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 SEPTEMBER 30, 1998

OR

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

Commission File No. 1-10410

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

Delaware	I.R.S. No. 62-1411755
(State of Incorporation)	(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 September 30, 1998, there were outstanding 101,472,081 shares of the Company's Common Stock.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements of Harrah's Entertainment, Inc. ("Harrah's" or 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. See Note 2 to these Consolidated Condensed Financial Statements regarding the completion of the Company's acquisition of Showboat, Inc., during second quarter 1998. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company's 1997 Annual Report to Stockholders.

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

(In thousands, except share amounts)

	Sept. 30, 1998	Dec. 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 128,745	$ 116,443
Receivables, less allowance for doubtful accounts of $17,008 and $11,462	46,680	43,767
Deferred income tax benefits	16,062	17,436
Prepayments and other	29,018	21,653
Inventories	15,563	13,011
Total current assets	236,068	212,310
Land, buildings, riverboats and equipment	2,641,645	2,153,340
Less: accumulated depreciation	(765,535)	(675,286)
	1,876,110	1,478,054
Excess of purchase price over net assets acquired in Showboat acquisition, including assets held for sale (Note 2)	521,798	--
Investments in and advances to nonconsolidated affiliates	284,674	152,401
Deferred costs, notes receivable and other	273,252	162,741
	$3,191,902	$2,005,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 38,612	$ 45,233
Construction payables	558	7,186
Accrued expenses	203,133	156,694
Current portion of long-term debt	49,766	1,837
Total current liabilities	292,069	210,950
Long-term debt	1,914,002	924,397
Deferred credits and other	99,794	98,177
Deferred income taxes	44,142	22,361
	2,350,007	1,255,885
Minority interests	14,530	14,118
Commitments and contingencies (Notes 4, 6, 7, 8 and 11)		
Stockholders' equity		
Common stock, $0.10 par value, authorized 360,000,000 shares, outstanding 101,472,081 and 101,035,898 shares (net of 3,040,983 and 3,001,568 shares held in treasury)	10,147	10,104
Capital surplus	397,978	388,925
Retained earnings	437,230	349,386
Accumulated other comprehensive income	(405)	2,884
Deferred compensation related to restricted stock	(17,585)	(15,796)
	827,365	735,503
	$3,191,902	$2,005,506

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(In thousands, except per share amounts)	Third Quarter Ended Sept. 30, 1998	Sept. 30, 1997	Nine Months Ended Sept. 30, 1998	Sept. 30, 1997
Revenues				
Casino	$ 489,872	$ 361,369	$1,220,275	$1,012,118
Food and beverage	67,549	53,461	171,807	147,903
Rooms	44,771	36,371	114,539	95,126
Management fees	16,309	4,483	48,646	17,348
Other	23,632	22,469	60,701	58,738
Less: casino promotional allowances	(55,891)	(39,905)	(136,645)	(109,993)
Total revenues	586,242	438,248	1,479,323	1,221,240
Operating expenses				
Direct				
Casino	255,660	176,966	651,245	514,142
Food and beverage	32,936	27,968	86,829	76,090
Rooms	11,253	10,579	31,673	29,336
Depreciation of buildings, riverboats and equipment	33,810	26,141	94,883	76,802
Development costs	2,701	2,720	6,621	7,409
Write-downs and reserves	--	12,345	1,847	12,345
Project opening costs	1,161	962	7,157	8,977
Other	126,610	101,942	322,689	285,806
Total operating expenses	464,131	359,623	1,202,944	1,010,907
Operating profit	122,111	78,625	276,379	210,333
Corporate expense	(9,443)	(6,563)	(25,029)	(22,240)
Equity in losses of nonconsolidated affiliates	(2,404)	(2,899)	(8,706)	(8,270)
Venture restructuring costs	(1,062)	(1,414)	(3,521)	(5,584)
Income from operations	109,202	67,749	239,123	174,239
Interest expense, net of interest capitalized	(36,409)	(19,757)	(81,358)	(57,901)
Gains on sales of equity interests in subsidiaries	--	37,388	13,155	37,388
Other income, including interest income	273	2,133	5,798	8,360
Income before income taxes and minority interests	73,066	87,513	176,718	162,086
Provision for income taxes	(27,091)	(32,654)	(65,043)	(60,978)
Minority interests	(1,773)	(1,970)	(5,551)	(5,735)
Income before extraordinary losses	44,202	52,889	106,124	95,373
Extraordinary losses on early extinguishments of debt, net of income tax benefit of $9,755 and $4,477	--	--	(18,280)	(8,134)
Net income	$ 44,202	$ 52,889	$ 87,844	$ 87,239

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

(In thousands, except per share amounts)	Third Quarter Ended Sept. 30, 1998	Third Quarter Ended Sept. 30, 1997	Nine Months Ended Sept. 30, 1998	Nine Months Ended Sept. 30, 1997
Earnings per share-basic				
Income before extraordinary losses	$ 0.44	$ 0.53	$ 1.06	$ 0.95
Extraordinary losses, net	--	--	(0.18)	(0.08)
Net income	$ 0.44	$ 0.53	$ 0.88	$ 0.87
Earnings per share-diluted				
Income before extraordinary losses	$ 0.44	$ 0.52	$ 1.05	$ 0.94
Extraordinary losses, net	--	--	(0.18)	(0.08)
Net income	$ 0.44	$ 0.52	$ 0.87	$ 0.86
Average common shares outstanding	100,271	100,039	100,204	100,794
Average common and common equivalent shares outstanding	100,911	100,835	101,278	100,367

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(In thousands)	Nine Months Ended Sept. 30, 1998	Sept. 30, 1997
Cash flows from operating activities		
Net income	$ 87,844	$ 87,239
Adjustments to reconcile net income to cash flows from operating activities		
Extraordinary losses, before income taxes	27,311	12,611
Depreciation and amortization	114,595	89,659
Other noncash items	30,766	21,195
Minority interests' share of income	5,551	5,735
Equity in losses of nonconsolidated affiliates	8,706	8,270
Realized gains from sales of equity interests in subsidiaries	(13,155)	(37,388)
Net gains from asset sales	19	(943)
Net change in long-term accounts	14,314	(1,551)
Net change in working capital accounts	(30,606)	34,216
Cash flows provided by operating activities	245,345	219,043
Cash flows from investing activities		
Acquisition of Showboat, Inc., net of cash acquired	(477,952)	--
Land, buildings, riverboats and equipment additions	(101,527)	(192,734)
Decrease in construction payables	(6,628)	(9,191)
Proceeds from sales of equity interests in subsidiaries	17,000	53,755
Proceeds from asset sales	229	2,997
Investments in and advances to nonconsolidated affiliates	(51,847)	(45,444)
Purchase of marketable equity securities for defeasement of debt	(65,898)	--
Other	(27,184)	(5,800)
Cash flows used in investing activities	(713,807)	(196,417)
Cash flows from financing activities		
Net borrowings under Revolving Credit Facility	1,073,300	229,958
Early extinguishments of debt	(560,708)	(200,000)
Scheduled debt retirements	(2,121)	(1,793)
Premiums paid on early extinguishments of debt	(24,569)	(9,666)
Purchases of treasury stock	--	(40,947)
Minority interests' distributions, net of contributions	(5,138)	(5,990)
Cash flows provided by (used in) financing activities	480,764	(28,438)
Net increase (decrease) in cash and cash equivalents	12,302	(5,812)
Cash and cash equivalents, beginning of period	116,443	105,594
Cash and cash equivalents, end of period	$ 128,745	$ 99,782

See accompanying Notes to Consolidated Condensed Financial Statements.

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. The Company's casino entertainment facilities, operating under the Harrah's and Showboat brand names, include casino hotels in Reno, Lake Tahoe, Las Vegas and Laughlin, Nevada; two casino hotel properties in Atlantic City, New Jersey; and riverboat and dockside casinos in Joliet, Illinois; East Chicago, Indiana; Shreveport, Louisiana; Tunica and Vicksburg, Mississippi; and North Kansas City and St. Louis, Missouri. Harrah's also manages casinos on Indian lands near Phoenix, Arizona; Cherokee, North Carolina; and Topeka, Kansas, as well as managing the Star City casino in Sydney, Australia. Harrah's discontinued management of casinos in Auckland, New Zealand, as of the end of second quarter 1998 and near Seattle, Washington on November 2, 1998.

Certain amounts for the prior year third quarter and first nine months have been reclassified to conform with the current year presentation.

Note 2 - Showboat Acquisition

On June 1, 1998, Harrah's completed its acquisition of Showboat, Inc. ("Showboat") for $30.75 per share in an all-cash transaction, and assumed approximately $635 million of Showboat debt. The transaction is being accounted for as a purchase and, accordingly, the purchase price is being allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The purchase price allocation process is currently underway and is expected to be completed by the end of 1998. The Company's financial statements include an estimate of the amortization expense arising from the excess of the purchase price over the net assets acquired. The operating results for Showboat are included in the Consolidated Condensed Financial Statements from the date of acquisition.

The Las Vegas Showboat property is a non-strategic asset and is reported by the Company as an asset held for sale. As such, this property has been valued at its estimated net realizable value, net of estimated selling expenses, carrying costs and capitalized interest through the expected date of sale. The Company owns a 55% non-controlling interest in the partnership which owns and operates the Showboat East Chicago property. Accordingly, this investment is accounted for under the equity method. The Company also owns a 24.6% equity ownership interest in and manages the Star City Casino in Sydney, Australia. The Company accounts for its investment in this entity one month in arrears.

Subsequent to the closing of the acquisition, the Company completed tender offers and consent solicitations for Showboat's 9 1/4% First Mortgage Bonds due 2008 (the "Bonds") and 13% Senior Subordinated Notes due 2009 (the "Notes"). As a result of these tender offers, $218.6 million face amount of the Bonds and $117.9 million face amount of the Notes were retired on June 15, 1998. Due to the early extinguishment of the Bonds and the Notes, the Company reported extraordinary losses totaling $13.3 million, after income tax benefit, equaling the excess of the premium paid over fair value as of the acquisition date of the Bonds and the Notes retired and the related costs of the tender offers and consent solicitations. As a result of the receipt of the requisite consents, Harrah's eliminated or modified substantially all of the negative covenants, certain events of default, and made other changes to the respective indentures governing the Bonds and the Notes.

