CompuCredit Holdings Corp
Form 10-K
March 06, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

For the fiscal year ended December 31, 2011

of

COMPUCREDIT HOLDINGS CORPORATION

a Georgia Corporation
IRS Employer Identification No. 58-2336689
SEC File Number 0-53717

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Atlanta, Georgia 30328
(770) 828-2000

CompuCredit's common stock, no par value per share, is registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (the "Act").

CompuCredit (1) is required to file reports pursuant to Section 13 or Section 15(d) of the Act, (2) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months and (3) has been subject to such filing requirements for the past 90 days.

CompuCredit has submitted electronically and posted on its corporate Web site every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that it was required to submit and post such files).

CompuCredit believes that during the 2011 fiscal year, its executive officers, directors and 10% beneficial owners subject to Section 16(a) of the Act complied with all applicable filing requirements, except as set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in CompuCredit's Proxy Statement for the 2012 Annual Meeting of Shareholders.

CompuCredit is a smaller reporting company and is not a shell company.

The aggregate market value of CompuCredit's common stock (based upon the closing sales price quoted on the NASDAQ Global Select Market) held by nonaffiliates as of June 30, 2011 was $20.5 million. (For this purpose, directors and officers have been assumed to be affiliates, and we have excluded 1,672,656 loaned shares at June 30, 2011.)

As of February 24, 2012, 21,946,746 shares of common stock, no par value, of CompuCredit were outstanding. (This excludes 1,672,656 loaned shares to be returned as of that date.)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of CompuCredit's Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III.

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Cautionary Notice Regarding Forward-Looking Statements

We make forward-looking statements in this Report and in other materials we file with the Securities and Exchange Commission ("SEC") or otherwise make public. In this Report, both Item 1, "Business," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," contain forward-looking statements. In addition, our senior management might make forward-looking statements to analysts, investors, the media and others. Statements with respect to expected revenue, income, receivables, income ratios, net interest margins, acquisitions and other growth opportunities, divestitures and discontinuations of businesses, loss exposure and loss provisions, delinquency and charge-off rates, impacts of account actions that we may take, changes in collection programs and practices, changes in the credit quality and fair value of our credit card loans and fees receivable and the fair value of their underlying structured financing facilities, the impact of actions by the Federal Deposit Insurance Corporation ("FDIC"), Federal Trade Commission ("FTC"), Consumer Financial Protection Bureau ("CFPB") and other regulators on both us and banks that issue credit cards on our behalf, account growth, the performance of investments that we have made, operating expenses, the impact of bankruptcy law changes, marketing plans and expenses, the performance of our Auto Finance segment, expansion and growth of our Investments in Previously Charged-Off Receivables segment, growth and performance of receivables originated over the Internet, our plans in the United Kingdom ("U.K."), the impact of our U.K. portfolio of credit card receivables (the "U.K. Portfolio") on our financial performance, sufficiency of available liquidity, the prospect for improvements in the liquidity markets, future interest costs, sources of funding operations and acquisitions, our entry into international markets, our ability to raise funds or renew financing facilities, results associated with our equity-method investees, our servicing income levels, gains and losses from investments in securities, experimentation with new products and other statements of our plans, beliefs or expectations are forward-looking statements. These and other statements using words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" and similar expressions also are forward statements. Each forward-looking statement speaks only as of the date of the particular statement. The forward-looking statements we make are not guarantees of future performance, and we have based these statements on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual future results could differ materially from those described in such statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

Although it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially from our expectations are the risks and uncertainties described under "Risk Factors" set forth in Part I, Item 1A, and the risk factors and other cautionary statements in the other documents that we file with the SEC, including the following:

- the extent to which federal, state, local and foreign governmental regulation of our various business lines limits or prohibits the operation of our businesses;
- current and future litigation and regulatory proceedings against us;
- the effect of the current adverse economic conditions on our revenues, loss rates and cash flows;
- the fragmentation of our industry and competition from various other sources providing similar financial products, or other alternative sources of credit, to consumers;
- the adequacy of our allowances for uncollectible loans and fees receivable and estimates of loan losses;

- the availability of adequate financing;
- the possible impairment of assets;
- our ability to reduce or eliminate overhead and other costs to lower levels consistent with the contraction of our loans and fees receivable and other income-producing assets;
- our relationship with the banks that provide certain services that are needed to operate our businesses; and
- theft and employee errors.

Most of these factors are beyond our ability to control or predict. Any of these factors, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of our forward-looking statements. There also are other factors that we may not describe (generally because we currently do not perceive them to be material) that could cause actual results to differ materially from our expectations.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

In this Report, except as the context suggests otherwise, the words "Company," "CompuCredit Holdings Corporation," "CompuCredit," "we," "our," "ours" and "us" refer to CompuCredit Holdings Corporation and its subsidiaries and predecessor CompuCredit owns Aspire®, CompuCredit®, Emblem®, Embrace®, Emerge®, Imagine®, Majestic®, Monument®, Salute®, Tribute® and other trademarks and service marks in the United States ("U.S.") and the U.K.

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PART I

ITEM 1. BUSINESS

Sale of U.K. Internet Micro-Loans and U.S. Retail Micro-Loans Businesses

On April 1, 2011, we sold our subsidiary with a controlling interest in Month End Money ("MEM"), a provider in the U.K. of Internet-based, short-term micro-loans, to a subsidiary of Dollar Financial Corp, and on October 10, 2011, we sold our Retail Micro-Loans segment operations to a subsidiary of Advance America, Cash Advance Centers, Inc. The details related to these transactions are set forth in the General discussion below. Also, in this Report, we have classified the net assets and liabilities of our MEM business operations as held for sale in our consolidated balance sheet as of December 31, 2010, and we have included our MEM and Retail Micro-Loans segment operations as discontinued operations in all periods presented within our consolidated statements of operations. We had no business operating assets that were held for sale as of December 31, 2011.

General

A general discussion of the business of CompuCredit Holdings Corporation follows. For additional information about our business, please visit our website at www.compucredit.com. Information contained on our website is not incorporated by reference in this Report.

Reflecting the dispositions mentioned above, our current business includes the collection of portfolios of credit card receivables underlying now-closed credit card accounts within our Credit Cards segment. These receivables include both receivables that we originated through third-party financial institutions and portfolios of receivables that we purchased from third-party financial institutions. Given the global financial crisis arising in 2008 and given our own liquidity challenges that arose from that crisis, we worked with our third-party financial institution partners to close substantially all of the credit card accounts underlying our credit card receivables portfolios in 2009. The only open credit card accounts underlying our credit card receivables are those generated through our balance transfer program within our Investments in Previously Charged-Off Receivables segment in both the U.S. and the U.K. and through credit card products in the U.K. Several of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for some of these portfolios, our only remaining economic interest is the servicing compensation that we receive as an offset against our servicing costs given that the likely future collections on the portfolios are insufficient to allow for full repayment of the financings. We have been successful in one instance in partnering with another financing partner to purchase the debt underlying one such portfolio, and we are pursuing other similar transactions. Beyond these activities within our Credit Cards segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, through our Credit Cards segment, we are engaged in limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our expertise and infrastructure.

Additionally, through our Investment in Previously Charged-Off Receivable segment, we purchase and collect previously charged-off receivables from third parties and our equity method investees, as well as previously charged-off receivables that we have owned or serviced within our other segment operations. Our portfolio of previously charged-off receivables is comprised principally of normal delinquency charged-off accounts, charged-off accounts associated with Chapter 13 Bankruptcy-related debt, and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment's balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts (at which time the credit card activity becomes reportable within our Credit Cards segment).

Within our Auto Finance segment, our CAR subsidiary operations purchase and/or service auto loans from or for a pre-qualified network of dealers in the buy-here, pay-here used car business. We purchase the auto loans at a discount and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are collecting on a couple of portfolios of auto finance receivables that we previously originated through franchised and independent auto dealers in connection with prior business activities.

The last of our current product and service offerings includes a limited test portfolio of small-balance (generally less than $500), short-term loans that we originate over the Internet and to which we refer as “micro-loans.” The results of our continuing U.S. Internet micro-loan product testing are reported within our Internet Micro-Loans segment.

We reflect our business lines within five reportable segments by which we manage our business: Credit Cards; Investments in Previously Charged-Off Receivables; Retail Micro-Loans; Auto Finance; and Internet Micro-Loans. For all but our Retail Micro-Loans segment, which contains no continuing operations, we further describe our segment operations below. (See, also, Note 4, “Segment Reporting,” to our consolidated financial statements included herein for segment-specific financial data.)

The most significant business changes or events for us during the year ended December 31, 2011 were:

- The sale, as noted above, of our Retail Micro-Loans segment to a subsidiary of Advance America, Cash Advance Centers, Inc. for $46.2 million on October 10, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of $5.1 million that is included as a component of discontinued operations within our consolidated statement of operations for the year ended December 31, 2011, and (2) the classification our Retail Micro-Loans segment’s operations as discontinued operations for all periods presented within our consolidated statements of operations;

- Our repurchases in open market transactions of an aggregate of $62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and $1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for $59.3 million and $0.4 million, respectively, such amounts being inclusive of transaction costs and accrued interest through the dates of our repurchases of the notes;

- The closing of a tender offer in April 2011, through which we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million;

- The sale, as noted above, of our MEM operations to a subsidiary of Dollar Financial Corp for $195.0 million on April 1, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of $106.0 million that is included as a component of discontinued operations within our consolidated statements of operations for the year ended December 31, 2011, (2) the classification of our MEM operations as discontinued operations for all periods presented within our consolidated statements of operations, and (3) the confirmation of our classification of these operations on our consolidated balance sheet as of December 31, 2010 as held for sale;

- Our acquisition of a 50% interest in a joint venture that purchased in March 2011 all of the outstanding notes issued out of our U.K. Portfolio structured financing trust and reported a gain in the three months ended March 31, 2011 upon its marking of such notes to their fair value as of March 31, 2011 under its fair value option election (of which $17.1 million was our allocable share);

- Our February 2011 sale of certain operating assets of our JRAS buy-here, pay-here lot subsidiaries in a transaction under which we retained its underlying loans and fees receivable, resulting in a loss of $4.6 million; and

- Our January 2011 purchase of certain investor interests in our Credit Cards segment equity-method investees and substantially all of the noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for $4.1 million.

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Subject to the availability of growth capital at attractive terms and pricing, our shareholders should expect us to continue to evaluate and pursue a variety of activities that would be reflected predominantly within our Credit Cards segment: (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to shareholders (as has been done historically through dividends and tender offers, including our tender offer that closed in April 2011 and a tender offer that closed in May 2010 through which we paid $85.3 million to shareholders who tendered 12.2 million shares). Additionally, given that financing for growth and acquisitions currently is constrained, our shareholders should expect us to pursue less capital intensive activities, like servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests), that allow us to leverage our expertise and infrastructure until we complete further acquisitions.

Credit Cards Segment. Included within our Credit Cards segment are our credit card investment and servicing activities, as conducted with respect to receivables underlying accounts originated and portfolios purchased by us and one of our equity-method investees. This segment includes the activities associated with substantially all of our credit card products. Also included are the results of another of our equity-method investees, through which we partnered with another financing partner to purchase the debt underlying one of our credit card portfolios. Moreover, our Credit Cards segment activities include our efforts to apply the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, we include within our Credit Cards segment certain limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our Credit Cards segment expertise and infrastructure.

Substantially all of the credit card accounts underlying our credit card receivables and portfolios have been closed to new cardholder purchases (and hence credit card receivables growth) since 2009. However, we do have a limited number of open credit card accounts in the U.K. and associated with our Investments in Previously Charged-Off Receivables segment's balance transfer program, whereby we offer potential customers a credit card product in exchange for payments made on a previously charged-off debt that we either have purchased or have agreed to purchase upon acceptance of our balance transfer offer terms. After our receipt of an offered and agreed-upon level of payments on the previously charged-off debt, a credit card is made available to the consumer, and as the consumer further reduces his or her outstanding previously charged-off debt balance, additional credit is made available to the consumer under the credit card product. After card issuance, the revenues and costs associated with the balance transfer program credit card offerings are included in our Credit Cards segment results; whereas, the pre-card-issuance activities associated with the initial purchase and collection of the outstanding balance of previously charged-off debt are included in our Investments in Previously Charged-Off Receivables segment results.

Our credit card and other operations are heavily regulated, and over time we change how we conduct our operations either in response to regulation or in keeping with our goals of continuing to lead the industry in the application of consumer-friendly practices. We have made several significant changes to our practices over the past several years, and because our account management practices are evolutionary and dynamic, it is possible that we may make further changes to these practices, some of which may produce positive, and others of which may produce adverse, effects on our operating results and financial position. Customers at the lower end of the FICO scoring range intrinsically have higher loss rates than do customers at the higher end of the FICO scoring range. As a result, we have priced our products to reflect this greater risk. As such, our products are subject to greater regulatory scrutiny than the products of prime lenders who can price their credit products at much lower levels than we can. See "Consumer and Debtor Protection Laws and Regulations—Credit Cards Segment" and Item 1A, "Risk Factors."

As is customary in our industry, we historically financed most of our credit card receivables through the asset-backed securitization markets. These markets worsened significantly in 2008 and are not likely to return to any degree of efficient and effective functionality for us in the near term—particularly given a current U.S. regulatory and economic environment in which sub-prime credit card lending returns on investment are not attractive enough for us to want to originate any significant level of new credit card receivables in the U.S. (other than through our Investment in Previously Charged-Off Receivables segment's balance transfer program). We continue, however, to originate credit cards in the U.K. because we believe the U.K. regulatory environment to be more favorable than the U.S. toward possible significant credit card origination growth in the future.

In the current environment, the only material recurring cash flows we receive within our Credit Cards segment are those associated with servicing compensation, distributions from our equity-method investee that purchased and holds all of the outstanding notes issued out of our U.K. Portfolio, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. As such, we are closely monitoring and managing our liquidity position, reducing our overhead infrastructure (which was built to accommodate higher account originations and managed receivables levels) and further leveraging our global infrastructure in order to maximize returns to shareholders on existing assets. Some of these actions, while prudent to maximize cash returns on existing assets, have had the effect of reducing our profitability. Our belief is that our reductions in personnel, overhead and other costs (through increased outsourcing) to levels that our Credit Cards segment can better support with its diminished cash inflows will not result in further impairments in the fair values of our credit card receivables; however, this outcome cannot be assured.

Investments in Previously Charged-Off Receivables Segment. Our Investments in Previously Charged-Off Receivables segment consists of the operations of our debt collection subsidiary, Jefferson Capital Systems, LLC ("Jefferson Capital"). Through this subsidiary, as market conditions and other factors justify, we acquire and sell previously charged-off credit card receivables and apply our collection expertise to the receivables we own. Additionally, our Investments in Previously Charged-Off Receivables segment includes accounts acquired through its balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts (as explained in further detail in the Credit Cards segment discussion above). Revenues in this segment are classified as fees and related income on non-securitized earning assets in our consolidated statements of operations.

We expect improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. We also believe that the current economic environment could lead to increased opportunities for growth in the balance transfer program as consumers with less access to credit create additional demand, which should lead to increased placements from third parties. Moreover, we have been testing a balance transfer program in the U.K., and although we expect it to grow more rapidly, its results are not anticipated to be material in 2012.

Our other Investments in Previously Charged-Off Receivables segment activities are also yielding improving trends and results that we expect will continue into 2012. We have recently completed several large purchases of previously charged-off receivables portfolios (particularly those related to Chapter 13 Bankruptcies) from third parties at attractive pricing, and we expect similar further opportunities in 2012.

Having noted the above improving trends and results within our Investments in Previously Charged-Off Receivables segment, we note that its required use of the cost recovery method of income recognition (i.e., whereby all collection and other costs currently are expensed and revenue is not recognized until our cost basis is completely recovered on each particular static pool of purchased previously charged-off receivables) gives rise to expense and revenue timing mismatches and a lack of comparability to several of the segment's publicly traded peers who use a less conservative effective interest method of accounting for their charged-off receivables purchases.

Auto Finance Segment. Our Auto Finance segment historically has included a variety of auto sales and lending activities. Our original platform, CAR, acquired in April 2005, purchases auto loans at a discount and services auto loans for a fee; its customer base includes a nationwide network of pre-qualified auto dealers in the buy-here, pay-here used car business. We also historically owned substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007 and operated from that time until our disposition of certain JRAS operating assets in the first quarter of 2011. Subsequent to the first quarter of 2011, our only remaining JRAS asset is the portfolio of auto finance receivables that it had originated while under our ownership. Lastly, our ACC platform acquired during 2007 historically purchased retail installment contracts from franchised car dealers. We ceased origination efforts within the ACC platform during 2009 and outsourced the collection of its portfolio of auto finance receivables. The auto finance receivables of both the JRAS and the ACC portfolios are liquidating with collections and charge offs, and the effects of these liquidating receivables portfolios on our results of operations are diminishing with each successive financial reporting period.

In our CAR operations, we generate revenues on purchased loans through interest earned on the face value of the installment agreements combined with discounts on loans purchased. We generally earn discount income over the life of the applicable loan. Additionally, we generate revenues from servicing loans on behalf of dealers for a portion of actual collections and by providing back-up servicing for others' similar quality securitized assets. We offer a number of other products to our network of buy-here, pay-here dealers (including a product under which we lend directly to the dealers), but the vast majority of our activities are represented by our purchases of auto loans at discounts and our servicing of auto loans for a fee. Our CAR operations currently serve more than 700 dealers in 36 states and the District of Columbia. These operations are performing well in the current environment (achieving consistent profitability and generating positive cash flows with very modest growth).

Internet Micro-Loans Segment. Our Internet Micro-Loans segment's results include the results of our discontinued MEM operations, which we sold in April 2011, and the results of our U.S.-based Internet, micro-loan operations. Our U.S. operations are limited in nature and are not material to our consolidated results of operations.

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How Do We Maintain the Accounts and Mitigate Our Risks?

Credit Cards Segment. We manage account activity using credit behavioral scoring, credit file data and our proprietary risk evaluation systems. These strategies include the management of transaction authorizations, account renewals, over-limit accounts, credit line modifications and collection programs. We use an adaptive control system to translate our strategies into account management processes. The system enables us to develop and test multiple strategies simultaneously, which allows us to continually refine our account management activities. We have incorporated our proprietary risk scores into the control system, in addition to standard credit behavior scores used widely in the industry, in order to segment, evaluate and manage the accounts. We believe that by combining external credit file data along with historical and current customer activity, we are able to better predict the true risk associated with current and delinquent accounts.

For credit card accounts that are open to cardholder purchases (currently only those accounts arising through our Investment in Previously Charged-Off Receivables segment's balance transfer program and accounts opened under programs within the U.K.), we monitor authorizations, and we limit customer credit availability for transaction types we believe present higher risks, such as foreign transactions, cash advances, etc. We generally seek to manage credit lines to reward financially underserved customers who are performing well and to mitigate losses from delinquent customer segments, and we periodically review accounts exhibiting favorable credit characteristics for credit line increases. We also employ strategies to reduce otherwise open credit lines for customers demonstrating indicators of increased credit or bankruptcy risk. Data relating to account performance are captured and loaded into our proprietary database for ongoing analysis. We adjust account management strategies as necessary, based on the results of such analyses. Additionally, we use industry-standard fraud detection software to manage the portfolio. We route accounts to manual work queues and suspend charging privileges if the transaction-based fraud models indicate a high probability of fraudulent card use.

Auto Finance Segment. Our CAR operations manage credit quality and loss mitigation at the dealer portfolio level through the implementation of dealer-specific loss reserve accounts. In most instances, the reserve accounts are cross-collateralized across all business presented by any single dealer. CAR monitors performance at the dealer portfolio level (by product type) to adjust pricing or the reserve account or to determine if the dealer is to be excluded from our account purchase program.

CAR applies specific purchase guidelines based upon each product offering, and we establish delegated approval authorities to assist in the monitoring of transactions during the loan acquisition process. Dealers are subject to specific approval criteria, and individual accounts typically are verified for accuracy before, during and after the acquisition process. Dealer portfolios across the business segment are monitored and compared against expected collections and peer dealer performance. Monitoring of dealer pool vintages, delinquencies and loss ratios helps determine past performance and expected future results, which are used to adjust pricing and reserve requirements. Our CAR operations manage risk through diversifying their receivables among over 700 dealers.

For our JRAS operations that we sold in February 2011, credit quality and loss mitigation initially were dependent upon our obtaining a first lien in the auto that was being financed. As a result, for credit evaluation purposes, we considered a portion of these loans to be unsecured and evaluated the creditworthiness of the customers in that context. When a JRAS customer defaulted and JRAS repossessed the auto, JRAS generally resold the car to another customer.

Internet Micro-Loans Segment. We apply risk-based scorecards developed from propriety risk models to customer lending relationships within our U.S.-based Internet micro-loan operations. Through employing these proprietary scorecards along with efficiencies created within our collections practices, our goal is to minimize delinquencies and charge offs.

How Do We Collect from Our Customers?

Credit Cards Segment. The goal of the collections process is to collect as much of the money that is owed to us in the most cost effective and customer friendly manner possible. To this end, we employ the traditional cross-section of letters and telephone calls to encourage payment. However, recognizing that our objective is to maximize the amount collected, we also will offer customers flexibility with respect to the application of payments in order to encourage larger or prompter payments. For instance, in certain cases we vary from our general payment application priority (i.e., of applying payments first to finance charges, then to fees, and then to principal) by agreeing to apply payments first to principal and then to finance charges and fees or by agreeing to provide payments or credits of finance charges and principal to induce or in exchange for an appropriate customer payment. Application of payments in this manner also permits our collectors to assess real time the degree to which a customer's payments over the life of an account have covered the principal credit extensions to the customer. This allows our collectors to readily identify our potential "economic" loss associated with the charge off of a particular account (i.e., the excess of principal loaned to the customer over payments received back from the customer throughout the life of the account). With this information, our collectors work with our customers in a way intended to best protect us from economic loss on the cardholder relationship. Our selection of collection techniques, including, for example, the order in which we apply payments or the provision of payments or credits to induce or in exchange for customer payment, impacts the statistical performance of our portfolios that we reflect under the "Credit Cards Segment" caption within Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

We consider management's experience in operating professional collection agencies, coupled with our proprietary systems, to be a competitive advantage in minimizing delinquencies and charge offs. Our collectors employ various and evolving tools when working with a cardholder, and they routinely test and evaluate new tools in their drive toward improving our collections with the greatest degree of efficiency possible. These tools include programs under which we may reduce or eliminate a cardholder's annual percentage rate ("APR") or waive a certain amount of accrued fees, provided the cardholder makes a minimum number or amount of payments. In some instances, we may agree to match a customer's payments, for example, with a commensurate payment or reduction of finance charges or waiver of fees. In other situations, we may actually settle with customers and adjust their finance charges and fees, for example, based on their commitment and their follow through on their commitment to pay certain portions of the balances they owe. Our collectors may also decrease a customer's minimum payment under certain collection programs. Additionally, we employ re-aging techniques as discussed below. We also may occasionally use our marketing group to assist in determining various programs to assist in the collection process. Moreover, we willingly participate in the Consumer Credit Counseling Service ("CCCS") program by waiving a certain percentage of a customer's debt that is considered our "fair share" under the CCCS program. All of our programs are utilized based on the degree of economic success they achieve.

We constantly are monitoring and adapting our collection strategies, techniques, technology and training to optimize our efforts to reduce delinquencies and charge offs. We use our systems to develop these proprietary collection strategies and techniques, which we employ in our operations. We analyze the output from these systems to identify the strategies and techniques that we believe are most likely to result in curing a delinquent account in the most cost-effective manner, rather than treating all accounts the same based on the mere passage of time.

Our collection strategies have included utilizing both internal and third-party collectors and creating a competitive process of rewarding the most effective and efficient group of collectors from within our system and among third-party agencies. We have divided our portfolios into various groups that are statistically equivalent and have provided these groups of accounts to our various internal and external collection resources. We compare the results of the collectors against one another to determine which techniques and which collection groups are producing the best results.

As in all aspects of our risk management strategies, we compare the results of each of the above strategies with other collection strategies and devote resources to those strategies that yield the best results. Results are measured based on delinquency rates, expected losses and costs to collect. Existing strategies are then adjusted as suggested by these results. Management believes that maintaining the ongoing discipline of testing, measuring and adjusting collection strategies will result in minimized bad debt losses and operating expenses. We believe this on-going evaluation differs from the approach taken by the vast majority of credit grantors that implement collection strategies based on commonly accepted peer group practices.

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We discontinue charging interest and fees when credit card receivables become contractually ninety or more days past due (and in certain circumstances where it is necessary in order to avoid so-called "negative amortization"), and we charge off credit card receivables when they become contractually more than 180 days past due (or within 30 days of notification and confirmation of a customer's bankruptcy or death). However, if a cardholder makes a payment greater than or equal to two minimum payments within a month of the charge-off date, we may reconsider whether charge-off status remains appropriate. Additionally, in some cases of death, receivables are not charged off if, with respect to the deceased customer's account, there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Our determination of whether an account is contractually past due is relevant to our delinquency and charge-off data included under the "Credit Cards Segment" caption within Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Various factors are relevant in analyzing whether an account is contractually past due (i.e., whether an account has not satisfied its minimum payment due requirement), which for us is the trigger for moving receivables through our various delinquency buckets and ultimately to charge-off status. We consider a cardholder's receivable to be delinquent if the cardholder fails to pay a minimum amount computed as the greater of a stated minimum payment or a fixed percentage of his or her statement balance (for example 3% to 10% of the outstanding balance in some cases or in other cases 1% of the outstanding balance plus any finance charges and late fees billed in the current cycle).

Additionally, in an effort to increase the value of our account relationships, we re-age customer accounts that meet applicable regulatory qualifications for re-aging. It is our policy to work cooperatively with customers demonstrating a willingness and ability to repay their indebtedness and who satisfy other criteria, but are unable to pay the entire past due amount. Generally, to qualify for re-aging, an account must have been opened for at least nine months and may not be re-aged more than once in a twelve-month period or twice in a five-year period. In addition, an account on a workout program may qualify for one additional re-age in a five-year period. The customer also must have made three consecutive minimum monthly payments or the equivalent cumulative amount in the last three billing cycles. If a re-aged account subsequently experiences payment defaults, it will again become contractually delinquent and will be charged off according to our regular charge-off policy. The practice of re-aging an account may affect delinquencies and charge offs, potentially delaying or reducing such delinquencies and charge offs.

Auto Finance Segment. Accounts that CAR purchases from approved dealers initially are collected by the originating branch or service center location using a combination of traditional collection techniques. Auto Finance segment accounts that have been loaded into our data processing system are centrally serviced to leverage auto dialer processing for early stage collections. The collection process includes contacting the customer by phone or mail, skip tracing and using starter interrupt devices to minimize delinquencies. Uncollectible accounts in our CAR operation generally are returned to the dealer under an agreement with the dealer to charge the balance on the account against the dealer's reserve account. We generally do not repossess autos in our CAR operation as a result of the agreements that we have with the dealers.

Internet Micro-Loans Segment. For our Internet-based micro-loan products, a customer will sign an agreement acknowledging when a loan will be repaid. On the agreed-upon repayment date, the customer's bank account or debit card is automatically charged for the full amount of the loan plus applicable fees. If repayment is not made at the agreed upon repayment date, we seek to contact the customer in order to collect the amount due. We seek either full repayment or by agreement with the customer collect the amount under a repayment schedule of up to six months (depending on the amount due). After 90 days of in-house collection activity, the account is typically transferred to a third-party collection agency with an aim of maximizing recovery of the charged-off debt.

Consumer and Debtor Protection Laws and Regulations

Credit Cards Segment. Our U.S. business is regulated directly and indirectly under various federal and state consumer protection, collection and other laws, rules and regulations, including the federal Credit Card Accountability Responsibility and Disclosure Act of 2009 (the "CARD Act"), the federal Wall Street Reform and Consumer Protection Act, the federal TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements when a consumer credit loan is advertised, when the account is opened and when monthly billing statements are sent. In addition, various statutes limit the liability of credit cardholders for unauthorized use, prohibit discriminatory practices in extending credit, impose limitations on the types of charges that may be assessed and restrict the use of consumer credit reports and other account-related information. Many of our products are designed for customers at the lower end of the FICO scoring range. To offset the higher loss rates among these customers, these products generally are priced higher than our other products. Because of the greater credit risks inherent in these customers and the higher prices that we have had to charge for these products, they, and the banks that have issued them on our behalf, are subject to significant regulatory scrutiny. If regulators, including the FDIC (which regulates the lenders that have issued these products on our behalf), the CFPB and the FTC, object to these products or how we have marketed them, then we could be required to modify or discontinue them. Over the past several years, we have modified both our products and how we have marketed them in response to comments from regulators. Also, in December 2008, we settled litigation associated with allegations that the FDIC and FTC had made about some of our credit card marketing practices.

In the U.K., our credit card operations are subject to U.K. regulations that provide similar consumer protections to those provided under the U.S. regulatory framework. We are licensed and regulated by the OFT, and we are governed by an extensive legislative and regulatory framework that includes the Consumer Credit Act, the Data Protection Act, Privacy and Electronic Communications Regulations, Consumer Protection and Unfair Trading regulations, Financial Services (Distance Marketing) Regulations, the Enterprise Act, Money Laundering Regulations, Financial Ombudsman Service and ASA adjudications. The aforementioned legislation and regulations imposes strict rules on the look and content of consumer contracts, how APRs are calculated and stated, advertising in all forms, who we can contact and disclosures to consumers, among others. The regulators such as the OFT provide guidance on consumer credit practices including collections.

Investments in Previously Charged-Off Receivables Segment. Our business is regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the federal TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the federal Gramm-Leach-Bliley Act, the U.S. Bankruptcy Code and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, establish specific regulations that debt collectors must follow when collecting consumer accounts and contain specific restrictions when communicating with customers, including the time, place and manner of the communications. In addition, some states require licensure prior to attempting collection efforts.

Auto Finance Segment. This segment is regulated directly and indirectly under various federal and state consumer protection and other laws, rules and regulations, including the federal TILA, the federal Equal Credit Opportunity Act, the federal Fair Credit Reporting Act, the federal Fair Debt Collection Practices Act, the federal Gramm-Leach-Bliley Act and the federal Telemarketing and Consumer Fraud and Abuse Prevention Act. These statutes and their enabling regulations, among other things, impose disclosure requirements. In addition, various state statutes limit the interest rates and fees that may be charged, limit the types of interest computations (e.g., interest bearing or pre-computed) and refunding processes that are permitted, prohibit discriminatory practices in extending credit, impose limitations on fees and other ancillary products and restrict the use of consumer credit reports and other account-related information. Many of the states in which this segment operates have various licensing requirements and impose certain financial or other conditions in connection with these licensing requirements.

Internet Micro-Loans Segment. Our micro-loan products and services are subject to extensive state and federal regulation. The regulation of our industry is intended primarily for the protection of consumers and is constantly changing as new regulations are introduced at the federal, state and local levels and existing regulations are repealed, amended and modified. As we develop new product and service offerings, we may become subject to additional federal, state and local regulations. State and local governments also may seek to impose new licensing requirements or interpret or enforce existing requirements in new ways. In addition, changes in current laws or to the prevailing interpretations thereof and future laws or regulations may restrict or eliminate our ability to continue our current methods of operation or expand our operations; such laws regularly are proposed, introduced or adopted at the state and federal level. These regulations govern or affect, among other things, interest rates and other fees, check cashing fees, lending practices, recording and reporting of certain financial transactions, privacy of personal consumer information and collection practices. This evolving regulatory landscape creates various uncertainties and risks for the operation of our business, any of which could have a material adverse effect on our business, prospects, results of operations or financial condition. See “Risk Factors” and “Our Business—Legal Proceedings.”

Privacy and Data Security Laws and Regulations. We are required to manage, use, and store large amounts of personally identifiable information, principally customers’ confidential personal and financial data, in the course of our business. We depend on our IT networks and systems, and those of third parties, to process, store, and transmit that information. In the past, consumer finance companies have been targeted for sophisticated cyber attacks. A security breach involving our files and infrastructure could lead to unauthorized disclosure of confidential information. We take numerous measures to ensure the security of our hardware and software systems as well as customer information.

We are subject to various U.S. federal and state laws and regulations designed to protect confidential personal and financial data. For example, we must comply with guidelines under the Gramm-Leach-Bliley Act that require each financial institution to develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities and the sensitivity of any customer information at issue. Additionally, various federal banking regulatory agencies, and as many as 46 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data breach regulations and laws requiring customer notification in the event of a security breach.

Competition

Credit Cards Segment. We face substantial competition from other consumer lenders, the intensity of which varies depending upon economic and liquidity cycles. Our credit card business competes with national, regional and local bankcard issuers, other general-purpose credit card issuers and retail credit card issuers. Many of these competitors are substantially larger than we are, have significantly greater financial resources than we do and have significantly lower costs of funds than we have.

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Investments in Previously Charged-Off Receivables Segment. The consumer debt collection industry is highly fragmented and competitive. We compete with a wide range of other purchasers of charged-off consumer receivables, including third-party collection agencies, other financial service companies and credit originators that manage their own consumer receivables. Some of our competitors are larger and more established and may have substantially greater financial, technological, personnel and other resources than we have, including greater access to capital markets. Publicly held competitors with potentially greater access to capital markets than us include Encore Capital Group, Inc., Asset Acceptance Capital Corp., Portfolio Recovery Associates, Inc., and Asta Funding, Inc. Competitive pressures affect the availability and pricing of receivables portfolios, as well as the availability and cost of qualified debt collectors.

Auto Finance Segment. Competition within the auto finance sector is very widespread and fragmented. Our auto finance operations target a customer base of dealers that often times are not capable of accessing indirect lending from major financial institutions or captive finance companies. We compete mainly with a handful of national and regional companies focused on this credit segment (e.g., Credit Acceptance Corporation, Westlake Financial, Mid-Atlantic Finance, General Motors Financial Company, Inc. (formerly AmeriCredit Corp.), Drive Financial, Western Funding Inc., and America's Car-Mart) and a large number of smaller, regional based private companies with a narrow geographic focus. Individual dealers with access to capital may also compete in this segment through the purchase of receivables from peer dealers in their markets.

Internet Micro-Loans Segment. Competition for our micro-loan operations originates from numerous sources. Our subsidiaries compete with traditional financial institutions that offer similar products such as overdraft protection, cash advances and other personal loans, as well as with other micro-loan companies with both retail and Internet-based operations that offer substantially similar products and pricing models to ours. Key competitors, in addition to traditional financial institutions, include Cash America, Dollar Financial Corp, First Cash Financial Services and Advance America Cash Advance Centers, among others, some of whom have multiple store operations. Internet-based micro-lenders include Cash Net and Wonga, among others.

