

HARRAHS ENTERTAINMENT INC

Form 10-Q

August 16, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2010

or

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

For the transition period from _____ to _____

Commission File No. 1-10410

HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	I.R.S. No. 62-1411755 (I.R.S. Employer Identification No.)
One Caesars Palace Drive Las Vegas, Nevada (Address of principal executive offices)	89109 (Zip Code)
(702) 407-6000 (Registrant's telephone number, including area code)	
N/A (Former name, former address and former fiscal year, if changed since last report)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

As of August 12, 2010, the Registrant had 10 shares of voting Common Stock and 60,553,257 shares of non-voting Common Stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

Results of operations for interim periods are not necessarily indicative of a full year of operations. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

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HARRAHS ENTERTAINMENT, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

(in millions, except share amounts)	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 1,328.7	\$ 918.1
Receivables, less allowance for doubtful accounts of \$208.7 and \$207.1	311.1	323.5
Deferred income taxes	167.5	148.2
Prepayments and other	204.9	156.4
Inventories	49.7	52.7
Total current assets	2,061.9	1,598.9
Land, buildings, riverboats and equipment	19,691.5	19,206.0
Less: accumulated depreciation	(1,636.1)	(1,281.2)
	18,055.4	17,924.8
Assets held for sale		16.7
Goodwill	3,393.3	3,456.9
Intangible assets other than goodwill	4,880.3	4,951.3
Investments in and advances to non-consolidated affiliates	39.4	94.0
Deferred charges and other	858.7	936.6
	\$ 29,289.0	\$ 28,979.2
Liabilities and Stockholders' Equity/(Deficit)		
Current liabilities		
Accounts payable	\$ 263.3	\$ 260.8
Interest payable	215.4	195.6
Accrued expenses and other current liabilities	1,236.0	1,074.8
Current portion of long-term debt	67.6	74.3
Total current liabilities	1,782.3	1,605.5
Long-term debt	19,805.9	18,868.8
Deferred credits and other	901.1	872.5
Deferred income taxes	5,575.8	5,856.9
	28,065.1	27,203.7
Commitments and contingencies		
Preferred stock; \$0.01 par value; 40,000,000 shares authorized, zero and 19,893,515 shares issued and outstanding (net of zero and 42,020 shares held in treasury) as of June 30, 2010 and December 31, 2009, respectively		2,642.5
Stockholders' equity/(deficit)		
Common stock, non-voting and voting; \$0.01 par value; 80,000,020 shares authorized; 60,553,267 and 40,672,302 shares issued and outstanding (net of 140,477 and 85,907 shares held in treasury) as of June 30, 2010 and December 31, 2009, respectively	0.6	0.4
Additional paid-in capital	6,134.1	3,480.0

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Accumulated deficit	(4,738.9)	(4,269.3)
Accumulated other comprehensive loss	(217.1)	(134.0)
Total Harrah's Entertainment, Inc. Stockholders' equity/(deficit)	1,178.7	(922.9)
Non-controlling interests	45.2	55.9
Total stockholders' equity/(deficit)	1,223.9	(867.0)
	\$ 29,289.0	\$ 28,979.2

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(UNAUDITED)**

(In millions)	Quarter Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues				
Casino	\$ 1,717.0	\$ 1,810.6	\$ 3,467.0	\$ 3,622.8
Food and beverage	388.8	376.9	762.8	747.8
Rooms	294.1	271.6	562.5	546.3
Management fees	9.1	15.2	22.2	28.6
Other	153.3	148.9	284.3	288.4
Less: casino promotional allowances	(341.6)	(351.8)	(689.7)	(707.8)
Net revenues	2,220.7	2,271.4	4,409.1	4,526.1
Operating expenses				
Direct				
Casino	986.2	977.1	1,973.8	1,970.4
Food and beverage	161.2	154.4	305.8	298.2
Rooms	68.1	54.1	127.3	106.1
Property general, administrative and other	535.0	500.3	1,038.3	1,004.6
Depreciation and amortization	197.0	168.8	366.7	341.2
Project opening costs	1.6	0.6	2.3	2.6
Write-downs, reserves and recoveries	95.1	26.9	107.6	54.3
Impairment of intangible assets	100.0	297.1	100.0	297.1
(Income)/loss on interests in nonconsolidated affiliates	(0.1)	0.3	0.5	0.1
Corporate expense	36.9	41.7	71.4	72.0
Acquisition and integration costs	0.4	0.1	7.6	0.3
Amortization of intangible assets	39.6	43.7	82.3	87.5
Total operating expenses	2,221.0	2,265.1	4,183.6	4,234.4
(Loss)/income from continuing operations	(0.3)	6.3	225.5	291.7
Interest expense, net of interest capitalized	(456.8)	(463.4)	(948.3)	(960.2)
Gains/(losses) on early extinguishments of debt	18.7	4,279.5	(28.7)	4,280.7
Other income, including interest income	3.8	10.6	18.4	19.1
(Loss)/income from continuing operations before income taxes	(434.6)	3,833.0	(733.1)	3,631.3
Benefit/(Provision) for income taxes	162.1	(1,536.2)	267.0	(1,461.9)
(Loss)/Income from continuing operations, net of tax	(272.5)	2,296.8	(466.1)	2,169.4
Discontinued operations				
Loss from discontinued operations		(0.2)		(0.3)
Benefit for income taxes		0.1		0.1
Loss from discontinued operations, net of tax		(0.1)		(0.2)
Net (loss)/income	(272.5)	2,296.7	(466.1)	2,169.2

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Less: net income attributable to non-controlling interests	(1.5)	(7.7)	(3.5)	(12.9)
Net (loss)/income attributable to Harrah's Entertainment, Inc.	\$ (274.0)	\$ 2,289.0	\$ (469.6)	\$ 2,156.3

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(in millions)	Six months ended June 30, 2010	2009
Cash flows provided by/(used in) operating activities		
Net (loss)/income	\$ (466.1)	\$ 2,169.2
Adjustments to reconcile net (loss)/income to cash flows provided by operating activities:		
Loss from discontinued operations, before income taxes		0.3
Losses/(gains) on early extinguishments of debt	28.7	(4,280.7)
Depreciation and amortization	587.0	571.0
Non-cash write-downs, reserves and recoveries, net	73.6	9.0
Impairment of intangible assets	100.0	297.1
Share-based compensation expense	12.6	8.4
Deferred income taxes	(285.1)	1,419.0
Gain on adjustment of investment	(7.1)	
Net change in long-term accounts	(71.8)	(0.6)
Net change in working capital accounts	86.6	(131.5)
Other	35.8	31.2
Cash flows provided by operating activities	94.2	92.4
Cash flows provided by/(used in) investing activities		
Land, buildings, riverboats and equipment additions, net of change in construction payables	(75.2)	(294.4)
Additional investment in subsidiaries	(19.9)	
Payment made for partnership interest	(19.5)	
Payment made for Pennsylvania gaming rights	(16.5)	
Cash acquired in business acquisition	31.8	
Proceeds from asset sales	13.0	34.1
Other	(9.0)	(7.8)
Cash flows used in investing activities	(95.3)	(268.1)
Cash flows provided by/(used in) financing activities		
Proceeds from the issuance of long-term debt	1,292.2	1,323.1
Debt issuance costs	(19.5)	(32.1)
Borrowings under lending agreements	1,175.0	1,550.0
Repayments under lending agreements	(1,604.2)	(1,803.2)
Cash paid in connection with early extinguishments of debt	(242.5)	(480.7)
Scheduled debt retirements	(177.8)	(34.7)
Purchase of additional interest in subsidiary		(31.9)
Non-controlling interests distributions, net of contributions	(1.8)	(10.3)
Other	(1.8)	(8.2)
Cash flows provided by financing activities	419.6	472.0
Cash flows from discontinued operations		
Cash flows from operating activities		0.3
Effect of deconsolidation of variable interest entities	(7.9)	
Net increase in cash and cash equivalents	410.6	296.6

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Cash and cash equivalents, beginning of period	918.1	650.5
Cash and cash equivalents, end of period	\$ 1,328.7	\$ 947.1

See accompanying notes to Consolidated Condensed Financial Statements.

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(in millions)	Common Stock Shares Outstanding	Amount	Additional Paid-in- Capital	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interests	Total	Comprehensive Income/(Loss)
Balance at December 31, 2009	40.7	\$ 0.4	\$ 3,480.0	\$ (4,269.3)	\$ (134.0)	\$ 55.9	\$ (867.0)	
Net (loss)/income				(469.6)		3.5	(466.1)	(466.1)
Share-based compensation			12.5			0.1	12.6	
Repurchase of treasury shares	*	*	(0.6)				(0.6)	
Cumulative preferred stock dividends			(64.6)				(64.6)	
Cancellation of cumulative preferred stock dividends in connection with conversion of preferred stock to common stock			717.2				717.2	
Conversion of non-voting perpetual preferred stock to non-voting common stock	19.9	0.2	1,989.6				1,989.8	
Pension adjustment, net of tax benefit of \$0.0					0.4		0.4	0.4
Foreign currency translation adjustments, net of tax benefit of \$0.0					1.3	(2.7)	(1.4)	(1.4)
Fair market value of swap agreements, net of tax benefit of \$24.6					(63.2)		(63.2)	(63.2)
Fair market value of interest rate cap agreements, net of tax benefit of \$0.1					(0.1)		(0.1)	(0.1)
Fair market value of interest rate cap agreements on commercial mortgage backed securities, net of tax benefit of \$4.2					(21.8)		(21.8)	(21.8)
Reclassification of loss on interest rate locks from other comprehensive loss to interest expense, net of tax provision of \$0.1					0.3		0.3	0.3
Non-controlling distributions, net of contributions						(1.8)	(1.8)	
Effect of deconsolidation of variable interest entities						(9.8)	(9.8)	

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Comprehensive Loss, six
months ended June 30,
2010

\$ (551.9)

Balance at June 30, 2010	60.6	\$ 0.6	\$ 6,134.1	\$ (4,738.9)	\$ (217.1)	\$ 45.2	\$ 1,223.9
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* Amounts round to zero and do not change rounded totals.

See accompanying Notes to Consolidated Condensed Financial Statements.

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HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

JUNE 30, 2010

(UNAUDITED)

Note 1 Basis of Presentation and Organization

Harrah s Entertainment, Inc. (Harrah s Entertainment, the Company, we, our or us, and including our subsidiaries where the context requires) is a Delaware corporation. As of June 30, 2010, we owned, operated or managed 52 casinos, in seven countries, but primarily in the United States and England. Our casino entertainment facilities operate primarily under the Harrah s, Caesars and Horseshoe brand names in the United States. Our casino entertainment facilities include 33 land-based casinos, 12 riverboat or dockside casinos, three managed casinos on Indian lands in the United States, one managed casino in Canada, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, and one combination harness racetrack and casino. Our 33 land-based casinos include one in Uruguay, nine in England, one in Scotland, two in Egypt and one in South Africa. We view each property as an operating segment and aggregate all operating segments into one reporting segment.

On January 28, 2008, Harrah s Entertainment was acquired by affiliates of Apollo Global Management, LLC (Apollo) and TPG Capital, LP (TPG) in an all cash transaction, hereinafter referred to as the Acquisition. Harrah s Entertainment continued as the same legal entity after the Acquisition. As a result of the Acquisition, the issued and outstanding shares of non-voting common stock and non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo, TPG, certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo and TPG. As a result of the Acquisition, our stock is no longer publicly traded.

We have recast certain amounts for prior periods to conform to our 2010 presentation.

Note 2 Recently Issued Accounting Pronouncements

The following are accounting standards adopted or issued during 2010 that could have an impact on our Company.

In April 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-16, Accruals for Casino Jackpot Liabilities, (ASC Topic 924, Entertainment Casinos). The amendments in this Update clarify that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This Update applies to both base and progressive jackpots. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. We have elected to not adopt early application. We are currently assessing what impact the adoption of this Update will have on our consolidated financial position, results of operations and cash flows.

We adopted the provision of ASU No. 2010-09, Subsequent Events , on March 1, 2010. This update adds a definition of the term SEC filer to the ASC Master Glossary and removes the definition of public entity from the ASC 855 Glossary. Also, the update requires (1) SEC filers and (2) conduit debt obligors for conduit debt securities that are traded in a public market to evaluate subsequent events through the date the financial statements are issued. All other entities are required to evaluate subsequent events through the date the financial statements are available to be issued. In addition; the update exempts SEC filers from disclosing the date through which subsequent events have been evaluated. Because ASU No. 2010-09 applies only to financial statement disclosures, it did not have a material impact on our consolidated financial position, results of operations and cash flows.

We adopted the provision of ASU No. 2010-06, Improving Disclosures About Fair Value Measurements, on February 1, 2010. This update adds new requirements for disclosure about transfers into and out of Level 1 and Level 2 measurements, and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers disclosures about postretirement benefit plan assets under ASC 715, Compensation Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. Because ASU No. 2010-06 applies only to financial statement disclosures, it did not have a material impact on our consolidated financial position, results of operations and cash flows.

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In June 2009, the FASB issued ASU 2009-17 (ASC Topic 810), Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which is effective as of January 1, 2010. The new standard amends existing consolidation guidance for variable interest entities and requires a company to perform a qualitative analysis when determining whether it must consolidate a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the company that has both the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and either the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. As a result of the adoption of ASU 2009-17, we have two joint ventures which were consolidated within our financial statements for all periods prior to December 31, 2009, and are no longer consolidated beginning in January 2010. The deconsolidation of these two joint ventures resulted in a reduction of our cash balances of \$7.9 million, shown separately as an outflow of cash in our statement of cash flows for the six months ended June 30, 2010.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)**

Selected financial information for 2009 related to the two joint ventures that were deconsolidated is as follows:

(In millions)	Second Quarter	Six Months
	Ended June 30, 2009	Ended June 30, 2009
Net Revenues	\$ 12.1	\$ 21.6
Income from operations	1.1	2.0

Note 3 Acquisition of Planet Hollywood

On February 19, 2010, Harrah's Operating Company, Inc. (HOC), a wholly-owned subsidiary of Harrah's Entertainment, Inc., acquired 100% of the equity interests of PHW Las Vegas, LLC (PHW Las Vegas), which owns and operates the Planet Hollywood Resort and Casino (Planet Hollywood) located in Las Vegas, Nevada. PHW Las Vegas is an unrestricted subsidiary of HOC and therefore not a borrower under HOC's credit facilities.

