SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported): January 1, 1999

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

DELAWARE	1-10410	62-1411755
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1023 CHERRY ROAD MEMPHIS, TENNESSEE	38117
(Address of Principal Executive Offices)	(Zip Code)

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(901) 762-8600

(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report.)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On January 1, 1999, Harrah's Entertainment, Inc., a Delaware corporation (the "Registrant"), consummated its acquisition of Rio Hotel & Casino, Inc., a Nevada corporation ("Rio"), pursuant to that certain Agreement and Plan of Merger, dated as of August 9, 1998 and amended as of September 4, 1998 (the "Merger Agreement"), by and among the Registrant, HEI Acquisition Corp. III, a Nevada corporation and a direct, wholly-owned subsidiary of the Registrant ("Merger Sub"), and Rio. The Registrant's acquisition of Rio was effected by merging Merger Sub with and into Rio (the "Merger"), with Rio continuing as the surviving corporation.

A special meeting of the stockholders of Rio was held on November 18, 1998, at which the stockholders of Rio were asked, pursuant to the Joint Proxy Statement/Prospectus contained within the Registrant's registration statement on Form S-4 (No. 333-65759) filed with the Securities and Exchange Commission on October 15, 1998 (the "Joint Proxy Statement/Prospectus"), to consider and vote upon the Merger Agreement. The stockholders of Rio approved and adopted the Merger Agreement at such meeting.

A special meeting of the stockholders of the Registrant also was held on November 18, 1998, at which the stockholders of the Registrant were asked, pursuant to the Joint Proxy Statement/Prospectus, to consider and vote upon the issuance of the common stock, par value $0.10 ("HET Common Stock"), of the Registrant in connection with the Merger. The stockholders of the Registrant approved the issuance of HET Common Stock at such meeting.

Following receipt of stockholder and regulatory approvals, the Articles of Merger with respect to the Merger were filed with the Secretary of State of the State of Nevada. This filing was accepted and the Merger became effective on January 1, 1999. Immediately following the Merger, the Registrant contributed the capital stock of Rio to Harrah's Operating Company, Inc., a Delaware corporation.

The Registrant, through Rio and its subsidiaries, intends to continue to devote the assets associated with Rio and its subsidiaries to generally the same purposes as these assets were employed prior to the Merger.

As consideration for the Merger, the Registrant agreed to issue one share of HET Common Stock in exchange for each share of common stock, par value $0.01 per share, of Rio, issued and outstanding immediately prior to the Merger. The Registrant also assumed Rio's outstanding long-term debt.

HET Common Stock is listed on the New York Stock Exchange and trades under the symbol "HET." HET Common Stock also is listed on the Chicago Stock Exchange, the Pacific Exchange and the Philadelphia Stock Exchange.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements of businesses acquired.

The audited financial statements of Rio for the three previous fiscal years, and the accountant's report related thereto, set forth in Rio's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, and the unaudited financial statements for the period ended September 30, 1998 set forth in Rio's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, are incorporated herein by reference.

(b) Pro forma financial information.

The required pro forma financial information relating to the Registrant's acquisition of Rio for the nine months ended September 30, 1998 and the twelve months ended December 31, 1997 is attached hereto as an exhibit.

(c) Exhibits

2(1) Agreement and Plan of Merger, dated as of August 9, 1998 and amended 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 Registrant's Current Reports on Form 8-K, filed August 14, 1998 and September 4, 1998).

23(1) Consent of Arthur Andersen LLP.

99(1) Text of Press Release, dated January 1, 1999, of the Registrant.

99(2) Harrah's Entertainment, Inc.'s Unaudited Pro Forma Condensed Financial Statements for the Nine Months Ended September 30, 1998 and the Twelve Months Ended December 31, 1997.

SIGNATURE

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

HARRAH'S ENTERTAINMENT, INC.

Date: January 4, 1999

By: /s/ E. O. Robinson, Jr.

