

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD
ENDED JUNE 30, 1996

OR

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

Commission File No. 1-10410

HARRAH'S ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

I.R.S. No. 62-1411755
(I.R.S. Employer
Identification No.)

1023 Cherry Road
Memphis, Tennessee 38117
(Address of principal executive offices)
(901) 762-8600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all
reports required to be filed by Section 13 or 15(d) of the Securities
Exchange Act of 1934 during the preceding 12 months (or for such shorter
period that the registrant was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days.

| | | |
|-------|---|-------|
| Yes | X | No |
| ----- | | ----- |

At June 30, 1996, there were outstanding 102,899,533 shares of the
Company's Common Stock.

Page 1 of 49
Exhibit Index Page 41

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements
of Harrah's Entertainment, Inc. (the Company), a Delaware corporation, have
been prepared in accordance with the instructions to Form 10-Q, and
therefore do not include all information and notes necessary for complete
financial statements in conformity with generally accepted accounting
principles. The results for the periods indicated are unaudited, but
reflect all adjustments (consisting only of normal recurring adjustments)
which management considers necessary for a fair presentation of operating
results. Results of operations for interim periods are not necessarily
indicative of a full year of operations. These Consolidated Condensed
Financial Statements should be read in conjunction with the Consolidated
Financial Statements and notes thereto included in the Company's 1995
Annual Report to Stockholders.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

(In thousands, except share amounts)

| | June 30, 1996 | December 31, 1995 |
|--|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 93,246 | \$ 96,345 |
| Receivables, including notes receivable of \$5,316 and \$1,390, less allowance for doubtful accounts of \$14,213 and \$10,910 | 39,580 | 37,751 |
| Deferred income tax benefits | 26,221 | 21,425 |
| Prepayments and other | 22,101 | 21,275 |
| Supplies | 11,297 | 12,040 |
| | ----- | ----- |
| Total current assets | 192,445 | 188,836 |
| | ----- | ----- |
| Land, buildings, riverboats and equipment | 1,854,749 | 1,723,714 |
| Less: accumulated depreciation | (551,253) | (518,824) |
| | ----- | ----- |
| | 1,303,496 | 1,204,890 |
| Investments in and advances to nonconsolidated affiliates | 170,671 | 71,939 |
| Deferred income tax benefits | - | 4,532 |
| Deferred costs and other | 164,722 | 166,537 |
| | ----- | ----- |
| | \$1,831,334 | \$1,636,734 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 43,637 | \$ 46,178 |
| Construction payables | 10,162 | 4,718 |
| Accrued expenses | 150,690 | 148,632 |
| Current portion of long-term debt | 1,830 | 2,038 |
| | ----- | ----- |
| Total current liabilities | 206,319 | 201,566 |
| Long-term debt | 810,514 | 753,705 |
| Deferred credits and other | 78,854 | 72,006 |
| Deferred income taxes | 26,717 | - |
| | ----- | ----- |
| | 1,122,404 | 1,027,277 |
| | ----- | ----- |
| Minority interests | 23,059 | 23,908 |
| | ----- | ----- |
| Commitments and contingencies (Notes 6, 7 and 8) | | |
| Stockholders' equity | | |
| Common stock, \$0.10 par value, authorized 360,000,000 shares, outstanding 102,899,533 and 102,673,828 shares (net of 8,012 and 19,026 shares held in treasury) | 10,290 | 10,267 |
| Capital surplus | 368,827 | 362,783 |
| Unrealized gains on marketable equity securities | 42,816 | 10,552 |
| Retained earnings | 266,225 | 204,838 |
| Deferred compensation related to restricted stock | (2,287) | (2,891) |
| | ----- | ----- |
| | 685,871 | 585,549 |
| | ----- | ----- |
| | \$1,831,334 | \$1,636,734 |
| | ===== | ===== |

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share amounts)

| | Second Quarter Ended | | Six Months Ended | |
|---|----------------------|------------------|------------------|------------------|
| | June 30, 1996 | June 30, 1995 | June 30, 1996 | June 30, 1995 |
| | ----- | ----- | ----- | ----- |
| Revenues | | | | |
| Casino | \$335,531 | \$328,439 | \$656,677 | \$626,971 |
| Food and beverage | 46,921 | 45,391 | 90,835 | 87,276 |
| Rooms | 29,448 | 27,852 | 56,298 | 52,506 |
| Management fees | 4,501 | 3,834 | 8,110 | 6,811 |
| Other | 17,078 | 22,821 | 38,027 | 46,211 |
| Less: casino promotional allowances | (32,264) | (39,000) | (65,625) | (73,957) |
| | ----- | ----- | ----- | ----- |
| Total revenues | 401,215 | 389,337 | 784,322 | 745,818 |
| | ----- | ----- | ----- | ----- |
| Operating expenses | | | | |
| Direct | | | | |
| Casino | 169,168 | 150,566 | 328,101 | 295,116 |
| Food and beverage | 23,179 | 23,804 | 45,613 | 42,746 |
| Rooms | 8,917 | 8,530 | 17,403 | 16,170 |
| Depreciation of buildings, riverboats and equipment | 23,572 | 19,768 | 43,643 | 38,017 |
| Development costs | 2,111 | 4,409 | 5,439 | 8,657 |
| Preopening costs | 4,802 | - | 5,016 | - |
| Other | 85,963 | 89,701 | 173,502 | 174,750 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 317,712 | 296,778 | 618,717 | 575,456 |
| | ----- | ----- | ----- | ----- |
| Operating profit before corporate expense and project reorganization costs | 83,503 | 92,559 | 165,605 | 170,362 |
| Corporate expense | (8,442) | (8,799) | (15,713) | (14,181) |
| Project reorganization costs | (6,099) | - | (8,500) | - |
| | ----- | ----- | ----- | ----- |
| Operating income | 68,962 | 83,760 | 141,392 | 156,181 |
| Interest expense, net of interest capitalized | (17,016) | (18,667) | (33,595) | (36,995) |
| Interest expense, net, from nonconsolidated affiliates | - | (4,898) | - | (8,634) |
| Other income, including interest income | 831 | 813 | 1,360 | 2,846 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes and minority interests | 52,777 | 61,008 | 109,157 | 113,398 |
| Provision for income taxes | (20,400) | (23,239) | (41,783) | (43,596) |
| Minority interests | (2,400) | (2,418) | (5,987) | (5,755) |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | 29,977 | 35,351 | 61,387 | 64,047 |
| Discontinued operations (Note 2) | | | | |
| Earnings from hotel operations, net of tax provisions of \$8,451 and \$15,434 | - | 11,626 | - | 21,230 |
| Spin-off transaction expenses, net of tax benefits of \$1,582 and \$5,134 | - | (5,996) | - | (21,194) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 29,977 | \$ 40,981 | \$ 61,387 | \$ 64,083 |
| | ===== | ===== | ===== | ===== |
| Earnings (loss) per share | | | | |
| Continuing operations | \$ 0.29 | \$ 0.35 | \$ 0.59 | \$ 0.62 |
| Discontinued operations | | | | |
| Earnings from hotel operations, net | - | 0.11 | - | 0.21 |
| Spin-off transaction expenses, net | - | (0.06) | - | (0.21) |
| | ----- | ----- | ----- | ----- |
| Earnings per share | \$ 0.29 | \$ 0.40 | \$ 0.59 | \$ 0.62 |
| | ===== | ===== | ===== | ===== |
| Average common shares outstanding | 103,841 | 103,211 | 103,596 | 103,088 |
| | ===== | ===== | ===== | ===== |

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)

| | Six Months Ended June 30, 1996 | June 30, 1995 |
|--|--------------------------------------|------------------|
| | ----- | ----- |
| Cash flows from operating activities | | |
| Net income | \$ 61,387 | \$ 64,083 |
| Adjustments to reconcile net income to cash flows from operating activities | | |
| Discontinued operations | | |
| Earnings from hotel operations | - | (21,230) |
| Spin-off transaction expenses, before income taxes | - | 26,328 |
| Depreciation and amortization | 48,569 | 44,897 |
| Other noncash items | 17,884 | 8,835 |
| Minority interests share of net income | 5,987 | 5,755 |
| Equity in losses (income) of nonconsolidated affiliates | (234) | 20,413 |
| Net gains from asset sales | - | (1,650) |
| Net change in long-term accounts | (1,081) | 323 |
| Net change in working capital accounts | (4,416) | (20,600) |
| Net change in accrued litigation settlement and related costs | - | (42,228) |
| Tax indemnification payments to Bass | - | (28,000) |
| | ----- | ----- |
| Cash flows provided by operating activities | 128,096 | 56,926 |
| | ----- | ----- |
| Cash flows from investing activities | | |
| Land, buildings, riverboats and equipment additions | (143,385) | (62,833) |
| Increase (decrease) in construction payables | 5,444 | (6,605) |
| Proceeds from asset sales | 908 | 9,331 |
| Investments in and advances to nonconsolidated affiliates | (42,066) | (7,910) |
| Other | (1,350) | (6,802) |
| | ----- | ----- |
| Cash flows used in investing activities | (180,449) | (74,819) |
| | ----- | ----- |
| Cash flows from financing activities | | |
| Net borrowings under Revolving Credit Facility | 57,500 | 51,450 |
| Debt retirements | (1,409) | (19,038) |
| Minority interests distributions, net of contributions | (6,837) | (3,774) |
| Other | - | (543) |
| | ----- | ----- |
| Cash flows provided by financing activities | 49,254 | 28,095 |
| | ----- | ----- |
| Cash flows from discontinued hotel operations | | |
| Net transfers to discontinued hotel operations | - | (14,840) |
| Payment of spin-off transaction expenses | - | (7,273) |
| | ----- | ----- |
| Cash flows used in discontinued operations | - | (22,113) |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (3,099) | (11,911) |
| Cash and cash equivalents, beginning of period | 96,345 | 84,968 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 93,246 | \$ 73,057 |
| | ===== | ===== |

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
JUNE 30, 1996
(UNAUDITED)

Note 1 - Basis of Presentation and Organization

Harrah's Entertainment, Inc. (Harrah's or the Company and including its subsidiaries where the context requires), a Delaware corporation, is one of America's leading casino companies and currently operates casino entertainment facilities in nine states and New Zealand. Harrah's casino entertainment facilities include casino hotels in all five major Nevada and New Jersey gaming markets: Reno, Lake Tahoe, Las Vegas and Laughlin, Nevada; and Atlantic City, New Jersey. Harrah's riverboat casinos are in Joliet, Illinois; Shreveport, Louisiana; Tunica and Vicksburg, Mississippi; and North Kansas City, Missouri. In addition, Harrah's has a minority ownership interest in and manages a casino in Auckland, New Zealand and two limited stakes casinos in Colorado. Harrah's also manages casinos on Indian lands near Phoenix, Arizona and Seattle, Washington.

The Consolidated Condensed Financial Statements include the accounts of Harrah's and its majority-owned subsidiaries after elimination of all significant intercompany accounts and transactions. Harrah's investments in 20% to 50% owned companies and joint ventures over which Harrah's has the ability to exercise significant influence are accounted for using the equity method. Harrah's reflects its share of income before interest expense of these nonconsolidated affiliates as revenues. Harrah's proportionate share of interest expense of such nonconsolidated affiliates is reported as Interest expense, net, from nonconsolidated affiliates (see Note 8).

Certain amounts for the prior year second quarter and six months ended June 30, 1995, have been reclassified to conform with the presentation for the second quarter and six months ended June 30, 1996.