During third quarter 1998, Harrah's defeased the remaining balance of the Showboat Bonds and Notes. Treasury securities were purchased and deposited with trustees to pay the scheduled interest payments to the first call date and the premium and principal on the securities outstanding on such date. These treasury securities are reported as other assets, and the remaining balances of the Showboat Bonds and Notes are reported in long-term debt in the Consolidated Condensed Balance Sheet.

The following unaudited pro forma consolidated financial information for the Company has been prepared assuming that the acquisition and the debt extinguishments discussed above had occurred on the first day of the respective periods:

(In millions, except per share amounts)	Quarter Ended Sept 30, 1997	Nine Months Ended Sept 30, 1998	Nine Months Ended Sept 30, 1997
Revenues	$ 542.3	$1,638.7	$1,511.4
Operating income	$ 84.9	$ 256.2	$ 205.9
Income from continuing operations	$ 52.9	$ 91.6	$ 87.2
Net income	$ 52.9	$ 73.3	$ 79.1
Earnings per share-diluted			
Income from continuing operations	$ 0.52	$ 0.90	$ 0.87
Net income	$ 0.52	$ 0.72	$ 0.79

These unaudited pro forma results are presented for comparative purposes only. The pro forma results are not necessarily indicative of what the Company's actual results would have been had the acquisition been completed as of the beginning of these periods, or of future results.

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, $1.125 par value, 5,000,000 shares authorized -
  Series A Special Stock, 2,000,000 shares designated

Note 4 - Long-Term Debt

Revolving Credit Facilities

On April 1, 1998, Harrah's reducing revolving and letter of credit facility (the "Facility") was amended and restated to increase the total available borrowing capacity to $2.1 billion. Pursuant to its terms, $1 billion of the amended and restated Facility was restricted as to its use: $800 million was only available to fund the Showboat acquisition and $200 million could only be used to retire the Company's 8 3/4% Notes. These funds were used for the designated purposes during second quarter 1998.

As of September 30, 1998, the Facility consisted of a $1.9 billion reducing revolving and letter of credit facility maturing July 31, 2000, and a separate $150 million revolving credit facility, renewable annually at the lenders' option through the July 31, 2000, maturity date. Of the $2.05 billion total borrowing capacity available to the Company under the Facility, there is a sub-limit of $50 million for letters of credit. Scheduled reductions in borrowing capacity available under the $1.9 billion facility are as follows: $75 million, January 1999; $75 million, July 1999; $100 million, January 2000; and $1.65 billion, July 2000.

As of September 30, 1998, Harrah's borrowings under the Facility were $1.8 billion and an additional $28.6 million was committed to back certain letters of credit. After consideration of these borrowings and the reduction in borrowing capacity available, $223.9 million of the Facility was available to Harrah's.

Early Extinguishments of Debt

On May 1, 1998, Harrah's principal operating subsidiary, Harrah's Operating Company, Inc. ("HOC"), redeemed its $200 million 8 3/4% Senior Subordinated Notes due 2000 (the "8 3/4% Notes"), using proceeds from the Facility.
As a result of the early extinguishment of this debt, the Company recorded a $3.3 million extraordinary loss, net of income taxes, which includes a premium paid to holders of the 8 3/4% Notes and the write-off of related unamortized deferred finance charges.

See Note 2 for discussion of the early extinguishments in June 1998 of certain debts assumed in the Showboat acquisition and of the defeasment of the remaining Showboat Bonds and Notes in August 1998.

On May 27, 1997, HOC redeemed its $200 million in 10 7/8% Senior Subordinated Notes due 2002 (the "10 7/8% Notes") using proceeds from the Facility. As a result of the early extinguishment of this debt, the Company recorded an $8.1 million extraordinary loss, net of tax, in second quarter 1997, which included a premium paid to holders of the 10 7/8% Notes and the write-off of related deferred finance charges.

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.

Harrah's has entered into six interest rate swap agreements which effectively convert a total of $300 million in variable rate debt to a fixed rate. Pursuant to the terms of these swaps, all of which reset quarterly, Harrah's receives variable payments tied to LIBOR in exchange for its payments at a fixed interest 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 Sept 30, 1998	Swap Maturity
$50 million	6.985%	5.500%	March 2000
$50 million	6.951%	5.500%	March 2000
$50 million	6.945%	5.500%	March 2000
$50 million	6.651%	5.688%	May 2000
$50 million	5.788%	5.594%	June 2000
$50 million	5.785%	5.594%	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.

Note 5 - Supplemental Cash Flow Disclosures

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:

	Nine Months Ended	
(In thousands)	Sept 30, 1998	Sept 30, 1997
Interest expense, net of amount capitalized	$81,358	$57,901
Adjustments to reconcile to cash paid for interest:		
Net change in accruals	(12,368)	(1,136)
Amortization of deferred finance changes	(3,307)	(2,194)
Net amortization of discounts and premiums	1,091	(9)
Cash paid for interest, net of amount capitalized	$66,774	$54,562
Cash payments of income taxes, net of refunds	$32,952	$15,696

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 September 30, 1998, Harrah's had guaranteed third party loans and leases of $127 million, which are secured by certain assets, and had commitments of $38 million, primarily construction-related.

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. That obligation has priority over scheduled payments of borrowings for development costs. In the event that insufficient cash flow is generated by the operations to fund this payment, Harrah's must pay the shortfall to the tribe. Such advances, if any, would be repaid to Harrah's in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. As of September 30, 1998, the aggregate monthly commitment pursuant to these contracts, which extend for periods of up to 51 months from September 30, 1998, was $1.2 million.

See Note 8 for discussion of the proposed completion guarantees related to development of the New Orleans casino.

Equity Commitment

In March 1996, Showboat entered into a standby equity commitment with its 55% owned subsidiary, Showboat Marina Casino Partnership ("SMCP") which requires that if, during any of the first three Operating Years (as defined), SMCP's Combined Cash Flow (as defined) is less than $35.0 million, Showboat will be required to make additional capital contributions to SMCP equal to the lesser of (a) $15.0 million, or (b) the difference between the $35.0 million and the Operating Year's Combined Cash Flow. The Company assumed this obligation in connection with its acquisition of Showboat. The Company's aggregate potential obligation under the standby equity commitment is $30.0 million. The Combined Cash Flow of SMCP for the first Operating Year did not achieve the $35.0 million threshold, and the Company was required to contribute $14.3 million under the standby equity commitment. As of September 30, 1998, the remaining potential obligation under the standby equity commitment is $15.7 million.

There can be no assurance that the Combined Cash Flow for any future Operating Year will exceed $35.0 million and that the Company will not be required to make additional capital contributions to SMCP in accordance with the standby equity commitment. The standby equity commitment is subject to certain limitations, qualifications and exceptions.

Severance Agreements
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As of September 30, 1998, Harrah's has severance agreements with 47 of its senior executives, which provide for payments to the executives in the event of their termination after a change in control, as defined. These agreements provide, among other things, for a compensation payment of 1.5 to 3.0 times the executive's average annual compensation, as defined, as well as for accelerated payment or accelerated vesting of any compensation or awards payable to the executive under any of Harrah's incentive plans. The estimated amount, computed as of September 30, 1998, that would be payable under the agreements to these executives based on earnings and stock options aggregated approximately $35.0 million.

Guarantee of Insurance Contract
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Harrah's had guaranteed the value of a guaranteed investment contract with an insurance company held by Harrah's defined contribution savings plan. Harrah's had 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. Settlement of the guaranteed investment contract was received in third quarter 1998, thereby relieving Harrah's commitment to guarantee the value of the contract or loan any additional funds.

Tax Sharing Agreements
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In connection with the 1995 spin-off of certain hotel operations (the "PHC Spin-off") to Promus Hotel Corporation ("PHC"), 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 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.

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.

Note 7 - Litigation

Harrah's and certain of its subsidiaries had 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 the Company owned an approximate 47% interest and which filed for protection under Chapter 11 of the U.S. Bankruptcy Code (see Note 8). Subsequent to the end of third quarter 1998, the plan of reorganization of Harrah's Jazz Company was consummated, and these lawsuits were dismissed or are in the process of being dismissed.

On November 25, 1997, the Missouri Supreme Court issued a ruling in Akin v. Missouri Gaming Commission that defined the state constitutional requirements for floating casino facilities in artificial basins. Subsequently, the Missouri Gaming Commission (the "Commission") attempted to issue disciplinary resolutions that effectively would have amended the gaming licenses of the Company's Missouri casinos, and numerous other floating casino facilities in the Commission's jurisdiction, to preclude games of chance, subject to evidentiary hearings that were to be held if the licensees filed appeals to prove compliance with the Supreme Court's ruling. Prior to the Commission's action, Harrah's and other licensees filed petitions in the Circuit Court of Cole County, Missouri, and succeeded in having the Court issue an order restraining the Commission from taking any such disciplinary action. The Commission appealed to the Missouri Supreme Court which, on May 28, 1998, lifted the lower court's restraining order. On June 18, 1998, the Commission reissued its proposed disciplinary resolutions. All affected licensees, including Harrah's, filed timely appeals of the proposed disciplinary resolutions. Subsequently, all of the parties to the several disciplinary hearings, including Harrah's and the Commission, agreed that all of the evidence for the hearings would be presented through documents rather than through oral testimony, so no hearings were held. Harrah's also filed suit seeking declaratory judgment that its gaming facilities meet the state constitutional mandates as established by the Missouri Supreme Court. On November 3, 1998, the people of the State of Missouri voted to amend the State's Constitution to deem all floating casino facilities in compliance with state law. Once the election results are certified (30 days), it is expected that the Commission will dismiss the disciplinary resolutions.

In addition to the matters described above, 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.

Note 8 - Nonconsolidated Affiliates

Jazz Holding Company

In November 1995, Harrah's Jazz Company ("Jazz"), a partnership formed for purposes of developing, owning and operating the exclusive land-based casino entertainment facility (the "Casino") in New Orleans, Louisiana, and its wholly-owned subsidiary, Harrah's Jazz Finance Corp., filed petitions for relief under Chapter 11 of the Bankruptcy Code. On October 30, 1998, the plan of reorganization (the "Plan") of Jazz was consummated.