The Company paid approximately \$67.2 million during the second half of 2009 for the combination of i) the Company's initial debt investment in certain predecessor entities of PHW Las Vegas; and ii) certain interest only participations associated with the debt of certain predecessor entities of PHW Las Vegas. In connection with the cancellation of our debt investment in such predecessor entities of PHW Las Vegas in exchange for the equity of PHW Las Vegas, the Company recognized a gain of \$7.1 million to adjust our investments to reflect the estimated fair value of consideration paid for the acquisition. This gain is reflected in Other income, including interest income, in our Statement of Operations for the six months ended June 30, 2010. Also, as a result of the acquisition, the Company acquired the net cash balance of PHW Las Vegas, resulting in a net positive cash flow of \$13.0 million for the six months ended June 30, 2010.

In connection with this transaction, PHW Las Vegas assumed a \$554.3 million, face value, senior secured loan, and a subsidiary of Harrah's Operating cancelled certain debt issued by PHW Las Vegas predecessor entities. In connection with the transaction and the assumption of debt, PHW Las Vegas entered into an amended and restated loan agreement (the Amended and Restated Loan Agreement) as discussed in Note 5, Debt, below.

Selected financial information related to Planet Hollywood for the period subsequent to our date of acquisition is as follows:

(In millions)	Acquisition through Mar 31, 2010	Quarter ended June 30, 2010	Acquisition through June 30, 2010
Net Revenues	\$ 26.3	\$ 65.2	\$ 91.5
Income from operations	3.1	12.4	15.5

PHW Las Vegas does not meet the definition of significant subsidiary under regulations issued by the Securities and Exchange Commission and under generally accepted accounting principles and, as a result, pro forma information for periods prior to the acquisition of PHW Las Vegas is not provided.

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The Company accounted for the acquisition of PHW Las Vegas in accordance with ASC 805, Business Combinations, under which the purchase price of the acquisition has been allocated based upon preliminary estimated fair values of the assets acquired and liabilities assumed, with the excess of estimated fair value over net tangible and intangible assets acquired recorded as goodwill. The preliminary purchase price allocation includes assets and liabilities of PHW Las Vegas as follows:

(In millions)	February 19, 2010
<i>Assets</i>	
Current assets	
Cash and cash equivalents	\$ 31.8
Accounts receivable	14.6
Prepayments and other	6.1
Inventories	1.9
Total current assets	54.4
Land, buildings, riverboats and equipment	461.0
Goodwill	8.9
Intangible assets other than goodwill	5.3
Deferred charges and other	13.1
	542.7
<i>Liabilities</i>	
Current liabilities	
Accounts payable	(1.9)
Interest payable	(1.1)
Accrued expenses	(28.4)
Current portion of long-term debt	(4.5)
Total current liabilities	(35.9)
Long-term debt, net of discount	(433.4)
Deferred credits and other	(12.3)
Total liabilities	(481.6)
Net assets acquired	\$ 61.1

During the quarter ended June 30, 2010, the Company continued to review its preliminary purchase price allocation and the supporting valuations and related assumptions. Based upon these reviews, the Company made adjustments to its preliminary purchase price allocation (included in the table above) that resulted in an increase to the recorded goodwill of \$7.6 million, and a decrease to net assets acquired of \$13.2

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million, resulting from the assignment of fair value to the interest only participations, which remain as free-standing, separately identifiable assets of HOC subsequent to the acquisition.

The Company has not finalized its purchase price allocation. The most significant of the items not finalized is the determination of deferred tax balances associated with differences between the estimated fair values and the tax bases of assets acquired and liabilities assumed.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Note 4 Goodwill and Other Intangible Assets**

We account for our goodwill and other intangible assets in accordance with ASC 350, Intangible Assets—Goodwill and Other, which provides guidance regarding the recognition and measurement of intangible assets, eliminates the amortization of indefinite-lived intangible assets and requires assessments for impairment of intangible assets that are not subject to amortization at least annually.

The following table sets forth changes in our goodwill and other intangible assets for the six months ended June 30, 2010:

(In millions)	Amortizing	Non-Amortizing Intangible Assets	
	Intangible Assets	Goodwill	Other
Balance at December 31, 2009	\$ 1,391.0	\$ 3,456.9	\$ 3,560.3
Impairment charges		(92.0)	(8.0)
Acquisition of PHW Las Vegas	5.3	8.9	
Amortization Expense	(82.3)		
Other	(1.2)	19.5	15.2
Balance at June 30, 2010	\$ 1,312.8	\$ 3,393.3	\$ 3,567.5

In March 2010, the Company paid \$19.5 million to a former owner of Chester Downs for resolution of the final contingency associated with the Company's purchase of additional interest in this property. This payment was recorded as goodwill. In June 2010, the Company paid \$16.5 million to the State of Pennsylvania for the right to operate table games at Harrah's Chester. This payment was recorded as a non-amortizing intangible asset.

The relative impact of weak economic conditions on certain properties, in relation to management's operating plans, prompted us to perform an interim assessment of goodwill and certain intangible assets for impairment. Based on our assessment during the second quarter of 2010, we determined that, based on the revision of forecasted cash flows for certain properties, goodwill and other intangible assets related to those properties were impaired. As a result, we recognized an impairment charge of \$100.0 million in our Consolidated Condensed Statement of Operations in the second quarter of 2010. Of the total charges recognized, \$92.0 million related to goodwill and the remaining \$8.0 million related to non-amortizing gaming rights. We determine estimated fair value of a reporting unit as a weighted combination of i) a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA) and ii) discounted cash flows; both of which are common measures used to value and buy or sell cash-intensive businesses such as casinos. We determine the estimated fair values of our intangible assets by using the Relief From Royalty Method under the income approach. We will continue to monitor our intangible assets for impairment and will perform our annual assessment for impairment during the fourth quarter of 2010 with information as of September 30, 2010.

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets other than goodwill:

(In millions)	June 30, 2010				December 31, 2009		
	Weighted Average	Gross Carrying	Accumulated Amortization	Net Carrying	Gross Carrying	Accumulated Amortization	Net Carrying

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	Remaining Useful Life (in years)	Amount		Amount	Amount		Amount
Amortizing intangible assets							
Customer relationships	9.4	\$ 1,456.8	\$ (303.9)	\$ 1,152.9	\$ 1,454.5	\$ (240.8)	\$ 1,213.7
Contract rights	4.4	131.9	(77.7)	54.2	130.1	(66.5)	63.6
Patented technology	5.6	93.5	(28.3)	65.2	93.5	(22.4)	71.1
Gaming rights	14.0	42.8	(6.3)	36.5	42.8	(5.0)	37.8
Trademarks	2.6	7.8	(3.8)	4.0	7.8	(3.0)	4.8
		\$ 1,732.8	\$ (420.0)	1,312.8	\$ 1,728.7	\$ (337.7)	1,391.0
Non-amortizing intangible assets							
Trademarks				1,936.6			1,937.0
Gaming rights				1,630.9			1,623.3
				3,567.5			3,560.3
Total intangible assets other than goodwill				\$ 4,880.3			\$ 4,951.3

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HARRAHS ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

The aggregate amortization of intangible assets for the quarter and six months ended June 30, 2010 was \$39.6 million and \$82.3 million, respectively. Estimated annual amortization expense for the years ending December 31, 2010, 2011, 2012, 2013 and 2014 is \$160.8 million, \$156.2 million, \$154.9 million, \$152.5 million and \$142.3 million, respectively.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Note 5 Debt**

The following table presents our debt as of June 30, 2010 and December 31, 2009:

Detail of Debt (dollars in millions)	Maturity	Rate(s) at June 30, 2010	Face Value at June 30, 2010	Book Value at June 30, 2010	Book Value at Dec. 31, 2009
Credit Facilities and Secured Debt					
Term Loans					
Term Loans B1-B3	2015	3.32%-3.53%	\$ 5,825.1	\$ 5,825.1	\$ 5,835.3
Term Loan B4	2016	9.5%	995.0	971.9	975.3
Revolving Credit Facility	2014	3.23%-3.75%			427.0
Senior Secured Notes	2017	11.25%	2,095.0	2,047.3	2,045.2
CMBS financing	2013*	3.35%	5,504.6	5,504.6	5,551.2
Second-Priority Senior Secured Notes	2018	12.75%	750.0	741.0	
Second-Priority Senior Secured Notes	2018	10.0%	4,553.1	1,993.5	1,959.1
Second-Priority Senior Secured Notes	2015	10.0%	214.8	153.9	150.7
Secured debt	2010	6.0%	25.0	25.0	25.0
Chester Downs term loan	2016	12.375%	217.1	205.1	217.2
PHW Las Vegas senior secured loan	2011	3.21%	552.2	437.4	
Other, various maturities	Various	4.25%-6.0%	0.2	0.2	
Subsidiary-guaranteed debt					
Senior Notes	2016	10.75%	478.6	478.6	478.6
Senior PIK Toggle Notes	2018	10.75%/11.5%	10.0	10.0	9.4
Unsecured Senior Debt					
5.5%	2010	5.5%			186.9
8.0%	2011	8.0%			12.5
5.375%	2013	5.375%	125.2	98.4	95.5
7.0%	2013	7.0%	0.6	0.7	0.7
5.625%	2015	5.625%	784.3	556.1	319.5
6.5%	2016	6.5%	568.4	399.0	251.9
5.75%	2017	5.75%	532.1	336.9	151.3
Floating Rate Contingent Convertible Senior Notes	2024	0.5%	0.2	0.2	0.2
Unsecured Senior Subordinated Notes					
7.875%	2010	7.875%			142.5
8.125%	2011	8.125%			11.4
Other Unsecured Borrowings					
5.3% special improvement district bonds	2035	5.3%	67.1	67.1	68.4
Other	Various	Various	11.6	11.6	18.1
Capitalized Lease Obligations					
6.42%-9.8%	to 2020	6.42%-9.8%	9.9	9.9	10.2
Total debt			23,320.1	19,873.5	18,943.1
Current portion of long-term debt			(67.6)	(67.6)	(74.3)

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Long-term debt	\$ 23,252.5	\$ 19,805.9	\$ 18,868.8
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* The 2013 maturity of the CMBS loans is prior to finalization of the amendment to the CMBS Financing which would extend the maturity to 2015 as discussed further below.

Book values of debt as of June 30, 2010 are presented net of unamortized discounts of \$3,446.7 million and unamortized premiums of \$0.1 million. As of December 31, 2009, book values are presented net of unamortized discounts of \$3,108.9 million and unamortized premiums of \$0.1 million.

At June 30, 2010, \$25.0 million, face amount, of our 6.0% Secured Note due July 15, 2010, is classified as long-term in our Consolidated Condensed Balance Sheet because the Company currently has both the intent and the ability to refinance this debt with funds from our revolving credit facility. Our current maturities of debt include required interim principal payments on each of our Term Loans, our Chester Downs term loan, and the special improvement district bonds.

Table of Contents**HARRAH S ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)*****Issuances, Redemptions and Open-Market Purchases***

During the second quarter of 2010, HOC completed the offering of \$750.0 million aggregate principal amount of 12.75% second-priority senior secured notes due 2018 and used the proceeds of this offering to redeem or repay the following outstanding debt:

Debt (dollars in millions)	Maturity	Interest Rate	Face Value
5.5% Senior Notes	2010	5.5%	191.6
8.0% Senior Notes	2011	8.0%	13.2
8.125% Senior Subordinated Notes	2011	8.125%	12.0
Revolving Credit Facility	2014	3.23%-3.25%	525.0

In connection with the retirement of the outstanding senior and senior subordinated notes above, HOC recorded a pre-tax loss of \$4.6 million during the second quarter of 2010.

On June 3, 2010, Harrah's announced an agreement under which affiliates of each of Apollo, TPG and Paulson & Co. Inc. ("Paulson") will exchange \$1,118 million face amount of debt for approximately 15.6% of the common equity of Harrah's Entertainment, subject to regulatory approvals and certain other conditions. In connection with the transaction, Apollo, TPG, and Paulson purchased approximately \$835 million, face amount, of HOC notes that were held by another subsidiary of Harrah's Entertainment for aggregate consideration of approximately \$557 million, including accrued interest. In connection with this sale, HOC recorded additional discount on the sale of the debt, reducing the net book value of HOC's outstanding debt by approximately \$27.4 million at the date of the transaction. The exchange of the debt for equity is expected to be completed in the fourth quarter of 2010 or first quarter of 2011. Any notes exchanged for equity will be held by a subsidiary of Harrah's Entertainment and will remain outstanding for purposes of HOC.

In June 2010, we purchased approximately \$46.6 million face value of CMBS Loans for approximately \$22.6 million and recognized a pre-tax gain on the transaction of approximately \$23.3 million.

Credit Agreement and Incremental Facility Amendment

In connection with the Acquisition, HOC entered into the senior secured credit facilities (the "Credit Facilities"). This financing is neither secured nor guaranteed by Harrah's Entertainment's other direct, wholly-owned subsidiaries, including the subsidiaries that own properties that are security for certain real estate loans (the "CMBS Financing") and certain of HOC's subsidiaries that are unrestricted subsidiaries. In late 2009, HOC completed cash tender offers for certain of its outstanding debt, and in connection with these tender offers, HOC borrowed \$1,000 million of new term loans under its Credit Facilities pursuant to an incremental amendment (the "Incremental Loans").