Employees

As of December 31, 2011, we had 494 employees, most of which are employed within the U.S., principally in Florida, Georgia and Minnesota. Also included in this employee count are a limited number of employees in India and 40 employees in the U.K. We consider our relations with our employees to be good. Our employees are not covered by a collective-bargaining agreement, and we have never experienced any organized work stoppage, strike or labor dispute.

Trademarks, Trade Names and Service Marks

CompuCredit and our subsidiaries have registered and continue to register, when appropriate, various trademarks, trade names and service marks used in connection with our businesses and for private-label marketing of certain of our products. We consider these trademarks and service marks to be readily identifiable with, and valuable to, our business. This Annual Report on Form 10-K also contains trade names and trademarks of other companies that are the property of their respective owners.

Additional Information

CompuCredit is incorporated in Georgia. Our principal executive offices are located at Five Concourse Parkway, Suite 400, Atlanta, Georgia 30328, and the telephone number at that address is (770) 828-2000. Our Internet address is www.compucredit.com. We make available free of charge on our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Certain corporate governance materials, including our Board of Directors committee charters and our Code of Business Conduct and Ethics, are posted on our website under the heading “For Investors.” From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC or NASDAQ, or as desirable to further the continued effective and efficient governance of our company.

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ITEM 1A. RISK FACTORS

An investment in our common stock or other securities involves a number of risks. You should carefully consider each of the risks described below before deciding to invest in our common stock. If any of the following risks develops into actual events, our business, financial condition or results of operations could be negatively affected, the market price of our common stock or other securities could decline and you may lose all or part of your investment.

Investors should be particularly cautious regarding investments in our common stock or other securities at the present time in light of the current economic circumstances. We are predominately a sub-prime lender, and our customers have been adversely impacted by the loss of jobs and the overall decline in the economy.

Our Cash Flows and Net Income Are Dependent Upon Payments from Our Loans and Fees Receivable and Other Credit Products

The collectibility of our loans and fees receivable is a function of many factors including the criteria used to select who is issued credit, the pricing of the credit products, the lengths of the relationships, general economic conditions, the rate at which customers repay their accounts or become delinquent, and the rate at which customers borrow funds from us. Deterioration in these factors, which we have experienced over the past few years, adversely impacts our business. In addition, to the extent we have over-estimated collectibility, in all likelihood we have over-estimated our financial performance. Some of these concerns are discussed more fully below.

Our portfolio of receivables is not diversified and originates from customers whose creditworthiness is considered sub-prime. Historically, we have obtained receivables in one of two ways—we have either solicited for the origination of the receivables or purchased pools of receivables from other issuers. In either case, substantially all of our receivables are from financially underserved borrowers—borrowers represented by credit risks that regulators classify as “sub-prime.” Our reliance on sub-prime receivables has negatively impacted and may in the future negatively impact, our performance. Our various past and current losses might have been mitigated had our portfolios consisted of higher-grade receivables in addition to our sub-prime receivables. We have no immediate plans to issue or acquire significantly higher-grade receivables.

We may not successfully evaluate the creditworthiness of our customers and may not price our credit products so as to remain profitable. The creditworthiness of our target market generally is considered “sub-prime” based on guidance issued by the agencies that regulate the banking industry. Thus, our customers generally have a higher frequency of delinquencies, higher risks of nonpayment and, ultimately, higher credit losses than consumers who are served by more traditional providers of consumer credit. Some of the consumers included in our target market are consumers who are dependent upon finance companies, consumers with only retail store credit cards and/or lacking general purpose credit cards, consumers who are establishing or expanding their credit, and consumers who may have had a delinquency, a default or, in some instances, a bankruptcy in their credit histories, but who, in our view, have demonstrated recovery. We price our credit products taking into account the perceived risk level of our customers. If our estimates are incorrect, customer default rates will be higher, we will receive less cash from the receivables and the value of our loans and fees receivable will decline, all of which will have a negative impact on performance. While they have begun to rebound modestly, payment rates by our customers declined significantly in 2008 and 2009 and, correspondingly, default rates likewise increased throughout that time period. It also is unclear whether our modestly improved payment rates can be sustained given weakness in the employment outlook and economic environment at large.

Economic slowdowns increase our credit losses. During periods of economic slowdown or recession, we experience an increase in rates of delinquencies and frequency and severity of credit losses. Our actual rates of delinquencies and frequency and severity of credit losses may be comparatively higher during periods of economic slowdown or recession than those experienced by more traditional providers of consumer credit because of our focus on the financially underserved consumer market, which may be disproportionately impacted.

We are subject to foreign economic and exchange risks. Because of our investments in the U.K., we have exposure to fluctuations in the U.K. economy, recent fluctuations in which have been significantly negative. We also have exposure to fluctuations in the relative values of the U.S. dollar and the British pound. Because the British pound has experienced a net decline in value relative to the U.S. dollar since we made the most significant of our investments in the U.K., we have experienced significant transaction and translation losses within our financial statements.

Because a significant portion of our reported income is based on management's estimates of the future performance of our loans and fees receivable, differences between actual and expected performance of the receivables may cause fluctuations in net income. Significant portions of our reported income (or losses) are based on management's estimates of cash flows we expect to receive on our loans and fees receivable, particularly for such assets that we report based on fair value. The expected cash flows are based on management's estimates of interest rates, default rates, payment rates, cardholder purchases, servicing costs, and discount rates. These estimates are based on a variety of factors, many of which are not within our control. Substantial differences between actual and expected performance of the receivables will occur and cause fluctuations in our net income. For instance, higher than expected rates of delinquencies and losses could cause our net income to be lower than expected. Similarly, as we have experienced for our credit card receivables portfolios with respect to financing agreements secured by our loans and fees receivable, levels of loss and delinquency can result in our being required to repay our lenders earlier than expected, thereby reducing funds available to us for future growth. Because all of our credit card receivables structured financing facilities are now in amortization status—which for us generally means that the only meaningful cash flows that we are receiving with respect to the credit card receivables that are encumbered by such structured financing facilities are those associated with our contractually specified fee for servicing the receivables—recent payment and default trends have substantially reduced the cash flows that we receive from these receivables.

Due to the lack of historical experience with Internet customers, we may not be able to target successfully these customers or evaluate their creditworthiness. We have less historical experience with respect to the credit risk and performance of customers acquired over the Internet. As a result, we may not be able to target and evaluate successfully the creditworthiness of these potential customers should we engage in marketing efforts to acquire these customers. Therefore, we may encounter difficulties managing the expected delinquencies and losses and appropriately pricing our products.

We Are Substantially Dependent Upon Borrowed Funds to Fund the Receivables We Originate or Purchase

We finance our receivables in large part through financing facilities. All of our financing facilities are of finite duration (and ultimately will need to be extended or replaced) and contain financial covenants and other conditions that must be fulfilled in order for funding to be available. Moreover, most of these facilities currently are in amortization stages (and are not allowing for the funding of any new loans), either based on their original terms or because we have not met financial or asset performance-related covenants. The cost and availability of equity and borrowed funds is dependent upon our financial performance, the performance of our industry generally and general economic and market conditions, and at times equity and borrowed funds have been both expensive and difficult to obtain. Most recently as described below, funding for sub-prime lending has been very difficult to achieve.

Beginning in 2007, largely as a result of difficulties in the sub-prime mortgage market, new financing generally has been unavailable to sub-prime lenders, and the financing that has been available has been on significantly less favorable terms. As a result, beginning in the third quarter of 2007, we significantly curtailed our marketing for new credit cards and currently are not issuing a significant number of new cards. Moreover, commencing in October 2008 we reduced credit lines and closed a significant number of accounts in response to the unavailability of financing and to reduce our risk exposure. These activities continued into 2009 and, as a result, substantially all of our credit cards are now closed to cardholder purchases. If additional financing facilities are not available in the future on terms we consider acceptable, we will not be able to grow our credit card business and it will continue to contract in size.

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Our Financial Performance Is, in Part, a Function of the Aggregate Amount of Receivables That Are Outstanding

The aggregate amount of outstanding receivables is a function of many factors including purchase rates, payment rates, interest rates, seasonality, general economic conditions, competition from other credit card issuers and other sources of consumer financing, access to funding, and the timing, extent and success of our marketing efforts.

Our business currently is contracting. Growth is a product of a combination of factors, many of which are not in our control. Factors include:

- the level and success of our marketing efforts;
- the degree to which we lose business to competitors;
- the level of usage of our credit products by our customers;
- the availability of portfolios for purchase on attractive terms;
- levels of delinquencies and charge offs;
- the availability of funding on favorable terms;
- the level of costs of soliciting new customers;
- our ability to employ and train new personnel;
- our ability to maintain adequate management systems, collection procedures, internal controls and automated systems; and
- general economic and other factors beyond our control.

We have substantially eliminated our credit card marketing efforts and have aggressively reduced credit lines and closed credit card accounts. In addition, the general economic downturn experienced in 2008 and 2009 significantly impacted not just the level of usage of our credit products by our customers but also levels of payments and delinquencies and other performance metrics. As a result, our business currently is contracting, and until market conditions more substantially reverse, we do not expect overall net growth in our Credit Card or our Auto Finance segments.

We Operate in a Heavily Regulated Industry

Changes in bankruptcy, privacy or other consumer protection laws, or to the prevailing interpretation thereof, may expose us to litigation, adversely affect our ability to collect account balances in connection with our traditional credit card business, our debt collection subsidiary's charged-off receivables operations, and our auto finance and micro-loan activities, or otherwise adversely affect our operations. Similarly, regulatory changes could adversely affect our ability or willingness to market credit cards and other products and services to our customers. The accounting rules that govern our business are exceedingly complex, difficult to apply and in a state of flux. As a result, how we value our receivables and otherwise account for our business is subject to change depending upon the changes in, and, interpretation of, those rules. Some of these issues are discussed more fully below.

Reviews and enforcement actions by regulatory authorities under banking and consumer protection laws and regulations may result in changes to our business practices, may make collection of account balances more difficult or may expose us to the risk of fines, restitution and litigation. Our operations, and the operations of the issuing banks through which we originate credit products, are subject to the jurisdiction of federal, state and local government authorities, including the CFPB, the SEC, the FDIC, the Office of the Comptroller of the Currency, the FTC, U.K. banking authorities, state regulators having jurisdiction over financial institutions and debt origination and collection and state attorneys general. Our business practices, including the terms of our products and our marketing, servicing and collection practices, are subject to both periodic and special reviews by these regulatory and enforcement authorities. These reviews can range from investigations of specific consumer complaints or concerns to broader inquiries into our practices generally. If as part of these reviews the regulatory authorities conclude that we are not complying with applicable law, they could request or impose a wide range of remedies including requiring changes in advertising and collection practices, changes in the terms of our products (such as decreases in interest rates or fees), the imposition of fines or penalties, or the paying of restitution or the taking of other remedial action with respect to affected customers. They also could require us to stop offering some of our products, either nationally or in selected states. To the extent that these remedies are imposed on the issuing banks through which we originate credit products, under certain circumstances we are responsible for the remedies as a result of our indemnification obligations with those banks. We also may elect to change practices or products that we believe are compliant with law in order to respond to regulatory concerns. Furthermore, negative publicity relating to any specific inquiry or investigation could hurt our ability to conduct business with various industry participants or to attract new accounts and could negatively affect our stock price, which would adversely affect our ability to raise additional capital and would raise our costs of doing business.

If any deficiencies or violations of law or regulations are identified by us or asserted by any regulator, or if the Consumer Financial Protection Bureau, the FDIC, the FTC or any other regulator requires us to change any of our practices, the correction of such deficiencies or violations, or the making of such changes, could have a materially adverse effect on our financial condition, results of operations or business. In addition, whether or not we modify our practices when a regulatory or enforcement authority requests or requires that we do so, there is a risk that we or other industry participants may be named as defendants in litigation involving alleged violations of federal and state laws and regulations, including consumer protection laws. Any failure to comply with legal requirements by us or the issuing banks through which we originate credit products in connection with the issuance of those products, or by us or our agents as the servicer of our accounts, could significantly impair our ability to collect the full amount of the account balances. The institution of any litigation of this nature, or any judgment against us or any other industry participant in any litigation of this nature, could adversely affect our business and financial condition in a variety of ways.

We are dependent upon banks to issue credit cards. Our credit card programs are entirely dependent on our issuing bank relationships, and their regulators could at any time limit their ability to issue some or all products on our behalf, or that we service on their behalf, or to modify those products significantly. Any significant interruption of those relationships would result in our being unable to originate new receivables and other credit products. It is possible that a regulatory position or action taken with respect to any of the issuing banks through which we have originated credit products or for whom we service receivables might result in the bank's inability or unwillingness to originate future credit products on our behalf or in partnership with us. In the current state, such a disruption of our issuing bank relationships would adversely affect our ability to grow our balance transfer program (and potentially the profitability of the program if issuing bank partners were to require account closures) within our Investments in Previously Charged-Off Receivables segment and to conduct credit card issuances in the U.K.

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Changes to consumer protection laws or changes in their interpretation may impede collection efforts or otherwise adversely impact our business practices. Federal and state consumer protection laws regulate the creation and enforcement of consumer credit card receivables and other loans. Many of these laws (and the related regulations) are focused on sub-prime lenders and are intended to prohibit or curtail industry-standard practices as well as non-standard practices. For instance, Congress enacted legislation that regulates loans to military personnel through imposing interest rate and other limitations and requiring new disclosures, all as regulated by the Department of Defense. Similarly, in 2009 Congress enacted legislation that required changes to a variety of marketing, billing and collection practices, and the Federal Reserve recently adopted significant changes to a number of practices through its issuance of regulations. While our practices are in compliance with these changes, some of the changes (e.g., limitations on the ability to assess up-front fees) have significantly affected the viability of certain of our prior (in particular our lower-tier) product offerings. Changes in the consumer protection laws could result in the following:

- receivables not originated in compliance with law (or revised interpretations) could become unenforceable and uncollectible under their terms against the obligors;
- we may be required to credit or refund previously collected amounts;
- certain fees could be prohibited or restricted, which would reduce the profitability of certain accounts;
- certain of our collection methods could be prohibited, forcing us to revise our practices or adopt more costly or less effective practices;
- limitations on the content of marketing materials could be imposed that would result in reduced success for our marketing efforts;
- federal and state laws may limit our ability to recover on charged-off receivables regardless of any act or omission on our part;
- reductions in statutory limits for finance charges could require us to reduce our fees and charges;
- some of our products and services could be banned in certain states or at the federal level;
- federal or state bankruptcy or debtor relief laws could offer additional protections to customers seeking bankruptcy protection, providing a court greater leeway to reduce or discharge amounts owed to us; and
- a reduction in our ability or willingness to lend to certain individuals, such as military personnel.

Material regulatory developments are likely to impact our business and results from operations.

Legislative, regulatory and consumer activism toward the micro-loans industry is particularly active and at times particularly hostile, and changes in applicable laws and regulations or interpretations thereof, or our failure to comply with such laws and regulations, could have a materially adverse effect on our micro-loan business, its prospects, our results of operations and our financial condition. Our U.S. Internet micro-loan business is subject to numerous federal, state and local laws and regulations, which are subject to change and which may impose significant costs, limitations or prohibitions on the way we conduct or expand that business. These regulations govern or influence, among other things, interest rates and other fees, lending practices, recording and reporting of certain financial transactions, privacy of personal consumer information and collection practices. As we develop new product and service offerings, we may become subject to additional federal, state and local regulations. State and local governments also may seek to impose new licensing requirements or interpret or enforce existing requirements in new ways. In addition, changes in current laws and future laws or regulations may restrict or eliminate our ability to continue our current methods of operation or expand our operations; such laws regularly are proposed, introduced or adopted at the state and federal level in the U.S.

Current and future litigation and regulatory proceedings against our former Retail Micro-Loans segment and U.S. Internet micro-loan business could have a material adverse effect on our business, prospects, results of operations and financial condition. Certain subsidiaries within our Retail Micro-Loans segment (the operations of which we sold in October 2011) are subject to a lawsuit that could generate adverse publicity and cause them and us to incur substantial expenditures. See Part II, Item 1, "Legal Proceedings."

Adverse rulings in lawsuits or regulatory proceedings could significantly impair our U.S. Internet micro-loan business and/or force us to cease doing business in one or more states or other geographic areas. This business is likely to be subject to litigation and proceedings in the future, and the consequences of an adverse ruling in any current or future litigation or proceeding could cause us to have to refund fees and/or interest collected, refund the principal amount of advances, pay treble or other multiple damages, pay monetary penalties and/or modify or terminate our operations in particular states. We also may be subject to adverse publicity. Defense of any lawsuits or proceedings, even if successful, requires substantial time and attention of our senior officers and other management personnel that would otherwise be spent on other aspects of our business and requires the expenditure of significant amounts for legal fees and other related costs. Settlement of lawsuits also may result in significant payments and modifications to our operations. Any of these events could have a material adverse effect on our business, prospects, results of operations and financial condition.

Our Automobile Lending Activities Involve Risks in Addition to Others Described Herein

Automobile lending exposes us not only to most of the risks described above but also to additional risks, including the regulatory scheme that governs installment loans and those attendant to relying upon automobiles and their repossession and liquidation value as collateral. In addition, our most significant active Auto Finance segment business acquires loans on a wholesale basis from used car dealers, for which we rely upon the legal compliance and credit determinations by those dealers.

Declines in automobile sales as we saw in recent years can cause declines in the overall demand for automobile loans. While currently recovering fairly significantly, sales of both new and used cars declined precipitously in recent years. While the unavailability of funding may have had a greater impact on our business, the decline in demand in recent years was consequential as well as it adversely affected the volume of our lending transactions and our recoveries of repossessed vehicles at auction. Any such future declines in demand will adversely impact our business.

Funding for automobile lending is difficult to obtain and expensive. In large part due to market concerns regarding sub-prime lending, it is difficult to find lenders willing to fund our automobile lending activities. Our inability to obtain debt facilities with desirable terms (e.g., interest rates and advance rates) and the other capital necessary to fund growth within our Auto Finance segment will cause periods (like our current period) of liquidations in our Auto Finance segment receivables and reductions in profitability and returns on equity. Although we did not experience any such adverse effects when our CAR facility began its required amortization period in June 2011 and was repaid in July 2011 (and although any concerns of such adverse effects are now abated given the new lending facility CAR obtained in October 2011), in the event we may not be able to renew or replace any future Auto Finance segment facilities that bear refunding or refinancing risks when they become due, our Auto Finance segment could experience significant liquidity constraints and diminution in reported asset values as lenders retain significant cash flows within underlying structured financings or otherwise under security arrangements for repayment of their loans. If we cannot renew or replace future facilities or otherwise are unduly constrained from a liquidity perspective, we may choose to sell part or all of our auto loan portfolios, possibly at less than favorable prices.

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Our automobile lending business is dependent upon referrals from dealers. Currently we provide automobile loans only to or through used car dealers. Providers of automobile financing have traditionally competed based on the interest rate charged, the quality of credit accepted and the flexibility of loan terms offered. In order to be successful, we not only will need to be competitive in these areas, but also will need to establish and maintain good relations with dealers and provide them with a level of service greater than what they can obtain from our competitors.

The financial performance of our automobile loan portfolio is in part dependent upon the liquidation of repossessed automobiles. In the event of certain defaults, we may repossess automobiles and sell repossessed automobiles at wholesale auction markets located throughout the U.S. Auction proceeds from these types of sales and other recoveries rarely are sufficient to cover the outstanding balances of the contracts; where we experience these shortfalls, we will experience credit losses. Decreased auction proceeds resulting from depressed prices at which used automobiles may be sold in periods of economic slowdown or recession have resulted in higher credit losses for us. Additionally, higher gasoline prices (like those experienced during 2008) tend to decrease the auction value of certain types of vehicles, such as SUVs.

Repossession of automobiles entails the risk of litigation and other claims. Although we have contracted with reputable repossession firms to repossess automobiles on defaulted loans, it is not uncommon for consumers to assert that we were not entitled to repossess an automobile or that the repossession was not conducted in accordance with applicable law. These claims increase the cost of our collection efforts and, if correct, can result in awards against us.

We Routinely Explore Various Opportunities to Grow Our Business, to Make Investments and to Purchase and Sell Assets

We routinely consider acquisitions of, or investments in, portfolios and other assets as well as the sale of portfolios and portions of our business. There are a number of risks attendant to any acquisition, including the possibility that we will overvalue the assets to be purchased and that we will not be able to produce the expected level of profitability from the acquired business or assets. Similarly, there are a number of risks attendant to sales, including the possibility that we will undervalue the assets to be sold. As a result, the impact of any acquisition or sale on our future performance may not be as favorable as expected and actually may be adverse.

Portfolio purchases may cause fluctuations in reported credit card managed receivables data, which may reduce the usefulness of historical credit card managed loan data in evaluating our business. Our reported managed credit card receivables data may fluctuate substantially from quarter to quarter as a result of recent and future credit card portfolio acquisitions. As of December 31, 2011, credit card portfolio acquisitions accounted for 41.4% of our total credit card managed receivables portfolio based on our ownership percentages.

Receivables included in purchased portfolios are likely to have been originated using credit criteria different from the criteria of issuing bank partners that have originated accounts on our behalf. Receivables included in any particular purchased portfolio may have significantly different delinquency rates and charge-off rates than the receivables previously originated and purchased by us. These receivables also may earn different interest rates and fees as compared to other similar receivables in our receivables portfolio. These variables could cause our reported managed receivables data to fluctuate substantially in future periods making the evaluation of our business more difficult.

Any acquisition or investment that we make will involve risks different from and in addition to the risks to which our business is currently exposed. These include the risks that we will not be able to integrate and operate successfully new businesses, that we will have to incur substantial indebtedness and increase our leverage in order to pay for the acquisitions, that we will be exposed to, and have to comply with, different regulatory regimes and that we will not be able to apply our traditional analytical framework (which is what we expect to be able to do) in a successful and value-enhancing manner.

We regularly explore investments in other lines of business where we believe the returns will meet our requirements. While these investments have not been significant recently, we expect them to increase in the future as the opportunities to invest in our traditional businesses remain unattractive. These investments may or may not be in areas where we have specialized expertise, and may carry risks in addition to those described above. In addition, some of these investments that we have made and may make in the future are or will be in debt or equity securities of businesses over which we exert little or no control, which likely exposes us to greater risks of loss than investments in activities and operations that we control. We experienced such losses in the amount of $5.3 million for the year ended December 31, 2011 associated with other-than-temporary declines in the values of loans that we made to other business enterprises.

Other Risks of Our Business

Climate change and related regulatory responses may impact our business. Climate change as a result of emissions of greenhouse gases is a significant topic of discussion and may generate federal and other regulatory responses in the near future, including the imposition of a so-called “cap and trade” system. It is impracticable to predict with any certainty the impact on our business of climate change or the regulatory responses to it, although we recognize that they could be significant. The most direct impact is likely to be an increase in energy costs, which would adversely impact consumers and their ability to incur and repay indebtedness. However, it is too soon for us to predict with any certainty the ultimate impact, either directionally or quantitatively, of climate change and related regulatory responses.

We are a holding company with no operations of our own. As a result, our cash flow and ability to service our debt is dependent upon distributions from our subsidiaries. Our ability to service our debt is dependent upon the cash flows and operating earnings of our subsidiaries. The distribution of subsidiary earnings, or advances or other distributions of funds by subsidiaries to us, all of which are subject to statutory and could be subject to contractual restrictions, are contingent upon the subsidiaries’ cash flows and earnings and are subject to various business and debt covenant considerations. In addition, we are considering further restructuring options.

Unless we obtain a bank charter, we cannot issue credit cards other than through agreements with banks. Because we do not have a bank charter, we currently cannot issue credit cards other than through agreements with banks. Previously we applied for permission to acquire a bank and our application was denied. Unless we obtain a bank or credit card bank charter, we will continue to rely upon banking relationships to provide for the issuance of credit cards to our customers. Even if we obtain a bank charter, there may be restrictions on the types of credit that the bank may extend. Our various issuing bank agreements have scheduled expirations dates. If we are unable to extend or execute new agreements with our issuing banks at the expirations of our current agreements with them, or if our existing or new agreements with our issuing banks were terminated or otherwise disrupted, there is a risk that we would not be able to enter into agreements with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

We are party to litigation. As more fully discussed above, we are defendants in a number of legal proceedings. This includes litigation with holders of our convertible senior notes concerning past and possible future distributions to our shareholders, litigation relating to our former retail micro-loan operations and other litigation customary for a business of our nature. In each case we believe that we have meritorious defenses or that the positions we are asserting otherwise are correct. However, adverse outcomes are possible in each of these matters, and we could decide to settle one or more of these matters in order to avoid the cost of litigation or to obtain certainty of outcome. Adverse outcomes or settlements of these matters could require us to pay damages, make restitution, change our business practices or take other actions at a level, or in a manner, that would adversely impact our business.

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We face heightened levels of economic risk associated with new investment activities. We recently have made a number of investments in businesses that are not directly allied to our traditional lending activities to, or associated with, the underserved consumer credit market and in businesses in which we exert little or no control. We expect to make other such investments in the future. While we will make only those investments that we believe will provide a favorable return, because some of the investments are outside of our core areas of expertise, they entail risks beyond those described elsewhere in this Report. These risks could result in the loss of part or all of our investments (e.g., as occurred with respect to our recognition of a complete loss of investment in the amount of $3.4 million on notes that we held in a non-financial business concern during the three months ended September 30, 2011, and our loss of another $1.9 million during the three months ended September 30, 2011 due to an other-than-temporary decline in the value of another issuer’s notes in which we had previously invested).

We may not be able to purchase charged-off receivables at sufficiently favorable prices or terms for our debt collection operations to be successful. The charged-off receivables that Jefferson Capital, our debt collection subsidiary, acquires and services (or resells) have been deemed uncollectible and written off by the originators. Factors causing the acquisition price of targeted portfolios to increase could reduce the ratio of collections (or sales prices received) to acquisitions costs for a given portfolio, and thereby negatively affect Jefferson Capital’s profitability. The availability of charged-off receivables portfolios at favorable prices and on favorable terms depends on a number of factors, including the continuation of the current growth and charge-off trends in consumer receivables, our ability to develop and maintain long-term relationships with key charged-off receivable sellers, our ability to obtain adequate data to appropriately evaluate the collectibility of portfolios and competitive factors affecting potential purchasers and sellers of charged-off receivables, including pricing pressures, which may increase the cost to us of acquiring portfolios of charged-off receivables and reduce our return on such portfolios.

Because we outsource account-processing functions that are integral to our business, any disruption or termination of that outsourcing relationship could harm our business. We outsource account and payment processing, and in 2011, we paid Total System Services, Inc. $9.3 million for these services. If these agreements were not renewed or were terminated or the services provided to us were otherwise disrupted, we would have to obtain these services from an alternative provider. There is a risk that we would not be able to enter into a similar agreement with an alternate provider on terms that we consider favorable or in a timely manner without disruption of our business.

Unauthorized disclosure of sensitive or confidential customer data could expose us to protracted and costly litigation, and civil and criminal penalties. To conduct our business, we are required to manage, use, and store large amounts of personally identifiable information, consisting primarily of confidential personal and financial data regarding our customers. We also depend on our IT networks and systems, and those of third parties, to process, store, and transmit this information. As a result, we are subject to numerous U.S. federal and state laws designed to protect this information. Security breaches involving our files and infrastructure could lead to unauthorized disclosure of confidential information.

We take a number of measures to ensure the security of our hardware and software systems and customer information. Advances in computer capabilities, new discoveries in the field of cryptography or other developments may result in the technology used by us to protect data being breached or compromised. In the past, consumer finance companies have been the subject of sophisticated and highly targeted attacks on their information technology. An increasing number of websites have reported breaches of their security.

If any person, including our employees or those of third-party vendors, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to costly litigation, monetary damages, fines, and/or criminal prosecution. Any unauthorized disclosure of personally identifiable information could subject us to liability under data privacy laws. Further, under credit card rules and our contracts with our card processors, if there is a breach of credit card information that we store, we could be liable to the credit card issuing banks for their cost of issuing new cards and related expenses. In addition, if we fail to follow credit card industry security standards, even if there is no compromise of customer information, we could incur significant fines.

Internet and data security breaches also could impede us from originating loans over the Internet, cause us to lose customers or otherwise damage our reputation or business. Consumers generally are concerned with security and privacy, particularly on the Internet. As part of our growth strategy, we have originated loans over the Internet. The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in our products and services offered online.

Advances in computer capabilities, new discoveries or other developments could result in a compromise or breach of the technology used by us to protect customer application and transaction data transmitted over the Internet. In addition to the potential for litigation and civil penalties described above, security breaches could damage our reputation and cause customers to become unwilling to do business with us, particularly over the Internet. Any publicized security problems could inhibit the growth of the Internet as a means of conducting commercial transactions. Our ability to solicit new loans over the Internet would be severely impeded if consumers become unwilling to transmit confidential information online.

Also, a party that is able to circumvent our security measures could misappropriate proprietary information, cause interruption in our operations, damage our computers or those of our users, or otherwise damage our reputation and business.

Regulation in the areas of privacy and data security could increase our costs. We are subject to various regulations related to privacy and data security/breach, and we could be negatively impacted by these regulations. For example, we are subject to the safeguards guidelines under the Gramm-Leach-Bliley Act. The safeguards guidelines require that each financial institution develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate to the financial institution’s size and complexity, the nature and scope of the financial institution’s activities and the sensitivity of any customer information at issue. Broad-ranging data security laws that affect our business also have been adopted by various states. Compliance with these laws regarding the protection of customer and employee data could result in higher compliance and technology costs for us, as well as potentially significant fines and penalties for non-compliance.

In addition to the foregoing enhanced data security requirements, various federal banking regulatory agencies, and as many as 46 states, the District of Columbia, Puerto Rico and the Virgin Islands, have enacted data breach regulations and laws requiring varying levels of customer notification in the event of a security breach.

Also, federal legislators and regulators are increasingly pursuing new guidelines, laws and regulations that, if adopted, could further restrict how we collect, use, share and secure customer information, which could impact some of our current or planned business initiatives.

Unplanned system interruptions or system failures could harm our business and reputation. Any interruption in the availability of our transactional processing services due to hardware and operating system failures will reduce our revenues and profits. Any unscheduled interruption in our services results in an immediate, and possibly substantial, loss of revenues. Frequent or persistent interruptions in our services could cause current or potential members to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our websites or services, and could permanently harm our reputation.

Although our systems have been designed around industry-standard architectures to reduce downtime in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, computer viruses, computer denial-of-service attacks, and similar events or disruptions. Some of our systems are not fully redundant, and our disaster recovery planning may not be sufficient for all eventualities. Our systems also are subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions we may take, the occurrence of a natural disaster, a decision by any of our third-party hosting providers to close a facility we use without adequate notice for financial or other reasons, or other unanticipated problems at our hosting facilities could cause system interruptions, delays, and loss of critical data, and result in lengthy interruptions in our services. Our business interruption insurance may not be sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures.

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Because of our loan to a coal mining operation (which was modified in late 2011 to require the consolidation of this operation into our financial statements), we could be subject to (i) significant administrative, civil, and criminal financial and other penalties if this operation does not comply with environmental, health and safety regulations and (ii) liability to third parties for environmental contamination. The coal mining industry is subject to strict regulation by federal, state and local authorities with respect to matters such as employee health and safety, permitting and licensing requirements, the protection of the environment, the protection of historic and natural resources, plants and wildlife, reclamation and restoration of mining properties after mining is completed, and the effects that mining has on groundwater quality and availability. Federal and state authorities inspect coal mines, and in the aftermath of the April 5, 2010 accident at an underground mine in Central Appalachia, mining operations have experienced, and may in the future continue to experience, a significant increase in the frequency and scope of these inspections. Numerous governmental permits and approvals are required for mining operations. Mining operations are required to prepare and present to federal, state and/or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment.

The costs, liabilities and requirements associated with the laws and regulations related to these and other environmental matters may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal financial and other penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from the mine’s operations.

New legislation or administrative regulations or new judicial interpretations or administrative enforcement of existing laws and regulations, including proposals related to the protection of the environment and the protection of historic and natural resources that would further regulate and tax the coal industry, could have a material adverse effect on our financial condition and results of operations.

We also could be subject to claims by third parties under federal and state statutes and/or common law doctrines resulting from damage to the environment or historic or natural resources or exposure to hazardous substances on the mine property or elsewhere. Liability for environmental contamination may be without regard to fault and may be strict, joint and several, so that we may be held responsible for the entire amount of the contamination or related damages. These and other similar unforeseen impacts that the mining operation may have on the environment, as well as exposures to hazardous substances or wastes associated with the mining operation, could result in costs and liabilities that could adversely affect us.

Even though this coal mining operation is owned and primarily operated by third parties, our financial relationship with this coal mining operation could subject us to these types of claims and penalties, particularly if these matters are not properly addressed by the owners and operators of this coal mining operation. If we are held responsible for sanctions, costs and liabilities in respect of these matters, our profitability could be materially and adversely affected.

Taxing authorities routinely review our tax returns and could challenge the positions that we have taken. Our businesses and the tax accounting for our businesses are very complex, thereby giving rise to a number of tax positions that are under consideration, and in some cases under dispute, in audits of our operations by various taxing authorities, including the Internal Revenue Service at the federal level with respect to net operating losses that we incurred in 2007 and 2008 and that we carried back to obtain tentative refunds of federal taxes paid in earlier years dating back to 2003. It is possible that a court of ultimate jurisdiction may resolve tax positions in favor of the Internal Revenue Service or that we may ultimately settle with the Internal Revenue Service on one or more uncertain tax positions in a manner that differs from the liabilities that we have recorded associated with such positions under our recognition and measurement determinations. The amounts involved in these audits, particularly the amounts of net operating losses that we carried back, are material. To the extent that our ultimate resolution results in more liability than we have recorded, we could experience a material adverse effect on our results of operations and liquidity.

Risks Relating to an Investment in Our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell your shares of our common stock when you want or at prices you find attractive. The price of our common stock on the NASDAQ Global Market constantly changes. We expect that the market price of our common stock will continue to fluctuate. The market price of our common stock may fluctuate in response to numerous factors, many of which are beyond our control. These factors include the following:

- actual or anticipated fluctuations in our operating results;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- the overall financing environment, which is critical to our value;
- the operating and stock performance of our competitors and other sub-prime lenders;
- announcements by us or our competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in interest rates;
- the announcement of enforcement actions or investigations against us or our competitors or other negative publicity relating to us or our industry;
- changes in GAAP, laws, regulations or the interpretations thereof that affect our various business activities and segments;
- general domestic or international economic, market and political conditions;
- additions or departures of key personnel; and
- future sales of our common stock and the share lending agreement.

In addition, the stock markets from time to time experience extreme price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the trading price of our common stock, regardless of our actual operating performance.

