

FIVE STAR QUALITY CARE INC
Form SC 13G/A
October 03, 2016

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G/A

Under the Securities Exchange Act of 1934
(Amendment No. 7)*

Five Star Quality Care, Inc.

(Name of Issuer)

Common Stock, par value \$0.01 per share

(Title and Class of Securities)

33832D106

(CUSIP Number)

October 2, 2016

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

(Continued on following pages)

CUSIP No. 33832D106

SCHEDULE 13G/A

1	Name of Reporting Person The RMR Group LLC	
2	Check the Appropriate Box if a Member of a Group (a) <input type="radio"/> o (b) <input type="radio"/> o	
3	SEC Use Only	
4	Citizenship or Place of Organization Maryland	
Number of Shares Beneficially Owned by Each Reporting Person With	5	Sole Voting Power -0-
	6	Shared Voting Power -0-
	7	Sole Dispositive Power -0-
	8	Shared Dispositive Power -0-
9	Aggregate Amount Beneficially Owned by Each Reporting Person -0-	
10	Check if the Aggregate Amount in Row (9) Excludes Certain Shares <input type="radio"/> o	
11	Percent of Class Represented by Amount in Row (9) 0.0%	
12	Type of Reporting Person OO	

CUSIP No. 33832D106

SCHEDULE 13G/A

1	Name of Reporting Person The RMR Group Inc.	
2	Check the Appropriate Box if a Member of a Group (a) <input type="radio"/> (b) <input type="radio"/>	
3	SEC Use Only	
4	Citizenship or Place of Organization Maryland	
Number of Shares Beneficially Owned by Each Reporting Person With	5	Sole Voting Power -0-
	6	Shared Voting Power -0-
	7	Sole Dispositive Power -0-
	8	Shared Dispositive Power -0-
9	Aggregate Amount Beneficially Owned by Each Reporting Person -0-	
10	Check if the Aggregate Amount in Row (9) Excludes Certain Shares <input type="radio"/>	
11	Percent of Class Represented by Amount in Row (9) 0.0%	
12	Type of Reporting Person CO	

CUSIP No. 33832D106

SCHEDULE 13G/A

1	Name of Reporting Person ABP Trust	
2	Check the Appropriate Box if a Member of a Group (a) <input type="radio"/> (b) <input type="radio"/>	
3	SEC Use Only	
4	Citizenship or Place of Organization Maryland	
Number of Shares Beneficially Owned by Each Reporting Person With	5	Sole Voting Power -0-
	6	Shared Voting Power -0-
	7	Sole Dispositive Power -0-
	8	Shared Dispositive Power -0-
9	Aggregate Amount Beneficially Owned by Each Reporting Person -0-	
10	Check if the Aggregate Amount in Row (9) Excludes Certain Shares <input type="radio"/>	
11	Percent of Class Represented by Amount in Row (9) 0.0%	
12	Type of Reporting Person OO	

CUSIP No. 33832D106

SCHEDULE 13G/A

1	Name of Reporting Person Barry M. Portnoy	
2	Check the Appropriate Box if a Member of a Group (a) <input type="radio"/> (b) <input type="radio"/>	
3	SEC Use Only	
4	Citizenship or Place of Organization United States	
5		Sole Voting Power 231,622
6		Shared Voting Power -0-
7		Sole Dispositive Power 231,622
8		Shared Dispositive Power -0-
9	Aggregate Amount Beneficially Owned by Each Reporting Person 231,622	
10	Check if the Aggregate Amount in Row (9) Excludes Certain Shares <input type="radio"/>	
11	Percent of Class Represented by Amount in Row (9) Less than 0.5%*	
12	Type of Reporting Person IN	

* Based on 49,520,891 shares of common stock, par value \$0.01 per share (the Common Shares), of Five Star Quality Care, Inc. (the Issuer) issued and outstanding, as reported in the Issuer's Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission (the Commission) on August 4, 2016.

CUSIP No. 33832D106

SCHEDULE 13G/A

1	Name of Reporting Person Adam D. Portnoy	
2	Check the Appropriate Box if a Member of a Group (a) <input type="radio"/> o (b) <input type="radio"/> o	
3	SEC Use Only	
4	Citizenship or Place of Organization United States	
5		Sole Voting Power 108,000
6		Shared Voting Power -0-
7		Sole Dispositive Power 108,000
8		Shared Dispositive Power -0-
9	Aggregate Amount Beneficially Owned by Each Reporting Person 108,000	
10	Check if the Aggregate Amount in Row (9) Excludes Certain Shares <input type="radio"/> o	
11	Percent of Class Represented by Amount in Row (9) Less than 0.3%*	
12	Type of Reporting Person IN	

* Based on 49,520,891 Common Shares of the Issuer issued and outstanding, as reported in the Issuer's Quarterly Report on Form 10-Q filed with the Commission on August 4, 2016.

Schedule 13G/A

This Amendment No. 7 to Schedule 13G/A (this Schedule 13G/A) is being filed on behalf of the Reporting Persons (as defined below) only. Senior Housing Properties Trust, a Maryland real estate investment trust, that was a joint filer with the Reporting Persons on Amendment No. 6. to Schedule 13G/A filed with the U.S. Securities and Exchange Commission (the Commission) on February 9, 2016, is not a joint filer on this Schedule 13G/A.

Item 1(a). Name of Issuer.

Five Star Quality Care, Inc. (the Issuer).

Item 1(b). Address of Issuer's Principal Executive Offices.

400 Centre Street

Newton, Massachusetts 02458

Item 2(a). Name of Person Filing.

This Schedule 13G/A is being filed on behalf of each of the following persons (collectively, the Reporting Persons):

- (i) The RMR Group LLC, a Maryland limited liability company (RMR LLC);

- (ii) The RMR Group Inc., a Maryland corporation (RMR Inc.) (the managing member and a beneficial owner of RMR LLC);

- (iii) ABP Trust, a Maryland statutory trust (ABP Trust) (the controlling shareholder of RMR Inc. and a beneficial owner of RMR LLC);

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(iv) Barry M. Portnoy, a United States citizen (a managing director of the Issuer, the chairman of RMR LLC, a managing director of RMR Inc. and a beneficial owner and trustee of ABP Trust); and

(v) Adam D. Portnoy, a United States citizen (the president and chief executive officer of RMR LLC, a managing director, the president and chief executive officer of RMR Inc. and a beneficial owner, trustee and the president of ABP Trust).

Item 2(b). Address of Principal Business Office or, if None, Residence.

The address of the principal business office of each of the Reporting Persons is Two Newton Place, 255 Washington Street, Suite 300, Newton, Massachusetts 02458.

Item 2(c). Citizenship.

(i) RMR LLC is a Maryland limited liability company.

- (ii) RMR Inc. is a Maryland corporation.
- (iii) ABP Trust is a Maryland statutory trust.
- (iv) Barry M. Portnoy is a United States citizen.
- (v) Adam D. Portnoy is a United States citizen.

Item 2(d). Title of Class of Securities.

The class of securities to which this Schedule 13G/A relates is shares of common stock, par value \$0.01 per share, of the Issuer (the Common Shares).

Item 2(e). CUSIP Number.

The CUSIP number for the Common Shares is 33832D106.

Item 3.

Not applicable.

Item 4. Ownership.

(a) Amount beneficially owned:

RMR LLC, RMR Inc. and ABP Trust do not beneficially own any Common Shares.

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Mr. Barry M. Portnoy is the direct and beneficial owner of 231,622 Common Shares. Mr. Adam D. Portnoy is the direct and beneficial owner of 108,000 Common Shares.

(b) Percent of class:

Mssrs. Barry M. Portnoy and Adam D. Portnoy each directly and beneficially own less than 0.5% and 0.3%, respectively, of the outstanding Common Shares, and RMR LLC, RMR Inc. and ABP Trust do not beneficially own any Common Shares.

The percentages of beneficial ownership reported in this Schedule 13G/A are based on 49,520,891 Common Shares issued and outstanding, as reported in the Issuer's Quarterly Report on Form 10-Q filed with the Commission on August 4, 2016.

(c) Number of Common Shares as to which such person has:

(i) Sole power to vote or to direct the vote:

RMR LLC:	0
RMR Inc.:	0
ABP Trust:	0

Barry M. Portnoy:	231,622
Adam D. Portnoy:	108,000

(ii) Shared power to vote or to direct the vote:

RMR LLC:	0
RMR Inc.:	0
ABP Trust:	0
Barry M. Portnoy:	0
Adam D. Portnoy:	0

(iii) Sole power to dispose or to direct the disposition of:

RMR LLC:	0
RMR Inc.:	0
ABP Trust:	0
Barry M. Portnoy:	231,622
Adam D. Portnoy:	108,000

(iv) Shared power to dispose or to direct the disposition of:

RMR LLC:	0
RMR Inc.:	0
ABP Trust:	0
Barry M. Portnoy:	0
Adam D. Portnoy:	0

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than 5 percent of the class of securities, check the following X.

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Not applicable.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

Not applicable.

Item 8. Identification and Classification of Members of the Group.

Not applicable.

Item 9. Notice of Dissolution of Group.

Not applicable.

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: October 2, 2016

The RMR Group Inc.

By: /s/ Jennifer B. Clark
Name: Jennifer B. Clark
Title: Executive Vice President, General
Counsel and Secretary

The RMR Group LLC

By: /s/ Jennifer B. Clark
Name: Jennifer B. Clark
Title: Executive Vice President, General
Counsel and Secretary
pts 3.8 pts

Southern Nevada

The increases in 2005 revenues and income from operations over 2004 were due primarily to the inclusion of results from properties acquired in our Caesars acquisition. Caesars properties contributed \$975.5 million in revenues and \$192.7 million in income from operations to our Southern Nevada results in 2005. Excluding the properties acquired from Caesars, our Southern Nevada properties revenues and income from operations

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increased 6.2% and 15.0%, respectively, driven by strong cross-market play and increased customer traffic at the Rio from the World Series of Poker. We define cross-market play as gaming by customers at Harrah's Entertainment properties other than their home casino. On March 10, 2005, we terminated our operating agreement with MTR Gaming Group, Inc. for operation of the Las Vegas Horseshoe. Operating results for the Las Vegas Horseshoe were consolidated with our results from April 1, 2004, until March 10, 2005; however, those results were not material to our operating results.

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.

The increases in revenues and income from operations in 2004 were driven by strong cross-market play at, and cross-property play between, Harrah's Las Vegas and the Rio, room pricing trends in Las Vegas, record revenues at Harrah's Laughlin and revenues from Las Vegas Horseshoe, which opened under our management on April 1, 2004. 2004 income from operations for our Southern Nevada properties was 48.7% higher than in 2003 as a result of the higher revenues and improved operating margins.

Northern Nevada

Combined 2005 revenues from our Northern Nevada properties were 0.9% higher in 2005 than in 2004, and income from operations was 11.8% higher than in 2004. Strong visitation to the market, an effective summer concert series and a celebrity golf tournament contributed to the higher results.

In 2004, revenues from our Northern Nevada properties were 1.2% higher than in 2003, and income from operations was 8.3% higher than in 2003.

In our 2003 annual assessment of goodwill and other nonamortizing intangible assets, we determined that the remaining goodwill associated with our Reno property was impaired. A charge of approximately \$6.3 million, representing the remaining unamortized goodwill at Reno, was taken in the fourth quarter of 2003 for this impairment.

East Results

(In millions)	2005	2004	2003	Percentage Increase/(Decrease)			
				05 vs 04	04 vs 03		
Casino revenues	\$ 1,540.4	\$ 832.6	\$ 817.1	85.0	%	1.9	%
Total revenues	1,485.7	780.9	781.3	90.3	%	(0.1))%
Income from operations	355.5	199.8	217.3	77.9	%	(8.1))%
Operating margin	23.9	% 25.6	% 27.8	% (1.7	)pts	(2.2	)pts

Caesars properties in the East contributed \$651.2 million in revenues and \$140.1 million in income from operations in 2005. Excluding results from the properties acquired from Caesars, 2005 revenues for our Atlantic City properties increased 6.9% over last year, and income from operations was up 7.8% over 2004. Effective marketing programs and recent capital investments at the Showboat drove the 2005 increases.

Construction was completed in July 2005 on a House of Blues Club at our Showboat property in Atlantic City. This project added a range of amenities to the property, including a concert hall, nightclub and restaurant, and a private member Foundation Room.

At Caesars Atlantic City, a new parking garage adjacent to the casino opened July 1, 2005.

2004 revenues at our East properties were level with 2003 and income from operations was down by 8.1% from 2003. Showboat's revenues and income from operations, which were 2.8% and 7.7%, respectively, higher than in 2003, were aided by a new hotel tower that opened in second quarter 2003 and 450 slot machines that were added in third quarter 2003. Harrah's Atlantic City's revenues and income from operations were 2.4% and 18.0%, respectively, lower than in 2003. Harrah's Atlantic City was more directly affected than Showboat by a

new competitor in the Atlantic City market. In addition, results at our Atlantic City properties were impacted by a month-long labor strike during fourth quarter 2004.

North Central Results

(In millions)	2005	2004	2003	Percentage Increase/(Decrease)			
				05 vs 04		04 vs 03	
Casino revenues	\$ 1,774.6	\$ 1,323.0	\$ 1,089.2	34.1	%	21.5	%
Total revenues	1,734.4	1,299.9	1,070.4	33.4	%	21.4	%
Income from operations	296.1	249.3	189.6	18.8	%	31.5	%
Operating margin	17.1	% 19.2	% 17.7	% (2.1)	)pts	1.5	pts

Harrah's East Chicago was sold in April 2005. Due to the sale of this property, results of Harrah's East Chicago through the date of its sale are classified as discontinued operations, and the property is not included in our North Central grouping.

Increases in revenues and income from operations in 2005 were driven by results from Caesars Indiana subsequent to its acquisition on June 13, 2005, and a full year's results from Horseshoe Hammond, which was acquired on July 1, 2004. Caesars Indiana contributed \$174.1 in revenues and \$28.6 million in income from operations to 2005 North Central results.

In 2004, the increases in revenues and income from operations at our North Central properties were driven by the acquisition of Horseshoe Hammond and lower gaming taxes at our Bluffs Run property as a result of legislation that settled an issue related to gaming taxes for casinos at racetracks.

Chicagoland/Illinois

Combined 2005 revenues and income from operations at Harrah's Joliet, Harrah's Metropolis and Horseshoe Hammond were 40.4% and 44.1% higher, respectively, than 2004 levels due to Horseshoe Hammond, which was acquired on July 1, 2004. Horseshoe Hammond contributed \$392.7 million in revenues and \$79.0 million in income from operations in 2005 and \$184.8 million in revenues and \$36.8 in income from operations for the six months of 2004.

Construction is underway on a 258-room hotel and event center at Harrah's Metropolis. This project is expected to cost approximately \$70 million and completion is targeted for second quarter 2006. As of December 31, 2005, \$32.2 million had been spent on this project.

Combined revenues for 2004 were 50.4% higher than combined revenues for 2003, and combined income from operations was 38.3% higher than 2003 due to results from Horseshoe Hammond subsequent to its acquisition. Excluding results of Horseshoe Hammond, combined 2004 revenues were up 3.1% and income from operations was down 11.1% from 2003 as a result of increases in state gaming taxes, admission taxes and increased marketing costs.

Missouri

Combined 2005 revenues at our Missouri properties increased 6.1%, but income from operations was 6.6% lower than in 2004. The increase in revenues was driven by gains at Harrah's St. Louis, where a 210-room hotel tower opened in third quarter 2004. This expansion project also included a redesigned hotel lobby, new valet parking areas, the addition of parking garage express ramps and expansion of two restaurants and other amenities. Revenue gains were seen in the second half of 2005 at our North Kansas City property due to recent capital investments, including a \$126 million expansion and property enhancement project that added a 206-room hotel addition in August 2005 and new restaurants and other amenities in the fourth quarter of 2005. Income from operations was affected by the competitive promotional environment in the St. Louis market and construction disruptions at Harrah's North Kansas City.

2004 revenues at our Missouri properties were 3.9% higher than in 2003, due to higher revenues at our St. Louis property, but income from operations was 5.8% below 2003. Gains at our St. Louis property, driven by recent capital investments including a new hotel tower, our Total Rewards program and improvements made to the slot floor, were more than offset by declines at our North Kansas City property where recent capital improvements by two competitors impacted results.

Iowa

Revenues for 2005 from our Iowa properties were 2.0% below 2004 revenues, and income from operations was down 32.3% due to construction disruptions at the Bluffs Run Casino and a favorable gaming tax accrual adjustment in 2004, partially offset by lower gaming taxes in 2005 following the resolution of the gaming tax rate issues discussed below. Approximately \$20.3 million had been accrued for state gaming taxes that we did not have to pay, and in first quarter 2004, \$3.7 million, representing the adjustment for 2004, was credited to the property's income from operations and \$16.6 million, representing the adjustment for prior periods, was credited to Write-downs, reserves and recoveries.

Casinos at racetracks in Iowa historically had been taxed at a higher rate (36% in 2004) than the casinos on riverboats operating in Iowa (20%). The Iowa Supreme Court issued an opinion in June 2002 that this disparity was unconstitutional. The State appealed the Iowa Supreme Court's decision to the United States Supreme Court and in June 2003, the United States Supreme Court overturned the ruling and remanded the case back to the Iowa Supreme Court for further consideration. In February 2004, the Iowa Supreme Court ruled that the disparity violates the Iowa Constitution, a ruling the State appealed to the United States Supreme Court in April 2004. The United States Supreme Court declined to hear this case.

In April 2004, the Iowa legislature passed legislation to effectively settle the issues regarding the gaming tax rates. The new legislation provides for a tax rate of 22% for both riverboats and racetracks effective July 1, 2004. However, racetracks have the option to conduct table games and video games that simulate table games by paying a \$10 million fee to the State and a gaming tax rate of 24%. Twenty percent of the \$10 million fee could be used to offset wagering taxes for each of the five fiscal years beginning July 1, 2008. We plan to add table games to the Bluffs Run facility in conjunction with the rebranding, renovation and expansion of that facility (see discussion below), and in second quarter 2005, we paid the \$10 million fee to the State.

In accordance with previous agreements and as additional purchase price consideration, a payment of approximately \$73 million was made to Iowa West Racing Association (Iowa West), the entity holding the pari-mutuel and gaming license for the Bluffs Run Casino and with whom we have a management agreement to operate that property. The additional payment to Iowa West increased goodwill attributed to the Bluffs Run property. The payment to Iowa West assumed we will operate table games at Bluffs Run and pay a 24% tax rate; however, Iowa West took the position that the purchase price adjustment should be based on a tax rate of 20%, which would result in an additional \$19.6 million payment to Iowa West. The dispute was resolved by arbitration in third quarter 2005, and the arbitrators decided on a 22% tax rate. We paid an additional \$7.9 million to Iowa West, which increased goodwill attributed to this property.

Combined 2004 revenues for our Iowa properties were 6.4% higher than in 2003, and income from operations more than doubled in 2003 due to lower gaming taxes in 2004 following the resolution of the gaming tax rate issues discussed above.

In fourth quarter 2004, we announced plans to rebrand the Bluffs Run Casino under the Horseshoe brand as part of an \$87 million renovation and expansion of that property. The property's greyhound racetrack will remain in operation and retain the Bluffs Run brand. Construction began in February 2005 with completion scheduled for the first quarter of 2006. As of December 31, 2005, \$51.1 million had been spent on this project.