Note 2 - Discontinued Operations

On June 30, 1995, Harrah's, formerly The Promus Companies Incorporated (Promus), completed a spin-off that split the Company into two independent public corporations, one for conducting its casino entertainment business and one for conducting its hotel business. Harrah's retained ownership of the casino entertainment business. The Company's hotel operations were transferred to a new entity, Promus Hotel Corporation (PHC), the stock of which was distributed to Promus' stockholders on a one-for-two basis (the PHC Spin-off). As a result of the PHC Spin-off, results of operations and cash flows of the Company's hotel business for second quarter and the six months ended June 30, 1995 are reported as discontinued operations in the Consolidated Condensed Financial Statements. Earnings from discontinued operations for the prior year periods were as follows:

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 2 - Discontinued Operations (Continued)

| | Second Quarter Ended June 30, 1995 | Six Months Ended June 30, 1995 |
|---|---|---|
| | ----- | ----- |
| (In thousands) | | |
| Revenues | \$ 69,567 | \$132,785 |
| Costs and expenses | (41,377) | (79,652) |
| | ----- | ----- |
| Operating income | 28,190 | 53,133 |
| Interest expense | (8,335) | (16,742) |
| Other expense | 222 | 273 |
| | ----- | ----- |
| Income before income taxes | 20,077 | 36,664 |
| Provision for income taxes | (8,451) | (15,434) |
| | ----- | ----- |
| Earnings from discontinued hotel operations | \$ 11,626 | \$ 21,230 |
| | ===== | ===== |

In addition to the earnings of its discontinued hotel operations, Harrah's operating results for the second quarter and six months ended June 30, 1995, included charges of \$6.0 million and \$21.2 million, respectively, net of tax, for expenses of the PHC Spin-off transaction.

Note 3 - Stockholders' Equity

In addition to its common stock, Harrah's has the following classes of stock authorized but unissued:

Preferred stock, \$100 par value, 150,000 shares authorized
Special stock, 2,000,000 shares authorized -
Series A, \$1.125 par value
Special stock, 5,000,000 shares authorized -
Series B, \$1.125 par value

In July 1996, Harrah's Board of Directors adopted a shareholder rights plan to replace the existing rights plan which expires on October 5, 1996. The new plan provides for a dividend distribution of one special stock purchase right (a "Right") for each outstanding share of common stock, payable to stockholders of record on October 5, 1996. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock or announces a tender offer for 15% or more of the common stock. Each Right will entitle stockholders to buy one two-hundredth of a share of newly created Series A Special Stock of the Company at an initial exercise price of \$130 per Right. If a person acquires 15% or more of the Company's outstanding common stock, each Right will entitle its holder to purchase common stock of the Company having a market value at that time of twice the Right's exercise price. Under certain conditions, each Right will entitle its holder to purchase stock of an acquiring company at a discount. Rights held by the 15% holder will become void. The Rights will expire on October 5, 2006, unless earlier redeemed by the Board at one cent per Right.

Note 4 - Long-Term Debt - Interest Rate Agreements

To manage the relative mix of its debt between fixed and variable rate instruments, Harrah's enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt without an exchange of the underlying principal amount. At June 30, 1996, Harrah's was a party to the following interest rate swap agreements pursuant to which it pays a variable interest rate in exchange for receiving a fixed interest rate. The average variable rate paid by Harrah's was 5.6% at June 30, 1996, and the average fixed interest rate received was 5.9%. The impact of these interest rate swap agreements on the effective interest rates of the associated debt was as follows:

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 4 - Long-Term Debt - Interest Rate Agreements (Continued)

| Associated Debt | Swap Rate (LIBOR+) | Effective Rate at June 30, 1996 | Next Semi-Annual Rate Adjustment Date | Swap Maturity |
|-----------------|--------------------|---------------------------------|---------------------------------------|---------------|
| 10 7/8% Notes | | | | |
| \$200 million | 4.73% | 10.45% | October 15 | October 1997 |
| 8 3/4% Notes | | | | |
| \$50 million | 3.42% | 9.14% | November 15 | May 1998 |
| \$50 million | 3.22% | 8.72% | July 15 | July 1998 |

In accordance with the terms of the interest rate swap agreements, the effective interest rate on \$50 million of the 8 3/4% Notes was adjusted on July 15, 1996 to 9.25%.

Harrah's has seven interest rate swap agreements to effectively convert a total of \$350 million in variable rate debt to a fixed rate. The fixed rates to be paid by Harrah's and variable rates to be received by Harrah's are summarized in the following table:

| Notional Amount | Swap Rate Paid (Fixed) | Swap Rate Received (Variable) at June 30, 1996 | Swap Maturity |
|-----------------|------------------------|--|---------------|
| \$50 million | 7.910% | 5.481% | January 1998 |
| \$50 million | 6.985% | 5.563% | March 2000 |
| \$50 million | 6.951% | 5.563% | March 2000 |
| \$50 million | 6.945% | 5.563% | March 2000 |
| \$50 million | 6.651% | 5.500% | May 2000 |
| \$50 million | 5.788% | 5.535% | June 2000 |
| \$50 million | 5.785% | 5.535% | June 2000 |

The differences to be paid or received under the terms of the interest rate swap agreements are accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received by Harrah's pursuant to the terms of its interest rate agreements will have a corresponding effect on its future cash flows. These agreements contain a credit risk that the counterparties may be unable to meet the terms of the agreements. Harrah's minimizes that risk by evaluating the creditworthiness of its counterparties, which are limited to major banks and financial institutions, and does not anticipate nonperformance by the counterparties.

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 5 - Supplemental Disclosure of Cash Paid for Interest and Taxes

The following table reconciles Harrah's interest expense, net of interest capitalized, per the Consolidated Condensed Statements of Income, to cash paid for interest:

| | Six Months Ended | |
|---|------------------|------------------|
| | June 30, 1996 | June 30, 1995 |
| (In thousands) | ----- | ----- |
| Interest expense, net of amount capitalized | \$33,595 | \$36,995 |
| Adjustments to reconcile to cash paid for interest: | | |
| Net change in interest accruals | (5,009) | 14,262 |
| Amortization of deferred finance charges | (1,574) | (1,440) |
| Amortization of discounts | (10) | (31) |
| | ----- | ----- |
| Cash paid for interest, net of amount capitalized | \$27,002 | \$49,786 |
| | ===== | ===== |
| Cash payments for income taxes, net of refunds | \$25,173 | \$51,636 |
| | ===== | ===== |

Note 6 - Commitments and Contingent Liabilities

Contractual Commitments

Harrah's is pursuing additional casino development opportunities that may require, individually and in the aggregate, significant commitments of capital, up-front payments to third parties, guarantees by Harrah's of third party debt and development completion guarantees. As of June 30, 1996, Harrah's has guaranteed third party loans and leases of \$33 million, which are secured by certain assets, has construction-related contractual commitments of \$266 million and has other commitments of \$13 million, excluding amounts previously recorded. Harrah's has also committed to guarantee an additional \$119 million in financing for new developments, subject to the receipt of certain required regulatory approvals.

The agreements under which Harrah's manages casinos on Indian lands contain provisions required by law which provide that a minimum monthly payment be made to the tribe which payment has priority over the retirement of development costs. In the event that insufficient cash is generated by the operations to fund this payment, Harrah's must pay the shortfall to the tribe.

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 6 - Commitments and Contingent Liabilities (Continued)

Such advances, if any, will be repaid to Harrah's in a future period or periods in which operations generate cash in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. As of June 30, 1996, the aggregate monthly commitment pursuant to these contracts, which extend for periods of up to 60 months from opening date, was \$1.1 million, including a commitment for a project with a contract approved by the National Indian Gaming Commission that is under development but not yet open.

As part of a transaction whereby Harrah's effectively secured an option to a site for a potential casino, Harrah's has guaranteed an additional \$24.7 million third-party variable rate bank loan. Harrah's also has entered into an interest rate swap agreement in which Harrah's receives a fixed interest rate of 7% from the third party and pays the variable interest rate of the subject debt, which is currently LIBOR plus 1.0%. The interest rate swap is marked to market by Harrah's with the adjustment recorded in interest expense. The market value of the swap was a positive \$0.1 million and a positive \$0.3 million at June 30, 1996 and December 31, 1995, respectively. The interest rate swap agreement expires December 1, 1996 and is also subject to earlier termination upon the occurrence of certain events. The underlying guaranty contains an element of risk that the borrower may be unable to retire the loan when it matures in December 1996. If that occurs, the Company could become responsible for repayment of at least a portion of the obligation. Harrah's has reduced this exposure by obtaining a security interest in certain assets of the third party.

See Note 8 for discussion of the proposed completion guarantees issued by Harrah's related to development of the New Orleans' casino.

Guarantee of Insurance Contract

Harrah's has guaranteed the value of a guaranteed investment contract with an insurance company held by Harrah's defined contribution savings plan. Harrah's has also agreed to provide non-interest-bearing loans to the plan to fund, on an interim basis, withdrawals from this contract by retired or terminated employees. Harrah's maximum exposure on this guarantee as of June 30, 1996, was \$6.5 million.

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 6 - Commitments and Contingent Liabilities (Continued)

Self-Insurance

Harrah's is self-insured for various levels of general liability, workers' compensation and employee medical coverage. Insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims.

Severance Agreements

At June 30, 1996, Harrah's had severance agreements with 28 of its executives, which provide for payments to the executives in the event of their termination after a change in control, as defined, of Harrah's. These agreements provide, among other things, for a compensation payment ranging from 1.5 times to 2.99 times the average annual compensation paid to the executive for the five preceding calendar years, as well as for accelerated payment or accelerated vesting of any compensation or awards payable to the executive under any of Harrah's incentive plans. The estimated amount, computed as of June 30, 1996, that would have been payable under the agreements to these executives based on earnings and stock options aggregated approximately \$38.5 million.

Tax Sharing Agreements

In connection with the PHC Spin-off, Harrah's entered into a tax sharing agreement with PHC wherein each company is obligated for those taxes associated with their respective businesses. Additionally, Harrah's is obligated for all taxes of Promus for periods prior to the PHC Spin-off date which are not specifically related to PHC operations and/or PHC hotel locations. Harrah's obligations under this agreement are not expected to have a material adverse effect on its consolidated financial position or results of operations.

Note 7 - Litigation

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

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 7 - Litigation (Continued)

- - - - -

In addition to the matters described above, Harrah's and certain of its subsidiaries have been named as defendants in a number of lawsuits arising from the suspension of development of a land-based casino, and the closing of the temporary gaming facility, in New Orleans, Louisiana, by Harrah's Jazz Company, a partnership in which a subsidiary of the Company owns an approximate 47% interest and which has filed for protection under Chapter 11 of the U.S. Bankruptcy Code (see Note 8). The ultimate outcomes of these lawsuits cannot be predicted at this time, and no provisions for the claims are included in the accompanying financial statements. The Company intends to defend these actions vigorously.

Note 8 - Nonconsolidated Affiliates

- - - - -

Harrah's Jazz Company

- - - - -

A Harrah's subsidiary owns an approximate 47% interest in Harrah's Jazz Company (Harrah's Jazz), a partnership formed for purposes of developing, owning and operating the exclusive land-based casino entertainment facility in New Orleans, Louisiana, on the site of the former Rivergate Convention Center (the Rivergate). On November 22, 1995, Harrah's Jazz and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. Prior to the filing, Harrah's Jazz was operating a temporary casino in the New Orleans, Louisiana Municipal Auditorium (the Basin Street Casino) and constructing a new permanent casino facility on the Rivergate site (the Rivergate Casino). Harrah's Jazz ceased operation of the Basin Street Casino and construction of the Rivergate Casino on November 22, 1995 prior to the bankruptcy filings.

In August 1996, Harrah's Jazz negotiated a proposed agreement (the proposed City Agreement) with the City of New Orleans (the City) and the Rivergate Development Corporation which would provide for amendments to the lease agreement and related documentation between Harrah's Jazz and the City. The proposed City Agreement contemplates the completion of definitive lease documentation and the receipt of all requisite City approvals by October 1996.