As of June 30, 2010, our Credit Facilities provide for senior secured financing of up to \$8,450.1 million, consisting of (i) senior secured term loan facilities in an aggregate principal amount of \$6,820.1 million with \$5,825.1 million maturing on January 20, 2015 and \$995.0 million maturing on October 31, 2016, and (ii) a senior secured revolving credit facility in an aggregate principal amount of up to \$1,630.0 million, maturing January 28, 2014, including both a letter of credit sub-facility and a swingline loan sub-facility. The term loans under the Credit Facilities require scheduled quarterly payments of \$7.5 million, with the balance due at maturity. A total of \$6,820.1 million face amount of borrowings were outstanding under the Credit Facilities as of June 30, 2010, with \$130.6 million of the revolving credit facility committed to outstanding letters of credit. After consideration of these borrowings and letters of credit, \$1,499.4 million of additional borrowing capacity was available to the Company under its revolving credit facility as of June 30, 2010.

Interest and Fees

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Borrowings under the Credit Facilities, other than borrowings under the Incremental Loans, bear interest at a rate equal to the then-current LIBOR rate or at a rate equal to the alternate base rate, in each case plus an applicable margin. As of June 30, 2010, the Credit Facilities, other than borrowings under the Incremental Loans, bore interest at LIBOR plus 300 basis points for the term loans and a portion of the revolver loan, 150 basis points over the alternate base rate for the swingline loan and at the alternate base rate plus 200 basis points for the remainder of the revolver loan.

Borrowings under the Incremental Loans bear interest at a rate equal to either the alternate base rate or the greater of i) the then-current LIBOR rate or ii) 2.0%; in each case plus an applicable margin. At June 30, 2010, borrowings under the Incremental Loans bore interest at the minimum base rate of 2.0%, plus 750 basis points.

In addition, on a quarterly basis, we are required to pay each lender (i) a commitment fee in respect of any unborrowed amounts under the revolving credit facility and (ii) a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the revolving credit facility. As of June 30, 2010, the Credit Facilities bore a commitment fee for unborrowed amounts of 50 basis points.

We make monthly interest payments on our CMBS Financing. Our outstanding notes (secured and unsecured) have semi-annual interest payments, with the majority of those payments on June 15 and December 15.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)**

A change in interest rates on variable-rate debt 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% increase in corresponding interest rates would change interest expense for the twelve months following June 30, 2010 by approximately \$63.5 million. At June 30, 2010, the three-month USD LIBOR rate was 0.5369%. A hypothetical reduction of this rate to 0% would decrease interest expense for the next twelve months by approximately \$34.1 million. These hypothetical interest amounts exclude interest on the \$5,810 million of variable-rate debt for which our interest rate swap agreements are designated as hedging instruments for accounting purposes, through the earlier of the expiration of such swap agreements or twelve months. At June 30, 2010, our variable-rate debt, excluding the aforementioned \$5,810 million of variable-rate debt hedged against interest rate swap agreements, represents approximately 35.6% of our total debt, while our fixed-rate debt is approximately 64.4% of our total debt.

Collateral and Guarantors

HOC's Credit Facilities are guaranteed by Harrah's Entertainment, and are secured by a pledge of HOC's capital stock and by substantially all of the existing and future property and assets of HOC and its material, wholly-owned domestic subsidiaries other than certain unrestricted subsidiaries, including a pledge of the capital stock of HOC's material, wholly-owned domestic subsidiaries and 65% of the capital stock of the first-tier foreign subsidiaries, in each case subject to exceptions. The following casino properties have mortgages under the Credit Facilities:

Las Vegas	Atlantic City	Louisiana/Mississippi	Iowa/Missouri
Caesars Palace	Bally's Atlantic City	Harrah's New Orleans	Harrah's St. Louis
Bally's Las Vegas	Caesars Atlantic City	(Hotel only)	Harrah's North Kansas City
Imperial Palace	Showboat Atlantic City	Harrah's Louisiana Downs	Harrah's Council Bluffs
Bill's Gamblin' Hall & Saloon		Horseshoe Bossier City	Horseshoe Council Bluffs/ Bluffs Run
		Harrah's Tunica	
		Horseshoe Tunica	
		Tunica Roadhouse Hotel & Casino	

Illinois/Indiana	Other Nevada
Horseshoe Southern Indiana	Harrah's Reno
Harrah's Metropolis	Harrah's Lake Tahoe
Horseshoe Hammond	Harveys Lake Tahoe

Additionally, certain undeveloped land in Las Vegas also is mortgaged.

Restrictive Covenants and Other Matters

The Credit Facilities require compliance on a quarterly basis with a maximum net senior secured first lien debt leverage test. In addition, the Credit Facilities include negative covenants, subject to certain exceptions, restricting or limiting HOC's ability and the ability of its restricted subsidiaries to, among other things: (i) incur additional debt; (ii) create liens on certain assets; (iii) enter into sale and lease-back transactions (iv) make certain investments, loans and advances; (v) consolidate, merge, sell or otherwise dispose of all or any part of its assets or to purchase, lease or otherwise acquire all or any substantial part of assets of any other person; (vi) pay dividends or make distributions or make other restricted payments; (vii) enter into certain transactions with its affiliates; (viii) engage in any business other than the business activity conducted at the closing date of the loan or business activities incidental or related thereto; (ix) amend or modify the articles or certificate of incorporation,

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by-laws and certain agreements or make certain payments or modifications of indebtedness; and (x) designate or permit the designation of any indebtedness as Designated Senior Debt .

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

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

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HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

Certain covenants contained in HOC's credit agreement require the maintenance of a senior first priority secured debt to last twelve months (LTM) Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ratio, as defined in the agreements, (Senior Secured Leverage Ratio). The June 3, 2009 amendment and waiver to our credit agreement excludes from the Senior Secured Leverage Ratio (a) the \$1,375.0 million first lien notes issued June 15, 2009 and the \$720.0 million first lien notes issued on September 11, 2009 and (b) up to \$250 million aggregate principal amount of consolidated debt of subsidiaries that are not wholly-owned subsidiaries. Certain covenants contained in HOC's credit agreement governing its senior secured credit facilities, the indenture and other agreements governing HOC's 10.0% Second-Priority Senior Secured Notes due 2015 and 2018, and our first lien notes restrict our ability to take certain actions such as incurring additional debt or making acquisitions if we are unable to meet defined Adjusted EBITDA to Fixed Charges, senior secured debt to LTM Adjusted EBITDA and consolidated debt to LTM Adjusted EBITDA ratios. The covenants that restrict additional indebtedness and the ability to make future acquisitions require an LTM Adjusted EBITDA to Fixed Charges ratio (measured on a trailing four-quarter basis) of 2.0:1.0. Failure to comply with these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions.

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

Other Financing Transactions

Acquisition of Planet Hollywood

On February 19, 2010, HOC acquired 100% of the equity interests of PHW Las Vegas, which owns and operates the Planet Hollywood Resort and Casino located in Las Vegas, Nevada. In connection with this transaction, PHW Las Vegas assumed a \$554.3 million, face value, senior secured loan, and a subsidiary of HOC cancelled certain debt issued by PHW Las Vegas' predecessor entities. In connection with the transaction and the assumption of debt, PHW Las Vegas entered into the Amended and Restated Loan Agreement with Wells Fargo Bank, N.A., as trustee for The Credit Suisse First Boston Mortgage Securities Corp. Commercial Mortgage Pass-Through Certificates, Series 2007-TFL2 (Lender). PHW Las Vegas is an unrestricted subsidiary of HOC and therefore not a borrower under HOC's Credit Facilities. A subsidiary of HOC manages the property for PHW Las Vegas for a fee. The maturity date for this loan is December 2011, with two extension options, which, if exercised, would extend maturity until April 2015.

Guaranty

In connection with PHW Las Vegas' Amended and Restated Loan Agreement, Harrah's Entertainment entered into a Guaranty Agreement (the Guaranty) for the benefit of Lender pursuant to which Harrah's Entertainment guaranteed to Lender certain recourse liabilities of PHW Las Vegas. Harrah's Entertainment's maximum aggregate liability for such recourse liabilities is limited to \$30.0 million provided that such recourse liabilities of PHW Las Vegas do not arise from (i) events, acts, or circumstances that are actually committed by, or voluntarily or willfully brought about by Harrah's Entertainment or (ii) event, acts, or circumstances (regardless of the cause of the same) that provide actual benefit (in cash, cash equivalent, or other quantifiable amount) to the Registrant, to the full extent of the actual benefit received by the Registrant. Pursuant to the Guaranty, Harrah's Entertainment is required to maintain a net worth or liquid assets of at least \$100.0 million.

Prepayments

PHW Las Vegas may, at its option, voluntarily prepay the loan in whole or in part upon twenty (20) days prior written notice to Lender.

PHW Las Vegas is required to prepay the loan in (i) the amount of any insurance proceeds received by Lender for which Lender is not obligated to make available to PHW Las Vegas for restoration in accordance with the terms of the Amended and Restated Loan Agreement, (ii) the amount of any proceeds received from the operator of the timeshare property adjacent to the Planet Hollywood Resort and Casino, subject to the limitations set forth in the Amended and Restated Loan Agreement and (iii) the amount of any excess cash remaining after application of the cash management provisions of the Amended and Restated Loan Agreement.

Interest Payments

The amount outstanding under the Amended and Restated Loan Agreement bears interest, paid monthly, at a rate per annum equal to LIBOR plus 2.859%. The outstanding amount is secured by the assets of PHW Las Vegas, and is non-recourse to other subsidiaries of the Company. A subsidiary of Harrah's Operating Company, Inc. owns interest only participations that pay interest at a fixed rate equal to \$7.3 million per year. After consideration of amounts received on our interest only participations, the amount outstanding under the Amended and Restated Loan Agreement bears interest payable to 3rd parties at a rate per annum equal to LIBOR plus 1.533%.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Amendment to CMBS Financing**

On March 5, 2010, we received the consent of the lenders under our CMBS financing to amend the terms of the CMBS Financing to, among other things, (i) provide our subsidiaries that are borrowers under the CMBS mortgage loan and/or related mezzanine loans ("CMBS Loans") the right to extend the maturity of the CMBS Loans, subject to certain conditions, by up to 2 years until February 2015, (ii) amend certain terms of the CMBS Loans with respect to reserve requirements, collateral rights, property release prices and the payment of management fees, (iii) provide for ongoing mandatory offers to repurchase CMBS Loans using excess cash flow from the CMBS entities at discounted prices, (iv) provide for the amortization of the mortgage loan in certain minimum amounts upon the occurrence of certain conditions and (v) provide for certain limitations with respect to the amount of excess cash flow from the CMBS entities that may be distributed to us. Any CMBS Loan purchased pursuant to the amendments will be cancelled. The amendment to the terms of the CMBS Loans will become effective upon execution of definitive documentation.

In the fourth quarter of 2009, we purchased approximately \$950 million of face value of CMBS Loans for approximately \$237 million. Pursuant to the terms of the amendment, we have agreed to pay lenders selling CMBS Loans during the fourth quarter 2009 an additional \$48 million for their loans previously sold, subject to the execution of definitive documentation for the amendment. This additional liability was recorded as a loss on early extinguishment of debt during the first quarter of 2010 and is included in the six months ended June 30, 2010 results. In addition, we have agreed to purchase approximately \$124 million of face value of CMBS Loans for \$37 million, subject to the execution of definitive documentation for the amendment.

Derivative Instruments Interest Rate Swap Agreements

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of June 30, 2010 we have entered into 10 interest rate swap agreements for notional amounts totaling \$6,500 million. The difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received pursuant to the terms of the interest rate swap agreements will have a corresponding effect on future cash flows. The major terms of the interest rate swap agreements as of June 30, 2010 are as follows:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of June 30, 2010	Next Reset Date	Maturity Date
April 25, 2007	\$ 200	4.898%	0.316%	July 26, 2010	April 25, 2011
April 25, 2007	200	4.896%	0.316%	July 26, 2010	April 25, 2011
April 25, 2007	200	4.925%	0.316%	July 26, 2010	April 25, 2011
April 25, 2007	200	4.917%	0.316%	July 26, 2010	April 25, 2011
April 25, 2007	200	4.907%	0.316%	July 26, 2010	April 25, 2011
September 26, 2007	250	4.809%	0.316%	July 26, 2010	April 25, 2011
September 26, 2007	250	4.775%	0.316%	July 26, 2010	April 25, 2011
April 25, 2008	2,000	4.276%	0.316%	July 26, 2010	April 25, 2013
April 25, 2008	2,000	4.263%	0.316%	July 26, 2010	April 25, 2013
April 25, 2008	1,000	4.172%	0.316%	July 26, 2010	April 25, 2012

The variable rate on our interest rate swap agreements did not materially change as a result of the July 26, 2010 reset.

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Until October 2009, our interest rate swap agreements were designated as cash flow hedging instruments for accounting purposes. During October 2009, we borrowed \$1,000 million under the Incremental Loans and used a majority of the net proceeds to temporarily repay most of our revolving debt under the Credit Facilities. As a result, we no longer had a sufficient amount of outstanding debt under the same terms as our interest rate swap agreements to support hedge accounting treatment for the full \$6,500 million in interest rate swaps. Thus, as of September 30, 2009, we removed the cash flow hedge designation for the \$1,000 million swap agreement, freezing the amount of deferred losses recorded in Accumulated Other Comprehensive Loss associated with this swap agreement, and reducing the total notional amount on interest rate swaps designated as cash flow hedging instruments to \$5,500 million. Beginning October 1, 2009, we began amortizing deferred losses frozen in Accumulated Other Comprehensive Loss into income over the original remaining term of the hedged forecasted transactions that are still considered to be probable of occurring. For the quarter and six months ended June 30, 2010, we recorded \$2.2 million and \$4.3 million, respectively, as an increase to interest expense, and we will record an additional \$8.7 million as an increase to interest expense and other comprehensive income over the next 12 months, all related to deferred losses on the \$1,000 million interest rate swap.

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HARRAHS ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

During the fourth quarter of 2009, we re-designated approximately \$310 million of the \$1,000 million swap as a cash flow hedging instrument. As a result, at June 30, 2010, \$5,810 million of our total interest rate swap agreements notional amount of \$6,500 million remained designated as hedging instruments for accounting purposes. Any future changes in fair value of the portion of the interest rate swap agreement not designated as a hedging instrument will be recognized in interest expense during the period in which the changes in value occur.