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Future sales of our common stock or equity-related securities in the public market, including sales of our common stock pursuant to share lending agreements or short sales transactions by purchasers of convertible notes securities, could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings. Sales of significant amounts of our common stock or equity-related securities in the public market, including sales pursuant to share lending agreements, or the perception that such sales will occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. Future sales of shares of common stock or the availability of shares of common stock for future sale, including sales of our common stock in short sales transactions by purchasers of our convertible notes, may have a material adverse effect on the trading price of our common stock.

Our business is going through a substantial period of transition and we are exploring various options. Because of the unavailability of growth financing for our traditional business, we are exploring various options designed to produce the greatest benefit possible for our shareholders. Currently these options include the payment of cash dividends and share repurchases, and we may consider additional options in the future. On December 31, 2009, we paid a $.50 per share dividend to our shareholders, and a tender offer that we completed on May 14, 2010 resulted in our repurchase of 12,180,604 shares of our common stock for $85.3 million, in addition to our repurchase of $24.8 million in face amount of our 3.625% convertible senior notes due 2025 for $14.7 million. Further, in a tender offer completed in April 2011, we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million.

We have the ability to issue preferred shares, warrants, convertible debt and other securities without shareholder approval. Our common shares may be subordinate to classes of preferred shares issued in the future in the payment of dividends and other distributions made with respect to common shares, including distributions upon liquidation or dissolution. Our articles of incorporation permit our Board of Directors to issue preferred shares without first obtaining shareholder approval. If we issued preferred shares, these additional securities may have dividend or liquidation preferences senior to the common shares. If we issue convertible preferred shares, a subsequent conversion may dilute the current common shareholders' interest. We have similar abilities to issue convertible debt, warrants and other equity securities.

Our executive officers, directors and parties related to them, in the aggregate, control a majority of our voting stock and may have the ability to control matters requiring shareholder approval. Our executive officers, directors and parties related to them own a large enough stake in us to have an influence on, if not control of, the matters presented to shareholders. As a result, these shareholders may have the ability to control matters requiring shareholder approval, including the election and removal of directors, the approval of significant corporate transactions, such as any reclassification, reorganization, merger, consolidation or sale of all or substantially all of our assets and the control of our management and affairs. Accordingly, this concentration of ownership may have the effect of delaying, deferring or preventing a change of control of us, impede a merger, consolidation, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could have an adverse effect on the market price of our common stock.

Note Regarding Risk Factors

The risk factors presented above are all of the ones that we currently consider material. However, they are not the only ones facing our company. Additional risks not presently known to us, or which we currently consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis might be wrong. If any of the risks that we face actually occur, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In such case, the trading price of our common stock could decline, and you could lose part or all of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices, comprising approximately 335,000 square feet, of which we have sub-leased approximately 214,000 square feet. Our operations centers and collection facilities for our Credit Cards segment, comprising approximately 63,000 square feet, are located in leased premises in St. Cloud, Minnesota. Our Investments in Previously Charged-Off Receivables segment also operates principally out of the St. Cloud, Minnesota facility. Our Auto Finance segment principally operates out of Lake Mary, Florida in approximately 9,605 square feet of leased space, with additional offices and branch locations in various states. Our operations in the U.K. include approximately 4,200 of aggregate square feet of leased space in Crawley and London. Currently, we have excess facility capacity that we are trying to sublease. As such, we believe that our facilities are suitable to our business and that we will be able to lease or purchase such additional facilities as our needs, if any, require.

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ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings that are incidental to the conduct of our business. The most significant of these are described below.

Litigation

We are involved in various legal proceedings that are incidental to the conduct of our business. The most significant of these are described below.

CompuCredit Corporation and five of our other subsidiaries are defendants in a purported class action lawsuit entitled Knox, et al., vs. First Southern Cash Advance, et al., No. 5 CV 0445, filed in the Superior Court of New Hanover County, North Carolina, on February 8, 2005. The plaintiffs allege that in conducting a so-called "payday lending" business, certain subsidiaries within our Retail Micro-Loans segment (the operations of which were sold in October 2011, subject to our retention of liability for this litigation) violated various laws governing consumer finance, lending, check cashing, trade practices and loan brokering. The plaintiffs further allege that CompuCredit Corporation was the alter ego of the subsidiaries and is liable for their actions. The plaintiffs are seeking damages of up to $75,000 per class member, and attorney's fees. These claims are similar to those that have been asserted against several other market participants in transactions involving small-balance, short-term loans made to consumers in North Carolina. On January 23, 2012, among other orders, the trial court denied the defendants' motion to compel arbitration, and granted the plaintiffs' motion for class certification. We are vigorously defending this lawsuit.

CompuCredit Corporation is named as a defendant in a class action lawsuit entitled Wanda Greenwood, et al. vs. CompuCredit Corporation and Columbus Bank and Trust, No. 4:08-cv-4878, filed in the U.S. District Court for the Northern District of California. The plaintiffs allege that in marketing and managing the Aspire Visa card the defendants violated the federal Credit Repair Organizations Act and California Unfair Competition Law. The class includes all persons who within the four years prior to the filing of the lawsuit were issued an Aspire Visa card or paid money with respect thereto. The plaintiffs seek various forms of damage, including unspecified monetary damages and the voiding of the plaintiffs' obligations. On January 10, 2012, the U.S. Supreme Court ordered that the claims related to the Credit Repair Organizations Act are subject to arbitration. We are vigorously defending this lawsuit.

On December 21, 2009, certain holders of our 3.625% convertible senior notes due 2025 and 5.875% convertible senior notes due 2035 filed a lawsuit in the U.S. District Court for the District of Minnesota seeking, among other things, to enjoin our December 31, 2009 cash distribution to shareholders and the then-potential future spin-off of our micro-loan businesses. We prevailed in court at a December 29, 2009 hearing concerning the plaintiffs' motion for a temporary restraining order against our December 31, 2009 cash distribution to shareholders, and that distribution was made as originally contemplated on that date. On March 19, 2010, the U.S. District Court for the District of Minnesota transferred venue to the U.S. District Court for the Northern District of Georgia, and on April 6, 2010, we filed a Renewed Motion to Dismiss. Shortly after that filing, on May 12, 2010, the plaintiffs filed a second amended complaint to add new claims and certain of our officers and directors as defendants, to continue to seek to enjoin the then-potential future spinoff and to seek unspecified damages against all defendants. The plaintiffs also sought temporary injunctive relief to prevent our completion of a then-pending tender offer for the repurchase of our 3.625% Convertible Notes due 2025 and our common stock at $7.00 per share. At a hearing on May 12, 2010, the judge in the Northern District of Georgia denied the request for a temporary restraining order, and the tender offer was completed as scheduled on May 14, 2010. On June 4, 2010 and June 25, 2010, we and the other defendants filed respective motions with the U.S. District Court for the Northern District of Georgia to dismiss the second amended complaint. On March 15, 2011, the court denied our and the other defendants' motions to dismiss the second amended complaint. On March 22, 2011, certain individual defendants filed a motion to certify a portion of the March 15, 2011 order for immediate interlocutory review, and on April 1, 2011, the court granted that motion. The Eleventh Circuit

Court of Appeals has agreed to hear that appeal, which is pending. Further, on March 23, 2011, plaintiffs filed an Emergency Motion for Preliminary Injunction in the U.S. District Court for the Northern District of Georgia seeking to enjoin as an alleged fraudulent transfer a then-pending tender offer to repurchase 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million. At a hearing on April 1, 2011, the court denied plaintiffs' motion for a preliminary injunction, and the tender offer was completed as scheduled on April 11, 2011. We are vigorously defending this lawsuit.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Select Market under the symbol "CCRT." The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ Global Select Market. As of February 24, 2012, there were 56 record holders of our common stock, which does not include persons whose stock is held in nominee or "street name" accounts through brokers, banks and intermediaries.

2010	High	Low
1st Quarter 2010	$5.36	$2.90
2nd Quarter 2010	$6.50	$3.65
3rd Quarter 2010	$5.23	$4.15
4th Quarter 2010	$7.23	$4.85
2011	High	Low
1st Quarter 2011	$6.97	$5.90
2nd Quarter 2011	$6.85	$2.32
3rd Quarter 2011	$3.20	$2.25
4th Quarter 2011	$4.21	$2.63

The closing price of our common stock on the NASDAQ Global Select Market on February 24, 2012 was $4.68.

The following table sets forth information with respect to our repurchases of common stock during the year ended December 31, 2011:

	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
July 1—July 31 (1)	173,500	$ 2.42	173,500	9,826,500
August 1 —August 31 (1)	62,200	$ 2.87	62,200	9,764,300
November 1 —November 30 (1)	509,200	$ 3.25	509,200	9,255,100
Total	744,900	$ 3.03	744,900	9,255,100

(1) In open market transactions and pursuant our Board-authorized plan to repurchase up to 10,000,000 common shares through June 30, 2012, we repurchased 744,900 shares of our common stock during the year ended December 31, 2011 at an average purchase price of $3.03 per share for an aggregate cost of $2.3 million. These shares are held in treasury.

(2) Because withholding-tax-related treasury stock acquisitions are permitted outside the scope of our 10,000,000 share Board-authorized repurchase plan, these amounts exclude 206,504 shares of treasury stock returned to us by employees in satisfaction of withholding tax requirements on stock option exercises and vested stock grants.

We will continue to evaluate our stock price relative to other investment opportunities and, to the extent we believe that the repurchase of our stock represents an appropriate return of capital, we will repurchase additional shares of our stock.

ITEM 6. SELECTED FINANCIAL DATA

As a “smaller reporting company,” as defined by Item 10 of Regulation S-K, we are not required to provide this information.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included therein where certain terms have been defined.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. We base these forward-looking statements on our current plans, expectations and beliefs about future events. There are risks that our actual experience will differ materially from the expectations and beliefs reflected in the forward-looking statements in this section. See "Cautionary Notice Regarding Forward-Looking Statements."

OVERVIEW

We are a provider of various credit and related financial services and products to or associated with the financially underserved consumer credit market—a market represented by credit risks that regulators classify as "sub-prime." We traditionally have served this market principally through our marketing and solicitation of credit card accounts and other credit products and our servicing of various receivables.

Currently, within our Credit Cards segment, we are collecting on portfolios of credit card receivables underlying now-closed credit card accounts. These receivables include both receivables that we originated through third-party financial institutions and portfolios of receivables that we purchased from third-party financial institutions. Given the global financial crisis arising in 2008 and given our own liquidity challenges that arose from that crisis, we worked with our third-party financial institution partners to close substantially all of the credit card accounts underlying our credit card receivables portfolios in 2009. The only open credit card accounts underlying our credit card receivables are those generated through our balance transfer program within our Investments in Previously Charged-Off Receivables segment in both the U.S. and the U.K. and through credit card products in the U.K. Several of our portfolios of credit card receivables underlying now-closed accounts are encumbered by non-recourse structured financings, and for some of these portfolios, our only remaining economic interest is the servicing compensation that we receive as an offset against our servicing costs given that the likely future collections on the portfolios are insufficient to allow for full repayment of the financings. We have been successful in one instance in partnering with another financing partner to purchase the debt underlying one such portfolio at a discounted purchase price and we are pursuing other similar transactions. Beyond these activities within our Credit Cards segment, we are applying the experiences and infrastructure associated with our historic credit card offerings to other credit product offerings, including merchant and private label credit. Lastly, through our Credit Cards segment we are engaged in limited investment activities in ancillary finance, technology and other businesses as we seek to build new products and relationships that could allow for greater utilization of our expertise and infrastructure.

Through our Investment in Previously Charged-Off Receivable segment, we purchase and collect previously charged-off receivables from third parties and our equity method investees, as well as previously charged-off receivables that we have owned or serviced within our other segment operations. Our portfolio of previously charged-off receivables is comprised principally of normal delinquency charged-off accounts, charged-off accounts associated with Chapter 13 Bankruptcy-related debt, and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment's balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts (at which time the credit card activity becomes reportable within our Credit Cards segment).

Within our Auto Finance segment, our CAR subsidiary operations purchase and/or service auto loans from or for a pre-qualified network of dealers in the buy-here, pay-here used car business. We purchase the auto loans at a discount and with dealer retentions or holdbacks that provide risk protection. Also within our Auto Finance segment, we are collecting on a couple of portfolios of auto finance receivables that we previously originated through franchised and independent auto dealers in connection with prior business activities.

The last of our current product and service offerings includes a limited test portfolio of small-balance (generally less than $500), short-term loans that we originate over the Internet in the U.S. and to which we refer as "micro-loans." The results of our continuing U.S. Internet micro-loan testing are reported within our Internet Micro-Loans segment.

We also entered into a contract and completed a transaction to dispose of our Retail Micro-Loans segment during 2011 as discussed further below. In accordance with applicable accounting literature, we have classified this segment's business operations as discontinued operations within our consolidated statements of operations for all periods presented.

In connection with our consideration of a potential spin-off of our U.S. and U.K. micro-loan businesses, one of our subsidiaries, Purpose Financial Holdings, Inc., filed a Form 10 Registration Statement and a related Information Statement with the SEC on January 4, 2010 and amended the Form 10 Registration Statement and related Information Statement in response to SEC comments most recently on November 30, 2010. On April 13, 2011, we formally requested the withdrawal of this registration statement due to the completion of our MEM sale.

The most significant business changes or events for us during the year ended December 31, 2011 were:

- The sale of our Retail Micro-Loans segment to a subsidiary of Advance America, Cash Advance Centers, Inc. for $46.2 million on October 10, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of $5.1 million that is included as a component of discontinued operations within our consolidated statement of operations for the year ended December 31, 2011, and (2) the classification our Retail Micro-Loans segment's operations as discontinued operations for all periods presented within our consolidated statements of operations;

- Our repurchases in open market transactions of an aggregate of $62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and $1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for $59.3 million and $0.4 million, respectively, such amounts being inclusive of transaction costs and accrued interest through the dates of our repurchases of the notes;

- The closing of a tender offer in April 2011, through which we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million;

- The sale of our MEM operations to a subsidiary of Dollar Financial Corp for $195.0 million on April 1, 2011, thereby resulting in (1) a gain (net of related sales expenditures) of $106.0 million that is included as a component of discontinued operations within our consolidated statements of operations for the year ended December 31, 2011, (2) the classification of our MEM operations as discontinued operations for all periods presented within our consolidated statements of operations, and (3) the confirmation of our classification of these operations on our consolidated balance sheet as of December 31, 2010 as held for sale;

- Our acquisition of a 50% interest in a joint venture that purchased at discounted price in March 2011 all of the outstanding notes issued out of our U.K. Portfolio structured financing trust and reported a gain in the three months ended March 31, 2011 upon its marking of such notes to their fair value as of March 31, 2011 under its fair value option election (of which $17.1 million was our allocable share);

- Our February 2011 sale of certain operating assets of our JRAS buy-here, pay-here lot subsidiaries in a transaction under which we retained its underlying loans and fees receivable, resulting in a loss of $4.6 million; and

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Our January 2011 purchase of certain investor interests in our Credit Cards segment equity-method investees and substantially all of the noncontrolling interests in our Credit Cards segment majority-owned subsidiaries for $4.1 million.

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As is customary in our industry, we historically financed most of our credit card receivables through the asset-backed securitization markets. These markets worsened significantly in 2008 and are not likely to return to any degree of efficient and effective functionality for us in the near term—particularly given a current U.S. regulatory and economic environment in which sub-prime credit card lending returns on investment are not attractive enough for us to want to originate any significant level of new credit card receivables in the U.S. (other than through our Investment in Previously Charged-Off Receivables segment's balance transfer program). We continue, however, to originate credit cards in the U.K. because we believe the U.K. regulatory environment to be more favorable than the U.S. toward possible significant credit card origination growth in the future.

In the current environment, the only material recurring cash flows we receive within our Credit Cards segment are those associated with servicing compensation, distributions from one of our equity-method investees that in March 2011 purchased and now holds all of the outstanding notes issued out of our U.K. Portfolio structured financing trust, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. As such, we are closely monitoring and managing our liquidity position, reducing our overhead infrastructure (which was built to accommodate higher account originations and managed receivables levels) and further leveraging our global infrastructure in order to maximize returns to shareholders on existing assets. Some of these actions, while prudent to maximize cash returns on existing assets, have had the effect of reducing our potential for profitability. Our belief is that our reductions in personnel, overhead and other costs (through increased outsourcing) to levels that our Credit Cards segment can better support with its diminished cash inflows will not result in further impairments in the fair values of our credit card receivables; however, this outcome cannot be assured.

Our credit card and other operations are heavily regulated, and over time we change how we conduct our operations either in response to regulation or in keeping with our goals of continuing to lead the industry in the application of consumer-friendly practices. We have made several significant changes to our practices over the past several years, and because our account management practices are evolutionary and dynamic, it is possible that we may make further changes to these practices, some of which may produce positive, and others of which may produce adverse, effects on our operating results and financial position.

Subject to the availability of growth capital at attractive terms and pricing, our shareholders should expect us to continue to evaluate and pursue a variety of activities that would be reflected predominantly within our Credit Cards segment: (1) the acquisition of additional credit card receivables portfolios, and potentially other financial assets that are complementary to our financially underserved credit card business; (2) investments in other assets or businesses that are not necessarily financial services assets or businesses; and (3) additional opportunities to repurchase our convertible senior notes and other debt or our outstanding common stock. Absent the availability of investment alternatives (in other portfolios, other non-financial assets or businesses, or our own debt) at prices necessary to provide attractive returns for our shareholders, we will continue to look to maximize shareholder value through the distribution of excess cash to shareholders (as has been done historically through dividends and tender offers, including our tender offer that closed in April 2011, whereby we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million). Additionally, given that financing for growth and acquisitions currently is constrained, as well the potential conversions of our 3.625% convertible senior notes, which would require us to repurchase the $83.9 million in face amount of such notes outstanding as of December 31, 2011, our shareholders should expect us to pursue less capital intensive activities, like servicing credit card receivables and other assets for third parties (and in which we have limited or no equity interests), that allow us to leverage our expertise and infrastructure until we can finance and complete further acquisitions.

CONSOLIDATED RESULTS OF OPERATIONS

(In Thousands)	2011	2010	Income Increases

							(Decreases) from 2010 to 2011	
Total interest income	$	149,429		$	263,821	$	(114,392	)
Interest expense		(43,979	)		(58,631	)	14,652	
Fees and related income on earning assets:								
Internet micro-loan fees		3,614			1,935		1,679	
Fees on credit card receivables		10,609			24,384		(13,775	)
Changes in fair value of loans and fees receivable recorded at fair value		181,502			230,911		(49,409	)
Changes in fair value of notes payable associated with structured financings recorded at fair value		(90,524	)		32,300		(122,824	)
Income on investments in previously charged-off receivables		42,483			32,293		10,190	
Gross loss on auto sales		(111	)		(2,290	)	2,179	
(Losses) gains on investments in securities		(4,449	)		4,207		(8,656	)
Loss on sale of JRAS assets		(4,648	)		—		(4,648	)
Gains upon litigation settlement with former third-party issuing bank partner		—			12,150		(12,150	)
Other		2,321			1,858		463	
Other operating income:								
Servicing income		3,281			6,880		(3,599	)
Ancillary and interchange revenues		9,281			10,955		(1,674	)
Gain on repurchase of convertible senior notes		645			28,787		(28,142	)
Gain on buy-out of equity-method investee members		623			—		623	
Equity in gain (loss) of equity-method investees		32,657			(9,584	)	42,241	
Total	$	292,734		$	579,976	$	(287,242	)
Losses upon charge off of loans and fees receivable recorded at fair value		139,480			464,809		325,329	
Provision for losses on loans and fees receivable recorded at net realizable value		4,663			35,423		30,760	
Operating expenses:								
Salaries and benefits		22,353			33,563		11,210	
Card and loan servicing		74,038			97,307		23,269	
Marketing and solicitation		3,620			2,058		(1,562	)
Depreciation		4,772			10,957		6,185	
Other		28,044			43,620		15,576	
Net income (loss)		135,064			(94,945	)	230,009	
Net income attributable to noncontrolling interests		1,047			2,559		1,512	
Net income (loss) attributable to controlling interests		134,017			(97,504	)	231,521	

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Year Ended December 31, 2011, Compared to Year Ended December 31, 2010

Total interest income. In the year ended December 31, 2011, total interest income consists primarily of finance charges and late fees earned on our credit card and auto finance receivables. The decline from the year ended December 31, 2010 is due to net liquidations of our credit card and auto finance receivables over the past year. Moreover, absent the effects of possible portfolio acquisitions, we expect our ongoing total interest income to decline in subsequent quarters along with continuing expected net liquidations of our credit card and auto finance receivables.

Interest expense. The decrease is due to (1) our debt facilities being repaid commensurate with net liquidations of the underlying credit card receivables and auto finance receivables that serve as collateral for the facilities, and (2) the effects of our repurchases of our convertible senior notes throughout 2010 and 2011.

We also note that notwithstanding the effects of our convertible senior notes issuance discount accretion in increasing monthly interest expense amounts in the future, we expect lower interest expense for these notes in future periods attributable to (1) our 2011 repurchases of an aggregate $62.0 million in face amount of our 3.625% convertible senior notes and $1.0 million in face amount of our 5.875% convertible senior notes and (2) the likely investor put of our 3.625% convertible senior notes to us in May 2012.

Fees and related income on earning assets. The significant factors affecting our differing levels of fees and related income on earning assets include:

- improved performance within our Investments in Previously Charged-Off Receivables segment;
- reductions in fees earned on our credit card receivables due to continued liquidations offset slightly by the consolidation of former equity-method investees as a result of our January 2011 purchase of certain investor interests in these entities;
- reduced gross losses in 2011 on automotive vehicle sales corresponding to our minimization of additional inventory purchases within our JRAS operations and our ultimate suspension of operations and final sale of our remaining JRAS lot in February 2011;
- our recognition of a $4.6 million loss in the three months ended March 31, 2011 corresponding to our above-mentioned sale of certain assets associated with our JRAS operations; and
- our recognition of a $3.4 million loss in the third quarter of 2011 on an investment that we made in non-marketable debt securities—such loss representing 100% of the face amount of the notes that we held from the issuer of the notes based on an other-than-temporary decline in their value, and our recognition of another $1.9 million loss in the third quarter of 2011 due to an other-than-temporary decline in the value of another issuer’s non-marketable debt securities in which we had previously invested.

Given expected net liquidations in our credit card receivables (absent possible portfolio acquisitions) in the future, we expect to experience declining levels of fee income on credit card receivables in the future. For the same reason, we also expect our change in fair value of credit card receivables recorded at fair value and our change in fair value of notes payable associated with structured financings recorded at fair value amounts to gradually diminish (absent significant changes in the assumptions used to determine these fair values) in the future. These amounts, however, are subject to potentially high levels of volatility if we experience changes in the quality of our credit card receivables or if there are significant changes in market valuation factors (e.g., interest rates and spreads) in the future. Such volatility will be muted somewhat, however, by the offsetting nature of the receivables and underlying debt being recorded at fair value and with the expected reductions in the face amounts of such outstanding receivables and debt as we experience further credit card receivables liquidations and associated debt amortizing repayments.

Additionally, prospects for profits and revenue growth within our Investments in Previously Charged-off Receivables segment remain good. Although competition for purchases of pools of charged-off receivables is high, we believe that we can favorably compete within the marketplace, particularly given some of our unique offerings like our balance transfer program.

Servicing income. Our reported servicing income is comprised of servicing compensation paid to us by third parties associated with our servicing of their loans and fees receivable. Reflecting both continued liquidations in the loans and fees receivable we service for third parties and our January 2011 purchase of certain third-party investor interests in our Credit Cards segment equity-method investees that held loans and fees receivable serviced by us (and their subsequent consolidation and elimination), servicing income has declined over that experienced in the prior year. Moreover, we expect further declines in such income absent our obtaining contracts to service portfolios for other third parties.

Ancillary and interchange revenues. During periods, unlike our current period, in which we are broadly originating credit card accounts or in which a significant number of credit card accounts are open to cardholder purchases, we market to cardholders other ancillary products, including credit and identity theft monitoring, health discount programs, shopping discount programs and debt waivers. The decline in our ancillary revenues associated with these activities and our interchange revenues corresponds with our account closure actions and net liquidations we have experienced in all of our credit card receivables portfolios in recent years. Absent portfolio acquisitions, we do not expect significant ancillary and interchange revenues in the future.

Gain on repurchase of convertible senior notes. In open market transactions during the year ended December 31, 2011, we repurchased $62.0 million in face amount of our 3.625% notes due 2025 and $1.0 million in face amount of our 5.875% convertible senior notes due 2035 for $59.3 million and $0.4 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the year ended December 31, 2011 of $0.3 million and $0.3 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases), respectively.

In the year ended December 31, 2010 both in open market transactions and pursuant to the closing of two tender offers, we repurchased $84.6 million in face amount of our 3.625% notes due 2025 and $15.6 million in face amount of our 5.875% convertible senior notes due 2035 for $52.1 million and $5.7 million (inclusive of transaction costs and accrued interest through the date of our repurchase of the notes), respectively, thereby resulting in the recognition of an aggregate gain during the year ended December 31, 2010 of $24.2 million and $4.6 million (net of the notes' applicable share of deferred costs and debt discount, which were recovered in connection with the purchases), respectively.

We are actively pursuing other repurchases of our convertible senior notes, which could result in additional as of yet unknown gains or losses upon such repurchases.

Equity in income (loss) of equity-method investees. The significant increase in income associated with our equity-method investees is principally related to our 50.0% interest in the joint venture that purchased in March 2011 the outstanding notes issued out of our U.K. Portfolio structured financing trust. Contemporaneous with our March 2011 acquisition of our 50% interest in the joint venture, it elected to account for its investment in the U.K. Portfolio structured financing notes at their fair value, and it recognized a $34.2 million gain (of which our 50% share represented $17.1 million) equal to the excess of the fair value of the notes as of March 31, 2011 over the joint venture's discounted purchase price of the notes.

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We expect to see continued liquidations in the credit card receivables portfolios and structured financing notes held by our equity-method investees for the foreseeable future. As such, absent possible investments in new equity-method investees in the future, we expect gradually declining effects from our equity-method investments on our operating results.

Losses upon charge off of loans and fees receivable recorded at fair value. This account reflects charge offs of credit card receivables recorded at fair value on our consolidated balance sheet. We expect these charge offs to continue to decline over time as we continue to liquidate the underlying credit card receivables.

Provision for losses on loans and fees receivable recorded at net realizable value. Our provision for losses on loans and fees receivable recorded at net realizable value covers aggregate loss exposures on (1) principal receivable balances, (2) finance charges and late fees receivable underlying income amounts included within our total interest income category, and (3) other fees receivable. Contractions in our auto finance loans and fees receivable combined with some modest effects of an improved economy over recent quarters account for the significant declines in our provisions for losses on loans and fees receivable recorded at net realizable value in the year ended December 31, 2011, compared to the year ended December 31, 2010. Similarly, we expect continued reductions in our provision for losses on loans and fees receivable recorded at net realizable value throughout 2012 attributable to the continued expected gradual net liquidation of our auto finance receivables. The level of contraction in these receivables is expected to outpace growth in receivables within our Internet micro-loan business, receivables associated with our Investment in Previously Charged-Off Receivables segment's balance transfer program, and other receivables associated with new products we are testing (e.g., merchant and private label credit products). Moreover, we do not expect any significant deviations in our credit risks, delinquencies and loss rates in 2012 versus 2011.

Total other operating expense. Total other operating expense decreased for the year ended December 31, 2011 relative to the year ended December 31, 2010, reflecting the following:

- diminished salaries and benefits costs resulting from our ongoing cost-cutting efforts as we continue to adjust our internal operations to reflect the declining size of our existing portfolios;

- decreases within card and loan servicing expenses, primarily as a result of credit card and auto finance receivables portfolio liquidations;

- decreases in depreciation due to cost containment measures, specifically a diminished level of capital investments by us; and

- lower other expenses (which include, for example, net rent and other occupancy costs, legal and professional fees, transportation and travel costs, telecom and data processing costs, insurance premiums, and other overhead cost categories) as we continue to adjust our internal costs based on the declining size of our existing portfolios;

offset, however, by:

- costs associated with our exploration and testing of various new business opportunities that largely utilize existing resources but prevent further downsizing of personnel costs.

While we incur certain base levels of fixed costs, a large portion of our operating costs are variable based on the levels of accounts we market and receivables we service (both for our own account and for others) and the pace and breadth of our search for, acquisition of and introduction of new business lines, products and services. We also attempt to maximize the utility that we get from our incurrence of fixed costs by our testing and exploration of new products and services and areas of investment. Given our current focus on cost-cutting and maximizing shareholder returns in light of the continuing dislocation in the liquidity markets and significant uncertainties as to when these markets and the economy will sufficiently improve, we expect further reductions in most cost categories discussed above over the next several quarters. We continue to perform extensive reviews of all areas of our businesses for cost savings opportunities to better align our costs with our net liquidating portfolio of managed receivables.

Notwithstanding our cost-cutting efforts and focus, we currently are incurring, and will continue to incur, somewhat heightened legal costs until we resolve all outstanding litigation. Additionally, while it is relatively easy for us to scale back our variable expenses, it is much more difficult for us to appreciably reduce our fixed and other costs associated with an infrastructure (particularly within our Credit Cards segment) that was built to support growing managed receivables and levels of managed receivables that are significantly higher than both our current levels and the levels that we expect to see in the near future. At this point, our Credit Cards segment cash inflows are sufficient to cover its direct variable costs and a portion, but not all, of its share of overhead costs (including, for example, corporate-level executive and administrative costs and our convertible senior notes interest costs). As such, if we are not successful in further reducing overhead costs, then, depending upon the sufficiency of excess cash flows and earnings generated from our Auto Finance and Investments in Previously Charged-Off Receivables businesses, we may experience continuing pressure on our liquidity position and our ability to be profitable.

Noncontrolling interests. We reflect the ownership interests of noncontrolling holders of equity in our majority-owned subsidiaries as noncontrolling interests in our consolidated statements of operations. Because of various transactions that have taken place during 2010 and into the first and second quarters of 2011, unless we enter into significant new majority-owned subsidiary ventures with noncontrolling interest holders in the future, we expect to have negligible noncontrolling interests in our majority-owned subsidiaries and negligible allocations of income or loss to noncontrolling interest holders in future quarters. Transactions contributing to this development and the decline in net income attributable to noncontrolling interests in 2011 versus 2010 include:

- Our March 2010, acquisition of noncontrolling interests representing 6% of MEM (within our Internet Micro-Loans segment), thereby reducing outstanding noncontrolling interests in MEM from 24% at December 31, 2009 to 18% at March 31, 2010, and our follow-on transaction on April 1, 2011 under which we sold our MEM operations; and

- Our collective January 2011 and April 2011 purchases of most of the noncontrolling interest holders' ownership interests in our Credit Cards segment majority-owned subsidiaries.

Income taxes. Computed considering results for only our continuing operations before income taxes, our effective income tax expense rate was a negative 1.8% for the year ended December 31, 2011, versus our effective income tax benefit rate of a positive 1.8% for the year ended December 31, 2010. We have experienced no material changes in effective tax rates associated with differences in filing jurisdictions, and the variations in our effective tax rates between the periods principally bear the effects of (1) changes in valuation allowances against income statement-oriented federal, foreign and state deferred tax assets and (2) variations in the level of our pre-tax income among the different reporting periods relative to the level of our permanent differences within such periods. Computed without regard to the effects of the valuation allowance changes, it is more likely than not that our effective tax rates would have been an 88.1% expense rate and a 31.9% benefit rate, in the years ended December 31, 2011 and 2010, respectively.

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We recognize potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized $2.1 million and $3.5 million in potential interest and penalties associated with uncertain tax positions during the years ended December 31, 2011 and 2010, respectively. To the extent such interest and penalties are not assessed as a result of a resolution of the underlying tax position, amounts accrued are reduced and reflected as a reduction of income tax expense. We recognized such reductions in the amounts of $1.0 million and $3.5 million in the years ended December 31, 2011 and 2010, respectively.

Credit Cards Segment

Included at the end of this “Credit Cards Segment” section under the heading “Definitions of Financial, Operating and Statistical Measures” are definitions for various terms we use throughout our discussion of the Credit Cards segment.

Our Credit Cards segment includes our activities relating to investments in and servicing of our various credit card receivables portfolios. The revenues we earn from credit card activities primarily include finance charges, late fees, over-limit fees, annual fees, activation fees, monthly maintenance fees, returned-check fees and cash advance fees. Also, while insignificant currently, revenues (during previous periods of broad account origination and in which significant numbers of accounts were open to cardholder purchases) also have included those associated with (1) our sale of ancillary products such as memberships, subscription services and debt waiver, as well as (2) interchange fees representing a portion of the merchant fee assessed by card associations based on cardholder purchase volumes underlying credit card receivables.

We solicit credit card accounts to participate in our balance transfer program through our Investments in Previously Charged-Off Receivables segment, whereby we offer potential customers a credit card product in exchange for payments made on a previously charged-off debt that we either have purchased or have agreed to purchase upon acceptance of our balance transfer offer terms. After our receipt of an offered and agreed-upon level of payments on the previously charged-off debt, a credit card is made available to the consumer, and as the consumer further reduces his or her outstanding previously charged-off debt balance, additional credit is made available to the consumer under the credit card product. The initial costs of this program are relatively low when compared to our traditional credit card offerings, and while we anticipate growing this product at a moderate pace during the coming quarters, this product offering’s open credit card accounts carrying value currently represents 4.1% of our consolidated loans and fees receivable (net or at fair value). After card issuance, the revenues and costs associated with the balance transfer program credit card offerings are included in our Credit Cards segment results; whereas, the pre-card-issuance activities associated with the initial purchase and collection of the outstanding balance of previously charged-off debt are included in our Investments in Previously Charged-Off Receivables segment results.

We record the finance charges and late fees assessed on our credit card receivables in the consumer loans, including past due fees category on our consolidated statements of operations, we include the over-limit, annual, monthly maintenance, returned-check, cash advance and other fees in the fees and other income on earning assets category on our consolidated statements of operations, and we reflect the charge offs within our provision for losses on loans and fees receivable on our consolidated statements of operations (for all credit card receivables other than those underlying formerly off-balance-sheet securitization structures) and within losses upon charge off of loans and fees receivable recorded at fair value on our consolidated statements of operations (for all of our other credit card receivables underlying formerly off-balance-sheet securitization structures for which we have elected the fair value option). Additionally, we show the effects of fair value changes for those credit card receivables for which we have elected the fair value option as a component of fees and related income on earning assets in our consolidated statements of operations.

We historically have originated and purchased our credit card portfolios through subsidiary entities. Generally, if we control through direct ownership or exert a controlling interest in the entity, we consolidate it and reflect its operations as noted above. If we exert significant influence but do not control the entity, we record our share of its net operating results in the equity in income (loss) of equity-method investees category on our consolidated statements of operations.

