HARRAHS ENTERTAINMENT INC
Form DEFM14A
March 08, 2007
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# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

# Harrah s Entertainment, Inc.

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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3) Filing Party:

4) Date Filed:

**HARRAH S ENTERTAINMENT, INC.**

**One Caesars Palace Drive**

**Las Vegas, Nevada 89109**

March 8, 2007

Dear Stockholder:

The board of directors of Harrah s Entertainment, Inc., a Delaware corporation ( Harrah s ), acting upon the unanimous recommendation of the special committee of Harrah s board of directors, has unanimously approved a merger agreement providing for the acquisition of Harrah s by Hamlet Holdings LLC, an entity currently controlled, directly or indirectly, by Apollo Management VI, L.P. and TPG Partners V, L.P.

If the merger contemplated by the merger agreement is completed, each share of our common stock issued and outstanding immediately prior to the effective time of the merger, including all unvested restricted shares (other than shares owned by Hamlet Holdings LLC, Hamlet Merger Inc. or any subsidiary of Hamlet Holdings LLC or Harrah s or held in treasury by Harrah s and other than shares held by stockholders, if any, who have properly exercised statutory appraisal rights), will be converted into the right to receive (A) $90.00 in cash plus (B) if the merger is not consummated by February 29, 2008 (the Adjustment Date ), for each day after the Adjustment Date, through and including the closing date of the merger, an amount in cash equal to the excess (which will not be less than zero) of $0.01973 per day less any dividends or distributions (valued at the closing date of the merger using 8% simple interest per annum from the applicable date of payment) declared, made or paid on a share of common stock from and after the Adjustment Date through and including the closing date of the merger (rounding to the nearest cent). The merger consideration described in this paragraph will be without interest and less any applicable withholding tax.

At a special meeting of our stockholders, you will be asked to vote on a proposal to adopt the merger agreement. The special meeting will be held on April 5, 2007, at 8:00 a.m. local time, in the Roman Ballroom, Salon #3 at Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada 89109. Notice of the special meeting and the related proxy statement are enclosed.

The accompanying proxy statement provides you with detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to the accompanying proxy statement. We encourage you to read the entire proxy statement and the merger agreement carefully. You may also obtain more information about Harrah s from documents we have filed with the Securities and Exchange Commission.

**Our board of directors, acting upon the unanimous recommendation of the special committee of Harrah s board of directors, has unanimously determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of Harrah s and our stockholders and unanimously recommends that you vote FOR the proposal to adopt the merger agreement and FOR the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.** The special committee of the board of directors consists of all our non-management directors.

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**Your vote is very important.** We cannot complete the merger without the affirmative vote of the holders of a majority of the outstanding shares of common stock in favor of the adoption of the merger agreement. The failure of any stockholder to vote on the proposal to adopt the merger agreement will have the same effect as a vote against the adoption of the merger agreement.

**Whether or not you plan to attend the special meeting, please complete, date, sign and return, as promptly as possible, the enclosed proxy in the accompanying reply envelope, or submit your proxy by telephone or the Internet.** If you have Internet access, **we encourage you to record your vote via the Internet.** If you attend the special meeting and vote in person, your vote by ballot will revoke any proxy previously submitted.

Thank you in advance for your cooperation and continued support.

Sincerely,

Gary W. Loveman
*Chairman, Chief Executive Officer and President*

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.**

**The proxy statement is dated March 8, 2007, and is first being mailed to stockholders on or about March 12, 2007.**

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**HARRAH S ENTERTAINMENT, INC.**

**One Caesars Palace Drive**

**Las Vegas, Nevada 89109**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To be held on April 5, 2007**

To the Stockholders of Harrah s Entertainment, Inc.:

We will hold a special meeting of stockholders of Harrah s Entertainment, Inc. ( Harrah s ) in the Roman Ballroom, Salon #3 at Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada 89109, on April 5, 2007, at 8:00 a.m. local time, for the following purposes:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger (the merger agreement ), dated as of December 19, 2006, by and among Harrah s, Hamlet Holdings LLC, a Delaware limited liability company ( Parent ), and Hamlet Merger Inc., a Delaware corporation and a wholly owned subsidiary of Parent ( Merger Sub ). A copy of the merger agreement is attached as Annex A to the accompanying proxy statement. Pursuant to the terms of the merger agreement, Merger Sub will merge with and into Harrah s (the merger ) and each share of our common stock, par value $0.10 per share (the common stock ), issued and outstanding immediately prior to the effective time of the merger, including all unvested restricted shares (other than shares owned by Parent, Merger Sub or any subsidiary of Parent or Harrah s or held in treasury by Harrah s and other than shares held by stockholders, if any, who have properly exercised statutory appraisal rights), will be converted into the right to receive (A) $90.00 in cash plus (B) if the merger is not consummated by February 29, 2008 (the Adjustment Date ), for each day after the Adjustment Date, through and including the closing date of the merger, an amount in cash equal to the excess (which will not be less than zero) of $0.01973 per day less any dividends or distributions (valued at the closing date of the merger using 8% simple interest per annum from the applicable date of payment) declared, made or paid on a share of common stock from and after the Adjustment Date through and including the closing date of the merger (rounding to the nearest cent). The amount received will be without interest and less any applicable withholding tax.

2. To approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement.

These items of business are described in the attached proxy statement. Only Harrah s stockholders of record at the close of business on March 8, 2007, the record date for the special meeting, are entitled to notice of and to vote at the special meeting and any adjournments or postponements of the special meeting.

The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of common stock.

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**Your vote is very important. If you do not vote on the proposal to adopt the merger agreement, it will have the same effect as a vote against it.**

It is important that your shares be represented and voted whether or not you plan to attend the special meeting in person. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy or submit your proxy by telephone or the Internet prior to the special meeting. If you are a stockholder of record, voting in person at the meeting will revoke any proxy previously submitted. If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting form used by that firm to determine whether you will be able to submit your proxy by telephone or the Internet. Submitting a proxy over the Internet, by telephone or by mailing the enclosed proxy card will ensure your shares are represented at the special meeting. Please review the instructions in the accompanying proxy statement and the enclosed proxy card or the information forwarded by your broker, bank or other nominee regarding each of these options. If you are a participant in the Company Stock Fund of the Harrah s Entertainment, Inc. Savings and Retirement Plan, the trustee of such plan will provide you with instructions on how to vote.

Stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of common stock if they deliver a demand for appraisal before the vote is taken on the merger agreement and comply with all applicable requirements of Delaware law, which are summarized in the accompanying proxy statement.

By Order of the Board of Directors,

MICHAEL D. COHEN
*Corporate Secretary*
Harrah s Entertainment, Inc.

March 8, 2007

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## QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

*The following questions and answers are intended to address briefly some commonly asked questions regarding the merger, the merger agreement and the special meeting. These questions and answers may not address all questions that may be important to you as a Harrah s stockholder. Please refer to the Summary and the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement, which you should read carefully. See Where You Can Find More Information.*

*References to Harrah s, the Company, we, our or us in this proxy statement refer to Harrah s Entertainment, Inc. and its subsidiaries unless the context indicates otherwise.*

**Q. What is the proposed transaction?**

A. The proposed transaction is the acquisition of Harrah s by Hamlet Holdings LLC ( Parent ), an entity currently controlled, directly or indirectly, by TPG Partners V, L.P. ( TPG ) and Apollo Management VI, L.P. ( Apollo ). If the Agreement and Plan of Merger (the merger agreement ), dated as of December 19, 2006, by and among Harrah s, Parent and Hamlet Merger Inc., a wholly owned subsidiary of Parent ( Merger Sub ), is adopted by our stockholders and the other closing conditions in the merger agreement are satisfied or waived, Merger Sub will merge with and into Harrah s. Harrah s will be the surviving corporation and will be owned after the merger by the stockholders of Merger Sub immediately prior to the merger.

**Q. What will I receive in the merger?**

A. If the merger contemplated by the merger agreement is completed, each share of our common stock issued and outstanding immediately prior to the effective time of the merger, including all unvested restricted shares (other than shares owned by Parent, Merger Sub or any subsidiary of Parent or Harrah s or held in treasury by Harrah s and other than shares held by stockholders, if any, who have properly exercised statutory appraisal rights) will be converted into the right to receive (A) $90.00 in cash (the Base Merger Consideration ) plus (B) if the merger is not consummated by February 29, 2008 (the Adjustment Date ), for each day after the Adjustment Date, through and including the closing date of the merger, an amount in cash equal to the excess (which will not be less than zero) of $0.01973 per day less any dividends or distributions (valued at the closing date of the merger using 8% simple interest per annum from the applicable date of payment) declared, made or paid on a share of common stock from and after the Adjustment Date through and including the closing date of the merger (rounding to the nearest cent). The amount described in this paragraph will be without interest and less any applicable withholding tax. In this proxy statement, we refer to the consideration to be paid per share of common stock in the merger as the Merger Consideration.

**Q. When and where is the special meeting?**

A. The special meeting of stockholders of Harrah s will be held on April 5, 2007 in the Roman Ballroom, Salon #3 at Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada 89109, at 8:00 a.m. local time.

**Q. What vote is required for Harrah s stockholders to adopt the merger agreement?**

A. An affirmative vote of the holders of a majority of the outstanding shares of common stock is required to adopt the merger agreement.

**Q. How does Harrah s board of directors recommend that I vote?**

A. Our board of directors, acting upon the unanimous recommendation of a special committee comprised of all our non-management directors, unanimously recommends that you vote FOR the proposal to adopt the

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merger agreement and FOR the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. You should read The Merger Reasons for the Merger; Recommendation of the Special Committee and Our Board of Directors for a discussion of the factors that the special committee and the board of directors considered in deciding to recommend the adoption of the merger agreement.

**Q. What effects will the merger have on Harrah s?**

A. As a result of the merger, if completed, Harrah s will be wholly owned by Parent and our common stock will cease to be publicly traded. You will no longer have any interest in Harrah s future earnings or growth. Following consummation of the merger, the registration of our common stock under the Securities Exchange Act of 1934, as amended (the Exchange Act ), will be terminated upon application to the Securities and Exchange Commission (the SEC ). In addition, upon completion of the merger, shares of our common stock will no longer be listed on any stock exchange or quotation system, including the New York Stock Exchange (the NYSE ).

**Q. What happens if the merger is not consummated?**

A. If the merger agreement is not adopted by our stockholders or if the merger is not completed for any other reason, stockholders will not receive any payment for their shares in connection with the merger. Instead, Harrah s will remain an independent public company and our common stock will continue to be listed and traded on the NYSE. Under specified circumstances, Harrah s may be required to pay Parent a termination fee or reimburse Parent for its out-of-pocket expenses, or Parent and Merger Sub may be required to pay us a termination fee, in each case as described under the caption The Merger Agreement Termination Fees and Expenses.

**Q. What do I need to do now?**

A. After carefully reading and considering the information contained in this proxy statement, including the annexes hereto and the other documents referred to or incorporated by reference in this proxy statement, please vote your shares by completing, signing, dating and returning the enclosed proxy card, using the telephone number printed on your proxy card or using the Internet voting instructions printed on your proxy card. If you have Internet access, **we encourage you to record your vote via the Internet**. If you hold your shares in street name, please follow the instructions on the voting form provided by your broker, bank or other nominee. You can also attend the special meeting and vote. **Do NOT send your stock certificate(s) with your proxy.**

**Q. How do I vote?**

A: You may vote:

- by completing, signing and dating each proxy card you receive and returning it in the enclosed prepaid envelope;
- by using the telephone number printed on your proxy card;
- by using the Internet voting instructions printed on your proxy card;
- in person by appearing at the special meeting; or

if you hold your shares in street name, by following the procedures provided by your broker, bank or other nominee.

If you are voting by telephone or via the Internet, your voting instructions must be received by 5:00 p.m. Eastern Daylight Saving Time on April 4, 2007.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal to adopt the merger agreement and FOR the adjournment or

postponement of the special meeting, if necessary or appropriate, to solicit additional proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the special meeting for a vote.

**Q. How can I change or revoke my vote?**

A. You have the right to change or revoke your proxy at any time before the vote taken at the special meeting by taking any of the following actions:

- by delivering to our Corporate Secretary, Michael D. Cohen, at Harrah s Entertainment, Inc., One Harrah s Court, Las Vegas, Nevada 89119 a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;
- by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting to revoke a prior proxy);
- by submitting a later-dated proxy card;
- if you voted by telephone or the Internet, by voting a later time by telephone or the Internet; or
- if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

**Q. If my shares are held in street name by my broker, bank or other nominee, will my broker, bank or other nominee vote my shares for me?**

A. Your broker, bank or other nominee will only be permitted to vote your shares if you instruct your broker, bank or other nominee how to vote. You should follow the procedures provided by your broker, bank or other nominee regarding the voting of your shares. If you do not instruct your broker, bank or other nominee to vote your shares, your shares will not be voted and the effect will be the same as a vote AGAINST the adoption of the merger agreement.

**Q. How do I vote my shares of common stock held through the Company Stock Fund of the Harrah s Entertainment, Inc. Savings and Retirement Plan?**

A. If you participate in the Company Stock Fund of the Harrah s Entertainment, Inc. Savings and Retirement Plan, you may give voting instructions to the trustee for the plan (the Trustee ) by completing and returning the voting instructions that you will be receiving from the Trustee. Your instructions tell the Trustee how to vote the number of shares of common stock representing your proportionate interest in the Company Stock Fund which you are entitled to vote under the plan (the Plan Shares ). Any such instruction will be kept confidential. The Trustee will vote your Plan Shares in accordance with your duly executed and delivered voting instructions. If you do not give the Trustee voting instructions, the Trustee will vote your Plan Shares as instructed by the investment committee under the plan or by a delegated member of such committee.

Your voting instructions must be received by the Trustee by 5:00 p.m., New York time, on April 3, 2007. You will be provided instructions on how to deliver your voting instructions. You may revoke previously given voting instructions prior to 5:00 p.m., New York time, on April 3, 2007.

**Q. What do I do if I receive more than one proxy or set of voting instructions?**

A. If you also hold shares in street name, directly as a record holder, in the Harrah s Entertainment, Inc. Savings and Retirement Plan or in multiple accounts, you may receive more than one proxy and/or set of voting instructions relating to the special meeting. **These should each be voted and/or returned separately as described elsewhere in this proxy statement in order to ensure that all of your shares are voted.**

**Q. Will any other business be conducted at the meeting?**

A. Our board of directors does not know of any other business that will be presented at the meeting. If any other proposal properly comes up for a vote at the meeting in which a proxy has provided discretionary authority, the proxy holders will vote your shares in accordance with their best judgment.

**Q. What happens if I sell my shares before the special meeting?**

A. The record date of the special meeting is earlier than the special meeting and the date that the merger, if approved, is expected to be completed. If you transfer your shares of common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will transfer the right to receive the Merger Consideration. In order to receive the Merger Consideration, you must hold shares upon completion of the merger.

**Q. Am I entitled to exercise appraisal rights instead of receiving the Merger Consideration for my shares?**

A. Yes. As a holder of our common stock, you are entitled to appraisal rights under Delaware law in connection with the merger if you meet certain conditions and follow certain required procedures. See Dissenters Rights of Appraisal.

**Q. When is the merger expected to be completed if approved by Harrah s stockholders?**

A. We are working toward completing the merger as quickly as possible, and we anticipate that it will be completed by the end of 2007. However, the exact timing of the completion of the merger cannot be predicted. In order to complete the merger, we must obtain stockholder approval and regulatory approvals and the other closing conditions under the merger agreement must be satisfied or waived. See The Merger Agreement Closing; Effective Time; Marketing Period and The Merger Agreement Conditions to the Merger.

**Q. Will a proxy solicitor be used?**

A. Yes. We have engaged D.F. King & Co., Inc. to assist in the solicitation of proxies for the special meeting.

**Q. Should I send in my stock certificates now?**

A. **No. Please do not send your certificates in now.** After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your common stock certificates for the Merger Consideration. If your shares are held in street name by your broker, bank or other nominee you will receive instructions from your broker, bank or other nominee as to how to effect the surrender of your street name shares after completion of the merger in exchange for the Merger Consideration.

**Q. Who can help answer my other questions?**

A. If you have additional questions about the merger, need assistance in submitting your proxy or voting your shares of common stock, or need additional copies of the proxy statement or the enclosed proxy card, please call D.F. King & Co., Inc., our proxy solicitor, toll-free at

(800) 735 3107.

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## SUMMARY

*The following summary highlights selected information in this proxy statement and may not contain all the information that may be important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to or incorporated by reference in this proxy statement. Each item in this summary includes a page reference directing you to a more complete description of that topic. See Where You Can Find More Information.*

**The Parties to the Merger (Page 19)**

Harrah s Entertainment, Inc., a Delaware corporation, is one of the largest casino entertainment providers in the world. As of December 31, 2006, Harrah s owned or managed through various subsidiaries 48 casinos, primarily in the United States and the United Kingdom. Our casino entertainment facilities operate primarily under the Harrah s, Caesars and Horseshoe brand names in the United States, and include land-based casinos, casino clubs, riverboat or dockside casinos, managed casinos on Indian lands, a combination thoroughbred racetrack and casino and combination greyhound racetracks and casinos.

Hamlet Holdings LLC, which we refer to as Parent, is a Delaware limited liability company that was formed solely for the purpose of acquiring Harrah s and has not engaged in any business except for activities incidental to its formation and as contemplated by the merger agreement.

Hamlet Merger Inc., which we refer to as Merger Sub, is a Delaware corporation that was organized solely for the purpose of completing the merger and currently is a wholly owned subsidiary of Parent.

Parent and Merger Sub are each entities currently owned, directly or indirectly, by private equity funds sponsored by Apollo and by TPG (collectively, the Equity Investors ). Additional investors (who may include one or more existing holders of our common stock) may acquire an interest in Parent and/or Merger Sub, subject to the limitations and conditions contained in the merger agreement.

**The Merger; Closing; Marketing Period (Page 83)**

If the merger agreement is adopted by our stockholders and the other conditions to closing are satisfied or waived, Merger Sub will merge with and into Harrah s, and Harrah s will continue as the surviving corporation. Upon completion of the merger, each share of our common stock issued and outstanding immediately prior to the effective time of the merger, including all unvested restricted shares (other than shares owned by Parent, Merger Sub or any subsidiary of Parent or Harrah s or held in treasury by Harrah s and other than shares held by stockholders, if any, who have properly exercised statutory appraisal rights) will be converted into the right to receive (A) $90.00 in cash (the Base Merger Consideration ) plus (B) if the merger is not consummated by the Adjustment Date (February 29, 2008), for each day after the Adjustment Date, through and including the closing date of the merger, an amount in cash equal to the excess (which will not be less than zero) of $0.01973 per day less any dividends or distributions (valued at the closing date of the merger using 8% simple interest per annum from the applicable date of payment) declared, made or paid (without duplication) on a share of common stock from and after the Adjustment Date through and including the closing date of the merger (rounding to the nearest cent). The amount described in this paragraph will be without interest and less any applicable withholding tax. In this proxy statement, we refer to the consideration to be paid per share of common stock in the merger as the Merger Consideration. The surviving corporation will be a privately held corporation, and you will cease to be a stockholder and cease to have any ownership interest in the surviving corporation.

Unless otherwise agreed by the parties to the merger agreement, the parties are required to close the merger no later than the third business day after the satisfaction or waiver of the conditions described under The Merger

Agreement Conditions to the Merger, subject to extension in certain circumstances to allow for completion of a twenty-five (25) consecutive calendar day marketing period. The purpose of the marketing period is to provide the Equity Investors a reasonable and appropriate period of time during which they can market and place the permanent debt financing for the purposes of financing the merger.

We currently anticipate that the merger will be completed by the end of 2007. However, there can be no assurances that the merger will be completed at all, or if completed, that it will be completed in 2007.

**The Special Meeting (Page 21)**

***Time, Place and Date (Page 21)***

The special meeting of stockholders of Harrah s will be held on April 5, 2007 in the Roman Ballroom, Salon #3 at Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada 89109, at 8:00 a.m. local time.

***Purpose (Page 21)***

You will be asked to consider and vote upon (A) the adoption of the merger agreement, pursuant to which Merger Sub will merge with and into Harrah s, and (B) the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

***Record Date and Quorum (Page 21)***

You are entitled to vote at the special meeting if you owned shares of common stock at the close of business on March 8, 2007, the record date for the special meeting. You will have one vote for each share of common stock that you owned on the record date. As of March 1, 2007, there were 187,110,174 shares of common stock entitled to be voted.

The holders of a majority of the outstanding shares of our common stock entitled to vote at the close of business on the record date will constitute a quorum for purposes of the special meeting.

***Vote Required (Page 21)***

The adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of common stock. A failure to vote your shares of common stock or an abstention will have the same effect as voting AGAINST the adoption of the merger agreement.

Approval of the proposal to adjourn or postpone the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies requires the affirmative vote of a majority of the shares of common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter, whether or not a quorum is present.

***Common Stock Ownership of Directors and Executive Officers (Page 21)***

As of February 15, 2007, our current directors and executive officers beneficially owned, and had the right to vote, in the aggregate, 859,167 shares of common stock, or approximately 0.5% of our outstanding shares of common stock. Our current directors and executive officers have informed us that they intend to vote all of their shares of common stock FOR the adoption of the merger agreement and FOR any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

***Voting and Proxies (Page 21)***

Any stockholder of record entitled to vote at the special meeting may submit a proxy by returning the enclosed proxy card by mail, by telephone, by the Internet or by voting in person by appearing at the special

meeting. If your shares of common stock are held in street name by your broker, bank or other nominee, you should instruct your broker, bank or other nominee on how to vote your shares of common stock using the instructions provided by your broker, bank or other nominee. If you do not provide your broker, bank or other nominee with instructions, your shares of common stock will not be voted and that will have the same effect as a vote AGAINST the adoption of the merger agreement.

***Revocability of Proxy (Page 21)***

You have the right to change or revoke your proxy at any time before the vote taken at the special meeting:

- by delivering to our Corporate Secretary, Michael D. Cohen, at Harrah s Entertainment, Inc., One Harrah s Court, Las Vegas, Nevada 89119 a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;

- by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting to revoke a prior proxy);

- by submitting a later-dated proxy card;

- if you voted by telephone or the Internet, by voting a later time by telephone or the Internet; or

- if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

**Treatment of Options and Other Awards (Page 84)**

***Stock Options and Stock Appreciation Rights***

Immediately prior to the effective time of the merger, each outstanding and unexercised option and stock appreciation right granted under our employee benefit plans (whether vested or unvested) will be canceled and converted into the right to receive, at the effective time of the merger, an amount in cash equal to the product of (A) the number of shares of common stock previously subject to the options or stock appreciation rights (whether vested or unvested) and (B) the excess, if any, of the Merger Consideration over the exercise price per share of common stock previously subject to such options or stock appreciation rights, minus any required withholding taxes.

***Restricted Shares***

As of the effective time of the merger, all shares of common stock that have been granted subject to vesting or other lapse restrictions will vest and become free of their restrictions. At the effective time of the merger, the holders of these restricted shares will be entitled to receive the Merger Consideration with respect to each of these restricted shares.

**Recommendation of the Special Committee and Our Board of Directors (Page 37)**

***Special Committee***

The special committee is a committee comprised of all the non-management members of our board of directors that was formed on September 19, 2006 for the purpose of evaluating strategic alternatives of Harrah s. The special committee unanimously determined that the merger is advisable and in the best interest of Harrah s and our stockholders, and that it is advisable and in the best interest of Harrah s and our stockholders to enter into the merger agreement and unanimously recommended that the board of directors (A) approve and declare advisable the execution, delivery and performance of the merger agreement and the consummation of the transactions contemplated thereby, including the merger, and (B) recommend that our stockholders adopt the

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merger agreement. For a discussion of the material factors considered by the special committee in reaching its conclusions, see The Merger Reasons for the Merger; Recommendation of the Special Committee and Our Board of Directors.

***Board of Directors***

Our board of directors, acting upon the unanimous recommendation of the special committee, unanimously (A) determined that the merger is advisable and in the best interest of Harrah s and our stockholders, and declared it advisable and in the best interest of Harrah s and our stockholders to enter into the merger agreement, (B) approved the execution, delivery and performance of the merger agreement and the consummation of the transactions contemplated thereby, including the merger, and (C) recommended that the stockholders adopt the merger agreement and directed that such matter be submitted for consideration of our stockholders at the special meeting.

**Our board of directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement and FOR the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.**

**Interests of Our Directors and Executive Officers in the Merger (Page 59)**

In considering the recommendation of our board of directors, you should be aware that our current directors and executive officers may have interests in the merger that are different from, or in addition to, your interests as a stockholder and that may present actual or potential conflicts of interest. These interests include:

- vesting and cash-out of all unvested and deferred Harrah s equity awards, including those held by our current directors and executive officers, which, assuming a closing on December 31, 2007, and based on unvested equity awards held as of February 15, 2007, would result in an aggregate cash payment to our current directors and executive officers of $79.9 million;

- severance agreements with our current executive officers that provide for change in control severance benefits in the event of certain qualifying terminations of employment in connection with or following the merger. As of February 15, 2007, the estimated aggregate cash severance benefit under these agreements, assuming all current executive officers incurred a qualifying termination of employment immediately following the merger, would have been $64.5 million, including estimated tax gross-up payments;

- continued indemnification and insurance coverage under the merger agreement;

- potential compensation arrangements between Parent or any of its affiliates, on the one hand, and members of senior management of Harrah s, on the other hand, though no such arrangements have been agreed upon as of the date of this proxy statement; and

- potential equity ownership or other opportunities to invest in Parent or its affiliates following completion of the merger, though no such arrangements have been agreed upon as of the date of this proxy statement.

**Opinion of UBS Securities LLC (Page 41)**

UBS Securities LLC ( UBS ) delivered its opinion to the special committee of Harrah s board of directors that, as of December 19, 2006 and based upon and subject to the various assumptions made, procedures followed, matters considered and limitations described therein, the Base Merger Consideration to be received by holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) in the merger was fair, from a financial point of view, to such holders.

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The full text of the written opinion of UBS, dated December 19, 2006, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. UBS provided its opinion for the benefit of the special committee of Harrah s board of directors and Harrah s board of directors in connection with, and for the purpose of, their evaluation of the merger. The UBS opinion is not a recommendation as to how any holder of our common stock should vote or act with respect to the merger.

**Opinion of Peter J. Solomon Company, L.P. (Page 47)**

On December 19, 2006, Peter J. Solomon Company, L.P. ( PJSC ), financial advisor to the special committee of Harrah s board of directors, rendered its oral opinion to the special committee of Harrah s board of directors, which opinion was subsequently confirmed by delivery of a written opinion, to the effect that, based upon and subject to various assumptions made, matters considered and limitations set forth in such opinion, as of December 19, 2006, the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger was fair, from a financial point of view, to such holders.

The full text of PJSC s opinion, which sets forth assumptions made, procedures followed, matters considered, and limitations on and scope of the review by PJSC in rendering PJSC s opinion, is attached as Annex C to this proxy statement. Holders of our common stock are encouraged to read PJSC s opinion carefully and in its entirety. PJSC s opinion was directed only to the fairness, from a financial point of view, of the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger, was provided to the special committee of Harrah s board of directors and Harrah s board of directors in connection with their evaluation of the merger, did not address any other aspect of the merger and did not, and does not, constitute a recommendation to any holder of our common stock or any other person as to how such holder or person should vote or act on any matter relating to any part of the merger.

**Financing (Page 53)**

The total amount of funds necessary to complete the merger and related transactions is anticipated to be approximately $26.1 billion, consisting of:

- approximately $17.7 billion to pay Harrah s stockholders and holders of options and stock appreciation rights the amounts due to them under the merger agreement, assuming:
  - a purchase price of $90.00 per share (net of the strike price for options and stock appreciation rights and excluding any adjustment to the purchase price after the Adjustment Date);
  - conversion of all of the issued and outstanding $375.0 million in aggregate principal amount Floating Rate Contingent Convertible Senior Notes due 2024 of Harrah s Operating Company, Inc. ( HOC ) into the Merger Consideration; and
  - no Harrah s stockholder validly exercises and perfects its appraisal rights;
- approximately $7.7 billion to refinance certain existing indebtedness (including prepayment premiums); and
- approximately $0.7 billion to pay related fees and expenses in connection with the merger.

These payments are expected to be funded by a combination of (A) equity contributions by affiliates of the Equity Investors and other investors in Parent and/or Merger Sub and (B) debt financing. Parent has obtained equity and debt financing commitments described below in connection with the transactions contemplated by the merger agreement.

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***Equity Financing***

Parent has received equity commitment letters from each Equity Investor, pursuant to which, subject to the conditions contained therein, the Equity Investors have agreed severally to make or secure aggregate capital contributions of up to $5.871 billion to Parent and/or Merger Sub.

***Debt Financing***

Parent has received a debt commitment letter from prospective arrangers and lenders to provide, subject to the conditions set forth therein:

- to HOC, up to $9.0 billion of senior secured credit facilities (of which $7.0 billion is expected to be drawn at the closing of the merger) for the purpose of repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries, as well as for providing ongoing working capital and for other general corporate purposes of the surviving corporation and its subsidiaries;

- to HOC, up to $6.025 billion of senior unsecured bridge loans under a bridge loan facility, for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries and paying fees and expenses incurred in connection with the merger; and

- to one or more direct or indirect subsidiaries of Parent, up to $7.25 billion (which amount may be increased by up to $750 million subject to a corresponding reduction in the other facilities) of mortgage loans and/or related mezzanine financing and/or real estate term loans under a real estate facility, for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries and paying fees and expenses incurred in connection with the merger.