Under the proposed City Agreement (and a prior agreement with the City), Harrah's Jazz paid approximately \$4.3 million to the City and made payments into escrow of approximately \$5.8 million. A subsidiary of the Company funded \$2.5 million and approximately \$4.4 million of the \$4.3 million and \$5.8 million payments, respectively, in the form of debtor-in-possession loans to Harrah's Jazz. As of July 31, 1996, a subsidiary of the Company had also made an additional \$3.0 million of debtor-in-possession loans to Harrah's Jazz to fund its other cash requirements. Although the debtor-in-possession loans are administrative priority claims in the bankruptcy, and are secured by a first lien on most Harrah's Jazz assets, there can be no assurance that the loans will be repaid.

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 8 - Nonconsolidated Affiliates (Continued)

The Company's share of the escrowed funds will be released to the City in monthly increments upon the satisfaction of certain conditions and the balance will be returned to the Company if the Harrah's Jazz plan of reorganization does not become effective by December 31, 1996.

The proposed City Agreement has not yet been signed and there is no assurance it will become effective or that it will not be modified or delayed.

Harrah's Jazz filed a plan of reorganization with the Bankruptcy Court on April 3, 1996 and an amended plan of reorganization on June 17, 1996 (the Plan). Under the Plan, the assets and business of Harrah's Jazz would vest in Jazz Casino Corporation, a newly formed corporation (JCC), on the effective date of the Plan. JCC would complete construction of the Rivergate Casino. Under the Plan, Harrah's Jazz's existing public debt would be cancelled, the holders of that debt would receive 37.1% of the equity in JCC's indirect parent (JCC Holding), 15% of the equity would be allocated to debtholders who execute releases and an affiliate of the Company would receive the remaining 47.9% of the equity in JCC Holding, a portion of which may be assigned to certain partners of Harrah's Jazz, in exchange for equity investments and other consideration to be provided under the Plan. In addition, holders of the public debt would receive (i) \$187.5 million in aggregate principal amount of 8% Senior Subordinated Notes of JCC due 2006 with contingent payments, and (ii) a pro rata share of Senior Subordinated Contingent Notes of JCC due 2006.

As part of the Plan, Harrah's has proposed to invest an additional \$75 million in the project and deliver a new form of completion guaranty if a reorganization plan approved by Harrah's is consummated. Harrah's has also proposed to invest, prior to plan consummation, up to \$18.0 million in the form of debtor-in-possession financing, including the approximately \$9.9 million in financing already advanced and discussed above (such financing would be repaid or converted into equity (and count toward the \$75 million investment referred to above) upon consummation of a reorganization plan approved by Harrah's). JCC is also seeking to obtain a \$175 million secured term loan and revolving credit facility to finance construction of the Rivergate Casino, and Harrah's may be required to guarantee or provide credit support for this financing.

The Plan also contemplates the opening of a temporary casino in two phases at the Rivergate Casino site followed by the opening of a permanent casino at such site. Assuming timely consummation of the Plan, the first phase of the temporary casino is scheduled to open on or about May 31, 1997. Under the Plan, the Basin Street Casino would not reopen.

On April 19, 1996, the Louisiana State Legislature enacted legislation which required, among other things, the holding of an election of the voters

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 8 - Nonconsolidated Affiliates (Continued)

of Orleans Parish in November 1996 purportedly to determine whether to approve or disapprove gaming at the Rivergate Casino. Although there purport to be no provisions in the legislation to protect the Harrah's Jazz Casino Operating Contract against an adverse election outcome, the Company believes the legislation could be challenged on legal grounds.

As a consequence of this legislative action, it is expected that the Plan cannot be consummated until, among other things, there is a favorable election outcome. The present status of the Plan's consummation and the election outcome is uncertain.

In addition to the matters discussed above, the Plan is subject to other amendments, and such other amendments may be material. There can be no assurance that definitive agreements necessary to consummate the Plan, including agreements with the City and other necessary parties, will be reached or that the amended Plan will be approved, or, if approved, that the conditions to consummation of the Plan (including the favorable election outcome) will be met.

Other

Summarized balance sheet and income statement information of nonconsolidated gaming affiliates, including Harrah's Jazz, which Harrah's accounted for using the equity method, as of June 30, 1996 and December 31, 1995, and for the second quarters and six months ended June 30, 1996 and 1995 is included in the following tables. Summarized balance sheet information as of December 31, 1995, has been updated to reflect adjustments made by Harrah's Jazz Company in connection with its petition for relief under Chapter 11 of the U.S. Bankruptcy Code.

| | June 30, 1996 | Dec. 31, 1995 |
|---|------------------|------------------|
| (In thousands) | ----- | ----- |
| Combined Summarized Balance Sheet Information | | |
| Current assets | \$ 67,503 | \$ 63,216 |
| Land, buildings, and equipment, net | 313,397 | 266,602 |
| Other assets | 175,850 | 169,033 |
| | ----- | ----- |
| Total assets | 556,750 | 498,851 |
| | ----- | ----- |
| Current liabilities | 117,004 | 130,816 |
| Long-term debt | 476,790 | 465,386 |
| | ----- | ----- |
| Total liabilities | 593,794 | 596,202 |
| | ----- | ----- |
| Net assets | \$(37,044) | \$(97,351) |
| | ===== | ===== |

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 8 - Nonconsolidated Affiliates (Continued)

| | Second Quarter Ended | | Six Months Ended | |
|--|----------------------|------------------|------------------|------------------|
| | June 30, 1996 | June 30, 1995 | June 30, 1996 | June 30, 1995 |
| | ----- | ----- | ----- | ----- |
| (In thousands) | | | | |
| Combined Summarized Statements of Operations | | | | |
| Revenues | \$ 7,838 | \$ 25,500 | \$14,633 | \$ 25,540 |
| | ===== | ===== | ===== | ===== |
| Operating loss | \$(4,675) | \$(25,774) | \$(7,954) | \$(33,967) |
| | ===== | ===== | ===== | ===== |
| Net loss | \$(5,843) | \$(38,395) | \$(8,967) | \$(56,336) |
| | ===== | ===== | ===== | ===== |

Harrah's share of nonconsolidated affiliates' combined net operating results, including Harrah's Jazz operations during the second quarter and the six months ended June 30, 1995, are reflected in the accompanying Consolidated Condensed Statements of Income as follows:

| | Second Quarter Ended | | Six Months Ended | |
|--------------------------------------|----------------------|------------------|------------------|------------------|
| | June 30, 1996 | June 30, 1995 | June 30, 1996 | June 30, 1995 |
| | ----- | ----- | ----- | ----- |
| (In thousands) | | | | |
| Pre-interest operating income (loss) | | | | |
| (included in Revenue-other) | \$ 80 | \$(9,267) | \$ 241 | \$(12,070) |
| | ===== | ===== | ===== | ===== |

Harrah's share of nonconsolidated affiliates' combined interest expense is reflected as Interest expense from nonconsolidated affiliates in the accompanying Consolidated Condensed Statements of Income. Harrah's investments in and advances to nonconsolidated affiliates are reflected in the accompanying Consolidated Condensed Balance Sheets as follows:

| | June 30, 1996 | Dec. 31, 1995 |
|--|------------------|------------------|
| | ----- | ----- |
| (In thousands) | | |
| Harrah's investments in and advances to nonconsolidated affiliates | | |
| Accounted for under the equity method | \$ 67,422 | \$22,374 |
| Accounted for at historical cost | - | 16,642 |
| Available for sale and recorded at market value | 103,249 | 32,923 |
| | ----- | ----- |
| | \$170,671 | \$71,939 |
| | ===== | ===== |

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 8 - Nonconsolidated Affiliates (Continued)

The Company has adjusted the carrying value of investments in equity securities available for sale to include their unrealized gains in accordance with the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". A corresponding increase has been recorded in the combination of Harrah's stockholders' equity and deferred income tax accounts.

Condensed financial information relating to a restaurant affiliate has not been presented since its operating results and financial position are not material to Harrah's.

Note 9 - Summarized Financial Information

Harrah's Operating Company, Inc., (HOC) is a wholly owned subsidiary and the principal asset of Harrah's. Summarized financial information of HOC as of June 30, 1996 and December 31, 1995 and for the second quarters and six months ended June 30, 1996 and 1995, prepared on the same basis as Harrah's, was as follows:

| | June 30, 1996 | Dec. 31, 1995 |
|---|------------------|------------------|
| | ----- | ----- |
| (In thousands) | | |
| Current assets | \$ 191,439 | \$ 185,950 |
| Land, buildings, riverboats and equipment, net | 1,303,496 | 1,204,890 |
| Other assets | 335,357 | 242,773 |
| | ----- | ----- |
| | 1,830,292 | 1,633,613 |
| | ----- | ----- |
| Current liabilities | 193,028 | 184,454 |
| Long-term debt | 810,514 | 753,705 |
| Other liabilities | 106,767 | 73,216 |
| Minority interests | 23,059 | 23,908 |
| | ----- | ----- |
| | 1,133,368 | 1,035,283 |
| | ----- | ----- |
| Net assets | \$ 696,924 | \$ 598,330 |
| | ===== | ===== |

HARRAH'S ENTERTAINMENT, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)
JUNE 30, 1996
(UNAUDITED)

Note 9 - Summarized Financial Information (Continued)

| | Second Quarter Ended | | Six Months Ended | |
|-----------------------------------|----------------------|------------------|------------------|------------------|
| | June 30, 1996 | June 30, 1995 | June 30, 1996 | June 30, 1995 |
| | ----- | ----- | ----- | ----- |
| (In thousands) | | | | |
| Revenues | \$401,176 | \$388,910 | \$784,238 | \$745,107 |
| | ===== | ===== | ===== | ===== |
| Operating income | \$ 68,183 | \$ 83,166 | \$140,013 | \$155,031 |
| | ===== | ===== | ===== | ===== |
| Income from continuing operations | \$ 29,471 | \$ 34,965 | \$ 60,491 | \$ 63,299 |
| | ===== | ===== | ===== | ===== |
| Net income | \$ 29,471 | \$ 40,595 | \$ 60,491 | \$ 63,335 |
| | ===== | ===== | ===== | ===== |

The agreements governing the terms of Harrah's debt contain certain covenants which, among other things, place limitations on HOC's ability to pay dividends and make other restricted payments, as defined, to Harrah's. The amount of HOC's restricted net assets, as defined, computed in accordance with the most restrictive of these covenants regarding restricted payments, was approximately \$687.8 million at June 30, 1996.

Item 2. Management's Discussion and Analysis

of Financial Condition and Results of Operations

The following discussion and analysis of Harrah's Entertainment, Inc.'s (Harrah's or the Company) financial position and operating results for second quarter and the first six months of 1996 and 1995 complements and updates the Management's Discussion and Analysis of Financial Position and Results of Operations (MD&A) presented in Harrah's 1995 Annual Report. The following information should be read in conjunction with Harrah's 1995 MD&A disclosure. References to Harrah's or the Company include its consolidated subsidiaries where the context requires.

Harrah's is one of the world's premier names in casino entertainment, currently operating casino entertainment facilities in nine states and New Zealand.

RESULTS OF OPERATIONS

Overall

| (in millions, except earnings per share) | Second Quarter | | Percentage Increase/ (Decrease) | First Six Months | | Percentage Increase/ (Decrease) |
|--|----------------|---------|---------------------------------------|------------------|---------|---------------------------------------|
| | 1996 | 1995 | | 1996 | 1995 | |
| Revenues | \$401.2 | \$389.3 | 3.1 % | \$784.3 | \$745.8 | 5.2 % |
| Operating income | 69.0 | 83.8 | (17.7)% | 141.4 | 156.2 | (9.5)% |
| Income from continuing operations | 30.0 | 35.4 | (15.3)% | 61.4 | 64.0 | (4.1)% |
| Earnings from discontinued hotel operations | - | 11.6 | N/A | - | 21.2 | N/A |
| Net income | 30.0 | 41.0 | (26.8)% | 61.4 | 64.1 | (4.2)% |
| Earnings per share | | | | | | |
| Continuing operations | 0.29 | 0.35 | (17.1)% | 0.59 | 0.62 | (4.8)% |
| Discontinued operations | - | 0.11 | N/A | - | 0.21 | N/A |
| Net income | 0.29 | 0.40 | (27.5)% | 0.59 | 0.62 | (4.8)% |
| Operating margin | 17.2% | 21.5% | (4.3)pts | 18.0% | 20.9% | (2.9)pts |

The revenue increase during second quarter 1996 as compared with second quarter 1995 is due primarily to revenue growth within the riverboat division and to the inclusion in 1995 of Harrah's share of operating losses for Harrah's Jazz Company, partially offset by lower revenues in traditional land-based markets. Operating income decreased from second quarter 1995, and the overall operating margin decreased 4.3 points, as these higher revenues were offset by the effects of increased competition in several of the Company's markets, project reorganization costs related to Harrah's Jazz Company and preopening costs related to new and expanded properties. These factors also impacted operations for the first six months of 1996, as the overall operating margin decreased 2.9 points from the comparable prior year period.