Derivative Instruments Interest Rate Cap Agreements

On January 28, 2008, we entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS Financing. The interest rate cap agreement, which was effective January 28, 2008 and terminates February 13, 2013, is for a notional amount of \$6,500 million at a LIBOR cap rate of 4.5%. The interest rate cap was designated as a cash flow hedging instrument for accounting purposes on May 1, 2008.

On November 30, 2009, we purchased and extinguished approximately \$948.8 million of the CMBS Financing. The hedging relationship between the CMBS Financing and the interest rate cap remained effective subsequent to the debt extinguishment. As a result of the extinguishment, in the fourth quarter 2009, we reclassified approximately \$12.1 million of deferred losses out of Accumulated Other Comprehensive Income and into interest expense associated with hedges for which the forecasted future transactions are no longer probable of occurring.

On January 31, 2010, we removed the cash flow hedge designation for the \$6,500 million interest rate cap, freezing the amount of deferred losses recorded in Accumulated Other Comprehensive Loss associated with the interest rate cap. Beginning February 1, 2010, we began amortizing deferred losses frozen in Accumulated Other Comprehensive Loss into income over the original remaining term of the hedge forecasted transactions that are still probable of occurring. For the quarter and six months ended June 30, 2010, we recorded \$6.0 million and \$9.5 million, respectively, as an increase to interest expense, and we will record an additional \$20.9 million as an increase to interest expense and Accumulated Other Comprehensive Loss over the next 12 months, all related to deferred losses on the interest rate cap. In connection with the extinguishment of \$46.6 million of the CMBS Financing, on June 7, 2010, we reclassified approximately \$1 million of deferred losses recorded in Accumulated Other Comprehensive Loss associated with the interest rate cap into interest expense associated with hedges for which the forecasted transactions are no longer probable of occurring.

On January 31, 2010, we re-designated \$4,650 million of the interest rate cap as a cash flow hedging instrument for accounting purposes. Any future changes in fair value of the portion of the interest rate cap not designated as a hedging instrument will be recognized in Interest expense during the period in which the changes in value occur.

On April 5, 2010, as required under the amended and restated loan agreement, we entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the PHW Las Vegas senior secured loan. The interest rate cap agreement is for a notional amount of \$554.3 million at a LIBOR cap rate of 5%, and matures on December 9, 2011. To give proper consideration to the prepayment requirements of the PHW Las Vegas senior secured loan, we have designated \$525 million of the \$554.3 million notional amount of the interest rate cap as a cash flow hedging instrument for accounting purposes.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Derivative Instruments Impact on Financial Statements**

The following table represents the fair values of derivative instruments in the Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009:

Asset Derivatives					Liability Derivatives			
June 30, 2010		December 31, 2009			June 30, 2010		December 31, 2009	
Balance Sheet		Balance Sheet	Fair Value		Balance Sheet	Fair Value	Balance Sheet	Fair Value
Location	Fair Value	Location	Fair Value		Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments								
Interest Rate Swaps					Accrued Expenses	\$ (50.1)	Accrued Expenses	\$
Interest Rate Swaps					Deferred Credits and Other	(319.6)	Deferred Credits and Other	(337.6)
Interest Rate Cap	Deferred Charges and Other	Deferred Charges and Other	4.7	56.8				
Subtotal	4.7	56.8			(369.7)		(337.6)	
Derivatives not designated as hedging instruments								
Interest Rate Swaps					Deferred Credits and Other	(38.0)	Deferred Credits and Other	(37.6)
Interest Rate Cap	Deferred Charges and Other	Deferred Charges and Other	1.9					
Subtotal	1.9				(38.0)		(37.6)	
Total Derivatives	\$ 6.6	\$ 56.8			\$ (407.7)		\$ (375.2)	

The following table represents the effect of derivative instruments in the Consolidated Statements of Operations for the quarters ended June 30, 2010 and 2009 for amounts transferred into or out of Accumulated Other Comprehensive Loss:

Amount of (Gain) or Loss Recognized in OCI (Effective Portion)	Location of (Gain) or Loss Recognized in OCI Into Income (Effective Portion)	Amount of (Gain) or Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Location of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
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Cash Flow Hedging Relationships	Quarter Ended June 30, 2010	Quarter Ended June 30, 2009		Quarter Ended June 30, 2010	Quarter Ended June 30, 2009		Quarter Ended June 30, 2010	Quarter Ended June 30, 2009
Interest rate contracts	\$ 78.8	\$ 32.4	Interest Expense	\$ 8.4	\$ 0.2	Interest Expense	\$ (59.3)	\$

		Amount of Loss or (Gain) Recognized in Income on Derivatives	
		Location of (Gain) or Loss Recognized in Income on Derivative	Quarter Ended June 30, 2010
Derivatives Not Designated as Hedging			Quarter Ended June 30, 2009
Instruments			
Interest Rate Contracts		Interest Expense	\$ 4.9

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)**

The following table represents the effect of derivative instruments in the Consolidated Statements of Operations for the six months ended June 30, 2010 and 2009 for amounts transferred into or out of Accumulated Other Comprehensive Loss:

	Amount of (Gain) or Loss on Derivatives Recognized in OCI (Effective Portion)		Location of (Gain) or Loss Reclassified From Accumulated OCI Into Income (Effective Portion)	Amount of (Gain) or Loss Reclassified from Accumulated OCI into Income (Effective Portion)		Location of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of (Gain) or Loss Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Six Months Ended	Six Months Ended		Six Months Ended	Six Months Ended		Six Months Ended	Six Months Ended
	June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009
Cash Flow Hedging Relationships								
Interest rate contracts	\$ 123.9	\$ (40.0)	Interest Expense	\$ 14.3	\$ 0.4	Interest Expense	\$ (48.7)	\$

		Amount of Loss or (Gain) Recognized in Income on Derivatives	
		Six Months Ended	Six Months Ended
		June 30, 2010	June 30, 2009
Derivatives Not Designated as Hedging			
Instruments			
Interest Rate Contracts	Interest Expense	\$ 9.8	\$

In addition to the impact on interest expense from amounts reclassified from Accumulated Other Comprehensive Loss, the difference to be paid or received under the terms of the interest rate swap agreements is recognized as interest expense and is paid quarterly. This cash settlement portion of the interest rate swap agreements increased interest expense for the quarters ended June 30, 2010 and 2009 by approximately \$68.0 million and \$54.5 million, respectively. This cash settlement portion of the interest rate swap agreements increased interest expense for the six months ended June 30, 2010 and 2009 by approximately \$134.5 million and \$97.6 million, respectively.

Note 6 Stock-Based Employee Compensation

Our share-based compensation expense consists primarily of time-based and performance-based options that have been granted to management, other personnel and key service providers. As of June 30, 2010, there was approximately \$64.9 million of total unrecognized compensation cost related to stock option grants. The Company has recognized compensation expense associated with its stock-based employee compensation programs as follows:

Quarter Ended
June 30,

Six Months Ended
June 30,

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(In millions)	2010	2009	2010	2009
Amounts included in:				
Corporate expense	\$ 3.3	\$ 1.8	\$ 7.6	\$ 3.2
Property general, administrative and other	2.5	2.5	5.0	5.2
Total Stock-Based Compensation Expense	\$ 5.8	\$ 4.3	\$ 12.6	\$ 8.4

On February 23, 2010, the Human Resources Committee of the Board of Directors of the Company adopted an amendment to the Harrah's Entertainment, Inc. Management Equity Incentive Plan (the "Plan"). The amendment provides for an increase in the available number shares of the Registrant's non-voting common stock for which options may be granted to 4,566,919 shares.

The amendment also revised the vesting hurdles for performance-based options under the Plan. The performance options vest if the return on investment in the Company of TPG, Apollo, and their respective affiliates and co-investors (the "Majority Stockholders") achieve a specified return. Previously, 50% of the performance-based options vested upon a 2x return and 50% vested upon a 3x return. The triggers have been revised to 1.5x and 2.5x, respectively. In addition, a pro-rata portion of the 2.5x options will vest if the Majority Stockholders achieve a return on their investment that is greater than 2.0x, but less than 2.5x. The pro rata portion will increase on a straight line basis from zero to a participant's total number of 2.5x options depending upon the level of returns that the Majority Stockholders realize between 2.0x and 2.5x.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)**

The following is a summary of share-based option activity for the six months ended June 30, 2010:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding at December 31, 2009	3,194,175	\$ 91.53	8.0
Options granted	1,277,895	57.19	
Canceled	(75,054)		
Outstanding at June 30, 2010	4,397,016	81.51	8.1
Exercisable at June 30, 2010	802,021	\$ 86.34	6.7

The assumptions used to estimate fair value and the resulting estimated fair value of options granted during the six months ended June 30, 2010 are as follows:

	Six months ended June 30, 2010
Expected volatility	71.4%
Expected dividend yield	
Expected term (in years)	6.63
Risk-free interest rate	2.36%
Weighted average fair value per share of options granted	\$ 28.02

Note 7 Preferred and Common Stock***Preferred Stock***

At June 30, 2010 and December 31, 2009, the authorized shares of preferred stock were 40,000,000, par value \$0.01 per share, stated value \$100.00 per share.

On January 28, 2008, our Board of Directors adopted a resolution authorizing the creation and issuance of a series of preferred stock known as the Non-Voting Perpetual Preferred Stock. The number of shares constituting such series was 20,000,000. Each share of non-voting preferred stock accrued dividends at a rate of 15.0% per annum, compounded quarterly, and such dividends were cumulative. As of December 31, 2009, dividends in arrears were \$652.6 million.

In February 2010, the Board of Directors approved revisions to the Certificate of Designation for the non-voting perpetual preferred stock to eliminate dividends (including all existing accrued but unpaid dividends totaling \$717.2 million at the revision approval date) and to specify that the conversion right of the non-voting perpetual preferred stock be at the original value of the Company's non-voting common stock. In March 2010, Hamlet Holdings LLC (the holder of all of the Company's voting common stock) and holders of a majority of our non-voting perpetual preferred stock approved the revisions to the Certificate of Designation. Also in March 2010, the holders of a majority of our non-voting perpetual preferred stock voted to convert all of the non-voting perpetual preferred stock to non-voting common stock.

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As a result of the conversion of preferred stock into common stock, the Company has no shares of preferred stock outstanding as of June 30, 2010.

Common Stock

As of December 31, 2009, the authorized common stock of the Company totaled 80,000,020 shares, consisting of 20 shares of voting common stock, par value \$0.01 per share and 80,000,000 shares of non-voting common stock, par value \$0.01 per share.

As disclosed above, in March 2010, the holders of our voting common stock and of a majority of our non-voting preferred stock voted to convert all of the non-voting perpetual preferred stock to non-voting common stock. As a result of this conversion, the Company issued 19,935,534 additional shares of non-voting common stock.

The voting common stock has no economic rights or privileges, including rights in liquidation. The holders of voting common stock shall be entitled to one vote per share on all matters to be voted on by the stockholders of the Company.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of non-voting common stock will receive a pro rata distribution of any remaining assets after payment of or provision for liabilities and the liquidation preference on preferred stock, if any.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Note 8 Write-downs, Reserves and Recoveries**

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

(In millions)	Second Quarter Ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
Remediation costs	\$ 15.6	\$ 12.2	\$ 31.7	\$ 19.8
Write-down of long-term note receivable	52.2		52.2	
Litigation reserves, awards and settlements	26.5		27.0	0.6
Efficiency projects	0.2	13.1	0.6	21.8
Impairment of long-lived tangible assets		(0.1)		8.0
Loss on divested or abandoned assets	0.2	0.2	0.2	0.9
Other	0.4	1.5	(4.1)	3.2
Total Write-downs, reserves and recoveries	\$ 95.1	\$ 26.9	\$ 107.6	\$ 54.3

Remediation costs related to room remediation projects at certain of our Las Vegas properties.

The \$52.2 million write-down of long-term note receivable related to land and pre-development costs contributed to a venture for development of a casino property in Philadelphia. In April 2010, the proposed operator for the project withdrew from the project and the Pennsylvania Gaming Control Board commenced proceedings to revoke the license for the project. As a result, we have fully reserved the note during the second quarter 2010.

Litigation reserves, awards and settlements for the quarter and six months ended June 30, 2010 included a \$25.0 million charge related to the Hilton matter, which is more fully discussed in Note 12, *Litigation*.

Efficiency program expenses in 2010 and 2009 represent costs incurred to identify and implement efficiency projects aimed at streamlining corporate and operating functions to achieve cost savings and efficiencies. In 2009, the majority of the costs incurred related to the closing of the office in Memphis, Tennessee, which previously housed certain corporate functions.

We account for long-lived tangible assets to be held and used by evaluating their carrying value in relation to the operating performance and estimated future undiscounted cash flows generated by such assets, when indications of impairment are present. The six months ended June 30, 2009, included impairment charges of \$8.0 million, of which \$6.9 million related to long-lived tangible assets at our Horseshoe Hammond property.

Other write-downs, reserves and recoveries for the six months ended June 30, 2010 included the first quarter 2010 release of a \$4.8 million reserve for excise tax for which the statute of limitations has recently expired.

Note 9 Income Taxes

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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 ASC 740 Accounting for Income Taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We reduce deferred tax assets by a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company's income tax benefit/(provision) and effective tax rate were as follows:

(In millions, except effective tax rate)	Quarter ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
(Loss)/income from continuing operations before income tax	\$ (434.6)	\$ 3,833.0	\$ (733.1)	\$ 3,631.3
Benefit/(provision) for income taxes	\$ 162.1	\$ (1,536.2)	\$ 267.0	\$ (1,461.9)
Effective tax rate	(37.3)%	40.1%	(36.4)%	40.3%

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HARRAHS ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

Our effective tax rate for the quarter and six months ending June 30, 2010 was impacted by the reversal of previously accrued taxes and interest related to a state income tax settlement, a state effective rate change on our deferred tax balances, and other discrete items, partially offset by the impact of the goodwill impairment for which we did not receive tax benefit.