Background

We make various references within our discussion of the Credit Cards segment to our managed receivables. In calculating managed receivables data, we include within managed receivables those receivables we manage for our consolidated subsidiaries, but we exclude from managed receivables any noncontrolling interest holders' shares of the receivables during applicable periods. Additionally, we include within managed receivables only our economic share of the receivables that we manage for our equity-method investees.

Financial, operating and statistical data based on aggregate managed receivables are vital to any evaluation of our performance in managing our credit card portfolios, including our underwriting, servicing and collecting activities and our valuing of purchased receivables. In allocating our resources and managing our business, management relies heavily upon financial data and results prepared on this "managed basis." Analysts, investors and others also consider it important that we provide selected financial, operating and statistical data on a managed basis because this allows a comparison of us to others within the specialty finance industry. Moreover, our management, analysts, investors and others believe it is critical that they understand the credit performance of the entire portfolio of our managed receivables because it reveals information concerning the quality of loan originations and the related credit risks inherent within the portfolios.

Reconciliation of the managed receivables data to our GAAP financial statements requires: (1) an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable or any changes in the fair value of loans and fees receivable and their associated structured financing notes; (2) inclusion of our economic share of (or equity interest in) the receivables we manage for our equity-method investees; (3) removal of our noncontrolling interest holders' shares of the managed receivables underlying our GAAP consolidated results; and (4) treatment of the transaction in which our 50%-owned equity-method investee acquired our U.K. Portfolio structured financing trust notes (a) as a deemed sale of the U.K. Portfolio trust receivables at their face amount, (b) followed by the 50%-owned equity-method investee's deemed repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes, and (c) as though the difference between the deemed face amount and the deemed discounted repurchase price of the receivables is to be treated as credit quality discount to be accreted into managed earnings as a reduction of net charge offs over the remaining life of the receivables.

We typically have purchased credit card receivables portfolios at substantial discounts. In our managed basis statistical data, we apply a portion of these discounts against receivables acquired for which charge off is considered likely, including accounts in late stages of delinquency at the date of acquisition; this portion is measured based on our acquisition date estimate of the shortfall of cash flows expected to be collected on the acquired portfolios relative to the face amount of receivables represented within the acquired portfolios. We refer to the balance of the discount for each purchase not needed for credit quality as accretable yield, which we accrete into net interest margin in our managed basis statistical data using the interest method over the estimated life of each acquired portfolio. As of the close of each financial reporting period, we evaluate the appropriateness of the credit quality discount component and the accretable yield component of our acquisition discount based on actual and projected future results.

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Asset Quality

Our delinquency and charge-off data at any point in time reflect the credit performance of our managed receivables. The average age of the credit card accounts underlying our receivables, the timing of portfolio purchases, the success of our collection and recovery efforts and general economic conditions all affect our delinquency and charge-off rates. The average age of the accounts underlying our credit card receivables portfolio also affects the stability of our delinquency and loss rates. We consider this delinquency and charge-off data in our determination of the fair value of our credit card receivables underlying formerly off-balance-sheet securitization structures, as well as our allowance for uncollectible loans and fees receivable in the case of our other credit card receivables that we report at net realizable value. Our strategy for managing delinquency and receivables losses consists of account management throughout the customer relationship. This strategy includes credit line management and pricing based on the risks of the credit card accounts. See also our discussion of collection strategies under the heading “How Do We Collect from Our Customers?” in Item 1, “Business,” of this Report.

The following table presents the delinquency trends of the credit card receivables we manage, as well as charge-off data and other managed loan statistics (in thousands; percentages of total):

	At or for the Three Months Ended							
	2011				2010			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Period-end managed receivables	$477,242	$537,807	$612,104	$697,032	$774,875	$913,707	$1,052,977	$1,259,687
Period-end managed accounts	384	426	478	540	599	696	754	916
Percent 30 or more days past due	12.8 %	12.7 %	11.9 %	12.5 %	15.2 %	18.0 %	19.3 %	20.2
Percent 60 or more days past due	9.6 %	9.0 %	8.7 %	9.5 %	11.6 %	14.0 %	14.5 %	16.0
Percent 90 or more days past due	6.9 %	6.3 %	6.2 %	7.0 %	8.7 %	10.4 %	10.3 %	12.5
Average managed receivables	$509,083	$578,254	$658,309	$752,758	$843,394	$984,259	$1,146,358	$1,396,628
Combined gross charge-off ratio	18.8 %	20.6 %	24.0 %	29.5 %	36.4 %	37.1 %	47.8 %	42.8
Net charge-off ratio	14.9 %	16.5 %	19.6 %	23.9 %	28.9 %	29.6 %	37.2 %	34.8
Adjusted charge-off ratio	11.8 %	13.7 %	16.5 %	22.6 %	28.6 %	29.2 %	36.8 %	34.5
Total yield ratio	25.4 %	21.5 %	24.6 %	23.1 %	25.1 %	31.9 %	27.6 %	29.4
Gross yield ratio	18.7 %	19.4 %	18.9 %	18.6 %	18.8 %	20.4 %	20.6 %	21.2
Net interest margin	12.7 %	13.4 %	12.8 %	11.9 %	11.9 %	13.1 %	11.3 %	14.9
Other income ratio	2.8 %	(1.6 %)	1.7 %	2.0 %	3.3 %	8.9 %	3.6 %	4.7
Operating ratio	11.4 %	11.5 %	11.9 %	10.4 %	9.8 %	9.2 %	12.0 %	11.2

Managed receivables. The consistent quarterly declines in our period-end and average managed receivables over the last eight quarters reflect the net liquidating state of our credit card receivables portfolios given the closure of substantially all credit card accounts underlying the portfolios. Moreover, with the isolated exceptions of our balance transfer program within our Investments in Previously Charged-Off Receivables segment (the post-card issuance activities of which are reported within our Credit Cards segment) and some limited product testing in the U.K., we have curtailed our credit card marketing efforts in light of (1) dislocation in the liquidity markets and uncertainty as to when and if these markets will rebound sufficiently to facilitate organic growth in our credit card receivables operations and (2) an unfavorable account origination regulatory climate in our primary U.S. market. We do not anticipate meaningful account or receivables additions in the near term to offset the receivables balance contractions noted above.

Delinquencies. Delinquencies have the potential to impact net income in the form of net credit losses. Delinquencies also are costly in terms of the personnel and resources dedicated to resolving them. We intend for the account management strategies we use on our portfolio to manage and, to the extent possible, reduce the higher delinquency rates that can be expected in a more mature managed portfolio such as ours. These account management strategies include conservative credit line management, purging of inactive accounts and collection strategies intended to optimize the effective account-to-collector ratio across delinquency categories. We further describe these collection strategies under the heading "How Do We Collect from Our Customers?" in Item 1, "Business" in this Report. We measure the success of these efforts by measuring delinquency rates. These rates exclude accounts that have been charged off.

Our lower-tier credit card receivables typically experience substantially higher delinquency rates and charge-off levels than those of our other originated and purchased portfolios. Our delinquency statistics recently have benefited from a mix change whereby disproportionately higher charge-off levels for our lower-tier credit card portfolios relative to those of our other credit card receivables have caused a decline in lower-tier credit card receivables as a percentage of our aggregate managed credit card receivables.

Given that the largest wave of account reduction and account closure-related charge offs cycled through early in 2009, one would logically expect to see the relatively lower delinquency and charge-off benefits of our more mature portfolios. This trend is bearing out as noted in the trending year-over-year declines in our 2011 and 2010 delinquency statistics relative to corresponding dates in prior years and is consistent with our expectations for the next few quarters. While improvements in our charge-off ratios generally can be expected to lag delinquency improvements, we do note the significant year-over-year reductions in all of our charge-off ratios in 2011 quarters relative to corresponding 2010 quarters—a trend that we expect to continue to see into the future.

Lastly, we note that our low delinquency rates at the close of the second quarter of 2011 reflect seasonal payment patterns through the first quarter. Payment rates were particularly strong relative to recent years during this year's tax refund season, thereby bringing delinquency rates down. Our delinquency rates as of the close of the fourth quarter of 2011 are trending slightly higher than they were at the close of the second quarter of 2011. We do note (consistent with our expectations) that the trend of significantly falling delinquency rates over the past several quarters ceased in the third quarter of 2011. At this point, we expect 30-or-more-day-past-due delinquency rates to stabilize in the low to mid teens with more normalized seasonal variations evident in the rates.

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Charge offs. We generally charge off credit card receivables when they become contractually 180 days past due or within 30 days of notification and confirmation of a customer's bankruptcy or death. However, if a cardholder makes a payment greater than or equal to two minimum payments within a month of the charge-off date, we may reconsider whether charge-off status remains appropriate. Additionally, in some cases of death, receivables are not charged off if, with respect to the deceased customer's account, there is a surviving, contractually liable individual or an estate large enough to pay the debt in full.

Our lower-tier credit card offerings have higher charge offs relative to their average managed receivables balances, than do our other portfolios. Due to the recent higher rate of decline in these receivables relative to all of our other outstanding credit card receivables, all things being equal, one would expect reduced charge-off ratios. This is supported by the above overall trend of declining charge-off rates. This trend is muted to some degree, however, for our net charge-off ratio and our adjusted charge-off ratio (as discussed in more detail below) simply due to a change in the mix of our charge offs toward a higher relative level of principal charge offs versus finance and fee charge offs.

Combined gross charge-off ratio. Although our combined gross charge-off ratio is trending lower, it spiked somewhat in the second quarter of 2010 with the transition during that time period of our collection efforts to outsourced third parties. With that effort now completed and with stability in our portfolios (given the quarters that have elapsed since account closure actions), we expect continued lower combined gross charge-off ratios in future periods when compared to those experienced in the past several quarters.

Net charge-off ratio. The net charge-off ratio measures principal charge offs, net of recoveries. Variations in the rates of growth or decline in the net charge-off ratio relative to those of our combined gross charge-off ratio can be caused by (1) the relative volumes of principal versus fee credits provided to customers associated with settlement programs and payment incentive programs—such credits being treated as charge offs in our various managed receivables statistics and (2) the relative percentage of our charge offs within our lower-tier credit card portfolio (for which fee charge offs relative to principal charge offs are much greater than with our other originated and purchased portfolios). Because of these factors, our rate of decline in our net charge-off ratio in 2010 and 2011 is not entirely consistent with the rate of decline in our combined gross charge-off ratio. Nevertheless, our net charge-off ratio has trended lower in each quarter throughout 2010 and 2011. Moreover, with aforementioned 2009 account closure and early 2010 collection outsourcing actions having long been completed and given a somewhat more stable economic environment, we expect a continuation of the generally trending decline in our net charge-off ratio for the next several quarters (with such generally continuing trending declines more closely correlating with expected declines in our combined gross charge-off ratio).

Adjusted charge-off ratio. This ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. Therefore, its trend line should follow that of our net charge-off ratio, adjusted for the diminishing impact of past portfolio acquisitions and for the additional impact of new portfolio acquisitions. Because our most recent portfolio acquisition was our second quarter 2007 U.K. Portfolio acquisition, the gap between the net charge-off ratio and the adjusted charge-off ratio continued its general decline in the quarters since that acquisition. Beginning in the first and second quarters of 2011, however, the gap between the net charge-off ratio and the adjusted charge-off ratio widened and then gradually will begin to narrow over successive future quarters. This is because we determine our managed receivables statistics by treating the transaction in which our 50%-owned equity-method investee acquired our U.K. Portfolio structured financing trust notes as a deemed sale of the U.K. Portfolio trust receivables at their face amount, followed by the 50%-owned equity-method investee's repurchase of such receivables for consideration equal to the discounted purchase price that it paid for the notes. Moreover, any other potential acquisitions of portfolios at discounts to the face amount of their receivables could cause further widening of the gap between the net charge-off ratio and the adjusted charge-off ratio.

Total yield ratio and gross yield ratio. As noted previously, the mix of our managed receivables generally has shifted away from those receivables of our lower-tier credit card offerings. Those receivables have higher delinquency rates and late and over-limit fee assessments than do our other portfolios, and thus have higher total yield and gross yield ratios as well. Accordingly, the generally trending decline in our total yield and gross yield ratios is consistent with disproportionate reductions in our lower-tier credit card receivables due to their higher charge-off levels over the past several quarters.

Our total and gross yield ratios also have been adversely affected over the past several quarters by our 2007 U.K. Portfolio acquisition. Its total and gross yields are below average as compared to our other portfolios, and the rate of decline in receivables in this portfolio has lagged behind the rate of decline in receivables in our other portfolios, thus continuing to suppress our yield ratios.

Notwithstanding the above factors causing trending declines in our total and gross yield ratios, the total yield ratio is skewed higher in the first, second, third and fourth quarters of 2010 due to gains associated with debt repurchases in those quarters as detailed and quantified in the discussion of our other income ratio below. Negatively impacting our third quarter 2011 total yield ratio were $5.3 million of losses that we recognized due to other-than-temporary declines in the values of non-marketable debt securities in which we had previously invested (as also addressed in our Other income ratio discussion below.)

Net interest margin. Because of the significance of the late fees charged on our lower-tier credit card receivables as a percentage of outstanding receivables balances, we generally would expect our net interest margin to increase as our lower-tier credit card receivables become a larger percentage and to decrease as they become a smaller percentage of our overall managed receivables. Accordingly, the disproportionate reductions we have experienced in our lower-tier credit card receivables levels is the principal factor that has contributed to the continued general declining trend in our net interest margins relative to those experienced in prior years.

Our net interest margin also is affected by the effects of our 2007 U.K. Portfolio acquisition. The net interest margin for this portfolio is below the weighted average rate of our other portfolios, and the impact of this portfolio continues to be felt as our originated portfolios continue to decline in size at a faster pace than our acquired U.K. Portfolio, thus increasing the impact of this portfolio’s lower net interest margin on the overall results.

Consistent with our experiences in past few quarters, we expect a relatively stable low-double-digit net interest margin for the foreseeable future.

Other income ratio. We generally expect our other income ratio to increase as our lower-tier receivables become a larger percentage, and to decrease as our lower-tier receivables become a smaller percentage, of our overall managed receivables. When underlying open accounts, these receivables generate significantly higher annual membership, over-limit, monthly maintenance and other fees than do our other portfolios. Consequently, the closure of credit card accounts and the mix change discussed above under which our lower-tier receivables comprise a much smaller percentage of our total receivables accounts in significant part for our low other income ratios.

Our other income ratio was positively impacted by gains realized on the repurchase of our convertible senior notes in the first and second quarters of 2010. As computed without regard to these gains, our other income ratio would have been 0.7% and 0.5% in the three months ended March 31 and September 30, 2010, respectively. Similarly, our third quarter and fourth quarter 2010 other income ratios were skewed higher by gains realized on the repurchase of our convertible senior notes and $12.1 million in gains on settlement of our CB&T litigation in the third quarter and a $4.1 million recovery in the fourth quarter of losses we experienced several years ago on an investment that we had made in a third-party’s asset-backed securities; absent these gains, our other income ratios would have been 1.7% and 1.2% for the three months ended September 30 and December 31, 2010, respectively. Like in the first, second and fourth quarters of 2011, we expect a positive generally low fractional to single-digit other income ratio for the foreseeable future unless we experience further material gains associated with future debt repurchases, which could cause an increase in the ratio. We note that we have experienced only immaterial gains associated with our convertible senior note repurchases in 2011—gains which are not material enough effect to warrant pro forma computations of the other income ratios in 2011 quarters without the effects of such gains. Negatively affecting our other income ratio for the third quarter of 2011 were $5.3 million of losses that we recognized due to other-than-temporary declines in the values of non-marketable debt securities in which we had previously invested; excluding the impact of these write downs, our other income ratio would have been 2.1%.

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Operating ratio. While we have been highly focused on expense reduction and cost control efforts, our managed receivables levels are generally falling at faster rates than the rates at which we have been able thus far to reduce our costs (particular when considering our fixed infrastructure costs). This phenomenon is reflected in our operating ratio statistics over the 2010 and 2011 quarters, and notwithstanding this phenomenon, we generally expect a low-double-digit operating ratio for the next several quarters, even with the effects that net liquidations of our credit card receivables will have on the operating ratio given our fixed cost base.

Future Expectations

Because the accounts underlying substantially all of our credit card receivables are closed, because of expected liquidations within each of our credit card receivables portfolios, and because of ongoing challenges to the U.S. and U.K. economies and continually high unemployment rates within both countries, we generally do not expect our yield-oriented managed receivables statistics to improve significantly from their current levels for the foreseeable future.

Our Credit Cards segment operations are separate and distinct from our other segment operations. As such, if we were ever to conclude that the ongoing costs of these operations exceeded their benefits (i.e., cash flows to us and residual asset values), we could liquidate our Credit Card operations (either by continuing to allow them to decline in size or through more aggressive action) with minimal impact on future financial performance of our other operating segments. We reference the table included in Note 11, “Notes Payable Associated with Structured Financings, at Fair Value,” to our consolidated financial statements, which quantifies the risk to our consolidated total equity position associated with a complete liquidation of our credit cards receivables portfolios.

Definitions of Financial, Operating and Statistical Measures

Combined gross charge-off ratio. Represents an annualized fraction the numerator of which is the aggregate amounts of finance charge, fee and principal losses from customers unwilling or unable to pay their receivables balances, as well as from bankrupt and deceased customers, less current-period recoveries, and the denominator of which is average managed receivables. Recoveries on managed receivables represent all amounts received related to managed receivables that previously have been charged off, including payments received directly from customers and proceeds received from the sale of those charged-off receivables. Recoveries typically have represented less than 2% of average managed receivables.

Net charge-off ratio. Represents an annualized fraction the numerator of which is the principal amount of losses, net of recoveries, and the denominator of which is average managed receivables. (The numerator excludes finance charge and fee charge offs, which are charged against the related income item at the time of charge off, as well as losses from fraudulent activity in accounts, which are included separately in other operating expenses.)

Adjusted charge-off ratio. Represents an annualized fraction the numerator of which is principal net charge offs as adjusted to apply discount accretion related to the credit quality of acquired portfolios to offset a portion of the actual face amount of net charge offs, and the denominator of which is average managed receivables. (Historically, upon our acquisitions of credit card receivables, a portion of the discount reflected within our acquisition prices has related to the credit quality of the acquired receivables—that portion representing the excess of the face amount of the receivables acquired over the future cash flows expected to be collected from the receivables. Because we treat the credit quality discount component of our acquisition discount as related exclusively to acquired principal balances, the difference between our net charge offs and our adjusted charge offs for each respective reporting period represents the total dollar amount of our charge offs that were charged against our credit quality discount during each respective reporting period.)

Total yield ratio. Represents an annualized fraction, the numerator of which includes all finance charge and late fee income billed on all outstanding receivables, plus credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), plus earned, amortized amounts of annual membership fees and activation fees with respect to certain of our credit card products, plus ancillary product income, plus amortization of the accretable yield component of our acquisition discounts for portfolio purchases, plus gains (or less losses) on debt repurchases and other activities within our Credit Cards segment, and the denominator of which is average managed receivables.

Gross yield ratio. Represents an annualized fraction, the numerator of which is finance charges and late fees, and the denominator of which is average managed receivables.

Net interest margin. Represents an annualized fraction, the numerator of which includes finance charge and late fee income billed on all outstanding receivables, plus amortization of the accretable yield component of our acquisition discounts for portfolio purchases, less interest expense associated with portfolio-specific structured financing debt facilities and finance charge and late fee charge offs, and the denominator of which is average managed receivables. (Net interest margins are influenced by a number of factors, including (1) the level of finance charges and late fees, (2) the weighted average cost of funds underlying portfolio-specific debt or within our securitization structures, (3) amortization of the accretable yield component of our acquisition discounts for portfolio purchases and (4) the level of our finance charge and late fee charge offs.)

Other income ratio. Represents an annualized fraction, the numerator of which includes credit card fees (including over-limit fees, cash advance fees, returned check fees and interchange income), plus earned, amortized amounts of annual membership fees and activation fees with respect to certain of our credit card products, plus ancillary product income, less all fee charge offs (with the exception of late fee charge offs, which are netted against the net interest margin), plus gains (or less losses) on debt repurchases and other activities within our Credit Cards segment, and the denominator of which is average managed receivables.

Operating ratio. Represents an annualized fraction, the numerator of which includes all expenses (other than marketing and solicitation and ancillary product expenses) associated with our Credit Cards segment, net of any servicing income we receive from third parties associated with their economic interests in the credit card receivables that we service on their behalf, and the denominator of which is average managed receivables.

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Investments in Previously Charged-Off Receivables Segment

For 2011 and 2010, the following table shows a roll-forward of our investments in previously charged-off receivables activities (in thousands of dollars):

	2011	2010
Unrecovered balance at beginning of period	$29,889	$29,669
Acquisitions of defaulted accounts	46,974	30,548
Cash collections	(82,236)	(62,621)
Cost-recovery method income recognized on defaulted accounts (included as a component of fees and related income on earning assets on our consolidated statements of operations)	42,483	32,293
Unrecovered balance at end of period	$37,110	$29,889

The above table reflects our use of the cost recovery method of accounting for our investments in previously charged-off receivables. Under this method, we establish static pools consisting of homogenous accounts and receivables for each portfolio acquisition. Once we establish a static pool, we do not change the receivables within the pool. We record each static pool at cost and account for it as a single unit for payment application and income recognition purposes. Under the cost recovery method, we do not recognize income associated with a particular portfolio until cash collections have exceeded the investment. Additionally, until such time as cash collected for a particular portfolio exceeds our investment in the portfolio, we incur commission costs and other internal and external servicing costs associated with the cash collections on the portfolio investment that we charge as an operating expense without any offsetting income amounts. Our estimated remaining collections on the $37.1 million unrecovered balance of our investments in previously charged-off receivables as of December 31, 2011 amount to $182.9 million (before servicing costs), of which we expect to collect 41.5% over the next 12 months, with the balance to be collected thereafter.

Previously charged-off receivables held as of December 31, 2011 principally are comprised of: normal delinquency charged-off accounts; charged-off accounts associated with Chapter 13 Bankruptcy-related debt; and charged-off accounts acquired through our Investments in Previously Charged-Off Receivables segment's balance transfer program prior to such time as credit cards are issued relating to the program's underlying accounts (as explained in further detail in the Credit Cards segment discussion above). At December 31, 2011, $3.3 million of our investments in previously charged-off receivables balance was comprised of previously charged-off receivables that our Investments in Previously Charged-Off Receivables segment purchased from our other consolidated subsidiaries, and in determining our net income or loss as reflected on our consolidated statements of operations, we eliminate all material intercompany profits that are associated with these transactions. Although we eliminate all material intercompany profits associated with these purchases, we do not eliminate the corresponding purchases from our consolidated balance sheet categories so as to better reflect the ongoing business operations of each of our reportable segments and because the amounts represent just 0.5% of our consolidated total assets.

We estimate the life of each pool of previously charged-off receivables we typically acquire to be between 60 months for normal delinquency charged-off accounts (including balance transfer program accounts) and approximately 84 months for Chapter 13 Bankruptcies. Our acquisition of previously charged-off accounts through our balance transfer program results in receivables with a higher-than-typical expected collectible balance. At times when the composition of our defaulted accounts includes more of this type of receivable, the resulting estimated remaining collectible portion per dollar invested is expected to increase.

We have experienced and expect further improving trends and results associated with the balance transfer program within our Investments in Previously Charged-Off Receivables segment. We also believe that the current economic environment could lead to increased opportunities for growth in the balance transfer program as consumers with less access to credit create additional demand and can lead to increased placements from third parties. Moreover, we have been testing a balance transfer program in the U.K. To date, this program has generated revenues that, while currently growing, are not yet material to our consolidated financial statements.

The increase in the availability of third-party charged-off paper has created several opportunities for us over the past few years. We have been able to complete several large purchases of previously charged-off receivables portfolios from third parties at attractive pricing. We note, however, that the landscape for purchases of previously charged-off receivables is competitive, thus making it challenging for us to grow as rapidly as desired and at our desired returns on investment. Notwithstanding the effects of competition on our growth rates, we do expect to continue to expand our activities and earn attractive returns in this area.

Micro-Loan Businesses

Our continuing micro-loan operations consist of those test operations conducted in the U.S. via the Internet. Discontinued micro-loan operations presented within our consolidated financial statements are comprised of (1) our former Retail Micro-Loans segment operations, which were sold on October 10, 2011 and through which we marketed, serviced and/or originated small-balance, short-term loans that were typically due on the customer’s next payday through a network of retail branch locations in the U.S. and (2) our former MEM business, which was sold on April 1, 2011. Because of the sale of our former Retail Micro-Loans segment and MEM operations, the data included in management’s discussion and analysis of our micro-loan segments exclude any effects of our Retail Micro-Loans segment and our MEM operations.

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Internet Micro-Loans Segment

As previously noted, on April 1, 2011, we completed the planned sale of our MEM operations. Our MEM operations are classified as held for sale on our consolidated balance sheet as of December 31, 2010 and accordingly as discontinued operations (along with the associated gain on their sale) on our consolidated statements of operations and in our operating segment tables for all periods presented.

We are testing the Internet micro-loan platform underwriting techniques and marketing approaches within the U.S. at a measured pace. As noted previously, our U.S. Internet micro-loan operations represent our only continuing micro-loan operations, and they originated $14.8 million in micro-loans during the year ended December 31, 2011 resulting in revenue of $3.6 million; this compares with $5.9 million in U.S. Internet micro-loans originated during the year ended December 31, 2010 which produced revenue of $1.9 million. Summary financial data (in thousands) for our Internet Micro-Loans segment are as follows:

	For the Year Ended December 31, 2011	2010
Total revenues	$3,639	$1,935
Loss on continuing operations before income taxes	$(6,465)	$(3,590)
Income from discontinued operations before income taxes	$110,992	$26,435
Income attributable to noncontrolling interests in discontinued operations	$(1,129)	$(3,501)
Period end loans and fees receivable for continuing operations, gross	$3,093	$1,895

Auto Finance Segment

Our Auto Finance segment historically included a variety of auto sales and lending activities.

Our original platform, CAR, acquired in April 2005, purchases auto loans at a discount and services auto loans for a fee; its customer base includes a nationwide network of pre-qualified auto dealers in the buy-here, pay-here used car business.

We also historically owned substantially all of JRAS, a buy-here, pay-here dealer we acquired in 2007 and operated from that time until our disposition of certain JRAS operating assets in the first quarter of 2011. In connection with our sale of JRAS's operations in February 2011, we received a $2.4 million note secured by JRAS's assets, we retained receivables with a December 31, 2011 carrying amount of $3.2 million that were originated while JRAS was under our ownership, we pledged those receivables as security for a then $9.4 million non-recourse loan to us (the partial proceeds of which we used to repay a prior lender and of which $2.6 million was outstanding as of December 31, 2011), and we contracted with JRAS to service those receivables on our behalf.

Lastly, our ACC platform acquired during 2007 historically purchased retail installment contracts from franchised car dealers. We ceased origination efforts within the ACC platform during 2009 and outsourced the collection of its portfolio of auto finance receivables.

Collectively, we currently serve more than 700 dealers through our Auto Finance segment in 36 states and the District of Columbia.

Managed Receivables Background

Like with our Credit Cards segment, we make various references within our discussion of our Auto Finance segment to our managed receivables.

Financial, operating and statistical data based on aggregate managed receivables are vital to any evaluation of our performance in managing our auto finance receivables portfolios, including our underwriting, servicing and collecting activities and our valuing of purchased receivables. In allocating our resources and managing our business, management relies heavily upon financial data and results prepared on this “managed basis.” Analysts, investors and others also consider it important that we provide selected financial, operating and statistical data on a managed basis because this allows a comparison of us to others within the specialty finance industry. Moreover, our management, analysts, investors and others believe it is critical that they understand the credit performance of the entire portfolio of our managed receivables because it reveals information concerning the quality of loan originations and the related credit risks inherent within the portfolios.

Reconciliation of the auto finance managed receivables data to our GAAP financial statements requires an understanding that our managed receivables data are based on billings and actual charge offs as they occur, without regard to any changes in our allowance for uncollectible loans and fees receivable.

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Analysis of Statistical Data

Financial, operating and statistical metrics for our Auto Finance segment are detailed (dollars and numbers of accounts in thousands; percentages of total) in the following tables:

	At or for the Three Months Ended							
	2011				2010			
	Dec. 31	Sept. 30	Jun. 30	Mar. 31	Dec. 31	Sept. 30	Jun. 30	Mar. 31
Period-end managed receivables	$87,755	$99,237	$113,316	$128,254	$154,191	$177,799	$206,435	$232,418
Period-end managed accounts	26	27	29	30	33	35	38	38
Percent 30 or more days past due	12.8 %	11.9 %	10.2 %	8.6 %	12.8 %	12.2 %	10.2 %	11.6 %
Percent 60 or more days past due	4.9 %	4.7 %	3.8 %	3.6 %	5.3 %	4.8 %	3.9 %	6.6 %
Percent 90 or more days past due	2.1 %	2.3 %	1.5 %	1.5 %	2.4 %	1.8 %	1.4 %	4.2 %
Average managed receivables	$92,719	$106,881	$120,773	$140,132	$165,286	$192,480	$220,416	$248,315
Gross yield ratio	36.3 %	35.5 %	32.6 %	29.2 %	29.1 %	27.5 %	25.2 %	24.1 %
Adjusted charge-off ratio	8.3 %	9.8 %	10.9 %	21.1 %	20.3 %	18.1 %	18.2 %	17.0 %
Recovery ratio	7.1 %	5.6 %	7.0 %	3.4 %	3.6 %	3.1 %	4.5 %	2.4 %
Net interest margin	24.4 %	25.6 %	23.8 %	20.5 %	19.8 %	23.4 %	14.9 %	14.0 %
Other income ratio	1.4 %	1.2 %	0.9 %	(11.2)%	0.6 %	(0.3)%	(0.8)%	(1.6)%
Operating ratio	21.3 %	19.5 %	18.7 %	18.7 %	20.7 %	17.6 %	16.1 %	16.6 %

Managed receivables. Period-end managed receivables have gradually declined as we have curtailed significant purchasing and origination activities. As of December 31, 2011, only CAR continues to purchase/originate loans. Given liquidations of the ACC and JRAS portfolios, managed receivables within this segment will continue to decline for the next several quarters.

Delinquencies. Our ACC and JRAS receivables portfolios are liquidating and becoming less significant relative to our better performing CAR portfolios which have significantly lower late stage (60 or more days past due) delinquency and charge-off rates; this fact and a recovering economy account for the modest year-over-year improvement in delinquency statistics. Because the JRAS and ACC portfolios are now of lesser significance, we do not expect any material further improvements in our delinquency statistics.

Gross yield ratio, net interest margin and other income ratio. The effects of higher JRAS and ACC delinquencies and charge offs generally have served to depress our net interest margins in recent quarters, although there is a general trend line of improving net interest margins relative to comparable 2010 periods due in part to the gradual liquidation of the JRAS and ACC receivables portfolios, thereby causing the better-performing CAR portfolio to comprise a greater percentage of average managed auto finance receivables. The spike in the net interest margin in the third quarter of 2010 resulted from the reversal in that quarter of previously recognized contingent interest expense associated with debt within our ACC operations. The terms of the ACC debt facility provide that 37.5% of any cash flows (net of contractual servicing compensation) generated on the ACC auto finance receivables portfolio after repayment of the notes will be allocated to the note holders as additional compensation for the use of their capital. We concluded in the third quarter of 2010 that such additional compensation was unlikely; however, based on recent improvements in the performance of the ACC receivables, we reestablished an additional interest expense liability of $1.5 million as of December 31, 2011.

Consistent with our recent experiences, as our ACC and JRAS receivables continue their decline in relative significance as a percentage of our total portfolio of auto finance receivables, the higher gross yields we achieve within our CAR operations are expected to continue to result in incrementally higher gross yield ratios and net interest margins in future quarters.

The principal component of our other income ratio in pre-2011 quarters was the gross profit (or more recently loss) that our JRAS buy-here, pay-here operations generated from their auto sales prior to our sale of these operations in February 2011. As such, the other income ratio historically moved in relative tandem with the volume of JRAS's auto sales. The 2010 suspension of new inventory purchases and corresponding dramatic decline in sales caused the significant reduction in our other income ratio in 2010, particularly given that we sold off inventory to pay down lines of credit collateralized by our inventory, often below cost, generating overall losses on sales. Our other income ratio in the first quarter of 2011 reflects the $4.6 million loss recognized on the sale of our JRAS operating assets in February 2011. Because of the sale of these operations (and the commensurate elimination of the principal source of other income), we expect an insignificant other income ratio for the foreseeable future in line with what we experienced in 2011.

Adjusted charge-off ratio and recovery ratio. We generally charge off auto finance receivables when they are between 120 and 180 days past due, unless the collateral is repossessed and sold before that point, in which case we will record a charge off when the proceeds are received. The adjusted charge-off ratio reflects our net charge offs, less credit quality discount accretion with respect to our acquired portfolios. The general trending increase in our adjusted charge-off ratio through the first quarter of 2011, therefore, reflected (1) the passage of time since our acquisition of the Patelco portfolio at a significant purchase price discount to the face amount of the acquired receivables, (2) the adverse macro-economic effects being seen throughout the auto finance industry, (3) the adverse effects, particularly in the fourth quarter of 2009 and in subsequent quarters, of the six 2009 and five 2010 JRAS lot closures and the corresponding negative impact this had on collections within our JRAS operations during 2010, (4) the initial impact on charge offs as we outsourced collections for our ACC portfolio and collection practices were modified resulting in a wave of increased charge offs in the first quarter of 2010, and (5) the initial impact on charge offs of JRAS's modified collection practices in 2010 as it worked with its lender pursuant to a then-standing forbearance agreement with the lender. Because our ACC receivables and the receivables of our JRAS operations that we retained in connection with our sale of our JRAS operations in February 2011 have declined in relative significance as a percentage of our total portfolio of auto finance receivables and because of significantly improved performance of the ACC and JRAS receivables due both to the aging of the portfolios and some economic recovery and better than expected tax refund seasonal effects, our adjusted charge-off ratio has declined significantly subsequent to the first quarter of 2011. Our CAR receivables, which experience significantly lower charge offs, now comprise a more significant proportion of our average managed auto finance receivables—a factor that not only contributed to the 2011 decline in our adjusted charge-off ratio, but is also expected to result in lower adjusted charge-off ratios in future quarters. Also serving to reduce our second quarter 2011 adjusted charge-off ratio as well as increase our second quarter 2011 recovery ratio was a large sale of repossessed autos at auction related to the receivables of our former JRAS operations, which had accumulated a growing inventory of such vehicles leading into the second quarter of 2011 as well as increased recoveries experienced in our ACC portfolio. A similar increase in recoveries was seen during the fourth quarter in our ACC portfolio. We expect our recovery rate to fluctuate modestly from quarter to quarter due to the timing of the sale of repossessed autos, but overall we expect it to fall in the 5-7% range.