The following table summarizes operating profit before project write-downs and reorganization costs, preopening costs and corporate expense for the twelve month periods ended June 30, 1996, 1995 and 1994 in millions of dollars and as a percent of the total for each of Harrah's divisions:

| | Contribution for Twelve Months Ended June 30, | | | | | |
|-----------------------|---|-------|-------|------------------|------|------|
| | In Millions of Dollars | | | Percent of Total | | |
| | 1996 | 1995 | 1994 | 1996 | 1995 | 1994 |
| Riverboat | \$168 | \$142 | \$ 95 | 48% | 43% | 33% |
| Atlantic City | 80 | 83 | 68 | 23 | 25 | 23 |
| Southern Nevada | 74 | 74 | 77 | 21 | 23 | 26 |
| Northern Nevada | 61 | 73 | 76 | 17 | 22 | 26 |
| Indian/Limited Stakes | 5 | 6 | 1 | 1 | 2 | - |
| New Orleans | (16) | (16) | (5) | (4) | (5) | (2) |
| Development costs | (13) | (23) | (13) | (4) | (7) | (4) |
| Other | (7) | (10) | (6) | (2) | (3) | (2) |
| Total | \$352 | \$329 | \$293 | 100% | 100% | 100% |

Riverboat Division

| | Second Quarter | | Percentage Increase/ (Decrease) | Six Months Ended | | Percentage Increase/ (Decrease) |
|------------------|----------------|---------|------------------------------------|------------------|---------|------------------------------------|
| (in millions) | 1996 | 1995 | | 1996 | 1995 | |
| Casino revenues | \$157.9 | \$136.7 | 15.5 % | \$303.2 | \$264.5 | 14.6 % |
| Total revenues | 165.8 | 146.4 | 13.3 % | 317.9 | 284.2 | 11.9 % |
| Operating profit | 40.2 | 44.2 | (9.1)% | 81.2 | 85.1 | (4.6)% |
| Operating margin | 24.2% | 30.2% | (6.0)pts | 25.5% | 29.9% | (4.4)pts |

Revenue growth for second quarter and the six months ended June 30, 1996 came from the addition of Harrah's Tunica Mardi Gras casino, which opened in April, and strong performance at Harrah's Shreveport. Operating profit and margins decreased for both periods compared to the 1995 periods due primarily to intense competition in North Kansas City and Tunica. In North Kansas City, though revenues remain strong, competitive adjustments, including the decision to eliminate admission charges, have negatively impacted operating profits and margins. In Tunica, a major new competitor opened in June 1996 and several existing participants, including Harrah's, have expanded their offerings in an effort to capture a greater market share. These efforts have included aggressive marketing programs which have increased operating costs and reduced operating margins at both Harrah's Tunica facilities.

Despite the Division's lower operating margins in 1996, the overall operating margin for the Riverboat Division generally remains high compared to other divisions due to some of the operational differences between a riverboat facility and a conventional land-based property and lesser levels of competition in some of the riverboat markets.

Atlantic City
- - - - -

| | Second Quarter | | Percentage | Six Months Ended | | Percentage |
|------------------|----------------|--------|------------|------------------|---------|------------|
| | ----- | | Increase/ | ----- | | Increase/ |
| (in millions) | 1996 | 1995 | (Decrease) | 1996 | 1995 | (Decrease) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Casino revenues | \$74.4 | \$78.1 | (4.7)% | \$147.1 | \$149.9 | (1.9)% |
| Total revenues | 81.0 | 84.7 | (4.4)% | 159.5 | 162.0 | (1.5)% |
| Operating profit | 17.7 | 22.0 | (19.6)% | 32.4 | 37.9 | (14.5)% |
| Operating margin | 21.9% | 26.0% | (4.1)pts | 20.3% | 23.4% | (3.1)pts |

Casino revenues for the second quarter and six months ended June 30, 1996 decreased from the prior year periods due to lower overall win percentages, despite higher gaming volume in both periods. An increase in nongaming revenues for both 1996 periods partially offset the declines in casino revenue. In the past several months, competitors in Atlantic City have opened both additional casino space and hotel rooms and supported that new supply with increased promotions and marketing, thereby increasing the level of competition and causing a decline in Harrah's casino revenues and operating profit for both the second quarter and the six months ended June 30, 1996. On June 28, Harrah's Atlantic City completed an expansion of its casino, adding 500 slot machines in 13,500 square feet of new gaming space. To support the opening of this expansion and in response to the competitive market conditions, Harrah's is increasing its spending on direct marketing.

Southern Nevada
- - - - -

| | Second Quarter | | Percentage | Six Months Ended | | Percentage |
|------------------|----------------|--------|------------|------------------|---------|------------|
| | ----- | | Increase/ | ----- | | Increase/ |
| (in millions) | 1996 | 1995 | (Decrease) | 1996 | 1995 | (Decrease) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Casino revenues | \$48.1 | \$49.6 | (3.0)% | \$ 98.4 | \$ 99.2 | (0.8)% |
| Total revenues | 75.1 | 76.9 | (2.3)% | 150.7 | 149.2 | 1.0 % |
| Operating profit | 18.9 | 19.4 | (2.6)% | 38.4 | 37.4 | 2.7 % |
| Operating margin | 25.2% | 25.2% | - | 25.5% | 25.1% | 0.4 pts |

Casino revenues and total revenues decreased in second quarter 1996 due primarily to a decline in gaming volume at Laughlin. Total revenues increased slightly for the 1996 six month period due to higher nongaming revenues at both properties and strong table games performance in Las Vegas. Second quarter operating profit decreased in 1996 due to a

lower gaming margin in Laughlin, but increased for the six month period due to higher nongaming margins, particularly lodging. The improved nongaming margins also resulted in higher overall margins for the six month period.

Northern Nevada

- - - - -

| | Second Quarter | | Percentage | Six Months Ended | | Percentage |
|------------------|----------------|--------|------------|------------------|---------|------------|
| | ----- | | Increase/ | ----- | | Increase/ |
| (in millions) | 1996 | 1995 | (Decrease) | 1996 | 1995 | (Decrease) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Casino revenues | \$55.1 | \$64.0 | (13.9)% | \$108.0 | \$113.4 | (4.8)% |
| Total revenues | 71.9 | 81.5 | (11.8)% | 142.3 | 146.5 | (2.9)% |
| Operating profit | 12.5 | 20.5 | (39.0)% | 22.9 | 28.2 | (18.8)% |
| Operating margin | 17.4% | 25.2% | (7.8)pts | 16.1% | 19.2% | (3.1)pts |

Casino revenues decreased in second quarter 1996 from second quarter 1995 due primarily to a decline in gaming volume at Harrah's Reno, where a competitor opened a major new property in July 1995. Also contributing to the second quarter decline were lower win percentages at Harrah's Lake Tahoe. For the six month period, both casino and total revenues decreased in 1996 due primarily to the lower casino revenue at Harrah's Reno. These lower casino revenues, combined with higher complimentary costs and overhead costs at both properties, led to declines in the Division's operating profit and margin for both 1996 periods.

Harrah's New Orleans

- - - - -

Operating income for second quarter and the six months ended June 30, 1995 included losses of \$9.9 million and \$12.7 million, respectively, representing Harrah's subsidiary's pro rata share of pre-interest losses incurred by Harrah's Jazz Company (Harrah's Jazz), the partnership which holds the right to develop the sole land-based casino in Orleans Parish, Louisiana. No equity pick-up was included for the 1996 periods for Harrah's subsidiary's interest in Harrah's Jazz as the book value of this investment had been reduced to zero in fourth quarter 1995. (See Other Factors Affecting Income per Share and Harrah's Jazz Company sections for further discussion.)

Other

- - - - -

Other revenues include management fees from Harrah's-managed casino entertainment facilities. Since second quarter 1995, Harrah's has opened two additional managed casino facilities, Harrah's Sky City in Auckland, New Zealand, and Harrah's Skagit Valley near Seattle, Washington. Management fee income increased for the second quarter and six months ended June 30, 1996 over the respective prior year periods, due primarily to the addition of New Zealand management fees; the increase was partially offset

by the loss of New Orleans' management fees, which were included in 1995 revenues. Operating profit derived from the Company's managed properties has declined from prior year levels, however, due to nonrecurring current year costs related to Harrah's partial ownership and management of two Colorado casinos.

Development costs for the second quarter and six months ended June 30, 1996 declined from 1995 levels, due to lower levels of development activity.

Other Factors Affecting Income Per Share

| (Income)/Expense (in millions) | Second Quarter | | Percentage Increase/ (Decrease) | First Six Months | | Percentage Increase/ (Decrease) |
|---|----------------|--------|---------------------------------------|------------------|--------|---------------------------------------|
| | 1996 | 1995 | | 1996 | 1995 | |
| Preopening costs | \$ 4.8 | \$ - | N/M | \$ 5.0 | \$ - | N/M |
| Corporate expense | 8.4 | 8.8 | (4.6)% | 15.7 | 14.2 | 10.6 % |
| Project reorganization costs | 6.1 | - | N/M | 8.5 | - | N/M |
| Interest expense, net | 17.0 | 18.7 | (9.1)% | 33.6 | 37.0 | (9.2)% |
| Interest expense, net, from nonconsolidated affiliates | - | 4.9 | N/M | - | 8.6 | N/M |
| Other income | (0.8) | (0.8) | - | (1.4) | (2.8) | (50.0)% |
| Effective tax rate | 38.7% | 38.1% | 0.6 pts | 38.3% | 38.5% | (0.2)pts |
| Minority interests | \$ 2.4 | \$ 2.4 | - | \$ 6.0 | \$ 5.8 | 3.5 % |
| Discontinued operations | | | | | | |
| Hotel earnings, net of income taxes | - | (11.6) | N/M | - | (21.2) | N/M |
| Spin-off transaction costs, net of tax | - | 6.0 | N/M | - | 21.2 | N/M |

Preopening costs incurred in connection with the opening of Harrah's Tunica Mardi Gras were charged to expense during second quarter 1996. Preopening costs related to the North Kansas City casino expansion project were expensed as incurred during the first six months of 1996 (see Capital Spending and Development). Corporate expense decreased in second quarter 1996 over second quarter 1995, but increased for the 1996 six month period, due primarily to the timing of expenses. Project reorganization costs incurred during the 1996 periods represent Harrah's costs associated with the development of a reorganization plan, including legal fees, for the New Orleans casino (see Harrah's Jazz Company section).

Interest expense decreased in both second quarter 1996 and the six month period ended June 30, 1996 from the comparable prior year periods as a result of decreased borrowing costs associated with Harrah's variable rate debt (see Debt and Liquidity) and higher levels of capitalized interest costs. 1995 interest expense from nonconsolidated affiliates reflected Harrah's pro rata share of interest expense from the Harrah's Jazz partnership. No comparable amount is recorded in the current year due to the fourth quarter 1995 write-down of the book value of this investment to zero. (See Harrah's Jazz Company section.)

Other income in second quarter 1996 remained fairly consistent with second quarter 1995, but decreased for the six month period compared with 1995, due primarily to the inclusion in the prior year's results of a \$1.6 million gain on the sale of nonoperating property.