Name: E. O. Robinson, Jr.
Title: Senior Vice President and General Counsel

Exhibit 23(1)

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this registration statement on Form 8-K of our report dated February 24, 1998, included in the Annual Report on Form 10-K of Rio Hotel & Casino, Inc. for the year ended December 31, 1997, and to all references to our Firm included in this registration statement on Form 8-K.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
January 7, 1999

Exhibit 99(1)

HARRAH'S ENTERTAINMENT AND RIO HOTEL & CASINO COMPLETE MERGER

Memphis, Tenn., January 4, 1999 -- Harrah's Entertainment, Inc. (NYSE:HET) and Rio Hotel & Casino, Inc. today confirmed the completion of their merger announced August 10.

Harrah's Entertainment acquired all Rio outstanding shares in a one-for-one stock transaction valued at $525 million and assumed Rio's debt.

"This is a great way to ring in the new year," said Harrah's Entertainment chairman, president and chief executive officer Phil Satre. "I look forward to working with Rio's extraordinary management team, building relationships with its loyal customers and adding this terrific Las Vegas destination to our broad geographic distribution.

"Rio is, by all standards, one of the highest quality and best-managed companies in our business. We look forward to adding our strong database management and marketing expertise and connecting Rio's 1.3 million Play Rio customers to the benefits of the Harrah's Total Gold recognition and reward program."

Satre went on to explain, "Our goal is to preserve the uniqueness of the Rio property and capitalize on a number of significant revenue synergy opportunities between Rio and Harrah's customers. Now, Harrah's loyal players have two choices in America's most popular gaming destination and Rio customers have a nationwide network of casinos in which to play."

The merger with Rio brings a third brand under the Harrah's Entertainment, Inc. umbrella. In June 1998, Harrah's completed the acquisition of Showboat, Inc. The Rio hotel and casino will operate as a separate subsidiary of Harrah's Entertainment and no changes are expected to its operations.

The Rio Hotel & Casino has more than 2,500 suites and approximately 120,000 square feet of gaming space. The property just opened nine luxury Palazzo Suites and plans to open a state-of-the-art convention center in March. In addition to its well-deserved reputation for high-quality customer service, world class accommodations and culinary excellence, Rio has won numerous industry awards from gaming and travel publications.

Harrah's Entertainment, Inc. was recently named "Company of the Year" for 1998 by CASINO EXECUTIVE magazine while CASINO JOURNAL named Phil Satre "Gaming Executive of the Year." Headquartered in Memphis, TN, Harrah's Entertainment now operates 19 casinos nationwide under the Harrah's, Showboat and Rio brands, and Star City casino in Sydney, Australia. Founded more than 60 years ago, Harrah's Entertainment is focused on building loyalty and brand value with its targeted customers through a unique combination of great service, excellent products, unsurpassed distribution, operational excellence and technology leadership.

Statements in this release concerning future events, including the anticipated integration of Rio Hotel & Casino, future performance and business prospects are forward-looking and are subject to certain risks and uncertainties. These include, but are not limited to, economic, bank, equity and debt market conditions, changes in laws or regulations, third party relations and approvals, decisions of courts, regulators and governmental bodies, factors affecting leverage, including interest rates, and effects of competition. These risks and uncertainties could significantly affect anticipated results or events in the future and actual results may differ materially from any forward-looking statements. For additional information, refer to the section entitled "Private Securities Litigation Reform Act" in the company's Form 10-Q filed with the Securities and Exchange Commission for the period ended September 30, 1998.

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EXHIBIT 99(2)

HARRAH'S ENTERTAINMENT, INC.

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma condensed financial statements are based upon and should be read in conjunction with the historical consolidated financial statements and related notes of Harrah's Entertainment, Inc. ("Harrah's"), Rio Hotel & Casino, Inc. ("Rio") and Showboat, Inc. ("Showboat," and together with Harrah's and Rio, the "Company"). Harrah's acquired Showboat in a transaction which was consummated on June 1, 1998. Harrah's merged with Rio in a transaction which was consummated on January 1, 1999.