We classify reserves for tax uncertainties within Accrued expenses and Deferred credits and other in our Consolidated Balance Sheets, separate from any related income tax payable or deferred income taxes. In accordance with ASC 740, reserve amounts relate to any potential income tax liabilities (uncertain tax benefits (UTB)) resulting from uncertain tax positions as well as potential interest or penalties associated with those liabilities. During the quarter ended June 30, 2010, our UTB, excluding related interest and penalties, decreased \$15.6 million as a result of a state income tax settlement, the benefit of which was partially offset by the impact of increases in UTB for tax positions taken during a prior year. During the six months ended June 30, 2010, our UTB, excluding related interest and penalties, increased by \$59.4 million as a result of tax positions taken during a prior year related to cancellation of indebtedness income offset by the decrease in UTB for the quarter ended June 30, 2010 described above. The change in gross UTB, excluding related interest and penalties, during the quarter and six months ended June 30, 2010 benefited the effective rate by \$17.6 million and \$17.6 million, respectively.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. We are under regular and recurring audit by the Internal Revenue Service (IRS) on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. As a result of the expiration of the statute of limitations and closure of IRS audits, our 2004 and 2005 federal income tax years were closed during the year ended December 31, 2009. The IRS audit of our 2006 federal income tax year also concluded during the year ended December 31, 2009. The IRS audit of our 2007 federal income tax year concluded during the quarter ended March 31, 2010. The IRS audit of our 2008 federal income tax year concluded during the quarter ended June 30, 2010. During the quarter ended June 30, 2010, we submitted a protest to the IRS Appeals office regarding several issues from the 2008 IRS audit. We do not believe that it is reasonably possible that these issues will be settled in the next twelve months.

We are also subject to exam by various state and foreign tax authorities. Tax years prior to 2005 are generally closed for foreign and state income tax purposes as the statutes of limitations have lapsed. However, various subsidiaries could be examined by the New Jersey Division of Taxation for tax years beginning with 1999 due to our execution of New Jersey statute of limitation extensions.

Note 10 Fair Value Measurements

ASC 820 Fair Value Measurements and Disclosures, outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1:* Observable inputs such as quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2:* Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3:* Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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Under ASC 825, Financial Instruments, entities are permitted to choose to measure many financial instruments and certain other items at fair value. We did not elect the fair value measurement option under ASC 825 for any of our financial assets or financial liabilities. See Note 4, Goodwill and Other Intangible Assets, for the application of ASC 820 to goodwill and other intangible assets.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)*****Items Measured at Fair Value on a Recurring Basis***

The following table shows the fair value of our financial assets and financial liabilities that are required to be measured at fair value as of June 30, 2010 and December 31, 2009.

(In millions)	Balance at June 30, 2010	Level 1	Level 2	Level 3
June 30, 2010:				
Assets:				
Cash equivalents	\$ 647.7	\$ 647.7	\$	\$
Investments	83.6	80.9	2.7	
Derivative instruments	6.6		6.6	
Liabilities:				
Derivative instruments	(407.7)		(407.7)	
December 31, 2009:				
Assets:				
Cash equivalents	\$ 132.7	\$ 132.7	\$	\$
Investments	88.9	73.4	15.5	
Derivative instruments	56.8		56.8	
Liabilities:				
Derivative instruments	(375.2)		(375.2)	

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

Cash equivalents Cash equivalents are investments in money market accounts and utilize Level 1 inputs to determine fair value.

Derivative instruments The estimated fair values of our derivative instruments are derived from market prices obtained from dealer quotes for similar, but not identical, assets or liabilities. Such quotes represent the estimated amounts we would receive or pay to terminate the contracts. Derivative instruments are included in either Deferred charges and other, or Deferred credits and other, in our Consolidated Condensed Balance Sheets. Our derivatives are recorded at their fair values, adjusted for the credit rating of the counterparty if the derivative is an asset, or adjusted for the credit rating of the Company if the derivative is a liability. See Note 5, Debt, for more information on our derivative instruments.

Investments Investments are primarily debt and equity securities, the majority of which are traded in active markets, have readily determined market values and use level 1 inputs. Those debt and equity securities for which there are not active markets or the market values are not readily determinable are valued using Level 2 inputs. All of these investments are included in either Prepayments and other, or Deferred charges and other, in our Consolidated Balance Sheets.

Items to be Disclosed at Fair Value

Long-Term Debt The fair value of the Company's debt has been calculated based on the borrowing rates available as of June 30, 2010, for debt with similar terms and maturities and market quotes of our publicly traded debt. As of June 30, 2010, the Company's outstanding debt had a fair value of \$19,682.1 million and a carrying value of \$19,873.5 million. The Company's interest rate swaps used for hedging purposes had fair values equal to their carrying values, in the aggregate a liability of \$407.7 million, and our interest rate cap agreements had a fair value equal to their carrying value as an asset of \$6.6 million at June 30, 2010. See additional discussion about derivatives in Note 5, Debt.

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Interest-only Participations Late in 2009, a subsidiary of HOC acquired certain interest only participations payable by certain predecessor entities of PHW Las Vegas. When the Company assumed the debt in connection with the acquisition of Planet Hollywood, these interest only participations survived the transaction and remain outstanding as an asset of a subsidiary of HOC as of June 30, 2010. In connection with both the initial acquisition of the interest only participations and the acquisition of Planet Hollywood, the fair value of these participations was determined based upon valuations as of each date. As the Company owns 100% of the outstanding participations, there is no active market available to determine a trading fair value at any point in time. As a result, the Company does not have the ability to update the fair value of the interest only participations subsequent to their acquisition and valuation, other than by estimating fair value based upon discounted future cash flows. Since discounted cash flows were used as the primary basis for valuation upon their acquisition, and are also being used as the method to determine the amortization of the value of such participations into earnings, the Company believes that the book value of the interest only participations at June 30, 2010 approximates their fair value.

Note 11 Commitments and Contingent Liabilities

Contractual Commitments

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

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HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

The agreements pursuant to which we manage casinos on Indian lands contain provisions required by law that provide that a minimum monthly payment be made to the tribe. That obligation has priority over scheduled repayments of borrowings for development costs and over the management fee earned and paid to the manager. In the event that insufficient cash flow is generated by the operations to fund this payment, we must pay the shortfall to the tribe. Subject to certain limitations as to time, such advances, if any, would be repaid to us in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. Our aggregate monthly commitment for the minimum guaranteed payments, pursuant to these contracts for the three managed Indian-owned facilities now open, which extend for periods of up to 54 months from June 30, 2010, is \$1.2 million. Each of these casinos currently generates sufficient cash flows to cover all of its obligations, including its debt service.

In February 2008, we entered into an agreement with the State of Louisiana whereby we extended our guarantee of an annual payment obligation of Jazz Casino Company, LLC, our wholly-owned subsidiary and owner of Harrah's New Orleans, of \$45 million owed to the State of Louisiana. The guarantee currently expires on March 31, 2011.

In addition to the guarantees discussed above, we had total aggregate non-cancelable purchase obligations of \$953.6 million as of June 30, 2010, including construction-related commitments.

The Supreme Court of Nevada decided in early 2008 that food purchased for subsequent use in the provision of complimentary and/or employee meals is exempt from use tax. Previously, such purchases were subject to use tax and the Company has claimed, but not recognized into earnings, a use tax refund totaling \$32.2 million, plus interest, as a result of the 2008 decision. In early 2009, the Nevada Department of Taxation audited our refund claim, but has taken the position that those same purchases are now subject to sales tax; therefore, they subsequently issued a sales tax assessment totaling \$27.4 million plus interest after application of our refund on use tax. While we have established certain reserves against possible loss on this matter, we believe that the Nevada Department of Taxation's position has no merit and intend to litigate the issue.

Employment Agreements

We have an employment agreement with one executive that provides for payments to the executive in the event of his termination after a change in control, as defined, and provides for, among other things, a compensation payment of 3.0 times the executive's average annual compensation, as defined. The estimated amount, computed as of June 30, 2010, that would be payable under the agreement to the executive based on the compensation payment aggregated approximately \$16.5 million. The estimated amount that would be payable to the executive does not include the tax gross-up payment, provided for in the agreement, that would be payable to the executive if the executive becomes entitled to severance payments which are subject to federal excise tax.

Self-Insurance

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

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HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(UNAUDITED)

Note 12 Litigation

Litigation Related to Employee Benefit Obligations

In December 1998, Hilton Hotels Corporation (Hilton) spun-off its gaming operations as Park Place Entertainment Corporation (Park Place). In connection with the spin-off, Hilton and Park Place entered into various agreements, including an Employee Benefits and Other Employment Allocation Agreement dated December 31, 1998 (the Allocation Agreement) whereby Park Place assumed or retained, as applicable, certain liabilities and excess assets, if any, related to the Hilton Hotels Retirement Plan (the Hilton Plan) based on the accrued benefits of Hilton employees and Park Place employees. Park Place changed its name to Caesars Entertainment, Inc. (Caesars) and the Company acquired Caesars in June 2005. In 1999 and 2005, the United States District Court for the District of Columbia certified two nationwide classes in the lawsuit against Hilton and others alleging that the Hilton Plan 's benefit formula was backloaded in violation of ERISA, and that Hilton and the other defendants failed to properly calculate Hilton Plan participants ' service for vesting purposes. In May 2009, the Court issued a decision granting summary judgment to the plaintiffs. The plaintiffs and the defendants are engaged in a Court-mandated mediation effort to attempt to determine an appropriate remedy. We have been advised by counsel for the defendants that the plaintiffs have estimated that the damages are in the range of \$180.0 million to \$250.0 million. Counsel for the defendants has further advised that approximately \$50.0 million of the damages relates to questions regarding the proper size of the class and the amount, if any, of damages to any additional class members due to issues with Hilton 's record keeping.

The Company received a letter from Hilton dated October 7, 2009 notifying the Company for the first time of this lawsuit and alleging that the Company has potential liability for the above described claims under the terms of the Allocation Agreement. Based on the terms of the Allocation Agreement, the Company believes its maximum potential exposure is approximately 30% to 33% of the amount ultimately awarded as damages. The Company is not a party to the proceedings between the plaintiffs and the defendants and has not participated in the defense of the litigation or in any discussions between the plaintiffs and the defendants about potential remedies or damages. Further, the Company does not have access to information sufficient to enable the Company to make an independent judgment about the possible range of loss in connection with this matter. Based on conversations between a representative of the Company and a representative of the defendants, the Company believes it is probable that damages will be at least \$80.0 million and, accordingly, the Company recorded a charge of \$25.0 million in accordance with ASC 450, Contingencies , during the second quarter 2010 in relation to this matter. The Company believes that it may have various defenses if a claim under the Allocation Agreement is asserted against the Company, including defenses as to the amount of damages. Because the Company has not had access to sufficient information regarding this matter, we cannot at this time predict the ultimate outcome of this matter or the possible additional loss, if any.

Litigation Related to Development

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

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Baha Mar and Baha Mar Development Company Ltd. (Baha Mar Development) filed an Amended Answer and Counterclaims against CBIC and a Third Party Complaint dated June 18, 2008 against HOC in the Supreme Court of the State of New York. Baha Mar and Baha Mar Development allege that CBIC wrongfully terminated the Subscription Agreement and that CBIC wrongfully failed to make capital contributions under the Joint Venture Investors Agreement, by and between CBIC and Baha Mar, dated January 12, 2007. In addition, Baha Mar and Baha Mar Development allege that HOC wrongfully failed to perform its purported obligations under the Harrah s Baha Mar Joint Venture Guaranty, dated January 12, 2007. Baha Mar and Baha Mar Development assert claims for breach of contract, breach of fiduciary duty, promissory estoppel, equitable estoppel and negligent misrepresentation. Baha Mar and Baha Mar Development seek (i) declaratory relief; (ii) specific performance; (iii) the recovery of alleged monetary damages; (iv) the recovery of attorneys fees, costs, and expenses and (v) the dismissal with prejudice of CBIC s Complaint. CBIC and HOC each answered, denying all allegations of wrongdoing. During the quarter ended June 30, 2009, both sides filed motions for summary judgment.

Table of Contents**HARRAH S ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)**

At the conclusion of oral argument on October 6, 2009, on cross motions for summary judgment, the Court stated that it was going to grant summary judgment to CBIC and HOC and that Baha Mar Development's claims are dismissed. The Court entered its written decision on February 1, 2010. On February 18, 2010, Baha Mar Development filed an appeal. CBIC and HOC filed an appellate brief on April 21, 2010. Additionally, in January 2010 CBIC and HOC filed a motion to recover attorney's fees and in March 2010 Baha Mar Development filed a motion for a stay of fee hearing pending appeal. On April 1, 2010, the state appeals court refused to grant Baha Mar Development's motion for a stay of the fee hearing.

The fee hearing was heard on June 23, 2010 and was continued until July 2, 2010. On July 1, 2010, in a unanimous opinion, the appeals court affirmed the trial court's grant of summary judgment in HOC's favor dismissing Baha Mar's tort, fraud and breach of contract claims and declaring that HOC properly exercised a valid right to terminate the joint venture. The appeals court also held that HOC was entitled to recover its attorney's fees and costs incurred in the litigation with the amount to be determined per the trial court fee hearing process. Because the appeals court decision is unanimous, Baha Mar has no right to appeal to the New York Court of Appeals. On July 2, 2010, HOC and Baha Mar had an evidentiary hearing on HOC's fee claim and the trial court has yet to make a decision.

Litigation Related to the December 2008 Exchange Offer

On January 9, 2009, S. Blake Murchison and Willis Shaw filed a purported class action lawsuit in the United States District Court for the District of Delaware, Civil Action No. 09-00020-SLR, against Harrah's Entertainment, Inc. and its board of directors, and Harrah's Operating Company, Inc. The lawsuit was amended on March 4, 2009, alleging that the bond exchange offer which closed on December 24, 2008 wrongfully impaired the rights of bondholders. The amended complaint alleges, among others, breach of the bond indentures, violation of the Trust Indenture Act of 1939, equitable rescission, and liability claims against the members of the board. The amended complaint seeks, among other relief, class certification of the lawsuit, declaratory relief that the alleged violations occurred, unspecified damages to the class, and attorneys' fees. On April 30, 2009 the defendants stipulated to the plaintiff's request to dismiss the lawsuit, without prejudice, which the court entered on June 18, 2009. Plaintiff requested the court to award it attorneys' fees. On March 31, 2010, the court denied plaintiff's request for fees and plaintiff filed a notice of appeal with the Third Circuit United States Courts of Appeal.