The effective tax rates for both periods are higher than the federal statutory rate due to state income taxes. Minority interests reflect joint venture partners' shares of income at joint venture riverboat casinos and remained consistent for all periods presented.

As a result of the June 30, 1995 spin-off of the Company's hotel operations (the PHC Spin-off), the operating results of the hotel business prior to July 1, 1995 have been segregated and reported as discontinued operations in the accompanying Consolidated Condensed Statements of Income. Prior year operating results include the earnings of discontinued operations, as well as a charge of \$21.2 million, or \$0.21 per share, net of tax, representing the costs to complete the PHC Spin-off transaction.

HARRAH'S JAZZ COMPANY

- - - - -

A Harrah's subsidiary owns an approximate 47% interest in Harrah's Jazz Company (Harrah's Jazz), a partnership formed for purposes of developing, owning and operating the exclusive land-based casino entertainment facility in New Orleans, Louisiana, on the site of the former Rivergate Convention Center (the Rivergate). On November 22, 1995, Harrah's Jazz and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. Prior to the filing, Harrah's Jazz was operating a temporary casino in the New Orleans, Louisiana Municipal Auditorium (the Basin Street Casino) and constructing a new permanent casino facility on the Rivergate site (the Rivergate Casino). Harrah's Jazz ceased operation of the Basin Street Casino and construction of the Rivergate Casino on November 22, 1995 prior to the bankruptcy filings.

In August 1996, Harrah's Jazz negotiated a proposed agreement (the proposed City Agreement) with the City of New Orleans (the City) and the Rivergate Development Corporation which would provide for amendments to the lease agreement and related documentation between Harrah's Jazz and the City. The proposed City Agreement contemplates the completion of definitive lease documentation and the receipt of all requisite City approvals by October 1996.

Under the proposed City Agreement (and a prior agreement with the City), Harrah's Jazz paid approximately \$4.3 million to the City and made payments into escrow of approximately \$5.8 million. A subsidiary of the Company funded \$2.5 million and approximately \$4.4 million of the \$4.3 million and \$5.8 million payments, respectively, in the form of debtor-in-possession loans to Harrah's Jazz. As of July 31, 1996, a subsidiary of the Company had also made an

additional \$3.0 million of debtor-in-possession loans to Harrah's Jazz to fund its other cash requirements. Although the debtor-in-possession loans are administrative priority claims in the bankruptcy, and are secured by a first lien on most Harrah's Jazz assets, there can be no assurance that the loans will be repaid.

The Company's share of the escrowed funds will be released to the City in monthly increments upon the satisfaction of certain conditions and the balance will be returned to the Company if the Harrah's Jazz plan of reorganization does not become effective by December 31, 1996.

The proposed City Agreement has not yet been signed and there is no assurance it will become effective or that it will not be modified or delayed.

Harrah's Jazz filed a plan of reorganization with the Bankruptcy Court on April 3, 1996 and an amended plan of reorganization on June 17, 1996 (the Plan). Under the Plan, the assets and business of Harrah's Jazz would vest in Jazz Casino Corporation, a newly formed corporation (JCC), on the effective date of the Plan. JCC would complete construction of the Rivergate Casino. Under the Plan, Harrah's Jazz's existing public debt would be cancelled, the holders of that debt would receive 37.1% of the equity in JCC's indirect parent (JCC Holding), 15% of the equity would be allocated to debtholders who execute releases and an affiliate of the Company would receive the remaining 47.9% of the equity in JCC Holding, a portion of which may be assigned to certain partners of Harrah's Jazz, in exchange for equity investments and other consideration to be provided under the Plan. In addition, holders of the public debt would receive (i) \$187.5 million in aggregate principal amount of 8% Senior Subordinated Notes of JCC due 2006 with contingent payments, and (ii) a pro rata share of Senior Subordinated Contingent Notes of JCC due 2006.

As part of the Plan, Harrah's has proposed to invest an additional \$75 million in the project and deliver a new form of completion guaranty if a reorganization plan approved by Harrah's is consummated. Harrah's has also proposed to invest, prior to plan consummation, up to \$18.0 million in the form of debtor-in-possession financing, including the approximately \$9.9 million in financing already advanced and discussed above (such financing would be repaid or converted into equity (and count toward the \$75 million investment referred to above) upon consummation of a reorganization plan approved by Harrah's). JCC is also seeking to obtain a \$175 million secured term loan and revolving credit facility to finance construction of the Rivergate Casino, and Harrah's may be required to guarantee or provide credit support for this financing.

The Plan also contemplates the opening of a temporary casino in two phases at the Rivergate Casino site followed by the opening of a permanent casino at such site. Assuming timely consummation of the Plan, the first phase of the temporary casino is scheduled to open on or about May 31, 1997. Under the Plan, the Basin Street Casino would not reopen.

On April 19, 1996, the Louisiana State Legislature enacted legislation which required, among other things, the holding of an election of the voters of Orleans Parish in November 1996 purportedly to determine whether to approve or disapprove gaming at the Rivergate Casino. Although there purport to be no provisions in the legislation to protect the Harrah's Jazz Casino Operating Contract against an adverse election outcome, the Company believes the legislation could be challenged on legal grounds.

As a consequence of this legislative action, it is expected that the Plan cannot be consummated until, among other things, there is a favorable election outcome. The present status of the Plan's consummation and the election outcome is uncertain.

In addition to the matters discussed above, the Plan is subject to other amendments, and such other amendments may be material. There can be no assurance that definitive agreements necessary to consummate the Plan, including agreements with the City and other necessary parties, will be reached or that the amended Plan will be approved, or, if approved, that the conditions to consummation of the Plan (including the favorable election outcome) will be met. Additionally, ongoing litigation costs related to the Harrah's Jazz bankruptcy, which could be significant, will have a corresponding impact on Harrah's future earnings and cash flows.

CAPITAL SPENDING AND DEVELOPMENT

----- Existing Land-Based Properties -----

Harrah's recently announced revised development plans for major expansions at its Las Vegas and Atlantic City casino properties. The revised plans complement projects recently completed or currently underway at both properties to add an additional hotel tower and more casino space, with the current status of projects approved by regulatory authorities as follows:

| Location | Estimated Project Cost (millions) | Costs Incurred at June 30, 1996 (millions) | Additional Casino Square Feet | Additional Hotel Rooms | Projected Opening Dates | |
|---------------|--|--|--|------------------------------|----------------------------|-------------------|
| | | | | | Casino Expansion | Hotel Addition |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Las Vegas | \$200.0 | \$18.2 | 27,000 | 976 | Oct 96 | Oct 97-Apr 98 |
| Atlantic City | 80.7 | 17.4 | 13,500 | 416 | Open | Jul 97 |

The above table reflects \$50 million in additional approved spending at Harrah's Las Vegas, which increased the scope of Harrah's previously announced expansion project. The project includes not only the additional casino space and guest rooms reflected above, but significant additions and improvements to nongaming amenities. In addition to this expansion of its current Las Vegas property, Harrah's has also announced its intention to construct or acquire a second Las Vegas casino property.

In Atlantic City, Harrah's plans to invest an additional \$325 million in its current property, pending appropriate regulatory approvals and adequate resolution of road and access improvements that have been the subject of discussions between the state, city and developers. This investment would position Harrah's Atlantic City as one of the largest casino resorts in that market. The proposed project, which is in addition to the \$80.7 million project reflected above, includes an additional 1,500 guest rooms and 30,000 square feet of casino space, as well as significant enhancements in convention facilities, restaurant offerings, parking facilities and other nongaming amenities. As noted in the above table, the current casino expansion at Harrah's Atlantic City was completed on June 28, 1996, adding 13,500 square feet of gaming space and 500 slot machines to the property. Scheduled to open in the fall are several nongaming amenities, including a new marine-themed buffet restaurant.

Riverboat Casino Development

- - - - -

Construction continues on the joint venture riverboat casino entertainment complex in Maryland Heights, Missouri, a suburb of St. Louis, which is expected to open during first quarter 1997, subject to receipt of all regulatory approvals. The facility will include four riverboat casinos, two of which will be owned and operated by Harrah's, and jointly-owned shoreside facilities, including a 291-room Harrah's-managed hotel and an entertainment mall. Harrah's investment in the Maryland Heights development project is expected to total \$175 million, of which approximately \$86 million had been invested at June 30, 1996, including approximately \$58 million in contributions to the joint venture.

On April 8, 1996, Harrah's opened its Tunica Mardi Gras casino entertainment facility, the Company's second casino facility in Tunica, Mississippi, featuring 1,189 slot machines and 64 table games within 50,000 square feet of casino space. In June 1996, the Company opened a 200-room hotel which is adjacent to the casino. Harrah's continues to operate its original Harrah's Tunica property, which is operated in conjunction with Harrah's Mardi Gras using certain common management elements.

On May 15, 1996, Harrah's opened a second riverboat casino at its North Kansas City property, which added approximately 30,000 square feet of gaming space and 80% more gaming positions. The \$78 million expansion project also includes the addition of a 1,060-car parking garage, which opened in March 1996, a 200-room hotel, scheduled for completion in late 1996, and other shoreside improvements. At June 30, 1996, approximately \$40 million had been incurred on the project.

Harrah's recently announced plans to spend approximately \$95 million on expansion projects in Shreveport and Joliet. In Shreveport, Harrah's has proposed a \$50 million expansion to include a 400-room hotel as well as additional parking and restaurant and meeting facilities. Planning and design work for this project is underway and, subject to reaching agreement with the City of Shreveport, construction is expected to begin in late 1996 assuming a successful November election on riverboat casinos in that market. In Joliet, Harrah's expects to spend \$45 million, subject to regulatory approval, to add a 300-room hotel, new restaurants and meeting facilities. Planning for this project is nearing completion and completion of construction is targeted for fourth quarter 1997.

Indian Lands -----

Harrah's has received approval from the National Indian Gaming Commission (NIGC) of development and management agreements with the Eastern Band of Cherokees for a casino development at Cherokee, North Carolina. The groundbreaking for the \$82 million facility took place on July 30, 1996, and the facility is expected to open during third quarter 1997. Though Harrah's does not expect to fund this development, it has committed to guarantee the related bank financing, which is expected to close during third quarter 1996.

Harrah's is awaiting NIGC approval of development and management agreements with the Prairie Band of Potawatomi Indians for a development near Topeka, Kansas. The Prairie Band's current plans call for the renovation of its current bingo hall as a temporary casino in fourth quarter 1996. Harrah's has committed to loan the tribe \$1 million for this purpose. Current plans also call for the construction of a \$37 million permanent casino. This facility, which is expected to be completed by third quarter 1997, assuming NIGC approval is timely received, will be managed by a Harrah's subsidiary and financed by loans which Harrah's will guarantee.

Harrah's has also signed definitive development and management agreements with the Pokagon Band of Potawatomi Indians for future casino developments in Michigan and Indiana and has previously announced agreements with other Indian tribes. These proposed developments are in various stages of negotiation and are subject to certain conditions, including approval from appropriate government agencies. The Michigan legislature recently declined to concur with the Governor's execution of the compact for a Michigan casino development by the Pokagon Band, but efforts to gain alternative approvals continue. Upon the receipt of necessary approvals, Harrah's would likely guarantee the related bank financing for the projects, which could be significant.

For all existing guarantees of Indian debt, Harrah's has obtained a first lien on the personal property (tangible and intangible) of the casino enterprise. There can be no assurance, however, the value of such property would satisfy Harrah's obligations in the event these guarantees were enforced. Additionally, Harrah's has received limited waivers from the Indian tribes of their sovereign immunity to allow Harrah's to pursue its rights under the contracts between the parties and to enforce collection efforts as to any assets in which a security interest is taken.