The unaudited pro forma condensed statements of income for the nine months ended September 30, 1998 and the year ended December 31, 1997 give effect to (i) Harrah's acquisitions of both Showboat and Rio applying the purchase method of accounting; (ii) Harrah's refinancing of certain amounts of Showboat's existing indebtedness (on June 15, 1998, Harrah's completed tender offers and consent solicitations and retired a portion of the debt assumed in the acquisition of Showboat); (iii) certain adjustments that are directly attributable to the acquisitions of Showboat and Rio and anticipated to have continuing impact, including certain estimated operational benefits arising from the elimination of duplicative corporate office and operational support functions; (iv) the refinancing of $750.0 million of Harrah's existing short-term, floating rate bank debt with long-term, fixed rate debt (the "December Notes Offering") to substantially satisfy the refinancing requirements of an amendment to Harrah's credit facility which was necessary to obtain the lenders' consent to the Rio acquisition; (v) de-consolidation of the Showboat East Chicago property, in which the Company holds a 55% non-controlling interest; and (vi) the presentation of the Showboat Las Vegas property as an asset held for sale. The pro forma condensed statements of income assume that these transactions were consummated on the first day of each of the periods presented.

The unaudited pro forma condensed balance sheet presents the combined financial position of Harrah's (including Showboat) and Rio as of September 30, 1998. The unaudited pro forma condensed balance sheet gives effect to (i) the merger with Rio applying the purchase method of accounting as if the merger was consummated on September 30, 1998; (ii) certain adjustments that are directly attributable to the merger with Rio; and (iii) the December Notes Offering.

The unaudited pro forma condensed financial statements have been prepared based upon currently available information and assumptions that are deemed appropriate by the Company's management. This pro forma information may not be indicative of what actual results would have been, nor does such data purport to represent the combined financial results of Harrah's, Showboat and Rio for future periods.

HARRAH'S ENTERTAINMENT, INC.

UNAUDITED PRO FORMA CONDENSED
STATEMENT OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998

	HARRAH'S HISTORICAL (NOTE 1)	SHOWBOAT HISTORICAL (NOTE 2)	PRO FORMA ADJUSTMENTS (NOTE 3)	HARRAH'S AS ADJUSTED FOR SHOWBOAT	RIO HISTORICAL (NOTE 4)	PRO FORMA ADJUSTMENTS FOR RIO (NOTE 5)	HARRAH'S AS ADJUSTED FOR RIO
	(IN MILLIONS, EXCEPT FOR PER SHARE AMOUNTS)						
Revenues							
Casino	$1,220.3	$237.6	$(92.7)(a)	$1,365.2	$149.0	$	$1,514.2
Food and beverage	171.8	25.9	(10.4)(a)	187.3	99.6		286.9
Rooms	114.5	9.7	(2.5)(a)	121.7	59.9		181.6
Management fees	48.6	4.4	(0.5)(a)	52.5	-		52.5
Other	60.7	4.1	(1.8)(a)	63.0	21.8		84.8
Less: casino promotional allowances	(136.6)	(17.4)	3.0 (a)	(151.0)	(28.4)		(179.4)
Total revenues	1,479.3	264.3	(104.9)	1,638.7	301.9		1,940.6
Operating expenses							
Direct							
Casino	651.2	100.6	(42.4)(a)	709.4	83.8		793.2
Food and beverage	86.8	27.6	(11.7)(a)	102.7	71.5		174.2
Rooms	31.7	6.1	(1.6)(a)	36.2	18.9		55.1
Depreciation - buildings, riverboats and equipment	94.9	19.0	(7.7)(a)	106.2	20.7	(1.0)(h)	125.9
Equity in (income) losses of nonconsolidated subsidiaries	8.7	1.2	2.9 (a)	12.8	-		12.8
Project opening costs	7.2	-	-	7.2	-		7.2
Other	359.7	108.1	(38.8)(a) 6.2 (b) (26.0)(c)	409.2	56.5	2.8 (i) (5.3)(j)	463.2
Total operating expenses	1,240.2	262.6	(119.1)	1,383.7	251.4	(3.5)	1,631.6
Income from operations	239.1	1.7	14.2	255.0	50.5	3.5	309.0
Interest expense, net of interest capitalized	(81.4)	(29.7)	9.1 (a) 5.0 (d) (14.6)(e)	(111.6)	(18.2)	(0.6)(k) (10.2)(l)	(140.6)
Other income, including interest income	19.0	1.8	(0.1)(a)	20.7	(3.2)		17.5
Income before income taxes and minority interests	176.7	(26.2)	13.6	164.1	29.1	(7.3)	185.9
Provision for income taxes	(65.0)	4.0	(7.5)(g)	(68.5)	(10.6)	1.6 (m)	(77.5)
Minority interests	(5.6)	-	-	(5.6)			(5.6)
Income from continuing operations	$ 106.1	$ (22.2)	$ 6.1	$ 90.0	$ 18.5	$ (5.7)	$ 102.8
Income from continuing operations per share							
Basic	$ 1.06			$ 0.91			$ 0.82 (n)
Diluted	$ 1.05			$ 0.90			$ 0.81 (n)
Average common shares outstanding	100.2			100.2			125.0 (n)
Average common and common equivalent shares outstanding	101.3			101.3			126.7 (n)