Pursuant to the Plan, a newly formed limited liability company, Jazz Casino Company, L.L.C ("JCC") is responsible for constructing and opening the Casino. JCC leases the site for the Casino from the City of New Orleans and will operate the Casino pursuant to a casino operating contract with the State of Louisiana gaming board.

In exchange for an equity investment in JCC's parent of $75 million (including $60 million in debtor-in-possession loans to Jazz which were converted to equity at Plan consummation), a subsidiary of the Company acquired, at the time of Plan consummation, approximately 44% of the equity in JCC's parent. This ownership interest has been reduced to approximately 43% due to the exercise by an unrelated party of an option to acquire a portion of the Company's interest, and the ownership interest may be reduced in the future to approximately 40% in the event other unrelated parties exercise additional options to acquire portions of the Company's interest. The Company also owns a warrant which entitles the Company to acquire additional shares in JCC's parent sufficient to increase its ownership interest in JCC's parent to 50% for a predetermined price.

The Company will manage the Casino pursuant to a management agreement under which a subsidiary of the Company (the "Manager") will receive a base management fee of 3% of Casino revenues and 7% of Casino EBITDA in excess of $75 million. The Company is obligated to defer receipt of management fees under certain circumstances. The Company has also entered into settlements with former partners of Jazz whereby such partners (or their creditors) are entitled to future payments from the Company which are calculated based on management fees received by the Manager.

The Company (i) guarantees JCC's initial $100 million annual payment under the casino operating contract to the State of Louisiana gaming board (the "State Guarantee"), (ii) guarantees $166.5 million of a $236.5 million JCC bank credit facility, (iii) guarantees to the State of Louisiana gaming board, City of New Orleans, banks under the JCC bank credit facility and JCC bondholders, completion and opening of the Casino on or before October 30, 1999 (subject to force majeure) and (iv) is obligated to make a $22.5 million subordinated loan to JCC to finance construction of the Casino.

With respect to the State Guarantee, the Company is obligated to guarantee JCC's first $100 million annual payment obligation commencing upon the earlier of opening of the Casino or October 30, 1999 (subject to force majeure), and, if certain cash flow tests and other conditions are satisfied each year, to renew the guarantee beginning April 1, 2000, each 12 month period ending March 31 up to the 12 month period ending March 31, 2004. The Company's obligations under the guarantee for the first year of operations or any succeeding 12 month period is limited to a guarantee of the $100 million payment obligation of JCC for the 12 month period in which the guarantee is in effect and is secured by a first priority lien on JCC's assets. JCC's payment obligation (and therefore the amount guaranteed by the Company) is $100 million at the commencement of each 12 month period under the casino operating contract and declines on a daily basis by 1/365 of $100 million to the extent payments are made each day by JCC to Louisiana's gaming board.

The Company will receive for providing the State Guarantee fees from JCC of $6 million for the first and second years of operations (or the prorated amounts thereof) and $5 million for each renewal year thereafter. The Company will also receive fees for guaranteeing the JCC bank credit facility of approximately 2.75% of up to $156.5 million of guaranteed debt, payable for periods during which such debt is outstanding. The Company's credit support fees may be reduced in the event the Company's borrowing costs under its bank credit facility increase after Plan consummation. The Company is obligated to defer receipt of State Guarantee fees and a portion of the credit support fees under certain circumstances.

Other

Summarized balance sheet and income statement information of nonconsolidated gaming affiliates as of September 30, 1998 and December 31, 1997, and for the third quarters and nine months ended September 30, 1998 and 1997 is included in the following tables. 1998 information includes Showboat East Chicago and Star City casino in Sydney, Australia.

(In thousands)	Sept. 30, 1998	Dec. 31, 1997
Combined Summarized Balance Sheet Information		
Current assets	$ 84,458	$ 18,937
Land, buildings and equipment, net	1,065,245	379,147
Other assets	445,801	179,976
Total assets	1,595,504	578,060
Current liabilities	175,792	108,406
Long-term debt	1,057,701	467,970
Total liabilities	1,233,493	576,376
Net assets	$ 362,011	$ 1,684

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1998	Sept. 30, 1997	Sept. 30, 1998	Sept. 30, 1997
(In thousands)				
Combined Summarized Statements of Operations				
Revenues	$142,581	$ 4,878	$161,664	$ 17,292
Operating loss	$(10,295)	$ (12,726)	$(26,102)	$(29,756)
Net loss	$(20,042)	$ (16,346)	$(35,311)	$(37,094)

Harrah's share of nonconsolidated affiliates' combined net operating results are reflected in the accompanying Consolidated Condensed Statements of Income as Equity in income (losses) of nonconsolidated affiliates. Harrah's financial results for the nine months ended September 30, 1998, include its share of an extraordinary loss recognized by a nonconsolidated affiliate due to that entity's reorganization and refinancing of its debt.

Harrah's investments in and advances to nonconsolidated affiliates are reflected in the accompanying Consolidated Condensed Balance Sheets as follows:

(In thousands)	Sept. 30, 1998	Dec. 31, 1997
Harrah's investments in and advances to nonconsolidated affiliates		
Accounted for under the equity method	$249,117	$132,049
Equity securities available-for-sale and recorded at market value	35,557	20,352
	$284,674	$152,401

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities", Harrah's adjusts the carrying value of certain marketable equity securities to include unrealized gains and losses. A corresponding adjustment is recorded in the Company's stockholders' equity and deferred income tax accounts.

Note 9 - Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the Company's financial statements. As defined in SFAS No. 130, comprehensive income consists of all changes, including net income, in the Company's equity during a period, except those resulting from investments by or distributions to the Company's stockholders. The provisions of SFAS No. 130 are effective for years beginning after December 31, 1997, and its provisions must be adopted for interim periods in the year of adoption.

Harrah's total comprehensive income for the current and prior years are as follows:

(In thousands)	Third Quarter Ended Sept. 30, 1998	Sept. 30, 1997	Nine Months Ended Sept. 30, 1998	Sept. 30, 1997
Net income	$ 44,202	$ 52,889	$ 87,844	$ 87,239
Other comprehensive income				
Unrealized losses on marketable equity securities	(508)	(4,527)	(908)	(17,211)
Foreign currency translation	(3,551)	--	(4,474)	--
Tax expense	1,586	1,766	2,093	6,712
	(2,473)	(2,761)	(3,289)	(10,499)
Total comprehensive income	$ 41,729	$ 50,128	$ 84,555	$76,740

Note 10 - Summarized Financial Information

HOC is a wholly owned subsidiary and the principal asset of Harrah's. Summarized financial information of HOC as of September 30, 1998 and December 31, 1997, and for the third quarters and nine months ended September 30, 1998 and 1997 prepared on the same basis as Harrah's was as follows:

(In thousands)	Sept. 30, 1998	Dec. 31, 1997
Current assets	$ 228,293	$ 212,623
Land, buildings, riverboats and equipment, net	1,876,110	1,478,054
Other assets	1,079,642	315,059
	3,184,045	2,005,736
Current liabilities	277,694	203,007
Long-term debt	1,914,002	924,397
Other liabilities	143,363	123,838
Minority interests	14,530	14,118
	2,349,589	1,265,360
Net assets	$ 834,456	$ 740,376

(In thousands)	Third Quarter Ended Sept. 30, 1998	Sept. 30, 1997	Nine Months Ended Sept. 30, 1998	Sept. 30, 1997
Revenues	$579,149	$437,561	$1,479,261	$1,220,465
Income from operations	$100,100	$ 67,392	$ 239,229	$ 174,004
Income before extraordinary losses	$ 38,286	$ 52,657	$ 106,193	$ 95,220
Net income	$ 38,286	$ 52,657	$ 87,913	$ 87,086

The agreements governing the terms of the Company'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 $823.8 million at September 30, 1998.

Note 11 - Rio Acquisition

In third quarter Harrah's announced the signing of a definitive merger agreement with Rio Hotel and Casino, Inc. ("Rio"), under which Harrah's will acquire Rio for stock and the assumption of Rio's outstanding debt. Rio stockholders will receive one share of Harrah's stock for each share of Rio stock owned. The combined value of the stock to be issued and the debt to be assumed by Harrah's is estimated to be approximately $880 million. The acquisition will be accounted for as a purchase. Accordingly, the purchase price will be allocated to the underlying assets and liabilities based upon their estimated fair values at the date of acquisition. The transaction is subject to various conditions, including regulatory approvals, Rio and Harrah's stockholder approvals and other third party approvals. Stockholder meetings for Harrah's and Rio are scheduled for November 18, 1998, and the transaction is expected to be completed by year-end 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial position and operating results of Harrah's Entertainment, Inc., (referred to in this discussion, together with its consolidated subsidiaries where appropriate, as "Harrah's" or the "Company,") for third quarter and the first nine months of 1998 and 1997, updates, and should be read in conjunction with, Management's Discussion and Analysis of Financial Position and Results of Operations presented in Harrah's 1997 Annual Report.

RIO ACQUISITION

In third quarter Harrah's announced the signing of a definitive merger agreement with Rio Hotel and Casino, Inc. ("Rio"), under which Harrah's will acquire Rio for stock and the assumption of Rio's outstanding debt. Rio stockholders will receive one share of Harrah's stock for each share of Rio stock owned. The combined value of the stock to be issued and the debt to be assumed by Harrah's is estimated to be approximately $880 million. The acquisition will be accounted for as a purchase. Accordingly, the purchase price will be allocated to the underlying assets and liabilities based upon their estimated fair values at the date of acquisition. The transaction is subject to various conditions, including regulatory approvals, Rio and Harrah's stockholder approvals and other third party approvals. Stockholder meetings for Harrah's and Rio are scheduled for November 18, 1998, and the transaction is expected to be completed by year-end 1998.