Operating ratio. We have experienced a modest general trend line of increasing year-over-year operating ratios, which largely reflects the higher costs of our CAR operations as a percentage of receivables than such operating costs of our ACC and JRAS operations as a percentage of their receivables in prior periods. (Such higher costs correspond with the significantly higher gross yield ratios and net interest margins within our CAR operations as well.) As noted above, our CAR receivables and operating costs now comprise a greater percentage of respective total Auto Finance segment receivables and operating costs given the gradual liquidation of ACC and JRAS receivables balances. Notwithstanding this general trend line, we do not expect a significantly higher operating ratio for the foreseeable future.

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Future Expectations

Our CAR operations are performing well in the current environment (achieving consistent profitability) and are expected to continue at current levels for the foreseeable future. Offsetting these positive results are ACC and JRAS operations which (due to ongoing credit losses and increased contingent interest expense associated with our ACC amortizing debt facility) are expected to depress overall Auto Finance segment results for 2012. As these ACC and JRAS receivables gradually liquidate, however, they should have a diminishing adverse effect on the positive results we are experiencing within our CAR operations.

Liquidity, Funding and Capital Resources

We continue to see dislocation in the availability of liquidity as a result of the market disruptions that began in 2007. This ongoing disruption has resulted in a decline in liquidity available to sub-prime market participants, including us, wider spreads above the underlying interest indices (typically LIBOR for our borrowings) for the loans that lenders are willing to make, and a decrease in advance rates for those loans.

Although we are hopeful that the liquidity markets ultimately will return to more traditional levels, we are not able to predict when or if that will occur, and we are managing our business with the assumption that the liquidity markets will not return to more traditional levels in the near term. Specifically, we have curtailed or limited growth in many parts of our business and have closed substantially all of our credit card accounts (other than those associated with our Investment in Previously Charged-Off Receivables segment's balance transfer program and U.K. accounts). To the extent possible given constraints thus far on our ability to reduce expenses at the same rate as our managed receivables are liquidating, we are managing our receivables portfolios with a goal of generating the necessary cash flows over the coming quarters for us to use in de-leveraging our business, while continuing to enhance shareholder value to the greatest extent possible.

All of our Credit Cards segment's structured financing facilities are expected to amortize down with collections on the receivables within their underlying trusts with no bullet repayment requirements or refinancing risks to us. Additionally, with the exception of our new CAR structured finance facility into which we entered in October of 2011 and which does not mature until October 2014, our remaining Auto Finance segment structured financing facilities are likewise expected to amortize down with collections on the receivables that serve as collateral for the facilities with no bullet repayment requirements or refinancing risks to us. We also note that we do not have any outstanding debt facilities within our Internet Micro-Loans segment. (Also, as noted throughout this Report, we have sold our Retail Micro-Loans segment and MEM operations and thus carry no debt associated with these discontinued former operations.) Lastly, and notwithstanding the various debt market and sub-prime financing challenges cited above, our Investment in Previously Charged-Off Receivables segment was able to obtain a new credit facility on favorable terms in November 2011. This facility initially provides for $35.0 million in available financing to facilitate the growth of this segment's operations, can be drawn upon to the extent of outstanding eligible receivables within the segment's operations, and accrues interest at an annual rate equal to LIBOR plus an applicable margin ranging from 3.25% to 4.75% based on certain financial metrics. The facility is subject to certain affirmative covenants, including a coverage ratio, a leverage ratio, a collections minimum and a tangible net worth minimum, the failure of which could result in required early repayment of all or a portion of the outstanding balance. The facility matures in November 2014.

Our continuing challenge within our Credit Cards segment is to reduce our overhead cost infrastructure to match our incoming servicing compensation cash flows under our amortizing credit card structured financing facilities, the cash flows we receive from our 50%-owned equity-method investee that owns all of the outstanding notes underlying our U.K. Portfolio structured financing trust, and the modest cash flows we are receiving from unencumbered credit card receivables portfolios that have already generated enough cash to allow for the repayment of their underlying structured financing facilities. Furthermore, the values of our credit card receivables that are pledged as collateral against our currently outstanding structured financing facilities could prove insufficient to provide for any residual value that ultimately would be payable to us. In such a case, we could experience further impairments to the recorded value of our credit card receivables, although we note that the recorded value has been substantially written down already leaving significantly less opportunity for write-downs in the future.

Our current focus on liquidity has resulted in and will continue to result in growth and profitability trade-offs. For example, as noted throughout this Report, we have closed substantially all of our credit card accounts (other than those underlying our Investment in Previously Charged-Off Receivables segment's balance transfer program and accounts in the U.K.); consequently, each of our managed credit card receivables portfolios is expected to show fairly rapid net liquidations in balances for the foreseeable future. Similarly, the lack of available growth financing for our Auto Finance segment has caused us to limit capital deployment to that segment, which will cause contraction in its receivables and revenues over the coming months. Offsetting these restrictions on available capital is the incremental $65.5 million of net capital generated in April 2011 following (1) the sale of our MEM operations on April 1, 2011, which resulted in $170.5 million of pre-tax cash to us after the purchase of minority shares and other transaction-related expenditures and (2) the closing of a tender offer in April 2011, under which we repurchased 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million. Additionally, the October 2011 sale of our Retail Micro-Loans segment resulted in additional cash proceeds of $43.8 million (net of related sales expenditures).

At December 31, 2011, we had $144.9 million in unrestricted cash. Because the characteristics of our assets and liabilities change, liquidity management has been a dynamic process for us affected by the pricing and maturity of our assets and liabilities. We historically have financed our business through cash flows from operations, asset-backed structured financings and the issuance of debt and equity. Details concerning our cash flows for the year ended December 31, 2011 are as follow:

- During the year ended December 31, 2011, we generated $83.8 million in cash flows from operations compared to $335.5 million of cash flows from operations generated during the year ended December 31, 2010. The decrease was principally related to (1) significant net tax refunds during 2010 as contrasted with a small level of net tax payments during 2011, (2) lower collections of credit card finance charge receivables in the year ended December 31, 2011 relative to the same period in 2010 given diminished receivables levels, and (3) reductions in the net liquidation of receivables associated with our JRAS operations, given the diminishing levels of receivables, offset by reduced spending levels during 2011 as a result of our various ongoing cost-cutting initiatives.

- During the year ended December 31, 2011, we generated $433.5 million of cash through our investing activities, compared to generating $173.4 million of cash in investing activities during the year ended December 31, 2010. But for our investment of $75.0 million in marketable securities during the year ended December 31, 2010 ($19.2 million of which marketable securities had been redeemed as of December 31, 2010), we would have generated $229.2 million in cash from investing activities in the year ended December 31, 2010. Adding to net cash generated during the year ended December 31, 2011 was cash received for the sale of our MEM, JRAS and Retail Micro-Loans operations. Consistent with the current net liquidating status of our credit card and auto finance receivables, we expect continued net cash provided by investing activities over the next few quarters.

- During the year ended December 31, 2011, we used $458.6 million of cash in financing activities, compared to our use of $607.7 million of cash in financing activities during the year ended December 31, 2010. In both periods ended December 31, 2011 and 2010, the data reflect net repayments of debt facilities (which were greater in 2010 than in 2011) corresponding with net declines in our loans and fees receivable that serve as the underlying collateral for the facilities (principally credit card and auto loans and fees receivable). Other factors contributing to our 2010 use of cash in financing activities included (1) our repurchases of $84.6 million in face amount of our 3.625% convertible senior notes due in 2025 and $15.6 million in face amount of our 5.875% convertible senior notes due in 2035 for $52.1 million and $5.7 million, respectively (2) our purchase of 6% of the outstanding noncontrolling interests of MEM for £4.3 million ($6.6 million), and (3) our purchase of 12.2 million shares of our common stock for an aggregate cost of $85.3 million pursuant to the May 2010 closing of a tender offer for such shares. Unique transactions reflected in 2011 cash used in financing activities included (1) our repurchases of $62.0 million in face amount of our 3.625% convertible senior notes due in 2025 and $1.0 million in face amount of our 5.875% convertible senior notes due in 2035 for $59.3 million and $0.4 million, respectively, and (2) our April 2011, repurchase of 13,125,000 shares of our common stock at a purchase price of $8.00 per share for an aggregate cost of $105.0 million.

Except as to the $35.0 million in unused financing capacity within our Investment in Previously Charged-Off Receivables segment, the borrowings under which would be restricted for use only by subsidiaries within that segment and would not be available to us for general corporate purposes, we had no material unused draw capacity under our debt facilities as of December 31, 2011. As such, our $144.9 million of unrestricted cash on our consolidated balance sheet represents our maximum available liquidity at December 31, 2011. Moreover, the $144.9 million in aggregate December 31, 2011 unrestricted cash mentioned herein is represented by summing up all unrestricted cash from among all of our business segments, and the liquidity available to any one of our business segments as of December 31, 2011 is appreciably below the $144.9 million in unrestricted cash balance. We continue to pursue a number of new financing facilities and liquidity sources. If new financing facilities and liquidity sources are ultimately available to us at attractive pricing and terms, they could support investment opportunities, including further repurchases of our convertible senior notes and stock, portfolio acquisitions, and marketing and originations within our various businesses.

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The most recent global financial crisis differs in key respects from our experiences during other down economic and financing cycles. First, while we had difficulty obtaining asset-backed financing for our originated portfolio activities at attractive advance rates in the last down cycle (2001 through 2003), the credit spreads (above base pricing indices like LIBOR) at that time were not as wide (expensive) as those seen during the recent crisis. Additionally, while we were successful during that down cycle in obtaining asset-backed financing for portfolio acquisitions at attractive advance rates, pricing and other terms, that financing has not been available from traditional market participants since the advent of the most recent crisis. Last and most significant is the adverse impact that the most recent global liquidity crisis has had on the U.S. and worldwide economies (including real estate and other asset values and the labor markets). Unemployment is significantly higher than during 2001 through 2003 and is forecasted by many economists not to decline in any meaningful way for several more quarters. Lower assets values and higher rates of job loss and levels of unemployment have translated into reduced payment rates within the credit card industry generally and for us specifically.

Beyond our immediate financing efforts discussed throughout this Report, shareholders should expect us to evaluate debt and equity issuances as a means to fund our investment opportunities. We expect to take advantage of any opportunities to raise additional capital if terms and pricing are attractive to us. Any proceeds raised under these efforts could be used to fund (1) potential portfolio acquisitions, which may represent attractive opportunities for us in the current liquidity environment, (2) further repurchases of our convertible senior notes and common stock, (3) further dividends similar to the one on December 31, 2009, and (4) investments in certain financial and non-financial assets or businesses. Net of 2011 share repurchases, and pursuant to a 10,000,000 common share repurchase plan authorized by our Board of Directors on August 5, 2010, we are authorized to repurchase a remaining 9,255,100 common shares under the repurchase plan through June 30, 2012.

Lastly, we note that, absent draws under our Investment in Previously Charge-Off Receivables segment debt facility (none of which have occurred to date), the only remaining material refunding or refinancing risks to us are those of our convertible senior notes and the new CAR financing facility into which we entered in October 2011 and which does not mature until October 2014. In May 2012, we have an obligation to satisfy, at the option of note holders, potential conversions of our 3.625% convertible senior notes, of which $83.9 million in face amount were outstanding as of December 31, 2011. We anticipate that all of the holders of our 3.625% convertible senior notes will require us to repurchase the notes in May 2012. In addition to any cash or other assets that we have on hand at such time to satisfy these potential conversions, we ultimately may rely on debt or equity issuances or possible exchange offerings, none of which are assured, to satisfy them. Moreover, as we noted previously, we continue to evaluate repurchases of our 3.625% convertible senior notes and our 5.875% convertible senior notes due in 2035 at prices that generate acceptable returns for our shareholders relative to alternative uses of our capital.

Contractual Obligations, Commitments and Off-Balance-Sheet Arrangements

Commitments and Contingencies

We do not currently have any off-balance-sheet arrangements; however, we do have certain contractual arrangements that would require us to make payments or provide funding if certain circumstances occur (“contingent commitments”). We do not currently expect that these contingent commitments will result in any material amounts being paid by us. See Note 13, “Commitments and Contingencies,” to our consolidated financial statements included herein for further discussion of these matters.

Recent Accounting Pronouncements

See Note 2, “Significant Accounting Policies and Consolidated Financial Statement Components,” to our consolidated financial statements included herein for a discussion of recent accounting pronouncements.

Critical Accounting Estimates

We have prepared our financial statements in accordance with GAAP. These principles are numerous and complex. We have summarized our significant accounting policies in the notes to our consolidated financial statements. In many instances, the application of GAAP requires management to make estimates or to apply subjective principles to particular facts and circumstances. A variance in the estimates used or a variance in the application or interpretation of GAAP could yield a materially different accounting result. It is impracticable for us to summarize every accounting principle that requires us to use judgment or estimates in our application. Nevertheless, we described below the areas for which we believe that the estimations, judgments or interpretations that we have made, if different, would have yielded the most significant differences in our consolidated financial statements.

On a quarterly basis, we review our significant accounting policies and the related assumptions, in particular, those mentioned below, with the audit committee of the Board of Directors.

Measurements for Loans and Fees Receivable at Fair Value and Notes Payable Associated with Structured Financings at Fair Value

Our valuation of loans and fees receivable, at fair value is based on the present value of future cash flows using a valuation model of expected cash flows and the estimated cost to service and collect those cash flows. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including estimates of net collected yield, principal payment rates, expected principal credit loss rates, costs of funds, discount rates and servicing costs. Similarly, our valuation of notes payable associated with structured financings, at fair value is based on the present value of future cash flows utilized in repayment of the outstanding principal and interest under the facilities using a valuation model of expected cash flows net of the contractual service expenses within the facilities. We estimate the present value of these future cash flows using a valuation model consisting of internally developed estimates of assumptions third-party market participants would use in determining fair value, including: estimates of net collected yield, principal payment rates and expected principal credit loss rates on the credit card receivables that secure the non-recourse notes payable; costs of funds; discount rates; and contractual servicing fees.

The aforementioned credit losses, payment rates, servicing costs, contractual servicing fees, costs of funds, discount rates and yields earned on credit card receivables estimates significantly affect the reported amount of our loans and fees receivable, at fair value and our notes payable associated with structured financings, at fair value on our consolidated balance sheet, and they likewise affect our changes in fair value of loans and fees receivable recorded at fair value and changes in fair value of notes payable associated with structured financings recorded at fair value categories within our fees and related income on earning assets line item on our consolidated statement of operations.

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Investments in Previously Charged-Off Receivables

We account for our investments in previously charged-off receivables using the "cost recovery method" of accounting in accordance with applicable accounting standards. We establish static pools consisting of homogenous accounts and receivables for each acquisition. Once we establish a static pool, we do not change the receivables within the pool.

We record each static pool at cost and account for it as a single unit for the economic life of the pool (similar to one loan) for recovery of our basis, recognition of revenue and impairment testing. We earn revenue from previously charged-off receivables after we have recovered the original cost for each pool. Each quarter, we perform an impairment test on each static pool. If the remaining forecasted collections are less than our current carrying value and reflect an other-than-temporary impairment, we record an impairment charge.

Allowance for Uncollectible Loans and Fees

Through our analysis of loan performance, delinquency data, charge-off data, economic trends and the potential effects of those economic trends on our customers, we establish an allowance for uncollectible loans and fees receivable as an estimate of the probable losses inherent within those loans and fees receivable that we do not report at fair value. To the extent that actual results differ from our estimates of uncollectible loans and fees receivable, our results of operations and liquidity could be materially affected.

Recognition and Measurements with Respect to Uncertain Tax Positions

Our businesses and the tax accounting for our businesses are very complex, thereby giving rise to a number of uncertain tax positions, several of which are matters that are under consideration, and in some cases under dispute, in audits of our operations by various taxing authorities (including the Internal Revenue Service at the federal level with respect to net operating losses that we incurred in 2007 and 2008 and that we carried back to obtain tentative refunds of federal taxes paid in earlier years dating back to 2003).

In determining whether we are entitled to recognize, and in measuring the level of benefits that we are entitled to recognize associated with, uncertain tax positions, we (and experts that we have hired to advise us) make an evaluation of the technical merits of a tax position derived from sources of authorities in the tax law (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances underlying our tax position. Although we believe we are several years away from ultimate resolution, and possible settlement and payment, with respect to our uncertain tax positions, including those taken in the 2007 and 2008 years under audit by the Internal Revenue Service, it is possible that we may ultimately settle with the Internal Revenue Service on one or more uncertain tax positions in a manner that differs from the liabilities that we have recorded associated with such positions under our recognition and measurement determinations.

To the extent that our ultimate settlements result in less liability than we have recorded associated with our uncertain tax positions, we could experience a material release of liability, increase in income, and greater liquidity than our investors might otherwise expect. Alternatively, to the extent that our ultimate settlements result in more liability than we have recorded, our results of operations and liquidity could be materially adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a "smaller reporting company," as defined by Item 10 of Regulation S-K, we are not required to provide this information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements in Item 15, "Exhibits and Financial Statements Schedules."

Management's Report on Internal Control over Financial Reporting

Management of CompuCredit Holdings Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f)) for CompuCredit Holdings Corporation and our subsidiaries. Our internal control over financial reporting is a process designed under the supervision of our principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with GAAP. Under the supervision and with the participation of management, including our principal executive and financial officers, we conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2011, based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on our evaluation under the framework in Internal Control—Integrated Framework, management has concluded that internal control over financial reporting was effective as of December 31, 2011.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2011, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a—15(e) under the Act) was carried out on behalf of CompuCredit Holdings Corporation and our subsidiaries by our management with the participation of our Chief Executive Officer and Chief Financial Officer. Based upon the evaluation, management concluded that these disclosure controls and procedures were effective as of December 31, 2011. During the fourth quarter of our year ended December 31, 2011, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) occurred that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting is set forth in Part II, Item 8 of this Annual Report on Form 10-K.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Proposal One: Election of Directors,” “Executive Officers of CompuCredit,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Corporate Governance” and is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Executive Compensation” and “Director Compensation” and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

We maintain two stock-based employee compensation plans (our Employee Stock Purchase Plan or “ESPP” and our 2008 Equity Incentive Plan), which we assumed from CompuCredit Corporation in connection with a June 30, 2009 holding company reorganization. The 2008 Equity Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock awards, restricted stock units and incentive awards. The maximum aggregate number of shares of common stock that may be issued under this plan and to which awards may relate is 2,000,000 shares (of which 1,103,518 remain). Upon shareholder approval of the 2008 Equity Incentive Plan in May 2008, all remaining shares available for grant under our previous stock option and restricted stock plans were terminated.

All employees, excluding executive officers, are eligible to participate in the ESPP. Under the ESPP, employees can elect to have up to 10% of their annual wages withheld to purchase common stock in CompuCredit up to a fair market value of $10,000. The amounts deducted and accumulated by each participant are used to purchase shares of common stock at the end of each one-month offering period. The price of stock purchased under the ESPP is approximately 85% of the fair market value per share of our common stock on the last day of the offering period.

The following table provides information about our outstanding option and restricted stock unit awards as of December 31, 2011.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options and Vesting of Restricted Stock Units (1)	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Employee Compensation Plans (Excluding Securities Reflected in First Column) (2)
Equity compensation plans previously approved by security holders	678,807	$ 39.24	1,169,651
Equity compensation plans not approved by security holders	—	—	—

Total	678,807	$ 39.24	1,169,651

(1) Does not include outstanding shares of previously awarded restricted stock.
(2) Includes 1,103,518 options or other share-based awards available under our 2008 Equity Incentive Plan and 66,133 shares available under our ESPP as of December 31, 2011.

Further information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the section entitled “Security Ownership of Certain Beneficial Owners and Management” and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the sections entitled “Related Party Transactions” and “Corporate Governance” and is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item will be set forth in our Proxy Statement for the 2012 Annual Meeting of Shareholders in the section entitled “Auditor Fees” and is incorporated by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Report:

1. Financial Statements

INDEX TO FINANCIAL STATEMENTS

2. Financial Statement Schedules

None.

3. Exhibits

Exhibit Number	Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings Unless Otherwise Indicated(1)
2.1	Agreement for the sale and purchase of the entire issued share capital of Purpose UK Holdings Limited and certain shares in MEM Holdings Limited, dated December 31, 2010, among CCRT International Holdings B.V., CompuCredit Holdings Corporation, Dollar Financial U.K. Limited and Dollar Financial Corp.	March 4, 2011, Form 10-K, exhibit 2.2
2.2	Asset Purchase Agreement, dated August 5, 2011, by and among Advance America, Cash Advance Centers, Inc., AAFA Acquisition, Inc., CompuCredit Holdings Corporation, CompuCredit Intellectual Property Holdings Corp. II, Valued Services, LLC, Valued Services of Alabama, LLC, Valued Services of Colorado, LLC, Valued Services of Kentucky, LLC, Valued Services of Oklahoma, LLC, Valued Services of Mississippi, LLC, Valued Services of Tennessee, LLC, Valued Services of Wisconsin, LLC, Valued Services of Ohio, LLC, VS of Ohio, LLC, Valued Services of South Carolina, LLC, and VS of South Carolina, LLC.	August 8, 2011, Form 8-K, exhibit 2.1

3.1		Articles of Incorporation.	June 8, 2009, Proxy Statement/Prospectus, Annex B
3.2		Bylaws.	August 10, 2009, Form 10-Q, exhibit 3.1
4.1		Form of common stock certificate.	July 7, 2009, Form 8-K, exhibit 3.3
4.2		Indenture dated May 27, 2005 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	May 31, 2005, Form 8-K, exhibit 4.1
4.3		Supplemental Indenture dated June 30, 2009 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	July 7, 2009, Form 8-K, exhibit 4.1
4.4		Indenture dated November 23, 2005 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	November 28, 2005, Form 8-K, exhibit 4.1
4.5		Supplemental Indenture dated June 30, 2009 with U.S. Bank National Association, as successor to Wachovia Bank, National Association.	July 7, 2009, Form 8-K, exhibit 4.2
10.1		Stockholders Agreement dated as of April 28, 1999.	January 18, 2000, Form S-1, exhibit 10.1
10.2	†	2008 Equity Incentive Plan	April 16, 2008, Schedule 14A, Appendix A
10.2	(a)†	Form of Restricted Stock Agreement—Directors.	May 13, 2008, Form 8-K, exhibit 10.2
10.2	(b)†	Form of Restricted Stock Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.3
10.2	(c)†	Form of Stock Option Agreement—Directors.	May 13, 2008, Form 8-K, exhibit 10.4
10.2	(d)†	Form of Stock Option Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.5
10.2	(e)†	Form of Restricted Stock Unit Agreement—Directors	May 13, 2008, Form 8-K, exhibit 10.6
10.2	(f)†	Form of Restricted Stock Unit Agreement—Employees.	May 13, 2008, Form 8-K, exhibit 10.7
10.3	†	Amended and Restated Employee Stock Purchase Plan.	April 16, 2008, Schedule 14A, Appendix B
10.4	†	Amended and Restated Employment Agreement for Richard R. House, Jr.	December 29, 2008, Form 8-K, exhibit 10.4
10.4	(a)†	Restricted Stock Agreement, dated May 9, 2006 between CompuCredit Holdings Corporation and Richard R. House, Jr.	May 15, 2006, Form 8-K, exhibit 10.1
10.4	(b)†	Option Agreement, dated May 9, 2006 between CompuCredit Holdings Corporation and Richard R. House, Jr.	May 15, 2006, Form 8-K, exhibit 10.2

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Exhibit Number		Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings Unless Otherwise Indicated (1)
10.5	†	Amended and Restated Employment Agreement for David G. Hanna.	December 29, 2008, Form 8-K, exhibit 10.1
10.6	†	Amended and Restated Employment Agreement for Richard W. Gilbert.	December 29, 2008, Form 8-K, exhibit 10.3
10.7	†	Amended and Restated Employment Agreement for J.Paul Whitehead, III.	December 29, 2008, Form 8-K, exhibit 10.2
10.8	†	Consulting Agreement for Krishnakumar Srinivasan	April 7, 2010, Form 8-K, exhibit 10.1
10.9	†	Outside Director Compensation Package.	Filed herewith
10.10		Master Indenture, dated as of July 14, 2000, among CompuCredit Credit Card Master Note Business Trust, The Bank of New York, and CompuCredit Corporation.	November 14, 2000, Form 10-Q, exhibit 10.1
10.10	(a)	First Amendment to Master Indenture dated as of September 7, 2000.	November 14, 2000, Form 10-Q, exhibit 10.1(a)
10.10	(b)	Second Amendment to Master Indenture dated as of April 1, 2001.	March 1, 2004, Form 10-K, exhibit 10.9(b)
10.10	(c)	Third Amendment to Master Indenture dated as of March 18, 2002.	March 1, 2004, Form 10-K, exhibit 10.9(c)
10.10	(d)	Form of Indenture Supplement.	November 22, 2000, Form 10-Q/A, exhibit 10.1(b)
10.10	(e)	Amended and Restated Series 2004-One Indenture Supplement, dated March 1, 2010, to the Master Indenture.	June 25, 2010, Form 8-K/A, exhibit 10.2

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Exhibit Number		Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.10	(f)	Transfer and Servicing Agreement, dated as of July 14, 2000, among CompuCredit Funding Corp., CompuCredit Corporation, CompuCredit Credit Card Master Note Business Trust and The Bank of New York.	March 24, 2003, Form 10-K, exhibit 10.11
10.10	(g)	First Amendment to Transfer and Servicing Agreement dated as of September 7, 2000.	November 14, 2000, Form 10-Q, exhibit 10.2(a)
10.10	(h)	Second Amendment to Transfer and Servicing Agreement dated as of December 28, 2000.	March 30, 2001, Form 10-K, exhibit 10.8(b)
10.10	(i)	Third Amendment to Transfer and Servicing Agreement dated as of April 1, 2001.	March 1, 2004, Form 10-K, exhibit 10.10(c)
10.10	(j)	Fourth Amendment to Transfer and Servicing Agreement dated as of August 3, 2001.	March 1, 2004, Form 10-K, exhibit 10.10(d)
10.10	(k)	Fifth Amendment to Transfer and Servicing Agreement dated as of August 20, 2002.	March 1, 2004, Form 10-K, exhibit 10.10(e)
10.10	(l)	Sixth Amendment to Transfer and Servicing Agreement dated as of April 1, 2003.	March 1, 2004, Form 10-K, exhibit 10.10(f)
10.10	(m)	Seventh Amendment to Transfer and Servicing Agreement dated as of June 26, 2003.	March 1, 2004, Form 10-K, exhibit 10.10(g)
10.10	(n)	Eighth Amendment to Transfer and Servicing Agreement dated as of December 1, 2004.	March 2, 2006, Form 10-K, exhibit 10.10(o)
10.10	(o)	Ninth Amendment to Transfer and Servicing Agreement dated as of June 10, 2005.	March 2, 2006, Form 10-K, exhibit 10.10(p)
10.11		Amended and Restated Note Purchase Agreement, dated March 1, 2010, among Merrill Lynch Mortgage Capital Inc., CompuCredit Funding Corp., CompuCredit Corporation, and CompuCredit Credit Card Master Note Business Trust.	June 25, 2010, Form 8-K/A, exhibit 10.1
10.12		Share Lending Agreement.	November 22, 2005, Form 8-K, exhibit 10.1
10.12	(a)	Amendment to Share Lending Agreement	Filed herewith

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Exhibit Number		Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.13		Agreement relating to the Sale and Purchase of Monument Business, dated April 4, 2007.	August 1, 2007, Form 10-Q, exhibit 10.1
10.13	(a)	Account Ownership Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with R Raphael & Sons PLC.	August 1, 2007, Form 10-Q, exhibit 10.2
10.13	(b)	Receivables Purchase Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with R Raphael & Sons PLC.	August 1, 2007, Form 10-Q, exhibit 10.3
10.13	(c)	Receivables Purchase Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, with Partridge Funding Corporation.	August 1, 2007, Form 10-Q, exhibit 10.4
10.13	(d)	Master Indenture for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, among Partridge Acquired Portfolio Business Trust, Deutsche Bank Trust Company Americas, Deutsche Bank AG, London Branch and CompuCredit International Acquisition Corporation.	August 1, 2007, Form 10-Q, exhibit 10.5
10.13	(e)	Series 2007-One Indenture Supplement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007.	August 1, 2007, Form 10-Q, exhibit 10.6
10.13	(f)	Transfer and Servicing Agreement for Partridge Acquired Portfolio Business Trust, dated April 4, 2007, among Partridge Funding Corporation, CompuCredit International Acquisition Corporation, Partridge Acquired Portfolio Business Trust and Deutsche Bank Trust Company Americas.	August 1, 2007, Form 10-Q, exhibit 10.7
10.14		Assumption Agreement dated June 30, 2009 between CompuCredit Holdings Corporation and CompuCredit Corporation	July 7, 2009, Form 8-K, exhibit 10.1

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Exhibit Number		Description of Exhibit	Incorporated by Reference from CompuCredit's SEC Filings unless Otherwise Indicated (1)
10.15		Amended and Restated Loan and Security Agreement, dated November 19, 2007 among JRAS, LLC and CapitalSource Finance.	March 5, 2010, Form 10-K, exhibit 10.19
10.15	(a)	First Amendment to Amended and Restated Loan and Security Agreement dated April 18, 2008.	March 5, 2010, Form 10-K, exhibit 10.19(a)
10.15	(b)	Second Amendment to Amended and Restated Loan and Security Agreement dated September 11, 2008.	March 5, 2010, Form 10-K, exhibit 10.19(b)
10.15	(c)	Third Amendment to Amended and Restated Loan and Security Agreement dated July 15, 2009.	March 5, 2010, Form 10-K, exhibit 10.19(c)
10.15	(d)	Fourth Amendment to Amended and Restated Loan and Security Agreement dated January 22, 2010.	March 5, 2010, Form 10-K, exhibit 10.19(d)
10.16		Loan and Security Agreement, dated October 4, 2011among CARS Acquisition LLC, et al and Wells Fargo Preferred Capital, Inc.	Filed herewith
10.16	(a)	Agreement by CompuCredit Holdings Corporation in favor of Wells Fargo Preferred Capital, Inc	Filed herewith
10.17		Credit Agreement, dated November 2, 2011, by and among Jefferson Capital Systems, LLC, Jefferson Capital Card Services, LLC and The Private Bank and Trust Company	February 24, 2012, Form 8-K/A, exhibit 10.1
10.17	(a)	Security Agreement, dated November 2, 2011 by and between Jefferson Capital Systems, LLC and The Private Bank and Trust Company.	February 24, 2012, Form 8-K/A, exhibit 10.2
10.17	(b)	Security Agreement, dated November 2, 2011 by and between Jefferson Capital Card Services, LLC and The Private Bank and Trust Company.	February 24, 2012, Form 8-K/A, exhibit 10.3
21.1		Subsidiaries of the Registrant.	Filed herewith
23.1		Consent of BDO USA, LLP.	Filed herewith
31.1		Certification of Principal Executive Officer pursuant to Rule 13a-14(a).	Filed herewith
31.2		Certification of Principal Financial Officer pursuant to Rule 13a-14(a).	Filed herewith
32.1		Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350.	Filed herewith
99.1		Charter of the Audit Committee of the Board of Directors.	March 4, 2011, Form 10-K, exhibit 99.1
99.2		Charter of the Nominating and Corporate Governance Committee of the Board of Directors.	March 1, 2004, Form 10-K, exhibit 99.2
101.INS		XBRL Instance Document	Filed herewith
101.SCH		XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL			Filed herewith

	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

† Management contract, compensatory plan or arrangement.

(1) Documents incorporated by reference from SEC filings made prior to June 2009 were filed under CompuCredit Corporation (File No. 000-25751), our predecessor issuer.