South Central Results

(In millions)	2005	2004	2003	Percentage Increase/(Decrease)			
				05 vs 04		04 vs 03	
Casino revenues	\$ 1,174.2	\$ 880.7	\$ 647.0	33.3	%	36.1	%
Total revenues	1,168.3	875.9	659.9	33.4	%	32.7	%
Income from operations	(28.2)	123.1	92.3	N/M		33.4	%
Operating margin	(2.4)	% 14.1	% 14.0	% (16.5)	pts	0.1	pt

N/M = Not meaningful

Harrah's Tunica was sold in April 2005. Due to the sale of this property, results of Harrah's Tunica through the date of its sale are classified as discontinued operations, and the property is not included in our South Central grouping. Grand Gulfport is also included in our discontinued operations and, therefore, not included in our South Central grouping.

On August 29, 2005, Hurricane Katrina hit the Gulf Coast, causing significant damage to our assets in Biloxi and Gulfport, Mississippi. Our assets in New Orleans also sustained damage, and we suffered various losses there as a result of Hurricane Katrina. On September 24, 2005, Hurricane Rita hit the Gulf Coast, causing significant damage to our assets in Lake Charles, Louisiana. As of December 31, 2005, all four properties remained closed. See HURRICANE DAMAGE for further discussion of damage and expected insurance recoveries related to property damage and business interruption.

South Central Caesars properties contributed \$221.7 million in revenues and losses from operations of \$48.0 million in 2005. Excluding results from the properties acquired from Caesars, 2005 revenues for our South Central properties increased 8.1% from last year, but income from operations was 67.9% below last year driven by fourth quarter 2005 charges for the impairment of goodwill, the effects of Hurricanes Katrina and Rita on our Louisiana properties and loss of results of Harrah's Shreveport, which was sold in second quarter 2004. Partially offsetting these declines were a full year's results from Horseshoe Bossier City and Horseshoe Tunica, which were acquired on July 1, 2004, and higher results from Harrah's Louisiana Downs, where the permanent facility opened in second quarter 2004 with 1,400 slot machines compared to the 900 that were in service prior to that time.

Construction began in second quarter 2004 on a 26-story, 450-room, \$150 million hotel tower at Harrah's New Orleans, which also sustained damage due to Hurricane Katrina. The property does not currently operate a hotel, although it does utilize rooms at third-party hotels. The additional time required to complete construction, as well as the increased demands for construction labor and materials in the market, could cause the cost of the construction to increase. Construction resumed in fourth quarter 2005, and we expect the hotel to open in third quarter 2006. At this time, we are unable to estimate the additional costs, if any, to complete construction. As of December 31, 2005, \$90.7 million had been spent on this project.

Combined 2004 revenues and income from operations were higher by 32.7% and 33.4%, respectively, than in 2003 due to results from Horseshoe Bossier City and Horseshoe Tunica subsequent to their July 1, 2004, acquisition and increased revenues from Harrah's Louisiana Downs, Harrah's New Orleans and Harrah's Lake Charles and partially offset by the loss of revenues in 2004 due to the sale of Harrah's Shreveport. The permanent facility at Harrah's Louisiana Downs opened in second quarter 2004 with 1,400 slot machines. 900 slot machines had been in service since second quarter 2003 at Harrah's Louisiana Downs.

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 2005 analysis indicated that 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.

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, our annual assessment for the impairment of goodwill and other intangible assets indicated that the entire \$56.1 million of goodwill was impaired. A charge was recorded to our Consolidated Statement of Income in fourth quarter 2005. (See Note 3 to our Consolidated Financial Statements for a discussion of the recoverability of their tangible assets.)

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.

Due to a decision to sell Harrah's Shreveport, which was completed in second quarter 2004, we classified that property in Assets held for sale on our Consolidated Balance Sheets and ceased depreciating its assets. Since the Horseshoe Gaming acquisition gave us a continued presence in the Shreveport-Bossier City market, Harrah's Shreveport's operating results were not classified as discontinued operations. No gain or loss was recorded on this sale.

On October 27, 2003, we sold Harrah's Vicksburg and 2003 results for Harrah's Vicksburg through the date of sale, were included in discontinued operations. A loss of \$0.5 million, net of tax, resulted from this sale.

Managed Casinos and Other

(In millions)	2005	2004	2003	Percentage Increase/(Decrease)	
				05 vs 04	04 vs 03
Revenues	\$ 156.9	\$ 76.7	\$ 90.6	N/M	(15.3)%
(Loss)/income from operations	(26.8)	(16.7)	11.4	60.5%	N/M

N/M = Not meaningful

In addition to results from our managed casinos, Managed Casinos and Other includes results from Punta del Este and casino operations on three cruise ships, both included in the Caesars acquisition, results from World Series of Poker marketing, our development expenses, brand marketing costs, losses from nonconsolidated subsidiaries and other costs that are directly related to our casino operations and development but are not property specific. The loss from operations in 2005 was primarily due to development costs, which were 75.4% higher than in 2004 due to increased development activities in many jurisdictions, including international jurisdictions, considering allowing development and operation of casinos or casino-like operations. In 2005, we dissolved the joint venture formed in 2003 with Gala Group, a United Kingdom (UK) based gaming operator, to develop regional casinos in the UK in response to the UK government's proposal to restrict development of regional casinos. We will focus on opportunities to develop large-scale destination casino resorts with more than 50,000 square feet of gaming space, as well as hotel rooms, restaurants and entertainment venues (see our discussion below of DEVELOPMENT OF NEW PROJECTS). Development costs for 2004 were 5.6% lower than in 2003 due to changes in or timing of development activities in jurisdictions, including Rhode Island, Pennsylvania and the United Kingdom, that are considering allowing development and operation of casinos or casino-like operations.

In fourth quarter 2004, we suspended operation of LuckyMe, our on-line gaming initiative in the United Kingdom. No material charges were recorded as a result of this action. Losses related to LuckyMe were approximately \$9.3 million for 2004.

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We manage four tribal casinos. The table below gives the location and expiration date of the current management contracts for our Indian properties as of December 31, 2005.

Casino	Location	Expiration of Management Agreement
Harrah's Prairie Band	near Topeka, Kansas	January 2008
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 higher in 2005 primarily due to increased business volume at Harrah's Rincon following the completion of an expansion project there at the end of 2004 and to management consultant fees from an Australian gaming company pursuant to an agreement assumed in the Caesars acquisition.

In second quarter 2005, we announced that we will not seek to renew the management contract for Harrah's Prairie Band Casino when it expires in January 2008.

Our 2004 managed casinos and other results were lower than in 2003 due to lower fee structures at some of our managed casinos where management agreements were extended.

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.

A \$165 million expansion of the Harrah's Rincon property was completed in December 2004. The expansion added a 21-story hotel tower with approximately 460 rooms, a spa, a new hotel lobby, additional meeting space, additional casino space and a 1,200-space parking structure.

Construction was completed in August 2004 on a \$55 million expansion project at Harrah's Prairie Band. The expansion includes the addition of approximately 200 hotel rooms, a 12,000-square-foot convention center and a new restaurant.

Construction costs of Indian casinos and hotels have been funded by the tribes or by the tribes' debt, some of which we guarantee. See DEBT AND LIQUIDITY for further discussion of our guarantees of debt related to Indian projects.

Other Factors Affecting Net Income

(Income)/Expense (In millions)	2005	2004	2003	Percentage Increase/(Decrease)	
				05 vs 04	04 vs 03
Write-downs, reserves and recoveries	\$ 248.8	\$ 9.6	\$ 10.5	N/M	(8.6)%
Project opening costs	16.4	9.5	7.4	72.6%	28.4%
Corporate expense	97.7	66.8	52.6	46.3%	27.0%
Merger and integration costs for Caesars acquisition	55.0	2.3		N/M	N/M
Amortization of intangible assets	49.9	9.4	4.8	N/M	95.8%
Interest expense, net	481.2	271.8	234.4	77.0%	16.0%
Losses on early extinguishments of debt	3.3		19.1	N/M	N/M
Other income	(8.0)	(9.5)	(2.9)	(15.8)%	N/M
Effective tax rate	45.3%	36.1%	36.3%	9.2pts	(0.2)pt
Minority interests	\$ 11.9	\$ 8.6	\$ 11.6	38.4%	(25.9)%
Discontinued operations, net of income taxes	27.1	(38.2)	(31.5)	N/M	20.9%

N/M = Not meaningful

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. In 2004, we began tracking demolition costs separate from project opening costs. The components of Write-downs, reserves and recoveries were as follows:

(Income)/Expense (In millions)	2005	2004	2003
Impairment of goodwill and other intangible assets	\$ 194.7	\$	\$ 6.3
Hurricane expense	41.5		
Contribution to The Harrah's Foundation	10.0	10.0	
Write-off of abandoned assets and other costs	8.6	4.9	2.6
Demolition costs	6.0	5.8	
Loss on sale of non-operating assets	4.5		
Settlement of litigation	2.6	3.5	
Impairment of long-lived assets	1.6		2.5
Recoveries from previously impaired assets and reserved amounts	(4.4)		(0.9)
Termination of contracts	(16.3)	2.0	
Reversal of prior year Iowa gaming tax accrual		(16.6)	
	\$ 248.8	\$ 9.6	\$ 10.5

A discussion of the charges for impairment of goodwill and other intangible assets is included in the discussion of our South Central Results.

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.

Project opening costs for each of the three years presented 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.

Corporate expense increased in 2005 due primarily to increased costs associated with our acquisition of Caesars and higher incentive compensation and aviation expenses. Corporate expense increased 27.0% in 2004 from 2003, primarily due to higher incentive compensation plan expenses, on-going costs related to Sarbanes-Oxley compliance and increased depreciation expense.

Merger and integration costs for the Caesars acquisition include costs for consultants and dedicated internal resources to plan for and execute the merger and integration of Caesars into Harrah's Entertainment.

Amortization of intangible assets was higher in 2005 due to estimated amortization for intangible assets identified in our preliminary purchase price allocation for the Caesars acquisition. The purchase price allocation will be finalized within one year of the date of the acquisition and estimated amounts are subject to adjustments, which could be material, during that period. Amortization of intangible assets acquired from Horseshoe Gaming on July 1, 2004, also contributed to the increases for 2005 and 2004.

Interest expense increased in 2005 from 2004 due to increased borrowings related to our acquisitions of Caesars and Horseshoe Gaming and to higher interest rates on our variable rate debt. The average interest rate on our variable-rate debt, excluding the impact of our swap agreements, was 5.0% at December 31, 2005, compared to 3.2% at December 31, 2004. A change in interest rates will impact our financial results. For example, assuming a

constant outstanding balance for our variable-rate debt for the next twelve months, a hypothetical 1% change in corresponding interest rates would change interest expense for the next twelve months by approximately \$39.9 million. Our variable-rate debt, including \$500 million of fixed-rate debt for which we have entered into interest rate swap agreements, represents approximately 36% of our total debt, while our fixed-rate debt is approximately 64% of our total debt. (For discussion of our interest rate swap agreements, see DEBT AND LIQUIDITY, Derivative Instruments, Interest Rate Swap Agreements.) Interest expense was higher in 2004 than in 2003 due to additional debt related to our acquisition of Horseshoe Gaming on July 1, 2004.

The 2005 Losses on early extinguishments of debt represent premiums paid and the write-off of unamortized deferred financing costs associated with the portions of our 7.875% Senior Subordinated Notes due in December 2005 that were retired in February 2005 and in November 2005.

Other income in 2005 includes interest income on the cash surrender value of life insurance policies, receipt of a death benefit and collection of a previously reserved investment. 2004 Other income included interest income on the cash surrender value of life insurance policies, benefits from a life insurance policy, interest income related to the sale of land and other miscellaneous non-operating items. 2003 Other income included interest income on the cash surrender value of life insurance policies and settlement of a litigation claim, partially offset by benefits from a life insurance policy.

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.

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, and beginning 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. Results for Grand Casino Gulfport include the write-off of \$78.6 million, after taxes, for the impairment of intangible assets. (See Notes 3 and 4 to our Consolidated Financial Statements.)

STRATEGIC ACQUISITIONS

In the three-year period ended December 31, 2005, we acquired two casino companies, a casino in Las Vegas, Nevada, and certain intellectual property rights. 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.

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The table below summarizes our acquisition transactions completed in the three-year period ending December 31, 2005. Following the table is a brief review of our acquisitions. All of our acquisition transactions were accounted for as purchases.

Company	Date Acquired	Total Purchase Price(a)	Goodwill Assigned	Number of Casinos	Geographic Location
Imperial Palace	December 2005	\$ 373 million		1	Las Vegas, Nevada
Caesars	June 2005	\$ 9.3 billion	\$ 2.0 billion	15	Atlantic City, New Jersey(2) Las Vegas, Nevada(4) Reno, Nevada Laughlin, Nevada Biloxi, Mississippi(b) Gulfport, Mississippi(c) Tunica, Mississippi(2) Southern Indiana Punta del Este, Uruguay(d) Ontario, Canada(e)
Horseshoe Gaming	July 2004	\$ 1.6 billion	\$ 584 million	3	Bossier City, Louisiana Hammond, Indiana Tunica, Mississippi
Horseshoe Club Operating Company	March 2004	\$ 37 million			(f)

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

(b) Closed due to hurricane damage in August 2005.

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

(d) We have an approximate 89% ownership interest in the company that owns Conrad Punta del Este and we manage the property.

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

(f) This acquisition was for certain intellectual property assets, including the rights to the Horseshoe brand in Nevada and to the World Series of Poker brand and tournament.

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 \$373.1 million, including acquisition costs of \$3.1 million. 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. This acquisition is one of a number of moves designed to strategically position the Company for development in Las Vegas.

The results for Imperial Palace are included in our operating results subsequent to its acquisition on December 23, 2005. At December 31, 2005, we assumed that the excess of the purchase price over the net book value of the assets acquired is incremental land cost. We expect to revise the values assigned to the acquired assets after we have reviewed and considered additional information. The purchase price allocation will be completed within one year of the acquisition.

Caesars Entertainment

On June 13, 2005, we completed our acquisition of 100 percent of the outstanding shares of Caesars. Under the terms of the agreement, Caesars stockholders were to receive either \$17.75 in cash or 0.3247 shares of Harrah s Entertainment s common stock for each outstanding share of Caesars common stock, subject to limitations on the aggregate amount of cash to be paid and shares of stock to be issued. Caesars stockholders were able to elect to receive solely shares of Harrah s Entertainment s common stock or cash, to the extent available pursuant to the terms of the agreement. Of the 314.8 million Caesars shares outstanding at the transaction date, 307.1 million elected to receive Harrah s Entertainment s common stock. The consideration paid to those stockholders was prorated, resulting in each holder of one share of Caesars stock receiving \$5.66 in cash and 0.2211 of a share of our common stock. Each of the remaining 7.7 million Caesars shares received \$17.75 per share in cash consideration. We financed the acquisition with borrowings from established debt programs. 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 acquisition of Caesars added 15 casinos with about 1.6 million square feet of gaming space and approximately 24,000 hotel rooms and gave us significant additional presence in Las Vegas, Atlantic City and Mississippi. See HURRICANE DAMAGE for a discussion of recent hurricanes at two of the properties acquired from Caesars.

The results of the Caesars properties are included with our operating results subsequent to their acquisition on June 13, 2005. Depreciation and amortization related to the Caesars acquisition is estimated based on our preliminary purchase price allocation. Estimated useful lives and amortization periods of property, equipment and intangible assets are being determined during the purchase price allocation and will be adjusted accordingly.

In May 2005, Caesars reached an agreement to sell the Reno Hilton, and that sale, which is subject to regulatory approvals, is expected to close in second quarter 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 financial statements. We sold the Halifax hotel in November 2005, and recognized no gain or loss on the sale. We reached an agreement in November 2005, to sell Flamingo Laughlin. The sale of Flamingo Laughlin is subject to regulatory approvals and is expected to close by mid-2006. No gain or loss is expected on these sales.

In preparation for 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 reflected in Merger and integration costs for Caesars acquisition in our Consolidated Statements of Income.

The purchase price allocation is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement. We are continuing our review of the information

provided to us by the third parties engaged to perform the valuation studies and have asked for additional information that is necessary for us to finalize the purchase price allocation. This information includes additional support for the valuation of land in the Las Vegas market and for the values assigned to acquired customer relationships. We are also working with internal and external legal counsel to finalize the assessments of the exposures we assumed for certain contingent liabilities. Our preliminary purchase price allocation also assumes that certain assets, identified for probable replacement prior to the consummation of the acquisition, will be removed from service, which impacts the fair value and useful lives assigned to these assets. The decision to remove these assets from service is subject to final approval by the Board of Directors. Should the determination be made prior to the finalization of the purchase price allocation that these assets will remain in service, the purchase price allocation will be adjusted accordingly. For purposes of these financial statements, the purchase price allocation is based on the best estimates available of fair values and useful lives for the affected assets.

Horseshoe Gaming

On July 1, 2004, we acquired 100 percent of the equity interests of Horseshoe Gaming for approximately \$1.62 billion, including assumption of debt valued at approximately \$558 million and acquisition costs. A \$75 million escrow payment made in 2003 was applied to the purchase price. We issued a redemption notice on July 1, 2004, for all \$558 million of Horseshoe Gaming's outstanding 8.625% Senior Subordinated Notes due July 2009 and retired that debt on August 2, 2004. We financed the acquisition and the debt retirement through working capital and established debt programs. We purchased Horseshoe Gaming to acquire casinos in Hammond, Indiana; Tunica, Mississippi; and Bossier City, Louisiana and with the intention of growing and developing the Horseshoe brand.

In anticipation of our acquisition of Horseshoe Gaming, we sold our Harrah's brand casino in Shreveport, Louisiana. After consideration of the sale of Harrah's Shreveport, the Horseshoe Gaming acquisition added a net 113,300 square feet of casino space and approximately 4,580 slot machines and 150 table games to our existing portfolio. Taken together with our acquisition of intellectual property rights from Horseshoe Club Operating Company (Horseshoe Club) (see discussion below), this acquisition gave us rights to the Horseshoe brand in all of the United States. The results of the Horseshoe Gaming properties are included with our operating results subsequent to their acquisition on July 1, 2004.

Las Vegas Horseshoe Hotel and Casino

In March 2004, we acquired certain intellectual property assets, including the rights to the Horseshoe brand in Nevada and to the World Series of Poker brand and tournament, from Horseshoe Club. MTR Gaming Group, Inc. (MTR Gaming) acquired the assets of the Binion's Horseshoe Hotel and Casino (Las Vegas Horseshoe) in Las Vegas, Nevada, including the right to use the name Binion's at the property, from Horseshoe Club. We operated Las Vegas Horseshoe jointly with a subsidiary of MTR Gaming for one year, which ended March 10, 2005. Operating results for Las Vegas Horseshoe were consolidated with our results from April 1, 2004 until the operating agreement was terminated on March 10, 2005. Las Vegas Horseshoe's results were not material to our operating results.

We paid approximately \$37.5 million for the intellectual property assets, including assumption and subsequent payment of certain liabilities of Las Vegas Horseshoe (which included certain amounts payable to a principal of Horseshoe Gaming) and approximately \$5.2 million of acquisition costs. The intangible assets acquired in this transaction have been deemed to have indefinite lives and, therefore, are not being amortized. We financed the acquisition with funds from various sources, including cash flows from operations and borrowings from established debt programs.