International - - - - -

Construction continues on certain nongaming amenities at Harrah's Sky City, the Company's first casino facility outside the United States, which opened in February 1996 in Auckland, New Zealand. The facility, containing 45,000 square feet of casino space, 1,048 slot machines and 97 table games, is owned by a corporation in which Harrah's owns a 12.5% equity interest, and is managed by Harrah's for a fee. During second quarter 1996, a 344-room Harrah's hotel was completed, and construction continues on a 700-seat theater, expected to open in third quarter 1996, and a 1,066-foot sky tower, expected to open by mid-year 1997.

Overall - - - - -

In addition to the specific projects discussed above, the Company continues to perform on-going refurbishment and maintenance at its existing casino entertainment facilities in order to maintain Harrah's quality standards. Harrah's also continues to pursue casino entertainment development opportunities in possible jurisdictions across the United States and in foreign jurisdictions. Until necessary approvals to proceed with development of a project are obtained from the relevant regulatory bodies, the costs of pursuing casino entertainment projects are expensed as incurred. Construction-related costs incurred after the receipt of necessary approvals are capitalized and depreciated over the estimated useful life of the resulting asset. Preopening costs incurred during the construction period are deferred and expensed at the respective property's opening.

A number of these projects, if they go forward, will most likely require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. The commitment of capital, the timing of completion and the commencement of operations of casino entertainment development projects are contingent upon, among other things, negotiation of final agreements and receipt of approvals from the appropriate political and regulatory bodies. Cash needed to finance projects currently under development as well as additional projects being pursued by Harrah's will be made

available from operating cash flows, the Bank Facility (see Debt and Liquidity section), Harrah's existing shelf registration (see Debt and Liquidity section), joint venture partners, specific project financing, guarantees by Harrah's of third party debt and, if necessary, additional Harrah's debt and/or equity offerings. Harrah's capital spending for the six months ended June 30, 1996 totalled approximately \$185 million. Estimated total 1996 capital expenditures are \$425 million to \$475 million, including the projects discussed in this Capital Spending and Development section, refurbishment of existing facilities and other projects.

DEBT AND LIQUIDITY

- - - - -

Harrah's bank credit facility consists of a \$600 million reducing revolving and letter of credit facility maturing in 2000 and a separate \$150 million revolving credit facility which is renewable annually, at the lenders' option, through 2000 (collectively, the Facility). Scheduled reductions of the borrowing capacity under the \$600 million facility are as follows: \$50 million, July 1998; \$75 million, January 1999; \$75 million, July 1999; \$100 million, January 2000; and \$300 million, July 2000. As of June 30, 1996, \$404.0 million in borrowings were outstanding under the Facility, with an additional \$26.5 million committed to back letters of credit, resulting in \$319.5 million of available Facility capacity as of June 30, 1996.

Prior to the PHC Spin-off, Harrah's corporate debt was not specifically related to either its casino entertainment or hotel segment. However, corporate debt service requirements were met using cash flows provided by both segments. Therefore, for all periods prior to the PHC Spin-off, a portion of the Company's interest expense was allocated to discontinued hotel operations based on the percentage of Harrah's existing corporate debt which was expected to be retired using proceeds from the new PHC bank facility. Interest expense of \$5.5 million and \$10.5 million for the second quarter and six months ended June 30, 1995, was allocated to discontinued hotel operations.

Interest Rate Agreements

- - - - -

To manage the relative mix of its debt between fixed and variable rate instruments, Harrah's enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt without an exchange of the underlying principal

amount. As of June 30, 1996, Harrah's was a party to the following interest rate swap agreements on certain fixed rate debt:

| Associated Debt | Swap Rate (LIBOR+) | Effective Rate at June 30, 1996 | Next Semi-Annual Rate Adjustment Date | Swap Maturity |
|-----------------|-----------------------|------------------------------------|--|---------------|
| ----- | ----- | ----- | ----- | ----- |
| 10 7/8% Notes | | | | |
| \$200 million | 4.73% | 10.45% | October 15 | October 1997 |
| 8 3/4% Notes | | | | |
| \$50 million | 3.42% | 9.14% | November 15 | May 1998 |
| \$50 million | 3.22% | 8.72% | July 15 | July 1998 |

In accordance with the terms of the interest rate swap agreements, the effective interest rate on \$50 million of the 8 3/4% Notes was adjusted on July 15, 1996, to 9.25%.

Harrah's maintains seven additional interest rate swap agreements which effectively convert variable rate debt to a fixed rate. The following table summarizes the terms of these swap agreements, all of which reset on a quarterly basis, as of June 30, 1996:

| Notional Amount | Swap Rate Paid (Fixed) | Swap Rate Received (Variable) at June 30, 1996 | Swap Maturity |
|-----------------|---------------------------|---|------------------|
| ----- | ----- | ----- | ----- |
| \$50 million | 7.910% | 5.481% | January 1998 |
| \$50 million | 6.985% | 5.563% | March 2000 |
| \$50 million | 6.951% | 5.563% | March 2000 |
| \$50 million | 6.945% | 5.563% | March 2000 |
| \$50 million | 6.651% | 5.500% | May 2000 |
| \$50 million | 5.788% | 5.535% | June 2000 |
| \$50 million | 5.785% | 5.535% | June 2000 |

The differences to be paid or received by Harrah's under the terms of its interest rate swap agreements are accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received by Harrah's pursuant to the terms of its interest rate agreements will have a corresponding effect on its future cash flows. These agreements contain a credit risk that the counterparties may be unable to meet the terms of the agreements. Harrah's minimizes that risk by evaluating the creditworthiness of its counterparties, which are limited to major banks and financial institutions, and does not anticipate nonperformance by the counterparties.

As part of a transaction whereby Harrah's effectively secured an option to a site for a potential casino, Harrah's has guaranteed a third party's \$24.7 million variable rate bank loan. Harrah's also entered into an interest rate swap agreement in

which Harrah's receives a fixed interest rate of 7% from the third party and pays the variable interest rate of the subject debt (LIBOR plus 1% at June 30, 1996) to the bank. The interest rate swap is marked to market by Harrah's, with the adjustment recorded in interest expense. The market value of the swap was a positive \$0.1 million at June 30, 1996. Harrah's swap agreement expires December 1, 1996, and is also subject to earlier termination upon the occurrence of certain events. The underlying guaranty contains an element of risk that the borrower may be unable to retire the loan when it matures in December 1996. If that occurs, the Company could become responsible for repayment of at least a portion of the obligation. Harrah's has reduced this exposure by obtaining a security interest in certain assets of the third party.

Shelf Registration

- - - - -

To provide for additional financing flexibility, Harrah's, together with its wholly-owned subsidiary Harrah's Operating Company, Inc. (HOC), has registered up to \$200 million of Harrah's common stock or HOC preferred stock or debt securities pursuant to a shelf registration declared effective by the Securities and Exchange Commission. The terms and conditions of the HOC preferred stock or debt securities, which will be unconditionally guaranteed by Harrah's, will be determined by market conditions at the time of issuance. The shelf registration is available until October 1997.

INCOME TAX MATTERS

- - - - -

In connection with the PHC Spin-off, Harrah's entered into a tax sharing agreement with PHC wherein each company is obligated for those taxes associated with their respective businesses. Additionally, Harrah's is obligated for all taxes of Promus for periods prior to the PHC Spin-off date which are not specifically related to PHC operations and/or PHC hotel locations. Harrah's obligations under this agreement are not expected to have a material adverse effect on its consolidated financial position or results of operations.

EFFECTS OF CURRENT ECONOMIC AND POLITICAL CONDITIONS

- - - - -

The casino entertainment industry has experienced widespread expansion in new jurisdictions over the past several years as governments seeking additional tax revenues and employment have legalized casino gaming. Growth in the casino industry has also been furthered by the Indian Gaming Regulatory Act of 1988. Although a number of states are considering legislation in additional jurisdictions, the rapid growth which existed during the early 1990's has slowed and future new market potential is difficult to predict.

Of those new markets which have opened to the gaming industry, certain jurisdictions have restricted market entry, which limits capacity and competition within those markets. Other jurisdictions have no limits on market entry, other than restrictions on locations, which can impact operating performance and cash flows. One such market is Tunica, Mississippi, where Harrah's currently operates two casino entertainment facilities. In Tunica, a major new development opened in June 1996 and the ultimate impact that this market entrant will have on Harrah's properties remains uncertain at this time. In Indiana, several new riverboat casinos opened in June and the extent of their impact on operations at Harrah's Joliet is also unknown at this time. In other riverboat markets, new projects have also been proposed which could, if completed, increase the levels of competition in those markets.

In addition to growth in new markets, significant development has occurred in recent years in the traditional gaming markets of Nevada and New Jersey, resulting in increased competition in these markets. Several large properties have opened in Las Vegas in recent years, other large projects are both planned and under development and several existing properties, including Harrah's Las Vegas, have begun significant expansion projects. In July 1995, a major new casino property opened in Reno, Nevada, representing the first major entry to that market in years. New developments and expansions, including the major expansion plans discussed above at Harrah's Atlantic City, are also either planned or underway in Atlantic City, New Jersey. Over the last several years, the Laughlin, Nevada market has been impacted by increasing competition from markets in and around Las Vegas and by neighboring Indian properties. Though the traditional casino markets saw little overall impact from the recent spread of gaming to new riverboat markets, competition within traditional markets has become more intense in recent months. As opportunities in new markets have become more limited, casino operators, including Harrah's, are investing significant amounts in traditional markets in efforts to gain market share. As a result, increased competition could follow and have a negative effect on the operations and cash flows of all properties, including Harrah's, operating in these markets.

The casino industry's market focus has also undergone a transformation over the past several years as a result of the spread of gaming. Whereas traditional markets were limited, drawing primarily long-distance travelers, the newer casino properties are geographically dispersed, resulting in casino entertainment being within a reasonable driving distance for many Americans. Harrah's has participated in this industry transformation, developing casinos in many new markets. As a result, Harrah's is an extremely diverse gaming company, both geographically and categorically, with properties in nine states and New Zealand as of June 30, 1996, representing a mix of traditional land-based, riverboat, Indian and limited stakes facilities.

Harrah's is not able to determine the long-term impact, whether favorable or unfavorable, that these events will have on its current or future markets. However, management believes that the diversity of its operations, its multi-market customer base and its continuing efforts to establish Harrah's as a premier brand name have well-positioned Harrah's to face the challenges present within the industry.

In early 1996, the U.S. Supreme Court ruled in the Seminole Tribe of Florida vs. Florida et al., that an Indian tribe cannot sue a state in federal court if that state, in the opinion of the tribe, fails to negotiate a compact in good faith. While this ruling does not affect Harrah's management of those casinos located on Indian lands already in operation or those in development where compacts with states have already been issued, there is substantial uncertainty as to the impact of the decision on the timing and nature of future Class III gaming compacts.

In April 1996, the Louisiana State Legislature approved a local option bill which purports to give voters in each Parish the right to decide during the November 1996 general elections what forms of gaming they want to continue in their Parish. Under the legislation, existing riverboat licensees in Parishes which do not approve continuing that form of gaming under the local option measure can continue their operations until the existing licenses expire. At that point, subject to required regulatory approvals and possibly another election in the Parish if the voters approve another piece of legislation in September, licensees potentially could move their operations to a Parish which does allow that form of gaming under the local option measure. As discussed above, there purports to be no similar provision in the legislation for the continuance of any operations of the New Orleans land-based casino. It is not possible at this time to determine the ultimate impact of this legislation on Harrah's Jazz's efforts to develop a successful plan of reorganization or on the Harrah's Shreveport riverboat casino operations.

The gaming industry represents a significant source of tax revenues to the various jurisdictions in which casinos operate. From time to time, various state and federal legislators and officials have proposed changes in tax law, or in the administration of such law, which would affect the gaming industry. It is not possible to determine with certainty the scope or likelihood of possible changes in tax law or in the administration of such law. If adopted, such changes could have a material adverse effect on Harrah's financial results.