Parent has agreed to use its reasonable best efforts to arrange the debt financing on the terms and conditions described in the commitments. The closing of the merger is not conditioned on the receipt of the debt financing. Parent, however, is not required to consummate the merger until after the completion of the marketing period described above.

**Regulatory Approvals (Page 68)**

The merger is subject to various regulatory approvals. While we expect to obtain all required regulatory approvals, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of conditions on the completion of the merger or require changes to the terms of the merger agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

***Antitrust***

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act ), and the rules promulgated thereunder by the Federal Trade Commission ( FTC ), the merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the Department of Justice ( DOJ ), and the applicable waiting period has expired. On March 1, 2007, each of Harrah s and Parent made the necessary filings under the HSR Act. The waiting period under the HSR Act will expire at 11:59 pm on April 2, 2007, unless extended by a request for additional information and documentary material by the FTC or the Antitrust Division of the DOJ.

The merger is also subject to review by the governmental authorities of the European Commission and South Africa under the antitrust laws of those jurisdictions. Parent made the required notification to the European Commission on February 28, 2007; the applicable waiting period will expire on April 4, 2007. The parties anticipate the competition filing required in South Africa will be made in March 2007; the initial applicable waiting period is 20 business days.

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*Gaming Approvals*

Parent, Merger Sub and each of their affiliates have agreed to use their reasonable best efforts to obtain all gaming approvals as expeditiously as reasonably possible. Harrah s and Parent s respective obligations to complete the merger are conditioned upon all material gaming regulatory approvals and authorization having been obtained in certain jurisdictions including Illinois, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, New Jersey and Pennsylvania. In addition, gaming authorities in other jurisdictions, including Arizona, California, Egypt, Kansas, North Carolina, Ontario, South Africa, the United Kingdom and Uruguay may require approval of certain aspects of the merger or the other transactions contemplated by the merger agreement, either prior to or after completion of the merger.

To the extent practicable without having an adverse impact on Parent s or its affiliates equity commitment, Parent s, Merger Sub s and their affiliates efforts to obtain such approvals will include but not be limited to the following (to the extent requested by a gaming authority as a requirement to obtain a gaming approval):

restructuring or committing to restructure the surviving corporation s capital structure, to the extent practicable without having an adverse impact on the value of and returns on the equity investment or delay to the merger;

replacing or issuing non-voting equity to (to the extent such replacement or issuance would cure the problem by preventing the licensed person from having any influence, directly or indirectly, over Harrah s) one or more licensed persons who are preventing or materially delaying the receipt of gaming approvals;

agreeing to divest immaterial assets or operations after the closing of the merger;

placing assets or operations in certain gaming jurisdictions in trust upon the closing of the merger, pending obtaining control upon subsequent regulatory approval; and

accepting customary ordinary course operating restrictions on the surviving corporation.

In no event, however, will Parent, Merger Sub or any of their respective affiliates be required to take any action to or agree to (each a Burdensome Condition ):

limit in any manner or not exercise any rights of ownership of any securities, or divest, dispose of or hold separate any securities or all or a portion of their respective businesses, assets or properties or the businesses, assets or properties of the surviving corporation, us or our subsidiaries (other than in connection with certain actions specifically required by the merger agreement in order to obtain gaming approvals, as described above);

limit in any respect whatsoever their ability (other than in connection with certain actions specifically required by the merger agreement in order to obtain gaming approvals, as described above) to:

conduct their respective businesses or own such assets or properties or to conduct the businesses or own the properties or assets of the surviving corporation, Harrah s or any of our subsidiaries; or

control their respective businesses or operations or those of the surviving corporation, Harrah s or any of our subsidiaries;

take any action that could reasonably be expected to have a material adverse impact on our or the surviving corporation s business, operations or revenues; or

restructure or commit to restructure the surviving corporation s capital structure in any manner that increases its equity commitment or otherwise adversely affects the value of and return on the equity investment.

**Material U. S. Federal Income Tax Consequences (Page 66)**

The exchange of shares of common stock for cash pursuant to the merger agreement will be a taxable transaction for U.S. federal income tax purposes for U.S. taxpayers and certain non-U.S. taxpayers. Stockholders

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who exchange their shares of common stock in the merger will recognize gain or loss in an amount equal to the difference, if any, between the cash received in the merger and their adjusted tax basis in their shares of common stock. See The Merger Material U.S. Federal Income Tax Consequences of the Merger to Our Stockholders. You should consult your tax advisor for a complete analysis of the effect of the merger on your federal, state, local and/or foreign taxes.

**Conditions to the Merger (Page 97)**

***Conditions to Each Party s Obligations***

Each party s obligation to complete the merger is subject to the satisfaction of the following conditions at or prior to the effective time of the merger:

- the merger agreement will be adopted by the affirmative vote of the holders of a majority of the outstanding shares of our common stock;
- no order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition that prevents the consummation of the merger or Parent s debt financing will be in effect;
- no statute, rule or regulation will have been enacted, entered, promulgated or enforced by any governmental entity that prohibits or makes illegal the consummation of the merger or Parent s debt financing;
- any applicable waiting period under the HSR Act will have expired or been terminated; and
- all gaming approvals of Parent and Merger Sub that are required to be obtained prior to the effective time of the merger to permit the consummation of the merger and Parent s ownership of Harrah s will have been granted without the imposition of a Burdensome Condition.

***Conditions to Parent s and Merger Sub s Obligations***

The obligation of Parent and Merger Sub to complete the merger is subject to the satisfaction or waiver of the following additional conditions at or prior to the effective time of the merger:

- our representations and warranties with respect to the number of our securities authorized, outstanding and reserved for issuance will be true in all but de minimis respects, and our representations and warranties with respect to authority to complete the merger and our board of director s approval and recommendation of the merger agreement and other representations concerning capitalization not described above will each be true in all material respects, in each case as of the date of the merger agreement and (except as otherwise specified) as of the closing date of the merger as if made as of such date;
- our other representations and warranties will be true and correct as of the date of the merger agreement and (except as otherwise specified) as of the closing date of the merger as if made as of such date (without giving effect to any qualification as to materiality or Material Adverse Effect (as defined in The Merger Agreement Representations and Warranties ) set forth in such representations and warranties), except where the failure of any such representation or warranty to be so true and correct would not have or be reasonably expected to have a Material Adverse Effect;

we will have performed in all material respects all obligations that we are required to perform under the merger agreement at or prior to the effective time of the merger;

since December 19, 2006 (the date of the merger agreement), there will not have been any event, change, effect, development, condition or occurrence that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect; and

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- Parent will have received a certificate signed on behalf of Harrah s by our chief executive officer or chief financial officer certifying the satisfaction of the foregoing conditions relating to representations, warranties and obligations.

***Conditions to Harrah s Obligations***

Our obligation to complete the merger is subject to the satisfaction or waiver by us of the following further conditions at or prior to the effective time of the merger:

- the representations and warranties made by Parent and Merger Sub in the merger agreement with respect to solvency of the surviving corporation will be true and correct in all material respects as of the date of the merger agreement and as of the closing date of the merger as if made as of such date;

- the other representations and warranties made by Parent and Merger Sub will be true and correct as of the date of the merger agreement and (except as otherwise specified) as of the closing date of the merger as if made as of such date (without giving effect to any qualification as to materiality set forth in such representations and warranties), except where the failure of any such representation or warranty to be so true and correct would not have a Material Adverse Effect;

- Parent and Merger Sub will have performed in all material respects all obligations that are required to be performed by them under the merger agreement at or prior to the effective time of the merger; and

- we will have received a certificate signed on behalf of Parent by a duly authorized officer certifying the satisfaction of the foregoing conditions relating to representations, warranties and obligations.

**Restrictions on Solicitations of Other Offers (Page 98)**

The merger agreement provides that, until 11:59 p.m., New York time, on January 13, 2007 (the go-shop period ), we were permitted to initiate, solicit and encourage any acquisition proposal (including by way of providing non-public information pursuant to an acceptable confidentiality and standstill agreement that contains confidentiality and standstill provisions that are no less favorable in the aggregate to us than those contained in the confidentiality agreements entered into with each of the Equity Investors) and enter into and maintain discussions or negotiations with respect to potential acquisition proposals or otherwise cooperate with or assist or participate in, or facilitate, any such inquiries, proposals, discussions or negotiations. Prior to terminating the merger agreement or entering into an acquisition agreement with respect to any such proposal, we were required to comply with certain terms of the merger agreement described under The Merger Agreement Recommendation Withdrawal/Termination in Connection with a Superior Proposal, including providing Parent the opportunity to amend its proposal to acquire Harrah s or submit a new written proposal to acquire Harrah s and, if required, paying a termination fee.

The merger agreement provides that from and after the expiration of the go-shop period, we are generally not permitted to, and must use our reasonable best efforts to cause our representatives not to:

- initiate, solicit or knowingly encourage (including by providing non-public information) the submission of any inquiries, proposals or offers that constitute or may reasonably be expected to lead to any acquisition proposal or engage in any discussions or negotiations with respect thereto or otherwise knowingly cooperate with or knowingly assist or participate in, or knowingly facilitate or knowingly encourage, any such inquiries, proposals, discussions or negotiations; or

- approve or recommend, or publicly propose to approve or recommend, any acquisition proposal or enter into any merger agreement, letter of intent, agreement in principle, share purchase agreement, asset purchase agreement or share exchange agreement, option agreement or other similar agreement relating to an acquisition proposal or enter into any agreement or agreement in principle requiring us to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement or breach our obligations thereunder or propose or agree to do any of the foregoing.

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Notwithstanding these restrictions, under certain circumstances, our board of directors (acting through the special committee if such committee still exists) may respond to a bona fide unsolicited written proposal for an alternative acquisition or terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal, so long as we comply with certain terms of the merger agreement described under The Merger Agreement Recommendation Withdrawal/Termination in Connection with a Superior Proposal, including providing Parent the opportunity to amend its proposal to acquire Harrah s or submit a new written proposal to acquire Harrah s prior to termination and, if required, paying a termination fee.

See The Merger Agreement Restrictions on Solicitations of Other Offers for the definitions of the terms acquisition proposal and superior proposal as used above.

**Termination of the Merger Agreement (Page 101)**

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after stockholder approval has been obtained:

- by mutual written consent of us and Parent; or
- by either us or Parent if:
  - there is a final and nonappealable order, decree or ruling from a court or other governmental entity (other than a gaming authority) or other action that restrains, enjoins or otherwise prohibits consummation of the merger or the transactions contemplated by the merger agreement, or there is a final and nonappealable denial of any of the gaming approvals that are required to be obtained prior to the effective time of the merger to permit the consummation of the merger and Parent s ownership of Harrah s;
  - the merger is not consummated on or before December 19, 2007 (the Target Regulatory Approval Date ) or on or before May 19, 2008 (the Extended Date ) in the event that all closing conditions were or were capable of being satisfied by the Target Regulatory Date other than the condition related to gaming approvals required for the closing of the merger (provided, that if the marketing period has begun but is not completed on or before the Extended Date, Parent may extend the Extended Date to June 19, 2008 by written notice to us) (the latest of the above dates, the Outside Date ); or
  - our stockholders, at the special meeting or at any adjournment or postponement thereof at which the merger agreement was voted on, fail to adopt the merger agreement; or
- by us if:
  - Parent or Merger Sub has breached any of its covenants, agreements, representations or warranties in the merger agreement in a manner that would result in, if occurring or continuing at the effective time of the merger, the failure of the closing conditions related to our obligations to effect the merger and the breach (if curable) is not cured within the earlier of (A) the Outside Date or (B) 30 days following written notice to Parent;
  - the limited guarantees or the equity commitments made by the Equity Investors are not in full force and effect in all material respects, and such condition continues until the earlier of (A) the Outside Date or (B) 30 days following written notice to Parent;

all conditions related to each party s obligations and the obligations of Parent and Merger Sub to effect the merger have been satisfied or are capable of being satisfied and, after the last day of the marketing period, Parent fails to provide funds for payment of the Merger Consideration and, at our election, the Derivative Share Consideration (as such term is defined in The Merger Agreement Treatment of Options and Other Awards ); or

such termination is effected prior to obtaining stockholder approval in order to enter into an agreement with respect to a superior proposal; or

by Parent if:

- we have breached any of our covenants, agreements, representations or warranties in the merger agreement in a manner that would result in, if occurring or continuing at the effective time of the merger, the failure of the closing conditions related to Parent s and Merger Sub s obligations to effect the merger and the breach (if curable) is not cured within the earlier of (A) the Outside Date or (B) 30 days following written notice to us;

- our board of directors (acting through the special committee if it still exists) withdraws, modifies or qualifies, or publicly proposes to withdraw, modify or qualify, in a manner adverse to Parent or Merger Sub, its recommendation that our stockholders adopt the merger agreement or approves, adopts or recommends to our stockholders a superior proposal, or enters into a letter of intent or agreement in principle or definitive agreement for an acquisition proposal, or publicly proposes to do so; or

- we take certain actions inconsistent with our obligations, or fail to comply with the restrictions, under the merger agreement relating to solicitations, acquisition proposals, our obligations to seek stockholder approval of the merger agreement and board recommendation changes, as described in further detail in The Merger Agreement Restrictions on Solicitations of Other Offers and The Merger Agreement Recommendation Withdrawal/Termination in Connection with a Superior Proposal.

**Termination Fees and Expenses (Page 103)**

***Payable by Harrah s***

We have agreed to reimburse Parent s out-of-pocket fees and expenses incurred in connection with the merger agreement, up to $60 million, if either we or Parent terminate the merger agreement because of the failure to receive our stockholder approval at the special meeting or any adjournment or postponement thereof at which the merger agreement was voted on and a termination fee is not otherwise payable under the merger agreement. If we become obligated to pay a termination fee under the merger agreement after payment of such expenses, the amount previously paid to Parent as expense reimbursement will be credited toward the termination fee amount payable by us.

We must pay a termination fee of $500 million to Parent under the following conditions:

- we or Parent terminate the merger agreement because our stockholders, at the special meeting or any adjournment or postponement thereof at which the merger agreement was voted on, fail to adopt the merger agreement, and

  - after December 19, 2006 and prior to the special meeting or any adjournment or postponement thereof at which the merger agreement was voted on, an acquisition proposal had been publicly disclosed or otherwise communicated to us and not withdrawn or terminated; and

  - within nine months after such termination, we enter into an agreement with respect to, or consummate, any acquisition proposal; or

- Parent terminates the merger agreement due to a breach of our representations, warranties, covenants or agreements as described in further detail in The Merger Agreement Termination of the Merger Agreement, and

  - after December 19, 2006 and prior to the breach giving rise to Parent s termination right, an acquisition proposal had been publicly disclosed or otherwise communicated to us and not withdrawn or terminated; and

within nine months after such termination, we enter into an agreement with respect to, or consummate, any acquisition proposal; or

we or Parent terminate the merger agreement because the merger is not consummated by the Outside Date as described in further detail in The Merger Agreement Termination of the Merger Agreement, and

after December 19, 2006 and prior to the termination, an acquisition proposal had been publicly disclosed or otherwise communicated to us and not withdrawn or terminated; and

within nine months after such termination, we enter into an agreement with respect to, or consummate, any acquisition proposal; or

Parent terminates the merger agreement because:

our board of directors (acting through the special committee if it still exists) withdraws, modifies or qualifies, or publicly proposes to withdraw, modify or qualify, in a manner adverse to Parent or Merger Sub, its recommendation that our stockholders adopt the merger agreement or approves, adopts or recommends to our stockholders a superior proposal, or enters into a letter of intent or agreement in principle or definitive agreement for an acquisition proposal, or publicly proposes to do so; or

we take certain actions inconsistent with our obligations, or fail to comply with the restrictions, under the merger agreement relating to solicitations, acquisition proposals, our obligations to seek stockholder approval of the merger agreement and board recommendation changes, as described in further detail in The Merger Agreement Restrictions on Solicitations of Other Offers and The Merger Agreement Recommendation Withdrawal/Termination in Connection with a Superior Proposal; or

we terminate the merger agreement prior to the adoption of the merger agreement by our stockholders at the special meeting in order to enter into a definitive agreement for a superior proposal.

See The Merger Agreement Termination Fees and Expenses for the definition of the term acquisition proposal as used above.

***Payable by Parent***

Parent must pay us a breakup fee of $500 million if we terminate the merger agreement due to a breach of Parent s or Merger Sub s representations, warranties, covenants or agreements, and Parent and Merger Sub s failure to fulfill their obligations to consummate the merger is due to:

their failure to receive the proceeds of all or some of the debt financing as described in The Merger Financing of the Merger Debt Financing; or

their refusal to accept debt financing on terms materially less favorable to Merger Sub than the terms of the debt financing described in The Merger Financing of the Merger Debt Financing.

In the alternative, Parent must pay us a regulatory breakup fee of $250 million if we or Parent terminate the merger agreement because the merger is not consummated by the Outside Date, and

Parent and Merger Sub have not obtained all of the gaming approvals required under the merger agreement (which failure was not meaningfully contributed to by us);

all other conditions to closing pursuant to the merger agreement have been satisfied (or are capable of being satisfied at the closing of the merger); and

we are not in breach of certain representations and warranties concerning consents and approvals, or otherwise in material breach of the merger agreement.

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**Liability Cap (Page 105)**

In no event will we be entitled to aggregate monetary damages from Parent and Merger Sub in excess of $500 million for all losses and damages arising from or in connection with breaches by Parent and Merger Sub of their obligations under the merger agreement or arising from any other claim or cause of action under the merger agreement (or $250 million, in circumstances giving rise to the regulatory breakup fee described above (other than willful and material breaches of the merger agreement by Parent or Merger Sub that lead to the regulatory breakup fee, in which case we will be entitled to $500 million of aggregate monetary damages)).

**Specific Performance (Page 106)**

Parent and Merger Sub are entitled to seek specific performance of the terms of the merger agreement, but we are only entitled to seek specific performance to require Parent and Merger Sub to cause the equity financing to be funded and to draw upon the debt financing if:

- such debt financing is available;
- the conditions to Parent s and Merger Sub s obligations to effect the merger are satisfied (or are capable of being satisfied at the closing of the merger); and
- we are not in material breach of the merger agreement.

**Limited Guarantee (Page 59)**

In connection with the merger agreement, each of the Equity Investors entered into a limited guarantee with Harrah s pursuant to which, among other things, each of the Equity Investors has provided us with a guarantee of payment of 50% of the breakup fee or regulatory breakup fee payable by Parent, if any (as described herein under The Merger Agreement Termination Fees and Expenses ), and 50% of Parent s obligation for breach of the merger agreement, up to a maximum amount of $250 million for each of the Equity Investors. The limited guarantee is our sole recourse against the Equity Investors; however the limited guarantee does not limit our rights against Parent and Merger Sub described under The Merger Agreement Specific Performance.

**Appraisal Rights (Page 110)**

Under Delaware law, holders of common stock who do not vote in favor of adopting the merger agreement will have the right to seek appraisal of the fair value of their shares of common stock as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this proxy statement. This appraisal amount could be more than, the same as or less than the Merger Consideration. Any holder of common stock intending to exercise such holder s appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption of the merger agreement and must not vote or otherwise submit a proxy in favor of adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights.

**Market Price of Common Stock (Page 107)**

The closing sale price of common stock on the NYSE on September 29, 2006, the last trading day prior to disclosure of the initial offer by the Equity Investors to acquire Harrah s for $81.00 per share, was $66.43 per share. The $90.00 per share to be paid for each share of common stock in the merger represents a premium of approximately 35.5% to the closing sale price on September 29, 2006.

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. You can identify these statements by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. Further, statements that include words such as may, will, project, might, expect, believe, anticipate, intend, co estimate, continue or pursue, or the negative or other words or expressions of similar meaning, may identify forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement. These forward-looking statements, including without limitation, those relating to future actions, new projects, strategies, future performance, the outcome of contingencies such as legal proceedings and future financial results, wherever they occur in this proxy statement, are necessarily estimates reflecting the best judgment of our management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors set forth from time to time in our filings with the SEC. In addition to other factors and matters contained or incorporated in this document, these statements are subject to risks, uncertainties and other factors, including, among others:

- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement;
- the outcome of any litigation and judicial actions that have been or may be instituted against Harrah s and others relating to the merger agreement, including legislative action, referenda and taxation;
- the inability to complete the merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to consummation of the merger, including the inability of Parent and Merger Sub to obtain gaming or other regulatory approvals, as required by the merger agreement;
- the failure of the Equity Investors to obtain the necessary debt financing arrangements set forth in the commitment letters received in connection with the merger;
- the failure of the merger to close for any other reason;
- risks that the proposed transaction disrupts our current plans and operations, and the potential difficulties for our employee retention as a result of the announcement or completion of the merger;
- the effect of the announcement or completion of the merger on our customer relationships, operating results and business generally; and
- changes in laws, including increased tax rates, changes in regulations or accounting standards, third-party relations and approvals, and decisions of courts, regulators and governmental bodies;

and other risks detailed in our current filings with the SEC, including our most recent filings on Forms 10-Q and 10-K. See Where You Can Find More Information. You are cautioned to not place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement. We undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events, except as required by law.

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## THE PARTIES TO THE MERGER

**Harrah s**

*Harrah s Entertainment, Inc.*

One Caesars Palace Drive

Las Vegas, Nevada 89109

(702) 407-6000

Harrah s Entertainment, Inc., a Delaware corporation, is one of the largest casino entertainment providers in the world. As of December 31, 2006, Harrah s owned or managed through various subsidiaries 48 casinos, primarily in the United States and the United Kingdom. Our casino entertainment facilities operate primarily under the Harrah s, Caesars and Horseshoe brand names in the United States, and include land-based casinos, casino clubs, riverboat or dockside casinos, managed casinos on Indian lands, a combination thoroughbred racetrack and casino and a combination greyhound racetrack and casino.

For more information about Harrah s, please visit our website at www.harrahs.com. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated by reference. See also Where You Can Find More Information. Our common stock is publicly traded on the NYSE under the symbol HET. Our common stock is also listed on the Chicago Stock Exchange and the Philadelphia Stock Exchange.

**Parent**

*Hamlet Holdings LLC*

c/o Texas Pacific Group

301 Commerce Street, Suite 3300

Fort Worth, Texas 76102

(817) 871-4000

and

c/o Apollo Management V, L.P.

9 West 57th Street

New York, New York 10019

(212) 515-3200

Hamlet Holdings LLC, which we refer to as Parent, is a Delaware limited liability company that was formed solely for the purpose of acquiring Harrah s and has not engaged in any business except for activities incidental to its formation and as contemplated by the merger agreement. Parent is owned by the Equity Investors. The Equity Investors may ultimately include additional equity participants (who may include one or more holders of our common stock), subject to the limitations and conditions contained in the merger agreement.

**Merger Sub**

*Hamlet Merger Inc.*

c/o Apollo Management V, L.P.

9 West 57th Street

New York, New York 10019

(212) 515-3200

and

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c/o Texas Pacific Group

301 Commerce Street, Suite 3300

Fort Worth, Texas 76102

(817) 871-4000

Hamlet Merger Inc., which we refer to as Merger Sub, is a Delaware corporation that was organized solely for the purpose of completing the merger. Merger Sub is a wholly owned subsidiary of Parent and has not engaged in any business except for activities incidental to its formation and as contemplated by the merger agreement. Upon the consummation of the merger, if completed, Merger Sub will merge with and into Harrah s and thereby cease to exist and Harrah s will continue as the surviving corporation.

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## THE SPECIAL MEETING

### Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on April 5, 2007, starting at 8:00 a.m. local time, in the Roman Ballroom, Salon #3 at Caesars Palace, 3570 Las Vegas Boulevard South, Las Vegas, Nevada 89109, or at any postponement or adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote upon adoption of the merger agreement (and to approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies). Stockholders holding a majority of our outstanding common stock must adopt the merger agreement in order for the merger to occur. A copy of the merger agreement is attached as Annex A to this proxy statement. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about March 12, 2007.

### Record Date and Quorum

We have fixed the close of business on March 8, 2007 as the record date for the special meeting, and only holders of record of common stock on the record date are entitled to vote at the special meeting. On March 1, 2007, there were 187,110,174 shares of common stock entitled to be voted. Each share of common stock entitles its holder to one vote on all matters properly coming before the special meeting.

A majority of the outstanding shares of common stock entitled to vote at the special meeting constitutes a quorum for the purpose of considering the proposals. Shares of common stock represented at the special meeting but not voted, including shares of common stock for which proxies have been received but for which stockholders have abstained, will be treated as present at the special meeting for purposes of determining the presence or absence of a quorum for the transaction of all business. In the event that a quorum is not present at the special meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies.

### Vote Required for Approval

Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of common stock. For the proposal to adopt the merger agreement, you may vote FOR, AGAINST or ABSTAIN. Abstentions will not be counted as votes cast or shares voting on the proposal to adopt the merger agreement, but will count for the purpose of determining whether a quorum is present. **If you abstain, it will have the same effect as a vote AGAINST the adoption of the merger agreement.**

Under the rules of the NYSE, brokers who hold shares in street name for customers have the authority to vote on routine proposals when they have not received instructions from beneficial owners. However, brokers are precluded from exercising their voting discretion with respect to approving non-routine matters such as the adoption of the merger agreement and, as a result, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote those shares, referred to generally as broker non-votes. **These broker non-votes will be counted for purposes of determining a quorum, but will have the same effect as a vote AGAINST the adoption of the merger agreement.**

As of February 15, 2007, our directors and executive officers beneficially owned, and had the right to vote, in the aggregate, 859,167 shares of common stock, or approximately 0.5% of our outstanding shares of common stock. Our directors and executive officers have informed us that they intend to vote all of their shares of common stock FOR the adoption of the merger agreement and FOR any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

### Proxies and Revocation

If you submit a proxy by telephone or the Internet or by returning a signed proxy card by mail, your shares will be voted at the special meeting as you indicate on your proxy card or by such other method. If you sign your

proxy card without indicating your vote, your shares will be voted FOR the adoption of the merger agreement and FOR the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies, and in accordance with the recommendations of our board of directors on any other matters properly brought before the special meeting for a vote.

If your shares of common stock are held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. If you do not instruct your broker, bank or other nominee to vote your shares, it has the same effect as a vote AGAINST adoption of the merger agreement.

Proxies received at any time before the special meeting, and not revoked or superseded before being voted, will be voted at the special meeting. You have the right to change or revoke your proxy at any time before the vote taken at the special meeting:

- by delivering to our Corporate Secretary, Michael D. Cohen, at Harrah s Entertainment, Inc., One Harrah s Court, Las Vegas, Nevada 89119, a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;
- by attending the special meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting to revoke a prior proxy);
- by submitting a later-dated proxy card;
- if you voted by telephone or the Internet, by voting a later time by telephone or the Internet; or
- if you have instructed a broker, bank or other nominee to vote your shares, by following the directions received from your broker, bank or other nominee to change those instructions.

**Please do not send in your stock certificates with your proxy card.** If the merger is completed, a separate letter of transmittal will be mailed to you that will enable you to receive the Merger Consideration in exchange for your Harrah s stock certificates.

If you participate in the Company Stock Fund of the Harrah s Entertainment, Inc. Savings and Retirement Plan, you may give voting instructions to the Trustee by completing and returning the voting instructions that you will be receiving from the Trustee. Your instructions tell the Trustee how to vote the Plan Shares (which are those shares of common stock representing your proportionate interest in the Company Stock Fund which you are entitled to vote under the plan). Any such instruction will be kept confidential. The Trustee will vote your Plan Shares in accordance with your duly executed and delivered voting instructions. If you do not give the Trustee voting instructions, the Trustee will vote your Plan Shares as instructed by the investment committee under the plan or by a delegated member of such committee. Your voting instructions must be received by the Trustee by 5:00 p.m., New York time, on April 3, 2007. You will be provided instructions on how to deliver your voting instructions. You may revoke previously given voting instructions by 5:00 p.m., New York time, on April 3, 2007.

**Adjournments and Postponements**

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any adjournment may be made without notice, other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting. Whether or not a quorum exists, holders of a majority of the combined voting power of common stock present in person or represented by proxy at the special meeting and entitled to vote thereat may adjourn or postpone the special meeting. Any signed proxies received by Harrah s in which no voting instructions are provided on such matter will be voted FOR an adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow Harrah s stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

**Rights of Stockholders Who Object to the Merger**

Stockholders are entitled to statutory appraisal rights under Delaware law in connection with the merger. This means that you are entitled to have the value of your shares determined by the Delaware Court of Chancery and to receive payment based on that valuation. The ultimate amount you receive as a dissenting stockholder in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the merger agreement.

To exercise your appraisal rights, you must submit a written demand for appraisal to us before the vote is taken on the merger agreement and you must not vote in favor of the adoption of the merger agreement. Your failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. See Dissenters Rights of Appraisal and the text of the Delaware appraisal rights statute reproduced in its entirety as Annex D to this proxy statement.