RESULTS OF OPERATIONS

OVERALL

Harrah's continues to see results of strategic actions taken in 1997 which led to the June 1, 1998 acquisition of Showboat, Inc. ("Showboat") and increases in cross-market play from Harrah's customers nationwide. Continued increases in cross-market play reflect the success of Harrah's industry-leading Total Gold player reward and recognition card, and, coupled with enhanced database marketing capabilities, enable the Company to better target promotions and offers to the appropriate customer segments.

(in millions, except earnings per share)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Revenues	$586.2	$438.2	33.8%	$1,479.3	$1,221.2	21.1%
Operating profit	122.1	78.6	55.3%	276.4	210.3	31.4%
Income from operations	109.2	67.7	61.3%	239.1	174.2	37.3%
Income before extraordinary losses	44.2	52.9	(16.4%)	106.1	95.4	11.2%
Net income	44.2	52.9	(16.4%)	87.8	87.2	0.7%
Earnings per share - diluted						
Before extraordinary losses	0.44	0.52	(15.4%)	1.05	0.94	11.7%
Net income	0.44	0.52	(15.4%)	0.87	0.86	1.2%
Operating margin	18.6%	15.4%	3.2pts	19.6%	14.3%	5.3pts

Harrah's posted record revenues for third quarter of $586.2 million, a 33.8% increase over third quarter 1997. Record revenues at Harrah's properties in Las Vegas, Atlantic City, Lake Tahoe and St. Louis contributed to the overall record performance, as did the addition of revenues from the Atlantic City Showboat property and the addition of management fees from two recently opened Harrah's-brand casinos on Indian lands. These factors also contributed to increased operating income, however, net income and earnings per share were down compared to prior year due to a 1997 gain on the sale of the Company's remaining equity interest in the Sky City Casino in Auckland, New Zealand, and higher interest expense in 1998 as a result of increased borrowings to finance the Showboat acquisition. Net income and earnings per share for the nine months ended September 30, 1998 were even with prior year. Higher operating income in 1998 was offset by increased interest expense and lower gains in 1998 on sales of equity interests in subsidiaries.

DIVISION OPERATING RESULTS AND DEVELOPMENT PLANS

Riverboat Division

(in millions)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Casino revenues	$171.1	$160.5	6.6%	$493.7	$457.3	8.0%
Total revenues	181.3	171.3	5.8%	523.9	498.1	5.2%
Operating profit	29.8	35.5	(16.1)%	98.8	96.9	2.0%
Operating margin	16.4%	20.7%	(4.3)pts	18.9%	19.5%	(0.6)pts

Revenues for the Division increased for third quarter 1998 over the comparable prior year period, however, operating profit was down compared to the same period in 1997, due in part to the non-recurring costs incurred in connection with the campaign for a referendum in Missouri seeking approval of games of chance on riverboats in artificial basins. Subsequent to the end of the third quarter, Missouri voters approved this referendum. For the nine months ended September 30, revenues increased 5.2% over the prior year, and operating income increased 2.0%.

Chicagoland - Revenues increased 6.5% at Harrah's Joliet compared to the third quarter of 1997, however, operating profit declined 26.5% compared to the same period last year due to the impact of higher Illinois gaming taxes. Harrah's began construction in third quarter of a 12 story 204-suite hotel at this property. Estimated cost of this project is $29.1 million, and completion is projected for fourth quarter 1999.

Harrah's owns a 55% non-controlling interest in the partnership owning the East Chicago Showboat property. Harrah's share of income from the partnership, which totaled $1.0 million for the the third quarter, is reported separately in the Consolidated Condensed Income Statement and included in Equity in losses of nonconsolidated subsidiaries (see Other Factors Affecting Net Income).

Louisiana - Harrah's Shreveport's revenues and operating profit for third quarter and for the nine months ended September 30, 1998 decreased from the same period last year due to competitive conditions in the market. Construction was completed in third quarter on expanded parking facilities at Harrah's Shreveport, and the Company is evaluating the possible expansion of the facilities to include a hotel and additional restaurant and meeting facilities. Any expansion project is subject to the receipt of necessary regulatory approvals.

Mississippi - Combined third quarter revenues by Harrah's Mississippi properties remained basically flat compared to the prior year. However, operating profit declined from the prior year due primarily to the on-going testing of service initiatives at Harrah's Tunica that have disrupted operations since the beginning of the year. The Company is taking action which is intended to bring that property back to profitability.

Revenues for the nine months ended September 30, 1998, declined from the prior year primarily due to the closure during second quarter 1997 of Harrah's original property in the Tunica market. The Company continues to explore its options for the original Tunica property.

Missouri - Harrah's North Kansas City's revenues for third quarter 1998 were even with the same period in 1997; however, operating profit increased 5.1% over the same period last year. For the nine months ended September 30, 1998, revenues increased 1.2% while operating income increased 9.9% over the same period last year. Harrah's continues to lead the overall Kansas City market in profitability and most other measures of performance.

During third quarter the Company completed the acquisition for $12.5 million of various assets of a riverboat casino in Kansas City formerly operated by a third party, including a 28,000 square foot casino riverboat, shoreside facilities, parking garage, certain land, all gaming equipment and computerized customer databases. Harrah's does not plan, at this time, to operate a casino at the acquired location. Long-range plans for the riverboat, land and shoreside facilities have not been finalized.

Harrah's St. Louis-Riverport casino reported a third quarter 1998 operating profit of $5.3 million. Year-to-date operating profit was $11.4 million compared to a loss of $1.6 million for the same period last year. The St. Louis-Riverport entertainment complex in Maryland Heights, Missouri, a suburb of St. Louis, opened on March 11, 1997. The facility includes four riverboat casinos, two of which are owned and operated by Harrah's, and shoreside facilities jointly-owned with another casino company. Harrah's pro-rata share of the operating losses of the shoreside facilities joint venture was $2.8 million for the quarter and is reported separately in the Consolidated Condensed Income Statement and included in Equity in losses of nonconsolidated subsidiaries (see Other Factors Affecting Net Income).

Atlantic City

(in millions)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Casino revenues	$186.6	$87.7	112.8%	$378.7	$243.9	55.3%
Total revenues	204.3	99.0	106.4%	414.5	270.0	53.5%
Operating profit	51.6	25.6	101.6%	96.4	60.7	58.8%
Operating margin	25.3%	25.9%	(0.6)pts	23.3%	22.5%	0.8pts

Harrah's Atlantic City achieved record revenues in third quarter 1998 and operating profit increased 4.4% over the same period last year. Operating profit increased 7.4% for the nine months ended September 30, 1998. The Atlantic City division's results for third quarter 1998 also include the Atlantic City Showboat property. In connection with its consideration of a further expansion of the Harrah's Atlantic City property, the Company continues to monitor the progress of efforts by other companies to develop new casino hotel projects in the Atlantic City Marina area.

Southern Nevada Division

(in millions)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Casino revenues	$56.8	$46.2	22.9%	$172.3	$133.9	28.7%
Total revenues	86.9	70.9	22.6%	259.5	204.3	27.0%
Operating profit	9.5	7.3	30.1%	35.7	28.6	24.8%
Operating margin	10.9%	10.3%	0.6pts	13.8%	14.0%	(0.2)pts

Record revenues in Southern Nevada for third quarter 1998 were driven by Harrah's Las Vegas where revenues were 30.5% over last year. Harrah's Las Vegas' revenues for the nine months ended September 30, 1998, increased 39.9% over the same period last year. These results were driven by the extensive renovation and expansion completed in fourth quarter 1997 and the positive impact of customer loyalty and cross-market customer benefits like Harrah's Total Gold program. Harrah's Laughlin reported increased revenues of 5.9% over third quarter last year and operating profit at the same level as the prior year.

Showboat Las Vegas, which the Company has stated is a non-strategic asset, is reported as an asset held for sale in the Consolidated Condensed Balance Sheet.

Northern Nevada Division

(in millions)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Casino revenues	$75.4	$67.0	12.5%	$175.6	$167.1	5.1%
Total revenues	96.7	88.9	8.8%	230.0	221.8	3.7%
Operating profit	28.3	23.0	23.0%	42.0	39.8	5.5%
Operating margin	29.3%	25.9%	3.4pts	18.3%	17.9%	0.4pts

Record revenues in Northern Nevada were driven by Harrah's Lake Tahoe where third quarter record revenues were 13.2% over the prior year. Operating profit for third quarter at Lake Tahoe increased 37.9% from the same period last year and increased 14.2% for the nine months ended September 30, 1998.

Managed Casinos-Indian Lands

Harrah's Indian gaming and other managed results were led by the addition of management fees from recently opened tribal-owned casinos for the Eastern Band of Cherokee in Cherokee, North Carolina, which opened in November 1997, and the Prairie Band of Potawatomi north of Topeka, Kansas, which opened in January 1998.

Harrah's terminated its management agreement with the Upper Skagit Tribe and turned management of the casino, which is located on Indian lands near Seattle, Washington, over to the Upper Skagit Tribe and removed the Harrah's name from the casino on November 2, 1998. The Company has guaranteed the Skagit Tribe's development financing. Under the terms of the termination agreement the tribe has agreed to fund the retirement of the mortgage, however, there is no assurance that payment will be made and Harrah's could have continued exposure of up to $12.6 million under that guarantee.

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. That obligation has priority over scheduled repayments of borrowings for development costs. In the event that insufficient cash flow is generated by the operations to fund this payment, Harrah's must pay the shortfall to the tribe. Such advances, if any, would be repaid to Harrah's in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. As of September 30, 1998, the aggregate monthly commitment pursuant to the contracts for the three Indian-owned facilities currently managed by Harrah's, which extend for periods of up to 51 months from September 30, 1998, was $1.2 million.

See DEBT and LIQUIDITY section for further discussion of Harrah's guarantees of debt related to Indian projects.

Other Gaming Operations

The Company ceased management of the Sky City casino complex in Auckland, New Zealand on June 30, 1998. Pursuant to a previously announced agreement with Sky City Limited, owner of the Sky City facility, Harrah's management contract was bought out and the $10.6 million termination fee was recorded in revenues in second quarter. The termination fee, net of the change in foreign currency rates, was received in third quarter.