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Report of Independent Registered Public Accounting Firm

The Board of Directors

CompuCredit Holdings Corporation

We have audited the accompanying consolidated balance sheets of CompuCredit Holdings Corporation as of December 31, 2011 and 2010 and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CompuCredit Holdings Corporation at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP

Atlanta, Georgia

March 5, 2012

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CompuCredit Holdings Corporation and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)

	December 31, 2011	December 31, 2010
Assets		
Unrestricted cash and cash equivalents	$144,913	$68,931
Restricted cash and cash equivalents	23,759	36,023
Loans and fees receivable:		
Loans and fees receivable, net (of $4,494 and $4,591 in deferred revenue and $7,156 and $9,282 in allowances for uncollectible loans and fees receivable at December 31, 2011 and 2010, respectively)	64,721	50,805
Loans and fees receivable pledged as collateral under structured financings, net (of $511 and $15,912 in deferred revenue and $7,537 and $28,340 in allowances for uncollectible loans and fees receivable at December 31, 2011 and 2010, respectively)	31,902	118,801
Loans and fees receivable, at fair value	28,226	12,437
Loans and fees receivable pledged as collateral under structured financings, at fair value	238,763	373,155
Investments in previously charged-off receivables	37,110	29,889
Investments in securities	6,203	64,317
Deferred costs, net	3,033	3,151
Property at cost, net of depreciation	8,098	15,893
Investments in equity-method investees	49,862	8,279
Intangibles, net	—	2,378
Prepaid expenses and other assets	11,317	16,591
492.1	486.0	
	$ 23,357.7	$ 22,284.9

Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 442.0	$ 465.0
Accrued expenses (Note 7)	1,351.2	1,324.8
Current portion of long-term debt (Note 8)	10.8	451.2
Total current liabilities	1,804.0	2,241.0
Liabilities held for sale (Note 4)	0.6	0.6
Long-term debt (Note 8)	12,429.6	11,638.7
Deferred credits and other	464.8	384.2
Deferred income taxes (Note 11)	1,979.6	1,896.9
	16,678.6	16,161.4
Minority interests	52.2	52.4
Stockholders equity (Notes 6, 8, 15 and 16)		
Common stock, $0.10 par value, authorized 720,000,000 shares, outstanding-188,778,819 and 186,146,738 shares (net of 36,033,752 and 35,735,329 shares held in treasury)	18.9	18.6
Capital surplus	5,395.4	5,148.2
Retained earnings	1,197.2	907.1
Accumulated other comprehensive income/(loss)	15.4	(2.8)

		6,626.9		6,071.1
	$	23,357.7	$	22,284.9

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

	Year Ended December 31, 2007	2006	2005
Revenues			
Casino	$ 8,831.0	$ 7,868.6	$ 5,966.5
Food and beverage	1,698.8	1,577.7	1,086.7
Rooms	1,353.6	1,240.7	786.2
Management fees	81.5	89.1	75.6
Other	695.9	611.0	424.7
Less: casino promotional allowances	(1,835.6)	(1,713.2)	(1,329.7)
Net revenues	10,825.2	9,673.9	7,010.0
Operating expenses			
Direct			
Casino	4,595.2	3,902.6	2,984.6
Food and beverage	716.5	697.6	482.3
Rooms	266.3	256.6	151.5
Property general, administrative and other	2,421.7	2,206.8	1,464.4
Depreciation and amortization	817.2	667.9	485.7
Write-downs, reserves and recoveries (Note 10)	109.7	83.3	194.7
Project opening costs	25.5	20.9	16.4
Corporate expense	138.1	177.5	97.7
Merger and integration costs	13.4	37.0	55.0
Income on interests in nonconsolidated affiliates (Note 16)	(3.9)	(3.6)	(1.2)
Amortization of intangible assets (Note 5)	73.5	70.7	49.9
Total operating expenses	9,173.2	8,117.3	5,981.0
Income from operations	1,652.0	1,556.6	1,029.0
Interest expense, net of interest capitalized (Note 12)	(800.8)	(670.5)	(479.6)
Losses on early extinguishments of debt (Note 8)	(2.0)	(62.0)	(3.3)
Other income, including interest income	43.3	10.7	8.0
Income from continuing operations before income taxes and minority interests	892.5	834.8	554.1
Provision for income taxes (Note 11)	(350.1)	(295.6)	(225.9)
Minority interests	(15.2)	(15.3)	(11.9)
Income from continuing operations	527.2	523.9	316.3
Discontinued operations (Note 4)			
Income from discontinued operations (including gain on disposal of $119.6 in 2005)	145.4	16.4	16.6
Provision for income taxes	(53.2)	(4.5)	(96.5)
Income/(loss) from discontinued operations	92.2	11.9	(79.9)
Net income	$ 619.4	$ 535.8	$ 236.4
Earnings per share basic			
Income from continuing operations	$ 2.83	$ 2.85	$ 2.14

Discontinued operations, net		0.50		0.06		(0.54)
Net income	$	3.33	$	2.91	$	1.60
Earnings per share diluted						
Income from continuing operations	$	2.77	$	2.79	$	2.10
Discontinued operations, net		0.48		0.06		(0.53)
Net income	$	3.25	$	2.85	$	1.57
Dividends declared per share	$	1.60	$	1.53	$	1.39
Weighted average common shares outstanding		186.3		184.0		148.0
Additional shares based on average market price for period applicable to:						
Restricted stock		0.2		0.8		0.5
Stock options		2.4		2.1		1.5
Stock appreciation rights		0.2				
Convertible debt		1.5		1.1		0.2
Weighted average common and common equivalent shares outstanding		190.6		188.0		150.2

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(In millions)

(Notes 6, 8, 15 and 16)

	Common Stock							
	Shares Outstanding	**Amount**	**Capital Surplus**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Deferred Compensation Related to Restricted Stock**	**Total**	**Comprehensive Income**
Balance December 31, 2004	112.7	$ 11.3	$ 1,394.5	$ 638.4	$ 1.0	$ (10.0)	$ 2,035.2	
Net income				236.4			236.4	$ 236.4
Net loss on derivative instruments qualifying as cash flow hedges, net of tax benefit of $3.4					(6.3)		(6.3)	(6.3)
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.2					0.4		0.4	0.4
Foreign currency translation adjustments, net of tax benefit of $0.2					(0.4)		(0.4)	(0.4)
Cash dividends				(208.2)			(208.2)	
Net shares issued in acquisition of Caesars	67.9	6.8	3,302.7				3,309.5	
Market value of conversion option on convertible debt, net of tax provision of $38.3			70.4				70.4	
Net shares issued under incentive compensation plans, including income tax benefit of $29.9	3.2	0.3	240.8	(12.2)		(0.8)	228.1	
2005 Comprehensive Income								$ 230.1
Balance December 31, 2005	183.8	18.4	5,008.4	654.4	(5.3)	(10.8)	5,665.1	
Reclassification of deferred compensation to Capital Surplus			(10.8)			10.8		
Net income				535.8			535.8	$ 535.8
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.3					0.6		0.6	0.6
Foreign currency translation adjustments, net of tax provision of $1.0					1.9		1.9	1.9
Cash dividends				(282.7)			(282.7)	
Net shares issued under incentive compensation plans, including share-based	2.3	0.2	150.6	(0.4)			150.4	

compensation expense of $52.8 and income tax benefit of $23.0								
2006 Comprehensive Income								$ 538.3
Balance December 31, 2006	186.1	18.6	5,148.2	907.1	(2.8)		6,071.1	
Net income				619.4			619.4	$ 619.4
Pension adjustment related to London Clubs International, net of tax benefit of $0.8					(1.8)		(1.8)	(1.8)
Reclassification of loss on derivative instrument from other comprehensive income to net income, net of tax provision of $0.3					0.6		0.6	0.6
Foreign currency translation adjustments, net of tax provision of $15.5					19.4		19.4	19.4
Cash dividends				(299.2)			(299.2)	
Adjustment for initial adoption of FIN 48				(12.3)			(12.3)	
Net shares issued under incentive compensation plans, including share-based compensation expense of $53.0 and income tax benefit of $47.7	2.7	0.3	247.2	(17.8)			229.7	
2007 Comprehensive Income								$ 637.6
Balance December 31, 2007	188.8	$ 18.9	$ 5,395.4	$ 1,197.2	$ 15.4	$	$ 6,626.9	

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Note 12)

	Year Ended December 31, 2007	2006	2005
Cash flows from operating activities			
Net income	$ 619.4	$ 535.8	$ 236.4
Adjustments to reconcile net income to cash flows from operating activities:			
Income from discontinued operations, before income taxes	(145.4)	(16.4)	(16.6)
Income from insurance claims for hurricane damage	(130.3)		
Losses on early extinguishments of debt	2.0	62.0	3.3
Depreciation and amortization	905.8	711.4	523.0
Write-downs, reserves and recoveries	195.8	39.9	160.8
Deferred income taxes	(35.0)	73.7	(30.1)
Share-based compensation expense	53.0	52.8	
Tax benefit from stock equity plans	1.8	1.7	29.9
Other noncash items	134.6	37.2	26.5
Minority interests share of net income	15.2	15.3	11.9
Income on interests in nonconsolidated affiliates	(3.9)	(3.6)	(1.2)
Net change in insurance receivables for hurricane damage	(0.7)	81.8	(87.3)
Insurance proceeds for hurricane losses from business interruption	119.1		
Returns on investment in nonconsolidated affiliate	1.8	2.5	1.2
Net (gains)/losses from asset sales	(8.0)	(5.5)	14.6
Net change in long-term accounts	(45.1)	(35.4)	(80.5)
Net change in working capital accounts	(171.3)	(13.6)	(196.7)
Cash flows provided by operating activities	1,508.8	1,539.6	595.2
Cash flows from investing activities			
Land, buildings, riverboats and equipment additions	(1,379.5)	(2,511.3)	(1,149.5)
Payments for businesses acquired, net of cash acquired	(584.3)	(562.5)	(1,942.5)
Insurance proceeds for hurricane losses for continuing operations	15.7	124.9	69.0
Insurance proceeds for hurricane losses for discontinued operations	13.4	174.7	32.1
Proceeds from other asset sales	99.6	47.1	37.0
Purchase of minority interest in subsidiary	(8.5)	(2.3)	
Investments in and advances to nonconsolidated affiliates	(1.8)	(0.9)	(5.5)
Increase in construction payables	2.8	11.2	41.0
Proceeds from sales of discontinued operations		457.3	649.5
Proceeds from sale of long-term investments		49.4	2.7
Other	(81.0)	(31.3)	(22.9)
Cash flows used in investing activities	(1,923.6)	(2,243.7)	(2,289.1)
Cash flows from financing activities			
Borrowings under lending agreements, net of financing costs of $6.4, $4.4 and $7.6	39,124.4	6,946.5	11,599.4
Repayments under lending agreements	(37,619.5)	(5,465.8)	(10,522.9)
Early extinguishments of debt	(120.1)	(1,195.0)	(690.5)
Scheduled debt retirements	(1,001.7)	(5.0)	(307.5)
Dividends paid	(299.2)	(282.7)	(208.2)
Proceeds from exercises of stock options	126.2	66.3	106.7
Excess tax benefit from stock equity plans	51.7	21.3	

Minority interests distributions, net of contributions	(20.0)	(1.9)	(12.2)
Proceeds from issuance of senior notes, net of discount and issue costs of $-, $10.9 and $20.7		739.1	2,004.3
Premiums paid on early extinguishments of debt		(56.7)	(4.9)
Losses on derivative instruments		(2.6)	(7.9)
Other	(5.3)	1.3	(0.2)
Cash flows provided by financing activities	236.5	764.8	1,956.1
Cash flows from discontinued operations			
Cash flows from operating activities	88.9	19.3	(3.7)
Cash flows from investing activities	(0.2)	(4.8)	(23.1)
Cash flows provided by/(used in) discontinued operations	88.7	14.5	(26.8)
Net (decrease)/increase in cash and cash equivalents	(89.6)	75.2	235.4
Cash and cash equivalents, beginning of year	799.6	724.4	489.0
Cash and cash equivalents, end of year	$ 710.0	$ 799.6	$ 724.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated statements.

HARRAH S ENTERTAINMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In these footnotes, the words Company, Harrah s Entertainment, we, our and us refer to Harrah s Entertainment, Inc., a Delaware corporation, and its wholly-owned subsidiaries, unless otherwise stated or the context requires otherwise.

Note 1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION AND ORGANIZATION. As of December 31, 2007, we operated 50 casinos in six countries, primarily under the Harrah s, Caesars and Horseshoe brand names in the United States, including 31 land-based casinos, 12 riverboat or dockside casinos, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, one harness racetrack and casino, three managed casinos on Indian lands and one managed casino in Canada. We view each property as an operating segment and aggregate all operating segments into one reporting segment.

Certain of our properties were sold during some of the periods presented, and prior to their sales, assets and liabilities of these properties were classified in our Consolidated Balance Sheets as Assets/Liabilities held for sale, and their operating results through the dates of their sales were presented as discontinued operations, if appropriate. In addition to the completed sales, we also have announced plans to sell certain assets and liabilities of other properties that we have classified as Assets/Liabilities held for sale in our Consolidated Balance Sheets and, if appropriate, have included their results in discontinued operations. See Note 4 for further information regarding dispositions and planned sales.

ACQUISITION BY PRIVATE EQUITY FIRMS. On January 28, 2008, Harrah s Entertainment was acquired by affiliates of Apollo Global Management, LLC (Apollo) and TPG Capital, LP (TPG) in an all cash transaction, hereinafter referred to as the Merger, valued at approximately $30.9 billion, including the assumption of $12.4 billion of debt and approximately $1.2 billion of acquisition costs. Holders of Harrah s Entertainment stock received $90.00 in cash for each outstanding share of common stock. As a result of the Merger, the issued and outstanding shares of non-voting common stock and the non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo/TPG and certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo/TPG. As a result of the Merger, our stock is no longer publicly traded. (See Note 18.)

PRINCIPLES OF CONSOLIDATION. Our Consolidated Financial Statements include the accounts of Harrah s Entertainment and its subsidiaries after elimination of all significant intercompany accounts and transactions.

CASH AND CASH EQUIVALENTS. Cash includes the minimum cash balances required to be maintained by state gaming commissions or local and state governments, which totaled approximately $25.4 million and $27.5 million at December 31, 2007 and 2006, respectively. Cash equivalents are highly liquid investments with an original maturity of less than three months and are stated at the lower of cost or market value.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. We reserve an estimated amount for receivables that may not be collected. Methodologies for estimating the allowance for doubtful accounts range from specific reserves to various percentages applied to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific reserves.

INVENTORIES. Inventories, which consist primarily of food, beverage, retail merchandise and operating supplies, are stated at average cost.

LAND, BUILDINGS, RIVERBOATS AND EQUIPMENT. Land, buildings, riverboats and equipment are stated at cost. Land includes land not currently identified for use in our operations, which totaled $113.3 million and $119.6 million at December 31, 2007 and 2006, respectively. We capitalize the costs of improvements that extend the life of the asset. We expense maintenance and repairs cost as incurred. Gains or losses on the dispositions of land, buildings, riverboats or equipment are included in the determination of income. Interest expense is capitalized on internally constructed assets at our overall weighted average borrowing rate of interest. Capitalized interest amounted to $20.4 million, $24.3 million and $14.1 million in 2007, 2006 and 2005, respectively.

We depreciate our buildings, riverboats and equipment using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Buildings and improvements	10 to 40 years
Riverboats and barges	30 years
Furniture, fixtures and equipment	2 to 15 years

We review the carrying value of land, buildings, riverboats and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the operating unit level, which for most of our assets is the individual casino.

GOODWILL AND OTHER INTANGIBLE ASSETS. We have approximately $5.6 billion in goodwill and other intangible assets on our balance sheet resulting from our acquisitions of other businesses. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, we perform an annual assessment of goodwill and intangible assets with indefinite lives for impairment during the fourth quarter of each year. (See Note 5.)

The purchase price of an acquisition is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and our own estimates. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill. Intangible assets determined to have a finite life are amortized on a straight-line basis over the determined useful life of the asset. (See Note 5.)

UNAMORTIZED DEBT ISSUE COSTS. Debt discounts or premiums incurred in connection with the issuance of debt are capitalized and amortized to interest expense using the effective interest method. Debt issuance costs are amortized to interest expense based on the related debt agreements using the straight-line method, which approximates the effective interest method. Unamortized deferred financing charges are included in Deferred costs and other on our Consolidated Balance Sheets.

TOTAL REWARDS POINT LIABILITY PROGRAM. Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, we accrue the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense on our Consolidated Statements of Income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. We use historical data to assist in the determination of estimated accruals. At December 31, 2007 and 2006, $72.8 million and $76.6 million, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers at certain of our properties can earn points based on play that are redeemable in cash (cash-back points). In 2007, certain of our properties introduced a modification to the cash-back program whereby points are redeemable in playable credits at slot machines where, after one play-through, the credits can be cashed out. We accrue the cost of cash-back points and the modified program, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2007 and 2006, the liability related to outstanding cash-back points, which is based on historical redemption activity, was $16.9 million and $21.3 million, respectively.

SELF-INSURANCE ACCRUALS. We are self-insured up to certain limits for costs associated with general liability, workers compensation and employee health 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. At December 31, 2007 and 2006, we had total self-insurance accruals reflected on our Consolidated Balance Sheets of $210.5 million and

$193.8 million, respectively. In estimating those costs, we consider historical loss experience and make judgments about the expected levels of costs per claim. We also rely on consultants to assist in the determination of estimated accruals. These claims are accounted for based on actuarial estimates of the undiscounted claims, including those claims incurred but not reported. We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals; however, changes in health care costs, accident frequency and severity and other factors can materially affect the estimate for these liabilities. We continually monitor the potential for changes in estimates, evaluate our insurance accruals and adjust our recorded provisions.

TREASURY STOCK. The shares of Harrah s Entertainment common stock were held in treasury at December 31, 2007 and 2006, are reflected in our Consolidated Balance Sheets and our Consolidated Statements of Stockholders Equity and Comprehensive Income as if those shares were retired.

REVENUE RECOGNITION. Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments at all consolidated casinos and casino hotels.

Casino promotional allowances consist principally of the retail value of complimentary food and beverages, accommodations, admissions and entertainment provided to casino patrons. Also included is the value of coupons redeemed for cash at our properties. The estimated costs of providing such complimentary services, which we classify as casino expenses for continuing operations through interdepartmental allocations, were as follows:

(In millions)	**2007**	**2006**	**2005**
Food and beverage	$ 582.9	$ 544.0	$ 387.5
Rooms	192.3	168.0	121.6
Other	95.6	75.2	70.8
	$ 870.8	$ 787.2	$ 579.9

ADVERTISING. The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expense for continuing operations was $294.9 million, $287.5 million and $203.4 million for the years 2007, 2006 and 2005, respectively.

STOCK-BASED EMPLOYEE COMPENSATION. Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment, using the modified prospective application, and, therefore, results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R), we recognized $53.0 million and $52.8 million for stock option and stock appreciation rights (SARs) expense in 2007 and 2006, respectively. In 2007, we began allocating a portion of the expense related to stock options and SARs to the applicable reporting segment, whereas, in 2006 that expense was included in Corporate expense in our Consolidated Statement of Income. For the year ended December 31, 2007, $10.3 million of the expense is included in Property general, administrative and other, and $42.7 million is included in Corporate expense. The total income tax benefit recognized for 2007 and 2006, was approximately $21.1 million and $20.4 million, respectively.

Prior to the adoption of SFAS No. 123(R), we accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, under which no compensation expense was recorded as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had adopted SFAS No. 123(R) in the prior period. Had compensation expense for the stock option plans been determined in accordance with SFAS No. 123(R), total stock-based employee compensation expense, net of tax effects, would have been $31.7 million for the year ended December 31, 2005, and our pro forma Net income and Earnings per share for the indicated period would have been:

	2005	
(In millions, except per share amounts)	**As Reported**	**Pro Forma**
Net income	$ 236.4	$ 204.7
Earnings per share		
Basic	1.60	1.38

Diluted	1.57	1.32

The fair value of each option and SARs grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006	2005
Expected dividend yield	1.9%	2.4%	2.1%
Expected stock price volatility	25.1%	30.3%	32.9%
Risk-free interest rate	4.6%	5.0%	3.9%
Expected average life of options (years)	5	5	5

INCOME TAXES. We are subject to income taxes in the United States as well as various states and foreign jurisdictions in which we operate. We account for income taxes under SFAS No. 109, Accounting for Income Taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts of existing assets and their respective tax bases using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on the income tax provision and deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. As indicated in Note 11, we have provided a valuation allowance on foreign tax credits, certain foreign and state net operating losses (NOLs), and other deferred foreign and state tax assets. U.S. tax rules require us to allocate a portion of our total interest expense to our foreign operations for purposes of determining allowable foreign tax credits. Consequently, this decrease to taxable income from foreign operations results in a diminution of the foreign taxes available as a tax credit. Although we consistently generate taxable income on a consolidated basis, certain foreign and state NOLs and other deferred foreign and state tax assets were not deemed realizable because they are attributable to subsidiaries that are not expected to produce future taxable earnings. Other than these exceptions, we are unaware of any circumstances that would cause the remaining deferred tax assets to not be realizable.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, we recognized an approximate $12 million reduction to the January 1, 2007, balance of retained earnings.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. As a large taxpayer, we are under continual audit by the Internal Revenue Service (IRS) on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. We are participating in the IRS s Compliance Assurance Program for the 2007 tax year. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Our 2004, 2005, and 2006 federal income tax returns are currently being examined by the IRS in a traditional audit process.

We also are subject to exam by various state and foreign tax authorities, although tax years prior to 2004 are generally closed as the statutes of limitations have lapsed. However, various subsidiaries are still being examined by the New Jersey Division of Taxation for tax years as far back as 1999.

We classify reserves for tax uncertainties within Accrued expenses and Deferred credits and other in our Consolidated Balance Sheets, separate from any related income tax payable or deferred income taxes. In accordance with FIN 48, reserve amounts relate to any uncertain tax position, as well as potential interest or penalties associated with those items.

EARNINGS PER SHARE. In accordance with the provisions of SFAS No. 128, Earnings Per Share, we compute our Basic earnings per share by dividing Net income by the number of Weighted average common shares outstanding during the year. Our Diluted earnings per share is computed by dividing Net income by the number of Weighted average common and common equivalent shares outstanding during the year. For each of the three years ended December 31, 2007, common equivalent shares included net restricted shares of 190,771, 789,776 and 539,844, respectively, and stock options outstanding of 2,358,826, 2,157,811 and 1,481,765, respectively, under our employee stock benefit plans. For the years ended December 31, 2007 and 2006, respectively, common equivalent shares also included 1,502,534 and 1,085,144 potential shares related to the conversion spread of our convertible debt. For the years ended December 31, 2007 and 2006, common equivalent shares also included 230,592 and 3,055 SARs, respectively. (See Note 15.)

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Our actual results could differ from those estimates.

Note 2 Acquisitions

In the three-year period ended December 31, 2007, we acquired two casino companies and two casinos in Las Vegas, Nevada. For each of these acquisitions, the purchase price is allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We determine the estimated fair values after review and consideration of relevant information including discounted cash flow analyses, quoted market prices and our own estimates. For each transaction, the allocation of the purchase price was, or will be, completed within one year from the date of the acquisition. To the extent that the purchase price exceeds the fair value of the net identifiable tangible and intangible assets acquired, such excess is allocated to goodwill. Goodwill and intangible assets that are determined to have an indefinite life are not amortized.

The table below summarizes our acquisition transactions completed in the three-year period ending December 31, 2007.

Company	Date Acquired	Total Purchase Price(a)	Goodwill Assigned	Number of Casinos	Geographic Location
Bill s Gamblin Hall & Saloon	February 2007	$ 371 million	$	1	Las Vegas, Nevada
London Clubs	December 2006	$ 591 million	$ 322 million	10	United Kingdom(7)[b] Egypt(2) South Africa(1)[c]
Imperial Palace	December 2005	$ 373 million	$	1	Las Vegas, Nevada
Caesars	June 2005	$ 9.3 billion	$ 2 billion	15	Atlantic City, New Jersey(2) Las Vegas, Nevada(4) Reno, Nevada[d] Laughlin, Nevada[d] Biloxi, Mississippi Gulfport, Mississippi[e] Tunica, Mississippi(2) Elizabeth, Indiana Punta del Este, Uruguay[f] Ontario, Canada[g]

(a) Total purchase price includes the market value of debt assumed determined as of the acquisition date.
(b) We have a 50% ownership interest in the company that owns 50 St. James Limited in London, and we manage the facility. Other properties in the United Kingdom are 100% owned. In addition to the ten properties acquired, four properties were under development in the United Kingdom at the time of the acquisition. Three of those properties are now open.
(c) We have a 70% ownership interest in the company that owns Emerald Safari Resort, and we manage the facility.
(d) Subsequently sold.
(e) Closed due to hurricane damage in August 2005. Remaining assets sold.
(f) We have an approximate 95% ownership interest in the company that owns Conrad Punta del Este and we manage the property.
(g) We have a 50% interest in the company that manages Casino Windsor. The province of Ontario owns the complex.

BILL S GAMBLIN HALL & SALOON. In February 2007, we exchanged certain real estate, acquired for $371.4 million, that we owned on the Las Vegas Strip for property formerly known as the Barbary Coast, located at the northeast corner of Flamingo Road and Las Vegas Boulevard, between Bally s Las Vegas and Flamingo Las Vegas. We began operating the acquired property on March 1, 2007, as Bill s Gamblin Hall & Saloon, and its results are included in our operating results from the date of its acquisition. For purposes of these financial statements, we have assumed that the excess of the purchase price over the net book value of the assets acquired is land costs. Values assigned to assets, including land, will be revised upon finalization of the purchase price allocation, which will be within one year of the acquisition.

LONDON CLUBS. In December 2006, we completed our acquisition of 100% of the ordinary shares of London Clubs for approximately $590.5 million, including acquisition costs, and assumed the entity s debt of approximately $78.5 million. At the time of the acquisition, London Clubs owned or managed seven casinos in the United Kingdom, two in Egypt and one in South Africa. London Clubs currently owns and/or manages ten casinos in the United Kingdom, two in Egypt and one in South Africa and has one casino under development in the United Kingdom.

The results for London Clubs are included in our operating results subsequent to its acquisition. With the initial acquisition of 29.6% of the shares of London Clubs in November 2006, we accounted for our ownership interest on the equity basis. For the period subsequent to the acquition of the remaining shares in December 2006, we consolidate their results. Results of London Clubs are consolidated into our financial results one month in arrears. London Clubs results were not material to our 2006 financial results.

The purchase price allocation for London Clubs was completed in 2007. The following table summarizes the values assigned to the assets acquired and liabilities assumed at the date of acquisition.

(In millions)	
Current assets	$ 56.1
Land, buildings and equipment	153.7
Goodwill and other intangible assets	646.6
Total assets acquired	856.4
Current liabilities	64.5
Long-term debt	76.4
Other long-term liabilities	43.9
Deferred income tax	81.1
Liabilities assumed	265.9
Net assets acquired	$ 590.5

Of the approximate $325.0 million of acquired intangible assets, $304.1 million has been assigned to gaming rights that are not subject to amortization, and $20.9 million has been assigned to contract rights with a 6-12 year life that are subject to amortization.

The goodwill related to the London Clubs acquisition will not be deductible for tax purposes.

IMPERIAL PALACE HOTEL & CASINO. On December 23, 2005, we acquired the assets of the Imperial Palace Hotel & Casino (Imperial Palace) in Las Vegas, Nevada, for approximately $373.3 million, including acquisition costs. No debt was assumed in the transaction. The Imperial Palace occupies an 18.5 acre site on the Las Vegas Strip that is situated between Harrah s Las Vegas and the Flamingo and is across the Strip from Caesars Palace. The results of Imperial Palace are included in our operating results subsequent to its acquisition on December 23, 2005.

The purchase price allocation for Imperial Palace was completed in fourth quarter 2006, and there were no material changes from the initial purchase price allocation.

CAESARS ENTERTAINMENT. On June 13, 2005, we completed our acquisition of 100 percent of the outstanding shares of Caesars. The aggregate estimated purchase price was approximately $9.3 billion, which consisted of $1.9 billion of cash, $3.3 billion of Harrah s Entertainment s common stock, assumption of Caesars debt with a fair value of approximately $4.0 billion (including value assigned to conversion rights of contingent convertible notes), assumption of employee stock grants valued at $98 million and acquisition costs of approximately $59 million. We issued approximately 67.9 million shares of our common stock, the fair value of which was based on a five-day average of the closing price two days before and two days after the terms of the acquisition were agreed to and announced.

The results of the Caesars properties are included with our operating results subsequent to their acquisition on June 13, 2005.

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In May 2005, Caesars reached an agreement to sell the Reno Hilton, and that sale closed in June 2006. Also included in the Caesars acquisition were the Flamingo Laughlin Casino and a hotel in Halifax, Nova Scotia, that we determined to classify as Assets held for sale in our Consolidated Balance Sheets, along with Reno Hilton. We sold the Halifax hotel in November 2005 and Flamingo Laughlin in May 2006. No gains or losses were recorded on these sales.

Note 3 Hurricane Damaged Properties

Hurricanes Katrina and Rita hit the Gulf Coast in third quarter 2005 and caused significant damage to our assets in Biloxi and Gulfport, Mississippi, and New Orleans and Lake Charles, Louisiana. The current status of the impacted operations is as follows:

- Our New Orleans property re-opened on February 17, 2006.

- We sold the Gulfport assets in their as is condition during first quarter 2006. No gain or loss was recognized as a result of this disposition. We are retaining all insurance proceeds related to the Gulfport property.

- Grand Casino Biloxi re-opened in August 2006 in a smaller facility.

- We sold the two subsidiaries that owned our Lake Charles operations to another casino company in fourth quarter 2006. We are retaining all insurance proceeds related to the Lake Charles operations.

Insurance proceeds have exceeded the net book value of the impacted assets and costs and expenses that are expected to be reimbursed under our business interruption claims, and the excess is recorded as income in the line item, Write-downs, reserves and recoveries, for properties included in continuing operations and in the line item, Income/(loss) from discontinued operations, for properties included in discontinued operations. As of December 31, 2007, we have received approximately $849.5 million in advances and settlements from our insurance carriers related to the hurricane damaged properties, including those properties that were subsequently sold, and we have recorded $130.3 million and $10.2 million as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Write-downs, reserves and recoveries and $141.6 million and $3.2 million, as of December 31, 2007 and 2006, respectively, for insurance proceeds included in Discontinued operations in our Consolidated Condensed Statements of Income. In February 2008, we entered into a settlement agreement with our insurance carriers related to claims associated with damages incurred from Hurricane Katrina in Mississippi. Pursuant to the settlement agreement, the insurance carriers agreed to pay us approximately $950.2 million to settle all outstanding claims associated with damages incurred from the hurricane, including all property damage and business interruption claims. Of the total settled amount, we had received approximately $612.0 million as of December 31, 2007. We received the remaining $338.2 million during the first quarter of 2008.

Note 4 Dispositions

The following properties were sold in the three-year period ended December 31, 2007.

HARRAH S LAKE CHARLES. In first quarter 2006, we determined that Harrah s Lake Charles should be classified as assets held for sale and discontinued operations. These assets were classified in Assets held for sale in our Consolidated Balance Sheets, and we ceased depreciating these assets. Results for Harrah s Lake Charles, until its sale in November 2006, are presented as discontinued operations in each of the years presented. We reported a pretax gain of approximately $10.9 million on this sale in fourth quarter 2006.

RENO HILTON. Prior to our acquisition of Caesars, an agreement was reached to sell the Reno Hilton, and that sale closed in June 2006. Prior to its sale, Reno Hilton s results are presented as discontinued operations. No depreciation was recorded subsequent to its acquisition, and no gain or loss was recorded on the sale.

FLAMINGO LAUGHLIN. Included in the Caesars acquisition was the Flamingo Laughlin Casino in Laughlin, Nevada, that we determined to classify as Assets/Liabilities held for sale in our 2005 Consolidated Balance Sheet. Operating results for Flamingo Laughlin are presented as discontinued operations from its acquisition until its sale in May 2006, and no depreciation was recorded. No gain or loss was recorded on this sale.

GRAND GULFPORT. In March 2006, we sold the assets of Grand Casino Gulfport, which had been damaged in a hurricane in August 2005, in their as is condition (see Note 3), and those assets were included in Assets/Liabilities held for sale in our 2005 Consolidated Balance Sheet.

Operating results for Grand Casino Gulfport are presented as discontinued operations until its sale. No gain or loss was recorded on this sale.

HALIFAX HOTEL. Included in the Caesars acquisition was a hotel in Halifax, Nova Scotia, that we determined as of the acquisition date to classify as Assets/Liabilities held for sale in our Consolidated Balance Sheet, and its operating results were presented as part of our discontinued operations. The hotel was sold in November 2005. No gain or loss was recorded on the sale.

HARRAH S EAST CHICAGO AND HARRAH S TUNICA. On April 26, 2005, we sold the assets and certain related liabilities of Harrah s East Chicago and Harrah s Tunica. Until their sale, Harrah s East Chicago and Harrah s Tunica were classified in Assets/Liabilities held for sale in our Consolidated Balance Sheets, and we ceased depreciating their assets in September 2004. Results for Harrah s East Chicago and Harrah s Tunica are presented as discontinued operations for all periods presented. We reported a pretax gain of approximately $119.6 million on the sale of these two properties in the second quarter of 2005.

SUMMARY FINANCIAL INFORMATION

Summary operating results for the discontinued operations reflect the results of Harrah s Lake Charles through the date of its sale in November 2006, including the gain on the sale and insurance recoveries; the operating results of Reno Hilton, Flamingo Laughlin, Grand Casino Gulfport and a hotel in Halifax, Nova Scotia beginning June 13, 2005 through the dates of their sales in June 2006, May 2006, March 2006 and November 2005, respectively, including insurance recoveries related to Grand Casino Gulfport; and Harrah s East Chicago and Harrah s Tunica through the date of their sale in April 2005, including the gain on the sale. 2005 results for Grand Casino Gulfport and Harrah s Lake Charles include the write-off of $115.5 million, after taxes, for the impairment of intangible assets.

(In millions)	**2007**	**2006**	**2005**
Net revenues	$ 0.2	$ 106.8	$ 401.1
Pretax income from discontinued operations	$ 145.4	$ 16.4	$ 16.6
Discontinued operations, net of tax	$ 92.2	$ 11.9	$ (79.9)

Assets held for sale at December 31, 2007, primarily consists of non-operating land parcels.

Note 5 Goodwill and Other Intangible Assets

We account for our goodwill and other intangible assets in accordance with SFAS No. 142, which provides guidance regarding the recognition and measurement of intangible assets, eliminates the amortization of certain intangibles and requires assessments for impairment of intangible assets that are not subject to amortization at least annually.

We determine the fair value of a reporting unit as a function, or multiple, of earnings before interest, taxes, depreciation and amortization (EBITDA), or by using discounted cash flows, common measures used to value and buy or sell cash intensive businesses such as casinos. Based on our annual assessment for impairment as of September 30, 2007, we determined that, based on historical and projected performance, intangible assets at London Clubs and Caesars Indiana had been impaired, and we recorded impairment charges of $169.6 million in fourth quarter 2007. These charges are included Write-downs, reserves and recoveries in our 2007 Consolidated Statement of Income. At December 31, 2007, London Clubs and Caesars Indiana had intangible assets of $225.1 million and $193.4 million, respectively, that were not deemed to be impaired. The properties tangible assets were assessed for impairment applying the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and our analysis indicated that the carrying value of the tangible assets was not impaired.

Our annual assessment for impairment as of September 30, 2006, indicated that intangible assets at Harrah s Louisiana Downs were impaired, and a charge of $20.7 million was recorded in fourth quarter 2006. At December 31, 2006, Harrah s Louisiana Downs had $27.3 million of intangible assets that were not deemed to be impaired.

Our annual assessment for impairment as of September 30, 2005, indicated that the entire $49.9 million of goodwill associated with Harrah s Louisiana Downs was impaired, and a charge was recorded in fourth quarter 2005. Due to hurricane damage to our business in Biloxi, Mississippi, in the fourth quarter of 2005, we also wrote off $88.7 million of goodwill and intangible assets that were assigned to that property in our purchase price allocation of the Caesars acquisition. These charges are included in Write-downs, reserves and recoveries in our 2005 Consolidated Statement of Income.

Our 2005 assessment for impairment also indicated that certain goodwill and intangible assets related to properties reported as part of our Discontinued operations were impaired. These charges related to goodwill acquired in our 2000 acquisition of a property in Lake Charles, Louisiana, and to our 2005 acquisition of a property in Gulfport, Mississippi, which was severely damaged by Hurricane Katrina in August 2005. Since our acquisition of the Lake Charles property, competition had intensified in the market and the operating performance was declining. As a result of the operating trends, compounded by the impact of hurricane damage in September 2005, calculations indicated that the entire $56.1 million of

goodwill was impaired. This property had no other intangible assets. All of the goodwill and intangible assets related to Grand Casino Gulfport were deemed to be impaired, and a charge of $93.2 million was taken in fourth quarter 2005. Since Harrah s Lake Charles and Grand Casino Gulfport are reported in our Discontinued operations, the write-off of goodwill and intangible assets for those properties of $115.5 million, after taxes, is included in Discontinued operations.

The following table sets forth changes in goodwill for the years ended December 31, 2006, and December 31, 2007.