Harrah's Shreveport and Louisiana Downs Buyout of Minority Partners

In the first quarter of 2004, we paid approximately \$37.5 million to the minority owners of the company that owned Louisiana Downs and Harrah's Shreveport to purchase their ownership interest in that company. The excess of the cost to purchase the minority ownership above the capital balances was assigned to goodwill. As a

result of this transaction, Harrah's Shreveport and Louisiana Downs became wholly owned by the Company. Harrah's Shreveport was subsequently sold in the second quarter of 2004.

Harrah's East Chicago Buyout of Minority Partners

In the second quarter of 2003, we paid approximately \$28.8 million to former partners in the Harrah's East Chicago property to settle outstanding litigation with the partners relating to a buyout in 1999 of the partners' interest in the property and to terminate the contractual rights of the partners to repurchase an 8.55% interest in the property. The two remaining minority partners in our East Chicago property owned, in aggregate, 0.45% of this property. In December 2003 and January 2004, we acquired these ownership interests for aggregate consideration of approximately \$0.8 million. As a result of these transactions, the East Chicago property was wholly owned. Harrah's East Chicago was sold in the second quarter of 2005.

CAPITAL SPENDING AND DEVELOPMENT

Part of our plan for growth and stability includes disciplined capital improvement projects, and 2005, 2004 and 2003 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 2005 totaled approximately \$1.2 billion, excluding the cost of our acquisitions of Caesars and Imperial Palace. Capital spending in 2004 was approximately \$702.9 million, excluding the cost of our acquisitions of Horseshoe Gaming and the intangible assets from Horseshoe Club and the purchase of partnership interests. 2003 capital spending was approximately \$427.0 million. Estimated total capital expenditures for 2006 are expected to be between \$1.4 billion and \$1.5 billion and do not include estimated expenditures for development opportunities.

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. 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 and/or equity offerings.

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 marketing programs, our strategic acquisitions, on-going cost containment focus and favorable variable interest rates. For 2005, we reported cash flows from operating activities of \$614.9 million, a 22.3% decrease from the \$791.0 million reported in 2004. The decrease is due to the use of funds for payment of current liabilities assumed in our acquisition of Caesars, including income taxes of approximately \$160 million and interest of approximately \$67 million. The 2004 amount reflected an 18.6% increase over the 2003 level.

We use the cash flows generated by our operations to fund reinvestment 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 to return capital to our stockholders in the form of

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stock repurchase programs and 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 approximately \$724.4 million at December 31, 2005, compared to \$489.0 million at December 31, 2004. The following provides a summary of our cash flows for the years ended December 31.

(In millions)	2005	2004	2003
Cash provided by operating activities	\$ 614.9	\$ 791.0	\$ 666.8
Capital investments	(1,118.5)	(619.0)	(381.8)
Payments for business acquisitions	(1,942.5)	(1,616.9)	(75.0)
Proceeds from sales of discontinued operations	649.5	197.6	48.6
Insurance proceeds for hurricane losses for discontinued operations	17.4		
Insurance proceeds for hurricane losses for continuing operations	83.7		
Other investing activities	11.4	(60.7)	(14.4)
	(1,684.1)	(1,308.0)	244.2
Cash provided by/(used in) financing activities	1,956.1	1,356.5	(248.0)
Cash (used in)/ provided by discontinued operations	(36.6)	42.6	17.3
Net increase in cash and cash equivalents	\$ 235.4	\$ 91.1	\$ 13.5

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 or equity securities 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.

The majority of our debt is due in November 2006 and beyond. Payments of short-term debt obligations and other commitments are expected to be made from operating cash flows. Long-term obligations are expected to be paid through operating cash flows, refinancing of debt, joint venture partners or, if necessary, additional debt and/or equity offerings.

Debt Assumed in Acquisition of Caesars

The following debt was assumed in our acquisition of Caesars.

(In millions)	Face Amount
7.875% Senior Subordinated Notes, due 2005	\$ 400.0
8.5% Senior Notes, due 2006	400.0
7.5% Senior Notes, due 2009	425.0
7.0% Senior Notes, due 2013	300.0
9.375% Senior Subordinated Notes, due 2007	500.0
8.875% Senior Subordinated Notes, due 2008	400.0
7.875% Senior Subordinated Notes, due 2010	375.0
8.125% Senior Subordinated Notes, due 2011	350.0
Floating Rate Contingent Convertible Senior Notes, due 2024	375.0
Other	50.3
Total	\$ 3,575.3

We recorded the above debt at its market value, which, at June 13, 2005, was \$3,842.2 million, including interest rate swap agreements, which are discussed below. 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., a wholly-owned subsidiary of Harrah's Entertainment, and is guaranteed by Harrah's Entertainment. In fourth quarter 2005, the 7.875% Senior Subordinated Notes, due 2005, were retired.

Credit Agreement

As of December 31, 2005, our credit facilities (the Credit Agreement) provided for up to \$4.0 billion in borrowings, maturing on April 23, 2009. The Credit Agreement also contains a provision that will allow a further increase in the borrowing capacity to \$5.0 billion, if mutually acceptable to the Company and the lenders. Interest on the Credit Agreement is based on our debt ratings and leverage ratio and is subject to change. As of December 31, 2005, the Credit Agreement bore interest based upon 70 basis points over LIBOR and bore a facility fee for borrowed and unborrowed amounts of 17.5 basis points, a combined 87.5 basis points. At our option, we may borrow at the prime rate under the Credit Agreement. As of December 31, 2005, \$2.7 billion in borrowings was outstanding under the Credit Agreement with an additional \$92.7 million committed to back letters of credit. After consideration of these borrowings, but before consideration of amounts borrowed under the commercial paper program, \$1.2 billion of additional borrowing capacity was available to the Company as of December 31, 2005.

Contingent Convertible Senior Notes

Included in the debt assumed in the Caesars acquisition is \$375 million Floating Rate Contingent Convertible Senior Notes due 2024. The notes bear interest at an annual rate equal to the three month LIBOR, adjusted quarterly. The interest rate on these notes was 4.2% at December 31, 2005. The notes are convertible into cash and shares of common stock in the following circumstances:

- during any fiscal quarter, if the closing sale price of the Company's common stock for 20 out of the last 30 consecutive trading days during the previous quarter is more than 120% of the Conversion Price of the notes;
- the Company has called the notes for redemption and the redemption has not yet occurred;
- during the five trading day period immediately after any five consecutive trading day period in which the trading price of the notes per \$1,000 principal amount for each day of such period was less than 95% of the product of the closing sale price of the Company's common stock on such day multiplied by the number of shares issuable upon conversion; provided that, if on such date, the common stock price is between the Conversion Price and 120% of the Conversion Price, as defined, then the holders will receive the principal amount of the notes surrendered plus accrued but unpaid interest; or
- upon the occurrence of specified corporate transactions as defined in the indenture covering these notes.

Holder may convert any outstanding notes into cash and shares of the Company's common stock at a conversion price per share of \$67.92 (the Conversion Price) at December 31, 2005. This represents a conversion rate of approximately 14.7232 shares of common stock per \$1,000 principal amount of notes (the Conversion Rate). Subject to certain exceptions described in the indenture covering these notes, at the time the notes are tendered for conversion the value (the Conversion Value) of the cash and shares of the Company's common stock, if any, to be received by a holder converting \$1,000 principal amount of the notes will be determined by multiplying the Conversion Rate by the Ten Day Average Closing Stock Price, which equals the average of the closing per share prices of the Company's common stock on the New York Stock Exchange on the ten consecutive trading days beginning on the second trading day following the day the notes are submitted for conversion. The Conversion Value will be delivered to holders as follows: (1) an amount in cash (the Principal Return) equal to the lesser of (a) the aggregate Conversion Value of the notes to be converted and (b) the aggregate principal amount of the notes to be converted, and (2) if the aggregate Conversion Value of the notes to be converted is greater than the Principal Return, any amount in shares (the Net Shares) equal to the aggregate Conversion Value less the Principal Return (the Net Share Amount). The Company will pay the Principal Return and deliver the Net Shares, if any, as promptly as practicable after determination of the Net Share Amount. The number of Net Shares to be paid will be determined by dividing the Net Share Amount by the Ten Day Average Closing Stock Price.

The Conversion Price will decrease when cash dividends are declared so that the Conversion Price will equal the price determined by multiplying the Conversion Price in effect immediately prior to the record date for such dividend by a fraction, (i) the numerator of which shall be the average of the pre-dividend sale price, as defined in the agreement, minus the amount of the cash dividend, and (ii) the denominator of which shall be the pre-dividend sale price. As a result of the third and fourth quarter 2005 cash dividends, the Conversion Price had been adjusted from \$68.65 at the time of our acquisition of Caesars to \$67.92 at December 31, 2005.

The notes are redeemable by the Company at any time on or after April 20, 2009, at 100 percent of the principal amount of the notes plus accrued and unpaid interest. Holders may require the Company to purchase all or a portion of these notes on April 15, 2009, 2014, or 2019 at 100 percent of the principal amount of the notes plus accrued and unpaid interest. The notes are unsecured obligations, rank equal with our other senior indebtedness and are senior to all of our subordinated indebtedness.

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 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.

Interest Rate Swap Agreements

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of December 31, 2005, we were a party to five interest rate swaps, including four assumed in the Caesars acquisition, for a total notional amount of \$500 million. These interest rate swaps serve to manage the mix of our debt between fixed and variable rate instruments by effectively converting fixed rates associated with long-term debt obligations to floating rates. The major terms of the interest rate swaps are as follows.

Swap Effective Date	Notional Amount (In millions)	Fixed Rate Received	Variable Rate Paid as of Dec. 31, 2005	Next Reset Date	Swap Expiration Date
Jan. 30, 2004	\$ 200	7.125	% 8.809	% June 1, 2006	June 1, 2007
Sept. 19, 2003*	75	7.000	% 7.022	% Apr. 15, 2006	Apr. 15, 2013
Sept. 19, 2003*	75	7.000	% 7.015	% Apr. 15, 2006	Apr. 15, 2013
Nov. 12, 2003*	75	7.000	% 6.745	% Apr. 15, 2006	Apr. 15, 2013
Nov. 12, 2003*	75	7.000	% 6.730	% Apr. 15, 2006	Apr. 15, 2013

* Assumed in our acquisition of Caesars. The variable rates on the swaps acquired from Caesars are set in arrears and are estimated at December 31, 2005, based on a forward LIBOR rate.

The Company's original interest rate swap qualifies for the shortcut method allowed under SFAS No. 133, which allows for an assumption of no ineffectiveness. The interest rate swaps assumed in our acquisition of Caesars do not qualify for the shortcut method; however, they had been determined to be highly effective since inception. In our fourth quarter 2005 assessment, we determined that these interest rate swaps were no longer highly effective. We discontinued hedge accounting as of October 1, 2005. As a result, a \$3.2 million charge was recorded to interest expense in fourth quarter 2005 to record the change in fair value of these instruments. The fair value adjustments to the hedged item of \$3.2 million continue to be reported as a part of the basis of debt and are being amortized as a credit to interest expense over the life of the debt. The income statement impact from

changes in the fair value of the hedging instruments for our swap agreements was not material during any of the other periods reported. The net effect of the above swaps increased our 2005 interest expense by \$6.1 million. Our 2004 interest expense was reduced by \$4.0 million by the net effect of our four interest rate swaps in effect during 2004. As of December 31, 2005 and 2004, the fair value of the interest rate swap agreements was a net liability of approximately \$5.0 million and \$5.1 million, respectively, which is included in Deferred credits and other on our Consolidated Balance Sheets. In February 2006, we paid approximately \$3.4 million to terminate \$300 million of the interest rate swaps, which represented the fair value of the swaps on the date of termination. Because the interest rate swaps no longer qualified for hedge accounting, this amount will be recognized in earnings as interest expense in the first quarter of 2006.

Treasury Rate Lock Agreements

In anticipation of issuing new debt in 2005, we entered into agreements in 2004 and 2005 to lock in existing ten-year rates to partially hedge the risk of future increases to the treasury rate.

We determined that the treasury rate lock agreements qualified for hedge accounting and were perfectly effective. As such, there was no income statement impact from changes in the fair value of the hedging instruments. The fair values of our treasury rate lock agreements were carried as assets or liabilities in our Consolidated Balance Sheet, and changes in the fair values were recorded as a component of other comprehensive income and are being reclassified to earnings over the life of the debt to be issued. The amount that is expected to be reclassified to earnings within the next 12 months is not material. The net amount of deferred gains included in other comprehensive income at December 31, 2005 and 2004, is \$5.1 million and \$1.2 million, respectively. In May 2005, we issued \$750 million of 5.625% Senior Notes due 2015, and the treasury rate lock agreements were terminated. The treasury locks and discount/premium at issuance resulted in an effective rate of 5.76% on this debt.

Commercial Paper

To provide the Company with cost-effective borrowing flexibility, we have a \$200 million commercial paper program that is used to borrow funds for general corporate purposes. Although the debt instruments are short-term in tenor, they are classified as long-term debt because the commercial paper is backed by our Credit Agreement and we have committed to keep available capacity under our Credit Agreement in an amount equal to or greater than amounts borrowed under this program. At December 31, 2005, \$140.9 million was outstanding under this program.

Issuance of New Debt

In addition to our Credit Agreement, we have issued debt and entered into credit agreements to provide the Company with cost-effective borrowing flexibility and to replace short-term, floating-rate debt with long-term, fixed-rate debt. The table below summarizes the face value of debt obligations entered into during the last three years and outstanding at December 31, 2005.

Debt	Issued	Matures	Face Value Outstanding at December 31, 2005 (In millions)
5.75% Senior Notes	September 2005	2017	\$ 750.0
5.625% Senior Notes	September 2005	2015	250.0
5.625% Senior Notes	May 2005	2015	750.0
Senior Floating Rate Notes	February 2005	2008	250.0
Commercial Paper	2005	2006	140.9
5.5% Senior Notes	June 2004	2010	750.0
5.375% Senior Notes	December 2003	2013	500.0

Extinguishments of Debt

Funds from the new debt discussed above, as well as proceeds from our Credit Agreement, were used to retire certain of our outstanding debt, in particular those debt obligations assumed in certain of our acquisition transactions, to reduce our effective interest rate and/or lengthen maturities. The following table summarizes the debt obligations, in addition to our previous credit and letter of credit facilities that we have retired over the last three years.

Issuer	Date Retired	Debt Extinguished	Face Value Retired (In millions)
Harrah's Operating	December 2005	Senior Subordinated Notes due 2005	\$ 300.0
Harrah's Operating	November 2005	Senior Subordinated Notes due 2005	232.2
Caesars	November 2005	Senior Subordinated Notes due 2005	400.0
Harrah's Operating	February 2005	Senior Subordinated Notes due 2005	58.3
Horseshoe Gaming	August 2004	Senior Subordinated Notes due 2009	534.1
Harrah's Operating	December 2003	Senior Subordinated Notes due 2005	147.1
Harrah's Operating	August 2003	Senior Subordinated Notes due 2005	12.4

In July 2003, our Board of Directors authorized the Company to retire, from time to time through cash purchases, portions of our outstanding debt in open market purchases, privately negotiated transactions or otherwise. These repurchases will be funded through available cash from operations and borrowings from our established debt programs. Such repurchases will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors.

Charges of \$3.3 million in 2005 and \$19.1 million in 2003, representing premiums paid and write-offs of unamortized deferred financing costs and market value premiums associated with the early retirement of portions of the 7.875% Senior Subordinated Notes and of our previous credit and letter of credit facilities were recorded. These charges are included in Income from continuing operations in our Consolidated Statements of Income.

Equity Repurchase Programs

Our Board of Directors has authorized the purchase of up to 3.5 million shares of common stock in the open market and negotiated purchases through the end of 2006. The repurchases are to be funded through available operating cash flows and borrowings from our established debt programs. No shares were purchased in 2005; however, 1.0 million shares were purchased in 2004 at an average price of \$53.37 per share and 0.5 million shares were purchased in 2003 at an average price of \$35.87 per share under previously approved equity repurchase programs.

Guarantees of Third-Party Debt and Other Obligations and Commitments

The following tables summarize our contractual obligations and other commitments as of December 31, 2005.

Contractual Obligations (In millions)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Debt	\$ 10,858.1	\$ 6.9	\$ 6,544.9	\$ 771.5	\$ 3,534.8
Capital lease obligations	0.4	0.1	0.2	0.1	
Estimated interest payments(a)	3,552.4	687.7	1,591.2	476.1	797.4
Operating lease obligations	1,515.4	67.4	141.7	74.6	1,231.7
Purchase orders obligations	62.9	62.9			
Guaranteed payments to State of Louisiana	134.8	60.0	74.8		
Community reinvestment	101.9	5.2	15.6	10.7	70.4
Construction commitments	319.0	319.0			
Entertainment obligations	127.2	45.8	74.3	2.8	4.3
Other contractual obligations	66.5	25.6	21.4	9.2	10.3
	\$ 16,738.6	\$ 1,280.6	\$ 8,464.1	\$ 1,345.0	\$ 5,648.9

(a) Estimated interest for variable rate debt is based on rates at December 31, 2005.

Other Commitments (In millions)	Amount of Commitment Expiration Per Period				
	Total amounts committed	Less than 1 year	1-3 years	4-5 years	After 5 years
Guarantees of loans	\$ 265.6	\$ 31.1	\$ 234.5	\$	\$
Letters of credit	118.1	118.1			
Minimum payments to tribes	81.7	14.4	42.0	25.3	

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 four managed Indian-owned facilities now open, which extend for periods of up to 71 months from December 31, 2005, is \$1.2 million. Each of these casinos currently generates sufficient cash flows to cover all of their obligations, including their debt service.

We may guarantee all or part of the debt incurred by Indian tribes with which we have entered a management contract to fund development of casinos on the Indian lands. For all existing guarantees of Indian debt, we have obtained a first lien on certain personal property (tangible and intangible) of the casino enterprise. There can be no assurance, however, that the value of such property would satisfy our obligations in the event these guarantees were enforced. Additionally, we have received limited waivers from the Indian tribes of their sovereign immunity to allow us to pursue our rights under the contracts between the parties and to enforce collection efforts as to any assets in which a security interest is taken. The aggregate outstanding balance of such debt as of December 31, 2005, was \$247.3 million.

Some of our guarantees of the debt for casinos on Indian lands were modified during 2003, triggering the requirement under Financial Accounting Standards Board (FASB) Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to recognize a liability for the estimated fair value of those guarantees. Liabilities, representing the fair value of our guarantees, and corresponding assets, representing the portion of our management fee receivable attributable to our agreements to provide the related guarantees, were recorded and are being amortized over the lives of the related agreements. We estimate the fair value of the obligation by considering what premium would have been required by us or by an unrelated party. The amounts recognized represent the present value of the premium in interest rates and fees that would have been charged to the tribes if we had not provided the guarantees. The balance of the liability for the guarantees and of the related assets at December 31, 2005 and 2004, was \$4.1 million and \$5.5 million, respectively.

DEVELOPMENT OF NEW PROJECTS

In 2005 we announced plans to pursue several large-scale development projects, both international and domestic. Those projects are discussed below.

Las Vegas

During 2005, we acquired several businesses, including Imperial Palace, and parcels of land adjacent to our properties on the Las Vegas Strip (the Strip) to give us continuous land holdings on the east side of the Strip from Harrah's Las Vegas to Paris Las Vegas. This land, coupled with the additional acreage on which our Rio and Caesars Palace properties sit, permits a concept-development and master-planning opportunity for innovative entertainment options in Las Vegas. Master planning is underway, and preliminary plans are expected to be announced in mid-2006.