**Solicitation of Proxies**

This proxy solicitation is being made and paid for by Harrah s on behalf of its board of directors. In addition, we have retained D.F. King & Co., Inc. to assist in the solicitation. We will pay D.F. King & Co., Inc. approximately $15,000 plus reasonable out-of-pocket expenses for their assistance. Our directors, officers and employees may also solicit proxies by personal interview, mail, e-mail, telephone, facsimile or other means of communication. These persons will not be paid additional remuneration for their efforts. We will also request brokers, banks and other nominees to forward proxy solicitation material to the beneficial owners of shares of common stock that the brokers, banks and nominees hold of record. Upon request, we will reimburse them for their reasonable out-of-pocket expenses related thereto. In addition, we will indemnify D.F. King & Co., Inc. against any losses arising out of that firm s proxy soliciting services on our behalf.

**Questions and Additional Information**

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please call D.F. King & Co., Inc. at (800) 735-3107.

## THE MERGER

*This discussion of the merger is qualified in its entirety by reference to the merger agreement, which is attached as Annex A to this proxy statement. You should read the entire merger agreement carefully as it is the legal document that governs the merger.*

### Background of the Merger

The Company regularly reviews and evaluates its business strategy with the goal of enhancing stockholder value. In January through March 2006, representatives of the Company met and had various exploratory discussions with representatives of TPG regarding the feasibility and potential value of separating the Company s real estate assets and business operations into separate businesses (a so-called PropCo/OpCo structure). In that context, TPG executed and delivered to the Company a confidentiality agreement appropriate to such discussions on February 3, 2006 and management kept our board of directors apprised of such discussions. However, such confidentiality agreement did not contain any standstill provisions.

In April 2006, the Company determined to not proceed with implementing a PropCo/OpCo structure and the discussions were terminated.

In early August 2006, representatives of Apollo contacted Charles Atwood, our Vice Chairman, to discuss Apollo s interest in exploring opportunities in the gaming industry, including opportunities with the Company. The conversations eventually involved discussion of the feasibility of a leveraged buyout of the Company, which was followed by several meetings between the parties later that month. During the same month, members of the Company s management held several meetings on the feasibility of a leveraged buyout of the Company with TPG. In late August 2006, Gary Loveman, our Chairman, Chief Executive Officer and President, advised one of the non-management members of our board of directors that preliminary private equity discussions were taking place.

On September 6, 2006, representatives of the Company, including Messrs. Atwood and Loveman, met with representatives of TPG to discuss the Company, its business and its operations. At such meeting, representatives of TPG stated that a transaction with the Company might require multiple private equity firms. Mr. Loveman advised TPG that management had conducted preliminary discussions with Apollo and that he had no objection to TPG contacting Apollo.

On September 7, 2006, the Company contacted its regular outside counsel, Latham & Watkins LLP ( Latham ), and retained such firm as the Company s outside counsel in connection with the discussions with Apollo and TPG.

On September 8, 2006, Apollo and a third private equity firm ( PE Firm #3 ) (which joined the discussions between Apollo, TPG and the Company) executed separate confidentiality agreements with the Company.

Between September 8 and 10, 2006, the Company provided various diligence materials to TPG, Apollo and PE Firm #3.

On September 12, 2006, representatives of TPG and Apollo delivered a preliminary due diligence request list to the Company.

On September 14 and 15, 2006, meetings were held at the Company s corporate offices among various Company representatives and various representatives of Apollo, TPG and PE Firm #3, joined by representatives of Cleary Gottlieb Steen & Hamilton LLP ( Cleary ), counsel for TPG, and Wachtell, Lipton, Rosen & Katz ( Wachtell ), counsel for Apollo, to discuss diligence matters concerning the Company.

On or about September 7, 2006, Mr. Loveman further advised the non-management member of the board of directors and advised one or more additional members of our board of directors of the interest of the private

equity firms in the Company. At the request of several board members, a special meeting of the board of directors was noticed on September 8, 2006 and held on September 19, 2006. At this meeting, the board of directors created a special committee to respond to the buyout proposal which Mr. Loveman indicated that he expected would be forthcoming from the private equity firms, and empowered the special committee to hire its own financial and legal advisors. The board of directors determined that establishing a special committee of non-management members of the board of directors was in the best interest of the Company and its stockholders to avoid any appearance of a conflict of interest. The special committee initially consisted of five members Robert G. Miller, R. Brad Martin, Stephen F. Bollenbach, Frank J. Biondi, Jr. and Barbara T. Alexander.

On September 19, 2006, a Company representative participated in a conference call with representatives of PricewaterhouseCoopers LLP ( PwC ), accounting advisors to the private equity firms, with respect to financial and accounting diligence related to the Company, its business and its operations. A legal diligence call between representatives of the Company and Cleary, Wachtell and PwC was held the following day.

On September 20, 2006, the special committee held its initial meeting with several additional non-management directors in attendance. Mr. Miller advised the members of the special committee that pursuant to its authority from the board of directors, he had interviewed possible legal and financial advisors. After discussion and review of their expertise, experience and independence with representatives of each of Kaye Scholer LLP ( Kaye Scholer ) and UBS, the special committee determined to engage Kaye Scholer as its legal advisor and, subject to negotiation of a satisfactory engagement letter, UBS as its financial advisor. Thereafter, representatives of Kaye Scholer reviewed with the special committee its fiduciary duties in connection with its consideration of a possible proposal by the private equity firms and the need for the special committee to have a clear mandate of its authority from the board of directors. The special committee also discussed the benefits of adding to the special committee any additional non-management director(s) who wished to join the special committee given the importance of the matters under consideration and the additional experience of the remaining non-management directors.

Also on September 20, 2006, representatives of Apollo and TPG met with representatives of the Company in Las Vegas to discuss a possible transaction.

On September 21, 2006, representatives of TPG toured the Company s facilities in Atlantic City with representatives of the Company.

On September 21 and 22, 2006, representatives of Cleary and Wachtell engaged in due diligence teleconferences with representatives of the Company and PwC.

From September 22, 2006 until October 4, 2006, representatives of Kaye Scholer and Latham had extensive negotiations with representatives of Cleary and Wachtell concerning the terms of proposed amended confidentiality agreements with standstill provisions with TPG and Apollo.

On September 22, 2006, with the consent of the special committee, representatives of PwC contacted the Company s outside accountants, Deloitte & Touche LLP ( Deloitte ) regarding financial and accounting due diligence.

On September 25, 2006, the board of directors received a letter from Apollo and TPG (collectively, the sponsors ) in which they proposed to acquire 100% of our outstanding common stock for a cash purchase price of $81.00 per share. The proposal stated that it was not subject to further due diligence or a financing condition. The letter proposal was accompanied by debt commitment letters from three financial institutions in an aggregate amount that would have exceeded the amount necessary to consummate the proposed debt financing for the transaction (and such debt commitment letters were subject only to a customary Company material adverse effect condition to be conformed to the definitive merger agreement) and a draft merger agreement. In the letter, the

sponsors stated that they were being advised by Deutsche Bank, as well as Cleary, Wachtell and Frank Schreck of the law firm Schreck Brignone (Mr. Schreck was advising as to gaming regulatory matters). The letter stated that it did not constitute a binding commitment by TPG and Apollo and that such commitment would be subject to execution of definitive agreements. PE Firm #3 was not a party to the proposal and did not participate thereafter.

The board of directors met by telephone conference call on September 26, 2006 with the management members of the board not in attendance. At the meeting, the special committee was expanded to consist of all nine non-management members of the board of directors and the special committee s authority was clarified to include the authority to consider and, as it deemed appropriate, pursue and enter into negotiations with respect to a potential strategic transaction with the sponsors or any third party or to determine not to pursue or to abandon any such transaction or negotiations. The board of directors resolved that the special committee would be responsible for conducting, pursuing and negotiating all aspects of a transaction, if any, on behalf of the Company and would have the full power of the board of directors subject to any mandatory limitations under Delaware law. It was the view of the non-management members of the board of directors that, in order to avoid any appearance of a conflict of interest, management should not be involved in negotiations with the sponsors unless requested by the special committee and that any negotiations should be held by the special committee and its independent financial and legal advisors.

The special committee met by telephone immediately after conclusion of the September 26, 2006 meeting of the board of directors. At such meeting, the special committee formally retained Kaye Scholer as its legal advisor and, subject to negotiation and execution of an approved engagement letter, UBS as its financial advisor. In addition, Messrs. Miller and Martin were appointed as Co-Chairmen of the special committee in light of the increased size of the special committee and the need to designate a smaller subset of the special committee to be able to take action between meetings. Representatives of Kaye Scholer reviewed with the special committee its fiduciary duties in connection with its consideration of the sponsors proposal and any alternatives thereto. The special committee confirmed its belief that each of the members of the special committee was independent and disinterested with respect to the Company and the sponsors. The special committee discussed the sponsors proposal and a preliminary list of third parties identified by UBS who might be interested in a transaction with the Company. The special committee determined to perform an analysis of the Company, the sponsors proposal and the Company s alternatives before it would respond. Accordingly, the special committee instructed UBS to perform a series of analyses including those described more fully under The Merger Opinions of Financial Advisors Opinion of UBS Securities LLC. The special committee noted that one of the sponsors financial advisors had acted as the Company s financial advisor on other matters and the sponsors gaming regulatory counsel had provided regulatory gaming advice to the Company. The special committee adopted certain guidelines and instructions for the sponsors and Company management for an orderly process including that the sponsors should not enter into any exclusivity agreements with financing sources. After delivering these guidelines and instructions on September 26, and September 27, 2006, the special committee s financial and legal advisors were advised that the sponsors had previously entered into exclusivity agreements with six financial institutions, including the three financial institutions that were named in their proposal.

On the evening of October 1, 2006, Mr. Loveman advised the Co-Chairmen that he had been approached by a reporter seeking comments for a news article that was going to be published in the financial press on October 2, 2006 to the effect that private equity suitors, naming TPG, were close to a deal to buy the Company. Following discussion among Mr. Loveman, other members of the Company s management, the Co-Chairmen and the Company s and the special committee s counsel, early on October 2, 2006, the Company issued a press release stating that the Company had received a proposal from Apollo and TPG to acquire all of our outstanding common stock for $81.00 per share, and that a special committee had been formed and had selected its own financial and legal advisors. The press release also stated that the special committee had not determined that a transaction was in the best interest of the Company or its stockholders or that the Company should not continue as an independent public company pursuing its business plan as the world s largest provider of branded casino entertainment.

In connection with the public disclosure of the sponsors proposal, the special committee instructed UBS to respond to calls and initiate discussions with third parties regarding their level of interest in proceeding with a

strategic transaction with the Company in the event the special committee determined that the Company should pursue a strategic transaction. The special committee did not authorize UBS to conduct a formal auction since it had not made a determination to proceed with a change-in-control transaction.

From early October 2006 through execution of the merger agreement, UBS contacted or had discussions with approximately 30 third parties (including both strategic and financial parties). UBS discussed the results of these contacts with the special committee at various meetings of the special committee.

On October 4, 2006, a representative of Kaye Scholer initiated a conference call with Stephen Brammell, the Company s General Counsel, and Frank Schreck in which Mr. Schreck discussed the structure of the proposed buyout vehicle and his views as to various regulatory matters in connection with the sponsors proposal.

Also on October 4, 2006, each of the sponsors executed and delivered to Kaye Scholer amended confidentiality agreements containing, among other things, standstill provisions. On that date, the sponsors sent a letter to the special committee indicating that, at the request of the special committee, they had released each of their six financing sources from their exclusivity obligations to them and that the sponsors would not enter into additional exclusive arrangements with financing sources without the special committee s consent. On October 5, 2006, the sponsors delivered signed letters addressed to each of the six financial institutions releasing them from any exclusivity obligations to the sponsors with respect to a transaction with the Company. On such date, the Company s stockholders rights plan expired in accordance with its terms.

On October 5, 2006, the board of directors and the special committee each held meetings in Los Angeles, California at the offices of Latham, the Company s outside counsel. The full meeting of the board of directors commenced with an executive session with management and non-management directors but no other persons in attendance. At the executive session, the management directors reviewed the time-line with respect to the history of the discussions between management and the sponsors. The members of the board of directors also then discussed various aspects of the Company s operations not directly related to the special committee s review of the sponsors proposal, including the negative impact on the Company s Las Vegas master capital plan from increased construction costs and the fact that management had determined not to go forward with submitting a bid for a casino site at Sentosa Island in Singapore.

Following the conclusion of the executive session, the Company s senior management team, including division presidents, made presentations to the board of directors on the Company s ten-year plan, including an updated base case for the balance of 2006 and 2007 which was revised from the July 2006 plan in light of the proposed acquisition by the Company of London Clubs International plc and recent business activity, as well as an updated base case showing additional capital expenditures for long-term growth. Management members provided an update on the Company s capital activities and discussed the negative impact of the Company s recent debt rating downgrade which had occurred after disclosure of the sponsors proposal.

At the special committee meeting on October 5, 2006, following approval of the UBS engagement letter, UBS provided its preliminary financial presentation on the sponsors proposal, including market perspectives and preliminary valuation framework, including the ability of the sponsors to maximize leverage on the Company s assets due to the current conditions in the commercial mortgage backed securities ( CMBS ) market. The special committee generally discussed a number of possible strategic alternatives to a transaction with the sponsors, including a leveraged recapitalization and a PropCo/OpCo reorganization of the Company and described UBS preliminary discussions with potential third party strategic and financial buyers, a number of whom did not wish to be subjected to licensing by regulatory authorities. Upon conclusion of the UBS presentation, the special committee discussed the sponsors $81.00 per share proposal in detail, taking into account, among other factors, management s view that the price was inadequate, and the recommendation of UBS as to the special committee s response. The special committee determined to reconvene by telephone conference the following day to allow the members of the special committee to reflect on the various matters discussed at the meeting.

At its meeting on October 6, 2006, the special committee unanimously resolved to reject the sponsors proposal. The special committee determined to continue to actively inform itself as to its strategic alternatives

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including continuing as an independent public company. At the meeting, Kaye Scholer also provided an update on the first of several lawsuits filed against the Company and the members of the board with respect to the sponsors proposal. For more information regarding these lawsuits, please see Litigation Related to the Merger.

From October 6, 2006 through October 8, 2006, representatives of UBS had discussions with various representatives of the sponsors concerning the special committee s determination to reject the sponsors proposal.

During the first week of October 2006, UBS received a call from representatives of a strategic party operating in the gaming business ( Company B ) to the effect that Company B might be interested in submitting a proposal for a strategic transaction with the Company.

The special committee met by telephone on October 9, 2006, at which meeting representatives of UBS updated the special committee on discussions with representatives of the sponsors concerning the special committee s rejection of their proposal and the contact by Company B. Members of the committee resolved to hold a two-day in-person meeting in Memphis the following week to review the Company s strategic alternatives in detail. During such meeting, representatives of UBS informed the special committee that one of UBS managing directors is an outside member of the board of directors of Company B and the special committee was satisfied on the basis that such individual was not and would not be involved in the representation of the special committee.

On October 9, 2006, after the conclusion of the special committee meeting, the special committee received a letter from the sponsors containing a revised buyout proposal which increased the offer price to $83.50 per share in cash. The revised proposal also stated that the sponsors were willing to provide what the sponsors believed was an additional $2.00 per share in value by permitting the Company to maintain its regular quarterly dividend of $0.40 per share through November 2007. (Under the draft merger agreement provided by the sponsors on September 25, 2006, the Company would have been permitted to make only two quarterly dividend payments of $0.40 per share). According to the letter, the revised proposal represented a significantly higher premium than the final premiums in the HCA, Kinder Morgan and Univision transactions to compensate the Company s stockholders for the fact that the regulatory process would extend past the typical period to close in transactions of this type. The letter contrasted the alternative of a leveraged recapitalization which the sponsors argued would exacerbate investor concerns about the level of the Company s capital expenditures and the returns associated with those expenditures. The letter referenced the sponsors willingness to immediately enter into discussions, as part of an overall dialogue, to resolve in a mutually acceptable way the regulatory aspects of the offer in order to minimize and allocate attendant risks, including the risk of delay.

On October 11, 2006, a major newspaper reported that the sponsors had raised their bid to acquire the Company to between $83 and $84 per share but that the Company s advisors had signaled that the offer would need to be even higher. On such date, Kaye Scholer sent a letter to Cleary and Wachtell raising the special committee s concerns about maintenance of confidentiality in the process. Cleary and Wachtell sent a letter to Kaye Scholer the same day which stated the sponsors had kept discussions with the special committee and the Company in confidence and planned to continue to proceed with the special committee in confidence. On October 11, 2006, a representative of UBS had dinner with the Chief Executive Officer of Company B (the Company B CEO ) and a member of the board of directors of Company B.

On October 12 and 13, 2006, the special committee met at the offices of Mr. Martin in Memphis, Tennessee. At the meetings, the special committee discussed the sponsors revised proposal. UBS discussed, without rendering any opinion, its preliminary financial analysis comparing strategic alternatives, including the sponsors most recent proposal, a leveraged recapitalization both with and without a minority equity component (a sponsored recapitalization ), potential asset sales, public and private PropCo/OpCo structures and the substance of various contacts between UBS and third party strategic and financial buyers. UBS advised the special committee that it had been advised that Company B was working with two major investment banking firms to assist in its review of the Company. After deliberation, the special committee instructed UBS to work with Company management to further explore the leveraged recapitalization alternative as well as to analyze the value to stockholders of potentially splitting the Company into separate high-end and middle market gaming

companies. The special committee also instructed UBS to inform the sponsors that their revised proposal was not at a level sufficient for the special committee to engage with them generally but that the special committee s advisors were authorized to have a discussion on regulatory matters as the sponsors had suggested in their revised proposal letter.

At a brief meeting by teleconference on October 13, 2006, the board of directors approved the Company s third quarter dividend of $0.40 per share and, at the recommendation of the special committee, increased the meeting fees payable to individual members of the special committee to $6,000 in cash per meeting (from $3,000 per meeting), in light of the amount of work being performed by members of the special committee.

On October 13, 2006 and October 15, 2006, representatives of UBS had discussions with representatives of the sponsors with respect to the special committee s response to the sponsors revised proposal.

On October 17, 2006, representatives of Kaye Scholer participated in a conference call with representatives of Cleary and Wachtell to discuss regulatory matters. Cleary and Wachtell advised Kaye Scholer that the sponsors were not willing to engage on substantive matters relating to regulatory issues without client participation as part of an overall dialogue.

The special committee met by telephone on October 17, 2006. Representatives of UBS updated the special committee on discussions with the sponsors and with Company B and an additional strategic third party ( Company C ). UBS advised the special committee that the Company B CEO had notified UBS that Company B likely would be submitting a proposal concerning a strategic transaction with the Company. The special committee requested Kaye Scholer to prepare and negotiate confidentiality agreements with standstill provisions with the third parties.

On October 20, 2006, the Company announced the terms of its increased cash offer to purchase the outstanding shares of London Clubs International plc, as previously authorized by the board of directors, following additional analysis and recommendation by the Company s management.

At the meeting of the special committee by telephone conference call on October 20, 2006, Mr. Martin updated the special committee on his recent meeting with Mr. Loveman, and reported that it was Mr. Loveman s view that the Company s assets should remain together and not be split-up in light of the value and benefit generated from the Total Rewards Program. A representative of UBS updated the special committee on UBS discussions with Company B and Company C, and the recent meetings held by UBS with management to review the leveraged recapitalization alternative.

Later the same day, representatives of UBS and Kaye Scholer met with representatives of TPG and, by telephone, with representatives of Cleary and Wachtell, in response to the position taken by the sponsors that further regulatory discussions needed to include client participation. The representatives of TPG present at the meeting stated that they desired to engage on the terms of the overall transaction, both economic and contractual. UBS and Kaye Scholer responded that the special committee had not authorized them to engage generally with the sponsors at the price level of their most recent proposal but believed it would be useful to discuss the framework for the sponsors bid, including their view as to the acceptability of increasing the price per share by an interest factor if closing of the transaction were delayed beyond a certain date (a ticking fee ), the continuation of quarterly dividends throughout the entire period until closing and the level of break-up and reverse break-up fees. Representatives of TPG provided feedback to representatives of UBS on these matters in subsequent calls over the next few days.

On October 23, 2006, a representative of Company B advised UBS that Company B had decided not to move forward with a proposal for a strategic transaction with the Company due to the limited time-frame to respond and in light of the complexity and large size of the transaction.

The special committee met by telephone on October 26, 2006. Representatives of UBS provided an update on discussions with third parties including Company C, as well as an additional third party with industry

background ( Party D ) and a leading hedge fund. The special committee discussed certain alternatives available to the Company including not proceeding with a transaction and a leveraged recapitalization followed by a second step sale of the Company at a later date (a so-called leveraged sale ). The special committee determined that, given the importance of regulatory issues, management should be requested to make a full presentation to the special committee on the regulatory aspects of a transaction at a meeting in early November 2006.

On October 27, 2006, as instructed by the special committee, Kaye Scholer provided a markup of the sponsors draft merger agreement to Cleary and Wachtell.

The special committee met by telephone on October 31, 2006. Representatives of UBS provided an update on discussions with third parties. Company C was unwilling to sign a standstill and was reviewing a possible transaction in light of public information only. Party D had advanced the concept of an equity investment by Party D in the Company as part of a leveraged recapitalization and having a role in management. The special committee discussed the leveraged recapitalization alternative and agreed that such alternative should be discussed with Mr. Loveman on November 7, 2006. The special committee also discussed the possibility of substantially increasing the Company s regular cash dividend as an additional alternative.

On November 2, 2006, representatives of Kaye Scholer and UBS met with representatives of Cleary and Wachtell in Los Angeles to discuss regulatory matters and conceptual issues in the draft merger agreement.

In early November 2006, representatives of UBS and Company B engaged in various discussions in which UBS was advised as to Company B s continuing interest in pursuing a strategic transaction with the Company notwithstanding its earlier communication to the contrary. On November 6, 2006, Company B submitted to UBS a priority due diligence request list.

On November 7, 2006, UBS received a letter from the sponsors on certain major regulatory and contract issues being discussed by the parties, together with a draft gaming regulatory presentation. The sponsors letter indicated that the sponsors were willing to agree to an unspecified ticking fee that would increase the per share price paid to stockholders if timing moved beyond an agreed date. However, the letter indicated that in light of the public disclosure of a possible transaction almost six weeks before, the sponsors believed that the go-shop period provided in the sponsors draft merger agreement in which the Company could actively market the Company after signing an agreement with the sponsors was no longer necessary.

The special committee met in Las Vegas, Nevada on November 8, 2006, following completion of the meeting of the full board of directors on the previous day. Representatives of UBS, Kaye Scholer and A.J. ( Bud ) Hicks of McDonald Carano Wilson LLP, regulatory counsel to the special committee, attended. Members of management of the Company attended the meeting, and Mr. Brammell and Mr. Hicks made presentations to the special committee on gaming regulatory matters, and discussed their estimated time-frame for obtaining regulatory approval for a sponsors transaction. After members of the management left the meeting, representatives of UBS provided an update on discussions with third parties. The special committee also discussed the leveraged recapitalization alternative and the possible impact on the price per share of management s proposed reduction of annual operating expenses. UBS advised the special committee that these cost savings had largely been taken into account in the financial models reviewed by the special committee and likely had been taken into account by the sponsors as well.

On November 13, 2006, Company B and the special committee, on behalf of the Company, executed a mutual confidentiality and standstill agreement. On such date, Messrs. Martin, Miller and Horn, together with Mr. Moelis and another representative of UBS, had a dinner meeting with the Company B CEO and one other representative of Company B in Memphis, Tennessee.

On November 14, 2006, Messrs. Martin and Miller and representatives of UBS had a teleconference with representatives of the sponsors in which the sponsors made a regulatory presentation based on revised regulatory discussion materials, which were subsequently circulated to the full special committee.

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The special committee met by telephone on November 15, 2006. The special committee members who had not met with the Company B CEO each agreed to meet in the near future with him. UBS provided additional analysis of the sponsors proposal without rendering any opinion. After discussion, as requested by the sponsors, the special committee authorized allowing the sponsors to contact certain specific mezzanine financing sources so long as it was on a non-exclusive basis.

On November 15, and 16, 2006, representatives of Kaye Scholer, Cleary and Wachtell had teleconferences to discuss the draft merger agreement in greater detail.

On November 16, 2006, members of the Company s management met in Las Vegas, Nevada with representatives of the sponsors and UBS to provide due diligence updates.

On November 17, 2006, members of the Company s management and UBS met in Las Vegas, Nevada with representatives of Company B with respect to due diligence matters relating to the Company. Cleary and Wachtell provided Kaye Scholer with a revised draft of the sponsors merger agreement reflecting the discussions earlier in the week and other concessions they proposed to make in response to Kaye Scholer s mark-up of such merger agreement.

On November 17 and 20, 2006, Mr. Loveman and the Company B CEO had several telephone discussions which were arranged by UBS.

The special committee met by telephone on November 21, 2006. Representatives of Kaye Scholer updated the special committee on certain legal matters. Representatives of UBS updated the special committee on the separate discussions with representatives of the sponsors, Company B and the Company s management. The special committee discussed a process and timetable for proceeding with its continued engagement with both the sponsors and Company B.

In late November 2006, several press reports indicated that Company B was considering making a proposal to acquire the Company.

On November 27, 2006, Mr. Loveman and the Company B CEO met in Atlantic City, New Jersey. That evening, Messrs. Biondi and Bollenbach and a representative of UBS had a dinner meeting with the Company B CEO in Los Angeles, California.

Also on November 27, 2006, Company B delivered a letter to the special committee affirming Company B s strong interest in pursuing a strategic combination of the Company with Company B. Based upon its due diligence through such date, the letter stated that Company B was prepared to offer the Company s stockholders $71.00 per share in cash plus a fixed exchange ratio of 0.4079 shares of Company B common stock for each share of our common stock for a combined value as determined by Company B of $87.00 per share. The November 24, 2006 closing stock price of Company B s common stock was $39.23. Company B s letter stated that it had preliminary funding commitments from several established financing sources and that the proposal was subject to completion of due diligence and the negotiation of definitive documents.

On November 28, 2006, representatives of Company B and its advisors met in Las Vegas, Nevada with the Company s management and representatives of UBS and Kaye Scholer for a diligence discussion about the Company. Representatives of Company B and its advisors continued their diligence review of the Company in Las Vegas, Nevada through and including December 10, 2006.

On November 28, 2006, as authorized by the special committee, UBS sent a bid process letter to each of the sponsors and Company B. The letters specified 5:00 pm Pacific Standard Time on December 12, 2006 as the submission deadline for offers to acquire 100% of the capital stock of the Company and requested that each prospective bidder submit (i) a binding, written offer remaining open until December 22, 2006, (ii) a detailed description of funding sources including commitment letters and (iii) a copy of the form of merger agreement to be circulated by Kaye Scholer marked with any proposed changes.

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On November 29, 2006, Mr. Schreck, regulatory counsel for the sponsors, sent a letter to the special committee in which he indicated that he wished to address what he understood to be the special committee s concerns with respect to regulatory matters in light of his views as to the certainty of regulatory approval and his long relationship with the Company. Mr. Schreck referenced his understanding that the special committee was considering a potential transaction with Company B and stated his view as to probable timing of each of the two proposals and his conclusion that the sponsors proposal did not have an overall relative regulatory disadvantage and in fact benefited from certain regulatory advantages over a proposal from Company B.

The special committee met by telephone on November 29, 2006. UBS advised the special committee that the Company s management expected to continue its analysis of a potential leveraged recapitalization begun at the request of the special committee. Although the special committee was already considering management s analysis of the leveraged recapitalization alternative, the special committee agreed that management should perform further analyses in conjunction with the special committee s consideration of the Company s alternatives.

On November 30, 2006, representatives of UBS, Kaye Scholer, Latham and PwC met in the vicinity of Company B s principal offices with representatives of Company B, and its outside financial, legal and accounting advisors for a due diligence discussion relating to Company B. UBS, Kaye Scholer, Latham and PwC continued their diligence review of Company B through December 12, 2006.

On November 30, 2006, UBS distributed to Company B a draft merger agreement prepared by Kaye Scholer. Ms. Alexander and Christopher J. Williams, together with a representative of UBS, held a meeting with the Company B CEO. Timothy Wilmott, then Chief Operating Officer of the Company, and the Company B CEO had a dinner meeting.

On December 1, 2006, representatives of Cleary and Wachtell sent a letter to representatives of Kaye Scholer requesting a copy of any diligence information provided to other parties in connection with the process, referencing press reports that other parties were performing extensive diligence with respect to the Company. A representative of Kaye Scholer subsequently responded that the sponsors had already been provided with updated diligence about the Company and that the special committee would instead respond to specific information requests from the sponsors.

On December 1, 2006, UBS distributed to the sponsors a draft merger agreement revised by Kaye Scholer. In addition, the Company s management submitted requests for financing proposals to seven banks in connection with a potential leveraged recapitalization of the Company.

On December 5, 2006, representatives of the Company, the special committee s advisors, Company B and its advisors met in Las Vegas, Nevada for a due diligence discussion concerning Company B. Representatives of UBS, Kaye Scholer and Company B s legal advisors held a teleconference call to discuss certain tax matters. Also on December 5, 2006, the Company s management received preliminary financing bids from six banks to finance a leveraged recapitalization.

On December 6, 2006, representatives of Kaye Scholer, Cleary and Wachtell held a teleconference call to discuss certain matters raised by Cleary and Wachtell concerning the revised draft merger agreement with the sponsors.

On December 7, 2006, Mr. Hicks had a teleconference call with representatives of Company B to discuss certain gaming regulatory matters in connection with Company B s proposal, following similar discussions which Mr. Hicks had initiated with Mr. Schreck and representatives of TPG and Apollo concerning the sponsors proposal.