(In millions)	
Balance at December 31, 2005	$ 3,135.5
Additions or adjustments:	
Acquisition of London Clubs	467.9
Finalization of purchase price allocation for Caesars	83.5
Adjustments for taxes related to acquisitions	2.5
Balance at December 31, 2006	3,689.4
Additions or adjustments:	
Finalization of purchase price allocation for London Clubs	(146.3)
Foreign currency translation	17.0
Adjustments for taxes related to acquisitions	(14.9)
Purchase of additional interest in subsidiary	8.4
Balance at December 31, 2007	$ 3,553.6

The following table provides the gross carrying value and accumulated amortization for each major class of intangible assets.

	December 31, 2007			**December 31, 2006**		
(In millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizing intangible assets:						
Trademarks	$ 31.0	$ 15.8	$ 15.2	$ 31.0	$ 9.6	$ 21.4
Gaming rights	37.5	3.3	34.2	37.4	2.0	35.4
Contract rights	153.5	52.7	100.8	131.7	36.6	95.1
Customer relationships	654.2	143.0	511.2	654.2	93.0	561.2
	$ 876.2	$ 214.8	661.4	$ 854.3	$ 141.2	713.1
Nonamortizing intangible assets:						
Trademarks			570.4			570.2
Gaming rights			807.7			761.2
			1,378.1			1,331.4
Total			$ 2,039.5			$ 2,044.5

The aggregate amortization expense for the years ended December 31, 2007, 2006 and 2005 for those assets that continue to be amortized under provisions of SFAS No. 142 was $73.5 million, $70.7 million and $49.9 million, respectively. Estimated annual amortization expense for those assets for the years ending December 31, 2008, 2009, 2010, 2011 and 2012 is $71.9 million, $70.4 million, $63.3 million, $57.7 million and $57.6 million, respectively. The amount of amortization to be recorded in future periods is subject to change as the purchase price allocations are refined and finalized.

Note 6 Stockholders Equity

In addition to its common stock, Harrah s Entertainment had the following classes of stock authorized but unissued as of December 31, 2007:

Preferred stock, $100 par value, 150,000 shares authorized

Special stock, $1.125 par value, 5,000,000 shares authorized
Series A Special Stock, 4,000,000 shares designated

Under the terms of our equity incentive award programs in place as of December 31, 2007, we had reserved shares of Harrah s Entertainment common stock for issuance under the Amended and Restated 2004 Equity Incentive Award Plan and the 2001 Broad-based Incentive Plan. (See Note 15 for a description of the plans.) The 2004 Equity Incentive Award Plan was an equity compensation plan approved by our stockholders and the 2001 Broad-based Incentive Plan was an equity compensation plan not approved by our stockholders. As of December 31, 2007, 7,939,543 shares were authorized and unissued under the 2004 Equity Incentive Award Plan and 8,897 shares were authorized and unissued under the 2001 Broad-based Incentive Plan. Incentive award programs in place at December 31, 2007, were terminated in connection with the Merger.

In connection with the Caesars acquisition, we assumed various equity award plans of Caesars; however, amendments to those plans provide that no further shares will be issued under the plans.

In connection with the Caesars acquisition, at a special meeting held in March 2005, our stockholders voted to approve an amendment to Harrah s Entertainment s certificate of incorporation to increase the number of authorized shares of Harrah s Entertainment common stock from 360 million to 720 million. Upon consummation of the Caesars acquisition, we issued 67.9 million shares of Harrah s Entertainment common stock. Since these additional shares were outstanding only since June 13, 2005, our average shares outstanding calculation for 2005 was only partially impacted by the transaction.

In connection with the Merger, the Company was recapitalized with 120,000,020 shares of stock, consisting of: (1) 20 shares of Voting Common Stock, par value $0.01 per share, (2) 80,000,000 shares of Non-Voting Common Stock, par value $0.01 per share, and (3) 40,000,000 shares of Preferred Stock, par value $0.01 per share, 20,000,000 of which have been designated as Non-Voting Perpetual Preferred Stock.

The table below presents quarterly cash dividends per common share that were declared and paid in 2007, 2006 and 2005:

	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2007	$ 0.40	$ 0.40	$ 0.40	$ 0.40
2006	0.3625	0.3625	0.40	0.40
2005	0.33	0.33	0.3625	0.3625

Note 7 Detail of Certain Balance Sheet Accounts

Accrued expenses consisted of the following as of December 31:

(In millions)	**2007**	**2006**
Payroll and other compensation	$ 309.3	$ 312.3
Insurance claims and reserves	210.5	193.8
Accrued interest payable	107.8	145.3
Accrued taxes	139.1	128.8
Other accruals	584.5	544.6
	$ 1,351.2	$ 1,324.8

Note 8 Debt

Long-term debt consisted of the following as of December 31:

(In millions)	**2007**	**2006**
Credit facilities		
5.825% 7.25% at December 31, 2006, maturities to 2011	$ 5,768.1	$ 4,307.0
Secured Debt		
6.0%, maturity 2010	25.0	25.0
7.1%, maturity 2028	87.7	89.3
LIBOR plus 1% 2.75%, maturity 2011		67.0
S. African prime less 1.5%, maturity 2009	10.5	11.4
4.25% 10.125%, maturities to 2035	4.4	6.8
Unsecured Senior Notes		
7.125%, maturity 2007		497.8
Floating Rate Notes, maturity 2008	250.0	250.0
7.5%, maturity 2009*	136.2	136.2
7.5%, maturity 2009	442.4	452.4

5.5%, maturity 2010	747.1	746.0
8.0%, maturity 2011	71.7	71.7
5.375%, maturity 2013	497.7	497.4
7.0%, maturity 2013*	324.4	328.4
5.625%, maturity 2015	996.3	995.9
6.5%, maturity 2016	744.3	743.8
5.75%, maturity 2017	745.8	745.5
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	370.6	367.8
Unsecured Senior Subordinated Notes		
9.375%, maturity 2007*		499.2
8.875%, maturity 2008*	409.6	423.3
7.875%, maturity 2010*	394.9	403.4
8.125%, maturity 2011*	380.3	388.2
Other Unsecured Borrowings		
LIBOR plus 4.5%, maturity 2010	29.1	33.9
Other, various maturities	1.6	1.6
Capitalized Lease Obligations		
5.77% 11.5%, maturities to 2011	2.7	0.9
	12,440.4	12,089.9
Current portion of long-term debt	(10.8)	(451.2)
	$ 12,429.6	$ 11,638.7

* Assumed in our acquisition of Caesars

We recorded the debt assumed in the Caesars acquisition at its market value, and the premium recorded is being amortized as a credit to interest expense using the effective interest method. The debt was assumed by Harrah s Operating Company, Inc. (Harrah s Operating or HOC), a wholly-owned subsidiary of Harrah s Entertainment, and is guaranteed by Harrah s Entertainment.

$400 million, face amount, of our 8.875% Senior Subordinated Notes due in September 2008, and $250 million, face amount, of our Floating Rate Senior Notes due in February 2008, are classified as long-term in our Consolidated Balance Sheet as of December 31, 2007, because the Company has both the intent and the ability to refinance that portion of these notes.

As of December 31, 2007, aggregate annual principal maturities for the four years subsequent to 2008 were: 2009, $954.5 million; 2010, $2.3 billion; 2011, $5.0 billion; and 2012, $2.4 million.

DEBT FOLLOWING THE JANUARY 28, 2008, ACQUISITION AND FINANCING (Unaudited)

In connection with the Merger, $7.7 billion, face amount, of our debt was retired, $4.6 billion, face amount of our debt was retained and $20.5 billion, face amount, of new debt was issued, resulting in a very different debt structure from the one in place at December 31, 2007. The remainder of our discussion related to debt will refer to the debt structure after the Merger.

Following the Merger, long-term debt consisted of the following:

(In millions)	**HOC and Subsidiaries**	**Other Subsidiaries of Harrah s Entertainment**	**Total Harrah s Entertainment, Inc.**
Credit facilities			
Term loans, 6.244% at January 28, 2008, maturities to 2015	$ 7,250.0		$ 7,250.0
Subsidiary guaranteed debt			
10.75% Senior Notes due 2016, including senior interim loans of $342.6, 9.25% at January 28, 2008	5,275.0		5,275.0
10.75%/11.5% Senior PIK Toggle Notes due 2018, including senior interim loans of $97.4, 9.25% at January 28, 2008	1,500.0		1,500.0
Unsecured Senior Notes			
7.5%, maturity 2009	0.9		0.9
7.5%, maturity 2009	5.0		5.0
5.5%, maturity 2010	669.1		669.1
8.0%, maturity 2011	62.7		62.7
5.375%, maturity 2013	342.3		342.3
7.0%, maturity 2013	0.7		0.7
5.625%, maturity 2015	640.6		640.6
6.5%, maturity 2016	486.0		486.0
5.75%, maturity 2017	443.0		443.0
Floating Rate Contingent Convertible Senior Notes, maturity 2024*	0.2		0.2
Unsecured Senior Subordinated Notes			
8.875%, maturity 2008	5.9		5.9
7.875%, maturity 2010	349.5		349.5
8.125%, maturity 2011	307.4		307.4
Other Secured Borrowings			
CMBS financing, 6.244% at January 28, 2008, maturity 2013		$ 6,500.0	6,500.0
S. Africa, prime less 1.5%, maturity 2009		10.3	10.3
6.0%, maturity 2010	25.0		25.0
4.25% 10.125%, maturities to 2035	3.8		3.8
Other Unsecured Borrowings			
LIBOR plus 4.5%, maturity 2010	29.1		29.1
Other, various maturities	1.6		1.6
Capitalized Lease Obligations			
5.77% 10.0%, maturities to 2011	2.5		2.5
	17,400.3	6,510.3	23,910.6

Current portion of long-term debt	(71.4)	(1.5)	(72.9)
	$ 17,328.9	$ 6,508.8	$ 23,837.7

As of January 28, 2008, aggregate annual principal maturities for the four years subsequent to 2008 were: 2009, $96.8 million; 2010, $1.2 billion; 2011, $0.5 billion; and 2012, $0.2 billion.

In connection with the Merger, the following debt was retired on or about January 28, 2008:

Debt Extinguished	**Face Value (in millions)**
Credit Facilities due 2011	$ 5,795.8
7. 5% Senior Notes due 2009	131.2
8.875% Senior Subordinated Notes due 2008	394.3
7. 5% Senior Notes due 2009	424.2
7. 0% Senior Notes due 2013	299.4
Floating Rate Notes due 2008	250.0
Floating Rate Contingent Convertible Senior Notes due 2024	374.7

In connection with the Merger, the following debt was issued on or about January 28, 2008:

Debt Issued	**Face Value (in millions)**
Term loan facility, maturity 2015	$ 7,250.0
10.75% Senior Notes due 2016[a]	5,275.0
10.75%/11.5% Senior PIK toggle debt due 2018[b]	1,500.0
CMBS financing	6,500.0

(a) includes senior unsecured cash pay interim loans of $342.6 million
(b) includes senior unsecured PIK toggle interim loans of $97.4 million

New Senior Secured Credit Facility

Overview. HOC s new senior secured credit facilities provide for senior secured financing of up to $9.25 billion, consisting of senior secured term loan facilities in an aggregate principal amount of up to $7.25 billion with a maturity of seven years, and a senior secured revolving credit facility in an aggregate principal amount of $2.0 billion with a maturity of six years, including both a letter of credit sub-facility and a swingline loan sub-facility. None of the $2.0 billion credit facility was drawn at the closing of the Merger; however, approximately $188.1 million in letters of credit were outstanding under this facility at closing.

In addition, HOC may request one or more incremental term loan facilities and/or increase commitments under our revolving facility in an aggregate amount of up to $1.75 billion, subject to certain conditions and receipt of commitments by existing or additional financial institutions or institutional lenders.

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

Proceeds from the term loan drawn on the closing date were used to repay extinguished debt in the table above, pay expenses related to the Merger and contribute equity to the Company. Proceeds of the revolving loan draws, swingline and letters of credit will be used for working capital and general corporate purposes.

Interest Rates and Fees. Borrowings under the senior secured facilities will bear interest at a rate equal to the then-current LIBOR rate or at a rate equal to the alternate base, in each case, plus an applicable margin.

In addition, on a quarterly basis, HOC is required to pay each lender a commitment fee in respect of any unused commitments under the revolving credit facility and a letter of credit fee in respect of the aggregate face amount of outstanding letters of credit under the revolving credit facility.

Amortization. HOC s new senior secured credit facilities require scheduled quarterly payments on the term loans of $18.125 million each for six years and three quarters, with the balance paid at maturity.

Collateral and Guarantors. HOC s new senior secured credit facilities are guaranteed by Harrah s Entertainment, and are secured by a pledge of HOC s capital stock, and by substantially all of the existing and future property and assets of HOC and its material, wholly-owned domestic subsidiaries, including a pledge of the capital stock of HOC s material, wholly-owned domestic subsidiaries and 65% of the capital stock of the first-tier foreign subsidiaries in each case subject to exceptions.

Restrictive Covenants and Other Matters. HOC s new senior credit facilities require, after an initial grace period, compliance on a quarterly basis with a maximum net senior secured first lien debt leverage test. In addition, the new senior secured credit facilities include negative covenants, subject to certain exceptions, restricting or limiting HOC s ability and the ability of its restricted subsidiaries to, among other things: (i) incur additional debt; (ii) create liens on certain assets; (iii) enter into sale and lease-back transactions (iv) make certain investments, loans and advances; (v) consolidate, merge, sell or otherwise dispose of all or any part of its assets or to puchase, lease or otherwise acquire all or any substantial part of assets of any other person; (vi) pay dividends or make distributions or make other restricted payments; (vii) enter into certain transactions with its affiliates; (viii) engage in any business other than the business activity conducted at the closing date of the loan or business activities incidental or related thereto; (ix) amend or modify the articles or certificate of incorporation, by-laws and certain agreements or make certain payments or modifications of indebtedness; and (x) designate or permit the designation of any indebtedness as Designated Senior Debt .

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

HOC s new senior secured credit facilities also contain certain customary affirmative covenants and events of default.

10.75% Senior Notes, 10.75%/11.5% Senior PIK Toggle Notes and Senior Interim Loans

On January 28, 2008, HOC entered into a Senior Interim Loan Agreement for $6.775 billion, consisting of $5.275 billion Senior Interim Cash Pay Loans and $1.5 billion Interim Toggle Loans. On February 1, 2008, $4,932.4 billion of the Senior Interim Cash Pay Loans and $1,402.6 billion of the Interim Toggle Loans were repaid, and $4,932.4 billion of 10.75% Senior Notes due 2016 and $1,402.6 billion of 10.75%/11.5% Senior Toggle Notes due 2018 were issued.

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

Commercial Mortgaged-Backed Securities (CMBS) Financing

In connection with the Merger, eight of our properties and their related operating assets were spun off from HOC to Harrah s Entertainment through a series of distributions, liquidations, transfers and contributions. The eight properties, as of the closing, are Harrah s Las Vegas, Rio, Flamingo Las Vegas, Harrah s Atlantic City, Showboat Atlantic City, Harrah s Lake Tahoe, Harveys Lake Tahoe and Bill s Lake Tahoe. Subsequent to the closing of the Merger and subject to regulatory approvals, Paris Las Vegas and Harrah s Laughlin and their related operating assets will be spun off from HOC and its subsidiaries to Harrah s Entertainment, and Harrah s Lake Tahoe, Harveys Lake Tahoe, Bill s Lake Tahoe and Showboat Atlantic City and their related operating assets will be transferred to subsidiaries of HOC from Harrah s Entertainment. The properties to be spun off from HOC and owned by Harrah s Entertainment, whether at closing or after the subsequent transfer, will collectively be referred to as the CMBS properties. At closing, the CMBS properties borrowed $6.5 billion of mortgage loans and/or related mezzanine financing and/or real estate term loans (the CMBS Financing). The CMBS Financing is secured by the assets of the CMBS properties and certain aspects of the financing is guaranteed by Harrah s Entertainment.

DERIVATIVE INSTRUMENTS

We account for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, and all amendments thereto. SFAS No. 133 requires that all derivative instruments be recognized in the financial statements at fair value. Any changes in fair value are recorded in the income statement or in other comprehensive income, depending on whether the derivative is designated and qualifies for hedge accounting, the type of hedge transaction and the effectiveness of the hedge. The estimated fair values of our derivative instruments are based on market prices obtained from dealer quotes. Such quotes represent the estimated amounts we would receive or pay to terminate the contracts.

Our derivative instruments contain a credit risk that the counterparties may be unable to meet the terms of the agreements. We minimize that risk by evaluating the creditworthiness of our counterparties, which are limited to major banks and financial institutions, and we do not anticipate nonperformance by the counterparties.

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of December 31, 2007, we had seven variable-to-fixed interest rate swap agreements for a total notional amount of $1.5 billion. The difference to be paid or received under the terms of the interest rate swap agreements is accrued as interest rates change and recognized as an adjustment to interest expense for the related debt. Changes in the variable interest rates to be paid or received pursuant to the terms of the interest rate swap agreement will have a corresponding effect on future cash flows. The major terms of the interest rate swaps are as follows:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of Dec. 31, 2007	Next Reset Date	Maturity Date
April 25, 2007	$ 200	4.898%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.896%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.925%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.917%	5.08375%	April 25, 2008	April 25, 2011
April 25, 2007	200	4.907%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.809%	5.08375%	April 25, 2008	April 25, 2011
September 26, 2007	250	4.775%	5.08375%	April 25, 2008	April 25, 2011

Our interest rate swap agreements are not designated as hedging instruments; therefore, gains or losses resulting from changes in the fair value of the swaps are recognized in earnings in the period of the change. Interest rate swaps increased our 2007 and 2006 interest expense by $44.0 million and $7.2 million, respectively. The income statement impact for 2006 includes a charge to terminate $300 million of interest rate swaps.

In addition to the swaps in place at December 31, 2007, in January 2008, at or about the date of the Merger, we entered into the following forward interest rate swap agreements:

(Unaudited)

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received	Next Reset Date	Maturity Date
April 25, 2008	$ 1,000	4.172%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.276%	3 month LIBOR	April 25, 2008	April 25, 2013
April 25, 2008	2,000	4.263%	3 month LIBOR	April 25, 2008	April 25, 2013

Additionally, on January 28, 2008, we entered into an interest rate cap agreement to partially hedge the risk of future increases in the variable rate of the CMBS debt. The interest rate cap agreement, which was effective January 28, 2008, and terminates February 13, 2013, is for a notional amount of $6.5 billion at a LIBOR cap rate of 4.5%.

FAIR MARKET VALUE

Based on the borrowing rates available as of December 31, 2007, for debt with similar terms and maturities and market quotes of our publicly traded debt, the fair value of our long-term debt at December 31 was as follows:

(In millions)	2007		2006	
	Carrying Value	Market Value	Carrying Value	Market Value
Outstanding debt	$ 12,440.4	$ 11,723.1	$ 12,089.9	$ 11,876.4
Interest rate swaps (used for hedging purposes)	45.9	45.9	2.0	2.0

Note 9 Leases

We lease both real estate and equipment used in our operations and classify those leases as either operating or capital leases following the provisions of SFAS No. 13, Accounting for Leases. At December 31, 2007, the remaining lives of our operating leases ranged from one to 85 years, with various automatic extensions totaling up to 86 years.

Rental expense associated with operating leases for continuing operations is charged to expense in the year incurred and was included in the Consolidated Statements of Income as follows:

(In millions)	2007	2006	2005
Noncancelable			
Minimum	$ 88.9	$ 70.0	$ 57.1
Contingent	5.2	3.0	3.5
Sublease	(1.2)	(0.2)	(0.2)
Other	33.9	35.7	26.9
	$ 126.8	$ 108.5	$ 87.3

Our future minimum rental commitments as of December 31, 2007, were as follows:

(In millions)		Noncancelable Operating Leases
2008	$	95.4
2009		76.7
2010		69.9
2011		67.4
2012		64.4
Thereafter		2,073.5
Total minimum lease payments	$	2,447.3

In addition to these minimum rental commitments, certain of these operating leases provide for contingent rentals based on a percentage of revenues in excess of specified amounts.

Note 10 Write-downs, Reserves and Recoveries

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

(In millions)	2007	2006	2005
Impairment of goodwill and other intangible assets	$ 169.6	$ 20.7	$ 138.6
Litigation awards and settlements	8.5	32.5	2.6
Corporate efficiencies project	21.5	5.2	
Write-off of abandoned assets	21.0	0.2	0.8
Demolition costs	7.3	11.4	6.0
Other	12.1	(0.1)	12.2
Insurance proceeds in excess of deferred costs	(130.3)	(10.2)	
Impairment of investment securities		23.6	
Hurricane expense			24.5
Contribution to The Harrah s Foundation			10.0
	$ 109.7	$ 83.3	$ 194.7

See Note 5 for a discussion of the charges for impairment of goodwill and other intangible assets.

Litigation awards and settlements for 2006 represent an accrual for damages awarded.

Impairment to investment securities resulted from an assessment of certain bonds classified as held-to-maturity and the determination that they were highly uncollectible.

We began a project in September 2006 to identify efficiencies and cost savings in our corporate organization. This project continued through 2007.

Hurricane expense includes insurance deductibles on policies for Harrah s New Orleans and Harrah s Lake Charles and payroll and benefits that we believe are not reimbursable under our insurance plans.

The Harrah s Foundation is a 501(c)(3) non-profit corporation that provides charitable contributions to qualifying organizations in the communities where employees of Harrah s Entertainment and its subsidiaries work. The Harrah s Foundation was formed in order to centralize all of the various charitable contributions made by the Company and its subsidiaries. The Harrah s Foundation is governed by a Board of Trustees that is comprised of officers of the Company and its subsidiaries. Larger discretionary donations to The Harrah s Foundation, which are approved by our Board of Directors, are based on the financial performance of Harrah s Entertainment.

We account for the impairment of long-lived assets to be held and used by evaluating the carrying value of the long-lived assets in relation to the operating performance and future undiscounted cash flows of the underlying operating unit when indications of impairment are present. Long-lived assets to be disposed of are evaluated in relation to the estimated fair value of such assets less costs to sell.

Note 11 Income Taxes

Our federal and state income tax provision/(benefit) allocable to our Consolidated Statements of Income and our Consolidated Balance Sheets line items was as follows:

(In millions)	**2007**	**2006**	**2005**
Income from continuing operations before income taxes and minority interests	$ 350.1	$ 295.6	$ 225.9
Discontinued operations	53.2	4.5	96.5
Stockholders equity			
Unrealized gain/(loss) on available-for-sale securities			
Unrealized gain/(loss) on derivatives qualifying as cash flow hedges	0.3	0.3	(3.2)
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(47.7)	(23.0)	(29.9)
	$ 355.9	$ 277.4	$ 289.3

Income tax expense attributable to Income from continuing operations before income taxes and minority interests consisted of the following:

(In millions)	**2007**	**2006**	**2005**
United States			
Current			
Federal	$ 341.2	$ 245.0	$ 189.3
State	24.9	28.9	33.7
Deferred	7.1	13.7	(0.7)
Other countries			
Current	11.0	7.2	6.4
Deferred	(34.1)	0.8	(2.8)
	$ 350.1	$ 295.6	$ 225.9

The differences between the statutory federal income tax rate and the effective tax rate expressed as a percentage of Income from continuing operations before income taxes and minority interests were as follows:

	2007	**2006**	**2005**
Statutory tax rate	35.0%	35.0%	35.0%
Increases/(decreases) in tax resulting from:			
State taxes, net of federal tax benefit	1.3	2.1	3.6
Foreign income taxes, net of credit	3.1	0.6	0.5
Goodwill amortization			6.2
Tax credits	(0.5)	(0.7)	(2.1)
Political contributions/lobbying expenses	0.1	1.0	0.3
Officers life insurance/insurance proceeds	(0.5)	(0.6)	(0.6)
Merger and acquisition costs	0.5	0.4	
Meals and entertainment	0.1	0.1	0.1
Minority interests in partnership earnings	(0.6)	(0.6)	(0.8)
Income tax reserve	0.4	(1.5)	
Other	0.3	(0.4)	(1.4)
Effective tax rate	39.2%	35.4%	40.8%

The components of our net deferred tax balance included in our Consolidated Balance Sheets at December 31 were as follows:

(In millions)	**2007**	**2006**
Deferred tax assets		
Compensation programs	$ 169.6	$ 159.2
Bad debt reserve	61.2	59.8
Self-insurance reserves	38.5	40.0
Deferred income	0.2	1.0
Debt costs	8.1	13.6
Foreign tax credit	24.3	27.6
Valuation allowance on foreign tax credit	(18.9)	(23.0)
State and foreign net operating losses	131.1	74.0
Other	152.2	73.7
Valuation allowance on net operating losses and other deferred foreign and state tax assets	(148.7)	(79.3)
	417.6	346.6
Deferred tax liabilities		
Property	(1,522.6)	(1,502.2)
Management and other contracts	(26.3)	(29.8)
Intangibles	(464.4)	(495.5)
Investments in nonconsolidated affiliates	(40.9)	(30.0)
Undistributed foreign earnings	(4.7)	(4.8)
Project opening costs and prepaid expenses	(138.3)	(37.6)
	(2,197.2)	(2,099.9)
Net deferred tax liability	$ (1,779.6)	$ (1,753.3)

We anticipate that state net operating losses (NOLs) valued at $0.9 million (subject to a full valuation allowance) will expire in 2008. The remaining state NOLs valued at $93.6 million (subject to a full valuation allowance) will expire between 2009 and 2022. Foreign NOLs valued at $36.6 million (subject to a full valuation allowance) have an indefinite carryforward period. In the event the valuation allowance of $148.7 million for 2007 is ultimately unnecessary, $65.2 million of this total would be treated as a reduction to goodwill while the remaining $83.5 million would reduce tax expense. Included in deferred tax expense above is the utilization of state NOLs in the amount of $1.7 million.

As discussed in Note 1, we adopted the provisions of FIN 48, on January 1, 2007. As a result of the implementation of FIN 48, we recognized an approximate $12 million reduction to the January 1, 2007, balance of retained earnings. A reconciliation of the beginning and ending amounts of unrecognized tax benefits are as follows.

	(in millions)
Balance at January 1, 2007	$ 183
Additions based on tax positions related to the current year	11
Additions for tax positions of prior years	12
Reductions for tax positions for prior years	(27)
Settlements	(37)
Expiration of statutes	
Balance at December 31, 2007	$ 142

We recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. We accrued approximately $9 million during 2007; additionally, we had approximately $40 million and $38 million for the payment of interest and penalties accrued at January 1, 2007, and December 31, 2007, respectively. Included in the balance of unrecognized tax benefits at January 1, 2007, and December 31, 2007, are $48 million and $49 million, respectively, of unrecognized tax benefits that, if recognized, would impact the effective tax rate. As a result of the expected resolution of examination issues with both federal and state tax authorities, the lapsing of various state statutes, and the remittance of tax payments, we believe it is reasonably possible that the amount unrecognized tax benefits will decrease during 2008 between $30 million and $80 million. Included in this range are expected adjustments from the IRS to increase income tax for prior years as well as the recognition of previously unrecognized tax benefits attributable to various federal audit issues.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. As a large taxpayer, we are under continual audit by the Internal Revenue Service (IRS) on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next twelve months. We are participating in the IRS s Compliance Assurance Program for the 2007 tax year. This program accelerates the examination of key transactions with the goal of resolving any issues before the tax return is filed. Our 2004, 2005, and 2006 federal income tax returns are currently being examined by the IRS in a traditional audit process.

We also are subject to exam by various state and foreign tax authorities, although tax years prior to 2004 are generally closed as the statutes of limitations have lapsed. However, various subsidiaries are still being examined by the New Jersey Division of Taxation for tax years as far back as 1999.

Note 12 Supplemental Cash Flow Information

The change in Cash and cash equivalents due to the changes in long-term and working capital accounts was as follows:

(In millions)	**2007**	**2006**	**2005**
Long-term accounts			
Deferred costs and other	$ (30.4)	$ (28.1)	$ (26.9)
Deferred credits and other	(14.7)	(7.3)	(53.6)
Net change in long-term accounts	$ (45.1)	$ (35.4)	$ (80.5)
Working capital accounts			
Receivables	$ (145.7)	$ (119.0)	$ (77.3)
Inventories	(6.8)	(0.8)	3.8
Prepayments and other	1.6	7.5	(10.8)
Accounts payable	(25.0)	78.3	56.8
Accrued expenses	4.6	20.4	(169.2)
Net change in working capital accounts	$ (171.3)	$ (13.6)	$ (196.7)

SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST AND TAXES. The following table reconciles our Interest expense, net of interest capitalized, as reported in the Consolidated Statements of Income, to cash paid for interest.

(In millions)	**2007**	**2006**	**2005**
Interest expense, net of interest capitalized	$ 800.8	$ 670.5	$ 479.6
Adjustments to reconcile to cash paid for interest:			
Net change in accruals	43.3	(4.2)	(94.1)
Amortization of deferred finance charges	(10.1)	(8.4)	(9.6)
Net amortization of discounts and premiums	40.2	71.0	43.2
Amortization of other comprehensive income	(0.9)		
Change in fair value of interest rate swaps	(45.9)		
Cash paid for interest, net of amount capitalized	$ 827.4	$ 728.9	$ 419.1
Cash payments for income taxes, net of refunds	$ 372.6	$ 238.8	$ 585.7

Note 13 Commitments and Contingencies

CONTRACTUAL COMMITMENTS. We continue to pursue additional casino development opportunities that may require, individually and in the aggregate, significant commitments of capital, up-front payments to third parties, guarantees by Harrah s Entertainment of third-party debt and development completion guarantees.

As of December 31, 2007, we had guaranteed debt incurred by the Rincon San Luiseno Band of Mission Native Americans in California, to fund development of the casino on the tribe s land. The outstanding balance of that debt as of December 31, 2007, was $164.4 million. In January 2008, the Rincon tribe secured new financing to replace that debt, and we do not guarantee the new debt.

In February 2007, we entered into an agreement with the State of Louisiana whereby we extended our guarantee of an annual payment obligation of JCC, our wholly-owned subsidiary, of $60 million owed to the State of Louisiana. The guarantee was extended for one year to March 31, 2010.

The agreements under which we manage 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 and over the management fee earned and paid to the manager. In the event that insufficient cash flow is generated by the operations of the Indian-owned properties to fund this payment, we must pay the shortfall to the tribe. Subject to certain limitations as to time, such advances, if any, would be repaid to us in future periods in which operations generate cash flow in excess of the required minimum payment. These commitments will terminate upon the occurrence of certain defined events, including termination of the management contract. As of December 31, 2007, the aggregate monthly commitment for the minimum guaranteed payments pursuant to these contracts, which extend for periods of up to 71 months from December 31, 2007, is $1.2 million. The maximum exposure for the minimum guaranteed payments to the tribes is unlikely to exceed $55.3 million as of December 31, 2007.

In addition to the guarantees discussed above, as of December 31, 2007, we had commitments and contingencies of $1,846.4 million, consisting primarily of construction-related commitments.

SEVERANCE AGREEMENTS. As of December 31, 2007, the Company has severance agreements with 26 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 Entertainment s incentive plans. The estimated amount, computed as of December 31, 2007, that would be payable under the agreements to these executives based on the compensation payments and stock awards aggregated approximately $249.7 million. The estimated amount that would be payable to these executives does not include an estimate for the tax gross-up payment, provided for in the agreements, that would be payable to the executive if the executive becomes entitled to severance payments which are subject to a federal excise tax imposed on the executive. The Merger met the definition of change in control under the severance agreements.

SELF-INSURANCE. We are 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 14 Litigation

In connection with our acquisition of Caesars, we assumed Caesars litigation matters, including, but not limited to, the following litigation.

In April 2000, the Saint Regis Mohawk Tribe (the Tribe) granted Caesars the exclusive rights to develop a casino project in the State of New York. On April 26, 2000, certain individual members of the Tribe purported to commence a class action proceeding in a Tribal Court in Hogansburg, New York, against Caesars seeking to nullify Caesars agreement with the Tribe. On March 20, 2001, the Tribal Court purported to render a default judgment against Caesars in the amount of $1,787 million. Prior to our acquisition of Caesars in June 2005, it was believed that this matter was settled pending execution of final documents and mutual releases. Although fully executed settlement documents were never provided, on March 31, 2003, the United States District Court for the Northern District of New York dismissed litigation concerning the validity of the judgment, without prejudice, while retaining jurisdiction to reopen that litigation, if, within three months thereof, the settlement had not been completed. On June 22, 2007, a lawsuit was filed in the United States District Court for the Northern District of New York against us by certain trustees of the Catskill Litigation Trust alleging the Catskill Litigation Trust had been assigned the Tribal Court judgment and seeks to enforce it, with interest. According to a Tribal Court order, accrued interest through July 9, 2007, was approximately $1,014 million. We filed a motion to dismiss the case which was denied the first week of December 2007 on procedural grounds. In the Court s ruling, we were granted leave to renew our request for relief as a summary judgment motion, seeking the same relief (dismissal of the case), but employing a different procedural rule following limited discovery on the issues raised in the motion. Such limited discovery is now proceeding. We believe this matter to be without merit and will vigorously contest any attempt to enforce the judgment.

Additionally, we are subject to the following litigation matters that relate to the pending sale of the Company.

Delaware Lawsuits

On October 5, 2006, Henoch Kaiman and Joseph Weiss filed a purported class action complaint in the Delaware Court of Chancery, Civil Action No. 2453-N, against Harrah s, its board of directors and the Sponsors, challenging the proposed transaction as inadequate and unfair to Harrah s public stockholders. Two similar putative class actions were subsequently

filed in the Delaware Court of Chancery: Phillips v. Loveman, et al., Civil Action No. 2456-N; and Momentum Partners v. Atwood, et al., Civil Action No. 2455-N. On October 19, 2006, the Delaware Court of Chancery consolidated the three Delaware cases under the heading In Re Harrah s Entertainment, Inc. Shareholder Litigation.

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

Initial Nevada Lawsuits

On October 3, 2006, Natalie Gordon filed a putative class action lawsuit in the state district court in Clark County, Nevada, Case No. A529183, against Harrah s, its board of directors and the Sponsors, challenging the proposed transaction as inadequate and unfair to Harrah s public stockholders.

Eight similar putative class actions were subsequently filed in the Clark County district court: Phillips v. Harrah s Entertainment, Inc., et al., Case No. A529184; Murphy v. Harrah s Entertainment, Inc., et al., Case No. A529246; Shapiro v. Alexander, et al., Case No. A529247; Barnum v. Alexander, et al., Case No. A529277; Iron Workers Tennessee Valley Pension Fund v. Harrah s Entertainment, Inc., et al., Case No. A529449; Staehr v. Harrah s Entertainment, Inc., et al., Case No. A529385; Berliner v. Harrah s Entertainment, Inc., et al., Case No. A529508; and Frechter v. Harrah s Entertainment, Inc., et al., Case No. A529680. All of the complaints name Harrah s and its current directors as defendants. Four of the complaints also name the Sponsors as defendants. One complaint further names two former directors of Harrah s, Joe M. Henson and William Barron Hilton, as defendants. On October 6, 2006, the Clark County district court consolidated these complaints under the heading In Re Harrah s Shareholder Litigation and appointed liaison counsel for the consolidated action.