INTERCOMPANY DIVIDEND RESTRICTION

- - - - -

Agreements governing the terms of its debt require Harrah's to abide by covenants which, among other things, limit HOC's ability to pay dividends and make other restricted payments, as defined, to Harrah's. The amount of HOC's restricted net assets, as

defined, computed in accordance with the most restrictive of these covenants regarding restricted payments, was approximately \$687.8 million at June 30, 1996. Harrah's principal asset is the stock of HOC, a wholly-owned subsidiary. HOC holds, directly and through subsidiaries, the principal assets of Harrah's businesses. Given this ownership structure, these restrictions should not impair Harrah's ability to conduct its business through its subsidiaries or to pursue its development plans.

PRIVATE SECURITIES LITIGATION REFORM ACT

- - - - -

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward looking statements. Certain information included in this Form 10-Q and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company) contains statements that are forward looking, such as statements relating to plans for future expansion and other business development activities as well as other capital spending, financing sources, and the effects of regulation (including gaming and tax regulation) and competition. Such forward looking statements involve important risks and uncertainties that could significantly affect anticipated results in the future, and accordingly, actual results may differ materially from those expressed in any forward looking statements made by or on behalf of the Company. These risks and uncertainties include, but are not limited to, those related to construction and development activities, economic conditions, changes in tax laws, changes in laws or regulations affecting gaming and factors related to applications for gaming licenses, changes in competition, and factors affecting leverage and debt service including sensitivity to fluctuation in interest rates, and other factors described from time to time in the Company's reports filed with the Securities and Exchange Commission. Any forward looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On September 26, 1995, Harrah's New Orleans Investment Company ("HNOIC"), an indirect subsidiary of the Company, filed in the United States District Court for the Eastern District of Louisiana a suit styled Harrah's New Orleans Investment Company v. New Orleans Louisiana Development Corporation, Civil No. 95-3166. At issue in the suit is the percentage of ownership that New Orleans/Louisiana Development Corporation ("NOLDC") holds in Harrah's Jazz Company ("HJC"), a Louisiana partnership whose general partners are HNOIC, NOLDC and Grand Palais Casino, Inc. This declaratory judgment action seeks to confirm that, as of September 26, 1995, NOLDC's percentage interest in the Harrah's Jazz Company partnership was only 13.73% and, therefore, NOLDC is not a "Material Partner" in HJC. This case was put on "administrative hold" after the filing by NOLDC of a Chapter 11 bankruptcy petition on November 21, 1995. Should it be put back on the active list, HNOIC or the appropriate post-bankruptcy entity would vigorously prosecute it. At the time the case was put on "administrative hold," no discovery on the merits had been taken and no answer had been filed by NOLDC.

On September 28, 1995, NOLDC filed suit against the Company and various of its corporate affiliates in New Orleans Louisiana Development Corporation v. Harrah's Entertainment, formerly d/b/a The Promus Companies, Harrah's New Orleans Investment Company, Harrah's New Orleans Management Company, Harrah's Jazz Company, and Promus Hotels, formerly d/b/a Embassy Suites, Inc., Civil No. 95-14653, filed in the Civil District Court for the Parish of Orleans. The case was subsequently removed by defendants to the United States District Court for the Eastern District of Louisiana. In this suit, NOLDC seeks to realign ownership interests in HJC among HNOIC and NOLDC. NOLDC also seeks an unspecified dollar amount of damages sufficient to compensate it for the losses it alleges it has suffered as a result of actions of defendants. NOLDC has indicated that it intends to seek to remand the suit to the Civil District Court. The case was also put on "administrative hold" by the District Court Judge as a result of NOLDC's bankruptcy filing. The Company and other defendants intend to vigorously defend the action should it be put back on the active case list. At the time it was put on "administrative hold," no answer had been filed by any defendant and no discovery had been taken.

Beginning on November 28, 1995, eight separate class action suits were filed against the Company and various of its corporate affiliates, officers and directors in the United States District Court for the Eastern District of Louisiana. They are Ben F. D'Angelo, Trustee for Ben F. D'Angelo Revocable Trust v. Harrah's Entertainment Corp., Michael D. Rose, Philip G. Satre and Ron Lenczycki; Max Fenster v. Harrah's Entertainment, Inc., Harrah's New Orleans Investment Company, Grand Palais Casino, Inc., Philip G. Satre, Colin V. Reed, Michael N. Regan, Christopher B. Hemmeter, Donaldson, Lufkin & Jenrette Securities Corporation, Salomon Brothers, Inc., and BT Securities

Corp.; Goldie Rosenbloom v. Harrah's Entertainment Corp., Michael D. Rose, Philip G. Satre and Ron Lenczycki; Barry Ross v. Harrah's New Orleans Investment Company, Philip G. Satre, Colin V. Reed, Lawrence L. Fowler, Michael N. Regan, Cezar M. Froelich, Ulric Haynes, Jr., Wendell Gauthier, T. George Solomon, Jr., Duplain W. Rhodes, III, Harrah's Entertainment, Inc., Donaldson, Lufkin & Jenrette Securities Corporation, Salomon Brothers Inc., and BT Securities Corp.; Louis Silverman v. Harrah's Entertainment, Inc., Harrah's New Orleans Investment Company, Grand Palais Casino, Inc., Philip G. Satre, Colin V. Reed, Michael N. Regan, Christopher B. Hemmeter, and Donaldson, Lufkin & Jenrette Securities Corporation; Florence Kessler v. Philip G. Satre, Colin V. Reed, Charles A. Ledsinger, Jr., Michael N. Regan, Lawrence L. Fowler, Christopher B. Hemmeter, Cezar M. Froelich, Ulric Haynes, Jr., Wendell H. Gauthier, T. George Solomon, Jr., Duplain W. Rhodes, III, Donaldson, Lufkin & Jenrette Securities Corporation, Salomon Brothers Inc., and BT Securities Corporation; Warren Zeiller and Judith M.R. Zeiller v. Harrah's Entertainment Corp., Michael D. Rose, Philip G. Satre, and Ron Lenczycki; and Charles Zwerving and Helene Zwerving v. Harrah's Entertainment Corp., Philip G. Satre, Colin V. Reed, Christopher B. Hemmeter, and Donaldson, Lufkin & Jenrette Securities Corporation. Per Court Order of January 26, 1996, the above plaintiffs filed a consolidated complaint in the action numbered 95-3925 In Re Harrah's Entertainment, Inc. Securities Litigation. The consolidated complaint alleges that various misstatements and omissions were made in connection with the sale of Harrah's Jazz Company 14.25% First Mortgage Notes and thereafter, and seeks unspecified damages, as well as costs of legal proceedings. A motion to dismiss has been filed by defendants, discovery has commenced, and plaintiffs have sought class certification. No rulings have been made on any of the parties' motions. The Company and the other defendants intend to vigorously defend the suits.

On December 6, 1995 Centex Landis, the general contractor for the permanent casino being developed by HJC, filed suit against the Company, among others, in the Civil District Court for The Parish of Orleans in Centex Landis Construction Co., Inc. v. Harrah's Entertainment, Inc. formally d/b/a The Promus Companies, Inc.; and Ronald A. Lenczycki, Civil No. 95-18101. Defendants removed the case to the United States District Court for the Eastern District of Louisiana and it was subsequently transferred to the Bankruptcy Court handling the HJC bankruptcy. A motion for withdrawal of the Bankruptcy Court reference and for remand had been filed by Centex Landis and opposed by Harrah's Entertainment, Inc. No ruling has yet been made. This suit seeks to collect more than \$40 million allegedly owed to Centex Landis by HJC from the Company under guarantee, fraud, fraudulent advertising and unfair trade practice theories. The Company and the other defendant intend to vigorously defend the action and have filed an answer denying all of plaintiff's allegations. No discovery has been taken in the action.

Russell M. Swody, et al. v. Harrah's New Orleans Management Company and Harrah's Entertainment, Inc., Civil No. 95-4118, was filed against the Company on December 13, 1995 in the United States District Court for the Eastern District of Louisiana, and subsequently amended. Swody is a class action lawsuit under the Worker Adjustment and Retraining Notification Act ("WARN Act") and seeks damages for alleged failure to timely notify workers

terminated by Harrah's New Orleans Management Company at the time of the HJC bankruptcy. Plaintiffs seek unspecified damages, as well as costs of legal proceedings, for themselves and all members of the class. An answer has been filed denying all of plaintiffs' allegations. A class has been certified and the Company and the other defendant intend to vigorously defend the action.

Swody was consolidated with Susan N. Poirier, Darlene A. Moss, et al. v. Harrah's Entertainment, Inc., Harrah's New Orleans Management Company, and Harrah's Operating Company, Civil No. 96-0215, which was filed in the United States District Court for the Eastern District of Louisiana on January 17, 1996, and subsequently amended. Poirier seeks not only damages under the WARN Act, but also under the Employee Retirement Income Security Act ("ERISA") for the alleged wrongful failure to provide severance to those terminated. Similar complaints and proofs of claims were filed by Ms. Poirier in the Bankruptcy Court for the Eastern District of Louisiana in the HJC, HNOIC and Harrah's Jazz Finance Corp. bankruptcy cases, Adversary Nos. 96-1015, 96-1014, and 96-1013. The similar complaints were subsequently dismissed.

On December 29, 1995 in the Civil District Court for The Parish of Orleans, the City of New Orleans filed suit against the Company and others in City of New Orleans and Rivergate Development Corporation v. Harrah's Entertainment, Inc. (f/k/a The Promus Companies, Inc.), Grand Palais Casino, Inc., Embassy Suites, Inc., First National Bank of Commerce and Ronald A. Lenczycki, Civil No. 95-19285. This suit seeks to require the Company, among others, to complete construction of the permanent casino being developed by HJC under theories of breach of completion guarantee contract, breach of implied duty of good faith, detrimental reliance, misrepresentation, and false advertising. Plaintiff seeks unspecified damages, as well as costs of legal proceedings. Defendants have removed the suit to the United States District Court for the Eastern District of Louisiana and it was then transferred to the Bankruptcy Court handling the HJC bankruptcy. A motion for withdrawal of the Bankruptcy Court reference and for remand has been filed by the City. No ruling on these motions has yet been made. The Company and the other defendants have filed an answer denying all of plaintiffs' allegations and intend to vigorously defend the action.

Louisiana Economic Development and Gaming Corporation v. Harrah's Entertainment, Inc. and Harrah's Operating Company, Inc., Civil No. 424328, was filed on January 23, 1996 in the Nineteenth Judicial Court of the State of Louisiana, Parish of East Baton Rouge. On February 21, 1996, the Company and the other defendants removed the case to the Federal District Court for the Middle District of Louisiana and asked that it be transferred to the Bankruptcy Court handling the HJC bankruptcy. That motion was granted and the case has been transferred to the Bankruptcy Court. In this suit LEDGC seeks to require the Company and Harrah's Operating Company to complete construction of the permanent casino being developed by HJC under theories of breach of completion guarantee contract, breach of implied duty of good faith, detrimental reliance, misrepresentation and, in the alternative, seeks damages. The Company has filed an answer and counterclaim against LEDGC. LEDGC has moved to have that counterclaim dismissed and/or for summary judgment. No ruling has yet been made by the court. The defendants intend to vigorously defend the action and prosecute their counterclaim.

Item 4. Submission of Matters To a Vote of Security Holders

The Company held its annual stockholders meeting on April 26, 1996. The following matters were voted upon at the meeting:

1. Election of Class I Directors

| Name of Director Elected | Votes Cast | |
|--------------------------|------------|---------------------|
| | For | Against or Withheld |
| ----- | --- | ----- |
| James L. Barksdale | 88,856,924 | 3,747,424 |
| Susan Clark-Johnson | 91,956,135 | 648,213 |
| James B. Farley | 91,959,035 | 645,313 |
| Walter J. Salmon | 91,957,678 | 646,670 |

Name of Each Other Director Whose Term of Office as Director Continued After the Meeting

Joe M. Henson
Ralph Horn
Michael D. Rose
Philip G. Satre
Boake A. Sells
Eddie N. Williams
Shirley Young

| 2. Ratification of Arthur Andersen & Co. as the Company's independent public accountants for the 1996 calendar year. | For | Against or Withheld | Abstentions |
|--|------------|---------------------|-------------|
| | --- | ----- | ----- |
| ----- | 92,400,065 | 110,142 | 94,141 |

There were no broker nonvotes with regard to the matters voted upon at the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*EX-4.1 Rights Agreement, dated as of October 5, 1996, between Harrah's Entertainment, Inc. and The Bank of New York, which includes the form of Certificate of Designations of Series A Special Stock of Harrah's Entertainment, Inc. as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Special Shares as Exhibit C.