The special committee met by telephone on December 8, 2006. The Co-Chairmen raised the possibility of the special committee seeking a second fairness opinion from an investment banking firm that would not be paid a contingent success fee upon closing of a transaction should the special committee determine to recommend a transaction to the full board of directors. The special committee discussed the matter and authorized the Co-Chairmen to pursue and engage a second investment banking firm for such purposes.

On December 8, 2006, Company B s counsel sent to Kaye Scholer a revised draft of the merger agreement previously sent to Company B.

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On December 10, 2006, Kaye Scholer and counsel to Company B had a telephone conference to discuss the draft Company B merger agreement. On such date, Mr. Martin contacted a representative of PJSC to request that PJSC provide a second opinion as to the fairness from a financial point of view to the holders of our common stock of the consideration proposed to be received by such holders in connection with the proposed transaction in the event that the special committee reasonably expected that it would recommend to the full board of directors that Harrah s enter into a transaction, and, if requested by the special committee prior to the closing of the merger, an opinion as to the solvency, or lack thereof, of the surviving corporation in the merger, based on the assumption that the closing of the merger will occur. Following these discussions and during the following week, representatives of PJSC held several discussions with representatives of the Company, the special committee and UBS and entered into an engagement letter with the special committee.

On December 12, 2006, UBS received bid packages from each of the sponsors and Company B. The sponsors proposed to acquire 100% of the outstanding shares of common stock for $88.50 per share in cash. The proposal was accompanied by debt commitment letters from three major lending institutions, the form of equity commitment letter from the sponsors and the form of limited guarantee from the sponsors in addition to a markup of the draft merger agreement previously provided by Kaye Scholer. The proposal was to expire by its terms on December 22, 2006.

In its bid submission on December 12, 2006, Company B proposed to pay $71.00 in cash (without any ticking fee) and 0.4079 shares of Company B common stock, subject to a cash/stock-election mechanism, for each share of our common stock. Company B valued its proposal at $86.92 per share of our common stock based upon the December 12, 2006 closing stock price of Company B s common stock of $39.04. Company B s proposal stated that it was fully funded and not subject to a financing condition and further stated that Company B was highly confident of its ability to secure all required approvals, likely within 9-12 months. Its proposal was accompanied by debt commitment letters from two major lending institutions as well as a markup of the draft merger agreement previously provided by Kaye Scholer. Company B also previously had provided certain financial projections, which the special committee considered in its analysis of Company B s offer. The proposal was to expire by its terms on December 22, 2006.

The special committee met on December 13, 2006 at UBS offices in New York City. Kaye Scholer outlined to the special committee its fiduciary duties in the context of the various strategic alternatives before the special committee. UBS described the principal financial and business terms of such proposals. Kaye Scholer described the principal legal terms of the two proposals. Representatives of UBS reviewed, without rendering any opinion, and the special committee discussed, UBS financial presentation materials with respect to the Company s market performance, a valuation analysis of the Company and financial analysis of each proposal. Members of the Company s senior management then joined the meeting and provided, as requested by the special committee, a report on the results of management s diligence review of Company B. The Company s senior management discussed their views of the advantages and disadvantages of a combination with Company B. Members of the Company s management described their views as to the regulatory process, including time to close, of a transaction with Company B versus a transaction with the sponsors as well as in the case of a stand-alone leveraged recapitalization.

After members of the Company s management left the meeting, the Company B CEO and Company B s chief corporate development officer joined the meeting. They provided an overview of Company B and of the Company B proposal. Thereafter, additional members of Company B s management and outside financial and legal advisors joined the meeting and made a presentation and answered questions from the special committee and its advisors.

The special committee reconvened on December 14, 2006 in UBS s office in New York City. At their request, Leon Black, Marc Rowan and Eric Press of Apollo, David Bonderman and Karl Peterson of TPG and the sponsors regulatory counsel, Mr. Schreck, joined the meeting. The representatives of the sponsors provided an overview of the sponsors, their proposal for the transaction and key regulatory considerations.
Mr. Schreck stated

that he was highly confident that the sponsors transaction would be promptly approved by all applicable gaming regulatory authorities. After answering various questions, the representatives of the sponsors left the meeting.

Senior Company management then joined the meeting and presented the strategic alternative developed by management of a leveraged recapitalization involving a $33.00 per share special dividend to the Company s stockholders based on the financing proposals that had been received from various banks. Management stated that it believed that the plan, which would result in leverage equal to 7.2 times EBITDA, was the optimal leveraged recapitalization plan for the Company under public ownership. Management discussed certain legal and execution risks associated with such plan. After answering various questions, the Company s management left the meeting.

The special committee then considered and discussed the various relative benefits and risks of the sponsors $88.50 cash proposal, Company B s $86.92 cash and stock proposal and management s leveraged recapitalization plan. The special committee discussed the fact that the value of the sponsors offer, payable entirely in cash, was straightforward, although the special committee believed that such value could be increased and that several issues were open concerning the terms of such offer. With respect to Company B s offer, the special committee noted that each member of the special committee had met individually with Company B s CEO and had been favorably impressed. The special committee discussed various issues related to Company B s offer, including its lower cash value and the uncertain value of the stock component of the offer, the fact that any increase in the offer would be partially borne by the Company s stockholders who would hold approximately one-half of the stock of the surviving corporation and the special committee s concerns about the risk of Company management turnover in the event of a transaction with Company B as well as risks related to obtaining antitrust approvals. The special committee did not view the strategic alternative of a stand-alone leveraged recapitalization as compelling relative to a transaction with the sponsors or Company B, and expressed concerns about the long-term viability of effectuating a leveraged recapitalization, potential disruption in the Company s stockholder base and the risk that the plan would not be appropriately rewarded in the public markets.

After deliberation, the special committee instructed UBS to advise the sponsors that the special committee was prepared to move forward to negotiate a definitive agreement with the sponsors immediately if certain changes to their proposal were agreed to by the sponsors, including increasing the purchase price to $91.00 per share, commencing the ticking fee 12 months after signing (instead of April 2008 as the sponsors had proposed) and the sponsors agreement to a $500 million reverse break-up fee (in lieu of the $300 million fee that the sponsors had proposed) in the event of termination of the merger agreement with respect to financing matters as well as in the case of termination for regulatory non-approval (which the sponsors had been unwilling to agree to). Representatives of UBS left the meeting to contact the sponsors and, upon their return, informed the special committee that the sponsors were prepared to increase their offer price to $90.00 per share in cash as their absolute best and final price and to make certain other concessions requested by the special committee, including agreeing to a reciprocal break-up and reverse break-up fee of $500 million. However, the sponsors were unwilling to agree to any regulatory reverse break-up fee other than their willingness to confirm the accuracy of their proposed representations and warranties concerning licensing matters.

After further deliberation, the special committee directed UBS to advise the sponsors that their position on the lack of a regulatory reverse break-up fee was unacceptable and that the special committee required a satisfactory resolution on such matter. Representatives of UBS again left the meeting and had further discussions with representatives of the sponsors. Upon their return, they informed the special committee that the sponsors were prepared to agree to a $250 million regulatory reverse break-up fee subject to certain contractual language being agreed upon. After discussing the proposed compromise, the special committee determined to proceed with completing negotiation of a definitive merger agreement with the sponsors.

Commencing in the evening on December 14, 2006 and continuing through the morning of December 17, 2006, representatives of the Company, UBS, Kaye Scholer and Latham met at the offices of Wachtell in New York City with representatives of the sponsors, Cleary and Wachtell to negotiate the terms of the merger agreement, the equity commitment letters and the limited guarantees from the sponsors.

On December 17, 2006, immediately prior to a scheduled meeting of the special committee, representatives of the sponsors contacted representatives of UBS relaying compromise positions on certain of the then principal open business and legal issues in the merger agreement.

On December 17, 2006, the special committee met by telephone. The special committee discussed the sponsors proposal on the major open items and certain possible compromises. The special committee provided instructions to UBS and Kaye Scholer on how to proceed on such matters. UBS reviewed with the special committee its financial analysis of the $90.00 per share merger consideration from a financial point of view, without rendering any opinion.

On December 17, and 18, 2006, representatives of the Company, UBS, Kaye Scholer and Latham met with representatives of the sponsors, Cleary and Wachtell in New York City to negotiate and finalize the terms of the merger agreement and related documents.

During the late afternoon of December 18, 2006, Company B submitted a revised proposal to UBS to increase the cash consideration per share payable to the Company s stockholders by up to $2.13 per share in the event of future excess insurance recoveries by the Company above a specified level, but otherwise maintaining the same fixed exchange ratio of shares of Company B common stock issuable for each share of our common stock. The Company B revised proposal stated that the aggregate value to the Company s stockholders in the revised proposal could be as high as $89.95 per share based on the full recovery of excess insurance proceeds at the current market price of the Company B common stock (which had increased after the date of the original offer). The supplemental proposal also included an unspecified ticking fee commencing 11 months after signing. By its terms, the supplemental proposal provided that it would automatically expire as of 9:00 am Eastern Daylight Saving Time on December 19, 2006.

On December 19, 2006, subsequent discussions ensued between a representative of UBS and Mr. Martin with the Company B CEO and between a representative of UBS and Company B s financial advisor in which Company B broached the possibility of further increasing the cash portion of the consideration by up to $200 million (or approximately $1.03 per share) to the extent the Company were able to cut planned capital expenditures in 2007 by such amount.

The special committee met by telephone on December 19, 2006. A representative of UBS and Mr. Martin updated the special committee on the December 18, 2006 letter from Company B and the subsequent discussions with representatives of Company B. A representative of UBS reported to the special committee that Company B s financial advisor had indicated to UBS that if the benefit of certain excess insurance proceeds and capital expenditure reductions were achieved, without any decline in Company B s stock price, this could result in a purchase price slightly in excess of $90.00 per share. The representative of UBS advised the special committee that (1) UBS believed that Company B s assumptions, as discussed with Company B s financial advisor, with respect to the estimated amount of realizable insurance proceeds reflected a significantly greater amount of proceeds than the amount the Company anticipated it would receive, and (2) UBS noted the Company s stockholders would receive approximately one-half of the benefit of any proceeds under Company B s initial proposal. Such representative further noted that any positive adjustments to the $71.00 per share cash portion of the offer could not be assured and any decline in Company B s stock price (which price had increased following press reports that the Company was being sold to the sponsors as opposed to Company B) would result in a further decrease in the proposed Company B per share purchase price. After deliberation, the special committee determined to continue to move forward with the sponsors offer, in light of the absence of a binding supplemental offer from Company B, the uncertain price level and contingent value of certain elements of Company B s revised proposal (which could ultimately represent substantially less than $90.00 per share), the fact that any deal with Company B would still need completion of negotiations which would likely take a not insignificant amount of time, and the desire not to jeopardize a fully negotiated deal with the sponsors, whose proposal was set to expire on December 22, 2006. A representative of Kaye Scholer then reviewed the resolution of the principal open issues in the merger agreement with the sponsors and the terms generally of the merger

agreement and related documents. Members of the Company s senior management, including Messrs. Loveman and Atwood, and representatives of Latham, the Company s outside counsel, joined the meeting. After a brief update for the benefit of management of the recent developments with Company B, UBS rendered its oral opinion to the special committee, which opinion was subsequently confirmed in writing, to the effect that as of the date of such opinion, based upon its analysis and subject to customary assumptions and disclaimers, the Base Merger Consideration to be received by the holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) in the merger was fair, from a financial point of view, to such holders.

Representatives of PJSC then joined the meeting. The representatives of PJSC discussed with the special committee PJSC s qualifications, experience and independence with respect to the proposed transaction and reviewed with the special committee PJSC s analyses of the proposed merger. PJSC also rendered its oral opinion to the special committee, which opinion was subsequently confirmed by delivery of a written opinion, to the effect that, based upon and subject to various assumptions made, matters considered and limitations set forth in such opinion, as of December 19, 2006, the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger was fair from a financial point of view to the holders of the our common stock.

Upon inquiry from the special committee, Mr. Loveman, on behalf of the Company management, advised the special committee that management was in favor of the transaction with the sponsors. The Company s senior management and Latham then left the meeting.

After considering the terms of the proposed merger agreement with the sponsors and other related transaction documents and the various presentations of financial and legal advisors and the Company s management, the special committee unanimously resolved that the proposed merger with the sponsors was advisable and in the best interest of the Company and its stockholders, that it was advisable and in the best interest of the Company and its stockholders to enter into the merger agreement with the sponsors and the transactions contemplated thereby and recommended that the board of directors approve and declare advisable such transactions and agreements and recommend adoption by the Company s stockholders of such merger agreement. Upon motion by the members of the special committee other than the Co-Chairmen, the special committee (other than the Co-Chairmen who recused themselves) determined to direct the Company to pay to each of the Co-Chairmen an additional $50,000 in light of the hard work and large number of additional meetings and activities conducted by the Co-Chairmen between special committee meetings on behalf of the Company s stockholders.

The board of directors met immediately after conclusion of the special committee meeting. The Co-Chairmen reported that the special committee had unanimously determined that the proposed merger with the sponsors was advisable and in the best interest of the Company and its stockholders and recommended that the board of directors approve and declare advisable such transactions and agreements and recommend adoption by the Company s stockholders of such merger agreement. After considering the proposed terms of the proposed merger agreement with the sponsors and other related transaction documents and the various presentations of financial and legal advisors and the Company s management, the board of directors unanimously approved and declared advisable and in the best interests of the Company and its stockholders the merger agreement with the sponsors and the transactions contemplated thereby, and recommended that the stockholders of the Company vote for the adoption of such merger agreement.

On December 19, 2006, the Company, Parent, Merger Sub and the Equity Investors, as applicable, executed the merger agreement and ancillary agreements and the Company issued a press release announcing the merger agreement.

During the period from December 20, 2006 through and including January 13, 2007, under the supervision of the special committee, representatives of UBS contacted parties that they believed, based on size and business interests, would be capable of, and might be interested in, consummating an acquisition of the Company. During

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this period, UBS contacted or was contacted by 28 parties. As part of the go-shop process, UBS contacted Company B. Company B ultimately determined not to make a further offer. As of the end of the go-shop period, no party submitted a proposal to pursue a transaction involving the Company.

**Reasons for the Merger; Recommendation of the Special Committee and Our Board of Directors**

***Special Committee***

The special committee, with the advice and assistance of its independent legal and financial advisors, evaluated and negotiated the sponsors merger proposal, including the terms and conditions of the merger agreement, in approximately 20 special committee meetings attended in each case by almost all of the members of the special committee. The special committee unanimously determined that the proposed merger with Merger Sub was advisable and in the best interest of the Company and its stockholders, that it was advisable and in the best interest of the Company and its stockholders to enter into the merger agreement with Parent and Merger Sub and to consummate the transactions contemplated thereby and recommended that the board of directors approve and declare advisable such transactions and agreements and recommend adoption by the Company s stockholders of such merger agreement.

In the course of its deliberations, the special committee considered the following substantive factors and potential benefits of the merger, which the special committee believed supported a decision to proceed with the merger agreement with Parent and Merger Sub:

- its belief that the merger was more favorable to stockholders than the alternative of remaining a stand-alone independent company, because of the uncertain returns to such stockholders if the Company remained independent (taking into account, in particular, management s financial projections (after giving effect to estimated potential cost savings) of the future financial performance and earnings of the Company); recent trends, as discussed with management and the special committee s financial advisor, as well as the risks involved in achieving those returns, the nature of the industry in which the Company competes, and general industry, economic, market and regulatory conditions, both on an historical and on a prospective basis;

- its belief that the merger was more favorable to the Company s stockholders than the potential value that might result from other alternatives available to the Company, including continuing to operate the Company in the ordinary course of business and the alternatives of pursuing other strategic initiatives including one or more different models for a leveraged recapitalization, such as a sponsored recapitalization and a leveraged recapitalization followed by a marketing of the Company for sale, a reorganization of the Company into separate operating and property owning companies referred to as PropCo/OpCo or into separate entities based on the Company s several gaming brands, or the sale of certain assets or a strategic transaction with Company B, in each case given the potential rewards, risks and uncertainties associated with those alternatives, as reviewed with the special committee s independent financial and legal advisors;

- the fact that the original proposal by the sponsors was publicly announced by the Company on October 2, 2006, more than 2-1/2 months prior to the proposed date of execution and delivery of the merger agreement, which provided more than sufficient time for the special committee to explore the Company s strategic alternatives and for any such alternatives to be proposed by third parties;

- the special committee s belief that $90.00 per share was at the high end of the range that could be achieved in a leveraged buyout transaction involving the Company, as reviewed by UBS with the special committee in connection with its financial analysis;

- the Company s need for ongoing substantial capital expenditures and the shortfall in the Company s performance compared to initial internal projections during the last half of 2006 due to the softness in the Atlantic City market, which the special committee believed could depress the Company s stock price, at least in the short to medium term, absent a transaction and the fact that while improvements in the Company s operating performance could yield improved operating results the achievement of such improvements was uncertain and, in the case of capital expenditures, constituted a long-term proposition and would be subject in any event to significant execution risk;

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the current and historical market prices of our common stock, including the market price of our common stock relative to those of other industry participants and general market indices, the fact that the Base Merger Consideration per share represented a premium of approximately 35.5% to the closing share price on the last trading day prior to the Company s disclosure of the initial offer from the sponsors, more than a 40% premium over the average closing share price during the month prior to such disclosure and an approximate 11.1% premium to the $81.00 offer originally proposed by the sponsors;

the information contained in the financial presentation of UBS, including the opinion of UBS that, as of the date of its opinion, the Base Merger Consideration to be received by the holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) in the merger was fair, from a financial point of view, to such holders, as more fully described below under Opinions of Financial Advisors Opinion of UBS Securities LLC;

the financial analyses presented by PJSC to the special committee and PJSC s oral opinion rendered to the special committee, which opinion was subsequently confirmed by delivery of written opinion, to the effect that based upon and subject to various assumptions made, matters considered and limitations set forth in such opinion, as of December 19, 2006, the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger was fair, from a financial point of view, to such holders, as more fully described below under Opinions of Financial Advisors Opinion of Peter J. Solomon Company, L.P.;

the fact that the merger agreement was negotiated on behalf of the Company by the special committee and its independent financial and legal advisors, together with the support of the Company and its legal advisors;

the financial and other terms and conditions of the merger agreement as reviewed by the special committee, including the fact that the merger would not be subject to a financing condition and the special committee s belief that the transaction did not have any significant antitrust risks, as well as the fact that the terms and conditions of the merger agreement were the product of arm s length negotiations between the parties;

the fact that the Merger Consideration is all cash, so that the transaction allows the Company s stockholders to immediately realize at the closing a fair value in cash for their investment and provides such stockholders certainty of value for their shares;

the fact that the terms of the merger agreement would provide the Company a 25-day post-signing go-shop period during which the Company would have the right to solicit additional interest in a transaction involving the Company and, after such 25-day period, permit the Company to respond to unsolicited proposals during the period prior to the stockholders vote, subject to certain conditions as more fully described below under The Merger Agreement Restrictions on Solicitations of Other Offers;

the fact that, subject to compliance with the terms and conditions of the merger agreement, if a third party has proposed an alternative transaction that is a superior proposal as defined in the merger agreement, the Company is permitted, prior to the adoption of the merger agreement by the Company s stockholders, to change its recommendation, approve or recommend the superior proposal or, upon the payment to the sponsors of a $500 million termination fee (representing approximately 2.9% of the total equity value of the transaction), terminate the merger agreement in order to enter into a definitive agreement with respect to the superior proposal as more fully described below under The Merger Agreement Recommendation Withdrawal/Termination in Connection with a Superior Proposal;

the fact that the Company s senior management team was in favor of the merger and the merger agreement and the fact that members of the Company s management who may participate in the transaction had no agreements with the sponsors at the time of execution of the merger agreement and have not committed to be exclusive to the sponsors and are therefore available to enter into discussions and arrangements with a subsequent bidder, if any, for the Company;

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the availability of statutory appraisal rights to holders of our common stock who comply with all of the required procedures under Delaware law, which allows such holders to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery;

the presentations by the sponsors and the Company s management, as supported by the special committee s independent gaming regulatory counsel, as to the likelihood and timing of approval of the merger agreement and related transactions under applicable gaming laws;

the commitment made by the sponsors to treat the Company s employees in a fair and equitable manner, including to provide (for one year from the effective date of the merger) each employee of the Company with compensation, severance and benefits that are substantially comparable in the aggregate (other than equity-based compensation) provided to such employees immediately prior to the merger; and

the fact that the Company would not have to establish the existence and amount of its damages in the event of a failure of the merger to be consummated under certain circumstances in light of the $500 million reverse break-up fee payable by the sponsors if the sponsors were unable to finance the merger or the $250 million regulatory reverse break-up fee if the sponsors were unable to obtain gaming approvals for the merger, in addition to the right to seek specific performance of certain obligations of the Equity Investors, Parent and Merger Sub under certain circumstances.

The special committee also considered a variety of risks and other potentially negative factors concerning the merger agreement and the merger, including the following:

the risks and costs to the Company if the merger does not close, including the diversion of management and employee attention, potential employee attrition and the potential effect on the Company s business and its relationships with third parties;

the fact that the Company s stockholders will not participate in any future earnings or growth of the Company and will not benefit from any appreciation in value of the Company, including any appreciation in value on a long-term basis related to the Company s significant land assemblage on the Las Vegas Strip, the potential future exploitation of one or more gaming brands owned by the Company in new markets or the value that could be realized as a result of improvements to the Company s operations;

the fact that the Company s executive officers may ultimately have interests in the transaction that may be different from, or in addition to, those of the Company s other stockholders, and the fact that the discussions with the sponsors was not initiated by the special committee;

the restrictions on the conduct of the Company s business prior to the completion of the merger, requiring the Company to conduct its business only in the ordinary course, subject to specific limitations, which may delay or prevent the Company from undertaking business opportunities that may arise pending completion of the merger and the length of time between signing and closing when these restrictions are in place, due to the time needed to obtain gaming approvals;

the fact that the closing of the transaction is not expected to occur shortly following the stockholder vote due to the need to obtain regulatory approvals and may be further delayed in connection with the receipt of regulatory approvals in one or more jurisdictions, for up to five or potentially six months after the target closing date of twelve months after signing, which extended time period is mitigated in part by the ability of the Company to continue to declare and pay regular quarterly dividends and the provision in the merger calling for a ticking fee increasing the Base Merger Consideration commencing in March 2008;

the fact that the $90.00 price per share (together with any ticking fee) will represent the maximum price per share receivable by the Company s stockholders unless the merger agreement is terminated in accordance with its terms;

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- the fact that an all cash transaction would be taxable to the Company s stockholders that are U.S. persons for U.S. federal income tax purposes;

- the fact that the Company is entering into a merger agreement with two newly-formed corporations with essentially no assets and, accordingly, that its remedy in connection with a breach of the merger agreement by the sponsors, even a breach that is deliberate or willful, may be limited to $500 million, other than the possible remedy of specific performance which may be available under certain circumstances;

- the requirement that the Company pay a termination fee of $500 million in connection with termination of the merger agreement in certain circumstances; and

- the requirement that the Company pay Parent s and Merger Sub s expenses up to $60 million in connection with termination of the merger agreement in certain circumstances.

The foregoing summarizes the material factors considered by the special committee in its consideration of the merger. After considering these factors, the special committee concluded that the positive factors relating to the merger agreement and the merger outweighed the potential negative factors. In view of the wide variety of factors considered by the special committee, and the complexity of these matters, the special committee did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the special committee may have assigned different weights to various factors. The special committee approved and recommended the merger agreement and the merger based upon the totality of the information presented to and considered by it.

***Our Board of Directors***

Our board of directors consists of eleven directors, nine of whom are non-management members of the board of directors and are also the members of the special committee. The board of directors established the special committee and empowered it to review, evaluate, negotiate and if appropriate, make a recommendation to the board of directors with respect to the proposal from the sponsors and the Company s other strategic alternatives. Our board of directors, acting upon the unanimous recommendation of the special committee, at a meeting described above on December 19, 2006, unanimously determined that the merger agreement and the transactions contemplated thereby were advisable and in the best interest of the Company and its stockholders, approved the merger agreement and the transactions contemplated thereby and recommended that the stockholders of the Company vote for the adoption of such merger agreement.

In connection with its determinations, the board of directors considered:

- the unanimous determinations and recommendation of the special committee and adopted such determinations and recommendation in reaching its determinations;

- the factors considered by the special committee, including the positive factors and potential benefits of the merger and the risks and other potentially negative factors concerning the merger, as described above;

- the fact that the merger consideration and the other terms of the merger agreement resulted from negotiations between the special committee and the investors, and the board of directors belief that $90.00 per share in cash for each share of the Company s common stock represented the highest per share consideration that could be negotiated;

- the separate financial analyses presented by UBS and PJSC to the special committee, as well as the board of directors at the request of the special committee, and the separate oral opinions of UBS and PJSC rendered to the special committee, which opinions were each subsequently confirmed by delivery of a written opinion, and upon which the board of directors was permitted to rely, to the effect that (x) in the case of UBS opinion, based upon and subject to various assumptions made,

matters considered and limitations set forth in such opinion, as of the date of

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its opinion, the Base Merger Consideration to be received by the holders of our common stock (other than affiliates of or holders of beneficial interests in the Parent to the extent, if any, they are holders of our common stock) in the merger was fair, from a financial point of view, to such holders and (y) in the case of PJSC s opinion, based upon and subject to various assumptions made, matters considered and limitations set forth in such opinion, as of December 19, 2006, the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger was fair, from a financial point of view, to such holders, in either case as more fully described below under Opinions of Financial Advisors; and

its belief that the merger was more favorable to stockholders than the potential value that might result from other alternatives potentially available to the Company, in each case given the potential rewards, risks and uncertainties associated with those alternatives.

The foregoing discussion summarizes the material factors considered by our board of directors in its consideration of the merger. In view of the wide variety of factors considered by the board of directors, and the complexity of these matters, the board of directors did not find it practicable to quantify or otherwise assign relative weights to the foregoing factors. In addition, individual members of the board of directors may have assigned different weights to various factors. The board of directors considered the merger agreement and the merger based upon the totality of the information presented to and considered by it.

**Our board of directors recommends that you vote FOR the adoption of the merger agreement and FOR the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.**

**Opinions of Financial Advisors**

*Opinion of UBS Securities LLC*

On December 19, 2006, UBS delivered its opinion to the special committee of Harrah s board of directors to the effect that, as of December 19, 2006 and based upon and subject to various assumptions made, procedures followed, matters considered and limitations described in the opinion, the Base Merger Consideration to be received by holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) in the merger was fair, from a financial point of view, to such holders.

**The full text of UBS opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS. UBS opinion is attached as Annex B to this proxy statement. UBS opinion is directed only to the fairness, from a financial point of view, of the Base Merger Consideration to be received by the holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) in the merger and does not address any other aspect of the merger. The opinion also does not address the relative merits of the merger as compared to other business strategies or transactions that might be available with respect to us or our underlying business decision to effect the merger. In addition, UBS expressed no opinion as to the price at which our common stock would trade at any time. The opinion does not constitute a recommendation to any holder of our common stock as to how such stockholder should vote or act with respect to the merger. Holders of our common stock are encouraged to read UBS opinion carefully in its entirety. The summary of UBS opinion presented below is qualified in its entirety by reference to the full text of the opinion.**

In arriving at its opinion, UBS:

reviewed certain publicly available business and historical financial information relating to us;

reviewed certain internal financial information and other data relating to our business and financial prospects that were provided to UBS by us and not publicly available, including financial forecasts and estimates prepared by our management for the periods through December 31, 2015;

conducted discussions with members of our senior management concerning our business and financial prospects;

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reviewed publicly available financial and stock market data with respect to certain other companies UBS believed to be generally relevant;

compared the financial terms of the merger with the publicly available financial terms of certain other transactions UBS believed to be generally relevant;

reviewed current and historical market prices of our common stock;

reviewed a draft of the merger agreement, dated as of December 19, 2006; and

conducted such other financial studies, analyses and investigations, and considered such other information, as UBS deemed necessary or appropriate.

At the request of the special committee of Harrah s board of directors, UBS contacted third parties to solicit indications of interest in a possible transaction with Harrah s in the event that the special committee of Harrah s board of directors determined that a transaction was advisable and in the best interest of Harrah s and Harrah s stockholders and held discussions with certain of these parties prior to the date of its opinion.

In connection with its review, with the consent of the special committee of Harrah s board of directors, UBS did not assume any responsibility for independent verification of any of the information provided to or reviewed by UBS for the purpose of its opinion and, with the consent of the special committee of Harrah s board of directors, UBS relied on such information being complete and accurate in all material respects. In addition, with the consent of the special committee of Harrah s board of directors, UBS did not make any independent evaluation or appraisal of any of Harrah s assets or liabilities (contingent or otherwise), nor was UBS furnished with any such evaluation or appraisal. With respect to the financial forecasts and estimates prepared by the management of Harrah s, UBS assumed, at the direction of the special committee of Harrah s board of directors, that such financial forecasts and estimates had been reasonably prepared on a basis reflecting the best then-currently-available estimates and judgments of the management of Harrah s as to the future performance of Harrah s. UBS opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to UBS as of, the date of its opinion.

