustments to reconcile to cash paid for interest:			
Net change in accruals	(207.0)	8.7	(2.9)

Amortization of deferred finance charges	(16.7)	(0.8)	(2.2)
Net amortization of discounts and premiums	(23.3)	2.9	11.2
Amortization of other comprehensive income	(0.1)	(0.1)	
Change in fair value of interest rate swaps	(102.7)	(39.2)	
Cash paid for interest, net of amount capitalized	$ 118.1	$ 61.2	$ 191.9
Cash payments of income taxes, net	$ 11.8	$ 1.0	$ 7.4

Note 9 Commitments and Contingent Liabilities

Contractual Commitments

We continue to pursue additional casino development opportunities that may require, individually and in the aggregate, significant commitments of capital, up-front payments to third parties and development completion guarantees.

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 these contracts for the three managed Indian-owned facilities now open, which extend for periods of up to 68 months from March 31, 2008, is $1.2 million. Each of these casinos currently generates sufficient cash flows to cover all of its obligations, including its debt service.

In February 2008, we entered into an agreement with the State of Louisiana whereby we extended our guarantee of an annual payment obligation of JCC, our wholly-owned subsidiary, of $60 million owed to the State of Louisiana. The guarantee was extended for one year to end March 31, 2011.

In addition to the guarantees discussed above, as of March 31, 2008, we had commitments and contingencies of $1,663.5 million, including construction-related commitments.

Severance Agreements

As of March 31, 2008, we have severance agreements with 23 of our executives, which provide for payments to the executives in the event of their termination after a change in control, as defined. These agreements provide, among other things, for a compensation payment of 1.5 to 3.0 times the executive s average annual compensation, as defined. The estimated amount, computed as of March 31, 2008, that would be payable under the agreements to these executives aggregated approximately $54.6 million. The estimated amount that would be payable to these executives does not include an estimate for the tax gross-up payment, provided for in the agreements, that would be payable to the executive if the executive becomes entitled to severance payments which are subject to federal excise tax imposed on the executive.

Employment Agreements

As of March 31, 2008, we have employment agreements with 16 of our executives, not including the employee agreement discussed below. These agreements, among other things, state the severance, if any, to be paid to the senior executives in the event of their termination. However, until February 2010, the severance agreements noted above determine the payment to the executives in the event of their termination due to the change in control that occurred as a result of the Merger.

We entered into an employment agreement with one executive that replaced his severance agreement as of January 28, 2008. The employment agreement provides for payments to the executive in the event of his termination after a change in control, as defined, and provides for, among other things, a compensation payment of 3.0 times the executive s average annual compensation, as defined. The estimated amount, computed as of March 31, 2008, that would be payable under the agreement to the executive based on the compensation payment aggregated approximately $15.8 million. The estimated amount that would be payable to the executive does not include an estimate for the tax gross-up payment, provided for in the agreement, that would be payable to the executive if the executive becomes entitled to severance payments which are subject to federal excise tax imposed on the executive.

Self-Insurance

We are self-insured for various levels of general liability, workers compensation and employee medical 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.

Note 10 Litigation

Certain of our legal proceedings are reported in our Annual Report on Form 10-K for the year ended December 31, 2007, with material developments since that report described below.

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 Entertainment, its board of directors and the Sponsors, challenging the proposed transaction as inadequate and unfair to Harrah s Entertainment 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 Entertainment, 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 Entertainment 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 Entertainment, 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 Entertainment 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 Entertainment 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 Entertainment 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 Entertainment 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 Entertainment 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 Entertainment, 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 Entertainment, its board of directors, the other named defendants, and the plaintiffs agreed 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.

On May 30, 2007, the federal district court in Nevada entered an order granting defendants Motion to Dismiss. Judgment was entered dismissing the Initial Nevada Lawsuits without prejudice on June 26, 2007.

Harrah s Entertainment, its board of directors, and the other defendants deny all of the allegations in the lawsuits. Nevertheless, the defendants agreed 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 Entertainment agreed to provide certain additional information to stockholders that was included in its definitive proxy statement dated March 8, 2007. In addition, Harrah s Entertainment 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 Entertainment, 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 the district court in Nevada, where it was approved and an order was entered for notice and a hearing in this matter. On April 21, 2008, a settlement hearing was held requesting final approval of the settlement. On April 29, 2008, the court entered an Order and Final Judgment approving the settlement, dismissing the action, and granting plaintiffs request for fees. With the settlement having been approved by the Nevada district court, the Company intends to seek the dismissal, without prejudice, of the Delaware Lawsuit.