With the consummation of the Showboat acquisition on June 1, 1998, Harrah's assumed management of the Star City casino in Sydney, Australia, and accounts for management fees, as well as the equity income of the related investment, one month in arrears.

During first quarter 1998, the Company launched the first brand advertising campaign by a casino company, committing $30 million in 1998 to aggressive image advertising. A portion of the planned cost of the brand advertising campaign is being funded by the displacement of advertising and marketing dollars spent by the individual properties in the past. Third quarter 1998 costs for the campaign in excess of the amounts contributed to this effort by the properties totaled approximately $1.6 million.

Other Factors Affecting Net Income

(Income)/Expense (in millions)	Third Quarter 1998	Third Quarter 1997	Percentage Increase/ (Decrease)	Nine Months Ended 1998	Nine Months Ended 1997	Percentage Increase/ (Decrease)
Development costs	$ 2.7	$ 2.7	0.0 %	$ 6.6	$ 7.4	(10.8)%
Project opening costs	1.2	1.0	20.0 %	7.2	9.0	(20.0)%
Corporate expense	9.4	6.6	42.4 %	25.0	22.2	12.6 %
Equity in losses of nonconsolidated affiliates	2.4	2.9	(17.2)%	8.7	8.3	4.8 %
Write-downs and reserves	--	12.3	N/M	1.8	12.3	(85.4)%
Venture restructuring costs	1.1	1.4	(21.4)%	3.5	5.6	(37.5)%
Interest expense, net	36.4	19.8	83.8 %	81.4	57.9	40.6 %
Gain on sales of equity interests in subsidiaries	--	(37.4)	N/M	(13.1)	(37.4)	(65.0)
Other income	--	(2.1)	N/M	(5.8)	(8.4)	(31.0)%
Effective tax rate	38.0%	38.2%	(0.2)pts	38.0%	39.0%	(1.0)pts
Minority interests	$ 1.8	$ 2.0	(10.0)%	$ 5.6	$ 5.7	(1.8)%
Extraordinary losses, net of income taxes	--	--	--	18.3	8.1	125.9 %

Project opening costs for third quarter 1998 include costs incurred in connection with an initiative to develop, implement and refine the strategies and employee training programs designed to better focus the Company on serving its targeted customers. In addition to similar costs, 1997 project opening costs also included costs related to the renovation project at Harrah's Las Vegas.

Corporate expense increased 43.9% in third quarter 1998 from the prior year level and 12.6% for the nine months ended September 30, 1998, compared to that same period of the prior year. The increase is due to timing of expenses and increased costs, including the incremental costs related to the Showboat acquisition.

Equity in losses of nonconsolidated affiliates consists of losses from the St. Louis shoreside facilities joint venture, from the Star City Casino in Australia and from the Company's investment in an in-flight gaming company. Losses were partially offset by profits from the East Chicago Showboat partnership.

1997 write-downs and reserves were primarily for reserves against loans related to debtor-in-possession financing provided to the casino project in New Orleans in which Harrah's is a minority partner.

Venture restructuring costs represent Harrah's costs, including legal fees, associated with the development of a reorganization plan for the New Orleans casino (see Harrah's Jazz Company section).

Interest expense increased in third quarter 1998 over 1997, primarily as a result of increased borrowings to finance the Showboat acquisition.

In third quarter 1997 the Company sold its remaining equity interest in the Sky City Casino in Auckland, New Zealand, and recognized a gain on the sale of $37.4 million. In second quarter 1998 Harrah's sold its equity interest in a restaurant subsidiary and recorded a gain of $13.1 million

Other income decreased in third quarter 1998 due to lower income earned by the Company on the cash surrender value of certain life insurance policies.

The effective tax rates for all periods are higher than the federal statutory rate primarily due to state income taxes.

Minority interests reflects a joint venture partner's share of income at a riverboat casino and decreased in 1998 from the prior year as a result of lower earnings from that riverboat.

The extraordinary losses in 1998 and 1997 are due to the early extinguishments of debt and include premiums paid to the holders of the debt retired and the write-off of related unamortized deferred finance charges. (See Debt and Liquidity - Early Extinguishment of Debt.)

HARRAH'S JAZZ COMPANY

For an update of the status of the reorganization of Harrah's Jazz Company, which filed a petition for relief under Chapter 11 of the Bankruptcy Code on November 22, 1995, see Note 8 to the accompanying Consolidated Condensed Financial Statements.

CAPITAL SPENDING AND DEVELOPMENT

Standby Equity Commitment

Showboat entered into a standby equity commitment which requires that if, during any of the first three Operating Years (as defined), the Combined Cash Flow (as defined) of its 55% owned subsidiary, Showboat Marina Casino Partnership ("SMCP"), is less than $35.0 million, the Company will be required to make additional capital contributions to SMCP in the lesser of (a) $15.0 million, or (b) the difference between the $35.0 million and the Operating Year's Combined Cash Flow. The Company assumed this obligation in connection with its acquisition of Showboat. The Company's aggregate potential obligation under the standby equity commitment was $30.0 million. The Combined Cash Flow of SMCP for the first four full quarters of operation did not achieve the $35.0 million threshold, and the Company was required to contribute $14.3 million under the standby equity commitment. As of September 30, 1998, the remaining potential obligation under the standby equity commitment is $15.7 million. There can be no assurance that the Combined Cash flow for any future Operating Year will exceed $35.0 million and that the Company will not be required to make additional capital contributions to SMCP in accordance with the standby equity commitment. The standby equity commitment is subject to certain limitations, qualifications, and exceptions.

Year 2000

The Company is working to address the potential impact of the Year 2000 ("Y2K") on the systems and equipment that are essential to its operations, including information technology systems, gaming operations and equipment, facilities, and suppliers. In late 1996, the Company began an assessment of all technology systems and infrastructure supporting operations and in 1997 developed a strategy and approach for addressing Y2K issues across the Company.

The Company has created a Y2K Task Force and a Y2K Support Office. Representatives from the Task Force meet periodically with senior management of the Company to discuss status, accomplishments, issues, and costs. The Y2K Support Office has three teams: Core Information Technology, responsible for company-wide, standard systems; Property, responsible for property-specific systems and equipment, which includes the Company's non-information technology (i.e. embedded technology) equipment; and Suppliers/Procurement, responsible for ensuring that external suppliers and new equipment purchases are Y2K ready.

The Y2K Task Force has prioritized its efforts according to the potential impact to the Company's business if a system is not Y2K ready. Priorities, in order, are: Business Critical - required to operate the business; High Priority - significant impact to revenues, operating costs, or customer services; and Other - used by the business but not considered Business Critical or High Priority. The major phases of the Company's approach are Awareness, Assessment, Renovation, Testing and Certification, Implementation, and Contingency Planning. Each phase is fully in progress, and Awareness and Assessment are nearly complete. The following table sets forth the expected date of final completion as of September 30, 1998 with respect to each priority area:

Business Critical	7/99
High Priority	10/99
Other	No date set

Contingency plans have been developed for some Business Critical areas, including time and attendance and procurement. Contingency plans will be completed for selected Business Critical and High Priority items, identified on the basis of risk assessment, by December, 1999.

The Company has been in the process of identifying and communicating with Business Critical and High Priority suppliers about their plans and progress in addressing Y2K problems. Detailed evaluations of the most critical suppliers have been initiated. These evaluations will be followed by the development of contingency plans, which are scheduled to be complete by December, 1999. The process of evaluating suppliers began in October, 1998 and is scheduled for completion by January, 1999, with follow-up reviews scheduled through June 1999.

The total costs of system replacements and upgrades to address potential Y2K problems and, as well as enhancing business and operational functionality in some areas, are currently estimated to be approximately $9.5 million. The total amount expanded through September 30, 1998 was approximately $2.3 million, of which approximately $1 million related to the cost to repair, replace, and improve software and related hardware and equipment, approximately $1.3 million related to the cost of replacing embedded-technology equipment (primarily in the Property area), and approximately $15,000 related to the costs of identifying and communicating with significant suppliers. The estimated future cost is approximately $7 million, of which approximately $2 million relates to the cost to repair, replace, and improve software and related hardware and equipment, approximately $5 million relates to the cost of replacing embedded-technology equipment (primarily in the Property area), and approximately $10,000 relates to the costs of identifying and communicating with significant suppliers. These costs, along with internal resource hours, are being separately tracked. The Company continues to evaluate the estimated costs associated with Y2K issues, and if significant issues are identified in the future, such costs could increase. Although the Company is devoting considerable resources to resolve Y2K issues, it continues to support and implement other systems, operations and initiatives.

In connection with the proposed acquisition of Rio, the Company conducted a Y2K readiness review and assessment. When the acquisition is completed, the Rio will be incorporated into the Company's Y2K program, as are the Showboat properties, which will result in additional estimated costs associated with Y2K issues of approximately $3 million. Such estimated costs could increase if significant issues are identified in the future.

Based upon its efforts to date and the status of the plans to address identified issues, the Company believes that its Business Critical systems are compliant or will be made compliant by mid-1999. One of the greatest challenges of the Y2K issue is the potential impact of systems outside of the Company's control, such as those of utility companies, phone and network systems, and financial institutions. The Company is assessing the Y2K status of such systems on an ongoing basis and developing contingency plans for Business Critical areas. However, should the Company and/or its significant suppliers fail to timely correct material Y2K issues, such failure could have a significant impact on the Company's ability to operate as it did before Y2K. In such an event, the Company will develop contingency plans designed to minimize any impact to the extent possible. The impact on the Company's operating results of such failures and of any contingency plans to be designed to address such events cannot be determined at this time. The Company has not developed a "most likely reasonable worst case scenario," but is in the process of doing so. Like all other businesses, the Company's ability to predict the impact of the Y2K Problem and the efficacy of its solutions with respect thereto is limited by the unprecedented natue of the problem.