At the direction of the special committee of Harrah s board of directors, UBS was not asked to, and it did not, offer any opinion as to the terms, other than the Base Merger Consideration to the extent expressly specified in its opinion, of the merger agreement or the form of the merger. In rendering its opinion, UBS assumed, with the consent of the special committee of Harrah s board of directors, that (1) the final executed form of the merger agreement did not differ in any material respect from the draft that UBS examined, (2) the parties to the merger agreement would comply with all the material terms of the merger agreement, and (3) the merger would be consummated in accordance with the terms of the merger agreement without any adverse waiver or amendment of any material term or condition thereof. UBS also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any material adverse effect on Harrah s and/or the merger. Except as described above, the special committee of Harrah s board of directors imposed no other instructions or limitations on UBS with respect to the investigations made or the procedures followed by UBS in rendering its opinion.

In connection with rendering its opinion to the special committee of Harrah s board of directors, UBS performed a variety of financial and comparative analyses, which are summarized below. The following summary is not a complete description of all the analyses performed and factors considered by UBS in connection with its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the selected public companies analysis and selected precedent transactions analysis summarized below, no company, transaction or business used in UBS analyses as a comparison is identical to Harrah s or to the merger. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

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UBS believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analyses and factors, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS analyses and opinion. UBS did not form an opinion as to whether any individual analysis or factor, considered in isolation, supported or failed to support UBS opinion. Rather, UBS arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole, and believes that the totality of the factors it considered and analyses it performed in connection with its opinion operated collectively to support its determination as of the date of UBS opinion as to the fairness, from a financial point of view, to the holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock) of the Base Merger Consideration to be received by such holders.

The financial forecasts and estimates of Harrah s future performance provided by the management of Harrah s in or underlying UBS analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS considered industry performance, general business and economic conditions and other matters, many of which are beyond our control. Estimates of the financial value of companies do not purport to be appraisals or to reflect the prices at which such companies may actually be sold.

The Base Merger Consideration was determined through negotiation between Harrah s and the Equity Investors and the decision to enter into the merger agreement was solely that of the special committee of Harrah s board of directors and the Harrah s board of directors. UBS opinion and financial analyses were only one of many factors considered by the special committee of Harrah s board of directors and Harrah s board of directors in their evaluation of the proposed transaction and should not be viewed as determinative of the views of the special committee of Harrah s board of directors and the Harrah s board of directors with respect to the merger or the Base Merger Consideration.

The following is a summary of the material financial analyses performed by UBS and reviewed by the special committee of Harrah s board of directors and the Harrah s board of directors in connection with UBS opinion relating to the merger. The order of the analyses described does not represent relative importance or weight given to those analyses by UBS. **The financial analyses summarized below include information presented in tabular format. In order to fully understand UBS financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of UBS financial analyses.**

*Selected Public Companies Analysis*

UBS compared selected financial and stock market data for Harrah s with corresponding data of selected publicly traded companies UBS believed to be generally relevant. UBS further classified the companies, as a function of their respective equity market capitalizations and markets addressed, as Large-Cap Companies (without significant exposure to markets in Asia), Large-Cap Companies (with significant exposure to markets in Asia), Mid-Cap Companies (with exposure to major United States markets of Atlantic City, New Jersey and Las Vegas, Nevada) or Mid-Cap Companies (without exposure to major United States markets of Atlantic City, New Jersey and Las Vegas, Nevada).

Although none of these companies is directly comparable to Harrah s, these companies were selected, among other reasons, because their equity is publicly traded in the United States and they operate in the gaming industry:

Large-Cap Companies (without significant exposure to markets in Asia)

MGM Mirage

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Large-Cap Companies (with significant exposure to markets in Asia)

Las Vegas Sands Corp.

Wynn Resorts, Limited

Mid-Cap Companies (with exposure to major United States markets of Atlantic City, New Jersey and Las Vegas, Nevada)

Boyd Gaming Corporation

Trump Entertainment Resorts, Inc.

Mid-Cap Companies (without exposure to major United States markets of Atlantic City, New Jersey and Las Vegas, Nevada)

Penn National Gaming, Inc.

Ameristar Casinos, Inc.

Pinnacle Entertainment, Inc.

Isle of Capri Casinos, Inc.

Financial information, ratios and public market values for Station Casinos, Inc. and Aztar Corporation, both of which are Mid-Cap Companies with exposure to major United States markets of Atlantic City, New Jersey and Las Vegas, Nevada, were reviewed but were excluded from the analysis because the companies had announced a proposed and a pending sale transaction, respectively.

UBS considered, among other things, (1) diluted equity values (computed using closing share prices as of December 18, 2006), (2) enterprise values (calculated as diluted equity value, plus book value of total debt, preferred stock and minority interests, less cash and cash equivalents) and (3) enterprise values as a multiple of estimated earnings before interest, taxes, depreciation and amortization ( EBITDA ) for calendar years 2006, 2007 and 2008. Estimated financial data for Harrah s and the selected public companies were based on publicly available information, including SEC filings, and mean estimates provided by the Institutional Brokerage Estimate System ( IBES ), a data service that compiles estimates issued by securities analysts.

This analysis indicated the following implied mean and median EBITDA multiples for the entire group of selected publicly traded gaming companies and the implied mean, median, high and low EBITDA multiples for the selected publicly traded gaming companies (excluding Large-Cap Companies with significant exposure to markets in Asia), as compared to the corresponding implied EBITDA multiples for Harrah s based on the closing sale price of our common stock on the NYSE on September 29, 2006, the last trading day prior to disclosure of the initial offer by the Equity Investors to acquire Harrah s for $81.00 per share, and on December 18, 2006, and the Base Merger Consideration of $90.00 per share:

| | Implied Multiples for All Selected | Implied Multiples for Selected Public Companies (Excluding | Implied Multiples for Harrah s Based on |
|---|---|---|---|



**Enterprise Value as a Multiple of EBITDA:**

| | Public Companies | | Large-Cap Companies with Significant Asian Markets Exposure) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Mean** | **Median** | **Mean** | **Median** | **High** | **Low** | **Closing Stock Price on 9/29/06** | **Closing Stock Price on 12/18/06** | **Base Merger Consideration ($90.00)** |
| CY 2006E | 17.9x | 10.3x | 10.5x | 10.1x | 12.4x | 9.6x | 9.6x | 10.9x | 11.5x |
| CY 2007E | 13.4x | 10.2x | 9.8x | 10.2x | 11.5x | 8.1x | 8.7x | 9.9x | 10.5x |
| CY 2008E | 11.2x | 9.4x | 9.1x | 8.9x | 10.9x | 8.1x | 8.1x | 9.2x | 9.8x |

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*Selected Precedent Transactions Analysis*

UBS considered the multiples, where sufficient data were publicly available, of enterprise value to forward EBITDA for each of the following nine selected gaming transactions:

| Announcement Date | Completion Date | Target | Acquiror |
|---|---|---|---|
| December 4, 2006 | Proposed | Station Casinos, Inc. | Frank J. Fertitta III, Lorenzo J. Fertitta and Colony Capital, LLC |
| May 19, 2006 | Pending | Aztar Corporation | Winmar Tahoe Corporation (dba Columbia Entertainment) |
| November 3, 2004 | October 3, 2005 | Argosy Gaming Company | Penn National Gaming, Inc. |
| September 27, 2004 | April 26, 2005 | Harrah s Entertainment, Inc. (Caesar s Assets) | Colony Capital, LLC |
| July 15, 2004 | June 13, 2005 | Caesar s Entertainment, Inc. | Harrah s Entertainment, Inc. |
| June 16, 2004 | April 25, 2005 | Mandalay Resort Group | MGM Mirage |
| February 9, 2004 | July 1, 2004 | Coast Casinos, Inc. | Boyd Gaming Corporation |
| September 11, 2003 | July 1, 2004 | Horseshoe Gaming Holding Corp. | Harrah s Entertainment, Inc. |
| March 6, 2000 | May 31, 2000 | Mirage Resorts, Incorporated | MGM Grand, Inc. |

Although none of the selected transactions nor the companies involved in them was directly comparable to the merger or us (except that Harrah s was a party to the acquisition of Horseshoe Gaming Holding Corp. by Harrah s, the acquisition of Caesar s Entertainment Inc. by Harrah s and the acquisition by Colony Capital, LLC of Caesar s Assets from Harrah s), these transactions were selected, among other reasons, because they were each valued at over $1 billion, were publicly announced after the beginning of 2000 and involved companies that operate in the gaming industry.

In calculating multiples of forward EBITDA, UBS considered the enterprise values of each of these transactions as a multiple of the estimated EBITDA for the year in which the transaction was announced if the transaction was announced in the first half of the year, or as a multiple of the one-year forward estimated EBITDA (for the next calendar year after the year in which the transaction was announced) if the transaction was announced in the second half of the year. Financial data for the companies in the selected transactions were based on publicly disclosed information as of the respective announcement dates, including each target company s most recent quarterly SEC filings and estimates contained in a selection of publicly available Wall Street equity research reports, available at or around the time of the respective transactions. Financial data for Harrah s were based on the estimated 2007 EBITDA provided by IBES. This analysis indicated the following implied mean and median forward EBITDA multiples for the selected transactions (excluding the proposed and pending transactions), as compared to the corresponding multiple implied in the merger based on the Base Merger Consideration of $90.00 per share:

| | Implied Multiples for Selected Transactions (Excluding Proposed and Pending Transactions) | | Implied Multiple for Us Based on Base Merger Consideration ($90.00) |
|---|---|---|---|
| | Mean | Median | |
| Enterprise Value as Multiple of Forward EBITDA | 8.3x | 8.0x | 10.5x |

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*Discounted Cash Flow Analysis*

Using projections for fiscal years 2007 to 2015 provided by our management, UBS performed an analysis of the present value, as of December 31, 2006, of the projected unlevered, after-tax free cash flows that we were projected to generate from January 1, 2007 through December 31, 2014. According to this analysis, the unlevered, after-tax free cash flows would range from negative $267 million in fiscal year 2007 to $2,412 million in fiscal year 2014. For purposes of this analysis, UBS also estimated a range of terminal values as of December 31, 2014 by applying forward EBITDA multiples ranging from 7.0x to 9.0x to our projected fiscal year 2015 EBITDA. The cash flows and terminal values were then discounted to present value using discount rates ranging from 9.5% to 10.5%. Based on the foregoing, UBS calculated an implied equity value per share range for us of approximately $63 - $93, as compared to the Base Merger Consideration of $90.00 per share.

*Other Factors*

In rendering its opinion, UBS also reviewed and considered other information and data, including:

- certain transaction-related events, including the discussions by UBS, after the October 2, 2006 disclosure of the initial offer by the Equity Investors to acquire Harrah s for $81.00 per share, with certain strategic and financial parties in connection with the sale of Harrah s, the solicitation and evaluation of bids received by Harrah s and the discussions and negotiations with the Equity Investors;

- the relative share price performance of our common stock and the common stock of certain other public companies over the one-year period prior to December 18, 2006 and since October 2, 2006 (the day of the disclosure of the initial offer by the Equity Investors to acquire Harrah s for $81.00 per share);

- our enterprise value as a multiple of forward EBITDA over the five-year period preceding September 29, 2006 as compared to the corresponding implied multiple based on the Base Merger Consideration of $90.00 per share;

- the closing sale price of our common stock on the NYSE on September 29, 2006 (the last trading day prior to disclosure of the initial offer by the Equity Investors to acquire Harrah s for $81.00 per share) and on December 18, 2006, the average, high and low closing prices of our common stock over specified periods preceding December 18, 2006 and the premium of the Base Merger Consideration of $90.00 per share over these historical prices; and

- selected purchase price per share premiums paid in merger and acquisition transactions valued at greater than $10 billion announced and completed since 2003.

*Miscellaneous*

Under the terms of UBS engagement, we have agreed to pay UBS certain fees for its services in connection with the merger. As of the date hereof, we have paid UBS a retainer fee of $2,500,000 and a fee of $2,000,000 for the opinion which it rendered to the special committee and the board of directors as to the fairness, from a financial point of view, of the Base Merger Consideration to be paid to holders of our common stock (other than affiliates of or holders of beneficial interests in Parent to the extent, if any, they are holders of our common stock). The retainer fee and opinion fee will be offset against a transaction fee which is payable to UBS contingent upon the closing of the merger in the amount of $40,000,000. In addition, Harrah s has agreed to reimburse UBS for its reasonable expenses, including fees, disbursements and other charges of counsel, and to indemnify UBS and related parties against liabilities relating to, or arising out of, its engagement as our financial advisor. UBS and its affiliates have, in the past, provided services unrelated to the merger to one or more of the holders of beneficial interests of Parent or to one or more of their respective portfolio companies or other affiliates, for which services UBS and its affiliates received compensation. In the ordinary course of business, UBS, its successors and affiliates may hold or trade, for their own accounts and the accounts of customers, our securities and, accordingly, may at any time hold a long or short position in such securities.

The special committee of the Harrah s board of directors selected UBS as our financial advisor in connection with the merger because UBS is an internationally recognized investment banking firm with substantial experience in similar transactions. UBS, as part of its investment banking services, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, strategic

transactions, corporate restructurings, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

***Opinion of Peter J. Solomon Company, L.P.***

Pursuant to an engagement letter dated December 12, 2006, the special committee of Harrah s board of directors engaged PJSC to act as its financial advisor with respect to the merger and, if requested, to render to the special committee of Harrah s board of directors an opinion as to the fairness, from a financial point of view, of the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger. On December 19, 2006, PJSC rendered its oral opinion to the special committee of Harrah s board of directors, which opinion was subsequently confirmed by delivery of a written opinion, to the effect that, based upon and subject to various assumptions made, matters considered and limitations set forth in such opinion, as of December 19, 2006, the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger was fair, from a financial point of view, to such holders.

**The full text of PJSC s opinion, which sets forth assumptions made, procedures followed, matters considered, and limitations on and scope of the review by PJSC in rendering PJSC s opinion, is attached as Annex C to this proxy statement. PJSC s opinion was directed only to the fairness, from a financial point of view, of the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger, was provided to the special committee of Harrah s board of directors and Harrah s board of directors in connection with their evaluation of the merger, did not address any other aspect of the merger and did not, and does not, constitute a recommendation to any holder of our common stock or any other person as to how such holder or person should vote or act on any matter relating to any part of the merger. The summary of PJSC s opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion. Holders of our common stock are encouraged to read PJSC s opinion carefully and in its entirety.**

In connection with PJSC s opinion, PJSC:

- reviewed certain publicly available financial statements and other information of Harrah s;
- reviewed certain internal financial statements and other financial and operating data concerning Harrah s prepared by the management of Harrah s;
- reviewed certain financial projections for Harrah s prepared by the management of Harrah s;
- discussed the past and current operations, financial condition and prospects of Harrah s with the management of Harrah s;
- reviewed the reported prices and trading activity of our common stock;
- compared the financial performance and condition of Harrah s and the reported prices and trading activity of our common stock with that of certain other comparable publicly traded companies;
- reviewed publicly available information regarding the financial terms of certain transactions comparable, in whole or in part, to the merger;
- reviewed a draft of the merger agreement dated as of December 19, 2006; and

performed such other analyses and reviewed such other material and information as PJSC deemed appropriate.

PJSC assumed and relied upon the accuracy and completeness of the information provided to PJSC for the purposes of PJSC s opinion and PJSC did not assume any responsibility for independent verification of such information. With respect to the financial projections, PJSC assumed that the financial projections were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of Harrah s. PJSC did not conduct a physical inspection of the facilities or property of

Harrah s. PJSC did not assume any responsibility for any independent valuation or appraisal of the assets or liabilities of Harrah s, nor was PJSC furnished with any such valuation or appraisal. Furthermore, PJSC did not consider any tax, accounting or legal effects of the merger or the transaction structure on any person or entity.

PJSC assumed that the final form of the merger agreement would be substantially the same as the last draft merger agreement reviewed by PJSC. PJSC further assumed that the merger will be consummated in accordance with the terms of the merger agreement, without waiver, modification or amendment of any material term, condition or agreement, that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the merger, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Harrah s and that Parent will obtain the necessary financing to effect the merger in accordance with the terms of financing commitments in the forms provided by Parent. PJSC further assumed that all representations and warranties set forth in the merger agreement and all related agreements are and will be true and correct as of all of the dates made or deemed made and that all parties to the merger agreement and all agreements related thereto will comply with all covenants of such party thereunder. PJSC did not consider the effect of the increase to the Base Merger Consideration that may be paid to the holders of our common stock in connection with the merger if the effective time of the merger shall not have occurred by February 29, 2008.

PJSC s opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to PJSC as of, December 18, 2006. In particular, PJSC did not express any opinion as to the prices at which shares of our common stock may trade at any future time. Furthermore, PJSC s opinion did not address Harrah s underlying business decision to undertake any part of the merger. PJSC s opinion did not address any other aspect or implication of the merger or any other agreement, arrangement or understanding entered into in connection with the merger or otherwise except as expressly identified in PJSC s opinion. In particular, PJSC s opinion did not express any opinion as to the solvency, or lack thereof, of the surviving corporation in the merger, the impact of the merger on the solvency or viability of Harrah s or the ability of Harrah s to pay its obligations when they become due.

In arriving at its opinion, PJSC was not authorized to solicit, and PJSC did not solicit, interest from any party with respect to a merger or other business combination transaction involving Harrah s or any of its assets.

The following summarizes the significant financial analyses performed by PJSC and reviewed with the special committee of Harrah s board of directors on December 19, 2006 in connection with the delivery of PJSC s opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand PJSC s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of PJSC s financial analyses.

*Analysis of Selected Publicly Traded Comparable Companies*

PJSC performed a comparable companies analysis to determine (1) what Harrah s valuation would be if our common stock traded in the valuation range of certain comparable gaming companies and (2) what Harrah s valuation would be if our common stock traded in such range and was to receive a premium to this valuation consistent with premiums received by other publicly traded companies in cash acquisitions valued over $5 billion since January 1, 2000. PJSC reviewed and compared selected financial data of Harrah s with similar data using publicly available information for the following publicly traded companies in the gaming industry, which have operations that, for purposes of PJSC s analysis, PJSC deemed similar to certain operations of Harrah s based on PJSC s experience:

Ameristar Casinos, Inc.

Boyd Gaming Corp.

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- Isle of Capri Casinos, Inc.
- Las Vegas Sands Corp.
- MGM Mirage, Inc.
- Penn National Gaming, Inc.
- Pinnacle Entertainment, Inc.
- Wynn Resorts Ltd.

For each of these companies, PJSC calculated and compared various financial multiples and ratios, including, among others:

- enterprise value (which represents total equity value plus book values of total debt, preferred stock and minority interests less cash) as a multiple of each of:
  - net revenues;
  - earnings before interest and taxes ( EBIT ); and
  - EBITDA;

for the selected companies, for the last twelve months ( LTM ), for the most recently available quarterly information as of December 18, 2006, and for projected calendar years 2006 and 2007; and

- recent stock price per share as a multiple of earnings per share ( EPS ), for the last twelve months, for the most recently available quarterly information as of December 18, 2006, and for projected calendar years 2006 and 2007 based upon the closing stock prices as of December 18, 2006.

For purposes of this analysis, PJSC obtained the projected EPS, EBIT and EBITDA estimates for the public comparable companies by using the mean of Wall Street analysts estimates as reported by First Call Investment Research on December 18, 2006 for the selected companies.

Based on this data, as of December 18, 2006, PJSC developed a summary valuation analysis based on a range of trading valuation multiples and ratios for the selected comparable companies. This analysis resulted in the following ranges of implied multiples and ratios:

| **Enterprise Value as a Ratio of:** | **Range of Implied Trading Multiples** | |
|---|---|---|
| CY 2006 Net Revenue | 2.00x | 3.00x |
| LTM EBITDA | 9.5x | 12.0x |
| LTM EBIT | 15.0x | 18.0x |

| | | |
|---|---|---|
| CY 2006 EBITDA | 9.0x | 11.0x |
| CY 2006 EBIT | 15.0x | 18.0x |
| CY 2007 EBITDA | 8.0x | 10.0x |
| CY 2007 EBIT | 14.0x | 16.0x |

| **Equity Value as a Ratio of:** | **Range of Implied Trading Multiples** | |
|---|---|---|
| LTM EPS | 20.0x | 30.0x |
| CY 2006 EPS | 20.0x | 25.0x |
| CY 2007 EPS | 18.0x | 23.0x |

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PJSC then calculated a range of implied equity values per share of our common stock using the range of multiples and ratios from the selected companies and applying them to Harrah s financial statistics, both excluding and including a control premium. For this calculation, Harrah s historical financial statistics were obtained from Harrah s historical financial statements, and Harrah s projected financial statistics were provided by Harrah s management. The per share values were based on the number of shares outstanding as of October 31, 2006, plus dilutive shares accounted for by the treasury stock method, due to stock options, stock appreciation rights, contingent convertible debt and restricted stock. PJSC used a control premium of 20.1%, which was the median control premium paid (five days prior to closing) in cash acquisition transactions valued over $5 billion since January 1, 2000, as reported by Thomson Financial and Mergerstat.

Based on this analysis, PJSC derived reference ranges of implied equity values per share of our common stock of $65.00 to $100.00 excluding a control premium and $78.00 to $120.00 including a control premium. PJSC noted that the Base Merger Consideration was $90.00 per share.

*Analysis of Selected Precedent Transactions*

To analyze the Base Merger Consideration relative to the consideration received by stockholders in selected other similar precedent transactions, PJSC prepared an analysis of selected precedent transactions in the gaming industry that, for purposes of PJSC s analysis, PJSC deemed similar to the merger based on PJSC s experience.

The list of transactions reviewed was (referred to below by the acquiror and target in the transaction, respectively):

Colony Capital, LLC Station Casinos, Inc.

Columbia Sussex Corp. Aztar Corp.

Penn National Gaming, Inc. Argosy Gaming Co.

Colony Capital, LLC Certain divested assets of Harrah s and Caesar s Entertainment, Inc.

Harrah s Caesar s Entertainment, Inc.

MGM Mirage, Inc. Mandalay Resort Group

Harrah s Horseshoe Gaming Holdings, Inc.

Penn National Gaming, Inc. Hollywood Casino Corp.

Harrah s Harvey s Casino Resorts

MGM Grand, Inc. Mirage Resorts, Inc.

Park Place Entertainment, Inc. Caesar s World, Inc.

Park Place Entertainment, Inc. Grand Casinos, Inc.

Harrah s Rio Hotel & Casino, Inc.

Starwood Hotels & Resorts Worldwide, Inc. ITT Corporation

Hilton Hotel Corp. Bally Entertainment Corp.

PJSC calculated the enterprise value in each of these transactions as a multiple of LTM net sales, EBITDA and EBIT, as well as projected one year forward EBITDA and EBIT, where one year forward is defined as the calendar year of the transaction if the transaction occurred before July 1, or the next full calendar year if the transaction occurred after July 1, and the equity value in each of these transactions as a multiple of LTM net income, and projected one year forward net income. PJSC used publicly available data for the precedent

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transactions collected from Securities Data Company, Standard & Poor s and public filings. For forward data, PJSC used data obtained from Thomson First Call and equity research. This analysis resulted in the following ranges of multiples and ratios:

| Enterprise Value as a Ratio of: | Range of Implied Multiples | |
|---|---|---|
| CY 2006 Net Sales | 2.00x | 3.00x |
| LTM EBITDA | 9.0x | 12.5x |
| LTM EBIT | 12.0x | 18.0x |
| CY 2006 EBITDA | 9.0x | 12.5x |
| CY 2006 EBIT | 12.0x | 18.0x |
| CY 2007 EBITDA | 8.0x | 11.0x |
| CY 2007 EBIT | 11.0x | 16.0x |

| Equity Value as a Ratio of: | Range of Implied Multiples | |
|---|---|---|
| LTM EPS | 24.0x | 32.0x |
| CY 2006 EPS | 24.0x | 32.0x |
| CY 2007 EPS | 20.0x | 28.0x |

PJSC then calculated a range of implied equity values per share of our common stock using the multiples and ratios from the precedent transactions and applied them to Harrah s financial statistics. For this calculation, Harrah s historical financial statistics were obtained from Harrah s historical financial statements and Harrah s projected financial statistics were provided by Harrah s management. The per share values were based on the number of shares outstanding as of December 19, 2006, plus dilutive shares accounted for by the treasury stock method, due to stock options, stock appreciation rights, contingent convertible debt and restricted stock.

Based on this analysis, PJSC derived a reference range of implied equity values per share of our common stock of $65.00 to $110.00. PJSC noted that the Base Merger Consideration was $90.00 per share.

*Discounted Cash Flow Analysis*

PJSC performed a discounted cash flow analysis to calculate theoretical per share value of our common stock based on the value of the forecasted future free cash flows of Harrah s provided by its management for fiscal years 2007 to 2015.

In performing its discounted cash flow analysis, PJSC considered various assumptions that it deemed appropriate based on a review with management of Harrah s prospects and risks. PJSC believed it appropriate to utilize various discount rates ranging from 9% to 11%, and EBITDA terminal value multiples ranging from 8.0 times to 10.0 times EBITDA. PJSC determined to use these discount rates because they equaled the range of weighted average cost of capital of Harrah s and other companies deemed comparable to Harrah s by PJSC in its professional judgment.

Based on this analysis, PJSC derived a reference range of implied equity values per share of our common stock of $70.00 to $105.00. PJSC noted that the Base Merger Consideration was $90.00 per share.

*Miscellaneous*

In arriving at its opinion, PJSC performed a variety of financial analyses, the material portions of which are summarized above. The preparation of a fairness opinion is a complex process involving various determinations

as to the most appropriate and relevant methods of financial analyses and the application of those methods to the particular circumstances and, therefore, such an opinion is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, PJSC did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to significance and relevance of each analysis and factor. Accordingly, PJSC believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all such analyses, could create an incomplete view of the process underlying PJSC s opinion.

In performing its analyses, PJSC relied on numerous assumptions made by the management of Harrah s and made numerous judgments of its own with regard to current and future industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Harrah s. Actual values will depend upon several factors, including changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities. The analyses performed by PJSC are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as a part of PJSC s analysis of the fairness, from a financial point of view, to the holders of our common stock of the Base Merger Consideration proposed to be received by the holders of our common stock in connection with the merger and were provided to the special committee of Harrah s board of directors in connection with the delivery of PJSC s opinion. The analyses do not purport to be appraisals or necessarily reflect the prices at which businesses or securities might actually be sold, which may be higher or lower than the Base Merger Consideration and which are inherently subject to uncertainty. Because such analyses are inherently subject to uncertainty, neither Harrah s nor PJSC nor any other person assumes responsibility for their accuracy.

With regard to the comparable public company analysis and the precedent transactions analysis summarized above, PJSC selected such public companies on the basis of various factors for reference purposes only; however, no public company or transaction utilized as a comparison is identical to Harrah s or the merger. Accordingly, an analysis of the foregoing was not mathematical; rather, it involved complex considerations and judgments concerning differences in financial and operating characteristics of the selected companies and other factors that could affect the acquisition or public trading value of the selected companies and transactions to which Harrah s and the merger were being compared. The consideration in the merger was determined through arm s length negotiations between Parent and the special committee of Harrah s board of directors and was approved by the Harrah s board of directors upon recommendation by the special committee of Harrah s board of directors. PJSC did not recommend any specific consideration to the special committee of Harrah s board of directors or the Harrah s board of directors or that any given consideration constituted the only appropriate consideration for the merger. In addition, as described elsewhere in this proxy statement, PJSC s opinion was one of many factors taken into consideration by the special committee of Harrah s board of directors and the Harrah s board of directors in evaluating the merger. Consequently, the PJSC analyses described above should not be viewed as determinative of the opinion of the special committee of Harrah s board of directors or the Harrah s board of directors with respect to the merger.

As part of its investment banking activities, PJSC is regularly engaged in the evaluation of businesses and their securities in connection with mergers and acquisitions, restructurings and valuations for corporate or other purposes. The special committee of Harrah s board of directors selected PJSC to deliver an opinion with respect to the fairness from a financial point of view to the holders of our common stock of the Base Merger Consideration proposed to be received by such holders in connection with the merger on the basis of such experience.

The financial advisory services PJSC provided to the special committee of Harrah s board of directors in connection with the merger were limited to the delivery of its opinion. PJSC received a fee of $2,000,000 for its services, a majority of which was payable upon the delivery of PJSC s opinion. In addition, Harrah s has also agreed to reimburse PJSC for its out-of-pocket expenses, including fees and disbursements of its counsel, incurred in connection with its engagement and to indemnify PJSC and certain related persons against liabilities and expenses, including liabilities under the federal securities laws, relating to or arising out of its engagement.

Under the terms of its engagement letter with the special committee of Harrah s board of directors, if requested by the special committee of Harrah s board of directors at least 30 days prior to the closing of the merger, PJSC will deliver to the special committee of Harrah s board of directors an opinion as to the solvency, or lack thereof, of the surviving corporation in the merger, based on the assumption that the closing of the merger will occur. By delivery of PJSC s opinion, PJSC did not express any opinion as to the solvency, or lack thereof, of the surviving corporation in the merger. No additional fees will be paid to PJSC upon the rendering to the special committee of Harrah s board of directors of the opinion as to the solvency of the surviving corporation in the merger, or lack thereof, if applicable. PJSC may be required to refund $350,000 of the fees previously paid to PJSC in certain circumstances if the special committee of Harrah s board of directors requests that PJSC render such opinion and PJSC fails to render such opinion.