Note 13 Comprehensive Loss

The following activity affected Comprehensive Loss:

(In millions)	Second quarter ended June 30,		Six Months ended June 30,	
	2010	2009	2010	2009
Net (loss)/income	\$ (272.5)	\$ 2,296.7	\$ (466.1)	\$ 2,169.2
Pension adjustments	0.2	0.1	0.4	0.3
Reclassification of loss on derivative instruments from other comprehensive loss to net loss, net of tax	0.1	0.1	0.3	0.3
Foreign current translation adjustment, net of tax	8.7	23.8	(1.4)	22.3
Fair market value of swap agreements, net of tax	(44.6)	(49.3)	(63.2)	4.7
Fair market value of interest rate cap agreements, net of tax	(0.1)		(0.1)	
Fair market value of interest rate cap agreements on commercial mortgage-backed securities, net of tax	(6.3)	28.2	(21.8)	21.3

\$ (314.5) \$ 2,299.6 \$ (551.9) \$ 2,218.1

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****Note 14 Supplemental Cash Flow Disclosures*****Cash Paid for Interest and Taxes***

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

(In millions)	Six months ended June 30, 2010	Six months ended June 30, 2009
Interest expense, net of interest capitalized	\$ 948.3	\$ 960.2
Adjustments to reconcile to cash paid for interest:		
Net change in accruals	(23.8)	235.0
Amortization of deferred finance charges	(39.8)	(68.8)
Net amortization of discounts and premiums	(74.2)	(65.6)
Amortization of other comprehensive income	(18.1)	(1.0)
Rollover of Paid-in-Kind (PIK) interest into principal	(0.5)	(79.1)
Change in accrual (related to PIK interest)		(39.6)
Change in fair value of derivative instruments	48.7	
Cash paid for interest, net of amount capitalized	\$ 840.6	\$ 941.1
Cash payments of income taxes, net	\$ 21.7	\$ 5.2

Note 15 Related Party Transactions

In connection with the Acquisition, Apollo, TPG and their affiliates entered into a services agreement with Harrah's Entertainment relating to the provision of financial and strategic advisory services and consulting services. In addition, we pay a monitoring fee for management services and advice. Fees, which are included in Corporate expense in our Consolidated Statements of Operations, for the quarter and six months ended June 30, 2010, were \$7.2 million and \$14.2 million, respectively. For the quarter and six months ended June 30, 2009, fees paid to Apollo and TPG totaled approximately \$7.1 million and \$14.4 million, respectively. We also reimburse Apollo and TPG for expenses that they incur related to their management services.

Note 16 Subsequent Events

On September 15, 2009, Harrah's Entertainment, Inc. announced that the United States Bankruptcy Court for the District of Delaware had approved an agreement for the sale of Thistledown Racetrack from Magna Entertainment Corp. to Harrah's Operating Company, Inc., a wholly owned subsidiary of Harrah's Entertainment. The closing of the sale was subject to the satisfaction of certain conditions and receipt of all required regulatory approvals. The conditions to closing were never satisfied, and the agreement was never consummated. As a result the agreement was terminated by the seller on May 17, 2010.

On May 25, 2010, Harrah's Operating Company, Inc. entered into a new agreement to purchase the assets of Thistledown Racetrack. The acquisition was completed on July 28, 2010. The results of Thistledown Racetrack for periods subsequent to July 28, 2010 will be consolidated with the Company's results. In connection with this acquisition, the Company paid approximately \$43.0 million during July 2010 to acquire the

assets of Thistledown Racetrack.

Note 17 Consolidating Financial Information of Guarantors and Issuers

As of June 30, 2010, HOC is the issuer of certain debt securities that have been guaranteed by Harrah's Entertainment and certain subsidiaries of HOC. The following consolidating schedules present condensed financial information for Harrah's Entertainment, the parent and guarantor; HOC, the subsidiary issuer; guarantor subsidiaries of HOC; and non-guarantor subsidiaries of Harrah's Entertainment and HOC, which includes PHW Las Vegas and the CMBS properties, as of June 30 2010, and December 31, 2009, and for the quarters and six months ended June 30, 2010 and 2009.

In lieu of providing separate unaudited financial statements for the guarantor subsidiaries, we have included the accompanying consolidating condensed financial statements based on the Securities and Exchange Commission's interpretation and application of ASC 470-10-S99, (Rule 3-10 of the Securities and Exchange Commission's Regulation S-X). Management does not believe that separate financial statements of the guarantor subsidiaries are material to our investors. Therefore, separate financial statements and other disclosures concerning the guarantor subsidiaries are not presented.

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****HARRAHS ENTERTAINMENT, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****JUNE 30, 2010****(UNAUDITED)**

(in millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 377.3	\$ 278.8	\$ 263.4	\$ 409.2	\$	\$ 1,328.7
Receivables, net of allowance for doubtful accounts		10.3	201.6	99.2		311.1
Deferred income taxes		82.8	64.9	19.8		167.5
Prepayments and other		20.9	114.0	70.0		204.9
Inventories		0.4	33.1	16.2		49.7
Intercompany receivables	0.2	509.2	270.0	295.0	(1,074.4)	
Total current assets	377.5	902.4	947.0	909.4	(1,074.4)	2,061.9
Land, buildings, riverboats and equipment, net of accumulated depreciation		233.6	10,677.5	7,144.3		18,055.4
Goodwill			1,646.1	1,747.2		3,393.3
Intangible assets other than goodwill		5.9	4,186.0	688.4		4,880.3
Investments in and advances to nonconsolidated affiliates	604.1	13,720.2	8.7	69.0	(14,362.6)	39.4
Deferred charges and other		414.9	197.1	246.7		858.7
Intercompany receivables	210.0	1,100.8	1,687.7	706.4	(3,704.9)	
	\$ 1,191.6	\$ 16,377.8	\$ 19,350.1	\$ 11,511.4	\$ (19,141.9)	\$ 29,289.0
Liabilities and Stockholders' Equity/ (Deficit)						
Current liabilities						
Accounts payable	\$ 5.3	\$ 97.3	\$ 95.6	\$ 65.1	\$	\$ 263.3
Interest payable		202.6	1.6	11.2		215.4
Accrued expenses and other current liabilities	3.6	239.9	467.8	524.7		1,236.0
Current portion of long-term debt		30.0	6.0	31.6		67.6
Intercompany payables		31.2	439.9	603.3	(1,074.4)	
Total current liabilities	8.9	601.0	1,010.9	1,235.9	(1,074.4)	1,782.3
Long-term debt		13,595.4	93.3	6,130.1	(12.9)	19,805.9

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Deferred credits and other		675.3	134.8	91.0		901.1
Deferred income taxes		1,323.4	2,402.3	1,850.1		5,575.8
Intercompany notes	4.0	298.1	1,973.5	1,429.3	(3,704.9)	
	12.9	16,493.2	5,614.8	10,736.4	(4,792.2)	28,065.1
Harrah's Entertainment, Inc. stockholders equity/(deficit)	1,178.7	(115.4)	13,735.3	729.8	(14,349.7)	1,178.7
Non-controlling interests				45.2		45.2
Total Stockholders' equity/(deficit)	1,178.7	(115.4)	13,735.3	775.0	(14,349.7)	1,223.9
	\$ 1,191.6	\$ 16,377.8	\$ 19,350.1	\$ 11,511.4	\$ (19,141.9)	\$ 29,289.0

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****HARRAHS ENTERTAINMENT, INC.****CONDENSED CONSOLIDATING BALANCE SHEET****DECEMBER 31, 2009**

(in millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 122.7	\$ (15.6)	\$ 445.2	\$ 365.8	\$	\$ 918.1
Receivables, net of allowance for doubtful accounts		10.2	237.5	75.8		323.5
Deferred income taxes		60.0	68.4	19.8		148.2
Prepayments and other		12.5	79.8	64.1		156.4
Inventories		0.6	33.5	18.6		52.7
Intercompany receivables	0.2	478.4	261.3	232.5	(972.4)	
Total current assets	122.9	546.1	1,125.7	776.6	(972.4)	1,598.9
Land, buildings, riverboats and equipment, net of accumulated depreciation		240.3	10,500.2	7,184.3		17,924.8
Assets held for sale			16.7			16.7
Goodwill			1,753.0	1,703.9		3,456.9
Intangible assets other than goodwill		6.3	4,230.2	714.8		4,951.3
Investments in and advances to nonconsolidated affiliates	1,846.1	15,056.8	70.2	627.3	(17,506.4)	94.0
Deferred charges and other		399.0	246.4	291.2		936.6
Intercompany receivables		1,348.7	1,687.8	706.9	(3,743.4)	
	\$ 1,969.0	\$ 17,597.2	\$ 19,630.2	\$ 12,005.0	\$ (22,222.2)	\$ 28,979.2
Liabilities and Stockholders (Deficit)/Equity						
Current liabilities						
Accounts payable	\$	\$ 97.7	\$ 104.6	\$ 58.5	\$	\$ 260.8
Interest payable		184.8	1.9	8.9		195.6
Accrued expenses and other current liabilities	8.6	205.2	449.7	411.3		1,074.8
Current portion of long-term debt		30.0	6.3	38.0		74.3
Intercompany payables	1.8	34.1	412.0	524.5	(972.4)	
Total current liabilities	10.4	551.8	974.5	1,041.2	(972.4)	1,605.5
Long-term debt		13,601.0	98.1	5,747.8	(578.1)	18,868.8
Deferred credits and other		642.9	147.8	81.8		872.5
Deferred income taxes		1,520.1	2,446.5	1,890.3		5,856.9
Intercompany notes	239.0	98.1	1,973.5	1,432.8	(3,743.4)	

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	249.4	16,413.9	5,640.4	10,193.9	(5,293.9)	27,203.7
Preferred stock	2,642.5					2,642.5
Harrah's Entertainment, Inc. stockholders' (deficit)/equity	(922.9)	1,183.3	13,989.8	1,755.2	(16,928.3)	(922.9)
Non-controlling interests				55.9		55.9
Total Stockholders' (deficit)/equity	(922.9)	1,183.3	13,989.8	1,811.1	(16,928.3)	(867.0)
	\$ 1,969.0	\$ 17,597.2	\$ 19,630.2	\$ 12,005.0	\$ (22,222.2)	\$ 28,979.2

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****HARRAHS ENTERTAINMENT, INC.****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****FOR THE QUARTER ENDED JUNE 30, 2010****(UNAUDITED)**

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	\$	\$ 20.3	\$ 1,106.2	\$ 590.5	\$	\$ 1,717.0
Food and beverage		5.4	218.7	164.7		388.8
Rooms		5.3	150.9	137.9		294.1
Management fees		0.3	14.7	0.4	(6.3)	9.1
Other		4.7	94.9	82.2	(28.5)	153.3
Less: casino promotional allowances		(7.0)	(210.2)	(124.4)		(341.6)
Net revenues		29.0	1,375.2	851.3	(34.8)	2,220.7
Operating expenses						
Direct						
Casino		12.0	632.9	341.3		986.2
Food and beverage		1.8	83.8	75.6		161.2
Rooms		0.6	31.7	35.8		68.1
Property general, administrative and other		8.3	342.8	216.0	(32.1)	535.0
Depreciation and amortization		1.8	133.3	61.9		197.0
Project opening costs			0.6	1.0		1.6
Write-downs, reserves and recoveries		25.3	60.1	9.7		95.1
Impairment of intangible assets			100.0			100.0
Losses/(income) on interests in non-consolidated affiliates	273.5	21.2	(6.2)	(0.9)	(287.7)	(0.1)
Corporate expense	3.3	23.0	6.0	7.3	(2.7)	36.9
Acquisition and integration costs		0.3	0.1			0.4
Amortization of intangible assets		0.1	24.2	15.3		39.6
Total operating expenses	276.8	94.4	1,409.3	763.0	(322.5)	2,221.0
(Loss)/income from operations	(276.8)	(65.4)	(34.1)	88.3	287.7	(0.3)
Interest expense, net of interest capitalized	1.4	(392.1)	(20.5)	(102.9)	57.3	(456.8)
(Loss)/gain on early extinguishment of debt		(4.6)		23.3		18.7
Other income, including interest income	0.3	11.4	18.3	31.1	(57.3)	3.8

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(Loss)/income from continuing operations before income taxes	(275.1)	(450.7)	(36.3)	39.8	287.7	(434.6)
Benefit/(provision) for income taxes	1.1	188.0	(6.4)	(20.6)		162.1
Net (loss)/income	(274.0)	(262.7)	(42.7)	19.2	287.7	(272.5)
Less: net income attributable to non-controlling interest				(1.5)		(1.5)
Net (loss)/income attributable to Harrah's Entertainment, Inc.	\$ (274.0)	\$ (262.7)	\$ (42.7)	\$ 17.7	\$ 287.7	\$ (274.0)