Airline Investment
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During third quarter 1998, Harrah's invested $15 million in a new airline to be based in Las Vegas. Beginning in mid-1999, the new airline plans to offer conveniently scheduled nonstop flights between Las Vegas and New York, Miami, Los Angeles and San Francisco. Nine additional routes are expected to be added within the first year of operations. All flights will be nonstop to and from its Las Vegas hub. In addition to obtaining a 19.9% voting interest in the airline, Harrah's has also entered into a marketing agreement to support joint promotions involving the airline and Harrah's Las Vegas. Harrah's investment in the airline allows the Company to offer additional valued services and conveniences to customers. Harrah's has no commitment to provide additional funds to the airline. Rio has also made a $15 million investment in the airline. Upon the closing of the Rio acquisition, the Company's equity interest in the new airline will increase to approximately 47.8% but the Company's voting power would be limited to 25%.

Summary
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In addition to the specific development and expansion projects discussed in the Division Operating Results and Development Plans section, Harrah's performs on-going refurbishment and maintenance at its casino entertainment facilities in order to maintain the Company's quality standards. Harrah's also continues to pursue development and acquisition opportunities for additional casino entertainment facilities that meet its strategic and return on investment criteria. Prior to the receipt of necessary regulatory approvals, the costs of pursuing development projects are expensed as incurred. Construction-related costs incurred after the receipt of necessary approvals are capitalized and depreciated over the estimated useful life of the resulting asset. Project opening costs are expensed as incurred.

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

Facility (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 first nine months of 1998, excluding the Showboat acquisition, totaled approximately $180.6 million. Estimated total capital expenditures for 1998 are expected to be between $195 million and $225 million, excluding the acquisition of Rio and the possible second phase of Harrah's Atlantic City expansion.

DEBT AND LIQUIDITY

Bank Facility

On April 1, 1998, the Company's revolving credit facility (the "Bank Facility") was amended and restated to increase total borrowing capacity to $2.1 billion and to modify the debt covenants. The terms of the Bank Facility provide for scheduled reductions in borrowing capacity, and the first such scheduled reduction occurred on July 31, 1998, when borrowing capacity was reduced by $50 million. Reductions in borrowing capacity of $75 million each are scheduled for January 31, 1999 and July 31, 1999, and a reduction of $100 million is scheduled for January 31, 2000. As of September 30, 1998, $1.8 billion in borrowings were outstanding under the Bank Facility, with an additional $28.6 million committed to back letters of credit. After consideration of these borrowings, $223.9 million of additional borrowing capacity was available to the Company as of September 30, 1998.

During third quarter of 1998 the borrowing cost on the Bank Facility increased from a base rate of either Eurodollar plus 50 basis points or the prime lending rate to a base rate of either Eurodollar plus 75 basis points or the prime lending rate in accordance with the terms of the Bank Facility agreement.

It has been the Company's intention to refinance a significant portion of its short-term, floating-rate borrowings under the Bank Facility with debt that has fixed rates and longer maturities. In connection with obtaining consent from its bank lenders for the Rio merger, Harrah's expects that it will agree to refinance a significant portion of its current short-term floating-rate debt with longer-term fixed-rate debt. The Company is unable to determine at this time the terms of the new debt, but it is expected that the terms will be reflective of prevailing conditions in the debt capital markets and likely will be higher than the Company's historical interest costs. Separately, due to current market conditions, any savings from refinancing Rio's long-term debt may be delayed.

Extinguishments of Debt

On May 1, 1998, Harrah's principal operating subsidiary, Harrah's Operating Company, Inc. ("HOC"), redeemed all $200 million of its 8 3/4 Senior Subordinated Notes due 2002 (the "Notes") at a call price of 102.0%, plus accrued and unpaid interest through the May 1, 1998, redemption date. The Company retired the Notes using proceeds from its amended and restated Bank Facility. Redemption of the 8 3/4% Notes using funds drawn under the Bank Facility reduced interest costs on this

$200 million by approximately 2.5 percentage points, based on current rates. An extraordinary charge, net of tax, of $3.3 million was recorded during second quarter 1998 in conjunction with this early extinguishment of debt.

On June 15, 1998, Harrah's newly acquired subsidiary, Showboat, Inc., redeemed approximately $218.6 million face amount of its 9 1/4% First Mortgage Bonds due 2008 and approximately $117.9 million face amount of its 13% Senior Notes due 2009 (collectively, the "Showboat Notes"). Harrah's recorded the liabilities assumed in the Showboat acquisition, including the Showboat Notes, at their fair value as of the consummation date of the transaction. The difference between the consideration paid to the holders of the Showboat Notes pursuant to this tender offer and the fair value of the Showboat Notes on the consummation date, together with the cost of conducting the tender offer, were recorded by Harrah's in the second quarter as an extraordinary loss of $13.3 million, net of tax.

Concurrently with the tender offer, Harrah's solicited consents from the holders of the Notes to amend the respective Indentures governing each of the Notes to eliminate or modify substantially all of the negative covenants, certain events of default, and to make certain other changes to the Indentures. Tenders and consents were received by a majority in aggregate principal amount outstanding of each series of Notes, thereby consenting to the amendment of the respective Indentures.

During third quarter the Company defeased the remaining balance of the Showboat Notes. Treasury securities were purchased and deposited with trustees to pay the scheduled interest payments to the first call date and the premium and principal on the securities outstanding on such date. These treasury securities are reported as assets and the remaining balance of the Showboat Notes is reported in long-term debt in the Consolidated Condensed Balance Sheet.

Interest Rate Agreements

To manage the relative mix of its debt between fixed and variable rate instruments, Harrah's has entered into interest rate swap agreements to modify the interest characteristics of its outstanding debt without an exchange of the underlying principal amount. The differences to be paid or received by the Company 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 swap 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.

For more information regarding the Company's interest rate swap agreements as of September 30, 1998, please see Note 4 to the accompanying Consolidated Condensed Financial Statements.

Guarantees of Third Party Debt

The Company guaranteed a $25 million bank loan (the "Loan") of Turfway Park Racing Association, Inc. ("Turfway"). The Loan matured February 28, 1998. Turfway failed to repay the Loan at maturity. The Company purchased the Loan from the lending bank pursuant to the Company's guaranty. The balance of the Loan at the time of purchase was $22.9 million. The Loan was secured by a first mortgage of real estate and first security interest of 1/3 of the stock of Turfway. On July 15, 1998, the real estate was transferred to an affiliate of the Company in lieu of foreclosure of the mortgage for a credit of $9 million against the Loan. On October 21, 1998, another affiliate of the Company (to which the Loan had been assigned by the Company) was the successful bidder at public auction of the stock of Turfway, granting a credit of $13.6 million against the Loan. As a result, the Company now owns a one-third interest in Turfway.

As described in the Division Operating Results and Development Plans--Managed Casino--Indian Lands section, Harrah's may guarantee all or part of the debt incurred by Indian tribes with which Harrah's has entered a management contract to fund development of casinos on the Indian lands. For all existing guarantees of Indian debt, Harrah's has obtained a first lien on certain 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. The aggregate outstanding balance of such debt as of September 30, 1998, was $106.4 million, excluding the $12.6 million guarantee related to the Skagit Tribe's debt.

Shelf Registration

To provide for additional financing flexibility, Harrah's, together with its wholly-owned subsidiary, HOC, have available until June 2000 an effective shelf registration statement with the Securities and Exchange Commission. The registration allows the issuance of up to $750 million of Harrah's common stock or HOC preferred stock or debt securities. The issue price of the Harrah's common stock or the terms and conditions of the HOC preferred stock or debt securities, which would be unconditionally guaranteed by Harrah's, would be determined by market conditions at the time of issuance.

EFFECTS OF CURRENT ECONOMIC AND POLITICAL CONDITIONS

Competitive Pressures

Due to the limited number of new markets opening for development, the focus of many casino operators has shifted to investing in existing markets in an effort to attract new customers, increasing competition in those markets. Harrah's properties in the long-established gaming markets of Nevada and New Jersey have generally reacted less significantly to the changing competitive conditions. With the exception of the additional supply being added in Las Vegas, the amount of supply change within these markets has represented a smaller percentage change than that experienced in some riverboat markets. In riverboat markets, the additions to supply had a more noticeable impact, due to the fact that competition was limited in the early stages of many of these markets. As companies have completed expansion projects, supply has typically grown at a faster pace than demand in some markets and competition has increased significantly. Furthermore, several operators, including Harrah's, have announced plans for additional developments or expansions in some markets. In the Las Vegas market a new "mega" facility opened in October, 1998, and others are planned and under development. The impact that the additional supply will have on Harrah's operations cannot be determined at this time.

Over the past several years, there has also been a significant increase in the number of casinos on Indian lands, made possible by the Indian Gaming Regulatory Act of 1988. Harrah's manages three such facilities. The future growth potential from Indian casinos is also uncertain, however. See "Political Uncertainties" below for information concerning a California referendum.

Although the short-term effect of these competitive developments on the Company has been negative, Harrah's is not able to determine the long-term impact, whether favorable or unfavorable, that these trends and events will have on its current or future markets. Management believes that the geographic diversity of Harrah's operations, its multi-market customer base and the Company's continuing efforts to establish Harrah's as a premier brand name have well-positioned Harrah's to face the challenges present within the industry. Harrah's has introduced WINet, a sophisticated nationwide customer database, and its Total Gold Card, a nationwide reward and recognition card, both of which it believes provide competitive advantages, particularly with players who visit more than one market.

Industry Consolidation

As evidenced by a number of recent public announcements by casino entertainment companies of plans to acquire or be acquired by other companies, including Harrah's acquisition of Showboat and planned acquisition of Rio, consolidation in the gaming industry is now underway. The Company believes it is well-positioned to, and may from time to time, pursue additional strategic acquisitions to further enhance its distribution, strengthen its access to target customers and leverage its technological and centralized services infrastructure.

Political Uncertainties

The casino entertainment industry is subject to political and regulatory uncertainty. In 1996, the U.S. government formed a federal commission to study gambling in the United States, including the casino gaming industry. Subsequent to the end of third quarter 1998, voters in the state of California approved a referendum that will allow an expansion of gaming offerings on Indian lands in that state. At this time, the ultimate impacts that the federal commission and the approval of the California referendum will have on the industry are uncertain. From time to time, individual jurisdictions have also considered legislation or referendums which could adversely impact Harrah's operations, and the likelihood or outcome of similar legislation and referendums in the future is difficult to predict.