Atlantic City

We have begun an upgrade and expansion of Harrah's Atlantic City, which will include a 964-room hotel tower, a casino expansion and a 172,000 square foot retail and entertainment complex, featuring numerous amenities designed to provide comfort and excitement to our customers, including a spa with 22 treatment rooms, an ultra-lounge nightclub, an indoor pool and entertainment complex, a new Diamond Lounge, new retail stores, a 650 seat buffet and a 500 seat coffee shop. We expect the entertainment and retail center to open in early 2007 and the new hotel tower to open in the second quarter of 2008. The project is expected to cost \$550 million. We are also at work on a master plan for our Atlantic City properties that will be designed to create a cross-property entertainment experience there.

Biloxi

With the closure of our properties on the Mississippi Gulf Coast due to hurricane Katrina in late August 2005, we decided to concentrate our rebuilding efforts in the Mississippi Gulf on a resort casino at the former location of the Grand Casino Biloxi. We have reached an agreement to sell the remaining assets of Grand Casino Gulfport, and that transaction is expected to close by the end of the first quarter of 2006. We intend to announce preliminary plans for our new Biloxi project by mid-2006.

Chester Downs & Marina

In July 2004, after receiving Pennsylvania regulatory and certain local approvals, we acquired a 50 percent interest in Chester Downs & Marina, LLC (CD&M), an entity licensed to develop a harness-racing facility in southeastern Pennsylvania. Harrah's Entertainment and CD&M have agreed to develop Harrah's Chester Casino and Racetrack (Harrah's Chester's 1/8-mile harness racetrack facility, approximately six miles south of Philadelphia International Airport. Plans for the facility include a 1,500-seat grandstand and simulcast facility, a slot casino with approximately 2,000 games and a variety of food and beverage offerings. We have commenced site work and construction at the property and expect racing and simulcasting to begin in the second half of 2006. We will open the casino upon receipt of a gaming license and other regulatory approvals, which we expect to

receive in 2007. This project is expected to cost approximately \$425 million, \$78.5 million of which had been spent as of December 31, 2005. We expect to have spent approximately \$340 million by the commencement of racing and simulcasting. We will provide financing for the project or obtain external financing, which we may guarantee, and we are consolidating CD&M in our financial statements.

Singapore

We have teamed with several third parties to prepare a bid for an integrated resort in the Republic of Singapore that will include luxury accommodations, convention facilities, a cultural museum and dining and entertainment offerings. We expect to deliver our proposal to the government of the republic of Singapore during March 2006.

Spain

We have signed an agreement to develop a joint venture casino and hotel in the master-planned community of Ciudad Real, 118 miles south of Madrid. The joint venture between Harrah's Entertainment and El Reino de Don Quijote de La Mancha, S.A. is owned 60% and 40%, respectively.

Slovenia

We have signed a memorandum of understanding with the Hit Group, a Slovenian company that operates nine casinos, to build a casino and hotel in Nova Gorica, Slovenia, a resort city located along the border with Italy. Appropriate governmental approvals and changes in certain laws are required to move forward with this project.

The Bahamas

We have signed a letter of intent with Baha Mar Resorts, Ltd. and Starwood Hotels & Resorts Worldwide, Inc. to create the Caribbean's largest single-phase destination in the Bahamas. We expect to develop and operate a Caesars branded casino and hotel within the project.

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 61% 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 \$5.2 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 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.

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. In fourth quarter 2005, 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, a thoroughbred race track that was expanded to include slot machines in 2003, 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 is reported in our Discontinued operations, the write-off of goodwill and intangible assets for that property of \$78.6 million, after taxes, is included in Discontinued operations.

Our 2004 annual assessment indicated that no goodwill or other intangible assets with indefinite lives were impaired.

Our 2003 annual assessment indicated that the goodwill associated with Harrah's Reno was impaired, and a charge of \$6.3 million was recorded in fourth quarter 2003.

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, 2005 and 2004, \$73.1 million and \$30.4 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers at certain of our properties, including the properties acquired in our acquisitions of Caesars and Horseshoe Gaming, can earn points based on play that are redeemable in cash (cash-back points). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2005 and 2004, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$21.6 million and \$7.3 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, 2005 and 2004, we had \$111.8 million and \$48.6 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, 2005 and 2004, we had total self-insurance accruals reflected in our Consolidated Balance Sheets of \$198.3 million and \$97.6 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 state net operating losses (NOLs), and other deferred 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 state NOLs and other deferred 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.

Our income tax returns are subject to examination by the Internal Revenue Service (IRS) and other tax authorities. While positions taken in tax returns are sometimes subject to uncertainty in the tax laws, we do not take such positions unless we have substantial authority to do so under the Internal Revenue Code and applicable regulations. We may take positions on our tax returns based on substantial authority that are not ultimately accepted by the IRS. We assess such potential unfavorable outcomes based on the criteria of SFAS No. 5, *Accounting for Contingencies*. We establish a tax reserve if an unfavorable outcome is probable and the amount of the unfavorable outcome can be reasonably estimated. We assess the potential outcomes of tax uncertainties on a quarterly basis. In determining whether the probable criterion of SFAS No. 5 is met, we presume that the taxing authority will focus on the exposure and we assess the probable outcome of a particular issue based upon the relevant legal and technical merits. We also apply our judgment regarding the potential actions by the tax authorities and resolution through the settlement process. We maintain required tax reserves until such time as the underlying issue is resolved.

When actual results differ from reserve estimates, we adjust the income tax provision and our tax reserves in the period resolved. For tax years that are examined by taxing authorities, we adjust tax reserves in the year the tax examinations are settled. For tax years that are not examined by taxing authorities, we adjust tax reserves in the year that the statute of limitations expires. To the extent such adjustments are attributable to pre-acquisition years of acquired entities, we record them as an adjustment to purchase price. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental, and we believe we have adequately provided for any reasonable and foreseeable outcomes related to uncertain tax matters.

In the event that the taxing authorities ultimately sustain adjustments to our previously reported taxable income, we will remit payments accordingly. These remittances coupled with the expiration of bonus depreciation provisions in 2005 could cause total tax payments to exceed the reported amount of income tax expense. However, we do not expect there to be any impact on the Company's liquidity.

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. Reserve amounts may relate to the deductibility of an item, as well as potential interest or penalties associated with those items. Significant tax reserve adjustments impacting the effective tax rate are separately presented in the rate reconciliation table of Note 11 to our Consolidated Financial Statements.

RECENTLY ISSUED AND PROPOSED ACCOUNTING STANDARDS

The following are accounting standards adopted or issued in 2005 that could have an impact to our Company.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment. SFAS No. 123(R) requires that we recognize an expense for our equity-based compensation programs, including stock options and stock appreciation rights. Expense will be measured based on the grant-date fair value of the equity instruments being issued. In second quarter 2005, the application of SFAS No. 123(R) was changed from the first interim or annual reporting period that begins after June 15, 2005, to the first annual reporting period that begins after June 15, 2005. Based on the new guidance, we will apply SFAS No. 123(R) in our first quarter 2006 reporting period. We will adopt SFAS No. 123(R) using the modified prospective method, which requires us to recognize expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. As a result of adopting SFAS No. 123(R), we will recognize significantly more compensation expense in future periods. We estimate that our 2006 incremental expense for stock awards due to implementation of SFAS No. 123(R) will be approximately \$75 million. Due to the timing of our annual stock awards grant, our expense will be higher in the last half of 2006 than in the first half. Because this estimate is based on assumptions including estimated new grants during 2006, changes in stock price, forfeitures of awards and employee exercise behavior, the actual expense may be different from this estimate.

In September 2004, the Emerging Issues Task Force reached a consensus on Issue 04-8, The Effect of Contingently Convertible Instruments on Diluted Earnings per Share, which addresses when contingently convertible instruments should be included in diluted earnings per share. Per the consensus, contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus is to be applied to reporting periods ending after December 15, 2004. The dilutive effect of the contingently convertible instruments assumed in our acquisition of Caesars is included in our diluted earnings per share calculation for the period ended December 31, 2005.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 (FIN 47), to address diverse accounting practices with respect to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing or method of settlement of the obligation are conditional on a future event. FIN 47 was effective no later than December 31, 2005, for calendar year companies, and had no effect on our financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3, which changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle, as well as to changes required by an accounting pronouncement if the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods financial statements of changes in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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 Note 1 to the consolidated financial statements, in 2005, the Company changed the presentation of its consolidated statements of cash flows to separately disclose cash flows from operating, investing, and financing activities of discontinued operations and to present the proceeds from the sale of discontinued operations as an investing activity of continuing operations. The statements of cash flows for the years ended December 31, 2004 and 2003, were retroactively revised for the changes.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, 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 March 10, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Las Vegas, Nevada
March 10, 2006

HARRAH S ENTERTAINMENT, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except share amounts)

	December 31,	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$ 724.4	\$ 489.0
Insurance receivables for hurricane damage	87.3	
Other receivables, less allowance for doubtful accounts of \$111.8 and \$48.6	340.0	130.5
Deferred income taxes (Note 11)	219.8	30.1
Income tax receivable	77.4	46.0
Prepayments and other	120.7	66.0
Inventories	59.5	25.6
Total current assets	1,629.1	787.2
Land, buildings, riverboats and equipment		
Land and land improvements	4,187.7	881.0
Buildings, riverboats and improvements	7,570.7	3,788.4
Furniture, fixtures and equipment	2,429.7	1,649.0
Construction in progress	585.3	202.3
	14,773.4	6,520.7
Less: accumulated depreciation	(2,192.8)	(1,775.7)
	12,580.6	4,745.0
Assets held for sale (Note 4)	375.5	502.6
Goodwill (Notes 2 and 5)	3,135.5	1,354.7
Intangible assets (Notes 2 and 5)	2,017.9	861.4
Investments in and advances to nonconsolidated affiliates (Note 16)	26.1	6.1
Deferred costs and other	752.9	328.6
	\$ 20,517.6	\$ 8,585.6
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 365.2	\$ 174.5
Accrued expenses (Note 7)	1,226.2	577.7
Current portion of long-term debt (Note 8)	7.0	1.8
Total current liabilities	1,598.4	754.0
Liabilities held for sale (Note 4)		
	12.1	0.8
Long-term debt (Note 8)		
	11,038.8	5,151.1
Deferred credits and other		
	324.2	198.5
Deferred income taxes (Note 11)		
	1,847.4	413.5
	14,820.9	6,517.9
Minority interests		
	31.6	32.5
Commitments and contingencies (Notes 3, 4, 9, 11 and 13 through 16)		
Stockholders' equity (Notes 6, 8, 15 and 16)		
Common stock, \$0.10 par value, authorized 720,000,000 shares, outstanding 183,833,358 and 112,732,285 shares (net of 35,639,390 and 36,130,542 shares held in treasury)	18.4	11.3
Capital surplus	5,008.4	1,394.5
Retained earnings	654.4	638.4
Accumulated other comprehensive (loss)/income	(5.3)	1.0
Deferred compensation related to restricted stock	(10.8)	(10.0)
	5,665.1	2,035.2
	\$ 20,517.6	\$ 8,585.6

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

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HARRAH S ENTERTAINMENT, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2005	2004	2003
Revenues			
Casino	\$ 6,071.5	\$ 4,077.7	\$ 3,458.4
Food and beverage	1,097.5	665.5	596.8
Rooms	791.8	390.1	339.0
Management fees	75.6	60.6	72.1
Other	425.9	217.2	190.1
Less: casino promotional allowances	(1,351.3)	(862.8)	(707.5)
Net revenues	7,111.0	4,548.3	3,948.9
Operating expenses			
Direct			
Casino	3,057.2	2,061.6	1,748.7
Food and beverage	485.1	278.1	255.2
Rooms	151.8	67.0	65.3
Property general, administrative and other	1,474.1	924.8	830.3
Depreciation and amortization	496.5	327.2	294.3
Write-downs, reserves and recoveries (Note 10)	248.8	9.6	10.5
Project opening costs	16.4	9.5	7.4
Corporate expense	97.7	66.8	52.6
Merger and integration costs for Caesars acquisition	55.0	2.3	
(Income)/losses on interests in nonconsolidated affiliates (Note 16)	(1.2)	0.9	1.0
Amortization of intangible assets (Note 5)	49.9	9.4	4.8
Total operating expenses	6,131.3	3,757.2	3,270.1
Income from operations	979.7	791.1	678.8
Interest expense, net of interest capitalized (Note 12)	(481.2)	(271.8)	(234.4)
Losses on early extinguishments of debt (Note 8)	(3.3)		(19.1)
Other income, including interest income	8.0	9.5	2.9
Income from continuing operations before income taxes and minority interests	503.2	528.8	428.2
Provision for income taxes (Note 11)	(227.8)	(190.7)	(155.5)
Minority interests	(11.9)	(8.6)	(11.6)
Income from continuing operations	263.5	329.5	261.1
Discontinued operations (Note 4)			
Income from discontinued operations (including gain on disposal of \$119.6 in 2005 and loss on disposal of \$1.7 in 2003)	67.5	56.6	48.5
Provision for income taxes	(94.6)	(18.4)	(17.0)
(Loss)/income from discontinued operations	(27.1)	38.2	31.5
Net income	\$ 236.4	\$ 367.7	\$ 292.6
Earnings per share basic			
Income from continuing operations	\$ 1.78	\$ 2.97	\$ 2.40
Discontinued operations, net	(0.18)	0.34	0.29
Net income	\$ 1.60	\$ 3.31	\$ 2.69
Earnings per share diluted			
Income from continuing operations	\$ 1.75	\$ 2.92	\$ 2.36
Discontinued operations, net	(0.18)	0.34	0.29
Net income	\$ 1.57	\$ 3.26	\$ 2.65
Dividends declared per share	\$ 1.39	\$ 1.26	\$ 0.60
Weighted average common shares outstanding	148.0	111.2	109.0
Additional shares based on average market price for period applicable to:			
Restricted stock	0.5	0.5	0.4
Stock options	1.5	1.2	1.0
Convertible debt	0.2		
Weighted average common and common equivalent shares outstanding	150.2	112.9	110.4

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

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HARRAH S ENTERTAINMENT, INC.**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME****(In millions)****(Notes 6, 8, 15 and 16)**

	Common Stock Shares Outstanding	Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Deferred Compensation Restricted Stock	Total	Comprehensive Income
Balance December 31, 2002	109.7	\$ 11.0	\$ 1,224.8	\$ 260.3	\$ (0.4)	)(24.7)	)\$ 1,471.0	
Net income				292.6			292.6	\$ 292.6
Unrealized gain on available-for-sale securities, net of deferred tax provision of \$0.2					0.4		0.4	0.4
Foreign currency translation adjustments, net of tax provision of \$0.1					0.2		0.2	0.2
Treasury stock purchases	(0.5)	(0.1)		(17.8)			(17.9)	
Cash dividends				(66.2)			(66.2)	
Net shares issued under incentive compensation plans, including income tax benefit of \$15.5	1.7	0.2	53.1	(2.2)		7.3	58.4	
2003 Comprehensive Income								\$ 293.2
Balance December 31, 2003	110.9	11.1	1,277.9	466.7	0.2	(17.4)	)1,738.5	
Net income				367.7			367.7	\$ 367.7
Net gain on derivatives qualifying as cash flow hedges, net of tax provision of \$0.4					0.7		0.7	0.7
Foreign currency translation adjustments, net of tax provision of \$0.0					0.1		0.1	0.1
Treasury stock purchases	(1.0)	(0.1)		(53.3)			(53.4)	
Cash dividends				(141.3)			(141.3)	
Net shares issued under incentive compensation plans, including income tax benefit of \$26.8	2.8	0.3	116.6	(1.4)		7.4	122.9	
2004 Comprehensive Income								\$ 368.5
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)

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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		

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,		
	2005	2004	2003
Cash flows from operating activities			
Net income	\$ 236.4	\$ 367.7	\$ 292.6
Adjustments to reconcile net income to cash flows from operating activities:			
Earnings from discontinued operations, before income taxes	(67.5)	(56.6)	(48.5)
Losses on early extinguishments of debt	3.3		19.1
Depreciation and amortization	533.8	361.6	319.7
Write-downs, reserves and recoveries	207.6	0.2	10.5
Deferred income taxes	(30.1)	82.4	104.3
Tax benefit from stock equity plans	29.9	26.8	15.5
Other noncash items	35.8	16.0	18.8
Minority interests' share of net income	11.9	8.6	11.6
(Income)/losses on interests in nonconsolidated affiliates	(1.2)	0.9	1.0
Returns on investment in nonconsolidated affiliate	1.2		
Net losses from asset sales	14.6	2.3	0.1
Net change in long-term accounts	(80.5)	(51.2)	(32.2)
Net change in working capital accounts	(280.3)	32.3	(45.7)
Cash flows provided by operating activities	614.9	791.0	666.8
Cash flows from investing activities			
Payments for businesses acquired, net of cash acquired	(1,942.5)	(1,616.9)	
Proceeds from sales of discontinued operations	649.5	197.6	48.6
Insurance proceeds for hurricane losses for discontinued operations	17.4		
Insurance proceeds for hurricane losses for continuing operations	83.7		
Escrow payment for Horseshoe acquisition			(75.0)
Purchase of minority interest in subsidiary		(37.5)	
Land, buildings, riverboats and equipment additions	(1,159.5)	(654.2)	(383.6)
Investments in and advances to nonconsolidated affiliates	(5.5)	(0.3)	(4.2)
Increase in construction payables	41.0	35.2	1.8
Proceeds from other asset sales	37.1	3.8	3.9
Proceeds from sales of ownership interests in nonconsolidated affiliates	2.7		0.9
Other	(22.9)	(26.7)	(15.0)
Cash flows used in investing activities	(2,299.0)	(2,099.0)	(422.6)
Cash flows from financing activities			
Proceeds from issuance of senior notes, net of discount and issue costs of \$20.7, \$12.0 and \$6.9	2,004.3	738.0	493.1
Borrowings under lending agreements, net of financing costs of \$7.6, \$6.2 and \$15.3	11,599.4	4,157.9	3,368.9
Repayments under lending agreements	(10,522.9)	(3,424.1)	(2,526.2)
Losses on derivative instruments	(7.9)	(0.8)	
Borrowings under retired bank facility			161.1
Repayments under retired bank facility			(1,446.6)
Other short-term repayments			(60.3)
Early extinguishments of debt	(690.5)		(159.5)
Premiums paid on early extinguishments of debt	(4.9)		(16.1)
Scheduled debt retirements	(307.5)	(1.6)	(1.6)
Dividends paid	(208.2)	(141.3)	(66.2)
Proceeds from exercises of stock options	106.7	90.0	34.1
Purchases of treasury stock		(53.4)	(17.9)
Minority interests' distributions, net of contributions	(12.2)	(8.9)	(10.6)
Other	(0.2)	0.7	(0.2)
Cash flows provided by/(used in) financing activities	1,956.1	1,356.5	(248.0)
Cash flows from discontinued operations (revised - See Note 1)			

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Cash flows from operating activities	(23.5)	75.3	69.1
Cash flows from investing activities	(13.1)	(32.7) (51.8
Cash flows (used in)/provided by discontinued operations	(36.6	)	42.6	17.3
Net increase in cash and cash equivalents	235.4		91.1	13.5
Cash and cash equivalents, beginning of year	489.0		397.9	384.4
Cash and cash equivalents, end of year	\$ 724.4		\$ 489.0	\$ 397.9

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

HARRAH S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, unless otherwise stated)

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, 2005, we operated 39 casinos, primarily under the Harrah s, Caesars and Horseshoe brand names, including 20 land-based casinos, 11 riverboat or dockside casinos, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, four managed casinos on Indian lands and two casinos on cruise ships. We also own four casinos that were closed as of December 31, 2005, due to damage from hurricanes in third quarter 2005 (see Note 3). We view each property as an operating segment and aggregate all operating segments into one reporting segment.