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(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	\$	\$ 21.7	\$ 1,188.7	\$ 600.2	\$	\$ 1,810.6
Food and beverage		4.6	209.8	162.5		376.9
Rooms		5.0	152.1	114.5		271.6
Management fees		2.5	23.5	0.6	(11.4)	15.2
Other		12.0	84.6	81.4	(29.1)	148.9
Less: casino promotional allowances		(6.0)	(220.9)	(124.9)		(351.8)
Net revenues		39.8	1,437.8	834.3	(40.5)	2,271.4
Operating expenses						
Direct						
Casino		11.8	635.6	329.7		977.1
Food and beverage		2.4	79.5	72.5		154.4
Rooms		0.5	28.7	24.9		54.1
Property general, administrative and other		10.0	326.8	193.1	(29.6)	500.3
Depreciation and amortization		1.9	117.2	49.7		168.8
Project opening costs			0.7	(0.1)		0.6
Write-downs, reserves and recoveries		1.5	13.7	11.7		26.9
Impairment of intangible assets			42.0	255.1		297.1
(Income)/losses on interests in non-consolidated affiliates	(2,299.1)	(120.8)	(18.4)	(0.7)	2,439.3	0.3
Corporate expense	15.6	22.1	4.1	10.6	(10.7)	41.7
Acquisition and integration costs		0.1				0.1
Amortization of intangible assets		0.1	28.5	15.1		43.7
Total operating expenses	(2,283.5)	(70.4)	1,258.4	961.6	2,399.0	2,265.1
Income/(loss) from operations	2,283.5	110.2	179.4	(127.3)	(2,439.5)	6.3
Interest expense, net of interest capitalized		(411.8)	(40.0)	(99.9)	88.3	(463.4)
Gains on early extinguishments of debt		3,931.7		347.8		4,279.5

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Other income, including interest income	0.1	28.9	27.8	42.1	(88.3)	10.6
Income from continuing operations before income taxes	2,283.6	3,659.0	167.2	162.7	(2,439.5)	3,833.0
Benefit/(provision) for income taxes	5.4	(1,343.3)	(58.7)	(139.6)		(1,536.2)
Income from continuing operations	2,289.0	2,315.7	108.5	23.1	(2,439.5)	2,296.8
Discontinued operations						
Loss from discontinued operations			(0.2)			(0.2)
Benefit for income taxes			0.1			0.1
Loss from discontinued operations, net			(0.1)			(0.1)
Net income	2,289.0	2,315.7	108.4	23.1	(2,439.5)	2,296.7
Net income attributable to non-controlling interests				(7.7)		(7.7)
Net income attributable to Harrah's Entertainment, Inc.	\$ 2,289.0	\$ 2,315.7	\$ 108.4	\$ 15.4	\$ (2,439.5)	\$ 2,289.0

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(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	\$	\$ 35.2	\$ 2,260.1	\$ 1,171.7	\$	\$ 3,467.0
Food and beverage		9.5	435.8	317.5		762.8
Rooms		9.0	295.4	258.1		562.5
Management fees		2.6	31.7	0.6	(12.7)	22.2
Other		18.6	178.2	153.7	(66.2)	284.3
Less: casino promotional allowances		(12.0)	(429.1)	(248.6)		(689.7)
Net revenues		62.9	2,772.1	1,653.0	(78.9)	4,409.1
Operating expenses						
Direct						
Casino		22.5	1,281.1	670.2		1,973.8
Food and beverage		3.9	160.8	141.1		305.8
Rooms		1.1	60.6	65.6		127.3
Property general, administrative and other		17.5	665.7	419.2	(64.1)	1,038.3
Depreciation and amortization		3.7	241.7	121.3		366.7
Project opening costs			1.3	1.0		2.3
Write-downs, reserves and recoveries		21.2	69.6	16.8		107.6
Impairment of intangible assets			100.0			100.0
Losses/(income) on interests in non-consolidated affiliates	462.8	(98.2)	(14.5)	(0.4)	(349.2)	0.5
Corporate expense	10.8	44.4	11.6	19.4	(14.8)	71.4
Acquisition and integration costs		0.4	0.9	6.3		7.6
Amortization of intangible assets		0.3	51.2	30.8		82.3
Total operating expenses	473.6	16.8	2,630.0	1,491.3	(428.1)	4,183.6
(Loss)/income from operations	(473.6)	46.1	142.1	161.7	349.2	225.5
Interest expense, net of interest capitalized		(827.6)	(41.8)	(195.5)	116.6	(948.3)
Loss on early extinguishment of debt		(4.6)		(24.1)		(28.7)
Other income, including interest income	0.3	34.6	31.2	68.9	(116.6)	18.4

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(Loss)/income from continuing operations before income taxes	(473.3)	(751.5)	131.5	11.0	349.2	(733.1)
Benefit/(provision) for income taxes	3.7	330.5	(67.5)	0.3		267.0
Net (loss)/income	(469.6)	(421.0)	64.0	11.3	349.2	(466.1)
Less: net income attributable to non-controlling interest				(3.5)		(3.5)
Net (loss)/income attributable to Harrah's Entertainment, Inc.	\$ (469.6)	\$ (421.0)	\$ 64.0	\$ 7.8	\$ 349.2	\$ (469.6)

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(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non-Guarantors	Consolidating/ Eliminating Adjustments	Total
Revenues						
Casino	\$	\$ 37.9	\$ 2,391.1	\$ 1,193.8	\$	\$ 3,622.8
Food and beverage		8.6	420.3	318.9		747.8
Rooms		8.6	304.7	233.0		546.3
Management fees		4.1	48.5	0.6	(24.6)	28.6
Other		18.6	168.9	153.0	(52.1)	288.4
Less: casino promotional allowances		(10.9)	(445.6)	(251.3)		(707.8)
Net revenues		66.9	2,887.9	1,648.0	(76.7)	4,526.1
Operating expenses						
Direct						
Casino		23.1	1,289.2	658.1		1,970.4
Food and beverage		4.8	154.7	138.7		298.2
Rooms		0.9	54.7	50.5		106.1
Property general, administrative and other		17.1	668.2	380.5	(61.2)	1,004.6
Depreciation and amortization		4.6	237.5	99.1		341.2
Project opening costs			1.6	1.0		2.6
Write-downs, reserves and recoveries		2.1	30.2	22.0		54.3
Impairment of intangible assets			42.0	255.1		297.1
(Income)/loss on interests in non-consolidated affiliates	(2,170.9)	(304.5)	(31.2)	0.4	2,506.3	0.1
Corporate expense	22.8	41.4	7.9	15.4	(15.5)	72.0
Acquisition and integration costs		0.3				0.3
Amortization of intangible assets		0.3	56.9	30.3		87.5
Total operating expenses	(2,148.1)	(209.9)	2,511.7	1,651.1	2,429.6	4,234.4
Income/(loss) from operations	2,148.1	276.8	376.2	(3.1)	(2,506.3)	291.7
Interest expense, net of interest capitalized		(843.1)	(78.2)	(199.0)	160.1	(960.2)
Gains on early extinguishments of debt		3,932.9		347.8		4,280.7
Other income, including interest income	0.3	55.0	56.0	67.9	(160.1)	19.1

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Income from continuing operations before income taxes	2,148.4	3,421.6	354.0	213.6	(2,506.3)	3,631.3
Benefit/(provision) for income taxes	7.9	(1,198.8)	(121.1)	(149.9)		(1,461.9)
Income from continuing operations	2,156.3	2,222.8	232.9	63.7	(2,506.3)	2,169.4
Discontinued operations						
Loss from discontinued operations			(0.3)			(0.3)
Benefit for income taxes			0.1			0.1
Loss from discontinued operations, net			(0.2)			(0.2)
Net income	2,156.3	2,222.8	232.7	63.7	(2,506.3)	2,169.2
Net income attributable to non-controlling interests				(12.9)		(12.9)
Net income attributable to Harrah's Entertainment, Inc.	\$ 2,156.3	\$ 2,222.8	\$ 232.7	\$ 50.8	\$ (2,506.3)	\$ 2,156.3

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****HARRAHS ENTERTAINMENT, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010****(UNAUDITED)**

(in millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Cash flows provided by/(used in) operating activities	\$ 702.0	\$ (4.9)	\$ (170.0)	\$ (432.9)	\$	\$ 94.2
Cash flows (used in)/provided by investing activities						
Land, buildings, riverboats and equipment additions, net of change in construction payables		(1.4)	(44.9)	(28.9)		(75.2)
Additional investment in subsidiaries		(18.8)	(0.6)	(0.5)		(19.9)
Payment made for partnership interest				(19.5)		(19.5)
Payment made for Pennsylvania gaming rights				(16.5)		(16.5)
Cash acquired in business acquisitions				31.8		31.8
Proceeds from other asset sales			13.0			13.0
Other			(6.4)	(2.6)		(9.0)
Cash flows used in investing activities		(20.2)	(38.9)	(36.2)		(95.3)
Cash flows provided by/(used in) financing activities						
Proceeds from the issuance of long-term debt		740.8		551.4		1,292.2
Debt issuance costs		(17.3)		(2.2)		(19.5)
Borrowings under lending agreements		1,175.0				1,175.0
Repayments under lending agreements		(1,602.0)		(2.2)		(1,604.2)
Cash paid in connection with early extinguishment of debt		(219.9)		(22.6)		(242.5)
Scheduled debt retirements		(158.4)		(19.4)		(177.8)
Non-controlling interests distributions, net of contributions				(1.8)		(1.8)
Other	(0.6)		(0.8)	(0.4)		(1.8)
Transfers (to)/from affiliates	(446.8)	401.3	27.9	17.6		
Cash flows (used in)/provided by financing activities	(447.4)	319.5	27.1	520.4		419.6
Effect of deconsolidation of variable interest entities				(7.9)		(7.9)
Net increase/(decrease) in cash and cash equivalents	254.6	294.4	(181.8)	43.4		410.6

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Cash and cash equivalents, beginning of period	122.7	(15.6)	445.2	365.8	918.1
Cash and cash equivalents, end of period	\$ 377.3	\$ 278.8	\$ 263.4	\$ 409.2	\$ 1,328.7

Table of Contents**HARRAHS ENTERTAINMENT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2010****(UNAUDITED)****HARRAHS ENTERTAINMENT, INC.****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2009****(UNAUDITED)**

(In millions)	HET (Parent)	Subsidiary Issuer	Guarantors	Non- Guarantors	Consolidating/ Eliminating Adjustments	Total
Cash flows (used in)/provided by operating activities	\$ (2.0)	\$ (642.8)	\$ 486.6	\$ 250.6	\$	\$ 92.4
Cash flows (used in)/provided by investing activities						
Land, buildings, riverboats and equipment additions, net of change in construction payables		(4.9)	(267.6)	(21.9)		(294.4)
Proceeds from other asset sales		33.5	0.6			34.1
Other			(6.1)	(1.7)		(7.8)
Cash flows provided by/(used in) investing activities		28.6	(273.1)	(23.6)		(268.1)
Cash flows provided by/(used in) financing activities						
Proceeds from issuance of long-term debt		1,323.1				1,323.1
Debt issuance costs		(32.1)				(32.1)
Borrowings under lending agreements		1,550.0				1,550.0
Repayments under lending agreements		(1,803.2)				(1,803.2)
Cash paid in connection with early extinguishments of debt		(267.3)		(213.4)		(480.7)
Scheduled debt retirements		(28.2)		(6.5)		(34.7)
Purchase of interest in subsidiary				(31.9)		(31.9)
Non-controlling interests distributions, net of contributions				(10.3)		(10.3)
Other	(2.4)	(2.7)	(3.0)	(0.1)		(8.2)
Transfers from/(to) affiliates	132.6	33.8	(188.5)	22.1		
Cash flows provided by/(used in) financing activities	130.2	773.4	(191.5)	(240.1)		472.0
Cash flows from discontinued operations						
Cash flows from operating activities			0.3			0.3
Cash flows used in discontinued operations			0.3			0.3
Net increase/(decrease) in cash and cash equivalents	128.2	159.2	22.3	(13.1)		296.6

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Cash and cash equivalents, beginning of period	0.1	7.1	318.3	325.0	650.5
Cash and cash equivalents, end of period	\$ 128.3	\$ 166.3	\$ 340.6	\$ 311.9	\$ 947.1

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial position and operating results of Harrah's Entertainment, Inc. (referred to in this discussion, together with its consolidated subsidiaries where appropriate, as Harrah's Entertainment, the Company, we, our and us) for the quarters and six month periods ended June 30, 2010 and 2009, updates, and should be read in conjunction with, Management's Discussion and Analysis of Financial Condition and Results of Operations presented in our Annual Report on Form 10-K for the year ended December 31, 2009.

REGIONAL AGGREGATION

The executive officers of our Company review operating results, assess performance and make decisions related to the allocation of resources on a property-by-property basis. We, therefore, believe that each property is an operating segment and that it is appropriate to aggregate and present the operations of our Company as one reportable segment. In order to provide more meaningful information than would be possible on a consolidated basis, our properties (as of June 30, 2010, or as otherwise noted below) have been grouped as follows to facilitate discussion of our operating results:

Las Vegas

Caesars Palace
Bally's Las Vegas
Flamingo Las Vegas
Harrah's Las Vegas
Paris Las Vegas
Rio
Imperial Palace
Bill's Gamblin' Hall & Saloon
Planet Hollywood Resort & Casino

(1)

Atlantic City

Harrah's Atlantic City
Showboat Atlantic City
Bally's Atlantic City
Caesars Atlantic City
Harrah's Chester⁽²⁾

Louisiana/Mississippi

Harrah's New Orleans
Harrah's Louisiana Downs
Horseshoe Bossier City
Grand Biloxi
Harrah's Tunica
Horseshoe Tunica
Tunica Roadhouse Hotel & Casino

Iowa/Missouri

Harrah's St. Louis
Harrah's North Kansas City
Harrah's Council Bluffs
Horseshoe Council Bluffs/
Bluffs Run

Illinois/Indiana

Horseshoe Southern Indiana
Harrah's Joliet⁽³⁾
Harrah's Metropolis
Horseshoe Hammond

Other Nevada

Harrah's Reno
Harrah's Lake Tahoe
Harvey's Lake Tahoe
Harrah's Laughlin

Managed and International

Harrah's Ak-Chiff⁽⁴⁾
Harrah's Cherokee⁽⁴⁾
Harrah's Rincoff⁽⁴⁾
Conrad Punta del Este⁽²⁾
Caesars Windsor⁽⁵⁾
London Clubs International⁽⁶⁾

(1) Acquired on February 19, 2010.

(2) We have approximately 95 percent ownership interest in this property.

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

(4) Managed, not owned.