PJSC has not received compensation during the last two years for providing investment banking services to Harrah s or the Equity Investors. During the past two years, PJSC provided certain financial advisory services to kate spade LLC and/or its affiliates, which may be deemed an affiliate of Texas Pacific Group, an investor in Parent, for which services PJSC received customary fees. An entity that may be deemed to be an affiliate of Texas Pacific Group, an investor in Parent, acquired The Neiman Marcus Group, Inc., which owned kate spade LLC, during the term of such services.

**Financing of the Merger**

The total amount of funds necessary to complete the merger and related transactions is anticipated to be approximately $26.1 billion, consisting of:

- approximately $17.7 billion to pay Harrah s stockholders and holders of options and stock appreciation rights the amounts due to them under the merger agreement, assuming:
  - a purchase price of $90.00 per share (net of the strike price for options and stock appreciation rights and excluding any adjustment to the purchase price after the Adjustment Date);
  - conversion of all of the issued and outstanding $375.0 million in aggregate principal amount Floating Rate Contingent Convertible Senior Notes due 2024 of HOC into the Merger Consideration; and
  - no Harrah s stockholder validly exercises and perfects its appraisal rights;
- approximately $7.7 billion to refinance certain existing indebtedness (including prepayment premiums); and
- approximately $0.7 billion to pay related fees and expenses in connection with the merger.

These payments are expected to be funded by a combination of (A) equity contributions by affiliates of the Equity Investors and other investors in Parent and/or Merger Sub and (B) debt financing. Parent has obtained equity and debt financing commitments described below in connection with the transactions contemplated by the merger agreement. Parent s proposed equity and debt financing may change after the date hereof. The merger agreement permits changes to Parent s financing under certain circumstances.

***Equity Financing***

The Equity Investors have collectively agreed to cause up to $5.871 billion of cash to be contributed to Parent and/or Merger Sub, which will constitute the equity portion of the merger financing. Subject to certain conditions, each of the Equity Investors may assign a portion of its equity commitment obligation (including assignment to one or more existing holders of our common stock), provided that it remains obligated to perform to the extent not performed by such assignee. The commitment of each Equity Investor pursuant to the equity commitment letters is as follows:

| | |
|---|---|
| Apollo Management VI, L.P., on behalf of affiliated investment funds | $ 2,935,500,000 |
| TPG Partners V, L.P. | $ 2,935,500,000 |

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Each of the equity commitments is generally subject to the satisfaction or waiver of all of the conditions to Parent s and Merger Sub s obligation to effect the closing of the merger under the merger agreement in accordance with its terms. Each of the equity commitment letters will terminate upon the termination of the merger agreement or if we or any of our affiliates assert any claim under any limited guarantee of any Equity Investor (which were issued in connection with the equity commitments) in connection with the merger agreement or the transactions contemplated by the limited guarantee or the merger agreement other than the specific performance section of the merger agreement, as described below.

We have the right to seek specific performance to cause the Equity Investors to fund their equity commitments under the equity commitment letters if all of the conditions to Parent s and Merger Sub s obligation to effect the closing of the merger under the merger agreement have been satisfied (or are capable of being satisfied at the closing of the merger), the funds contemplated by the debt financing described below are available and we are not in material breach of the merger agreement.

***Debt Financing***

Parent has received a debt commitment letter, dated as of December 19, 2006, from prospective arrangers and lenders (the Lender Parties ) to provide, subject to the conditions set forth therein:

- to HOC, up to $9.0 billion of senior secured credit facilities (of which $7.0 billion is expected to be drawn at the closing of the merger, as described below) for the purpose of repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries, as well as for providing ongoing working capital and for other general corporate purposes of the surviving corporation and its subsidiaries;

- to HOC, up to $6.025 billion of senior unsecured bridge loans under a bridge loan facility, for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries and paying fees and expenses incurred in connection with the merger; and

- to one or more direct or indirect subsidiaries of Parent, up to $7.25 billion (which amount may be increased by up to $750 million subject to a corresponding reduction in the other facilities) of mortgage loans and/or related mezzanine financing (collectively, CMBS Loans ) and/or real estate term loans under a real estate facility, for the purpose of financing the merger, repaying or refinancing certain existing indebtedness of Harrah s and its subsidiaries and paying fees and expenses incurred in connection with the merger.

The debt commitments expire on the Outside Date (as defined below under The Merger Agreement Termination of the Merger Agreement ) under the merger agreement. Nothing in the merger agreement or otherwise will require the Company to be an issuer or other obligor prior to the closing of the merger for the debt contemplated by the debt commitments.

The documentation governing the senior secured credit facilities, the bridge facility and the real estate facility has not been finalized. In addition, the financing is subject to the right of the Lender Parties and Parent to change certain terms (but not the conditions or the aggregate amount) of the financing. Accordingly, the actual terms and amounts of such facilities may differ from those described in this proxy statement.

Parent has agreed to use its reasonable best efforts to arrange the debt financing on the terms and conditions described in the debt commitment letters. If any portion of the debt financing becomes unavailable on the terms and conditions contemplated in the debt commitment letters, Parent must use its reasonable best efforts to obtain alternative financing on terms that are not materially less beneficial to Parent and Merger Sub, in an amount sufficient to consummate the transactions contemplated by the merger agreement, as promptly as possible (and, for the avoidance of doubt, if all conditions to the closing of the merger have been satisfied but any portion of the debt financing (other than bridge financing) is not available, then Parent will use committed bridge financing to the extent available as promptly as practicable following the final day of the Marketing Period (as defined below under The Merger Agreement Closing; Effective Time; Marketing Period )).

Although the debt financing described in this proxy statement is not subject to due diligence or market out conditions, such financing may not be considered assured. As of the date of this proxy statement, no alternative financing arrangements or alternative financing plans have been made in the event the debt financing described herein is not available as anticipated.

***Conditions Precedent to the Debt Commitments***

The availability of the senior secured credit facilities, the bridge facility and the real estate facility are subject to, among other things:

- consummation of the merger in accordance with the merger agreement (without giving effect to any amendments, modifications or waivers by Parent that are materially adverse to the interests of the lenders under such facilities, other than with the consent of arrangers representing no less than 66 $^{2}/3$% of the aggregate amount of the financial commitments in the debt commitment letter);
- the equity contribution being made and representing at least 17.5% of the total capitalization of the surviving corporation;
- the repayment, purchase, calling for redemption, discharge or making of other provision for certain of our existing debt, and the absence of certain types of other debt;
- cooperation from Parent and its affiliates in marketing the debt securities and the senior secured facilities;
- payment of required fees and expenses; and
- negotiation, execution and delivery of definitive documentation, delivery of customary opinions, documents and certificates, and, subject to certain exceptions and qualifications, granting and perfecting security interests in certain collateral.

The availability of the CMBS Loans (but not the real estate term loans) is subject to a number of additional conditions, including among other things:

- delivery of certified surveys of each of the properties included as collateral for the CMBS Loans;
- proof of insurance coverage reasonably acceptable to the arranger;
- delivery of an engineering report for each of the properties included as collateral for the CMBS Loans showing that all material improvements are in good and workable condition and comply with all applicable material regulations (or, if not, an estimate of cost and description of any deferred maintenance and repairs);
- delivery of an environmental report with respect to each of the properties included as collateral for the CMBS Loans showing that there is no material violation of law in respect of any toxic substance or hazardous waste contained within the properties (or an estimate of the cost and description of any remediation); and
- delivery of Member Appraisal Institute appraisals of each of the properties included as collateral for the CMBS Loans (in accordance with Financial Institutions Reform Recovery and Enforcement Act standards).

***Senior Secured Credit Facilities***

*General*

The borrower under the senior secured credit facilities at the closing of the merger will be HOC (in such capacity, the Borrower ). The senior secured credit facilities will be comprised of a $7.0 billion term loan facility with a term of seven years (which is expected to be drawn in full as of the closing date of the merger) and a $2.0 billion revolving loan facility with a term of six years (which is expected to be undrawn as of the closing date of the merger). The revolving credit facility will include sublimits for the issuance of letters of credit and swingline loans and will be available in U.S. dollars as well as euros, British pounds and such other currencies as may be mutually agreed, in each case with sublimits to be agreed upon.

Banc of America Securities LLC and Deutsche Bank Securities, Inc. will act as joint lead arrangers for the senior secured credit facilities. Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse,

Cayman Island Branch, Deutsche Bank Securities, Inc., JPMorgan Chase Bank, N.A. and Merrill Lynch Capital Corporation (or, in each case, one of their affiliates) have been appointed as joint book-running managers for the senior secured credit facilities. Bank of America, N.A. will act as sole administrative agent and collateral agent for the senior secured credit facilities. Deutsche Bank AG New York Branch (acting through one or more of its branches or affiliates) will act as syndication agent for the senior secured credit facilities. Citigroup Global Markets Inc., Credit Suisse, Cayman Island Branch, JPMorgan Chase Bank, N.A. and Merrill Lynch Capital Corporation (or, in each case, one of their affiliates) will act as co-documentation agents for the senior secured credit facilities.

*Interest Rate*

Loans under the senior secured credit facilities are expected to bear interest, at the Borrower s option, at a rate equal to the adjusted London interbank offer rate or an alternate base rate, in each case plus a spread. After the Borrower delivers financial statements for the first full fiscal quarter ending after the effective date of the merger, interest rates under the senior secured credit facilities will be subject to change based on a senior secured leverage ratio (which means the ratio of the Borrower s total senior first-lien secured net indebtedness to EBITDA), with step-downs as agreed upon between the Borrower and the arrangers.

*Guarantors*

All obligations under the senior secured credit facilities and under any interest rate protection or other hedging arrangement entered into with a Lender Party or any of its affiliates will be unconditionally guaranteed jointly and severally at the closing of the merger by Harrah s and the parent or subsidiary of Harrah s that is the lowest tier direct or indirect parent of both the Borrower and the borrowers under the real estate facility.

*Security*

The obligations of the Borrower under the senior secured credit facilities, and under any interest rate protection or other hedging arrangement entered into with a lender or any of its affiliates, will be secured, subject to permitted liens and other agreed upon exceptions, by all the capital stock of the Borrower and its subsidiaries (limited, in the case of foreign subsidiaries, to 65% of the capital stock of such subsidiaries). In addition, the obligations of the Borrower will be secured, subject to permitted liens and other agreed upon exceptions, by a pledge of substantially all material, owned assets of each existing and subsequently acquired or organized wholly-owned material domestic subsidiary (the Subsidiary Pledgors ) of the Borrower. The documentation governing the senior secured credit facilities will provide that the amount of indebtedness secured under such facilities will at all times be less than the amount at which the existing notes of HOC that will remain outstanding following the closing date would be entitled under the terms thereof in effect on the closing date to be equally and ratably secured. If certain security is not provided at the closing of the merger despite the use of commercially reasonable efforts to so provide, the delivery of such security will not be a condition precedent to the availability of the senior secured credit facilities on the closing date, but instead will be required to be delivered following the closing date, pursuant to arrangements to be agreed upon.

*Other Terms*

The senior secured credit facilities will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, investments, sales of assets, mergers and consolidations, prepayments of subordinated indebtedness, liens and dividends and other distributions. The senior secured credit facilities will also include customary events of default, including a change of control to be defined.

***Issuance of Debt Securities and/or Bridge Facility***

An indirect wholly owned subsidiary of Parent (which will be the Borrower under the senior secured credit facilities or, contingent on the closing of the merger, one of our subsidiaries) (such entity, the Issuer ) is expected to issue up to $6.025 billion aggregate principal amount of debt securities. The debt securities will not be registered under the Securities Act and may not be offered in the United States absent registration or an applicable exemption from registration requirements and nothing herein is or shall be deemed to be an offer or sale of debt securities, which may only be made pursuant to appropriate offering documentation. Such notes, if issued, may be entitled to registration rights. If the offering of debt securities by the Issuer is not completed on or prior to the closing of the merger, the Lender Parties have committed to provide up to $6.025 billion in loans under a senior unsecured bridge facility to the Borrower under the senior secured credit facilities. If the bridge facility is funded, the Issuer is expected to attempt to issue debt securities to refinance the bridge facility, in whole or in part, as soon as practicable following the closing date of the merger, subject to the restrictions on offering and sale described above.

Citigroup Global Markets Inc. and Deutsche Bank Securities, Inc. will act as joint lead arrangers for the bridge facility. Citigroup Global Markets Inc., acting through one or more of its branches or affiliates, will act as sole administrative agent for the bridge facility. Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse, Cayman Island Branch, Deutsche Bank Securities, Inc., JPMorgan Chase Bank, N.A. and Merrill Lynch Capital Corporation (or, in each case, one of their affiliates) will act as joint bookrunning managers for the bridge facility. Deutsche Bank AG New York Branch (acting through one or more of its branches or affiliates) will act as syndication agent for the bridge facility, and Banc of America Bridge LLC, Credit Suisse, Cayman Island Branch, JPMorgan Chase Bank, N.A. and Merrill Lynch Capital Corporation (or, in each case, one of their affiliates) will act as co-documentation agents for the bridge facility.

*Interest Rate*

Initially, bridge loans are expected to bear interest at a rate equal to the greater of a specified rate or the adjusted London interbank offer rate plus a spread that will increase over time. Interest is payable quarterly in cash, except that, at the option of the Borrower made each quarter, interest on a portion of the principal amount of the bridge loans may be paid in cash, in kind or half in cash and half in kind. Any interest rate with respect to any amount elected to be paid in kind will be the rate otherwise applicable plus an additional premium. At the first year anniversary of the closing of the merger, the bridge loans will, to the extent not repaid, convert into senior unsecured term loans. After conversion to senior unsecured term loans, the applicable Lender Party may choose to exchange such loans for senior unsecured exchange notes, which will be entitled to registration rights. The bridge loans and unsecured term loans are subject to a maximum rate of interest. Any senior unsecured term loans or exchange notes will mature on the tenth anniversary of the closing date of the merger, except that the portion of the senior unsecured term loans or exchange notes that may be paid in kind will mature on the eighth anniversary of the closing date of the merger.

*Guarantors*

All obligations under the bridge facility will be unconditionally guaranteed jointly and severally at the closing of the merger by Harrah s, each other entity that guarantees the senior secured credit facilities and each Subsidiary Pledgor.

*Other Terms*

The bridge facility will contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, investments, sales of assets, mergers and consolidations, prepayments of subordinated indebtedness, liens and dividends and other distributions. The bridge facility will also include customary events of default, including a change of control to be defined.

***Real Estate Facility***

The real estate facility will require that one or more wholly-owned, special purpose subsidiaries be created (collectively, the Real Estate Borrowers ) and on or prior to the closing of the merger, the following will occur:

- certain real estate assets will be contributed to certain of the Real Estate Borrowers representing approximately one-third of Harrah s EBITDA for the prior 12-month period, which will be subsidiaries of the surviving corporation (or a parent entity of the surviving corporation or other subsidiary of the surviving corporation);

- the surviving corporation will likely implement an OpCo / PropCo structure such that the Real Estate Borrowers ( PropCo s ) will be owned by one or more intermediate subsidiaries of Harrah's, as will operating companies ( OpCo s ) that will operate the assets of the Real Estate Borrowers;

- each Real Estate Borrower will enter into CMBS Loans, provided that to the extent the CMBS Loans with respect to a specific property are not able to be closed contemporaneously with the merger, certain of the Real Estate Borrowers will enter into a real estate term loan; and

- various tranches of the real estate facility will be secured by a first priority mortgage on the real property and related improvements owned by the applicable Real Estate Borrowers, and/or by liens on the equity of the Real Estate Borrowers.

JPMorgan Chase Bank, N.A. (or its designated affiliate) will act as lead arranger of the real estate facility. Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse, Cayman Island Branch, Deutsche Bank AG New York Branch, JPMorgan Chase Bank, N.A. and Merrill Lynch Capital Corporation (or, in each case, their designated affiliate) will act as joint bookrunning managers for the real estate facility.

*CMBS Loans*

The expectation as to the real estate facility is that the Real Estate Borrowers will enter into up to $7.25 billion aggregate principal amount of mortgage loans or related mezzanine financing (which amount may be as much as $8.0 billion, subject to a corresponding reduction in one of the other facilities). The CMBS Loans will have an initial term of two years from the closing of the merger, subject to the Real Estate Borrowers option to exercise three one-year extensions, for a maximum term of 5 years. Interest on the CMBS Loans will equal the London interbank offer rate plus a specified spread. Harrah s (or one or more of its subsidiaries) at the closing of the merger will execute a guaranty and indemnity with respect to the recourse obligations of the Real Estate Borrowers, and will be jointly and severally liable with the Real Estate Borrowers for environmental obligations or liabilities.

*Real Estate Term Loans*

To the extent that any or all of the anticipated CMBS Loans are not completed on or prior to the closing of the merger, the Lender Parties have committed to provide $7.25 billion in loans under a senior secured real estate bridge facility (which amount may be as much as $8.0 billion, subject to a corresponding reduction in one of the other facilities), provided that Parent has used commercially reasonable efforts to cause the CMBS Loan closing conditions to be satisfied and the CMBS Loans to be closed. The net cash proceeds made available to Harrah s and its subsidiaries from CMBS Loans as of the closing date of the merger will reduce, on a dollar-for-dollar basis, the availability of the real estate term loans. The real estate term loans will have an initial term of three years from the closing of the merger, subject to the Real Estate Borrowers option to exercise two one-year extensions, for a maximum term of 5 years. Interest on the real estate term loans will equal the London interbank offer rate plus a specified spread. Harrah s (or one or more of its subsidiaries) at the closing of the merger will execute a guaranty with respect to the obligations of the Real Estate Borrowers under the real estate term loans.

*Security*

The CMBS Loans that are mortgage loans are expected to be secured by, among other things, (A) a perfected first priority mortgage on each property s land and improvements, (B) an assignment of all rights and

interests under all leases relating to such property, (C) an assignment in all right, title and interest in all rents, deposits, letters of credit, hotel revenue, casino revenues, cash on hand, reserve accounts, income and profits with respect to each property, (D) an assignment of the related interest rate hedging arrangements and (E) an assignment of any interest (to the extent assignable) in all construction and other contracts, agreements and personal property relating to the Properties, including, without limitation, sales contracts and related deposits, equipment (including gaming equipment), licenses, permits, tangible and intangible property, general intangibles, trademarks, intellectual property, inventory, investment property, cash, deposit accounts, security accounts, and any other property in which a security interest can be taken. The CMBS Loans that are mezzanine loans are expected to be secured by (A) a perfected first priority pledge of 100% of the equity ownership interests in the applicable Real Estate Borrower, (B) a perfected security interest in any reserve accounts established on behalf of the Lender Parties lead arranger, subject to the Mortgage Loans and any senior Mezzanine Loans, (C) an assignment of the related interest rate hedging arrangements and (D) an assignment in all of each Real Estate Borrower s interest (to the extent assignable) in other contracts, agreements and personal property, subject to the mortgage loans and any senior mezzanine loans. The real estate term loans are expected to be secured by (A) the collateral equivalent for both types of CMBS Loans, (B) at the Lender Parties lead arranger s option, a lien in the cash of PropCo that is generated by the properties securing the CMBS Loans (which cash will be available if payments due on the real estate term loans are not made), and (C) a subordinate pledge of equity in each entity constituting the mezzanine borrower under the CMBS Loans that is not subject to a security interest under any CMBS Loans.

*Other Terms*

The real estate facility will contain representations and warranties and affirmative and negative covenants that are customary for financings of that type, but will not contain any financial maintenance covenants and will not impair the operation of the properties. The real estate facility will also include customary events of default.

**Limited Guarantee**

In connection with the merger agreement, each of the Equity Investors entered into a limited guarantee with Harrah s pursuant to which, among other things, each of the Equity Investors has provided us with a guarantee of payment of 50% of the breakup fee or regulatory breakup fee payable by Parent, if any (as described herein under The Merger Agreement Termination Fees and Expenses ), and 50% of Parent s obligation for breach of the merger agreement, up to a maximum amount of $250 million for each of the Equity Investors. Each guarantee will remain in full force and effect until the earliest to occur of (A) the effective time of the merger, (B) the termination of the merger agreement by mutual consent of us and Parent, (C) thirty (30) days after the termination of the merger agreement under circumstances in which Parent and Merger Sub would not be obligated to pay a termination fee to us, (D) three (3) months after any other termination of the merger agreement and (E) December 19, 2008, provided that the limited guarantee will not terminate if any proceeding has been commenced to enforce the limited guarantee against the respective guarantor prior to such termination until final and conclusive resolution of such proceeding. The limited guarantee is our sole recourse against the Equity Investors; however the limited guarantee does not limit our rights against Parent and Merger Sub described under The Merger Agreement Specific Performance.

**Interests of Our Directors and Executive Officers in the Merger**

In considering the recommendations of the board of directors, stockholders should be aware that certain of our directors and executive officers have interests in the transaction that are different from, or in addition to, the interests of stockholders generally. These interests may present them with actual or potential conflicts of interest, and these interests, to the extent material, are described below. The special committee and board of directors were aware of these potential conflicts of interest and considered them, among other matters, in reaching their decisions, as applicable, to approve the merger agreement and the merger and to recommend that our stockholders vote in favor of adopting the merger agreement.

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***Treatment of Stock Options***

As of February 15, 2007, there were approximately 4,896,238 shares of common stock issuable pursuant to stock options granted under our equity incentive plans to our current executive officers and directors. Under the terms of the merger agreement, immediately prior to the effective time of the merger, each option held by an executive officer or director that is outstanding and unexercised as of the effective time of the merger, whether vested or unvested, will be cancelled and converted into the right to receive a cash payment equal to the product of (A) the number of shares of common stock underlying his or her outstanding and unexercised options, whether vested or unvested, and (B) the excess, if any, of the Merger Consideration over the exercise price per share of common stock previously subject to such options, less any required withholding taxes.

The following table identifies, for each of our current directors and executive officers, the aggregate number of shares of common stock subject to outstanding vested and unvested options as of February 15, 2007, the aggregate number of shares of common stock subject to outstanding unvested options that will become fully vested in connection with the merger, the weighted average exercise price and the value of such unvested options, and the weighted average exercise price and value of vested and unvested options. The information in the table assumes that all options remain outstanding as of the closing date of the merger.

| Name | Aggregate Shares Subject to Options | Number of Shares Underlying Unvested Options (1) | Weighted Average Exercise Price of Unvested Options | Value of Unvested Options (2) | Weighted Average Exercise Price of Vested and Unvested Options | Value of Vested and Unvested Options (3) |
|---|---|---|---|---|---|---|
| **Directors** | | | | | | |
| Barbara T. Alexander | 7,000 | 2,500 | $ 40.3250 | $ 124,187 | $ 41.2307 | $ 341,385 |
| Frank J. Biondi, Jr. | 9,000 | 3,000 | $ 49.3200 | $ 122,040 | $ 47.5156 | $ 382,360 |
| Stephen F. Bollenbach | | | $ | $ | $ | $ |
| Ralph Horn | 4,000 | | $ | $ | $ 45.2600 | $ 178,960 |
| R. Brad Martin | 4,000 | | $ | $ | $ 45.2600 | $ 178,960 |
| Gary G. Michael | 6,500 | 2,500 | $ 32.6500 | $ 143,375 | $ 40.4100 | $ 322,335 |
| Robert G. Miller | 4,000 | | $ | $ | $ 45.2600 | $ 178,960 |
| Boake A. Sells | 4,000 | | $ | $ | $ 45.2600 | $ 178,960 |
| Christopher J. Williams | 5,000 | 3,500 | $ 45.4350 | $ 155,978 | $ 45.4350 | $ 222,825 |
| **Executive Officers** | | | | | | |
| Gary W. Loveman | 2,292,989 | 770,695 | $ 67.7895 | $ 17,117,521 | $ 54.9861 | $ 80,286,488 |
| Charles L. Atwood | 307,000 | 66,667 | $ 73.9500 | $ 1,070,005 | $ 65.7633 | $ 7,440,667 |
| John M. Boushy (4) | | | $ | $ | $ | $ |
| Stephen H. Brammell | 195,465 | 16,667 | $ 73.9500 | $ 267,505 | $ 50.8044 | $ 7,661,367 |
| Jonathan S. Halkyard | 129,845 | 13,333 | $ 73.9500 | $ 213,995 | $ 55.4682 | $ 4,483,782 |
| Thomas M. Jenkin | 175,044 | 33,333 | $ 73.9500 | $ 534,995 | $ 63.2305 | $ 4,685,840 |
| Janis L. Jones | 171,132 | 13,333 | $ 73.9500 | $ 213,995 | $ 49.0823 | $ 7,002,328 |
| David W. Norton | 174,000 | 113,333 | $ 65.1353 | $ 2,817,991 | $ 63.5545 | $ 4,601,517 |
| John Payne | 65,304 | 11,667 | $ 73.9500 | $ 187,255 | $ 62.6269 | $ 1,787,573 |
| Virginia E. Shanks | 96,333 | 63,333 | $ 66.0631 | $ 1,515,996 | $ 67.3603 | $ 2,180,950 |
| Timothy S. Stanley | 160,906 | 113,333 | $ 65.1353 | $ 2,817,991 | $ 64.7260 | $ 4,066,738 |
| Mary H. Thomas | | | $ | $ | $ | $ |
| J. Carlos Tolosa | 342,417 | 84,542 | $ 57.1018 | $ 2,781,279 | $ 54.9043 | $ 12,017,364 |
| Timothy J. Wilmott (5) | 742,303 | 169,084 | $ 57.1020 | $ 5,562,525 | $ 54.8810 | $ 26,068,939 |

(1) If the merger does not close on or before March 31, 2007, the following options will become vested on April 1, 2007: Ms. Alexander, 500 shares; Mr. Biondi, 500 options; Mr. Michael, 500 options; and Mr. Williams, 500 options. If the merger does not close on or before December 31, 2007, the following

options will become vested on January 1, 2008: Mr. Loveman, 370,695 options; Mr. Atwood, 66,667 options; Mr. Brammell, 16,667 options; Mr. Halkyard, 13,333 options; Mr. Jenkin, 33,333 options; Ms. Jones, 13,333 options; Mr. Norton, 38,333 options; Mr. Payne, 11,667 options; Ms. Shanks, 25,833 options; Mr. Stanley, 38,333 options; Mr. Tolosa, 84,542 options; and Mr. Wilmott, 169,084 options.

(2) Illustrates the economic value of all unvested options that will become fully vested and cashed out in connection with the merger. Calculated for each individual by multiplying the number of shares underlying unvested options by the difference, if any, between the Base Merger Consideration and the weighted average exercise price of the unvested options.

(3) Illustrates the economic value of all options to be cancelled and cashed out in connection with the merger. Calculated for each individual by multiplying the aggregate number of shares subject to options by the difference between the Base Merger Consideration and the weighted average exercise price of all such options.

(4) Resigned effective August 28, 2006.

(5) Resigned effective January 5, 2007.

***Treatment of Stock Appreciation Rights***

As of February 15, 2007, our current executive officers held approximately 1,137,589 stock appreciation rights. None of our current directors held any stock appreciation rights as of the record date. Under the terms of the merger agreement, immediately prior to the effective time of the merger, each stock appreciation right held by an executive officer or director that is outstanding as of the effective time of the merger, whether vested or unvested, will be cancelled and converted into the right to receive a cash payment equal to the product of (A) the number of shares of common stock underlying his or her outstanding stock appreciation rights, whether vested or unvested, and (B) the excess, if any, of the Merger Consideration over the exercise price per share of common stock previously subject to such stock appreciation rights, less any required withholding taxes.

The following table identifies, for each of our current executive officers, the aggregate number of shares of common stock subject to outstanding vested and unvested stock appreciation rights as of February 15, 2007, the aggregate number of unvested shares subject to such stock appreciation rights that will become fully vested in connection with the merger, the exercise price of such stock appreciation rights, the value of the unvested stock appreciation rights and the aggregate value of the vested and unvested stock appreciation rights. The information in the table assumes that all such stock appreciation rights remain outstanding as of the closing date of the merger.

| Name | Aggregate Shares Subject to Stock Appreciation Rights | Number of Shares Underlying Unvested Stock Appreciation Rights (1) | Weighted Average Exercise Price of Unvested Stock Appreciation Rights | Value of Unvested Stock Appreciation Rights (2) | Weighted Average Exercise Price of Vested and Unvested Stock Appreciation Rights | Value of Vested and Unvested Stock Appreciation Rights (3) |
|---|---|---|---|---|---|---|
| Gary W. Loveman | 350,000 | 350,000 | $ 64.9700 | $ 8,760,500 | $ 64.9700 | $ 8,760,500 |
| Charles L. Atwood | 173,157 | 173,157 | $ 64.9700 | $ 4,334,120 | $ 64.9700 | $ 4,334,120 |
| John M. Boushy (4) | | | $ | $ | $ | $ |
| Stephen H. Brammell | 34,631 | 34,631 | $ 64.9700 | $ 866,814 | $ 64.9700 | $ 866,814 |
| Jonathan S. Halkyard | 24,606 | 24,606 | $ 64.9700 | $ 615,888 | $ 64.9700 | $ 615,888 |
| Thomas M. Jenkin | 80,414 | 80,414 | $ 64.9700 | $ 2,012,762 | $ 64.9700 | $ 2,012,762 |
| Janis L. Jones | 27,705 | 27,705 | $ 64.9700 | $ 693,456 | $ 64.9700 | $ 693,456 |
| David W. Norton | 35,128 | 35,128 | $ 64.9700 | $ 879,254 | $ 64.9700 | $ 879,254 |
| John Payne | 30,476 | 30,476 | $ 64.9700 | $ 762,814 | $ 64.9700 | $ 762,814 |
| Virginia E. Shanks | 27,359 | 27,359 | $ 64.9700 | $ 684,796 | $ 64.9700 | $ 684,796 |
| Timothy S. Stanley | 36,986 | 36,986 | $ 64.9700 | $ 925,760 | $ 64.9700 | $ 925,760 |
| Mary H. Thomas | 52,012 | 43,678 | $ 67.3567 | $ 989,014 | $ 67.9765 | $ 1,145,486 |
| J. Carlos Tolosa | 80,414 | 80,414 | $ 64.9700 | $ 2,012,762 | $ 64.9700 | $ 2,012,762 |
| Timothy J. Wilmott (5) | 184,701 | 184,701 | $ 64.9700 | $ 4,623,066 | $ 64.9700 | $ 4,623,066 |

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(1) If the merger does not close on or before June 29, 2007, the following stock appreciation rights will become vested on June 30, 2007: Mr. Loveman, 70,000 rights; Mr. Atwood, 57,719 rights; Mr. Brammell, 11,544 rights; Mr. Halkyard, 8,202 rights; Mr. Jenkin, 26,805 rights; Ms. Jones 9,235 rights; Mr. Norton, 11,710 rights; Mr. Payne, 10,159 rights; Ms. Shanks, 9,120 rights; Mr. Stanley, 12,329 rights; Ms. Thomas, 9,004 rights; Mr. Tolosa, 26,805 rights; and Mr. Wilmott, 61,567 rights. If the merger does not close on or before December 31, 2007, the following stock appreciation rights will become vested on January 1, 2008: Ms. Thomas, 8,333 rights.