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

Litigation Related to Development

On March 6, 2008, Caesars Bahamas Investment Corporation (CBIC), an indirect subsidiary of Harrah s Operating Company, Inc. (HOC) terminated its previously announced agreement to enter into a joint venture in the Bahamas with Baha Mar Joint Venture Holdings Ltd. and Baha Mar JV Holding Ltd. (collectively, Baha Mar). To enforce its rights, on March 13, 2008, CBIC filed a complaint against Baha Mar, and the Baha Mar Development Company Ltd., in the Supreme Court of the State of New York, seeking a declaratory judgment with respect to CBIC s rights under the Subscription and Contribution Agreement (the Subscription Agreement), between CBIC and Baha Mar, dated January 12, 2007. Pursuant to the Subscription Agreement, CBIC agreed, subject to certain conditions, to subscribe for shares in Baha Mar Joint Venture Holdings Ltd., which was formed to develop and construct a casino, golf course and resort project in the Bahamas. The complaint alleges that (i) the Subscription Agreement grants CBIC the right to terminate the agreement at any time prior to the closing of the transactions contemplated therein, if the closing does not occur on time; (ii) the closing did not occur on time; and, (iii) CBIC exercised its right to terminate the Subscription Agreement, and to abandon the transactions contemplated therein. The complaint seeks a declaratory judgment that the Subscription Agreement has been terminated in accordance with its terms and the transactions contemplated therein have been abandoned.

On April 9, 2008, Baha Mar and the Baha Mar Development Company Ltd. filed Counterclaims against CBIC and a Third Party Complaint against HOC in the Supreme Court of the State of New York. Baha Mar and the Baha Mar Development Company Ltd. allege that CBIC wrongfully terminated the Subscription Agreement and that CBIC wrongfully failed to make capital contributions under the Joint Venture Investors Agreement (Investors Agreement), by and between CBIC and Baha Mar, dated January 12, 2007. In addition, Baha Mar and the Baha Mar Development Company Ltd. allege that HOC wrongfully failed to perform its purported obligations under the Harrah s Baha Mar Joint Venture Guaranty, dated January 12, 2007 (Guaranty). Baha Mar and the Baha Mar Development Company Ltd. assert claims for breach of contract, breach of fiduciary duty, promissory estoppel, equitable estoppel and negligent misrepresentation. Baha Mar and the Baha Mar Development Company Ltd. seek (i) declaratory relief; (ii) specific performance; (iii) the recovery of alleged monetary damages; (iv) the recovery of alleged attorneys fees, costs, and expenses and (v) the dismissal with prejudice of CBIC s Complaint against Baha Mar and Baha Mar Development Company Ltd., seeking declaratory relief and filed in the Supreme Court of the State of New York on March 13, 2008.

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.

Note 11 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.

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 beginning with 1999.

We classify reserves for tax uncertainties within Accrued expenses and Deferred credits and other in our Consolidated Condensed 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.

Note 12 Discontinued Operations

Discontinued operations consist of insurance proceeds from the settlement of claims related to hurricane damages to Grand Casino Gulfport, which we sold in March 2006. Operating results for Grand Casino Gulfport were presented as

discontinued operations until its sale. No gain or loss was recorded on this sale. Pursuant to the terms of the sale agreement, we were to retain all insurance proceeds related to Grand Casino Gulfport, and in first quarter 2008, $141.1 million of insurance proceeds related to Mississippi Gulf Coast claims are reported in Discontinued operations in our Consolidated Condensed Statement of Operations.

Note 13 Insurance Proceeds Related to Hurricane-Damaged Properties

In first quarter 2008, we entered into a settlement agreement with our insurance carriers related to the remaining unsettled claims associated with damages incurred in Mississippi from Hurricane Katrina in 2005, and the final payment of $338.1 million was received in first quarter. Insurance proceeds exceeded the net book value of the impacted assets and costs and expenses that were 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 from discontinued operations, for properties included in discontinued operations. In first quarter 2008 and 2007, $185.4 million and $18.7 million, respectively, of insurance proceeds are included in Write-downs, reserves and recoveries and $141.1 million and $28.0 million, respectively, of insurance proceeds are included in Discontinued operations in our Consolidated Condensed Statements of Operations.

Note 14 Related Party Transactions

In connection with the Merger, Apollo/TPG and their affiliates entered into a services agreement with Harrah s Entertainment relating to the provision of financial and strategic advisory services and consulting services. We paid Apollo/TPG a one-time transaction fee of $200 million for structuring the Merger and debt financing negotiations. This amount has been included in the overall purchase price of the Merger. In addition, we will pay an annual fee equal to the greater of $30 million or 1% of the Company s EBITDA, as defined, for management services and advice.