On June 13, 2005, we completed our acquisition of Caesars Entertainment, Inc. (Caesars). The purchase price allocation process began in June 2005 and will be completed within one year of the date of the acquisition. The results of the Caesars properties are included with our operating results subsequent to their acquisition. Depreciation and amortization related to the Caesars acquisition is estimated based on our preliminary purchase price allocation. Estimated useful lives and amortization periods of property, equipment and intangible assets are being determined during the purchase price allocation and will be adjusted accordingly. See Note 2 for further information regarding our acquisition of Caesars.

Certain of our properties were sold during each 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.

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 \$23.3 million and \$22.0 million at December 31, 2005 and 2004, 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 held for future development or disposition, which totaled \$113.3 and \$119.5 million at December 31, 2005 and 2004, 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 \$14.1 million, \$4.1 million and \$2.3 million in 2005, 2004 and 2003, 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 \$5.2 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, 2005 and 2004, \$73.1 million and \$30.4 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

The properties acquired from Horseshoe Gaming Holding Corp. (Horseshoe Gaming) in 2004 were integrated into our Total Rewards program during 2005. One of the properties acquired from Caesars in 2005 was integrated into our Total Rewards program in late 2005, and we are planning to integrate the other properties acquired from Caesars during the first half of 2006. Since any unredeemed points earned under Caesars' former customer rewards program are rolled over as newly earned Reward Credits when the properties are integrated into Total Rewards, costs for points earned as of December 31, 2005, were expensed based on Harrah's Entertainment's historical redemption activity and cost to provide Reward Credits.

In addition to Reward Credits, customers at certain of our properties, including the properties acquired in our acquisitions of Caesars and Horseshoe Gaming, can earn points based on play that are redeemable in cash (cash-back points). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2005 and 2004, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$21.6 million and \$7.3 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, 2005 and 2004, we had total self-insurance accruals reflected on our Consolidated Balance Sheets of \$198.3 million and \$97.6 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 we hold in treasury 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:

	2005	2004	2003
Food and beverage	\$ 396.3	\$ 240.8	\$ 204.8
Rooms	123.4	82.9	77.4
Other	71.0	50.2	25.7
	\$ 590.7	\$ 373.9	\$ 307.9

ADVERTISING. The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense for continuing operations was \$207.5 million, \$129.7 million and \$116.0 million for the years 2005, 2004 and 2003, respectively.

STOCK-BASED EMPLOYEE COMPENSATION. As allowed under the provisions of SFAS No. 123, Accounting for Stock-Based Compensation, we apply the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for our stock option plans and, accordingly, do not recognize compensation expense. Furthermore, no stock option-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation expense for the stock option plans been determined in accordance with SFAS No. 123, total stock-based employee compensation expense, net of tax effects, would have been \$31.7 million, \$29.9 million, and \$23.5 million for the years ended December 31, 2005, 2004, and 2003, respectively, and our pro forma Net income and Earnings per share for the indicated periods would have been:

	2005		2004		2003	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	\$ 236.4	\$ 204.7	\$ 367.7	\$ 337.8	\$ 292.6	\$ 269.1
Earnings per share						
Basic	1.60	1.38	3.31	3.04	2.69	2.47
Diluted	1.57	1.32	3.26	2.96	2.65	2.40

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

	2005	2004	2003
Expected dividend yield	2.0 %	2.5 %	2.8 %
Expected stock price volatility	32.6 %	37.9 %	37.0 %
Risk-free interest rate	3.9 %	3.7 %	2.5 %
Expected average life of options (years)	5	5	6

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment, which we are required to apply as of the first annual reporting period that begins after June 15, 2005. SFAS No. 123(R) requires that we recognize an expense for our equity-based compensation programs, including stock options and stock appreciation rights. Based on the new guidance, we will apply SFAS No. 123(R) in our first quarter 2006 reporting period. We will adopt SFAS No. 123(R) using the modified prospective method, which requires us to recognize expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. As a result of adopting SFAS No. 123(R), we will recognize significantly more compensation expense in future periods. We estimate that our 2006 incremental expense for stock awards due to the implementation of SFAS No. 123(R) will be approximately \$75 million. Due to the timing of our annual stock awards grant, our expense will be higher in the last half of 2006 than in the first half. Because this estimate is based on assumptions including estimated new grants during 2006, changes in stock price, forfeitures of awards and employee stock option exercise behavior, the actual expense may be different from this estimate.

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 state net operating losses (NOLs), and other deferred 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 state NOLs and other deferred 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.

Our income tax returns are subject to examination by the Internal Revenue Service (IRS) and other tax authorities. While positions taken in tax returns are sometimes subject to uncertainty in the tax laws, we do not take such positions unless we have substantial authority to do so under the Internal Revenue Code and applicable regulations. We may take positions on our tax returns based on substantial authority that are not ultimately accepted by the IRS. We assess such potential unfavorable outcomes based on the criteria of SFAS No. 5, Accounting for Contingencies. We establish a tax reserve if an unfavorable outcome is probable and the

amount of the unfavorable outcome can be reasonably estimated. We assess the potential outcomes of tax uncertainties on a quarterly basis. In determining whether the probable criterion of SFAS No. 5 is met, we presume that the taxing authority will focus on the exposure and we assess the probable outcome of a particular issue based upon the relevant legal and technical merits. We also apply our judgment regarding the potential actions by the tax authorities and resolution through the settlement process. We maintain required tax reserves until such time as the underlying issue is resolved. When actual results differ from reserve estimates, we adjust the income tax provision and our tax reserves in the period resolved. For tax years that are examined by taxing authorities, we adjust tax reserves in the year the tax examinations are settled. For tax years that are not examined by taxing authorities, we adjust tax reserves in the year that the statute of limitations expires. To the extent such adjustments are attributable to pre-acquisition years of acquired entities, we record them as an adjustment to purchase price. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental, and we believe we have adequately provided for any reasonable and foreseeable outcomes related to uncertain tax matters.

In the event that the taxing authorities ultimately sustain adjustments to our previously reported taxable income, we will remit payments accordingly. These remittances coupled with the expiration of bonus depreciation provisions in 2005 could cause total tax payments to exceed the reported amount of income tax expense. However, we do not expect there to be any impact on the Company's liquidity.

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. Reserve amounts may relate to the deductibility of an item, as well as potential interest or penalties associated with those items. Significant tax reserve adjustments impacting the effective tax rate are separately presented in the rate reconciliation table of Note 11.

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, 2005, common equivalent shares included net restricted shares of 539,844, 489,958 and 453,592, respectively and stock options outstanding of 1,481,765, 1,215,060 and 977,263, respectively, under our employee stock benefit plans. For the year ended December 31, 2005, common equivalent shares also included 158,696 potential shares related to the conversion spread of our convertible debt. (See Note 15.)

CONSOLIDATED STATEMENTS OF CASH FLOWS. During 2005, we changed the presentation of cash flows from discontinued operations to present separate disclosure of the cash flows from operating, investing and financing activities and the presentation of Proceeds from sales of discontinued operations as an investing activity of continuing operations.

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

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In the three-year period ended December 31, 2005, we acquired two casino companies, a casino in Las Vegas, Nevada, and certain intellectual property rights. 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, 2005.

Company	Date Acquired	Total Purchase Price(a)	Goodwill Assigned	Number of Casinos	Geographic Location
Imperial Palace	December 2005	\$373 million		1	Las Vegas, Nevada
Caesars	June 2005	\$9.3 billion	\$2.0 billion	15	Atlantic City, New Jersey(2) Las Vegas, Nevada(4) Reno, Nevada Laughlin, Nevada Biloxi, Mississippi(b) Gulfport, Mississippi(c) Tunica, Mississippi(2) Southern Indiana Punta del Este, Uruguay(d) Ontario, Canada(e)
Horseshoe Gaming	July 2004	\$1.6 billion	\$584 million	3	Bossier City, Louisiana Hammond, Indiana Tunica, Mississippi
Horseshoe Club Operating Company	March 2004	\$37 million			(f)

- (a) Total purchase price includes the market value of debt assumed determined as of the acquisition date.
- (b) Closed due to hurricane damage in August 2005.
- (c) Closed due to hurricane damage in August 2005. Remaining assets to be sold.
- (d) We have an approximate 89% ownership interest in the company that owns Conrad Punta del Este and we manage the property.
- (e) We have a 50% interest in the company that manages Casino Windsor. The province of Ontario owns the complex.
- (f) This acquisition was for certain intellectual property assets, including the rights to the Horseshoe brand in Nevada and to the World Series of Poker brand and tournament.

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 \$373.1 million, including acquisition costs of \$3.1 million. 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. This acquisition is one of a number of moves designed to strategically position the Company for development in Las Vegas. The results of Imperial Palace are included in our operating results subsequent to its acquisition on December 23, 2005.

The following table summarizes the values assigned to the assets acquired and liabilities assumed at the date of 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 incremental land cost. We expect to revise the values assigned to the acquired assets after we have reviewed and considered additional information. The purchase price allocation will be completed within one year of the acquisition.

(In millions)	At Dec. 23, 2005
Current assets	\$ 1.5
Land, buildings and equipment	372.9
Total assets acquired	374.4
Current liabilities	(1.3)
Net assets acquired	\$ 373.1

CAESARS ENTERTAINMENT. On June 13, 2005, we completed our acquisition of 100 percent of the outstanding shares of Caesars. Under the terms of the agreement, Caesars stockholders were to receive either \$17.75 in cash or 0.3247 shares of Harrah s Entertainment s common stock for each outstanding share of Caesars common stock, subject to limitations on the aggregate amount of cash to be paid and shares of stock to be issued. Caesars stockholders were able to elect to receive solely shares of Harrah s Entertainment s common stock or cash, to the extent available pursuant to the terms of the agreement. Of the 314.8 million Caesars shares outstanding at the transaction date, 307.1 million elected to receive Harrah s Entertainment s common stock. The consideration paid to those stockholders was prorated, resulting in each holder of one share of Caesars stock receiving \$5.66 in cash and 0.2211 of a share of our common stock. Each of the remaining 7.7 million Caesars shares received \$17.75 per share in cash consideration. We financed the acquisition with borrowings from established debt programs. 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 acquisition of Caesars added 15 casinos with about 1.6 million square feet of gaming space and approximately 24,000 hotel rooms and gave us significant additional presence in Las Vegas, Atlantic City and Mississippi. See Note 3 for a discussion of recent hurricanes that affected two of the properties acquired from Caesars.

The results of the Caesars properties are included with our operating results subsequent to their acquisition on June 13, 2005. Depreciation and amortization related to the Caesars acquisition is estimated based on our preliminary purchase price allocation. Estimated useful lives and amortization periods of property, equipment and intangible assets are being determined during the purchase price allocation and will be adjusted accordingly.

In May 2005, Caesars reached an agreement to sell the Reno Hilton, and that sale, which is subject to regulatory approvals, is expected to close in second quarter 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 financial statements. We sold the Halifax hotel in November 2005, and recognized no gain or loss on the sale. We reached an agreement in November 2005, to sell Flamingo Laughlin. The sale of Flamingo Laughlin is subject to regulatory approvals and is expected to close by mid-2006. No gain or loss is expected on these sales.

In preparation for 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 reflected in Merger and integration costs for Caesars acquisition in our Consolidated Statements of Income.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is in process and will be completed within one year of the acquisition; thus, the allocation of the purchase price is subject to refinement. We are continuing our review of the information provided to us by the third parties engaged to perform the valuation studies and have asked for additional information that is necessary for us to finalize the purchase price allocation. This information includes additional support for the valuation of land in the Las Vegas market and for the values assigned to acquired customer relationships. We are also working with internal and external legal counsel to finalize the assessments of the exposures we assumed for certain contingent liabilities. The preliminary purchase price allocation set forth below also assumes that certain assets, identified for probable replacement prior to the consummation of the acquisition, will be removed from service, which impacts the fair value and useful lives assigned to these assets. The decision to remove these assets from service is subject to final approval by the Board of Directors. Should the determination be made prior to the finalization of the purchase price allocation that these assets will remain in service, the purchase price allocation will be adjusted accordingly. For purposes of these financial statements, the purchase price allocation is based on the best estimates available of fair values and useful lives for the affected assets.

	At June 13, 2005
Current assets	\$ 798.6
Land, buildings, riverboats and equipment	7,557.1
Long-term assets	253.3
Intangible assets	1,234.8
Goodwill	1,961.7
Total assets acquired	11,805.5
Current liabilities	(1,000.7)
Deferred income taxes	(1,515.1)
Long-term debt	(3,842.2)
Total liabilities assumed	(6,358.0)
Net assets acquired	\$ 5,447.5

Of the estimated \$1,234.8 million of acquired intangible assets, \$200.0 million has been assigned to gaming rights that are not subject

to amortization and \$218.0 million has been assigned to trademarks that are not subject to amortization. The remaining intangible assets include customer relationships estimated at \$710.5 million (14-year weighted-average useful life), contract rights estimated at \$57.3 million (7-year estimated life), gaming rights of \$20.0 million (20-year estimated useful life) and trademarks of \$29.0 million (5-year estimated useful life). The weighted average useful life of all amortizing intangible assets related to the Caesars acquisition is approximately 13 years.

We anticipate that the goodwill related to the Caesars acquisition will not be deductible for tax purposes.

HORSESHOE GAMING. On July 1, 2004, we acquired 100 percent of the equity interests of Horseshoe Gaming for approximately \$1.62 billion, including assumption of debt valued at approximately \$558 million and acquisition costs. A \$75 million escrow payment made in 2003 was applied to the purchase price. We issued a redemption notice on July 1, 2004, for all \$558 million of Horseshoe Gaming's outstanding 8.625% Senior Subordinated Notes due July 2009 and retired that debt on August 2, 2004. We financed the acquisition and the debt retirement through working capital and established debt programs.

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We purchased Horseshoe Gaming to acquire casinos in Hammond, Indiana; Tunica, Mississippi; and Bossier City, Louisiana and with the intention of growing and developing the Horseshoe brand.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

	At July 1, 2004
Current assets	\$ 109.7
Land, buildings, riverboats and equipment	547.2
Long-term assets	17.7
Intangible assets	494.0
Goodwill	583.8
Total assets acquired	1,752.4
Current liabilities	(80.1)
Deferred income taxes	(47.4)
Long-term debt	(558.1)
Total liabilities assumed	(685.6)
Net assets acquired	\$ 1,066.8

Of the \$494.0 million of acquired intangible assets, \$295.0 million was assigned to gaming rights and \$89.0 million was assigned to trademarks, both of which are not subject to amortization. The remaining intangible assets include customer relationships estimated at \$100.0 million (15-year weighted-average useful life) and contract rights estimated at \$10.0 million (four-year estimated life). The weighted average useful life of all amortizing intangible assets is approximately 14 years.

We anticipate that all of the goodwill related to the Horseshoe Gaming acquisition will be deductible for tax purposes.

In anticipation of our acquisition of Horseshoe Gaming, we sold our Harrah's brand casino in Shreveport, Louisiana. (See Note 4.) After consideration of the sale of Harrah's Shreveport, the Horseshoe Gaming acquisition added a net 113,300 square feet of casino space and approximately 4,580 slot machines and 150 table games to our existing portfolio. Taken together with our acquisition of intellectual property rights from Horseshoe Club Operating Company (Horseshoe Club) (see discussion below), this acquisition gave us rights to the Horseshoe brand in all of the United States. The results of the Horseshoe Gaming properties are included with our operating results subsequent to their acquisition on July 1, 2004.

Pro Forma Results

The results of operations of the properties acquired in the Horseshoe Gaming and Caesars acquisitions have been included in our consolidated financial statements since their respective July 1, 2004, and June 13, 2005, dates of acquisition. The following unaudited pro forma consolidated financial information has been prepared assuming that the following transactions had occurred at the beginning of 2005 and 2004:

- our acquisition of Caesars;
- Caesars' sales of Las Vegas Hilton, Atlantic City Hilton, Bally's Tunica, Bally's Casino New Orleans, Caesars Tahoe, Casino Nova Scotia-Halifax, Casino Nova Scotia-Sydney and its ownership and management interests in Caesars Gauteng;
- our sale of Harrah's East Chicago and Harrah's Tunica;

- our acquisition of Horseshoe Gaming and the extinguishment of Horseshoe Gaming's debt; and
- our sale of Harrah's Shreveport.

(In millions, except per share amounts)	Year ended December 31,	
	2005	2004
Net revenues	\$ 8,875.0	\$ 8,598.3
Income from operations	\$ 997.0	\$ 1,368.0
Income from continuing operations	\$ 197.7	\$ 451.5
Net income	\$ 146.2	\$ 475.6
Earnings per share - diluted		
Income from continuing operations	\$ 1.08	\$ 2.48
Net income	\$ 0.80	\$ 2.61

These 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 acquisitions been completed as of the beginning of these periods, or of future results.

LAS VEGAS HORSESHOE HOTEL AND CASINO. In March 2004, we acquired certain intellectual property assets, including the rights to the Horseshoe brand in Nevada and to the World Series of Poker brand and tournament, from Horseshoe Club. MTR Gaming Group, Inc. (MTR Gaming) acquired the assets of the Binion's Horseshoe Hotel and Casino (Las Vegas Horseshoe) in Las Vegas, Nevada, including the right to use the name Binion's at the property, from Horseshoe Club. We operated Las Vegas Horseshoe jointly with a subsidiary of MTR Gaming for one year, which ended March 10, 2005. Operating results for Las Vegas Horseshoe were consolidated with our results from April 1, 2004 until the operating agreement was terminated on March 10, 2005. Las Vegas Horseshoe's results were not material to our operating results.

We paid approximately \$37.5 million for the intellectual property assets, including assumption and subsequent payment of certain liabilities of Las Vegas Horseshoe (which included certain amounts payable to a principal of Horseshoe Gaming) and approximately \$5.2 million of acquisition costs. The intangible assets acquired in this transaction have been deemed to have indefinite lives and, therefore, are not being amortized. We financed the acquisition with funds from various sources, including cash flows from operations and borrowings from established debt programs.

CHESTER DOWNS & MARINA. In July 2004, after receiving Pennsylvania regulatory and certain local approvals, we acquired a 50 percent interest in Chester Downs & Marina, LLC (CD&M), an entity licensed to develop a harness-racing facility in southeastern Pennsylvania. Harrah's Entertainment and CD&M have agreed to develop Harrah's Chester Downs Casino and Racetrack (Harrah's Chester), a 5/8 -mile harness racetrack facility, approximately six miles south of Philadelphia International Airport.

Plans for the facility include a 1,500-seat grandstand and simulcast facility, a slot casino with approximately 2,000 games and a variety of food and beverage offerings. We have commenced site work and construction at the property and expect racing and simulcasting to begin in the second half of 2006. We will open the casino upon receipt of a gaming license and other regulatory approvals, which we expect to receive in 2007.