See Notes to Unaudited Pro Forma Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.

UNAUDITED PRO FORMA CONDENSED
STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1997

	HARRAH'S HISTORICAL (NOTE 1)	SHOWBOAT HISTORICAL (NOTE 2)	PRO FORMA ADJUSTMENTS (NOTE 3)	HARRAH'S AS ADJUSTED FOR SHOWBOAT	RIO HISTORICAL (NOTE 4)	PRO FORMA ADJUSTMENTS FOR RIO (NOTE 5)	HARRAH'S AS ADJUSTED FOR RIO
	(IN MILLIONS, EXCEPT FOR PER SHARE AMOUNTS)						
Revenues							
Casino	$1,338.0	$497.1	$(152.8)(a)	$1,682.3	$214.0	$	$1,896.3
Food and beverage	196.8	62.7	(20.9)(a)	238.6	114.8		353.4
Rooms	128.4	25.4	(6.1)(a)	147.7	70.4		218.1
Management fees	24.6	5.7		30.3	-		30.3
Other	78.9	10.7	(5.5)(a)	84.1	25.6		109.7
Less: casino promotional allowances	(147.5)	(44.8)	6.4 (a)	(185.9)	(32.7)		(218.6)
Total revenues	1,619.2	556.8	(178.9)	1,997.1	392.1		2,389.2
Operating expenses							
Direct							
Casino	685.9	252.8	(79.0)(a)	859.7	117.6		977.3
Food and beverage	103.6	37.4	(18.4)(a)	122.6	89.0		211.6
Rooms	39.7	6.6	(3.7)(a)	42.6	20.6		63.2
Depreciation-buildings, riverboats and equipment	103.7	40.8	(14.3)(a)	130.2	23.2	(1.3)(h)	152.1
Equity in (income) losses of nonconsolidated subsidiaries	11.1	3.5	23.9 (a)	38.5	-		38.5
Project opening costs	17.6	9.6	(9.6)(a)	17.6	11.2		28.8
Other	444.1	180.0	(65.2)(a) 15.3 (b) (22.0)(c)	552.2	70.4	3.8 (i) (7.0)(j)	619.4
Total operating expenses	1,405.7	530.7	(173.0)	1,763.4	332.0	(4.5)	2,090.9
Income from operations	213.5	26.1	(5.9)	233.7	60.1	4.5	298.3
Interest expense, net of interest capitalized	(79.1)	(49.4)	16.6 (a) 10.9 (d) (33.5)(e)	(134.5)	(26.3)	(0.8)(k) (13.3)(l)	(174.9)
Other income, including interest income	49.2	5.1	(1.0)(a)	53.3	-		53.3
Income before income taxes and minority interests	183.6	(18.2)	(12.9)	152.5	33.8	(9.6)	176.7
Provision for income taxes	(68.7)	2.3	(1.9)(g)	(68.3)	(12.4)	2.0 (m)	(78.7)
Minority interests	(7.4)	(2.6)	2.6 (a)	(7.4)	-		(7.4)
Income from continuing operations	$ 107.5	$(18.5)	$ (12.2)	$ 76.8	$ 21.4	$(7.6)	$ 90.6
Income from continuing operations per share							
Basic	$ 1.07			$ 0.76			$ 0.74(n)
Diluted	$ 1.06			$ 0.76			$ 0.73(n)
Average common shares outstanding	100.6			100.6			122.2(n)
Average common and common equivalent shares outstanding	101.3			101.3			123.5(n)

See Notes to Unaudited Pro Forma Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.

UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

AS OF SEPTEMBER 30, 1998

	HARRAH'S HISTORICAL (NOTE 1)	RIO HISTORICAL (NOTE 4)	PRO FORMA ADJUSTMENTS (NOTE 6)	HARRAH'S AS ADJUSTED FOR RIO
	(IN MILLIONS)			
ASSETS				
Current assets				
Cash and cash equivalents	$ 128.7	$ 21.3	$	$ 150.0
Receivables, less allowance for doubtful accounts	46.7	37.7		84.4
Deferred income tax benefits	16.1	-		16.1
Inventories	15.6	13.8		29.4
Prepayments and other	29.0	8.4		37.4
Total current assets	236.1	81.2		317.3
Land, buildings, riverboats and equipment	2,641.6	738.5	186.2 (o) (101.2)(o)	3,465.1
Less: accumulated depreciation	(765.5)	(101.2)	101.2 (o)	(765.5)
	1,876.1	637.3	186.2	2,699.6
Excess of purchase price over net assets acquired in Showboat acquisition	521.8	-		521.8
Goodwill arising from Rio acquisition	-	-	150.0 (p)	150.0
Investments in and advances to nonconsolidated subsidiaries	284.7	-		284.7
Other assets	273.2	24.7	(4.3)(q) 14.1 (r) (2.6)(s)	305.1
	$ 3,191.9	$ 743.2	$ 343.4	$ 4,278.5
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$ 39.2	$ 27.6	$	$ 66.8
Accrued expenses	203.1	36.0	(0.9)(s) 26.9 (t)	265.1
Current portion of long-term debt	49.8	2.6		52.4
Total current liabilities	292.1	66.2	26.0	384.3
Long-term debt	1,914.0	367.7	750.0 (r) (735.9)(r) 8.9 (u)	2,304.7
Deferred credits and other	99.8	-		99.8
Deferred income taxes	44.1	17.9	62.1 (v)	124.1
	2,350.0	451.8	111.1	2,912.9
Minority interests	14.5	-		14.5
Commitments and contingencies				
Stockholders' equity				
Common stock	10.1	0.2	2.3 (w)	12.6
Capital surplus	398.0	182.7	340.2 (w)	920.9
Retained earnings	437.3	108.5	(1.7)(s) (108.5)(w)	435.6
Accumulated other comprehensive income	(0.4)	-		(0.4)
Deferred compensation related to restricted stock	(17.6)	-		(17.6)
	827.4	291.4	232.3	1,351.1
	$ 3,191.9	$ 743.2	$ 343.4	$ 4,278.5

See Notes to Unaudited Pro Forma Condensed Financial Statements.

HARRAH'S ENTERTAINMENT, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

Note 1--Historical financial information for Harrah's for the nine months ended September 30, 1998 and the year ended December 31, 1997 has been derived from the Harrah's historical financial statements. Harrah's financial statements for the nine month period ended September 30, 1998 include Showboat's operations after its June 1, 1998 acquisition by Harrah's.

Note 2--The Showboat historical financial information for the year ended December 31, 1997 has been derived from Showboat's historical financial information. Showboat's historical financial results reflected in the Unaudited Pro Forma Condensed Statement of Income for the Nine Months Ended September 30, 1998 include only the five months of Showboat's operations prior to its June 1, 1998 acquisition by Harrah's.

Note 3--Following are brief descriptions of the pro forma adjustments to reflect Harrah's acquisition of Showboat.