Note 15 Consolidating Financial Information of Guarantors and Issuers

As of March 31, 2008, HOC, a 100% owned subsidiary of Harrah s Entertainment, is the issuer of certain debt securities that have been guaranteed by Harrah s Entertainment and certain subsidiaries of HOC. The following consolidating schedules present condensed financial information for Harrah s Entertainment, the parent and guarantor; HOC, the subsidiary issuer; guarantor subsidiaries of HOC; and non-guarantor subsidiaries of Harrah s Entertainment and HOC as of March 31, 2008, and December 31, 2007, and for the successor companies for the period January 28, 2008, through March 31, 2008, and for the predecessor companies for the periods from January 1, 2008, through January 27, 2008, and for the three months ended March 31, 2007.

HARRAH S ENTERTAINMENT, INC.

(SUCCESSOR ENTITY)

CONDENSED CONSOLIDATING BALANCE SHEET

MARCH 31, 2008

(UNAUDITED)

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 144.6	$ 611.7	$ 237.1	$ 368.9	$	$ 1,362.3
Receivables, net of allowance for doubtful accounts		148.9	250.8	191.7	(186.5)	404.9
Deferred income taxes		(1.7)	114.9	29.8		143.0
Income tax receivable			9.5			9.5
Prepayments and other	4.0	14.0	120.6	104.9		243.5
Inventories		1.5	44.8	23.4		69.7
Total current assets	148.6	774.4	777.7	718.7	(186.5)	2,232.9
Land, buildings, riverboats and equipment, net of accumulated depreciation		314.3	10,806.8	6,388.6	(5.0)	17,504.7
Assets held for sale			2.8			2.8
Goodwill		44.6	6,488.5	2,786.3		9,319.4
Intangible assets		9.3	5,564.5	1,112.1		6,685.9
Investments in and advances to nonconsolidated affiliates	5,810.3	20,794.1	11.3	7.8	(26,604.4)	19.1
Deferred costs and other		1,975.5	1,843.0	1,565.9	(4,061.4)	1,323.0
	$ 5,958.9	$ 23,912.2	$ 25,494.6	$ 12,579.4	$ (30,857.3)	$ 37,087.8
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities						
Accounts payable	$	$ 135.6	$ 195.0	$ 73.8	$ (10.1)	$ 394.3
Accrued expenses	5.4	902.1	575.0	158.2	(155.0)	1,485.7
Current portion of long-term debt		72.5	0.8	18.9	(10.9)	81.3
Total current liabilities	5.4	1,110.2	770.8	250.9	(176.0)	1,961.3
Liabilities held for sale			0.6			0.6
Long-term debt		17,387.3	1,882.9	8,645.2	(4,061.4)	23,854.0
Deferred credits and other		694.9	20.4	61.0	(10.5)	765.8
Deferred income taxes		108.1	3,180.3	1,208.1		4,496.5
	5.4	19,300.5	5,855.0	10,165.2	(4,247.9)	31,078.2
Minority interests			34.7	21.4		56.1
Preferred stock	2,045.9					2,045.9
Stockholders equity	3,907.6	4,611.7	19,604.9	2,392.8	(26,609.4)	3,907.6
	$ 5,958.9	$ 23,912.2	$ 25,494.6	$ 12,579.4	$ (30,857.3)	$ 37,087.8

19

HARRAH S ENTERTAINMENT, INC.

(PREDECESSOR ENTITY)

CONDENSED CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2007

(UNAUDITED)

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
ASSETS						
Current assets						
Cash and cash equivalents	$	$ 15.2	$ 338.8	$ 356.0	$	$ 710.0
Receivables, net of allowance for doubtful accounts		181.2	268.7	200.3	(173.8)	476.4
Deferred income taxes		(1.7)	176.5	25.2		200.0
Income tax receivable			(102.6)	107.6		5.0
Prepayments and other		11.8	98.0	106.4		216.2
Inventories		1.6	45.1	23.6		70.3
Total current assets		208.1	824.5	819.1	(173.8)	1,677.9
Land, buildings, riverboats and equipment, net of accumulated depreciation		352.6	9,934.7	5,289.4	(5.2)	15,571.5
Assets held for sale			4.5			4.5
Goodwill			2,681.7	871.9		3,553.6
Intangible assets			1,537.9	501.6		2,039.5
Investments in and advances to nonconsolidated affiliates	6,628.1	13,665.1	10.8	7.8	(20,293.2)	18.6
Deferred costs and other		2,524.2	1,857.1	1,291.9	(5,181.1)	492.1
	$ 6,628.1	$ 16,750.0	$ 16,851.2	$ 8,781.7	$ (25,653.3)	$ 23,357.7
LIABILITIES AND STOCKHOLDERS EQUITY						
Current liabilities						
Accounts payable	$	$ 149.2	$ 188.8	$ 112.9	$ (8.9)	$ 442.0
Accrued expenses	1.2	460.9	596.2	426.3	(133.4)	1,351.2
Current portion of long-term debt			0.8	20.0	(10.0)	10.8
Total current liabilities	1.2	610.1	785.8	559.2	(152.3)	1,804.0
Liabilities held for sale			0.6			0.6
Long-term debt		12,377.5	1,879.3	3,353.9	(5,181.1)	12,429.6
Deferred credits and other		398.0	20.9	67.4	(21.5)	464.8
Deferred income taxes		(233.6)	1,686.3	526.9		1,979.6
	1.2	13,152.0	4,372.9	4,507.4	(5,354.9)	16,678.6
Minority interests				52.2		52.2
Commitments and contingencies						
Stockholders equity	6,626.9	3,598.0	12,478.3	4,222.1	(20,298.4)	6,626.9
	$ 6,628.1	$ 16,750.0	$ 16,851.2	$ 8,781.7	$ (25,653.3)	$ 23,357.7

HARRAH S ENTERTAINMENT, INC.