HARRAH S SHREVEPORT AND LOUISIANA DOWNS BUYOUT OF MINORITY PARTNERSIn the first quarter of 2004, we paid approximately \$37.5 million to the minority owners of the company that owned Louisiana Downs and Harrah s Shreveport to purchase their ownership interest in that company. The excess of the cost to purchase the minority ownership above the capital balances was assigned to goodwill. As a result of this transaction, Harrah s Shreveport and Louisiana Downs became wholly owned by the Company. Harrah s Shreveport was subsequently sold in the second quarter of 2004.

HARRAH S EAST CHICAGO BUYOUT OF MINORITY PARTNERSIn the second quarter of 2003, we paid approximately \$28.8 million to former partners in the Harrah s East Chicago property to settle outstanding litigation with the partners relating to a buyout in 1999 of the partners interest in the property and to terminate the contractual rights of the partners to repurchase an 8.55% interest in the property. The two remaining minority partners in our East Chicago property owned, in aggregate, 0.45% of this property. In December 2003 and January 2004, we acquired these ownership interests for aggregate consideration of approximately \$0.8 million. As a result of these transactions, the East Chicago property became wholly owned by the Company. Harrah s East Chicago was subsequently sold in the second quarter of 2005. (See Note 4.)

Note 3 Hurricane Impact

GRAND BILOXI AND GRAND GULFPORT. On August 29, 2005, Hurricane Katrina hit the Gulf Coast, causing significant damage to our assets in Biloxi and Gulfport, Mississippi. We plan to rebuild in Biloxi, but at this time we are unable to determine the amount of time needed to reconstruct the damaged assets. In December 2005, we reached an agreement to sell the Gulfport assets in their as is condition. Harrah s Entertainment will retain all insurance proceeds related to the Gulfport property. Insurance covers the repair or replacement of our assets that suffered loss or damages. The deductible under these policies is \$15 million. We are working closely with our insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to us as a result of the damages and losses. Based on current estimates, insurance proceeds are expected to equal or exceed the net book value of the impacted assets; therefore, we do not expect to record a loss after insurance recoveries. Our insurance policies also provide coverage for interruption to our business, including lost profits, and reimbursement for other expenses and costs we have incurred relating to the damages and losses suffered. Due to our expectation that the costs incurred in the aftermath of the storm will be less than the anticipated business interruption insurance proceeds, post-storm costs are being offset by the expected recovery, and there is no current income statement impact. To the extent that business interruption proceeds ultimately exceed the costs incurred, the excess is expected to be recorded as income in the line item, Write-downs, reserves and recoveries. We have written off property and inventories that were destroyed by Hurricane Katrina and recorded receivables in anticipation of insurance proceeds that will reimburse us for those losses and for expenses that we expect to recover under our insurance programs. As of December 31, 2005, we had received approximately \$69.5 million in advances from our insurance carriers related to the Mississippi Gulf Coast properties and had net receivables of \$174.5 million for which we believe collection is probable. Intangible assets of \$88.7 million related to Grand Casino Biloxi and \$93.2 million related to Grand Casino Gulfport were written off in the fourth quarter of 2005.

HARRAH S NEW ORLEANS. Our assets in New Orleans sustained damage, and we suffered various losses as a result of Hurricane Katrina. At December 31, 2005, the casino remained closed, but the property reopened on February 17, 2006. Insurance covers the repair or replacement of our assets that suffered loss or

damage, and we are working closely with our insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to us as a result of the damages and the loss the Company suffered. Our insurance policies also provide coverage for interruption to our business, including lost profits, and reimbursement for other expenses and costs that we have incurred relating to the damages and loss we have suffered. The combined property damage and business interruption deductible under the policies insuring the New Orleans assets is \$10 million. Based on loss estimates and expenses incurred, we have recorded \$22.8 million in charges in the line item, Write-downs, reserves and recoveries. As of December 31, 2005, approximately \$16.9 million in advances had been received from our insurance carriers, and we had net receivables of \$21.3 million for which we believe collection is probable.

A 450-room luxury hotel that is under construction adjacent to the casino facility also sustained damage due to Hurricane Katrina. We have a separate Builders Risk insurance policy that covers costs associated with repairing any damage. The deductible under this policy is \$250,000. We recorded a charge of \$250,000 in 2005 in the line item, Write-downs, reserves and recoveries. The time required to resume construction, as well as the increased demands for construction labor and materials in the market, could cause the cost of the construction to increase and the time to complete the construction to be extended. Construction resumed in fourth quarter 2005, and we expect the hotel to open in third quarter 2006.

HARRAH S LAKE CHARLES. On September 24, 2005, Hurricane Rita hit the Gulf Coast, causing significant damage to our assets in Lake Charles, Louisiana. Insurance covers the repair or replacement of our assets that suffered loss or damage and provides coverage for interruption to our business, including lost profits. The deductible of \$10 million under the policies that cover our damages and losses in Lake Charles applies both to physical damage and to business interruption. Based on current estimates to date, losses have exceeded the deductible under this insurance policy, and we recorded \$16.9 million in charges related to Lake Charles in the line item, Write-downs, reserves and recoveries. We have written off property and inventories that were destroyed by Hurricane Rita and recorded receivables in anticipation of insurance proceeds that will reimburse us for those losses and for expenses that we expect to recover under our insurance programs. As of December 31, 2005, approximately \$14.7 million in advances had been received from our insurance carriers, and we had net receivables of \$42.9 million for which we believe collection is probable. In our review of goodwill and other intangible assets completed during fourth quarter 2005, we determined that the entire \$56 million of goodwill carried at Lake Charles was impaired, and it was written off.

Note 4 Dispositions

The following properties were sold in the three-year period ended December 31, 2005.

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 to an unrelated third party. We believed that the sale of these two properties helped facilitate the closing of the Caesars transaction. 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.

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 SHREVEPORT. In May 2004, we sold Harrah's Shreveport to another gaming company. Prior to the sale, we classified this property as Assets/Liabilities held for sale in our Consolidated Balance Sheets and we ceased depreciating its assets in September 2003. The assets sold consisted primarily of inventories, property and equipment. We received cash proceeds of \$190 million and recorded no gain or loss on this sale. Since we had a continued presence in the Shreveport-Bossier City market, Harrah's Shreveport's operating results were not classified as discontinued operations.

HARVEYS COLORADO. In May 2003, we sold Harveys Colorado, which we had concluded was a nonstrategic asset for us. The assets sold consisted primarily of inventories, property and equipment. The buyer also assumed certain accrued liabilities. We received cash proceeds of \$17.6 million and recorded a pretax loss of \$1.0 million on this sale.

HARRAH'S VICKSBURG. In October 2003, we sold Harrah's Vicksburg. The assets sold consisted primarily of land, buildings, equipment and inventories. We received cash proceeds of \$28.6 million and recorded a pretax loss of \$0.7 million on this sale.

In addition to these completed sales, we also have announced the following planned sales.

RENO HILTON. In May 2005, Caesars reached an agreement to sell the Reno Hilton, and that sale, which is subject to regulatory approvals, is expected to close in second quarter 2006. Reno Hilton is classified in Assets/Liabilities held for sale in our Consolidated Balance Sheet, and its results are presented as discontinued operations since its acquisition on June 13, 2005. No depreciation was recorded subsequent to its acquisition, and no gain or loss is expected on this sale.

FLAMINGO LAUGHLIN. Also 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 Consolidated Balance Sheet. Operating results for Flamingo Laughlin are presented as discontinued operations since its acquisition on June 13, 2005, and no depreciation was recorded. We have reached an agreement to sell Flamingo Laughlin, and that sale, which is subject to regulatory approvals, is expected to close in mid-2006. No gain or loss is expected on this sale.

GRAND GULFPORT. In December 2005, we reached an agreement to sell the Grand Casino Gulfport assets in their as is condition (see Note 3), and those assets are included in Assets/Liabilities held for sale in our Consolidated Balance Sheet. The transaction is expected to close by the end of first quarter 2006. No depreciation is being recorded on the assets. No gain or loss is expected on this sale.

SUMMARY FINANCIAL INFORMATION

Summary operating results for the 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, and beginning June 13, 2005, the operating results of Reno Hilton, Flamingo Laughlin, Grand Casino Gulfport and a hotel in Halifax, Nova Scotia through the date of its sale in November 2005. Results for Grand Casino Gulfport include the write-off of \$78.6 million, after taxes, for the impairment of intangible assets. 2003 results also include the results of Harveys Colorado and Harrah's Vicksburg through the dates of their sales.

	2005	2004	2003
Net revenues	\$ 300.1	\$ 379.7	\$ 415.1
Pretax income from discontinued operations	\$ 67.5	\$ 56.6	\$ 48.5
Discontinued operations, net of tax	\$ (27.1)	\$ 38.2	\$ 31.5

Assets held for sale and liabilities related to assets held for sale of Reno Hilton, Flamingo Laughlin and Grand Casino Gulfport at December 31, 2005, and Harrah's East Chicago and Harrah's Tunica at December 31, 2004 are as follows:

	2005	2004
Cash and cash equivalents	\$ 20.9	\$ 12.0
Receivables, net	2.3	
Inventories	2.3	0.9
Prepayments and other	1.6	
Property and equipment, net	337.9	271.4
Goodwill		206.5
Investments in and advances to nonconsolidated affiliates		1.2
Deferred costs and other	1.4	0.2
Total assets held for sale	\$ 366.4	\$ 492.2
Accounts payable	\$ 1.2	\$
Accrued expenses	10.3	0.3
Deferred credits and other	0.1	
Total liabilities related to assets held for sale	\$ 11.6	\$ 0.3

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 an operating unit as a function, or multiple, of earnings before interest, taxes, depreciation and amortization (EBITDA), a common measure used to value and buy or sell cash intensive businesses such as casinos. Based on our annual assessment for impairment as of September 30, 2005, 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 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. (See Note 3 for a discussion of the recoverability of its tangible assets.) Based on the historical and projected performance of Louisiana Downs, a thoroughbred racetrack that was expanded to include slot machines in 2003, our analysis indicated that the entire \$49.9 million of goodwill associated with this property was impaired. 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.

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 is reported in our Discontinued operations, the write-off of goodwill and intangible assets for that property of \$78.6 million, after taxes, is included in Discontinued operations.

Our annual assessment for impairment as of September 30, 2004, indicated that goodwill and intangible assets with indefinite lives were not impaired. Based on our annual assessment for impairment as of September 30, 2003, it was determined that the remaining goodwill associated with Harrah's Reno was impaired, and a fourth quarter 2003 charge of \$6.3 million was recorded. Operating trends reflected the weak market conditions in the Reno area and increased levels of competition from Indian casinos in the Northern California area. We determined the fair value of Reno as a multiple of EBITDA, and our analysis for Reno indicated that the fair value of that operating unit was less than the carrying value. Reno has no remaining intangible assets that will be subject to the annual impairment assessment. Reno's tangible assets were assessed for impairment applying the provisions of SFAS No. 144, and our analysis indicated that the carrying value of the tangible assets was not impaired.

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The following table sets forth changes in goodwill for the years ended December 31, 2004, and December 31, 2005.

Balance at December 31, 2003	\$ 701.1
Additions or adjustments:	
Acquisition of Horseshoe Gaming	565.3
Additional payment related to Bluffs Run	72.8
Buyout of minority partners at Louisiana Downs	13.5
Adjustments for taxes related to acquisitions	2.0
Balance at December 31, 2004	1,354.7
Additions or adjustments:	
Acquisition of Caesars	1,961.7
Finalization of purchase price allocation for Horseshoe Gaming	18.5
Additional payment related to Bluffs Run	7.9
Adjustments for taxes related to acquisitions	(2.7)
Impairment losses	(204.6)
Balance at December 31, 2005	\$ 3,135.5

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

	December 31, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:						
Trademarks	\$ 29.0	\$ 3.1	\$ 25.9	\$	\$	\$
Gaming rights	20.0	0.5	19.5			
Contract rights	130.9	21.8	109.1	73.6	10.6	63.0
Customer relationships	739.2	44.9	694.3	113.1	10.4	102.7
	\$ 919.1	\$ 70.3	848.8	\$ 186.7	\$ 21.0	165.7
Nonamortizing intangible assets:						
Trademarks			491.1			273.1
Gaming rights			678.0			422.6
			1,169.1			695.7
Total			\$ 2,017.9			\$ 861.4

The increase in the gross carrying value of intangible assets is due to the acquisition of Caesars (see Note 2). The aggregate amortization expense for the years ended December 31, 2005, 2004 and 2003 for those assets that continue to be amortized under provisions of SFAS No. 142 was \$49.9 million, \$9.4 million and \$4.8 million, respectively. Estimated annual amortization expense for those assets for the years ending December 31, 2006, 2007, 2008, 2009 and 2010 is \$77.2 million, \$75.3 million, \$73.8 million,

\$72.2 million and \$65.4 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 has the following classes of stock authorized but unissued:

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

Harrah's Entertainment's Board of Directors has authorized that one special stock purchase right (a Right) be attached to each outstanding share of common stock. The Rights are not separable from the shares. These Rights are exercisable only if a person or group acquires 15% or more of Harrah's Entertainment common stock or announces a tender offer for 15% or more of the common stock. Each Right entitles stockholders to buy one two-hundredth of a share of Series A Special Stock of the Company at an initial price of \$130 per Right. If a person acquires 15% or more of the Company's outstanding common stock, each Right entitles its holder to purchase common stock of the Company having a market value at that time of twice the Right's exercise price. Under certain conditions, each Right entitles its holder to purchase stock of an acquiring company at a discount. Rights held by the 15% holder will become void. The Rights will expire on October 5, 2006, unless earlier redeemed by the Board at one cent per Right.

Our Board of Directors has authorized the purchase of up to 3.5 million shares of common stock in the open market and negotiated purchases through the end of 2006. No shares were purchased in 2005; however, 1.0 million shares were purchased in 2004 at an average price of \$53.37 per share, and 0.5 million shares were purchased in 2003 at an average price of \$35.87 per share under previously approved equity repurchase programs. The purchases were funded through available operating cash flows and borrowings from our established debt programs.

Under the terms of our equity incentive award programs, we have reserved shares of Harrah's Entertainment common stock for issuance under the 2004 Equity Incentive Award Plan, the 2001 Broad-based Incentive Plan and the 1996 Non-Management Directors Stock Incentive Plan. (See Note 15 for a description of the plans.) The 2004 Equity Incentive Award Plan and the 1996 Non-Management Directors Stock Incentive Plan are equity compensation plans approved by our stockholders and the 2001 Broad-based Incentive Plan is an equity compensation plan not approved by our stockholders. The shares held in reserve for issuance or grant under the Harrah's Entertainment, Inc. 2001 Executive Stock Incentive Plan and the 1996 Non-Management Directors Stock Incentive Plan became available under the 2004 Equity Incentive Award Plan in 2004. As of December 31, 2005, 313,605 shares were authorized and unissued under the 2004 Equity Incentive Award Plan and 5,382 shares were authorized and unissued under the 2001 Broad-based Incentive Plan. No additional shares will be authorized under the 2001 Broad-based Incentive Plan.

In connection with the Caesars acquisition, we assumed various equity award plans of Caesars, and we have reserved shares of Harrah's Entertainment common stock for issuance under these plans. As of December 31, 2005, authorized and unissued shares included 4,895,736 shares under Caesars' 2004 Long

Term Incentive Plan, none under the Park Place Entertainment Corporation 1998 Stock Incentive Plan, none under the Park Place Entertainment Corporation 1998 Independent Director Stock Option Plan and none under the Amended and Restated Park Place Entertainment Corporation Employee Stock Purchase Plan.

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.

The table below presents quarterly cash dividends per common share that were declared and paid in 2005, 2004 and 2003:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005	\$ 0.33	\$ 0.33	\$ 0.3625	\$ 0.3625
2004	0.30	0.30	0.33	0.33
2003			0.30	0.30

Note 7 Detail of Certain Balance Sheet Accounts

Accrued expenses consisted of the following as of December 31:

	2005	2004
Payroll and other compensation	\$ 275.1	\$ 150.1
Insurance claims and reserves	198.3	97.6
Accrued interest payable	153.1	65.6
Accrued taxes	114.2	78.8
Other accruals	485.5	185.6
	\$ 1,226.2	\$ 577.7

Note 8 Debt

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

	2005	2004
Credit facilities		
4.9%-6.25% at December 31, 2005, maturities to 2009	\$ 2,681.0	\$ 1,580.0
Secured Debt		
6.0%, maturity 2010	25.0	
7.1%, maturity 2028	90.9	92.4
5.63%-6.25%, maturities to 2032	3.2	1.3
Unsecured Senior Notes		
8.5%, maturity 2006*	413.3	
7.125%, maturity 2007	494.4	496.5
Floating Rate Notes, maturity 2008	250.0	
7.5%, maturity 2009*	499.3	
7.5%, maturity 2009	461.9	499.1
5.5%, maturity 2010	745.0	744.0
8.0%, maturity 2011	497.0	496.5
5.375%, maturity 2013	497.1	496.8
7.0%, maturity 2013*	332.2	
5.625%, maturity 2015	995.5	
5.75%, maturity 2017	745.2	
Floating Rate Contingent Convertible Senior Notes, due 2024*	364.8	
Unsecured Senior Subordinated Notes		
9.375%, maturity 2007*	524.5	
8.875%, maturity 2008*	436.3	
7.875%, maturity 2010*	411.5	
8.125%, maturity 2011*	395.7	
7.875%, maturity 2005		588.0
Other Unsecured Borrowings		
Commercial Paper, maturities to 2006	140.9	157.8
LIBOR plus 4.5%, maturity 2010	38.6	
Other, various maturities	2.1	
Capitalized Lease Obligations		
5.79%-10.0%, maturities to 2008	0.4	0.5
	11,045.8	5,152.9
Current portion of long-term debt	(7.0)	(1.8)
	\$ 11,038.8	\$ 5,151.1

* Assumed in our acquisition of Caesars

We recorded the debt assumed in the Caesars acquisition at its market value, which, at June 13, 2005, was \$3,842.2 million, including interest rate swap agreements, which are discussed below. 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., a wholly-owned subsidiary of Harrah's Entertainment, and is guaranteed by Harrah's Entertainment.

\$400.0 million, face amount, of our 8.5% Senior Notes due November 2006, are classified as long-term in our Consolidated Balance Sheet as of December 31, 2005, because the Company has both the intent and the ability to refinance these notes.

As of December 31, 2005, aggregate annual principal maturities for the four years subsequent to 2006 were: 2007, \$1.0 billion; 2008, \$694.5 million; 2009, \$4.2 billion; and 2010, \$1.2 billion.

CREDIT AGREEMENT. As of December 31, 2005, our credit facilities (the "Credit Agreement") provided for up to \$4.0 billion in borrowings, maturing on April 23, 2009. The Credit Agreement also contains a provision that will allow a further increase in the borrowing capacity to \$5.0 billion, if mutually acceptable to the Company and the lenders. Interest on the Credit Agreement is based on our debt ratings and leverage ratio and is subject to change. As of December 31, 2005, the Credit Agreement bore interest based upon 70 basis points over LIBOR and bore a facility fee for borrowed and unborrowed amounts of 17.5 basis points, a combined 87.5 basis points. At our option, we may borrow at the prime rate under the Credit Agreement. As of December 31, 2005, \$2.7 billion in borrowings was outstanding under the Credit Agreement with an additional \$92.7 million committed to back letters of credit. After consideration of these borrowings, but before consideration of amounts borrowed under the commercial paper program, \$1.2 billion of additional borrowing capacity was available to the Company as of December 31, 2005.