The casino entertainment 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 laws, or in the administration of such laws, which would affect the industry. It is not possible to determine with certainty the scope or likelihood of possible future changes in tax laws or in the administration of such laws. 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 net assets which are restricted by these covenants was approximately $823.8 million at September 30, 1998. Harrah's principal asset is the stock of HOC, a wholly-owned subsidiary which 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Company is currently evaluating the provisions of two recently issued accounting pronouncements. The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative financial instruments. The provisions of SFAS No. 133 require that a company recognize all derivatives as either assets or liabilities on its balance sheet and that the instrument be valued at its fair value. The Statement also defines the criteria and conditions which govern the recognition of subsequent changes in the fair value of the instrument as being either balance sheet or income statement events. SFAS No. 133 is effective for years beginning after June 15, 1999.

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants has issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-up Activities." SOP 98-5 requires that the costs of all start-up activities, as defined in the SOP, be expensed as incurred. The SOP is effective for years beginning after December 15, 1998.

The Company does not expect the adoption of these pronouncements to materially impact its results of operations or financial position.

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 ("SEC") (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. These include statements relating to the following activities, among others: (A) operations and expansions of existing properties, including future performance, anticipated scope and opening dates of expansions; (B) planned development of casinos and hotels that would be owned or managed by the Company and the pursuit of strategic acquisitions; (C) the redevelopment of the casino in New Orleans; (D) planned capital expenditures for 1998 and beyond; (E) the planned acquisition of Rio; (F) the impact of the WINet and Total Gold Card Programs; (G) any future impact of the Showboat acquisition; and (H) Year 2000 compliance plans. These activities involve important factors that could cause actual results to differ materially from those expressed in any forward looking statements made by or on behalf of the Company. These include, but are not limited to, the following factors as well as other factors described from time to time in the Company's reports filed with the SEC: construction factors, including zoning issues, environmental restrictions, soil conditions, weather and other hazards, site access matters and building permit issues; access to available and feasible financing; regulatory, licensing and other government approvals, third party consents and approvals, and relations with partners, owners and other third parties; conditions of credit markets and other business and economic conditions, including international and national economic problems; litigation, judicial actions and political uncertainties, including gaming legislative action, referenda, and taxation; actions or inactions of suppliers and vendors regarding Year 2000; and the effects of competition including locations of competitors and operating and marketing competition. 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

New Orleans

On October 30, 1998, the Plan of Reorganization for Harrah's Jazz Company was consummated. As a result, the contingencies in the already approved settlements in the In Re Harrah's Entertainment, Inc. Securities Litigation, Civil No. 95-3925, and Russell M. Swody, et al v. Harrah's New Orleans Management Company and Harrah's Entertainment, Inc., Civil No. 95-4118, matters, both of which were pending in the United States District Court for the Eastern District of Louisiana, were removed and the settlements are now fully effective.

Also in connection with the consummation of the Plan of Reorganization, releases of past events in connection with the New Orleans casino project were obtained by the Company from various parties that had previously been in litigation with the Company. Among the releases exchanged at closing were releases from Centex-Landis, the City of New Orleans, the Louisiana Gaming Control Board, the Louisiana Economic Development and Gaming Corporation, New Orleans/Louisiana Development Corporation and its shareholders, Eddie Sapir and the Eddie Sapir Inter Vivos Trust No. 1.

Also in connection with the consummation of the Plan of Reorganization, motions to dismiss with prejudice and/or notices of dismissal with prejudice were filed in the following actions involving the Company: Harrah's New Orleans Investment Company v. New Orleans Louisiana Development Corporation, Civil No. 95-3166, New Orleans Louisiana Development Corporation v. Harrah's Entertainment, et. al., Civil No. 95-14653, Centex-Landis Construction Co., Inc. v. Harrah's Entertainment, Inc. et. al., Civil No. 95-18101, City of New Orleans and Rivergate Development Corporation v. Harrah's Entertainment, Inc. et. al., Civil No. 95-19285, Louisiana Economic Development and Gaming Corporation v. Harrah's Entertainment, Inc. et. al., now Civil No. 96-169, in the In Re Harrah's Jazz Company bankruptcy proceeding, the adversary proceeding styled Harrah's Jazz Company v. A&D Maintenance Services, et. al., 97-1174, in the In Re New Orleans Louisiana Development Corporation bankruptcy proceeding, the adversary proceeding styled New Orleans Louisiana Development Corporation v. Bankers Trust Company, et. al., 97-1176, and Eddie Sapir et. al. v. Bankers Trust Company, et. al., Civil No. 97-20643, all pending in the United States District Court for the Eastern District of Louisiana or its Bankruptcy Court. It is anticipated that the orders effectuating these dismissals will be entered shortly.

Missouri
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On November 25, 1997, the Missouri Supreme Court issued a ruling in Akin v. Missouri Gaming Commission that defined the state constitutional requirements for floating casino facilities in artificial basins. Subsequently, the Missouri Gaming Commission (the "Commission") attempted to issue disciplinary resolutions that effectively would have amended the gaming licenses of the Company's Missouri casinos, and numerous other floating casino facilities in the Commission's jurisdiction, to preclude games of chance, subject to evidentiary hearings that were to be held if the licensees filed appeals to prove compliance with the Supreme Court's ruling. Prior to the Commission's action, Harrah's and other licensees filed petitions in the Circuit Court of Cole County, Missouri, and succeeded in having the Court issue an order restraining the Commission from taking any such disciplinary action. The Commission appealed to the Missouri Supreme Court which, on May 28, 1998, lifted the lower court's restraining order. On June 18, 1998, the Commission reissued its proposed disciplinary resolutions. All affected licensees, including Harrah's, filed timely appeals of the proposed disciplinary resolutions. Subsequently, all of the parties to the several disciplinary hearings, including Harrah's and the Commission, agreed that all of the evidence for the hearings would be presented through documents rather than through oral testimony, so no hearings were held. Harrah's has also filed suit seeking declaratory judgment that its gaming facilities meet the state constitutional mandates as established by the Missouri Supreme Court. On November 3, 1998, the people of the State of Missouri voted to amend the State's Constitution to deem all floating casino facilities in compliance with state law. Once the election results are certified (30 days), it is expected that the Commission will dismiss the disciplinary resolutions.

In addition to the matters described above, 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.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

EX-2.1	Agreement and Plan of Merger, dated as of August 9, 1998, by and among Harrah's Entertainment, Inc., HEI Acquisition Corp. III and Rio Hotel & Casino, Inc. (Incorporated by reference from the Company's Current Report on Form 8-K filed August 14, 1998, File No. 001-10410.)
EX-2.2	First Amendment to the Agreement and Plan of Merger, dated as of September 4, 1998, by and among Harrah's Entertainment, Inc., HEI Acquisition Corp. III and Rio Hotel & Casino, Inc. (Incorporated by reference from the Company's Current Report on Form 8-K filed September 4, 1998, File No. 001-10410.)
*EX-4.1	First Amendment, dated as of September 16, 1998, to the Credit Agreement dated as of July 22, 1993, amended and restated as of June 9, 1995 and further amended and restated as of April 1, 1998 (the "5-Year Credit Agreement") and to the Credit Agreement dated as of June 9, 1995, amended and restated as of April 1, 1998 (the "364-Day Credit Agreement"), among Harrah's Entertainment, Inc., Harrah's Operating Company, Inc., Marina Associates, the lenders party to these credit agreements, Canadian Imperial Bank of Commerce and Societe Generale, as Co-Syndication Agents, Bank of America National Trust and Savings Association, as Documentation Agent, and Bankers Trust Company, as Administrative Agent.
*EX-11	Computation of per share earnings.
*EX-27	Financial Data Schedule.

*Filed herewith.

(b) A Form 8-K was filed by the Company on August 14, 1998, reporting the agreement to acquire Rio Hotel & Casino, Inc.

A Form 8-K/A was filed by the Company on August 14, 1998, reporting the financial information relating to the 8-K filed June 16, 1998 which announced the consummation of the acquisition of Showboat, Inc.

A Form 8-K was filed by the Company on September 4, 1998, reporting the accounting change for the planned acquisition of Rio Hotel & Casino, Inc.

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.

November 13, 1998 BY: /s/JUDY T. WORMSER

Judy T. Wormser
Vice President and Controller
(Chief Accounting Officer)

Exhibit Index

Exhibit No.	Description	Sequential Page No.
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	of America National Trust and Savings Association, as Documentation Agent, and Bankers Trust Company, as Administrative Agent.	
EX-11	Computation of per share earnings.	
EX-27	Financial Data Schedule.	

FIRST AMENDMENT

FIRST AMENDMENT (this "Amendment"), dated as of September 16, 1998, among HARRAH'S ENTERTAINMENT, INC. ("Parent"), HARRAH'S OPERATING COMPANY, INC. (the "Company"), MARINA ASSOCIATES ("Marina"), the lenders party to the Credit Agreements referred to below (the "Banks"), CANADIAN IMPERIAL BANK OF COMMERCE and SOCIETE GENERALE, as Co-Syndication Agents (the "Co-Syndication Agents"), BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, as Documentation Agent (the "Documentation Agent"), and BANKERS TRUST COMPANY, as Administrative Agent (the "Administrative Agent"). Unless otherwise defined herein, all capitalized terms used herein shall have the respective meanings provided such terms in the 5-Year Credit Agreement or the 364-Day Credit Agreement, as the case may be, referred to below.

W I T N E S S E T H:

WHEREAS, Parent, the Company, Marina, the Banks, the Co-Syndication Agents, the Documentation Agent and the Administrative Agent are parties to a Credit Agreement, dated as of July 22, 1993 and amended and restated as of June 9, 1995 and further amended and restated as of April 1, 1998 (the "5-Year Credit Agreement");

WHEREAS, Parent, the Company, Marina, the Banks, the Co-Syndication Agents, the Documentation Agent and the Administrative Agent are parties to a Credit Agreement, dated as of June 9, 1995 and amended and restated as of April 1, 1998 (the "364-Day Credit Agreement", and together with the 5-Year Credit Agreement, the "Credit Agreements"); and

WHEREAS, the parties hereto wish to amend certain provisions of the Credit Agreements as herein provided;

NOW, THEREFORE, it is agreed:

1. Section 9.05 of the 5-Year Credit Agreement is hereby amended by (i) deleting the reference to the amount "$180,000,000" appearing in clause (ii) thereof and inserting the amount "$195,000,000" in lieu thereof and (ii) deleting the reference to the amount "$180,000,000" appearing in the last sentence thereof and inserting the amount "$195,000,000" in lieu thereof.