(SUCCESSOR ENTITY)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE PERIOD

JANUARY 28, 2008 THROUGH MARCH 31, 2008

(UNAUDITED)

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	$	$ 17.2	$ 941.2	$ 507.3	$	$ 1,465.7
Food and beverage		3.8	176.3	121.2		301.3
Rooms		3.2	149.2	89.1		241.5
Management fees			12.1			12.1
Other		21.4	27.3	92.1	(29.0)	111.8
Less: casino promotional allowances		(4.5)	(174.4)	(113.0)		(291.9)
Net revenues		41.1	1,131.7	696.7	(29.0)	1,840.5
Operating expenses						
Direct						
Casino		8.5	495.8	272.3		776.6
Food and beverage		2.2	71.9	50.2		124.3
Rooms		0.4	30.7	19.3		50.4
Property general, administrative and other		13.1	165.8	242.5	(11.5)	409.9
Depreciation and amortization		0.5	77.9	45.9	(0.1)	124.2
Write-downs, reserves and recoveries			(167.4)	8.6		(158.8)
Project opening costs			0.3	2.5		2.8
Corporate expense	5.3	13.9	5.5	6.5	(6.5)	24.7
Merger and integration costs		17.0				17.0
Losses/(income) on interests in nonconsolidated affiliates	82.6	(260.2)	0.3	(1.0)	177.6	(0.7)
Amortization of intangible assets		0.1	22.4	9.8		32.3
Total operating expenses	87.9	(204.5)	703.2	656.6	159.5	1,402.7
(Loss)/income from operations	(87.9)	245.6	428.5	40.1	(188.5)	437.8
Interest expense, net of interest capitalized		(359.1)	(54.7)	(126.8)	72.7	(467.9)
Losses on early extinguishments of debt		(211.5)	(0.3)	0.5		(211.3)
Other income, including interest income	0.9	24.3	7.6	47.6	(72.7)	7.7
(Loss)/income from continuing operations before income taxes and minority interests	(87.0)	(300.7)	381.1	(38.6)	(188.5)	(233.7)
Benefit/(provision) for income taxes	0.1	183.0	(122.2)	(2.8)		58.1
Minority interests			(1.5)	2.9		1.4
(Loss)/income from continuing operations	(86.9)	(117.7)	257.4	(38.5)	(188.5)	(174.2)
Discontinued operations						
Income from discontinued operations			141.0			141.0

Provision for income taxes			(53.7)			(53.7)
Income from discontinued operations, net			87.3			87.3
Net (loss)/income	$ (86.9)	$ (117.7)	$ 344.7	$ (38.5)	$ (188.5)	$ (86.9)

HARRAH S ENTERTAINMENT, INC.

(PREDECESSOR ENTITY)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE PERIOD

JANUARY 1, 2008 THROUGH JANUARY 27, 2008

(UNAUDITED)

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	$	$ 5.7	$ 388.8	$ 220.1	$	$ 614.6
Food and beverage		1.4	68.9	48.1		118.4
Rooms		1.3	60.4	34.7		96.4
Management fees			5.4	0.1	(0.5)	5.0
Other		1.5	27.3	17.9	(4.0)	42.7
Less: casino promotional allowances		(1.4)	(72.8)	(42.8)		(117.0)
Net revenues		8.5	478.0	278.1	(4.5)	760.1
Operating expenses						
Direct						
Casino		5.6	211.8	123.2		340.6
Food and beverage		1.0	27.5	22.0		50.5
Rooms		0.2	11.3	8.1		19.6
Property general, administrative and other		3.3	112.9	66.5	(4.5)	178.2
Depreciation and amortization		2.4	38.3	22.8		63.5
Write-downs, reserves and recoveries			0.2	4.5		4.7
Project opening costs			(0.1)	0.8		0.7
Corporate expense		6.1	2.4			8.5
Merger and integration costs		125.6				125.6
Losses/(income) on interests in nonconsolidated affiliates	102.3	(1.3)	(0.8)	0.3	(101.0)	(0.5)
Amortization of intangible assets			5.2	0.3		5.5
Total operating expenses	102.3	142.9				