**EX-10.1 Consent dated April 17, 1996 to the Credit Agreement, dated as of June 9, 1995, among Harrah's Entertainment, Inc. Harrah's Operating Company, Inc., Marina Associates, various banks, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of Nevada, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent.

**EX-11 Computation of per share earnings.

**EX-27 Financial Data Schedule

* Incorporated by reference from the Company's Current Report on Form 8-K filed August 9, 1996, File No. 1-10410.

** Filed herewith

(b) No reports on Form 8-K were filed during the quarter ended June 30, 1996. A report on Form 8-K was filed on August 9, 1996, reporting the declaration of a dividend of one special stock purchase right (the "Rights") on each outstanding share of the Company's common stock, payable to stockholders of record on October 5, 1996.

Signature

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

HARRAH'S ENTERTAINMENT, INC.

August 13, 1996

BY: MICHAEL N. REGAN

Michael N. Regan
Vice President and Controller
(Chief Accounting Officer)

Exhibit Index

| Exhibit No. ----- | Description ----- | Sequential Page ----- |
|----------------------|--|--------------------------|
| EX-4.1 | Rights Agreement, dated as of October 5, 1996, between Harrah's Entertainment, Inc. and The Bank of New York, which includes the form of Certificate of Designations of Series A Special Stock of Harrah's Entertainment, Inc. as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Special Shares as Exhibit C. | * |
| EX-10.1 | Consent dated April 17, 1996 to the Credit Agreement, dated as of June 9, 1995, among Harrah's Entertainment, Inc. Harrah's Operating Company, Inc., Marina Associates, various banks, Bankers Trust Company, The Bank of New York, CIBC, Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of Nevada, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents, and Bankers Trust Company, as Administrative Agent. | 42 |
| EX-11 | Computation of per share earnings. | 49 |
| EX-27 | Financial Data Schedule. | |

* Incorporated by reference from the Company's Current Report on Form 8-K filed August 9, 1996, File No. 1-10410.

CONSENT

April 17, 1996

Reference is hereby made to the Credit Agreement, dated as of June 9, 1995, among Harrah's Entertainment, Inc. ("Parent"), Harrah's Operating Company, Inc. (the "Company"), Marina Associates ("Marina"), the lenders from time to time party thereto (the "Banks"), Bankers Trust Company, The Bank of New York, CIBC Inc., Credit Lyonnais, Atlanta Agency, First Interstate Bank of Nevada, N.A., The Long-Term Credit Bank of Japan, Limited, New York Branch, NationsBank of Georgia, N.A., Societe Generale and The Sumitomo Bank, Limited, New York Branch, as Agents (the "Agents"), and Bankers Trust Company, as Administrative Agent (the "Administrative Agent") (as amended, modified or supplemented from time to time, the "364-Day Credit Agreement"). Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings provided in the 364-Day Credit Agreement.

Pursuant to Section 2.04(a) of the 364-Day Credit Agreement, the Company has submitted to the Administrative Agent the attached written request (and accompanied officer's certificate) to extend the Final Maturity Date of the 364-Day Credit Agreement to June 12, 1997. In connection therewith, each of the undersigned Banks hereby agrees to extend its Maturity Date (and the Final Maturity Date) to June 12, 1997.

This Consent may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with Parent and the Administrative Agent.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Consent to be duly executed and delivered.

HARRAH'S ENTERTAINMENT, INC.

By: /s/William S. McCalmont

Title: Vice President & Treasurer

HARRAH'S OPERATING COMPANY, INC.

By: /s/William S. McCalmont

Title: Vice President & Treasurer

-42-

MARINA ASSOCIATES

By: HARRAH'S ATLANTIC CITY, INC.,
a general partner

By: /s/ William S. McCalmont

Title: Assistant Secretary

By: HARRAH'S NEW JERSEY, INC.,
a general partner

By: /s/ William S. McCalmont

Title: Assistant Secretary

BANKERS TRUST COMPANY,
Individually and as
Administrative Agent
and as an Agent

By: /s/ Mary Kay Coyle

Title: Managing Director

THE BANK OF NEW YORK,
Individually and as an
Agent

By: /s/ Gregory L. Batson

Title: Vice President

CIBC INC., Individually and
as an Agent

By: /s/ Paul Chakmak

Title: Director

CREDIT LYONNAIS, ATLANTA AGENCY,
Individually and as an Agent

By: /s/ David M. Cawrse

Title: Vice President & Manager

CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By: /s/ David M. Cawrse

Title: Authorized Signature

FIRST INTERSTATE BANK OF
NEVADA, N.A., Individually and
as Agent

By: /s/ Maureen Klippenstein

Title: Vice President

THE LONG-TERM CREDIT BANK OF JAPAN,
LIMITED, NEW YORK BRANCH,
Individually and as an Agent

By: /s/ John Sullivan

Title: Joint General Manager

NATIONSBANK, N.A. (South),
Individually and as an Agent

By: /s/ Steve Dalton

Title: Vice President

SOCIETE GENERALE, Individually and
as an Agent

By: /s/ Donald Schubert

Title: Vice President

THE SUMITOMO BANK, LIMITED,
ATLANTA AGENCY, Individually
and as an Agent

By: /s/ Masayuki Fukushima

Title: Joint General Manager

BANK OF AMERICA NATIONAL TRUST
AND SAVING ASSOCIATION

By: /s/ Scott L. Faber

Title: Vice President

THE NIPPON CREDIT BANK, LTD.,
LOS ANGELES AGENCY

By: /s/ Bernardo E. Correa-Henschke

Title: Vice President &
Senior Manager

THE BANK OF NOVA SCOTIA

By: /s/ F.C.H. Ashby

Title: Senior Manager Loan
Operations

GIROCREDIT BANK A. G. DER
SPARKASSEN, GRAND CAYMAN
ISLAND BRANCH

By: /s/John Redding

Title:

By: /s/Richard Stone

Title:

THE TOKAI BANK, LIMITED,
NEW YORK BRANCH

By: /s/Stuart M. Schulman

Title: Senior Vice President

THE BOATMEN'S NATIONAL BANK
OF ST. LOUIS

By: /s/David Wilsdorf

Title: Vice President

FIRST AMERICAN NATIONAL BANK

By: /s/Elizabeth H. Vaughn

Title: Senior Vice President

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION

By: /s/James H. Moore, Jr.

Title: Vice President

THE INDUSTRIAL BANK OF JAPAN,
LIMITED

By: /s/Junya Fujiwara

Title: Senior Vice President and
Deputy General Manager

MIDLANTIC BANK, N.A.
(formerly known as Midlantic
National Bank)

By: /s/Lori A. Osmulski

Title: Banking Officer

THE SANWA BANK, LIMITED,
ATLANTA AGENCY

By: /s/William M. Plough

Title: Vice President

UNITED STATES NATIONAL BANK
OF OREGON

By: /s/Fiza Noordin

Title: Corporate Banking Officer

DEPOSIT GUARANTY NATIONAL BANK

By: /s/Larry C. Ratzlaff

Title: Senior Vice President

THE MITSUBISHI TRUST & BANKING
CORP.

By: /s/Patricia Loret de Mola

Title: Senior Vice President

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: /s/ Salvatore Battinelli

Title: Vice President

By: /s/ Lucie L. Guernsey

Title: Vice President

ABN AMRO BANK N.V., SAN FRANCISCO
BRANCH

By: ABN AMRO NORTH AMERICA,
INC., AS AGENT

By: /s/ Jeffrey A. French

Title: Vice President & Director

By: /s/ Bradford H. Leahy

Title: Officer

SUNTRUST BANK, NASHVILLE, N.A.

By: /s/ Anneliese H. Tyler

Title: Vice President

FIRST NATIONAL BANK OF COMMERCE

By: /s/ Stephen M. Valdes

Title: Vice President

FLEET BANK N.A. Formerly
NATWEST BANK N.A.

By: /s/ John T. Harrison

Title: Vice President

Exhibit 11

HARRAH'S ENTERTAINMENT, INC.
COMPUTATIONS OF PER SHARE EARNINGS

| | Second Quarter Ended | | Six Months Ended | |
|---|----------------------|------------------|------------------|------------------|
| | June 30, 1996 | June 30, 1995 | June 30, 1996 | June 30, 1995 |
| | ----- | ----- | ----- | ----- |
| Income from continuing operations | \$29,977,000 | \$35,351,000 | \$61,387,000 | \$64,047,000 |
| Discontinued operations | | | | |
| Earnings from hotel operations, net | - | 11,626,000 | - | 21,230,000 |
| Spin-off transaction expenses, net | - | (5,996,000) | - | (21,194,000) |
| | ----- | ----- | ----- | ----- |
| Net income | \$29,977,000 | \$40,981,000 | \$61,387,000 | \$64,083,000 |
| | ===== | ===== | ===== | ===== |
| Primary Earnings Per Share | | | | |
| Weighted average number of common shares outstanding | 102,720,947 | 102,349,378 | 102,656,047 | 102,231,919 |
| Common stock equivalents | | | | |
| Additional shares based on average market price for period applicable to: | | | | |
| Restricted stock | 47,349 | 77,943 | 52,981 | 151,525 |
| Stock options | 1,072,222 | 783,205 | 886,961 | 704,075 |
| | ----- | ----- | ----- | ----- |
| Average number of primary common and common equivalent shares outstanding | 103,840,518 | 103,210,526 | 103,595,989 | 103,087,519 |
| | ===== | ===== | ===== | ===== |
| Primary earnings per common and common equivalent share | | | | |
| Income from continuing operations | \$ 0.29 | \$ 0.35 | \$ 0.59 | \$ 0.62 |
| Discontinued operations | | | | |
| Earnings from hotel operations, net | - | 0.11 | - | 0.21 |
| Spin-off transaction expenses, net | - | (0.06) | - | (0.21) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 0.29 | \$ 0.40 | \$ 0.59 | \$ 0.62 |
| | ===== | ===== | ===== | ===== |
| Fully Diluted Earnings Per Share | | | | |
| Average number of primary common and common equivalent shares outstanding | 103,840,518 | 103,210,526 | 103,595,989 | 103,087,519 |
| Additional shares based on period-end price applicable to: | | | | |
| Restricted stock | - | - | - | 1,375 |
| Stock options | - | - | - | 29,879 |
| | ----- | ----- | ----- | ----- |
| Average number of fully diluted common and common equivalent shares outstanding | 103,840,518 | 103,210,526 | 103,595,989 | 103,118,773 |
| | ===== | ===== | ===== | ===== |
| Fully diluted earnings per common and common equivalent share | | | | |
| Income from continuing operations | \$ 0.29 | \$ 0.35 | \$ 0.59 | \$ 0.62 |
| Discontinued operations | | | | |
| Earnings from hotel operations, net | - | 0.11 | - | 0.21 |
| Spin-off transaction expenses, net | - | (0.06) | - | (0.21) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 0.29 | \$ 0.40 | \$ 0.59 | \$ 0.62 |
| | ===== | ===== | ===== | ===== |

6-MOS
DEC-31-1996
JUN-30-1996
93,246
0
53,793
14,213
11,297
192,445
1,854,749
551,253
1,831,334
206,319
810,514
0
0
10,290
675,581
1,831,334
0
784,322
0
614,153
24,213
4,564
33,595
109,157
41,783
61,387
0
0
0
61,387
0.59
0.59