(a) Adjusts the historical statements of income to reflect the operating results of Showboat East Chicago as being accounted for under the equity method (rather than consolidated) and to remove the operating results of Showboat Las Vegas. Harrah's owns a 55% non-controlling interest in the partnership which owns and operates Showboat East Chicago. The agreements which govern the management of this partnership stipulate that certain actions require unanimous approval of all partners, or the consent of the minority partner, before such action can be taken. These actions include, among others, the approval of the annual operating budget, approval of the annual capital budget, decisions to buy or sell assets totaling more than $500,000 in any one calendar year and the incurrence of more than $500,000 of debt in any one calendar year. Given the significance of the issues requiring the concurrence of the minority partner, Harrah's has concluded that it does not have control of the partnership for accounting purposes and, as a result, accounts for this investment under the equity method of accounting. Under the terms of a transaction announced in December 1998 and expected to close in the first quarter 1999, Harrah's has reached an agreement to increase its ownership in the partnership to nearly 100%. Upon closing of this transaction, Harrah's will have accounting control of the partnership and will commence consolidation of the partnership. Showboat Las Vegas is being carried by Harrah's as an asset held for sale and, as such, is carried on Harrah's balance sheet at its estimated realizable value, net of estimated selling expenses and carrying costs through the expected date of sale. The net impact on income from continuing operations of the pro forma adjustments related to Showboat East Chicago is zero. The net impact of the adjustments related to Showboat Las Vegas is to increase income from continuing operations by $2.1 million for the nine months ended September 30, 1998 and $3.5 million for the year ended December 31, 1997.

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

(b) Reflects estimated expense for the amortization of the excess of the purchase price paid over the net book value of the assets acquired. Harrah's is currently in the process of allocating the purchase price among the tangible and intangible assets acquired and the liabilities assumed based on fair market values, as determined by appraisals, discounted cash flows, quoted market prices and estimates made by management. The purchase price allocation process is expected to be completed by the end of 1998. For purposes of these pro forma statements, it is assumed that the excess purchase price will be amortized over an average 30 year life for all tangible and intangible assets acquired. Upon completion of the purchase price allocation process, to the extent the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess will be allocated to goodwill and amortized over 40 years.

(c) Reflects adjustments for transaction costs expensed by Showboat in pre-transaction periods and estimated administrative costs savings to be realized as a result of merger efficiencies.

(d) Reflects reduction in interest expense for the impact of Harrah's retirement of $218.6 million face amount of Showboat's 9-1/4% First Mortgage Bonds due 2008 and $117.9 million face amount of Showboat's 13% Senior Subordinated Notes due 2009 using funds drawn under Harrah's credit facility. See Note (f).

(e) Reflects additional interest expense, including amortization of related deferred finance charges, arising from the incremental borrowings incurred by Harrah's to fund the purchase of Showboat's outstanding common stock. See Note (f).

(f) The funds required to fund the retirement of a portion of Showboat's outstanding debt (see Note (d)) and the purchase of Showboat's outstanding common stock (see Note (e)) were borrowed under Harrah's credit facility, and the pro forma effects of such borrowing on interest expense have been computed at a historical average floating rate of 6.26% for the nine months ended September 30, 1998, and 6.29% for the year ended December 31, 1997. Each 1/8 of a percent change in the floating rate on these borrowings would result in a change in interest expense of $0.8 million for the nine months ended September 30, 1998, and $1.1 million for the year ended December 31, 1997.

(g) Records the estimated tax effect of the pro forma adjustments, with the exception of the amortization of the unallocated purchase price, which is assumed to be nondeductible for tax purposes.

Note 4--The Rio historical financial information for the nine months ended September 30, 1998 and the year ended December 31, 1997 has been derived from Rio's historical financial information.

Note 5--The following table sets forth the determination and preliminary allocation of the purchase price based on a market value of $19.83 per share of Harrah's common stock, which is the average of the quoted market price of Harrah's common stock for the period beginning three trading days before and ending three trading days after the merger with Rio was announced.

	(IN MILLIONS)
Merger exchange of shares (24.8 million shares of Rio common stock converted to Harrah's common stock on a one for one exchange basis, and fair market value assigned to outstanding Rio stock options to be converted to Harrah's options)	$ 525.4
Estimated fair market value of Rio debt assumed by Harrah's	379.2
Transaction costs and expenses	26.9
Pro forma purchase price	$ 931.5

The preliminary allocation of the pro forma purchase price is as follows:

Land	$ 185.7
Building, and furniture, fixtures and equipment	637.8
Goodwill	150.0
Other, net	(42.0)
	$ 931.5

The final purchase price and its allocation will be based on independent appraisals, discounted cash flows, quoted market prices and estimates by management and is expected to be completed by June 30, 1999.

Following are brief descriptions of the pro forma adjustments to the statements of income to reflect the merger with Rio.