CONTINGENT CONVERTIBLE SENIOR NOTES. Included in the debt assumed in the Caesars acquisition is \$375 million Floating Rate Contingent Convertible Senior Notes due 2024. The notes bear interest at an annual rate equal to the three month LIBOR, adjusted quarterly. The interest rate on these notes was 4.2% at December 31, 2005. The notes are convertible into cash and shares of common stock in the following circumstances:

- during any fiscal quarter, if the closing sale price of the Company's common stock for 20 out of the last 30 consecutive trading days during the previous quarter is more than 120% of the Conversion Price of the notes;
- the Company has called the notes for redemption and the redemption has not yet occurred;
- during the five trading day period immediately after any five consecutive trading day period in which the trading price of the notes per \$1,000 principal amount for each day of such period was less than 95% of the product of the closing sale price of the Company's common stock on such day multiplied by the number of shares issuable upon conversion; provided that, if on such date, the common stock price is between the Conversion Price and 120% of the Conversion Price, as defined, then the holders will receive the principal amount of the notes surrendered plus accrued but unpaid interest; or
- upon the occurrence of specified corporate transactions as defined in the indenture covering these notes.

Holders may convert any outstanding notes into cash and shares of the Company's common stock at a conversion price per share of \$67.92 (the "Conversion Price") at December 31, 2005. This represents a conversion rate of approximately 14.7232 shares of common stock per \$1,000 principal amount of notes

(the Conversion Rate). Subject to certain exceptions described in the indenture covering these notes, at the time the notes are tendered for conversion the value (the Conversion Value) of the cash and shares of the Company's common stock, if any, to be received by a holder converting \$1,000 principal amount of the notes will be determined by multiplying the Conversion Rate by the Ten Day Average Closing Stock Price, which equals the average of the closing per share prices of the Company's common stock on the New York Stock Exchange on the ten consecutive trading days beginning on the second trading day following the day the notes are submitted for conversion. The Conversion Value will be delivered to holders as follows: (1) an amount in cash (the Principal Return) equal to the lesser of (a) the aggregate Conversion Value of the notes to be converted and (b) the aggregate principal amount of the notes to be converted, and (2) if the aggregate Conversion Value of the notes to be converted is greater than the Principal Return, any amount in shares (the Net Shares) equal to the aggregate Conversion Value less the Principal Return (the Net Share Amount). The Company will pay the Principal Return and deliver the Net Shares, if any, as promptly as practicable after determination of the Net Share Amount. The number of Net Shares to be paid will be determined by dividing the Net Share Amount by the Ten Day Average Closing Stock Price.

The Conversion Price will decrease when cash dividends are declared so that the Conversion Price will equal the price determined by multiplying the Conversion Price in effect immediately prior to the record date for such dividend by a fraction, (i) the numerator of which shall be the average of the pre-dividend sale price, as defined in the agreement, minus the amount of the cash dividend, and (ii) the denominator of which shall be the pre-dividend sale price. As a result of the third and fourth quarter 2005 cash dividends, the Conversion Price had been adjusted from \$68.65 at the time of our acquisition of Caesars to \$67.92 at December 31, 2005.

The notes are redeemable by the Company at any time on or after April 20, 2009, at 100 percent of the principal amount of the notes plus accrued and unpaid interest. Holders may require the Company to purchase all or a portion of these notes on April 15, 2009, 2014, or 2019 at 100 percent of the principal amount of the notes plus accrued and unpaid interest. The notes are unsecured obligations, rank equal with our other senior indebtedness and are senior to all of our subordinated indebtedness.

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 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.

Interest Rate Swap Agreements

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of December 31, 2005, we were a party to five interest rate swaps, including four assumed in the Caesars acquisition, for a total notional amount of \$500 million. These interest rate swaps serve to manage the mix of our debt between fixed and variable rate instruments by effectively converting fixed rates associated with long-term debt obligations to floating rates. The major terms of the interest rate swaps are as follows.

Effective Date	Type of Hedge	Fixed Rate Received	Variable Rate Paid as of Dec. 31, 2005	Notional Amount	Maturity Date
Jan. 30, 2004	Fair Value	7.125	% 8.809	% \$ 200	June 1, 2007
Sept. 19, 2003*	Fair Value	7.000	% 7.022	% 75	Apr. 15, 2013
Sept. 19, 2003*	Fair Value	7.000	% 7.015	% 75	Apr. 15, 2013
Nov. 12, 2003*	Fair Value	7.000	% 6.745	% 75	Apr. 15, 2013
Nov. 12, 2003*	Fair Value	7.000	% 6.730	% 75	Apr. 15, 2013

* Assumed in our acquisition of Caesars. The variable rates on the swaps acquired from Caesars are set in arrears and are estimated at December 31, 2005, based on a forward LIBOR rate.

The Company's original interest rate swap qualifies for the shortcut method allowed under SFAS No. 133, which allows for an assumption of no ineffectiveness. The interest rate swaps assumed in our acquisition of Caesars do not qualify for the shortcut method; however, they had been determined to be highly effective since inception. In our fourth quarter 2005 assessment, we determined that these interest rate swaps were no longer highly effective. We discontinued hedge accounting as of October 1, 2005. As a result, a \$3.2 million charge was recorded to interest expense in fourth quarter 2005 to record the change in fair value of these instruments. The fair value adjustments to the hedged item continue to be reported as a part of the basis of debt and are being amortized to interest expense over the life of the debt. The income statement impact from changes in the fair value of the hedging instruments for our swap agreements was not material during any of the other periods reported. The net effect of the above swaps increased our 2005 interest expense by \$6.1 million. Our 2004 interest expense was reduced by \$4.0 million by the net effect of our four interest rate swaps in effect during 2004. As of December 31, 2005 and 2004, the fair value of the interest rate swap agreements was a net liability of approximately \$5.0 million and \$5.1 million, respectively, which is included in Deferred credits and other on our Consolidated Balance Sheets. In February 2006, we paid approximately \$3.4 million to terminate \$300 million of the interest rate swaps, which represented the fair value of the swaps on the date of termination. Because the interest rate swaps no longer qualified for hedge accounting, this amount will be recognized in earnings as interest expense in the first quarter of 2006.

Treasury Rate Lock Agreements

In anticipation of issuing new debt in 2005, we entered into agreements in 2004 and 2005 to lock in existing ten-year rates to partially hedge the risk of future increases to the treasury rate. We determined that the treasury rate lock agreements qualified for hedge accounting and were perfectly effective. As such, there was no income statement impact from changes in the fair value of the hedging instruments. The fair values of our treasury rate lock agreements were carried as assets or liabilities in our Consolidated Balance

Sheet, and changes in the fair values were recorded as a component of other comprehensive income and are being reclassified to earnings over the life of the debt to be issued. The amount that is expected to be reclassified to earnings within the next 12 months is not material. The net amount of deferred gains included in other comprehensive income at December 31, 2005 and 2004, is \$5.1 million and \$1.2 million, respectively. In May 2005, we issued \$750 million of 5.625% Senior Notes due 2015, and the treasury rate lock agreements were terminated. The treasury locks and discount/premium at issuance resulted in an effective rate of 5.76% on this debt.

COMMERCIAL PAPER. To provide the Company with cost-effective borrowing flexibility, we have a \$200 million commercial paper program that is used to borrow funds for general corporate purposes. Although the debt instruments are short-term in tenor, they are classified as long-term debt because the commercial paper is backed by our Credit Agreement and we have committed to keep available capacity under our Credit Agreement in an amount equal to or greater than amounts borrowed under this program. At December 31, 2005, \$140.9 million was outstanding under this program.

ISSUANCE OF NEW DEBT. In addition to our Credit Agreement, we have issued debt and entered into credit agreements to provide the Company with cost-effective borrowing flexibility and to replace short-term, floating-rate debt with long-term, fixed-rate debt. The table below summarizes the face value of debt obligations entered into during the last three years and outstanding at December 31, 2005.

Debt	Issued	Matures	Face Value Outstanding at December 31, 2005
5.75% Senior Notes	September 2005	2017	\$ 750.0
5.625% Senior Notes	September 2005	2015	250.0
5.625% Senior Notes	May 2005	2015	750.0
Senior Floating Rate Notes	February 2005	2008	250.0
Commercial Paper	2005	2006	140.9
5.5% Senior Notes	June 2004	2010	750.0
5.375% Senior Notes	December 2003	2013	500.0

EXTINGUISHMENTS OF DEBT. Funds from the new debt discussed above, as well as proceeds from our Credit Agreement, were used to retire certain of our outstanding debt, in particular those debt obligations assumed in certain of our acquisition transactions, to reduce our effective interest rate and/or lengthen maturities. The following table summarizes the debt obligations, in addition to our previous credit and letter of credit facilities that we have retired over the last three years:

Issuer	Date Retired	Debt Extinguished	Face Value Retired
Harrah's Operating	December 2005	Senior Subordinated Notes due 2005	\$ 300.0
Harrah's Operating	November 2005	Senior Subordinated Notes due 2005	232.2
Caesars	November 2005	Senior Subordinated Notes due 2005	400.0
Harrah's Operating	February 2005	Senior Subordinated Notes due 2005	58.3
Horseshoe Gaming	August 2004	Senior Subordinated Notes due 2009	534.1
Harrah's Operating	December 2003	Senior Subordinated Notes due 2005	147.1
Harrah's Operating	August 2003	Senior Subordinated Notes due 2005	12.4

In July 2003, our Board of Directors authorized the Company to retire, from time to time through cash purchases, portions of our outstanding debt in open market purchases, privately negotiated transactions or otherwise. These repurchases will be funded through available cash from operations and borrowings from our established debt programs. Such repurchases will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors.

Charges of \$3.3 million in 2005 and \$19.1 million in 2003, representing premiums paid and write-offs of unamortized deferred financing costs and market value premiums associated with the early retirement of portions of the 7.875% Senior Subordinated Notes and of our previous credit and letter of credit facilities were recorded. These charges are included in Income from continuing operations in our Consolidated Statements of Income.

PARENT COMPANY GUARANTEE OF SUBSIDIARY DEBT. Harrah's Operating Company, Inc. (HOC), a 100% owned subsidiary and the principal asset of Harrah's Entertainment, is the issuer of certain debt securities that have been guaranteed by Harrah's Entertainment. Due to the comparability of HOC's consolidated financial information with that of Harrah's Entertainment, separate financial statements and other disclosures regarding HOC have not been presented. Management has determined that such information is not material to holders of HOC's debt securities. Harrah's Entertainment has no independent assets or operations, its guarantee of HOC's debt securities is full and unconditional and its only other subsidiary is minor. There are no significant restrictions on Harrah's Entertainment's ability to obtain funds from its subsidiaries by dividends or loans. In addition, the amount of consolidated retained earnings representing undistributed earnings of 50-percent-or-less owned persons accounted for under the equity method is less than 0.5 percent and there are no significant restrictions on the payment of dividends by the Company.

FAIR MARKET VALUE. Based on the borrowing rates available as of December 31, 2005, 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:

	2005 Carrying Value	Market Value	2004 Carrying Value	Market Value
Outstanding debt	\$ 11,045.8	\$ 11,388.6	\$ 5,152.9	\$ 5,414.7
Interest rate swaps (used for hedging purposes)	5.0	5.0	5.1	5.1

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, 2005, the remaining lives of our operating leases ranged from one to 87 years, with various automatic extensions totaling up to 88 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:

	2005	2004	2003
Noncancelable			
Minimum	\$ 58.7	\$ 39.0	\$ 40.3
Contingent	3.4	2.9	3.9
Sublease	(0.2)	(0.1)	(0.2)
Other	27.1	26.9	15.6
	\$ 89.0	\$ 68.7	\$ 59.6

Our future minimum rental commitments as of December 31, 2005, were as follows:

	Noncancelable Operating Leases
2006	\$ 67.4
2007	53.1
2008	48.2
2009	40.4
2010	37.8
Thereafter	1,268.5
Total minimum lease payments	\$ 1,515.4

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. In 2004, we began tracking demolition costs separate from project opening costs. The components of Write-downs, reserves and recoveries for continuing operations were as follows:

	2005	2004	2003
Impairment of goodwill and other intangible assets	\$ 194.7	\$	\$ 6.3
Hurricane expense	41.5		
Contribution to The Harrah's Foundation	10.0	10.0	
Write-off of abandoned assets and other costs	8.6	4.9	2.6
Demolition costs	6.0	5.8	
Loss on sale of non-operating assets	4.5		
Settlement of litigation	2.6	3.5	
Impairment of long-lived assets	1.6		2.5
Recoveries from previously impaired assets and reserved amounts	(4.4)		(0.9)
Termination of contracts	(16.3)	2.0	
Reversal of prior year Iowa gaming tax accrual		(16.6)	
	\$ 248.8	\$ 9.6	\$ 10.5

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

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:

	2005	2004	2003
Income from continuing operations before income taxes and minority interests	\$ 227.8	\$ 190.7	\$ 155.5
Discontinued operations	94.6	18.4	17.0
Stockholders' equity			
Unrealized gain/(loss) on available-for-sale securities			0.2
Unrealized gain/(loss) on derivatives qualifying as cash flow hedges	(3.2)	0.4	
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(29.9)	(26.8)	(15.5)
	\$ 289.3	\$ 182.7	\$ 157.2

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

	2005	2004	2003
United States			
Current			
Federal	\$ 191.2	\$ 100.7	\$ 112.3
State	33.7	12.4	15.2
Deferred	(0.7)	75.9	29.7
Other countries			
Current	6.4		
Deferred	(2.8)	1.7	(1.7)
	\$ 227.8	\$ 190.7	\$ 155.5

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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:

	2005	2004	2003
Statutory tax rate	35.0%	35.0%	35.0%
Increases/(decreases) in tax resulting from:			
State taxes, net of federal tax benefit	4.0	1.9	2.7
Foreign income taxes, net of credit	0.5		
Goodwill amortization	10.7		0.5
Tax credits	(2.3)	(0.4)	(0.5)
Political contributions/lobbying expenses	0.4	0.3	0.1
Officers' life insurance/insurance proceeds	(0.6)	(0.9)	(1.1)
Meals and entertainment	0.1	0.1	0.1
Minority interests in partnership earnings	(0.8)	(0.6)	(1.0)
Other	(1.7)	0.7	0.5
Effective tax rate	45.3%	36.1%	36.3%

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

	2005	2004
Deferred tax assets		
Compensation programs	\$ 108.5	\$ 72.8
Bad debt reserve	46.0	18.1
Self-insurance reserves	33.0	16.1
Deferred income	6.0	0.8
Debt costs	50.4	
Foreign tax credit on undistributed foreign earnings	32.1	
Valuation allowance on foreign tax credit	(29.7))
State net operating losses	52.5	54.2
Other	102.4	41.7
Valuation allowance on net operating losses and other deferred state tax assets	(64.4)	) (52.9)
	336.8	150.8
Deferred tax liabilities		
Property	(1,383.8)	) (397.7)
Management and other contracts	(33.4)	) (20.2)
Intangibles	(503.0)	) (91.1)
Investments in nonconsolidated affiliates	(14.7)	) (3.1)
Undistributed foreign earnings	(2.2))
Project opening costs and prepaid expenses	(27.3)	) (22.1)
	(1,964.4)	) (534.2)
Net deferred tax liability	\$ (1,627.6)	\$ (383.4)

The Company anticipates that state NOLs valued at \$1.1 million (subject to a full valuation allowance) will expire in 2006. The remaining state NOLs and other deferred tax assets subject to a valuation allowance will expire between 2007 and 2024. In the event the valuation allowance of \$64.4 million for 2005 is ultimately unnecessary, \$18.0 million of this total would be treated as a reduction to goodwill, while the remaining \$46.4 million would reduce tax expense. Included in deferred tax expense is the utilization of state NOLs in the amount of \$0.8 million.

Note 12 Supplemental Cash Flow Information

The increase in Cash and cash equivalents due to the changes in long-term and working capital accounts was as follows:

	2005	2004	2003
Long-term accounts			
Deferred costs and other	\$ (26.9)	\$ (43.7)	\$ (71.1)
Deferred credits and other	(53.6)	(7.5)	38.9
Net change in long-term accounts	\$ (80.5)	\$ (51.2)	\$ (32.2)
Working capital accounts			
Receivables	\$ (164.6)	\$ (14.8)	\$ (8.0)
Inventories	3.8	0.4	(1.3)
Prepayments and other	(10.8)	6.2	50.3
Accounts payable	56.8	11.0	5.9
Accrued expenses	(165.5)	29.5	(92.6)
Net change in working capital accounts	\$ (280.3)	\$ 32.3	\$ (45.7)

SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST AND TAXES. The following table reconciles our Interest expense, net of interest capitalized, as reported in the Consolidated Statements of Income, to cash paid for interest.

	2005	2004	2003
Interest expense, net of interest capitalized	\$ 481.2	\$ 271.8	\$ 234.4
Adjustments to reconcile to cash paid for interest			
Net change in accruals	(94.1)	(28.3)	(9.2)
Amortization of deferred finance charges	(9.6)	(7.4)	(6.2)
Net amortization of discounts and premiums	43.2	(1.7)	(1.1)
Cash paid for interest, net of amount capitalized	\$ 420.7	\$ 234.4	\$ 217.9
Cash payments for income taxes, net of refunds	\$ 585.7	\$ 116.6	\$ 114.3

Note 13 Commitments and Contingencies

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, guarantees by Harrah's Entertainment of third-party debt and development completion guarantees.

We may guarantee all or part of the debt incurred by Indian tribes, with which we have entered into a management contract, to fund development of casinos on the Indian lands. For all existing guarantees of Indian debt, we have obtained a first lien on certain personal property (tangible and intangible) of the casino enterprise. There can be no assurance, however, that the value of such property would satisfy our obligations in the event these guarantees were enforced. Additionally, we have received limited waivers from the Indian tribes of their sovereign immunity to allow us to pursue our rights under the contracts between the parties and to enforce collection efforts as to any assets in which a security interest is taken. The aggregate outstanding balance as of December 31, 2005, of Indian debt that we have guaranteed was \$247.3 million. The outstanding balance of all of our debt guarantees at December 31, 2005 is \$248.2 million. Our maximum obligation under all of our debt guarantees is \$265.6 million. Our obligations under these debt guarantees extend through April 2009.

Some of our guarantees of the debt for casinos on Indian lands have been modified since January 1, 2003, triggering the requirements under Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to recognize a liability for the estimated fair value of those guarantees. Liabilities, representing the fair value of our guarantees, and corresponding assets, representing the portion of our management fee receivable attributable to our agreements to provide the related guarantees, were recorded and are being amortized over the lives of the related agreements. We estimate the fair value of the obligation by considering what premium would have been required by us or by an unrelated party. The amounts recognized represent the present value of the premium in interest rates and fees that would have been charged to the tribes if we had not provided the guarantees. The balance of the liability for the guarantees and of the related assets at December 31, 2005 and 2004, was \$4.1 million and \$5.5 million, respectively.

In February 2006, 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 March 31, 2009.

Excluding the guarantees discussed above, as of December 31, 2005, we had commitments and contingencies of \$732.7 million, including construction-related commitments.

The agreements under which we manage casinos on Indian lands contain provisions required by law which provide that a minimum monthly payment be made to the tribe. That obligation has priority over scheduled payments 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 of the Indian-owned properties 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. As of December 31, 2005, the aggregate monthly commitment for the minimum guaranteed payments pursuant to these contracts, which extend for periods of up to 71 months from December 31, 2005, is \$1.2 million. The maximum exposure for the minimum guaranteed payments to the tribes is unlikely to exceed \$81.7 million as of December 31, 2005.