(2) Illustrates the economic value of all stock appreciation rights that will become fully vested and cashed out in connection with the merger. Calculated by multiplying the number of shares underlying the unvested stock appreciation rights by the difference between the Base Merger Consideration and the per share exercise price of the stock appreciation rights.

(3) Illustrates the economic value of all stock appreciation rights to be cancelled and cashed out in connection with the merger. Calculated by multiplying the number of shares underlying the stock appreciation rights by the difference between the Base Merger Consideration and the per share exercise price of the stock appreciation rights.

(4) Resigned effective August 28, 2006.

(5) Resigned effective January 5, 2007.

***Treatment of Restricted Shares***

As of February 15, 2007, Robert G. Miller, Boake A. Sells, Gary W. Loveman and John Payne were the only current executive officers or directors to hold shares of common stock subject to vesting or other lapse restrictions under our equity incentive plans, and they held approximately 61,561 such shares. Under the terms of the merger agreement, each outstanding restricted share held by an executive officer or director that is outstanding immediately prior to the effective time of the merger will vest and become free of such restrictions as of the effective time of the merger. At the effective time of the merger, Messrs. Miller, Sells and Loveman will be entitled to receive the Merger Consideration with respect to each such restricted share.

The following table identifies, for Messrs. Miller, Sells and Loveman, the aggregate number of restricted shares of common stock outstanding as of February 15, 2007 and the value of such restricted shares that will become fully vested in connection with the merger. The information in the table assumes that all such restricted shares remain outstanding as of the closing date of the merger.

| Name | Aggregate Number of Restricted Shares (1) | Value of Restricted Shares (2) |
|---|---|---|
| Robert G. Miller | 300 | $ 27,000 |
| Boake A. Sells | 300 | $ 27,000 |
| Gary W. Loveman | 54,189 | $ 4,877,010 |
| John Payne | 6,772 | $ 609,480 |

(1) If the merger does not close on or before March 31, 2007, the following restricted shares will become vested on April 1, 2007: Mr. Miller, 100 shares; and Mr. Sells, 100 shares. If the merger does not close on or before June 29, 2007, the following restricted shares will become vested on June 30, 2007: Mr. Payne, 2,258 shares. If the merger does not close on or before December 31, 2007, the following restricted shares will become vested on January 1, 2008: Mr. Loveman, 54,189 shares.

(2) Illustrates the economic value of all restricted shares that will become fully vested and cashed out in connection with the merger. Calculated for each individual by multiplying the aggregate number of restricted shares by the Base Merger Consideration.

***Treatment of Restricted Stock Units***

As of the record date, Stephen H. Brammell was the only current executive officer or director who held any restricted stock units granted under our TARSAP Deferral Plan. Under the terms of the merger agreement, immediately prior to the effective time of the merger, each outstanding restricted stock unit under the TARSAP Deferral Plan held by an executive officer or director will be converted on a one-for-one basis into shares of

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common stock. At the effective time of the merger, Mr. Brammell will be entitled to receive the Merger Consideration with respect to each such converted share, less any required withholding taxes.

The following table identifies, for Mr. Brammell, the aggregate number of restricted stock units granted under our TARSAP Deferral Plan outstanding as of February 15, 2007 and the value of such restricted stock units that will be converted in connection with the merger. The information in the table assumes that all such restricted stock units remain outstanding as of the closing date of the merger.

| Name | Aggregate Number of Restricted Stock Units | Value of Restricted Stock Units (1) |
|---|---|---|
| Stephen H. Brammell | 30,000 | $ 2,700,000 |

(1) Illustrates the economic value of all restricted stock units that will be converted and cashed out in connection with the merger. Calculated by multiplying the aggregate number of restricted stock units by the Base Merger Consideration.

***Severance Agreements***

As of February 15, 2007, we have entered into severance agreements with 29 of our employees, including our current executive officers, pursuant to which each such executive officer will be entitled to receive the following severance and other benefits if (A) at any time prior to the second anniversary of the merger, such executive officer s employment is terminated by us without cause (as defined in such agreements) or such executive officer resigns for good reason (as defined in such agreements), (B) during the six-month period prior to the merger, such executive officer s employment is terminated by us without cause (as defined in such agreements), or (C) only under Mr. Loveman s severance agreement, Mr. Loveman voluntarily terminates his employment during a 30-day period following the first anniversary of the merger:

- a compensation payment equal to three times the executive officer s annual compensation (which includes salary and bonus amounts);
- a pro-rata annual bonus for the year in which such termination of employment occurs;
- accelerated vesting of, and at our election, cash out of all or a portion of, the executive officer s stock options outstanding and unexercised as of the effective time of the merger, if any;
- for up to 24 months following such termination of employment, continued life, accident and health insurance benefits substantially similar to those provided prior to such termination of employment;
- tax gross-up payments to make the executive whole for any federal excise taxes imposed on change in control or severance payments or benefits received by the executive; and
- payment of any legal fees and expenses incurred by the executive as a result of such termination of employment (including fees or expenses incurred in contesting such termination of employment or in enforcing any right or benefit under the severance agreement).

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Assuming that each current executive officer is terminated by us without cause (as defined in such agreements) or such executive officer resigns for good reason (as defined in such agreements) immediately following the merger, the approximate amount of cash severance benefits that would be payable is:

| Name | Potential Cash Severance Benefits (1) |
|---|---|
| Gary W. Loveman | $ 18,371,516 |
| Charles L. Atwood | $ 9,432,493 |
| John M. Boushy (2) | $ |
| Stephen H. Brammell | $ 2,850,964 |
| Jonathan S. Halkyard | $ 3,500,206 |
| Thomas M. Jenkin | $ 7,206,372 |
| Janis L. Jones | $ 2,298,284 |
| David W. Norton | $ 2,217,138 |
| John Payne | $ 4,655,521 |
| Virginia E. Shanks | $ 2,093,500 |
| Timothy S. Stanley | $ 3,173,014 |
| Mary H. Thomas | $ 2,605,142 |
| J. Carlos Tolosa | $ 6,133,540 |
| Timothy J. Wilmott (3) | $ |

(1) The amounts in the table are based on estimated salary and bonus that will be paid to each executive in 2007. The amounts exclude the value of any unvested stock appreciation rights, restricted shares, restricted stock units, and unexercised stock options that would accelerate and vest in the event of a termination of employment in connection with the merger. These amounts are separately disclosed in the tables under Treatment of Stock Options, Treatment of Stock Appreciation Rights, Treatment of Restricted Shares and Treatment Restricted Stock Units.

(2) Resigned effective August 28, 2006.

(3) Resigned effective January 5, 2007.

***Funding of Deferred Compensation Plans***

We have entered into escrow or trust arrangements for the purpose of funding the benefits earned by participants in our deferred compensation plans. Immediately prior to or within 90 days following occurrence of the merger (or, in some cases, stockholder approval of the merger) we will be required to fully fund such escrow or trust arrangements relating to the benefits earned under our deferred compensation plans.

***Savings and Retirement Plan***

Under our Amended and Restated Savings and Retirement Plan, upon the occurrence of the merger, any amounts credited to the accounts of our executive officers will become 100% vested, whether or not the plan is continued or assumed in connection with the merger.

***Management Arrangements***

As of the date of this proxy statement, neither we, Parent nor any affiliate thereof has entered into any employment agreements with our management in connection with the merger, nor amended or modified any existing employment agreements. Parent has informed us that it currently intends to retain members of our management team following the merger, and that it anticipates that Gary W. Loveman, our Chairman, Chief Executive Officer and President, will continue as Chief Executive Officer. Mr. Loveman, on behalf of himself and other members of management, is currently in discussions with Parent regarding terms of employment following the merger. Parent may ask one or more members of management to serve on the governing board of Parent. Parent has also informed us that it may offer members of management the opportunity to convert all or a portion of their current equity interests in Harrah s into equity in Parent (and/or a subsidiary thereof), or

otherwise invest in Parent (and/or a subsidiary thereof), on terms that are no more favorable to management than to the Equity Investors. Further, Parent has informed us that it intends to establish equity-based incentive compensation plans for management of the surviving corporation, a substantial portion of which is likely to be allocated to our executive officers. The size of such equity based incentive compensation plans has not yet been determined and no awards have been made or promised.

Although it is likely that certain members of our management team will enter into new arrangements with Parent or its affiliates regarding employment (and severance arrangements) with, and the right to purchase or participate in the equity of, Parent (and/or a subsidiary thereof), there can be no assurance that the parties will reach agreement. These matters are subject to further negotiations and discussion and no terms or conditions have been finalized. Any new arrangements are currently expected to be entered into at or prior to the completion of the merger.

***Indemnification and Insurance***

The merger agreement provides that all rights to indemnification, exculpation and advancement existing in favor of our current or former directors, officers, employees and agents as provided in our and our subsidiaries organizational documents, or in any indemnification agreement or arrangement as in effect as of the date of the merger agreement, with respect to matters occurring prior to or at the effective time of the merger will survive the consummation of the merger and will continue in full force and effect from and after the closing of the merger.

On or prior to the effective time of the merger, we will purchase, and, following such time, the surviving corporation will maintain, a tail policy to our policies of directors and officers liability insurance and fiduciaries liability insurance maintained on the date of the merger agreement. This tail policy is required to remain effective for six years after the closing date of the merger with respect to claims arising from facts or events that existed or occurred prior to or at the effective time of the merger, will contain coverage that is at least as protective of the persons covered as the coverage provided by the policy in place on the date of the merger agreement, and will include nonmanagement directors Side A (DIC) coverage. Notwithstanding the foregoing, the surviving corporation will not be required to provide any more coverage than can be obtained by paying aggregate premiums equal to 300% of the aggregate amount that Harrah s is currently paying for such directors and officers liability and fiduciaries liability coverage.

***Continued Benefits***

To the extent that any of our executive officers remains employed by the Surviving Corporation, each will be entitled to receive compensation and benefits following the merger. For a period of one year following the effective time of the merger, Parent has agreed to cause the surviving corporation to maintain for the benefit of each current employee of Harrah s and its subsidiaries employed immediately prior to the effective time (other than those individuals covered by collective bargaining agreements or individual employment agreements, who will be covered by the terms of their respective agreements), compensation, severance and benefits that are substantially comparable in the aggregate (excepting equity-based benefits) to the benefits provided under our benefit plans immediately prior to the closing of the merger.

Parent has agreed to cause the surviving corporation to recognize the service of such employees with us prior to the consummation of the merger for purposes of eligibility, vesting and benefits accrual with respect to any benefit plan, to the same extent as was taken into account under our benefit plans prior to the merger. For each health benefit plan of Parent, such employees will not be subject to pre-existing condition limitations for any condition for which they would have been entitled to coverage under Harrah s corresponding plan. Additionally, the surviving corporation will give such employees credit for any co-payments made or deductibles satisfied prior to the closing of the merger.

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**Material U.S. Federal Income Tax Consequences of the Merger to Our Stockholders**

The following discussion describes the material U.S. federal income tax consequences of the merger to holders of our common stock. This discussion is not a complete analysis of all potential U.S. federal income tax consequences that may be relevant to a holder s decision to dispose of our common stock and does not address any tax consequences arising under any state, local or foreign tax laws or U.S. federal estate or gift tax laws. This discussion is based on the Internal Revenue Code of 1986, as amended (the Code ), Treasury Regulations promulgated thereunder, judicial decisions, and published rulings and administrative pronouncements of the Internal Revenue Service ( IRS ), all as in effect as of the date of this proxy statement. These authorities may change, possibly retroactively, resulting in U.S. federal income tax consequences different from those discussed below. No ruling has been or will be sought from the IRS with respect to the matters discussed below, and there can be no assurance that the IRS will not take a contrary position regarding the tax consequences of the merger or that any such contrary position would not be sustained by a court.

This discussion is limited to holders who hold our common stock as a capital asset within the meaning of Code Section 1221 (generally, property held for investment). This discussion does not address all U.S. federal income tax considerations that may be relevant to a particular holder in light of that holder s particular circumstances or to holders subject to special rules under the U.S. federal income tax laws, such as U.S. expatriates, partnerships and other pass-through entities, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, financial institutions, insurance companies, brokers, dealers or traders in securities, commodities or currencies, tax-exempt organizations, tax-qualified retirement plans, persons subject to the alternative minimum tax and persons holding our common stock as part of a hedge, straddle or other risk reduction strategy or as part of a conversion transaction or other integrated investment.

This discussion does not address the U.S. federal income tax consequences of the merger to holders who acquired our common stock through stock option or stock purchase plan programs or in other compensatory arrangements, nor does it address the receipt of cash in connection with the cancellation of stock appreciation rights, restricted stock units or options to purchase shares of our common stock, or any other matters relating to equity compensation or benefit plans. This discussion does not address the U.S. federal income tax consequences of the merger to holders who directly or indirectly hold an equity interest in Parent or Harrah s after consummation of the merger. This discussion also does not address the U.S. federal income tax consequences to holders who exercise statutory appraisal rights under Delaware law.

**YOU SHOULD CONSULT YOUR TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL TAX CONSEQUENCES OF THE MERGER TO YOU, AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL OR FOREIGN TAX LAWS.**

As used in this discussion, a U.S. holder is any beneficial owner of our common stock who is treated for U.S. federal income tax purposes as:

- an individual citizen or resident of the United States;
- a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust that (A) is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons or (B) has validly elected to be treated as a U.S. person for U.S. federal income tax purposes.

A non-U.S. holder is any beneficial owner of our common stock who is not a U.S. holder or a partnership for U.S. federal income tax purposes.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of its partners generally will depend on a partner s status and the activities of

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the partnership. Partnerships and their partners should consult their tax advisors regarding the U.S. federal income tax consequences to them of the merger.

***U.S. Holders***

*Effect of the Merger*

The receipt of cash in exchange for shares of our common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. holder who receives cash in exchange for our common stock in the merger will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received and the holder s adjusted tax basis in the common stock. Gain or loss must be calculated separately for each identifiable block of common stock exchanged in the merger. Gain or loss will be long-term capital gain or loss if the holder has held the common stock for more than one year as of the closing date of the merger. Long-term capital gains of noncorporate taxpayers generally are subject to tax at a reduced rate. The deductibility of capital losses is subject to limitations.

*Information Reporting and Backup Withholding*

Payments made to U.S. holders in the merger generally will be subject to information reporting and may be subject to backup withholding (currently at a rate of 28%). Certain holders (including corporations) generally are not subject to backup withholding. To avoid backup withholding, U.S. holders that do not otherwise establish an exemption should complete and return the substitute Form W-9 that each holder will receive with the letter of transmittal following completion of the merger. The substitute Form W-9 will require a U.S. holder to provide its taxpayer identification number and certify that such holder is a U.S. person, the taxpayer identification number provided is correct and that such holder is not subject to backup withholding. Backup withholding is not an additional tax. Taxpayers may use amounts withheld as a credit against their U.S. federal income tax liability or may claim a refund of any excess amounts withheld by timely filing a claim for refund with the IRS.

***Non-U.S. Holders***

*Effect of the Merger*

Non-U.S. holders generally will not be subject to U.S. federal income tax on any gain realized on the receipt of cash pursuant to the merger unless:

- the holder is an individual present in the United States for 183 days or more during the taxable year of disposition and certain conditions are met; or

- the gain is effectively connected with the holder s conduct of a trade or business in the United States or, if subject to an applicable tax treaty, attributable to a permanent establishment maintained by the non-U.S. holder in the United States.

Holders described in the first bullet point above will be subject to U.S. federal income tax on any such gain at a flat 30% rate, which may be offset by U.S. source capital losses.

Gain described in the second bullet point above will be subject to U.S. federal income tax on a net income basis generally in the same manner as if the holder were a resident of the United States. Non-U.S. holders that are foreign corporations also may be subject to a branch profits tax equal to 30% (or such lower rate specified by an applicable tax treaty) of a portion of its effectively connected earnings and profits for the taxable year. Non-U.S. holders are urged to consult any applicable tax treaties that may provide for different rules.

A non-U.S. holder who actually or constructively owns or owned more than five percent of our common stock at any time during the five-year period ending on the closing date of the merger (a five percent non-U.S. holder ) will be subject to U.S. federal income tax on any gain recognized on the disposition of its shares in the merger in the same manner as if the gain were effectively connected with the holder s conduct of a trade or

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business in the United States i.e., on an net income basis generally in the same manner as if the holder were a resident of the United States unless the holder establishes to the IRS that our common stock does not constitute a U.S. real property interest ( USRPI ). We have not performed the analysis required to determine whether our common stock constitutes a USRPI and therefore, we may be unable to provide five percent non-U.S. holders with the documentation necessary to satisfy the IRS requirements. **Five percent non-US holders should consult their tax advisors regarding the U.S. federal income tax consequences of the merger to them**.

*Information Reporting and Backup Withholding*

Payments made to non-U.S. holders in the merger may be subject to information reporting and backup withholding (currently at a rate of 28%). Non-U.S. holders can avoid backup withholding by providing us (or our paying agent) with a properly executed IRS Form W-8BEN (or other applicable IRS Form W-8) certifying that such holder is not a U.S. person, or by otherwise establishing an exemption. Backup withholding is not an additional tax. Taxpayers may use amounts withheld as a credit against their U.S. federal income tax liability or may claim a refund of any excess amounts withheld by timely filing a claim for refund with the IRS.

**Regulatory Approvals**

The merger is subject to various regulatory approvals. While we expect to obtain all required regulatory approvals, we cannot assure you that these regulatory approvals will be obtained or that the granting of these regulatory approvals will not involve the imposition of conditions on the completion of the merger or require changes to the terms of the merger agreement. These conditions or changes could result in the conditions to the merger not being satisfied.

***Gaming***

Harrah s gaming operations are, and upon completion of the merger will be, subject to extensive regulation, and each of Harrah s respective subsidiaries holds registrations, approvals, gaming licenses or permits in each jurisdiction in which it operates gaming activities. In each of the jurisdictions, certain regulatory requirements must be complied with and/or certain approvals must be obtained in connection with the merger. Gaming laws are based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry, including prevention of cheating and fraudulent practices. Gaming laws may also be designed to protect and maximize state and local revenues derived through taxation and licensing fees imposed on gaming industry participants and enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness, or suitability.

Harrah s and Parent s respective obligations to complete the merger are conditioned upon all material gaming regulatory approvals and authorizations required to consummate the merger having been obtained. Under the terms of the merger agreement, Parent, Merger Sub and their affiliates have committed to use their reasonable best efforts to obtain all gaming approvals as expeditiously as reasonably practicable, and to the extent practicable without having an adverse impact on Parent s or its affiliates equity commitment, (in the case of (A) below, to the extent practicable without having an adverse impact on the value of and returns on the equity investment or delay to the merger), Parent and Merger Sub have agreed to (A) restructure or commit to restructure the surviving corporation s capital structure, (B) replace, or issue non-voting equity to (to the extent such replacement or issuance would cure the problem by preventing such person from having any influence, directly or indirectly, over Harrah s), one or more of the licensed persons who is preventing or materially delaying the receipt of gaming approvals, (C) agree to divest immaterial assets or immaterial operations after the closing of the merger, (D) place assets or operations in certain gaming jurisdictions in trust upon the closing of the merger pending obtaining control upon subsequent regulatory approval, and (E) accept customary ordinary course operating restrictions on the surviving corporation. See The Merger Agreement Agreement to Take Further Action and to Use Reasonable Best Efforts; Consents and Governmental Approvals.

The Equity Investors are expected to make their equity investment in the surviving corporation through a structure that includes two classes of stock. One class of stock will entitle holders to one vote per share in all

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matters to be voted on by stockholders of the surviving corporation. These shares will be held by Parent, which will be controlled by certain principals of TPG and Apollo. Holders of the other class of stock will have no vote, except as otherwise required by law. As a result, Parent will be able to govern all matters of the surviving corporation that are subject to the vote of stockholders, including the appointment of directors of the surviving corporation. This structure has been implemented in several gaming jurisdictions where Harrah s currently operates, but not all. It is expected that the principals controlling Parent will have to be licensed or found suitable to own their respective interests in Parent, and the holders of the non-voting equity are not expected to be subject to licensing or suitability findings.

The following is only a summary of the various applicable gaming regulatory requirements with respect to the merger. For a complete description of the regulatory requirements applicable to Harrah s, see Description of Governmental Regulation filed at Exhibit 99 to Harrah s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

The failure:

- to obtain the required approval of the merger;
- to comply with the procedural requirements prescribed by any applicable gaming regulatory authority; or
- of Harrah s or Parent to qualify or make disclosures or applications as required under the laws and regulations of any applicable gaming regulatory authority;

in each case as described below or in the information incorporated by reference in this proxy statement, may result in the loss of license or denial of application for licensure in any such applicable jurisdiction.

*Nevada Gaming Regulation*

As a result of Harrah s ownership and/or operation of Bill s Casino (Lake Tahoe), Harrah s Lake Tahoe, Harveys Lake Tahoe, Harrah s Las Vegas, Harrah s Laughlin, Harrah s Reno, Rio (Las Vegas), Bally s Las Vegas, Caesars Palace (Las Vegas), Flamingo Las Vegas, Paris Las Vegas and the Imperial Palace Hotel & Casino, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Nevada gaming authorities. The ownership and operation of casino gaming facilities in Nevada are subject to the Nevada Gaming Control Act and its regulations (collectively the Nevada Act ), and various local ordinances and regulations. Harrah s respective gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board and applicable local liquor and gaming authorities (collectively the Nevada Gaming Authorities ).

The Nevada Act provides that the acquisition of control of a registered publicly traded corporation such as Harrah s must be approved by the Nevada Gaming Commission. The Nevada State Gaming Control Board reviews and investigates applications and makes recommendations on those applications to the Nevada Gaming Commission for final action. Parent has filed applications with the Nevada State Gaming Control Board for approval of the acquisition of control of Harrah s and for associated approvals, and will also file related applications with all appropriate local jurisdictions. Harrah s is currently registered by the Nevada Gaming Commission as a publicly traded corporation and has been found suitable to own the stock of its gaming subsidiaries that have licensed gaming facilities in Nevada.

In seeking approval of the merger, Parent must satisfy the Nevada State Gaming Control Board and the Nevada Gaming Commission on a variety of standards prior to the completion of the merger. The Nevada State Gaming Control Board and the Nevada Gaming Commission will consider all relevant material facts in determining whether to grant this approval, and may consider not only the effects of the merger but also any other facts that are deemed relevant. Such facts may include, among others:

- the business history of Parent, including its record of financial stability, integrity and success of its operations, as well as its current business activities;

- the adequacy of the proposed financing; and

- whether the merger will create a significant risk that Harrah s, Parent or their subsidiaries will not satisfy their financial obligations as they become due or satisfy all financial and regulatory requirements imposed by the Nevada Act.

The Nevada Gaming Commission will also require controlling equity holders of Parent, including holding companies, and certain of the individuals who will be appointed as officers, directors and key employees of Harrah s or its licensed subsidiaries in connection with the merger, to be investigated and registered, licensed or found suitable as part of the approval process relating to the transaction. The Nevada Gaming Authorities may investigate any individual who has (or will have) a material relationship to, or material involvement with, Harrah s, Parent or Harrah s Nevada gaming subsidiaries in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. The Nevada Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to have a relationship with Harrah s, Parent or Harrah s Nevada gaming subsidiaries, that entity would have to sever all relationships with such person. In addition, the Nevada Gaming Commission may require Harrah s, Parent or Harrah s Nevada gaming subsidiaries to terminate the employment of any person who refuses to file appropriate applications. All individuals required to file applications for findings of suitability and/or licensing in connection with the merger as officers, directors and key employees of Harrah s, Parent or Harrah s Nevada gaming subsidiaries will file applications with the Nevada Gaming Authorities.

Harrah s may not make a public offering of its securities without the prior approval of the Nevada Gaming Commission if the securities or the proceeds from the public offering of its securities are intended to be used to construct, acquire or finance gaming facilities in Nevada, or retire or extend obligations incurred for those purposes.

*New Jersey Gaming Regulation*

As a result of Harrah s ownership and operation of Harrah s Atlantic City, Showboat Atlantic City, Bally s Atlantic City and Caesars Atlantic City, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the New Jersey gaming authorities. The ownership and operation of hotel-casino facilities and gaming activities in Atlantic City, New Jersey are subject to extensive state regulation under the New Jersey Casino Control Act (the New Jersey Act ) and related regulations of the New Jersey Casino Control Commission (the New Jersey Commission ). Harrah s current gaming operations in New Jersey are subject to the authority of the New Jersey Commission and the New Jersey Division of Gaming Enforcement, which is referred to as the New Jersey Division. The merger requires prior regulatory approval by the New Jersey Commission.

For an applicant to be granted a casino license under the New Jersey Act, officers, directors and certain key employees must be licensed or qualified by the New Jersey Commission. Similar approvals must be granted for the applicant s intermediary and holding companies, and certain owners and financial sources. The New Jersey Division investigates the applicant for a casino license and makes recommendations to the New Jersey Commission concerning the qualification for licensure and whether transfer of the securities or ownership interest in the casino licensee should be approved. The laws and regulations governing licensure and qualification concern primarily:

- the financial stability and responsibility, good character, honesty, integrity and business ability of the applicant, its officers, directors, key employees, financial backers, investors and others financially interested in the casino;

- the nature of casino hotel facilities; and

the operating methods and financial and accounting practices used in connection with casino operations.

The New Jersey Act imposes certain restrictions on the ownership and transfer of any security or ownership interest in a casino licensee or any non-publicly traded subsidiary or holding company and requires prior approval of transferred control of a casino licensee. The New Jersey Act requires that the sale, assignment, transfer, pledge or other disposition of any security issued by a corporation that holds a casino license is conditional and will be ineffective if disapproved by the New Jersey Commission. If at any time the New Jersey Commission finds that an owner or holder of any security of a casino licensee or holding company is not qualified under the New Jersey Act, the New Jersey Commission may propose remedial action, including divestiture of the securities held. If disqualified persons fail to divest themselves of the securities, the New Jersey Commission may revoke or suspend the license.

Parent will notify the New Jersey Commission and New Jersey Division of any new debt or equity issued in order to finance the merger and provide each with required documentation, including lists of the holders or lenders, and may have to petition the New Jersey Commission for waiver of the security holder requirement subsequent to the incurrence of the debt or issuance of the equity securities. If any necessary waivers are not granted, the holder will either have to be found qualified by the New Jersey Commission or divest itself of its interest.

In seeking approval of the New Jersey Commission, the Parent must satisfy the New Jersey Commission and the New Jersey Division that the merger meets all requirements of the New Jersey Act. In determining whether to grant the approvals, the New Jersey Commission will consider all relevant facts, including whether:

each officer, director, certain owners and others having the ability to control the casino licensees, holding companies and intermediary companies, key employees and certain financial sources and investors meet the standards for qualification;

the agreement to transfer a security holding in a casino licensee or holding or intermediary company contains certain required provisions, including an approved provision for divestiture in the event the applicant is found unqualified for licensure; and

the proposed financing of the merger is adequate and whether, after the merger, Harrah s will possess the requisite financial stability.

If the New Jersey Commission finds that Harrah s will not possess financial stability, integrity and responsibility as a result of the financing of the merger, or that the officers, directors, owners, controlling persons, key employees, holding or intermediary companies and financial sources or investors referred to above do not meet the standards for qualification, the Commission could deny approval of the merger.

*Illinois Gaming Regulation*

As a result of Harrah s ownership and operation of the Harrah s Joliet Casino and the Harrah s Metropolis Casino, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Illinois gaming authorities. The ownership and operation of riverboat casino gaming facilities in Illinois are subject to the Illinois Riverboat Gambling Act and its regulations (collectively the Illinois Act ). Harrah s has riverboat casino gaming facilities in Illinois that are subject to the licensing and regulatory control of the Illinois Gaming Board (the Illinois Board ), state and local liquor authorities, and other authorities. An ownership interest in an owner s license may not be transferred or pledged as collateral without the prior approval of the Illinois Board. Therefore, the merger, as involving a transfer of an ownership interest in a licensee, requires the prior approval of the Illinois Board.