2. Section 8.05 of 364-Day Credit Agreement is hereby amended by (i) deleting the reference to the amount "$180,000,000" appearing in clause (ii) thereof and inserting the amount "$195,000,000" in lieu thereof and (ii) deleting the reference to the amount "$180,000,000" appearing in the last sentence thereof and inserting the amount "$195,000,000" in lieu thereof.

3. The definition of "Jazz Casino Loans" appearing in Section 11.01 of the 5-Year Credit Agreement is hereby amended by deleting the reference to the amount "$180,000,000" appearing therein and inserting the amount "$195,000,000" in lieu thereof.

4. The definition of "Jazz Casino Loans" appearing in Section 10.01 of the 364-Day Credit Agreement is hereby amended by deleting the reference to the amount "$180,000,000" appearing therein and inserting the amount "$195,000,000" in lieu thereof.

5. In order to induce the Banks to enter into this Amendment, Parent and each Borrower hereby represent and warrant that (x) no Default or Event of Default exists on the First Amendment Effective Date (as defined below), both before and after giving effect to this Amendment and (y) all of the representations and warranties contained in each Credit Agreement shall be true and correct in all material respects on and as of the First Amendment Effective Date, both before and after giving effect to this Amendment, with the same effect as though such representations and warranties had been made on and as of the First Amendment Effective Date (it being understood that any representation or warranty made as of a specified date shall be required to be true and correct in all material respects only as of such specific date).

6. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreements or any other Credit Document.

7. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered 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, the Company and the Administrative Agent.

8. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the law of the State of New York.

9. This Amendment shall become effective on the date (the "First Amendment Effective Date") when Parent, the Borrowers and the Required Banks under, and as defined in, each Credit Agreement shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of telecopier) the same to the Administrative Agent at the Notice Office.

10. From and after the First Amendment Effective Date, all references in the Credit Agreements and the other Credit Documents to each Credit Agreement shall be deemed to be references to each such Credit Agreement as modified hereby.

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

HARRAH'S ENTERTAINMENT, INC.

By: /s/ Charles L. Atwood

Name: Charles L. Atwood
Title: Vice President/Treasurer

HARRAH'S OPERATING COMPANY, INC.

By: /s/ Charles L. Atwood

Name: Charles L. Atwood
Title: Vice President/Treasurer

MARINA ASSOCIATES

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

By: /s/ Stephen H. Brammell

Name: Stephen H. Brammell
Title: Assistant Secretary

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

By: /s/ Stephen H. Brammell

Name: Stephen H. Brammell
Title: Assistant Secretary

BANKERS TRUST COMPANY,
Individually and as Administrative Agent

By: /s/ Mary Kay Coyle

Name: Mary Kay Coyle
Title: Managing Director

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION,
Individually and as Documentation Agent

By: /s/ Scott L. Faber

Name: Scott L. Faber
Title: Vice President
Bank of America NT&SA

SOCIETE GENERALE, Individually and as a
Co-Syndication Agent

By: /s/ J. Blaine Shaum

Name: J. Blaine Shaum
Title: Managing Director

CANADIAN IMPERIAL BANK OF COMMERCE,
Individually and as Co-Syndication Agent

By: /s/ Carter W. Harned

Name: Carter W. Harned
Title: Director
CIBC Oppenheimer Corp.,
AS AGENT

FLEET BANK, N.A.

By: /s/ John T. Harrison

Name: John T. Harrison
Title: Sr. Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Sue Fuller

Name: Sue Fuller
Title: Vice President

NATIONSBANK, N.A. (SOUTH)

By: /s/ John N. Ellington

Name: John N. Ellington
Title: Vice President

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, NEW YORK BRANCH

By: /s/ Cynthia M. Niesen and
Walter T. Duffy, III

Name: Cynthia M. Niesen
Title: Managing Director
Name: Walter T. Duffy, III
Title: Associate

THE LONG-TERM CREDIT BANK OF JAPAN,
LIMITED, NEW YORK BRANCH

By: /s/ Rebecca J. S. Silbert

Name: Rebecca J. S. Silbert
Title: SVP

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Gary W. Wessels

Name: Gary W. Wessels
Title: Vice President

THE BANK OF NEW YORK

By: /s/ Ann Marie Hughes

Name: Ann Marie Hughes
Title: Vice President

DEUTSCHE BANK AG, acting through its
New York Branch

By: /s/ Stephan A. Wiedemann

Name: Stephan A. Wiedemann
Title: Director

By: /s/ Hans-Josef Thiele

Name: Hans-Josef Thiele
Title: Director

THE MITSUBISHI TRUST & BANKING CORP.

By: /s/ Toshihiro Hayashi

Name: Toshihiro Hayashi
Title: Senior Vice President

UNITED STATES NATIONAL BANK OF OREGON

By: /s/ Dale Parshall

Name: Dale Parshall
Title: Vice President

ABN AMRO BANK N.V., SAN FRANCISO
BRANCH

By: ABN AMRO NORTH AMERICA, INC.,
as its Agent

By: /s/ Jeffrey A. French

Name: Jeffrey A. French
Title: Group Vice President
& Director

By: /s/ Michael M. Tolentino

Name: Michael M. Tolentino
Title: Vice President

THE BANK OF NOVA SCOTIA

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

Name: F.C.H. Ashby
Title: Senior Manager Loan Operations

COMMERZBANK AG, LOS ANGELES BRANCH

By: /s/ Christian Jagenberg

Name: Christian Jagenberg
Title: SVP and Manager

By: /s/ Werner Schmidbauer

Name: Werner Schmidbauer
Title: Vice President

FIRST SECURITY BANK, N.A.

By: /s/ David P. Williams

Name: David P. Williams
Title: Vice President

THE INDUSTRIAL BANK OF JAPAN, LIMITED, ATLANTA AGENCY

By: /s/ Koichi Hasegawa

Name: Koichi Hasegawa
Title: Senior Vice President and Deputy General Manager

THE TOKAI BANK, LIMITED, NEW YORK BRANCH

By: /s/ Shinichi Nakatani

Name: Shinichi Nakatani
Title: Assistant General Manager

BANQUE NATIONALE DE PARIS, HOUSTON AGENCY

By: /s/ Warren G. Parham

Name: Warren G. Parham
Title: Vice President

MICHIGAN NATIONAL BANK

By: /s/ Joseph M. Redoutey

Name: Joseph M. Redoutey
Title: Relationship Manager

FIRST NATIONAL BANK OF COMMERCE

By: /s/ Louis Ballero

Name: Louis Ballero
Title: SVP

WACHOVIA BANK, N.A.

By: /s/ Karin E. Reel

Name: Karin E. Reel
Title: Vice President

FIRST AMERICAN NATIONAL BANK

By: /s/ Elizabeth H. Vaughn

Name: Elizabeth H. Vaughn
Title: Senior Vice President

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION

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

Name: James H. Moore, Jr.
Title: Vice President

By:

Name:
Title:

HIBERNIA NATIONAL BANK

By: /s/ Ross S. Wales

Name: Ross S. Wales
Title: Assistant Vice President

First American National Bank, operating
as, and successor in interest by merger
to, Deposit Guaranty National Bank

By: /s/ Larry C. Ratzlaff

Name: Larry C. Ratzlaff
Title: Senior Vice President

ERSTE BANK DER OESTERREICHISCHEN
SPARKASSEN AG

By: /s/ David Manheim

Name: David Manheim
Title: Assistant Vice President

By: /s/ Rima Terradista

Name: Rima Terradista
Title: Vice President

SUNTRUST BANK, NASHVILLE, N.A.

By: /s/ Renee D. Drake

Name: Renee D. Drake
Title: Vice President

By:

Name:
Title:

NBD BANK, N.A.

By: /s/ William C. Corrigan

Name: William C. Corrigan
Title: Vice President

Exhibit 11

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

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 1998	Sept. 30, 1997	Sept. 30, 1998	Sept. 30, 1997
Income before extraordinary losses	$ 44,202,000	$ 52,889,000	$106,124,000	$ 95,373,000
Extraordinary losses, net	--	--	(18,280,000)	(8,134,000)
Net income	$ 44,202,000	$ 52,889,000	$ 87,844,00	$ 87,239,000
BASIC EARNINGS PER SHARE				
Weighted average number of common shares outstanding	100,271,071	100,038,685	100,203,599	100,793,711
BASIC EARNINGS PER COMMON SHARE				
Income before extraordinary losses	$ 0.44	$ 0.53	$ 1.06	$ 0.95
Extraordinary losses, net	--	--	(0.18)	(0.08)
Net Income	$ 0.44	$ 0.53	$ 0.88	$ 0.87
DILUTED EARNINGS PER SHARE				
Weighted average number of common shares outstanding	100,271,071	100,038,685	100,203,599	100,793,711
Additional shares based on average market price for period applicable to:				
Restricted stock	206,668	152,580	259,674	55,551
Stock options	433,187	643,454	815,086	517,570
Average number of common and common equivalent shares outstanding	100,910,926	100,834,719	101,278,359	101,366,832
DILUTED EARNINGS PER COMMON AND COMMON EQUIVALENT SHARES				
Income before extraordinary losses	$ 0.44	$ 0.52	$ 1.05	$ 0.94
Extraordinary losses, net	--	--	(0.18)	(0.08)
Net income	$ 0.44	$ 0.52	$ 0.87	$ 0.86

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1,000

9-MOS
DEC-31-1998
SEP-30-1998
128,745
0
63,688
17,008
15,563
236,068
2,641,645
765,535
3,191,902
292,069
1,914,002
0
0
10,147
817,218
3,191,902
0
1,479,323
0
1,202,944
37,256
0
81,358
176,718
65,043
106,124
0
18,280
0
87,844
0.88
0.87