SEVERANCE AGREEMENTS. As of December 31, 2005, the Company has severance agreements with 37 of its senior 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, as well as for accelerated payment or accelerated vesting of any compensation or awards payable to the executive under any of Harrah's Entertainment's incentive plans. The estimated amount, computed as of December 31, 2005, that would be payable under the agreements to these executives based on the compensation payments and stock awards aggregated approximately \$192.7 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 a 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 14 Litigation

In connection with our acquisition of Caesars, we assumed Caesars' litigation matters, including, but not limited to, the following litigation.

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 billion. Three cases resulted from this Tribal Court judgment:

- On June 2, 2000, Caesars filed an action captioned Park Place Entertainment Corporation, et al. vs. Arquette, et al., in the United States District Court for the Northern District of New York seeking to enjoin the dissident Tribal members from proceeding in the Tribal Court, and to challenge the judgment. The District Court entered an Order on July 29, 2002 (and a subsequent order on February 11, 2004), affirming that the purported Tribal Court is without authority to adjudicate matters of Tribal law.
- On March 29, 2001, Caesars sued the dissident Tribal members in the Supreme Court of the State of New York (subsequently moved to Franklin County, New York) in the case of Park Place Entertainment Corporation, et al. vs. Marlene Arquette, et al., alleging malicious defamation and prima facie tort in connection with the Tribal Court proceedings seeking compensatory and punitive damages. Defendants asserted a counterclaim alleging the action was commenced in violation of New York's Civil Rights Law.
- On June 27, 2001, certain individual members of the Tribe commenced an action in United States District Court for the Northern District of New York against Caesars, seeking recognition and enforcement of the purported March 20, 2001, \$1.787 billion Tribal Court default judgment. Caesars has taken the position that the purported Tribal Court in which the proceeding has been invoked is an invalid forum and is not recognized by the lawful government of the Saint Regis Mohawk Tribe.

Prior to our acquisition of Caesars in June 2005, each of the above matters was settled, pending final court approval and execution of documents and mutual releases.

On November 13, 2000, Catskill Development, LLC, Mohawk Management, LLC and Monticello Raceway Development Company, LLC (collectively, Catskill Development) filed an action captioned Catskill Development LLC, et al. vs. Park Place Entertainment Corporation, et al., against Caesars in the United States District Court for the Southern District of New York. Catskill Development alleges tortious interference with contract and prospective business relationships, unfair competition and state anti-trust violations pertaining to a proposed gaming facility to be developed by Catskill Development and the Tribe, and seeks over \$2 billion in compensatory damages and over \$2 billion in punitive damages. The District Court granted summary judgment to Caesars and dismissed the complaint in its entirety. The plaintiffs appealed the District Court's decision to the United States Court of Appeals for the Second Circuit, where it is currently waiting a decision. The Company believes this matter to be without merit and will continue to vigorously contest the case.

On October 15, 2001, Scutti Enterprises, LLC (Scutti) filed an action against Caesars in the Supreme Court of the State of New York, County of Monroe (subsequently removed to United States District Court for the Western District of New York). The action arises out of Scutti's efforts to redevelop and manage the Tribe's Mohawk Bingo Palace. Scutti alleges tortious interference with contract and prospective business relationships, unfair competition and state anti-trust violations and seeks over \$500 million in compensatory damages and unspecified punitive damages. The District Court entered summary judgment, in Caesars' favor, on all of the claims. Currently, the matter is before the United States Court of Appeals for the Second Circuit related solely to the claim for tortious interference with prospective business relations. The Company believes this matter to be without merit and will continue to vigorously contest this matter.

We are involved in various other inquiries, administrative proceedings and litigation relating to contracts, sales of property and other matters arising in the normal course of business. While any proceeding or litigation has an element of uncertainty, we believe that the final outcome of these matters will not have a material adverse effect upon our consolidated financial position or our results of operations.

Note 15 Employee Benefit Plans

We have established a number of employee benefit programs for purposes of attracting, retaining and motivating our employees. The following is a description of the basic components of these programs.

EQUITY INCENTIVE AWARDS. Under the Harrah's Entertainment, Inc. 2004 Equity Incentive Award Plan (the 2004 Plan), non-qualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock based awards and performance-based awards may be granted to employees or consultants of the Company and members of our Board of Directors. Shares available under the 2001 Executive Stock Incentive Plan are available under the 2004 Plan. Non-management members of the Company's Board of Directors were eligible for share grants under the 1996 Non-Management Directors Stock Incentive Plan. After May 1, 2004, grants to Non-Management Directors have been made under the 2004 Plan pursuant to our director stock program. Unissued shares under the 1996 Non-

Management Directors Stock Incentive Plan are now available under the 2004 Plan. Our employees may also be granted restricted stock or options to purchase shares of common stock under the Harrah's Entertainment 2001 Broad-based Incentive Plan (the 2001 Plan).

In connection with the acquisition of Caesars, we assumed various equity plans, including the Caesars Entertainment, Inc. 2004 Long Term Incentive Plan (Caesars 2004 Plan). Subsequent to the Caesars acquisition, we registered 6,984,018 shares of our Common Stock to be reserved for outstanding awards or awards available for issuance pursuant to Caesars equity plans. The number of shares subject to outstanding or available for issuance shares under the plans as of the closing of the acquisition and the applicable exercise price were calculated pursuant to the exchange ratio set forth in the Agreement and Plan of Merger, effective as of July 14, 2004, among Harrah's Entertainment, Harrah's Operating Company and Caesars. If our stockholders approve the Amended and Restated 2004 Equity Incentive Award Plan at our 2006 Annual Meeting of Stockholders, which is scheduled to occur on April 25, 2006, we will amend the Caesars 2004 Plan to not allow the issuance of any awards after the date of such amendment.

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A summary of activity of the 2004 Plan and the Company's former plans, which are equity compensation plans approved by our stockholders, and the Caesars 2004 Plan subsequent to our acquisition of Caesars on June 13, 2005, for 2003, 2004 and 2005 is as follows:

	Weighted Avg. Exercise Price (Per Share)	Number of Common Shares Options Outstanding	Available For Grant
Balance January 1, 2003	31.30	8,814,597	4,431,877
Restricted shares issued	N/A		(60,061)
Restricted shares canceled	N/A		101,934
Granted	43.18	2,968,175	(2,968,175)
Exercised	20.65	(1,754,901)	
Canceled	40.06	(409,309)	409,309
Rio plans cancellations	12.44	(3,400)	
Balance December 31, 2003	36.54	9,615,162	1,914,884
Additional shares authorized	N/A		5,000,000
Shares transferred from Directors plan	N/A		10,065
Restricted shares issued	N/A		(22,000)
Restricted shares canceled	N/A		17,761
Granted	52.33	3,197,832	(3,197,832)
Exercised	31.44	(2,817,965)	
Canceled	45.45	(553,464)	553,464
Balance December 31, 2004	42.89	9,441,565	4,276,342
Additional shares authorized for Caesars	N/A		6,984,018
Issued under the Park Place Entertainment Corporation 1998 Stock Incentive Plan			
Granted	28.12	731,000	(731,000)
Exercised	29.68	(90,548)	
Canceled	33.24	(4,870)	
Issued under Caesars 2004 Plan			
Restricted share units issued (as of merger date)	58.86		(65,788)
Restricted share units canceled	58.86		10,911
Granted (as of merger date)	51.88	716,210	(716,210)
Exercised	51.12	(342,329)	
Canceled	57.45	(34,405)	34,405
Issued under the Park Place Entertainment Corporation 1998 Independent Director Stock Option Plan			
Granted	33.93	18,182	(18,182)
Restricted shares issued	71.84		(117,586)
Restricted shares canceled	24.03		40,000
Granted	73.06	4,988,870	(4,988,870)
Exercised	39.79	(2,085,278)	
Canceled	62.83	(501,301)	501,301
Balance December 31, 2005	53.83	12,837,096	5,209,341

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200,000 shares were authorized for issuance under the 2001 Plan, which is an equity compensation plan not approved by stockholders. No additional shares will be authorized under the 2001 Plan. A summary of activity of this plan is as follows:

	Weighted Average Exercise Price (Per Share)	Number of Common Shares Options Outstanding	Available For Grant
Balance January 1, 2003	\$ 47.03	189,675	10,325
Granted	43.50	22,367	(22,367)
Canceled	46.73	(35,814)	35,814
Balance December 31, 2003	46.64	176,228	23,772
Restricted shares issued	N/A		(495)
Granted	58.74	6,000	(6,000)
Exercised	46.87	(57,888)	
Canceled	46.33	(12,939)	12,939
Balance December 31, 2004	47.20	111,401	30,216
Restricted shares issued	66.37		(836)
Granted	72.57	29,853	(29,853)
Exercised	46.73	(47,325)	
Canceled	57.81	(5,855)	5,855
Balance December 31, 2005	55.35	88,074	5,382

STOCK OPTIONS. Stock option grants typically vest in equal installments over a three-year period and allow the option holder to purchase stock over specified periods of time, generally seven years from the date of grant, at a fixed price equal to the market value at the date of grant.

The following tables summarize additional information regarding the options, which were granted under the 2004 Plan, Harrah's Entertainment's former plans and assumed plans and were outstanding at December 31:

	2005	2004	2003
Options exercisable at December 31	4,504,963	2,585,747	2,910,617
Weighted average fair value per share of options granted per year	\$ 38.02	\$ 34.99	\$ 28.63

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$13.84 - \$43.32	2,270,812	3.0 years	\$ 27.29	2,111,232	\$ 27.16
43.50 - 52.59	5,620,777	4.8 years	48.30	2,361,341	47.47
54.27 - 76.56	4,945,507	6.5 years	72.30	32,390	56.79
	12,837,096			4,504,963	

The following tables summarize additional information regarding the options, which were granted under the 2001 Plan and were outstanding at December 31:

	2005	2004	2003
Options exercisable at December 31	52,416	50,242	54,918
Weighted average fair value per share of options granted per year	\$ 46.71	\$ 46.77	\$ 47.03

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$43.50 - \$47.03	56,471	3.5 years	\$ 46.48	52,416	\$ 46.71
47.04 - 73.95	31,603	6.2 years	71.20		
	88,074			52,416	

RESTRICTED STOCK. Employees may also be granted restricted stock under the 2004 Plan and under the Caesars 2004 Plan. Restricted shares granted have restrictions that may include, but not be limited to, the right to vote, receive dividends on or transfer the restricted stock. Restricted shares may be subject to forfeiture during a specified period or periods prior to vesting. The shares issued under the 2004 Plan generally vest in equal installments over a period of three years. The shares issued under the Caesars 2004 Plan generally vest in equal installments over a period of four years. The compensation arising from a restricted stock grant is based upon the market price at the grant date. Such expense is deferred and amortized to expense over the vesting period.

Members of the Board of Directors can receive either 50% or 100% of his or her director fees in restricted shares. Shares issued to Board members as director fees cannot be disposed of until at least six months after the date of grant.

The Company has issued Time Accelerated Restricted Stock Award Plan (TARSAP) awards to certain key executives. During 2004 and 2003, TARSAP awards were issued to certain key executives, which will vest on January 1, 2007, if the executive continues in active employment until that date. These shares were eligible for earlier annual vesting beginning in 2003 over two years (three years for shares awarded in 2002) based on the Company's financial performance in each of the years 2002 through 2005, and the remaining unvested shares will vest on January 1, 2007. The expense arising from TARSAP awards is being amortized to expense over the periods in which the restrictions lapse.

The number and weighted average grant-date fair value of restricted shares granted, and the amortization expense recognized, during 2005, 2004 and 2003, including the TARSAP awards and issues to our Board of Directors after May 1, 2004, were as follows:

	2005	2004	2003
Number of shares granted	118,422	22,495	60,061
Number of shares converted from Caesars plans	65,788		
Weighted average grant price per share	\$ 67.18	\$ 54.00	\$ 45.29
Amortization expense (in millions)	\$ 8.0	\$ 6.7	\$ 8.0
Unvested shares as of December 31	983,231	923,389	1,021,720

SAVINGS AND RETIREMENT PLAN. We maintain a defined contribution savings and retirement plan, which, among other things, allows pretax and after-tax contributions to be made by employees to the plan. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings. Through 2003, the Company fully matched the first six percent of employees' contributions; however, effective January 1, 2004, the Company match is 50% for the first six percent of employees' contributions. Amounts contributed to the plan are invested, at the participant's direction, in up to 14 separate funds, including a Harrah's company stock fund. Participants become vested in the matching contribution over five years of credited service. Our contribution expense for this plan was \$15.2 million, \$14.8 million and \$30.1 million in 2005, 2004 and 2003, respectively.

Employees of Horseshoe Gaming continued to participate in Horseshoe Gaming Holding Corp. 401(k) Plan until January 1, 2006, when they became eligible to participate in Harrah's Entertainment's plan. Under the Horseshoe Gaming plan, employees could elect to make pretax contributions of up to 50% of their eligible earnings (five percent for certain executives). The Company fully matched the first two percent of employees' contributions and 50% of the next four percent of the employees' contributions. Amounts contributed to the plan were invested, at the participant's direction, in up to 12 separate funds plus, effective January 2005, a Harrah's company stock fund. Participants become vested in the matching contributions over four years of credited service. Harrah's Entertainment's contribution expense for 2005 and the six months of 2004 that we owned Horseshoe Gaming was \$4.0 million and \$1.8 million, respectively.

Employees of Caesars will continue to participate in Caesars' 401(k) savings plans until January 1, 2007, when they become eligible to participate in Harrah's Entertainment's plan. Under the Caesars plans, employees could elect to make pretax contributions of up to 50% of their eligible earnings (five percent for certain executives). The Company matches 50% of the first six percent of the employees' contributions and an additional 25% for employees who have five or more years of service. Amounts contributed to the plan are invested, at the participant's direction, in up to 18 separate funds plus, effective January 2006, a Harrah's company stock fund. Participants become vested in the matching contributions over five years of credited service. Harrah's Entertainment's contribution expense for the six months of 2005 that we owned Caesars was \$6.8 million.

DEFERRED COMPENSATION PLANS. Harrah's maintains deferred compensation plans, (collectively, "DCP") and an Executive Supplemental Savings Plan ("ESSP") under which certain employees may defer a portion of their compensation. Amounts deposited into these plans are unsecured liabilities of the Company. Amounts deposited into DCP earn interest at rates approved by the Human

Resources Committee of the Board of Directors. The ESSP is a variable investment plan, which allows employees to direct their investments by choosing from several investment alternatives. In connection with the Caesars acquisition, we assumed the outstanding liability for Caesars deferred compensation plan; however, the balance was frozen and former Caesars employees may no longer contribute to that plan. The total liability included in Deferred credits and other for these plans at December 31, 2005 and 2004 was \$210.1 million and \$113.0 million, respectively. In connection with the administration of one of these plans, we have purchased company-owned life insurance policies insuring the lives of certain directors, officers and key employees.

Beginning in 2005, we implemented Executive Supplemental Savings Plan II (ESSPII) for certain executive officers, directors and other key employees of the Company to replace the ESSP, which was frozen for new contributions as of December 31, 2004. Eligible employees may elect to defer a percentage of their salary and/or bonus under ESSPII, and the Company may make matching contributions with respect to deferrals of salary to those participants who are eligible to receive matching contributions under the Company's 401(k) plan and discretionary contributions. Employees vest in matching and discretionary contributions over five years or, under certain conditions, employees may immediately vest.

MULTI-EMPLOYER PENSION PLAN. We have approximately 30,440 employees covered under collective bargaining agreements, and the majority of those employees are covered by union sponsored, collectively bargained multi-employer pension plans. We contributed and charged to expense \$21.5 million, \$8.2 million and \$7.2 million in 2005, 2004 and 2003, respectively, for such plans. Our 2005 contribution and charge to expense includes contribution and expense for Caesars employees subsequent to our acquisition of Caesars on June 13, 2005. The plans administrators do not provide sufficient information to enable us to determine our share, if any, of unfunded vested benefits.

Note 16 Nonconsolidated Affiliates

As of December 31, 2005, our investments in nonconsolidated affiliates consisted primarily of interests in a company that provides management services to a casino in Windsor, Canada, a horse-racing facility and in a joint venture that was pursuing development of casinos in the United Kingdom.

Our Investments in and advances to nonconsolidated affiliates are reflected in our accompanying Consolidated Balance Sheets as follows:

	2005	2004
Investments in and advances to nonconsolidated affiliates		
Accounted for under the equity method	\$ 26.0	\$ 6.0
Accounted for at historical cost	0.1	0.1
	\$ 26.1	\$ 6.1

Note 17 Quarterly Results of Operations (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2005(1)					
Revenues	\$ 1,257.2	\$ 1,457.9	\$ 2,301.2	\$ 2,094.7	\$ 7,111.0
Income from operations	232.8	225.2	410.2	111.5	979.7
Income/(loss) from continuing operations	93.4	82.9	157.6	(70.4)	263.5
Net income/(loss)	103.8	105.8	169.0	(142.2)	236.4
Earnings/(loss) per share basic(3)					
From continuing operations	0.83	0.68	0.86	(0.39)	1.78
Net income	0.92	0.86	0.93	(0.78)	1.60
Earnings/(loss) per share diluted(3)					
From continuing operations	0.81	0.66	0.85	(0.39)	1.75
Net income	0.90	0.84	0.91	(0.78)	1.57
2004(2)					
Revenues	\$ 1,012.4	\$ 1,037.2	\$ 1,309.7	\$ 1,189.0	\$ 4,548.3
Income from operations	176.3	192.0	257.8	165.0	791.1
Income from continuing operations	74.8	84.1	110.7	59.9	329.5
Net income	81.7	90.2	118.8	77.0	367.7
Earnings per share basic(3)					
From continuing operations	0.68	0.75	1.00	0.54	2.97
Net income	0.74	0.81	1.07	0.69	3.31
Earnings per share diluted(3)					
From continuing operations	0.67	0.74	0.99	0.53	2.92
Net income	0.73	0.79	1.06	0.68	3.26

- (1) 2005 reflects our acquisition of Caesars on June 13, 2005, and includes the following:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Pretax charges for					
Project opening costs	\$ 1.9	\$ 3.6	\$ 6.8	\$ 4.1	\$ 16.4
Write-downs, reserves and recoveries	2.7	22.4	19.3	204.4	248.8
Caesars merger and integration costs	4.0	16.7	15.2	19.1	55.0
After-tax write-downs, reserves and recoveries for discontinued operations				78.6	78.6

- (2) 2004 reflects our acquisition Horseshoe Gaming on July 1, 2004, and includes the following:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Pretax charges for					
Project opening costs	\$ 2.0	\$ 3.9	\$ 2.0	\$ 1.6	\$ 9.5
Write-downs, reserves and recoveries	3.3	(5.0)	3.8	7.5	9.6
Caesars merger and integration costs				2.3	2.3

- (3) The sum of the quarterly per share amounts may not equal the annual amount reported, as per share amounts are computed independently for each quarter and for the full year.

EXHIBITS

- *23 Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
 - *31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 8, 2006.
 - *31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated August 8, 2006.
 - *32.1 Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 8, 2006.
 - *32.2 Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated August 8, 2006.
-

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

HARRAH S ENTERTAINMENT, INC.

August 8, 2006

By:

*/s/ Anthony D. McDuffie
Anthony D. McDuffie
Senior Vice President, Controller and
Chief Accounting Officer*

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