(h) Adjusts depreciation expense due to the revaluation of acquired buildings and equipment resulting from the allocation of the purchase price of Rio. Depreciation expense is reduced $1.0 million for the nine months ended September 30, 1998 and $1.3 million for the year ended December 31, 1997.

(i) Reflects an increase in expense due to amortization of goodwill arising from Harrah's purchase of Rio. Amortization expense is increased $2.8 million for the nine months ended September 30, 1998 and $3.8 million for the year ended December 31, 1997. Goodwill is assumed to be amortized over a life of 40 years.

NOTES TO UNAUDITED PRO FORMA CONDENSED
FINANCIAL STATEMENTS (CONTINUED)

(j) Records the impact on expenses of certain estimated operational efficiencies for functions which are expected to be eliminated or reduced as a result of the merger with Rio. The elimination of duplicative corporate office and operational support functions is estimated to reduce other costs and expenses and corporate expense by $5.3 million for the nine months ended September 30, 1998 and to reduce other costs and expenses and corporate expense by $7.0 million for the year ended December 31, 1997.

(k) Reflects net increase in interest expense comprised of incremental borrowings incurred by Harrah's to fund transaction costs, which is partially offset by the amortization of the estimated premium to be recognized to adjust Rio's outstanding debt to its fair value as of the date of acquisition. The pro forma interest expense arising from the additional borrowings has been computed using Harrah's historical average floating rate on its credit facility of 6.26% for the nine months ended September 30, 1998, and 6.29% for the year ended December 31, 1997. Each 1/8 percent change in the floating rate on these borrowings would result in a change in interest expense of $25,000 for the nine months ended September 30, 1998, and $34,000 for the year ended December 31, 1997.

(l) In connection with obtaining the consent of the lenders under its credit facility for the merger with Rio, Harrah's agreed to modify certain terms of the credit facility relating to mandatory principal reductions and the interest rates charged under such facility. As amended, the credit facility provides for Harrah's to (i) refinance at least $250.0 million of the amounts available under the credit facility by each of December 31, 1998, March 31, 1999 and June 30, 1999 (a total of $750.0 million), or (ii) permanently increase the interest rate margin applicable to all amounts outstanding under the credit facility by 0.50% for each $250.0 million not refinanced by such dates (a total increase of 1.50%). The December Notes Offering completed in December 1998 substantially satisfied certain refinancing requirements under Harrah's amended credit facility. This adjustment reflects the estimated incremental interest expense, including amortization of deferred finance charges, due to this refinancing.

(m) Records the estimated tax effect of these pro forma adjustments, with the exception of the amortization of goodwill, which is assumed to be nondeductible for tax purposes.

HARRAH'S ENTERTAINMENT, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS (CONTINUED)

(n) Pro forma income from continuing operations per share is computed on the basis of the combined weighted average number of shares of Harrah's common stock and Harrah's common stock equivalents after giving effect to the issuance of shares to consummate the merger with Rio.

Note 6--Following are brief descriptions of the pro forma adjustments to the balance sheet to reflect the merger with Rio.

(o) Reflects the net increase in the carrying value of Rio's land, buildings and equipment to adjust those assets to their estimated fair market value.

(p) Reflects as goodwill the excess purchase price over fair value of net tangible and intangible assets acquired and liabilities assumed.

(q) Reduces other assets to reflect deferred financing costs of Rio not valued due to the adjustment of debt to estimated fair market value.

(r) Records the December Notes Offering, incurrence of the related deferred finance charges and retirement of a portion of Harrah's credit facility to obtain the consent of its lenders for the merger with Rio.

(s) Records the write-off of the unamortized deferred finance charges related to the early retirement of a portion of Harrah's credit facility as a result of the December Notes Offering.

(t) Records as current liabilities the accrual of severance and direct merger costs of Harrah's and Rio.

(u) Reflects the net adjustment to long-term debt to reflect the Rio debt at its estimated fair market value and incremental borrowings to fund payment of additional deferred finance charges.

(v) Records the deferred tax effect of the pro forma balance sheet adjustments, primarily related to land, buildings and equipment.

(w) The net increase in stockholders' equity reflects: (i) the issuance of one share of Harrah's common stock for each share of Rio common stock outstanding and (ii) the elimination of Rio's historical retained earnings.