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

(6) As of June 30, 2010, we operate/manage 10 casino clubs in the provinces of the United Kingdom, 2 in Egypt and 1 in South Africa.

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Included in income from operations for each grouping are project opening costs and write-downs, reserves and recoveries. Project opening costs include costs incurred in connection with expansion and renovation projects at various properties. Write-downs, reserves and recoveries include various pretax charges to record tangible asset impairments, contingent liability reserves, demolition costs, recoveries of previously recorded non-routine charges and other non-routine transactions.

Consolidated Operating Results

Because the financial results for 2010 and 2009 include impairment charges, the following tables present separately Income/(loss) from operations before impairment charges and the impairment charges to provide more meaningful comparisons of results. This presentation is not in accordance with U.S. GAAP.

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 1,717.0	\$ 1,810.6	(5.2)%	\$ 3,467.0	\$ 3,622.8	(4.3)%
Net revenues	2,220.7	2,271.4	(2.2)%	4,409.1	4,526.1	(2.6)%
(Loss)/income from operations	(0.3)	6.3	N/M	225.5	291.7	(22.7)%
Impairment charges	100.0	297.1	N/M	100.0	297.1	N/M
Income from operations before impairment charge	99.7	303.4	(67.1)%	325.5	588.8	(44.7)%
(Loss)/income from continuing operations, net of tax	(272.5)	2,296.8	N/M	(466.1)	2,169.4	N/M
(Loss)/income attributable to Harrah's Entertainment, Inc.	(274.0)	2,289.0	N/M	(469.6)	2,156.3	N/M
Operating margin	N/M	0.3%	(0.3)pt	5.1%	6.4%	(1.3)pts
Operating margin before impairment charges	4.5%	13.4%	(8.9)pts	7.4%	13.0%	(5.6)pts

Revenues for the quarter and six months ended June 30, 2010 declined primarily due to the continuing impact of the recession on customers discretionary spending, which was partially offset by revenues associated with our February 2010 acquisition of Planet Hollywood. Included in the second quarters of 2010 and 2009 were impairment charges related to goodwill and other non-amortizing intangible assets of \$100.0 million and \$297.1 million, respectively. Prior to consideration of impairment charges, income from operations declined for the second quarter and six months ended June 30, 2010 when compared with the prior year periods driven by the income impact of reduced revenues, increased marketing and labor-related expenses, incremental depreciation and remediation costs in the Las Vegas region, a legal accrual of \$25.0 million (see Note 12, "Litigation" in the Notes to the Consolidated Condensed Financial Statements), and a charge of approximately \$52.2 million to fully reserve a note-receivable balance related to the Foxwoods project in Philadelphia. Income from continuing operations, net of tax, for the quarter and six months ended June 30, 2009, includes net gains on early extinguishments of debt of \$4,279.5 million and \$4,280.7 million, respectively.

Gains on early extinguishments of debt during the quarter and six months ended June 30, 2009, mentioned above, relate to multiple debt transactions initiated throughout the 2009 periods, including: i) the exchange of approximately \$3,648.8 million principal amount of new 10% second-priority senior secured notes due in 2018 for approximately \$5,470.1 million aggregate principal amount of outstanding debt with maturity dates ranging from 2010 to 2018, ii) the purchase of approximately \$1,337.8 million principal amount of outstanding debt through tender offers or open market purchases; and iii) transactions to retire a portion of and amend the terms of our credit facility agreement and issue approximately \$1,375.0 million principal amount of senior secured notes due 2017.

In the fourth quarter of 2009, we purchased approximately \$950 million of face value of CMBS Loans for approximately \$237 million. Pursuant to the terms of the CMBS Letter Agreement agreed to in March 2010 (discussed later within the capital resources section of this Management's Discussion and Analysis), we have agreed to pay lenders selling these CMBS Loans during the fourth quarter 2009 an additional \$48 million for their loans previously sold, subject to the execution of definitive documentation for the amendment. This additional liability was recorded as a loss on early extinguishment of debt during the first quarter of 2010 and is included in the results for the six months ended June 30, 2010.

Table of Contents**Las Vegas Results**

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 364.1	\$ 381.3	(4.5)%	\$ 743.7	\$ 750.8	(0.9)%
Net revenues	712.7	705.2	1.1%	1,395.5	1,391.6	0.3%
Income/(loss) from operations	72.1	(123.3)	N/M	178.0	0.5	N/M
Impairment charges		255.1	N/M		255.1	N/M
Income from operations before impairment charges	72.1	131.8	(45.3)%	178.0	255.6	(30.4)%
Operating margin	10.1%	(17.5)%	27.6pts	12.8%	N/M	12.8pts
Operating margin before impairment charges	10.1%	18.7%	(8.6)pts	12.8%	18.4%	(5.6)pts

On February 19, 2010, Harrah's Operating Company, Inc. (HOC), a wholly-owned subsidiary of Harrah's Entertainment, Inc., acquired 100% of the equity interests of PHW Las Vegas, LLC (PHW Las Vegas), which owns and operates the Planet Hollywood Resort and Casino (Planet Hollywood) located in Las Vegas, Nevada. Net revenues and income from continuing operations before income taxes (excluding transaction costs associated with the acquisition) of Planet Hollywood subsequent to the date of acquisition through June 30, 2010 of \$91.5 million and \$15.5 million, respectively, are included in consolidated results from operations for the six months ended June 30, 2010.

For the quarter and six months ended June 30, 2010, net revenues increased in the Las Vegas Region from the 2009 periods due to the first quarter 2010 acquisition of Planet Hollywood. Same store revenue declines of 8.2% in the second quarter of 2010 when compared with 2009 resulted from increased room inventory in the market and lower spend per visitor, despite hotel occupancy remaining strong in the mid-90% range. Income from operations in the quarter and six months ended June 30, 2010 was lower than the comparable prior year periods, driven by the earnings impact of reduced revenues, incremental depreciation associated with the Caesars Palace expansions placed into service late in 2009, and increased levels of remediation costs during 2010 at two properties within the region. For the quarter and six months ended June 30, 2009, income from operations included a charge of \$255.1 million recorded in the second quarter 2009 for the impairment of goodwill for certain Las Vegas properties. These charges were the result of an assessment for impairment that was prompted by the relative impact of weak economic conditions on certain of our properties.

An expansion and renovation of Caesars Palace Las Vegas was completed in stages during 2009 on the Octavius Tower, a new hotel tower with 110,000 square feet of additional meeting and convention space, three 10,000-square-foot luxury villa suites and an expanded pool and garden area. We have deferred completion of approximately 660 rooms, including 75 luxury suites, in the hotel tower expansion as a result of current economic conditions impacting the Las Vegas tourism sector. The convention center and the remainder of the expansion project, other than the deferred rooms, was completed during 2009. The Company has incurred capital expenditures of approximately \$647.0 million on this project through June 30, 2010, and does not expect to incur significant additional capital expenditures on this project until construction on the deferred rooms is resumed.

Atlantic City Results

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 432.5	\$ 479.7	(9.8)%	\$ 857.3	\$ 942.2	(9.0)%
Net revenues	487.9	516.2	(5.5)%	945.4	1,000.1	(5.5)%
Income from operations	27.7	67.4	(58.9)%	49.2	104.5	(52.9)%
Operating margin	5.7%	13.1%	(7.4) pts	5.2%	10.4%	(5.2) pts

Revenues for the quarter and six months ended June 30, 2010 were lower than in the comparable prior year periods due to reduced customer spend per trip. Revenues for the six-months ended June 30, 2010 were also impacted by unusually harsh winter storms during the first quarter of 2010. For the quarter and six months ended June 30, 2010, cost savings initiatives were unable to offset increased marketing and labor-related expenses and the earnings impact of reduced revenues, which contributed to the 2010 declines in income from operations.

Table of Contents**Louisiana/Mississippi Results**

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 272.1	\$ 288.3	(5.6)%	\$ 554.6	\$ 594.5	(6.7)%
Net revenues	298.7	314.9	(5.1)%	605.7	649.4	(6.7)%
(Loss)/ income from operations	(30.6)	53.1	N/M	1.7	111.4	(98.5)%
Impairment charges	51.0		N/M	51.0		N/M
Income from operations before impairment charges	20.4	53.1	(61.6)%	52.7	111.4	(52.7)%
Operating margin	(10.2)%	16.9%	(27.1) pts	0.3%	17.2%	(16.9) pts
Operating margin before impairment charges	6.8%	16.9%	(10.1) pts	8.7%	17.2%	(8.5) pts

Revenues for the quarter and six months ended June 30, 2010 from our properties in Louisiana and Mississippi were lower than the comparable prior year periods driven by lower visitation and customer spend per trip. Income from operations was lower than in the second quarter and first six months of 2009 as cost-savings initiatives were unable to offset the earnings impact of reduced revenues and increased marketing expenses. Income/(loss) from operations included a charge of \$51.0 million for the quarter and six months ended June 30, 2010 for the impairment of goodwill at one of the region's properties. The charge was the result of an assessment for impairment that was prompted by the relative impact of weak economic conditions on certain of our properties.

Construction began in third quarter 2007 on Margaritaville Casino & Resort in Biloxi. We have halted construction on this project, and will continue to review and refine the project in light of the current economic environment, market conditions on the Gulf Coast and the current financing environment. We license the Margaritaville name from an entity affiliated with the singer/songwriter Jimmy Buffett. As of June 30, 2010, \$178.2 million had been spent on this project.

Iowa/Missouri Results

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 174.2	\$ 178.6	(2.5)%	\$ 349.9	\$ 360.0	(2.8)%
Net revenues	186.1	190.6	(2.4)%	373.7	384.2	(2.7)%
Income from operations	44.6	49.8	(10.4)%	92.1	97.6	(5.6)%
Operating margin	24.0%	26.1%	(2.1) pts	24.6%	25.4%	(0.8) pts

Revenues for the quarter and six months ended June 30, 2010 at our Iowa and Missouri properties were lower than the comparable prior year periods due to new competition in the market and the continuing impact of the weak economy. Income from operations for the quarter and six months ended June 30, 2010 declined when compared with the 2009 comparable periods primarily due to the earnings impact of the revenue declines.

Illinois/Indiana Results

	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
(In millions)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Casino revenues	\$ 294.6	\$ 315.0	(6.5)%	\$ 592.5	\$ 620.4	(4.5)%
Net revenues	295.5	313.1	(5.6)%	592.5	616.4	(3.9)%
Income from operations	38.3	51.6	(25.8)%	77.2	88.0	(12.3)%
Operating margin	13.0%	16.5%	(3.5) pts	13.0%	14.3%	(1.3) pts

Revenues declined in the quarter and six months ended June 30, 2010 due to the continuing impact of the weak economy. Income from operations in the second quarter and first six months of 2010 declined when compared to the 2009 comparable periods primarily due to the earnings impact of the revenue declines.

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(In millions)	Quarter Ended June 30,		Percentage Increase/ (Decrease)	Six Months Ended June 30,		Percentage Increase/ (Decrease)
	2010	2009		2010	2009	
Casino revenues	\$ 88.0	\$ 90.6	(2.9)%	\$ 174.7	\$ 180.4	(3.2)%
Net revenues	110.8	114.5	(3.2)%	220.7	229.1	(3.7)%
(Loss)/income from operations	(38.4)	11.5	N/M	(31.3)	19.1	N/M
Impairment charges	49.0		N/M	49.0		N/M
Income from operations before impairment charges	10.6	11.5	(7.8)%	17.7	19.1	(7.3)%
Operating margin	(34.7)%	10.0%	(44.7)pts	(14.2)%	8.3%	(22.5)pts
Operating margin before impairment charges	9.6%	10.0%	(0.4)pts	8.0%	8.3%	(0.3)pts

For the quarter and six months ended June 30, 2010, revenues from our Nevada properties outside of Las Vegas were lower than in the 2009 comparable periods due to lower guest visitation and customer spend per trip. For the quarter ended June 30, 2010, income from operations includes a charge of \$49.0 million for the impairment of goodwill and other non-amortizing intangible assets at one of the region's properties. The charge was the result of an assessment for impairment that was prompted by the relative impact of weak economic conditions on certain of our properties. Prior to the consideration of impairment charges, income from operations in the second quarter and first six months of 2010 declined when compared to the 2009 comparable periods primarily due to the earnings impact of the revenue declines.

Managed and International

(In millions)	Quarter Ended June 30,		Percentage Increase/ (Decrease)	Six Months Ended June 30,		Percentage Increase/ (Decrease)
	2010	2009		2010	2009	
Revenues						
Managed	\$ 8.5	\$ 10.4	(18.3)%	\$ 21.0	\$ 20.0	5.0%
International	102.2	92.2	10.8%	219.9	206.5	6.5%
Net revenues	\$ 110.7	\$ 102.6	7.9%	\$ 240.9	\$ 226.5	6.4%
Income/(loss) from operations						
Managed	\$ 3.1	\$ 4.6	(32.6)%	\$ 7.1	\$ 7.9	(10.1)%
International	3.5	(4.2)	N/M	14.9	4.6	N/M
Total Income/(loss) from operations	\$ 6.6	\$ 0.4	N/M	\$ 22.0	\$ 12.5	76.0%

N/M=Not Meaningful

Managed and international include income from our managed properties and results of our international properties. Revenues from our Managed and International properties rose in the second quarter and first six months of 2010 due to strong volumes at our Uruguay and London Clubs properties. Income from operations increased in the second quarter and six months ended June 30, 2010 when compared to 2009 as a result of the earnings impact of increased revenues.

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Other Factors Affecting Net Income

(In millions)	Quarter Ended June 30,		Percentage	Six Months Ended June 30,		Percentage
Expense/(Income)	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)
Corporate expense	\$ 36.9	\$ 41.7	(11.5)%	\$ 71.4	\$ 72.0	(0.8)%
Write-downs, reserves and recoveries	95.1	26.9	N/M	107.6	54.3	98.2%
Impairment of intangible assets	100.0	297.1	N/M	100.0	297.1	N/M
Acquisition and integration costs	0.4	0.1	N/M	7.6	0.3	N/M
Amortization of intangible assets	39.6					