The Illinois Board requires a Business Entity Form or Personal Disclosure Form from any person or entity that, individually or in association with others, acquires, directly or indirectly, a beneficial ownership interest in a licensee, along with the requisite fee. The information contained in these forms will form the basis of an investigation by the Illinois Board to determine suitability of the person or entity seeking the transfer.

In determining whether to approve the transfer of an ownership interest in a licensee, the Illinois Board considers the following factors, among others:

- the character, reputation, experience and financial integrity of the applicant and of any other separate person that either controls. directly or indirectly, the applicant, or is controlled, directly or indirectly, by the applicant;
- whether the applicant has adequate capitalization to provide and maintain, for the duration of the license, a riverboat; and
- whether the proposed funding of the entire gaming operations will be adequate for the nature of such operations and be from a suitable source.

The Illinois Board also requires that key persons of an owner licensee submit a Personal Disclosure or Business Entity Form and be investigated and approved by the Illinois Board. Key persons include but are not limited to business entities and persons beneficially owning more than five percent of the applicant for an owner s license, directors and certain executive officers of such applicant and certain others who may hold positions of ownership, control or influence over such applicant. The Illinois Board will certify for each applicant for or holder of an owner s license each position, individual or business entity that is to be approved by the Illinois Board and maintain suitability as a key person.

*Indiana Gaming Regulation*

As a result of Harrah s ownership and operation of Horseshoe Hammond and Caesars Indiana, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Indiana gaming authorities. The ownership and operation of riverboat casino gaming facilities in Indiana are subject to the Riverboat Gambling Act and its regulations (collectively the Indiana Act ). Harrah s has riverboat casino gaming facilities in Indiana, which are subject to the licensing and regulatory control of the Indiana Gaming Commission, state and local liquor authorities, United States Coast Guard regulations, Army Corps of Engineer permits and other local authorities. The Indiana Act requires the approval of the Indiana Gaming Commission before an entity may acquire an interest of five percent or more in a riverboat owner s license, including through a merger, stock acquisition, transfer, sale or purchase transaction. Therefore, the merger, as a transfer of ownership in the riverboat license, requires the approval of the Indiana Gaming Commission.

To obtain approval from the Indiana Gaming Commission to transfer a riverboat owner s license, Parent must submit a completed application to transfer a riverboat owner s license and a requisite fee. Upon receipt of the application and fee, the Indiana Gaming Commission Division of Enforcement and Investigations will investigate Parent, its key persons and substantial owners, or persons owning five percent or more of Parent, and will provide related information to the Indiana Gaming Commission. In connection with the merger, the Indiana Gaming Commission may require both Harrah s and Parent to provide confidential financial information to the Indiana Gaming Commission for a confidential evaluation of the financial stability of both Harrah s and Parent prior to the merger and the financial stability of Harrah s after the merger. This evaluation may include, among others, an analysis of Harrah s and Parent s management and their ability to effectively operate Harrah s.

When determining whether to grant approval of a transfer of a riverboat owner s license, the Indiana Gaming Commission will consider, among other things:

- the character, reputation, experience and financial integrity of the applicant;
- the adequacy of the capitalization to maintain a riverboat for the duration of the license; and
- the economic impact on Indiana.

The Indiana Gaming Commission will also consider whether the merger, as a transfer of ownership in the riverboat license, is in the best interest of the people and the State of Indiana by promoting tourism, assisting economic development and maintaining the public confidence and trust in

the gaming operations.

The Indiana Act requires the pre-approval of debt transactions, whether new or assumed debt, of $1.0 million or more, which would include the debt transactions related to the merger. If the Indiana Gaming Commission approves the transfer of ownership interest in Harrah s pursuant to the merger, it will also consider financial information regarding any debt transactions related to the merger, including the assumption of Harrah s outstanding debt by Parent or the surviving corporation in the merger.

The Indiana Act does not require the pre-approval of the Indiana Gaming Commission for a public offering of securities. However, any person acquiring an ownership interest of five percent or more of a riverboat gaming license owner, regardless of whether the interest is direct or indirect, as a result of any public offering of securities is required to file an application with the Indiana Gaming Commission and submit to a background investigation for the purpose of determining the person s suitability to be a substantial owner of the license owner. Qualifying institutional investors must file with the Indiana Gaming Commission upon obtaining an ownership interest of five percent and become subject to a background investigation upon acquiring a fifteen percent ownership interest. In addition, any information disseminated by a licensee or licensee applicant which is later found to be inappropriate by another agency or the Indiana Gaming Commission may give rise to a disciplinary action.

The Indiana Act will require the payment of a transfer fee in the amount of $2.0 million by a licensed owner who purchases or otherwise acquires a controlling interest in a second owner s license.

*Iowa Gaming Regulation*

As a result of Harrah s ownership and/or operation of Harrah s Council Bluff Casino & Horseshoe Council Bluffs, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Iowa gaming authorities. The ownership and operation of gaming facilities in Iowa are subject to extensive state laws, regulations of the Iowa Gaming Commission and various county and municipal ordinances (collectively, the Iowa Gaming Laws ). Harrah s has excursion gambling boat facilities in Iowa that are subject to the licensing and regulatory control of the Iowa Racing and Gaming Commission (the Iowa Gaming Commission ), state and local liquor authorities, and other authorities. The Iowa Gaming Commission, prior to the acquisition, must investigate, license and find suitable any person who acquires five percent or more of a licensee s equity securities or who has a material relationship with the Iowa gaming operations. Therefore, the merger requires the approval of the Iowa Gaming Commission. The applicant is required to pay all costs of the Iowa Gaming Commission investigation.

Gaming licenses granted to individuals must be renewed every year, and licensing authorities have broad discretion with regard to such renewals. Licenses are not transferable. The Iowa gaming operations must submit detailed financial and operating reports to the Iowa Gaming Commission.

Certain officers, directors, managers and key employees of the Iowa gaming operations are required to be licensed by the Iowa Gaming Commission. In addition, anyone having a material relationship or involvement with the Iowa gaming operations may be required to be found suitable or to be licensed. The Iowa Gaming Commission may deny an application for a license for any cause deemed reasonable. In addition to its authority to deny an application for license, the Iowa Gaming Commission has jurisdiction to disapprove a change in position by officers or key employees and the power to require the Iowa gaming operations to suspend or dismiss officers, directors or other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the Iowa Gaming Commission finds unsuitable to act in such capacities.

*Louisiana Gaming Regulation*

As a result of Harrah s ownership and operation of Horseshoe Bossier City, Harrah s Louisiana Downs (Bossier City) and Harrah s New Orleans, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Louisiana gaming authorities. The ownership and operation of Harrah s gaming operations in Louisiana are subject to the Louisiana Gaming Control Act and its regulations. The ownership and operation of Harrah s Louisiana Downs race-track is subject to Louisiana Revised Statute Title 4, Chapter 4 (Horse Racing)

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and its regulations, (collectively, with the Louisiana Gaming Control Act and its regulations, the Louisiana Act ). The Louisiana Act imposes extensive restrictions and requirements upon gaming operators in the State of Louisiana and makes gaming operations subject to the licensing and regulatory control of the Louisiana Gaming Control Board and the Louisiana State Racing Commission.

The Louisiana Gaming Control Board is responsible for issuing gaming licenses and enforcing the laws, rules and regulations relative to riverboat gaming operations, slots machines at eligible racetrack facilities and Harrah s land-based operations in New Orleans. Harrah s land-based operations in New Orleans are also governed by a Casino Operating Contract with the State of Louisiana. The Louisiana State Racing Commission is responsible for issuing licenses and regulating horse racing at Harrah s Louisiana Downs facility. Parent may be required to seek the prior approval from the Louisiana Gaming Control Board of transactions related to the merger, including the financing of the merger. Approval by the Louisiana State Racing Commission may also be necessary.

If an approval related to the merger is required, the Louisiana Gaming Control Board and its investigative agency, Louisiana State Police, may consider all relevant facts in determining whether to grant approval to certain transactions related to the merger. These facts include, among others:

- the suitability of any person who has or controls, directly or indirectly, five percent or more ownership, income, profit or economic interest in Harrah s or its Louisiana subsidiaries after the completion of the merger;

- the suitability of any person who has the ability, in the opinion of the Louisiana Gaming Control Board, to exercise a significant influence over any Harrah s Louisiana licensee; and

- the adequacy of the proposed financing, and whether the merger will create any risk that the various entities will be unable to satisfy their financial and regulatory obligations to the state and otherwise, including without limitation, Harrah s guaranty of minimum daily contributions required by the Louisiana Act and the Casino Operating Contract, and the debt being assumed under the merger agreement.

A gaming license is deemed to be a privilege under Louisiana law and as such a license may be revoked, suspended, conditioned or limited at any time by the Louisiana Gaming Control Board. The Louisiana Gaming Control Board has similar discretion as to the approval of transactions related to the merger.

*Mississippi Gaming Regulation*

As a result of Harrah s ownership and operation of Horseshoe Tunica, Grand Casino Biloxi, Grand Casino Tunica and Sheraton Casino & Hotel (Tunica), Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Mississippi gaming authorities. The ownership and operation of casino gaming facilities in Mississippi are subject to the Mississippi Gaming Control Act and its regulations (collectively, the Mississippi Act ), and various local regulations. Harrah s respective gaming operations in Mississippi are subject to the licensing and regulatory control of the Mississippi Gaming Commission and its staff (collectively, the Mississippi Gaming Authorities ).

The Mississippi Act provides that the acquisition of control of a registered publicly traded corporation such as Harrah s or a corporate licensee must be approved by the Mississippi Gaming Commission. The Mississippi Gaming Commission staff reviews and investigates applications and makes recommendations on those applications to the Mississippi Gaming Commission for final action. Parent has filed applications with the Mississippi Gaming Commission staff for approval of the acquisition of control of Harrah s. Harrah s is currently registered by the Mississippi Gaming Commission as a publicly traded corporation and has been found suitable to own the stock of its gaming subsidiaries that have licensed gaming facilities in Mississippi.

In seeking approval of the merger, Parent must satisfy the Mississippi Gaming Commission in a variety of standards prior to completion of the merger. The Mississippi Gaming Commission will consider all relevant

material facts in determining whether to grant this approval, and may consider not only the effects of the merger but also any other facts that are deemed relevant. Such facts may include, among others:

- the business history of the Parent, including its record of financial stability, integrity and success of its operations, as well as its current business activities; and

- whether the merger will create a significant risk that Harrah s, Parent or their subsidiaries will not satisfy their financial obligations as they become due or satisfy all financial and regulatory requirements imposed by the Mississippi Act.

The Mississippi Gaming Commission may also require controlling equity holders of Parent and certain of the individuals who will be appointed as officers, directors and key employees of Harrah s or its licensed subsidiaries in connection with the merger to be investigated and licensed or found suitable as part of the approval process relating to the transaction. The Mississippi Gaming Authorities may investigate any individual who has (or will have) a material relationship to, or material involvement with, Harrah s, Parent or Harrah s Mississippi gaming subsidiaries in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. The Mississippi Gaming Authorities may deny an application for licensing for any cause that they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation.

If the Mississippi Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to have a relationship with Harrah s, Parent or Harrah s Mississippi gaming subsidiaries, that entity would have to sever all relationships with the person. In addition, the Mississippi Gaming Commission may require Harrah s, Parent or Harrah s licensed subsidiaries to terminate the employment of any person who refuses to file appropriate applications.

If Parent assumes Harrah s existing debt in the merger, any pledges, negative pledges or other restrictions on the transfer of the equity securities of Parent s licensed or registered subsidiaries associated with all Harrah s debt assumed by Parent, and any pledges of the assets of or guarantees by Parent s licensed subsidiaries associated with Harrah s publicly traded debt assumed by Parent, will be ineffective unless approved in advance by the Mississippi Gaming Commission. Likewise, any pledges, negative pledges or other restrictions on the transfer of the equity securities of Harrah s Mississippi subsidiaries associated with Parent s financing in connection with the merger will be ineffective unless approved in advance by the Mississippi Gaming Commission.

*Missouri Gaming Regulation*

As a result of Harrah s ownership and/or operation of Harrah s St. Louis and Harrah s North Kansas City, Harrah s and its subsidiaries operating in Missouri are, and upon completion of the merger will be, subject to the jurisdiction of the Missouri gaming authorities. The conduct of gambling games and operation of excursion gambling boats in Missouri are subject to extensive regulation under Missouri s Riverboat Gambling Act and the rules and regulations promulgated thereunder (collectively the Missouri Act ). The Missouri Gaming Commission was created by the Missouri Act and is charged with regulatory authority over riverboat gaming operations in Missouri, including the issuance of riverboat gaming licenses and approval of changes in control for existing riverboat gaming licensees.

In conjunction with a proposed change in control of a Missouri riverboat gaming facility, the Missouri Act requires an entity to file a petition requesting the prior approval of the Missouri Gaming Commission before any entity may acquire an interest of twenty-five percent or more in a publicly held gaming licensee. In addition, prior to the grant of approval for a change in control, each entity acquiring an interest of five percent or more in a publicly held licensee must be found suitable and granted a business entity key person license. In order to obtain approval of the Missouri Gaming Commission for a change in control, Parent must obtain a business entity key person license by completing comprehensive application forms and undergoing an extensive background investigation by the Missouri Gaming Commission. In addition, each key person associated with the applicant (including directors, officers, managers and owners of a significant direct or indirect interest in the applicant)

must obtain an occupational license by completing an application and undergoing an extensive background investigation. Certain key business entities closely related to the change in control applicant or business entity key persons must undergo a similar application process and background check.

A change in control applicant will not receive a license to hold a substantial interest in a Missouri riverboat gaming operation if the applicant and its key persons have not established good repute and moral character. Furthermore, no licensee shall either employ or contract with any person who has pled guilty to, or been convicted of, a felony to perform any duties directly connected with the licensee s privileges under a license granted by the Missouri Gaming Commission. In conjunction with the renewal of each underlying license that will be held by the Missouri operating subsidiaries of Harrah s, the Missouri Gaming Commission will require an updated Class A Riverboat Gaming Application, which requires various information regarding Parent, and will conduct additional investigations of the licensee, Harrah s and Parent with specific emphasis on new information provided in the updated Class A Riverboat Gaming Application.

In order to obtain the requisite licenses and approvals for the change in control, the Missouri Gaming Commission staff will review and investigate the necessary applications and petitions and will make recommendations on those applications and petitions to the Missouri Gaming Commission for final action. The Missouri Gaming Commission will consider all relevant material facts in determining whether to grant the approval, and may consider not only the effects of the merger but also any other facts that it deems relevant. Such facts may include, among others:

- the business history of the applicant, including its record of financial stability, integrity and success of its operations, as well as its current business activities; and

- whether the merger will create a significant risk that Harrah s, Parent or their subsidiaries will not satisfy their financial obligations as they become due or satisfy all financial and regulatory requirements imposed by the Missouri Act.

The Missouri Act requires fifteen days prior notice of any public or private incurrence of debt in excess of $1.0 million by a Class A Licensee or its parent. The Missouri Gaming Commission may reopen the licensing hearing of the applicable gaming licensee prior to or following the consummation date to consider the effect of the transaction on the gaming licensee s suitability. In conjunction with its investigation of the merger, the Missouri Gaming Commission will also consider financial information regarding any debt transactions related to the merger, including the assumption of Harrah s outstanding debt by Parent in the merger. The approval of any debt transactions related to the merger will generally be part of the approval of the change in control pursuant to the merger.

Any transfer or issuance of an ownership interest in a publicly held gaming licensee or its holding company that results in an entity owning, directly or indirectly, an aggregate ownership interest of five percent or more in the gaming licensee must be reported to the Missouri Gaming Commission within seven days. Further, any pledge or hypothecation of five percent or more of the ownership interest in a publicly held gaming licensee or its holding company must be reported to the Missouri Gaming Commission within seven days.

*Pennsylvania Gaming Regulation*

As a result of Harrah's 50% ownership interest and operation of Harrah s Chester, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Pennsylvania gaming authorities. The ownership and operation of casino gaming facilities in Pennsylvania are subject to the Pennsylvania Race Horse Development and Gaming Act (the Pennsylvania Gaming Act ) and its regulations, as well as various other state laws and regulations and local ordinances. Harrah's gaming operations are subject to the licensing and regulatory control of the Pennsylvania Gaming Control Board.

Harrah's Chester is also comprised of a harness horse racetrack with pari-mutuel wagering. The ownership and operation of a harness racetrack are subject to the Race Horse Industry Reform Act (the Pennsylvania Racing Act ) and its regulations. Harrah's racing operations are subject to the licensure and regulatory control of the Pennsylvania State Harness Racing Commission. Sales of liquor at both Harrah's gaming and racing facilities

is licensed and regulated by the Pennsylvania Liquor Control Board, with the Pennsylvania Gaming Control Board having limited authority to regulate aspects of liquor sales at the Chester casino.

The Pennsylvania Gaming Act does not require approval of the merger per se, but imposes certain requirements upon the acquisition or change of control of a slot machine licensee or other business entity that owns, directly or indirectly, at least 20% of a licensee, such as Harrah's. The Pennsylvania Gaming Act requires that notice be provided of such a change of control to the Pennsylvania Gaming Control Board, and that the slot machine licensee, as well as its intermediaries and holding companies and its principals and key employees, independently qualify for licensure.

Harrah s, Parent and individuals and entities that satisfy certain criteria under the Pennsylvania Gaming Act and/or possess the ability to control Harrah's will file applications with the Pennsylvania Gaming Control Board, unless granted a waiver by the Pennsylvania Gaming Control Board or the Pennsylvania Gaming Control Board exercises its discretion under the Pennsylvania Gaming Act to eliminate the independent qualification requirement. The Pennsylvania Gaming Control Board will review the applications under eligibility, character and financial fitness standards set forth in the Pennsylvania Gaming Act and regulations. The Pennsylvania Gaming Control Board must approve all applications for licensure by a qualified majority.

The Pennsylvania Gaming Act directs that a new license fee shall be paid upon a change of control of a slot machine licensee. The amount of the fee is in the discretion of the Pennsylvania Gaming Control Board. The Pennsylvania Gaming Act establishes a license fee of $50 million, but empowers the Pennsylvania Gaming Control Board to reduce, but not eliminate, the new license fee depending upon the type of transaction, the relevant ownership interests and changes thereto resulting from the transaction, and other considerations deemed relevant by the Board.

If the Pennsylvania Gaming Control Board were to find a principal or key employee unsuitable for licensing or unsuitable to have a relationship with Harrah's, Parent or Harrah's Pennsylvania gaming subsidiaries, that entity would have to sever all relationships with the unsuitable person or entity and comply with other conditions imposed by the Pennsylvania Gaming Control Board. All individuals required to file an application for findings of suitability and/or licensing in connection with the merger as principals and key employees of Parent, Harrah's or Harrah's licensed subsidiaries will file applications with the Pennsylvania Gaming Control Board.

The Pennsylvania Racing Act also requires the filing of information with and approval of Harrah s by the Pennsylvania State Harness Racing Commission. Harrah s, as well as its officers and directors, will file applications with the Pennsylvania State Harness Racing Commission that are similar in form and substance to those that will be filed with the Pennsylvania Gaming Control Board. If the Pennsylvania State Harness Racing Commission determines that it is inconsistent with the public interest, convenience or necessity, or with the best interests of racing, that any person or entity holds an ownership interest in a racing licensee or serves as an officer or director of an entity owning 25% or more of a licensee, then the Pennsylvania State Harness Racing Commission is empowered to require divestiture of that ownership interest or separation from that officer or director.

*Ontario Gaming Regulation*

As a result of Harrah s fifty percent indirect ownership in Windsor Casino Limited, the operator of Casino Windsor, Harrah s is, and upon completion of the merger, will be, subject to the jurisdiction of the Ontario gaming authorities. The gaming operations in Ontario are subject to the regulatory control of the Alcohol and Gaming Commission of Ontario (the AGCO ), pursuant to the Ontario Gaming Control Act and its regulations (the Ontario Act ), and certain contractual obligations to the Ontario Lottery and Gaming Corporation, a provincial crown corporation owned by the Province of Ontario. Windsor Casino Limited is required under the Ontario Act to be registered as a casino operator with the AGCO and must operate in accordance with the terms and conditions of its registration.

The Ontario Act provides that the AGCO may require submission of disclosures and informational material from any person who has an interest in a gaming facility in Ontario. This includes parent companies and their directors and officers as well as key employees.

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Although neither the merger, a public offering of securities by Harrah s, nor the proxy statement requires the approval of the AGCO, the Registrar of the AGCO may, at any time, revoke, suspend or refuse to renew a registration for any reason that would have disentitled the registrant to registration. The criteria to be considered in connection with the registration under the Ontario Act include:

- the financial responsibility;
- the integrity and honesty; and
- the public interest;

as each relates to the applicant and persons interested in the applicant, such as parent companies and their directors, officers and key employees.

The Registrar of the AGCO is entitled to make inquiries and conduct investigations as it deems necessary to determine that applicants for registration including all persons interested in the applicant meet the requirements of the Ontario Act. Pursuant to the Ontario Act and the terms and conditions of Windsor Casino Limited s registration, the Registrar of the AGCO must approve any change in the directors and officers of Windsor Casino Limited and any change in the directors and officers of Windsor Casino Limited s parent companies who exercise any advisory or decision-making functions in relation to Windsor Casino Limited.

*South Africa Gaming Regulation*

As of December 29, 2006, Harrah s through its subsidiaries owned a 70% interest in Emerald Casino and Safari Resort (Proprietary) Limited, a casino resort situated in the Gauteng Province of the Republic of South Africa. The National Gambling Act of South Africa makes provision for provincial regulation in respect of licensing of casinos. Emerald Casino and Safari Resort (Proprietary) Limited has therefore been licensed in terms of the Gauteng Gambling Act, No 4 of 1995 (the Gauteng Act ). The Gauteng Act requires any person who, directly or indirectly, procures a controlling or financial interest of one percent or more, in a business to which a casino license relates, to apply to the Gauteng Gambling Board for consent to hold such an interest.

An application for consent must be lodged in the prescribed form before or after procurement of such interest, and must be accompanied by a non-refundable fee. The process of lodging the application involves, among other things, public inspection and a period for written and oral representations to the Gauteng Gambling Board and extends for approximately one month. The application must be accompanied by company declaration and release authorizations pertaining to information of the applicant as well as all corporate shareholders of an applicant who effectively hold an interest of five percent or more of its issued share capital. Personal declarations and personal release authorizations are required from all natural persons who are currently directors of the applicant, as well as the company secretary information.

It is necessary to provide the Gauteng Gambling Board with a full description of the impact on the business of the licensee in respect of the acquisition of a financial interest, with specific reference to:

- management structures and details including organizational charts of senior staff dedicated to the management of the applicant;
- funding; and
- operating experience of the applicant in operating similar businesses.

The Gauteng Gambling Board may make any enquiries as are necessary to establish the suitability of the applicant. All reasonable expenses may be recovered from the applicant.

In granting an application for a casino license, or a condition attached thereto, the Gauteng Gambling Board will consider the extent to which the applicant intends to provide for participation in the ownership or profits of a casino by persons or groups or categories of persons, disadvantaged

by unfair discrimination. The applicant must show what advantage it intends to provide to furnish any groups of persons disadvantaged by discrimination. The entire process is open to public inspection and the Gauteng Gambling Board can determine the confidential information which will be excluded.

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Following the investigations and receipt of submissions, an open hearing is convened and the Gauteng Gambling Board will consider the suitability of the applicant. Factors taken into account include, but are not limited to, public policy, tourism and black economic empowerment. In the event that the Gauteng Gambling Board refuses consent, it may declare the sale agreement to be void and unenforceable, order the applicant to sell the interest in the licensee within a certain period of time, or revoke the casino license.

*United Kingdom Gaming Regulation*

As a result of Harrah s ownership of London Clubs International plc and its subsidiary and operating companies (together LCI ), which operate seven casinos in the United Kingdom, Harrah s is, and upon completion of the merger, Harrah s and its controlling stockholders will be, subject to the jurisdiction of the Gambling Commission (the UK Commission ). The ownership and control of a licensed casino operator is subject to regulation by the UK Commission pursuant to the provisions of the Gambling Act 2005 and its various ordinances and regulations (the UK Act ) and to certain transitional arrangements following the repeal of previous legislation.

The UK Act provides that the acquisition and control of a company that is a licensed casino operator in the United Kingdom requires that operating company to give formal notification to the UK Commission of that change of control, and to apply for the right to continue its operating license under the new ownership. The notification and continuance application must be made within five weeks following completion of the transaction.

The UK Commission will review and investigate the continuance application and make a determination as to the continuation of the LCI operating license. Under the UK Act, unlike in other jurisdictions, applications are only considered by the UK Commission once the transaction has been completed or, in their discretion, at an earlier date. LCI will continue to operate as normal pending the outcome of the UK Commission s investigation.

In determining whether to grant its approval, the UK Commission will look at the structure and operation of LCI as if it were granting a new license, and will investigate, in particular:

- the financial background, suitability and reputation of the companies and/or individuals who will own or control, directly or indirectly, significant shareholdings (defined as 10% or more) in LCI, or who are able to exercise significant influence over the management of LCI; and

- the impact of the merger on the financial strength of LCI and its ability to discharge its financial obligations.

The UK Commission may require controlling equity holders of Parent, including holding companies, and certain individuals who will be appointed as officers, directors and key employees of Harrah s or its licensed subsidiaries in connection with the merger, to be investigated and found suitable. The investigators have wide discretion to request information they deem to be pertinent to their investigation. The investigation is expected to be thorough and inclusive, and investigators may seek to conduct individual financial and/or criminal background checks on key individuals. There is no time limit set out for the completion of the UK Commission s investigation, but they are required to act with reasonable diligence, taking into account the issues which need to be investigated.

*Additional Gaming Regulation*

Harrah s is, and upon completion of the merger, will be, subject to a variety of gaming regulations in the other jurisdictions in which Harrah s operates, including Arizona, California, Egypt, Kansas, North Carolina and Uruguay. Certain of the gaming regulatory authorities in these jurisdictions may require approval of certain aspects of the merger or the other transactions contemplated by the merger agreement, either prior to or after the completion of the merger.

Parent will make all filings with the appropriate regulatory authorities and take all other actions necessary, in each case in a timely manner, to obtain the approvals necessary under all applicable gaming regulations in

each of these jurisdictions in order to complete the merger and the other transactions contemplated by the merger agreement. There can be no assurance that the approvals will be granted or will be granted on a timely basis. Any approval, if granted, does not constitute a finding, recommendation or approval by the applicable regulatory authority as to the merits of the merger. Any representation to the contrary is unlawful. For further information regarding the obligations of Harrah s and Parent with regard to governmental and regulatory matters, see The Merger Agreement Agreement to Take Further Action and to Use Reasonable Best Efforts; Consents and Governmental Approvals.

Harrah s and Parent have not yet obtained any of the governmental or regulatory approvals required to complete the merger.

***Antitrust***

Under the HSR Act and the rules promulgated thereunder by the FTC, the merger may not be completed until notification and report forms have been filed with the FTC and the Antitrust Division of the DOJ, and the applicable waiting period has expired. On March 1, 2007, each of Harrah s and Parent made the necessary filings under the HSR Act. The waiting period under the HSR Act will expire at 11:59 pm on April 2, 2007, unless extended by a request for additional information and documentary material by the FTC or the Antitrust Division of the DOJ.

The merger is also subject to review by the governmental authorities of the European Commission and South Africa under the antitrust laws of those jurisdictions. Parent made the required notification to the European Commission on February 28, 2007; the applicable waiting period will expire on April 4, 2007. The parties anticipate the competition filing required in South Africa will be made in March 2007; the initial applicable waiting period is 20 business days.

**Litigation Related to the Merger**

***Delaware Lawsuits***

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

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

***Initial Nevada Lawsuits***

On October 3, 2006, Natalie Gordon filed a putative class action lawsuit in the state district court in Clark County, Nevada, Case No. A529183, against Harrah s, our board of directors, TPG and Apollo, challenging the proposed transaction as inadequate and unfair to Harrah s public stockholders. Eight similar putative class actions were subsequently filed in the Clark County district court: Phillips v. Harrah s Entertainment, Inc., et al., Case No. A529184; Murphy v. Harrah s Entertainment, Inc., et al., Case No. A529246; Shapiro v. Alexander, et al., Case No. A529247; Barnum v. Alexander, et al., Case No. A529277; Iron Workers Tennessee Valley Pension Fund v. Harrah s Entertainment, Inc., et al., Case No. A529449; Staehr v. Harrah s Entertainment, Inc., et al., Case No. A529385; Berliner v. Harrah s Entertainment, Inc., et al., Case No. A529508; and Frechter v. Harrah s Entertainment, Inc., et al., Case No. A529680. All of the complaints name Harrah s and our current directors as

defendants. Four of the complaints also name Apollo and TPG as defendants. One complaint further names two former directors of Harrah s, Joe M. Henson and William Barron Hilton, as defendants. On October 6, 2006, the Clark County district court consolidated these complaints under the heading In Re Harrah s Shareholder Litigation and appointed liaison counsel for the consolidated action.