On October 17, 2006, a consolidated class action complaint was filed naming Harrah s, Entertainment, its current board of directors and the Sponsors as defendants. The consolidated complaint alleges that Harrah s Entertainment s board of directors breached their fiduciary duties and the Sponsors aided and abetted the alleged breaches of fiduciary duty in connection with the proposed transaction. The consolidated complaint seeks, among other relief, class certification of the lawsuit, an injunction against the proposed transaction, declaratory relief, compensatory and/or rescissory damages to the class, and an award of attorneys fees and expenses to plaintiffs.

On October 25, 2006, Harrah s removed the consolidated action to the United States District Court for the District of Nevada as In Re Harrah s Shareholder Litigation, Case 2:06-CV-01356, pursuant to the Securities Litigation Uniform Standards Act (SLUSA). On November 27, 2006, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a motion for remand. Also on that date, plaintiff Iron Workers Tennessee Valley Pension Fund filed a separate motion for remand. On December 5, 2006, plaintiff Frechter joined Iron Workers motion for remand. On January 5, 2007, the plaintiff in Iron Workers filed notice of its intention to voluntarily dismiss its action. On that same date, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a notice of withdrawal of their motion for remand. The court approved these notices on January 9, 2007. On January 23, 2007, defendants moved to dismiss the remaining actions pursuant to SLUSA. On February 5, 2007, plaintiffs Gordon, Phillips, Murphy, Shapiro and Barnum filed a First Amended Consolidated Class Action Complaint, adding a claim that the December 2006 14A filings by Harrah s with the SEC in connection with the merger were false and misleading. Accordingly, eight consolidated cases currently remain in the United States District Court for the District of Nevada. On February 12, 2007, the court denied the Frechter motion for remand under the SLUSA. On February 23, 2007, the defendants filed a reply brief renewing their request that the court dismiss the actions in their entirety. See Settlement Procedures below for an update.

Subsequent Nevada Lawsuits

On November 22, 2006, two putative class action lawsuits were filed in the state district court in Clark County, Nevada against Harrah s and its board of directors: Eisenstein v. Harrah s Entertainment, Inc., et al., Case No. A531963; and NECA-IBEW Pension Fund v. Harrah s Entertainment, Inc., et al., Case No. A531965. Both complaints allege that Harrah s board of directors breached their fiduciary duties in connection with the proposed transaction. The complaints seek, among other things, declaratory and injunctive relief; neither of them seeks damages.

On January 3, 2007, plaintiffs in both actions filed a joint Motion to Designate Litigation as Complex, Consolidate Cases, and for Appointment of Lead Counsel. A hearing on plaintiffs motion, which had been scheduled for January 30, 2007, was vacated pursuant to a stipulation between the parties, dated January 25, 2007.

On January 26, 2007, in accordance with the parties January 25, 2007 stipulation, the Clark County district court ordered the consolidation of the Eisenstein and NECA-IBEW Pension Fund complaints and appointed lead and liaison counsel. See Settlement Procedures below for an update.

Settlement Procedures

On March 8, 2007, Harrah s, its board of directors, and the other named defendants in the Delaware and Nevada Lawsuits above entered into a memorandum of understanding with plaintiffs counsel in those lawsuits. Under the terms of the memorandum, Harrah s, its board of directors, the other named defendants, and the plaintiffs have agreed in principle that the Initial Nevada Lawsuits and the Delaware Lawsuit will be dismissed without prejudice and, subject to court approval, the Subsequent Nevada Lawsuits would be dismissed with prejudice. The parties subsequently entered into a stipulation of settlement (Stipulation) incorporating the terms of the memorandum of understanding.

Harrah s, its board of directors, and the other defendants deny all of the allegations in the lawsuits. Nevertheless, the defendants agreed in principle to settle the purported class action litigations in order to avoid costly litigation and mitigate the risk that the litigation may have caused a delay to the closing of the Merger. Pursuant to the terms of the Stipulation, Harrah s has agreed to provide certain additional information to stockholders that was included in its definitive proxy statement dated March 8, 2007. In addition, Harrah s or its successor has agreed to pay the legal fees and expenses of plaintiffs counsel, up to a certain limit and subject to approval by the court. Class members have the right to opt out of the proposed settlement; however, Defendants have the right to terminate the proposed settlement if the holders of more than a designated amount of shares elect to opt out. The entry of a final judgment and the grant of a release against Harrah s, its board of directors and the other named defendants will not affect the rights of any stockholders who timely and validly request exclusion from the settlement class pursuant to applicable law.

On February 4, 2008, the Stipulation was submitted to a district court in Nevada, where it was approved and an order was entered for notice and a hearing in this matter. Per the court s order, a settlement hearing is to be held on April 21, 2008.

Additional details of the settlement in principle are set forth in a separate notice that has been sent to stockholders of the Company prior to a court hearing to consider the settlement, including any award of attorneys fees. Class members have the right to opt out of the proposed settlement, including any award of attorneys fees.

In addition, the Company is party to ordinary and routine litigation incidental to our business. We do not expect the outcome of any pending litigation to have a material adverse effect on our consolidated financial position or results of operations.

Note 15 Employee Benefit Plans

We have established a number of employee benefit programs for purposes of attracting, retaining and motivating our employees. The following is a description of the basic components of these programs as of December 31, 2007.

EQUITY INCENTIVE AWARDS. In April 2006, our stockholders approved the Harrah s Entertainment, Inc. Amended and Restated 2004 Equity Incentive Award Plan (the 2004 Plan), which, among other things, increased the number of shares of common stock that may be issued by 11.5 million. Under the 2004 Plan, non-qualified stock options, restricted stock, SARs, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards may be granted to employees or consultants of the Company and members of our Board of Directors. Only non-qualified stock options, SARs and restricted stock were ever issued under the 2004 Plan.

Our employees may also be granted restricted stock or options to purchase shares of common stock under the Harrah s Entertainment, Inc. 2001 Broad-based Stock Incentive Plan (the 2001 Plan). Two hundred thousand shares were authorized for issuance under the 2001 Plan, which is an equity compensation plan not approved by stockholders.

In connection with the Merger, all equity awards under these plans (and all of our equity award plans) were terminated and cashed out.

In February 2008, the Board of Directors approved and adopted the Harrah s Entertainment, Inc. Management Equity Incentive Plan (the Equity Plan). The Board of Directors approved the grant of options to purchase 3,218,020 shares of our non-voting common stock in February 2008.

Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), Share-Based Payment, using the modified prospective application, and, therefore, results for prior periods have not been restated. Under the modified-prospective transition method of SFAS No. 123(R), we were permitted to calculate a cumulative memo balance of windfall tax benefits from post-1995 years for calculating the opening pool of windfall tax benefits as prescribed in FASB Staff Position No. FAS 123(R)-3, Transition Election to Accounting for the Tax Effects of Share-Based Payments Awards . We elected to apply the short-cut method for determining the pool of windfall tax benefits.

As a result of adopting SFAS No. 123(R), we recognized $53.0 million and $52.8 million for stock option and stock appreciation rights expense (SARs) in 2007 and 2006, respectively. In 2007, we began allocating a portion of the expense related to stock options and stock appreciation rights to the applicable reporting unit, whereas, in 2006 that expense was included in Corporate expense in our Consolidated Statement of Income. For the year ended December 31, 2007, $10.3 million of the expense is included in Property general, administrative and other, and $42.7 million is included in Corporate expense. The total income tax benefit recognized for 2007 and 2006, was approximately $21.1 million and $20.4 million, respectively.

Stock Options. Prior to the Merger, stock option awards typically vested in equal installments on January 1 following the grant date and on January 1 in each of the two subsequent years and allowed the option holder to purchase stock over specified periods of time, generally seven years from the date of grant, at a fixed price equal to the market value at the date of grant.

In connection with the Merger, on January 28, 2008, outstanding and unexercised stock options, whether vested or unvested, were cancelled and converted into the right to receive a cash payment equal to the product of (a) the number of shares of common stock underlying the options and (b) the excess, if any, of the merger consideration over the exercise price per share of common stock previously subject to such options, less any required withholding taxes.

The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is a rate based upon the historical volatility of our stock. The expected term is based upon observation of actual time elapsed between the date of grant and exercise of options for all employees. No stock options were awarded in 2007 or 2006. The assumptions and resulting fair values of options granted in 2005 are as follows:

	2005
Expected volatility	32.9%
Expected dividend yield	2.1%
Expected term (in years)	4.8
Risk-free interest rate	3.9%
Weighted average fair value per share of options granted	$ 23.96

The following table presents our stock options granted, exercised and forfeited/expired during 2007.

	Weighted Avg. Exercise Price (Per Share)	Number of Options Outstanding	Weighted Avg. Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Balance January 1, 2006	$ 53.84	12,925,170		
Granted				
Exercised	40.18	(1,651,034)		
Forfeited/expired	63.07	(500,074)		
Balance December 31, 2006	55.50	10,774,062	4.31	$ 598.0
Granted				
Exercised	48.51	(2,602,177)		
Forfeited/expired	67.05	(178,857)		
Balance December 31, 2007	57.51	7,993,028	3.54	249.3
Exercisable at December 31, 2007	53.72	5,835,262	3.42	204.2

The total intrinsic value of options exercised was $99.3 million for the year ended December 31, 2007, $58.3 million for the year ended December 31, 2006 and $73.7 million for the year ended December 31, 2005. As of December 31, 2007, there was $12.7 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested stock options, which was recognized first quarter 2008 in connection with the Merger.

Cash received from option exercises was $126.2 million during 2007. The tax benefit realized for the tax deduction from option exercises totaled $34.9 million in 2007. In 2006 and 2005, cash received from option exercises was $66.3 million and $105.4 million, respectively, and the tax benefit realized for the tax deduction from option exercises totaled $20.5 million and $26.1 million, respectively.

Stock Appreciation Rights. Prior to the Merger, SARs typically vested in equal installments on June 30 following the grant date and on June 30 in each of the two subsequent years. SARs allowed the holder to receive a payment, in stock, equal to the excess of the fair market value of a specified number of shares of stock on the date the SARs were exercised over an exercise price per share, which typically is the fair market value on the date the SARs were granted.

In connection with the Merger, on January 28, 2008, outstanding SARs, whether vested or unvested, were cancelled and converted into the right to receive a cash payment equal to the product of (a) the number of shares of common stock underlying the SARs and (b) the excess, if any, of the merger consideration over the exercise price per share of common stock previously subject to such SARs, less any required withholding taxes.

The fair value of SARs at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is a rate based upon the historical volatility of our stock over a time period commensurate with the expected term of the SARs. The expected term is based upon past experience of actual time elapsed between the date of grant and exercise of options for employee groups with similar exercise behaviors. No SARs were awarded prior to first quarter 2006. The assumptions and resulting fair values of SARs granted in 2007 and 2006 are as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Expected volatility	25.1%	30.3%
Expected dividend yield	1.9%	2.4%
Expected term (in years)	4.8	5.1
Risk-free interest rate	4.6%	5.0%
Weighted average fair value per share of SARs granted	$ 21.06	$ 18.98

The following table presents our SARs granted, exercised and forfeited/expired during 2007 and 2006.

	Weighted Avg. Exercise Price (Per Share)	Number of SARs Outstanding	Weighted Avg. Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Balance January 1, 2006				
Granted	$ 65.38	3,150,322		
Exercised				
Forfeited/expired	66.81	(174,287)		
Balance December 31, 2006	65.29	2,976,035	6.52	$ 194.3
Granted	85.43	656,606		
Exercised	65.82	(212,354)		
Forfeited/expired	66.40	(163,105)		
Balance December 31, 2007	69.26	3,257,182	5.74	63.3
Exercisable at December 31, 2007	65.38	764,299	5.53	17.8

SARs were first issued in first quarter 2006, and no SARs were exercised in 2006. The total intrinsic value of SARs exercised in 2007 was $4.6 million. As of December 31, 2007, there was $38.2 million of unrecognized compensation cost, net of estimated forfeitures, related to unvested SARs, which was recognized first quarter 2008 in connection with the Merger.

The tax benefit realized for the tax deduction from SARs exercises totaled $1.6 million in 2007.

Restricted Stock. Restricted shares granted have restrictions that may include, but not be limited to, the right to vote, receive dividends on or transfer the restricted stock. Restricted shares may be subject to forfeiture during a specified period or periods prior to vesting. The shares issued under the 2004 Plan generally vest in equal annual installments over a three year period. The compensation arising from a restricted stock grant is based upon the market price at the grant date. Such expense is deferred and amortized to expense over the vesting period.

In connection with the Merger, on January 28, 2008, outstanding restricted shares vested and became free of restrictions, and each holder received $90 in cash for each outstanding share.

As of December 31, 2007, members of the Board of Directors can receive either 50% or 100% of his or her director fees in restricted shares. Shares issued to Board members as director fees cannot be disposed of until at least six months after the date of grant.

Pursuant to a Time Accelerated Restricted Stock Award Plan (TARSAP), certain key executives were granted restricted stock awards. A portion of these awards were eligible, but did not qualify, for earlier annual vesting beginning in 2003 based on the Company s financial performance in each year. The remaining unvested shares vested on January 1, 2007. The expense arising from TARSAP awards was amortized over the periods in which the restrictions lapsed.

The following table presents the number and weighted average grant-date fair values of restricted shares granted, vested and forfeited during 2007, including the TARSAP awards and issues to our Board of Directors.

	Grant Date Fair Value (Per Share)	Number of Shares
Unvested shares January 1, 2006	$ 36.69	983,231
Granted	65.69	764,401
Vested	48.93	(123,852)
Forfeited	68.20	(76,991)
Unvested shares December 31, 2006	48.47	1,546,789
Granted	85.40	268,625
Vested	41.02	(1,015,302)
Forfeited	66.65	(75,797)
Unvested shares December 31, 2007	70.71	724,315

For 2007, we recognized $22.9 million of compensation expense related to restricted stock. The total tax benefit recognized for 2007 was $29.9 million. For 2006 and 2005, we recognized $15.1 million and $8.0 million, respectively, of compensation expense related to restricted stock. The total tax benefit recognized for 2006 and 2005 was $3.0 million and $1.7 million, respectively. As of December 31, 2007, there was $36.6 million of unrecognized compensation cost related to unvested restricted stock, which was recognized first quarter 2008 in connection with the Merger.

SAVINGS AND RETIREMENT PLAN. We maintain a defined contribution savings and retirement plan, which, among other things, allows pretax and after-tax contributions to be made by employees to the plan. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings. The Company fully matches 50% of the first six percent of employees contributions. The Merger was a change in control under the savings and retirement plan, and therefore, all unvested Company match as of the Merger became vested. Amounts contributed to the plan are invested, at the participant s direction, in up to 20 separate funds, including a Harrah s company stock fund prior to the Merger. Participants become vested in the matching contribution over five years of credited service. Our contribution expense for this plan was $33.1 million, $17.6 million and $15.2 million in 2007, 2006 and 2005, respectively.

Employees of Horseshoe Gaming continued to participate in the Horseshoe Gaming Holding Corp. 401(k) Plan until January 1, 2006, when they became eligible to participate in Harrah s Entertainment s plan. Under the Horseshoe Gaming plan, employees could elect to make pretax contributions of up to 50% of their eligible earnings (five percent for certain executives). The Company fully matched the first two percent of employees contributions and 50% of the next four percent of the employees contributions. Amounts contributed to the plan were invested, at the participant s direction, in up to 12 separate funds plus, effective January 2005, a Harrah s company stock fund. Participants become vested in the matching contributions over four years of credited service. Harrah s Entertainment s contribution expense for 2005 was $4.0 million.

Employees of Caesars continued to participate in Caesars 401(k) savings plans until January 1, 2007, when they became eligible to participate in Harrah s Entertainment s plan. Under the Caesars plans, employees could elect to make pretax contributions of up to 50% of their eligible earnings (five percent for certain executives). The Company matched 50% of the first six percent of the employees contributions and an additional 25% for employees who have five or more years of service. Amounts contributed to the plan are invested, at the participant s direction, in up to 18 separate funds plus, effective January 2006, a Harrah s company stock fund. Participants become vested in the matching contributions over five years of credited service. Harrah s Entertainment s contribution expense for this plan was $10.9 million and $6.8 million, in 2006 and 2005, respectively.

DEFERRED COMPENSATION PLANS. Harrah s maintains deferred compensation plans, (collectively, DCP) and an Executive Supplemental Savings Plan (ESSP) under which certain employees may defer a portion of their compensation. Amounts deposited into these plans are unsecured liabilities of the Company. Amounts deposited into DCP earn interest at rates approved by the Human Resources Committee of the Board of Directors. The ESSP is a variable investment plan, which allows employees to direct their investments by choosing from several investment alternatives. In connection with the Caesars acquisition, we assumed the outstanding liability for Caesars deferred compensation plan; however, the balance was frozen and former Caesars employees may no longer contribute to that plan. The total liability included in Deferred credits and other for these plans at December 31, 2007 and 2006 was $213.3 million and $208.6 million, respectively. In connection with the administration of one of these plans, we have purchased company-owned life insurance policies insuring the lives of certain directors, officers and key employees.

Beginning in 2005, we implemented Executive Supplemental Savings Plan II (ESSPII) for certain executive officers, directors and other key employees of the Company to replace the ESSP, which was frozen for new contributions as of December 31, 2004. Eligible employees may elect to defer a percentage of their salary and/or bonus under ESSPII, and the Company may make matching contributions with respect to deferrals of salary to those participants who are eligible to receive matching contributions under the Company s 40l(k) plan and discretionary contributions. Employees vest in matching and discretionary contributions over five years or, under certain conditions, employees may immediately vest.

The Merger was a change in control under our deferred compensation plans, and therefore, all unvested Company match as of the Merger became vested. The change in control also requires that the trust and escrow funds related to our deferred compensation plans be fully funded.

MULTI-EMPLOYER PENSION PLAN. We have approximately 28,000 employees covered under collective bargaining agreements, and the majority of those employees are covered by union sponsored, collectively bargained multi-employer pension plans. We contributed and charged to expense $35.9 million, $34.6 million and $21.5 million in 2007, 2006 and 2005, respectively, for such plans. Our 2005 contribution and charge to expense include contribution and expense for Caesars employees subsequent to our acquisition of Caesars on June 13, 2005. The plans administrators do not provide sufficient information to enable us to determine our share, if any, of unfunded vested benefits.

PENSION COMMITMENTS. With the acquisition of London Clubs in December 2006, we assumed a defined benefit plan, which provides benefits based on final pensionable salary. The assets of the plan are held in a separate trustee-administered fund, and death-in-service benefits, professional fees and other expenses are paid by the pension plan. The most recent actuarial valuation of the plan showed a deficit of approximately $15.9 million, which is recognized as a liability in our Consolidated Balance Sheet at December 31, 2007. The London Clubs pension plan is not material to our Company.

With our acquisition of Caesars, we assumed certain obligations related to the Employee Benefits and Other Employment Matters Allocation Agreement by and between Hilton Hotels Corporation and Caesars dated December 31, 1998, pursuant to which we shall retain or assume, as applicable, liabilities and excess, if any, related to the Hilton Hotels Retirement Plan based on the ratio of accrued benefits of Hilton employees and the Company s employees covered under the plan. Based on this ratio, our share of any benefit or obligation would be approximately 30 percent of the total. The Hilton Hotels Retirement Plan is a defined benefit plan that provides benefits based on years of service and compensation, as defined. Since December 31, 1996, employees have not accrued additional benefits under this plan. The plan is administered by Hilton Hotels Corporation. Hilton Hotels Corporation has informed the Company that as of December 31, 2007, the plan benefit obligations exceeded the fair value of the plan assets by $5.2 million, of which $1.6 million is our share; however, no contributions to the plan were required during 2007, and no contributions are expected to be required for 2008.

Note 16 Nonconsolidated Affiliates

As of December 31, 2007, our investments in nonconsolidated affiliates consisted primarily of interests in a company that provides management services to a casino in Windsor, Canada, a casino club in the United Kingdom, a horse-racing facility in Florence, Kentucky, a hotel in Metropolis, Illinois and a joint venture to construct a hotel at our combination thoroughbred racetrack and casino in Bossier City, Louisiana.

Our Investments in and advances to nonconsolidated affiliates are reflected in our accompanying Consolidated Balance Sheets as follows:

(In millions)	**2007**	**2006**
Investments in and advances to nonconsolidated affiliates		
Accounted for under the equity method	$ 16.6	$ 25.7
Accounted for at historical cost	2.0	0.2
	$ 18.6	$ 25.9

Note 17 Consolidating Financial Information of Guarantors and Issuers

As of December 31, 2007, HOC, a 100% owned subsidiary and the principal asset of Harrah s Entertainment, is the issuer of certain debt securities that have been guaranteed by Harrah s Entertainment. The following consolidating schedules present condensed financial information for Harrah s Entertainment, Inc., the parent and guarantor; Harrah s Operating Company, the subsidiary issuer; and other subsidiaries of Harrah s Entertainment as of December 31, 2007 and 2006 and for each of the three years ended December 31, 2007, 2006 and 2005.

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2007

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Sudsidiaries	Consolidating/ Eliminating Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$	$ 572.8	$ 137.2	$	$ 710.0
Receivables, less allowance for doubtful accounts		459.2	43.6	(26.4)	476.4
Deferred income taxes		192.3	7.7		200.0
Income tax receivable		5.0			5.0
Prepayments and other		164.6	51.6		216.2
Inventories		68.0	2.3		70.3
Total current assets		1,461.9	242.4	(26.4)	1,677.9
Land, buildings, riverboats and equipment		18,505.6	247.9		18,753.5
Less: accumulated depreciation		(3,164.8)	(17.2)		(3,182.0)
		15,340.8	230.7		15,571.5
Assets held for sale		4.5			4.5
Goodwill		3,215.0	338.6		3,553.6
Intangible assets		1,814.4	225.1		2,039.5
Investments in and advances to nonconsolidated affiliates	6,628.1	18.6		(6,628.1)	18.6
Deferred costs and other		1,064.4	13.1	(585.4)	492.1
	$ 6,628.1	$ 22,919.6	$ 1,049.9	$ (7,239.9)	$ 23,357.7
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$	$ 427.3	$ 23.5	$ (8.8)	$ 442.0
Accrued expenses		1,173.1	174.2	3.9	1,351.2
Current portion of long-term debt		10.8			10.8
Total current liabilities		1,611.2	197.7	(4.9)	1,804.0
Liabilities held for sale		0.6			0.6
Long-term debt		12,420.5	594.5	(585.4)	12,429.6
Deferred credits and other		454.4	31.9	(21.5)	464.8
Deferred income taxes	1.2	1,919.6	58.8		1,979.6
	1.2	16,406.3	882.9	(611.8)	16,678.6
Minority interests		52.2			52.2
Stockholders equity	6,626.9	6,461.1	167.0	(6,628.1)	6,626.9
	$ 6,628.1	$ 22,919.6	$ 1,049.9	$ (7,239.9)	$ 23,357.7

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2006

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Assets					
Current assets					
Cash and cash equivalents	$	$ 710.0	$ 127.0	$ (37.4)	$ 799.6
Receivables, less allowance for doubtful accounts		414.5	38.9	(23.8)	429.6
Deferred income taxes		131.2	12.4		143.6
Income tax receivable		28.5			28.5
Prepayments and other	1.0	161.8	3.7		166.5
Inventories		61.6	1.4		63.0
Total current assets	1.0	1,507.6	183.4	(61.2)	1,630.8
Land, buildings, riverboats and equipment		16,609.7	135.2		16,744.9
Less: accumulated depreciation		(2,723.3)	(0.6)		(2,723.9)
		13,886.4	134.6		14,021.0
Assets held for sale		387.3			387.3
Goodwill		3,221.5	467.9		3,689.4
Intangible assets		1,894.1	150.4		2,044.5
Investments in and advances to nonconsolidated affiliates	6,070.1	14.0	11.9	(6,070.1)	25.9
Deferred costs and other		1,070.4		(584.4)	486.0
	$ 6,071.1	$ 21,981.3	$ 948.2	$ (6,715.7)	$ 22,284.9
Liabilities and Stockholders Equity					
Current liabilities					
Accounts payable	$	$ 449.8	$ 21.6	$ (6.4)	$ 465.0
Accrued expenses		1,229.0	130.9	(35.1)	1,324.8
Current portion of long-term debt		449.8	1.4		451.2
Total current liabilities		2,128.6	153.9	(41.5)	2,241.0
Liabilities held for sale		0.6			0.6
Long-term debt		11,561.6	661.5	(584.4)	11,638.7
Deferred credits and other		344.4	59.5	(19.7)	384.2
Deferred income taxes		1,856.4	40.5		1,896.9
		15,891.6	915.4	(645.6)	16,161.4
Minority interests		52.4			52.4
Stockholders equity	6,071.1	6,037.3	32.8	(6,070.1)	6,071.1
	$ 6,071.1	$ 21,981.3	$ 948.2	$ (6,715.7)	$ 22,284.9

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Year Ended December 31, 2007

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Revenues					
Casino	$	$ 8,568.4	$ 262.6	$	$ 8,831.0
Food and beverage		1,663.3	35.5		1,698.8
Rooms		1,350.8	2.8		1,353.6
Management fees		81.5			81.5
Other		685.0	62.8	(51.9)	695.9
Less: casino promotional allowances		(1,821.5)	(14.1)		(1,835.6)
Net revenues		10,527.5	349.6	(51.9)	10,825.2
Operating expenses					
Direct					
Casino		4,377.2	218.0		4,595.2
Food and beverage		703.0	13.5		716.5
Rooms		265.1	1.2		266.3
Property general, administrative and other		2,361.0	111.6	(50.9)	2,421.7
Depreciation and amortization		803.0	14.2		817.2
Write-downs, reserves and recoveries		0.5	109.2		109.7
Project opening costs		9.8	15.7		25.5
Corporate expense	0.2	137.9			138.1
Merger and integration costs		13.4			13.4
Losses/(income) on interests in nonconsolidated affiliates	(621.1)	(4.4)	0.5	621.1	(3.9)
Amortization of intangible assets		71.3	2.2		73.5
Total operating expenses	(620.9)	8,737.8	486.1	570.2	9,173.2
Income/(loss) from operations	620.9	1,789.7	(136.5)	(622.1)	1,652.0
Interest expense, net of interest capitalized		(785.5)	(56.5)	41.2	(800.8)
Losses on early extinguishments of debt			(2.0)		(2.0)
Other income, including interest income	(0.1)	72.1	12.5	(41.2)	43.3
Income/(loss) from continuing operations before income taxes and minority interests	620.8	1,076.3	(182.5)	(622.1)	892.5
Provision for income taxes	(1.4)	(394.4)	44.7	1.0	(350.1)
Minority interests		(18.9)	3.7		(15.2)
Income/(loss) from continuing operations	619.4	663.0	(134.1)	(621.1)	527.2
Discontinued operations					
Income from discontinued operations		145.4			145.4
Provision for income taxes		(53.2)			(53.2)
Income from discontinued operations, net		92.2			92.2
Net income/(loss)	$ 619.4	$ 755.2	$ (134.1)	$ (621.1)	$ 619.4

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Year Ended December 31, 2006

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Revenues					
Casino	$	$ 7,855.3	$ 13.3	$	$ 7,868.6
Food and beverage		1,576.3	1.4		1,577.7
Rooms		1,240.7			1,240.7
Management fees		89.1			89.1
Other		607.1	51.9	(48.0)	611.0
Less: casino promotional allowances		(1,712.5)	(0.7)		(1,713.2)
Net revenues		9,656.0	65.9	(48.0)	9,673.9
Operating expenses					
Direct					
Casino		3,892.0	10.6		3,902.6
Food and beverage		696.4	1.2		697.6
Rooms		256.6			256.6
Property general, administrative and other		2,207.1	46.7	(47.0)	2,206.8
Depreciation and amortization		667.3	0.6		667.9
Write-downs, reserves and recoveries		83.3			83.3
Project opening costs		20.6	0.3		20.9
Corporate expense	0.2	177.3			177.5
Merger and integration costs		37.0			37.0
Income on interests in nonconsolidated affiliates	(536.9)	(3.1)	(0.5)	536.9	(3.6)
Amortization of intangible assets		70.7			70.7
Total operating expenses	(536.7)	8,105.2	58.9	489.9	8,117.3
Income from operations	536.7	1,550.8	7.0	(537.9)	1,556.6
Interest expense, net of interest capitalized		(670.1)	(3.3)	2.9	(670.5)
Losses on early extinguishments of debt		(62.0)			(62.0)
Other income, including interest income		13.6		(2.9)	10.7
Income from continuing operations before income taxes and minority interests	536.7	832.3	3.7	(537.9)	834.8
Provision for income taxes	(0.9)	(293.6)	(2.1)	1.0	(295.6)
Minority interests		(15.3)			(15.3)
Income from continuing operations	535.8	523.4	1.6	(536.9)	523.9
Discontinued operations					
Income from discontinued operations		16.4			16.4
Provision for income taxes		(4.5)			(4.5)
Income/(loss) from discontinued operations, net		11.9			11.9
Net income	$ 535.8	$ 535.3	$ 1.6	$ (536.9)	$ 535.8

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

For the Year Ended December 31, 2005

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Revenues					
Casino	$	$ 5,966.5	$	$	$ 5,966.5
Food and beverage		1,086.7			1,086.7
Rooms		786.2			786.2
Management fees		75.6			75.6
Other		423.1	32.4	(30.8)	424.7
Less: casino promotional allowances		(1,329.7)			(1,329.7)
Net revenues		7,008.4	32.4	(30.8)	7,010.0
Operating expenses					
Direct					
Casino		2,984.6			2,984.6
Food and beverage		482.3			482.3
Rooms		151.5			151.5
Property general, administrative and other		1,466.9	26.3	(28.8)	1,464.4
Depreciation and amortization		485.7			485.7
Write-downs, reserves and recoveries		194.7			194.7
Project opening costs		16.4			16.4
Corporate expense	0.2	97.5			97.7
Merger and integration costs		55.0			55.0
Income on interests in nonconsolidated affiliates	(238.4)	(1.2)		238.4	(1.2)
Amortization of intangible assets		49.9			49.9
Total operating expenses	(238.2)	5,983.3	26.3	209.6	5,981.0
Income from operations	238.2	1,025.1	6.1	(240.4)	1,029.0
Interest expense, net of interest capitalized		(479.6)			(479.6)
Losses on early extinguishments of debt		(3.3)			(3.3)
Other income, including interest income		8.0			8.0
Income from continuing operations before income taxes and minority interests	238.2	550.2	6.1	(240.4)	554.1
Provision for income taxes	(1.8)	(224.0)	(2.1)	2.0	(225.9)
Minority interests		(11.9)			(11.9)
Income from continuing operations	236.4	314.3	4.0	(238.4)	316.3
Discontinued operations					
Income from discontinued operations		16.6			16.6
Provision for income taxes		(96.5)			(96.5)
Loss from discontinued operations, net		(79.9)			(79.9)
Net income	$ 236.4	$ 234.4	$ 4.0	$ (238.4)	$ 236.4

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2007

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Cash flows provided by operating activities	$ 121.3	$ 1,461.2	$ 10.2	$ (83.9)	$ 1,508.8
Cash flows from investing activities					
Land, buildings, riverboats and equipment additions		(1,296.5)	(83.0)		(1,379.5)
Payments for businesses acquired, net of cash acquired		(580.1)	(4.2)		(584.3)
Insurance proceeds for hurricane losses for continuing operations		15.7			15.7
Insurance proceeds for hurricane losses for discontinued operations		13.4			13.4
Purchase of minority interest in subsidiary		(8.5)			(8.5)
Investments in and advances to nonconsolidated affiliates		(1.8)			(1.8)
Increase in construction payables		2.8			2.8
Proceeds from other asset sales		99.6			99.6
Other		(81.0)			(81.0)
Cash flows used in investing activities		(1,836.4)	(87.2)		(1,923.6)
Cash flows from financing activities					
Borrowings under lending agreements, net of financing costs		39,072.3	52.1		39,124.4
Repayments under lending agreements		(37,617.6)	(1.9)		(37,619.5)
Early extinguishments of debt			(120.1)		(120.1)
Scheduled debt retirements		(1,001.7)			(1,001.7)
Dividends paid	(299.2)				(299.2)
Proceeds from exercises of stock options	126.2				126.2
Excess tax benefit from stock equity plans	51.7				51.7
Minority interests distributions, net of contributions		(20.0)			(20.0)
Other		(5.3)			(5.3)
Transfers (to)/from affiliates		(278.4)	157.1	121.3	
Cash flows provided by/(used in) financing activities	(121.3)	149.3	87.2	121.3	236.5
Cash flows from discontinued operations					
Cash flows from operating activities		88.9			88.9
Cash flows from investing activities		(0.2)			(0.2)
Cash flows provided by discontinued operations		88.7			88.7
Net increase/(decrease) in cash and cash equivalents		(137.2)	10.2	37.4	(89.6)
Cash and cash equivalents, beginning of period		710.0	127.0	(37.4)	799.6
Cash and cash equivalents, end of period	$	$ 572.8	$ 137.2	$	$ 710.0

Note 18 Subsequent Event

On January 28, 2008, Harrah s Entertainment was acquired by affiliates of Apollo/TPG in an all cash transaction, hereinafter referred to as the Merger, valued at approximately $30.9 billion, including the assumption of $12.4 billion of debt and approximately $1.2 billion of acquisition costs. Holders of Harrah s Entertainment stock received $90.00 in cash for each outstanding share of common stock. As a result of the Merger, the issued and outstanding shares of non-voting common stock and the non-voting preferred stock of Harrah s Entertainment are owned by entities affiliated with Apollo/TPG and certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah s Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo/TPG. As a result of the Merger, our stock is no longer publicly traded.

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2006

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Cash flows provided by operating activities	$ 195.1	$ 1,529.3	$ 23.0	$ (207.8)	$ 1,539.6
Cash flows from investing activities					
Land, buildings, riverboats and equipment additions		(2,510.7)	(0.6)		(2,511.3)
Payments for businesses acquired, net of cash acquired			(562.5)		(562.5)
Insurance proceeds for hurricane losses for continuing operations		124.9			124.9
Insurance proceeds for hurricane losses for discontinued operations		174.7			174.7
Proceeds from other asset sales		47.1			47.1
Purchase of minority interest in subsidiary		(2.3)			(2.3)
Investments in and advances to nonconsolidated affiliates		(0.9)			(0.9)
Increase in construction payables		11.2			11.2
Proceeds from sales of discontinued operations		457.3			457.3
Proceeds from sale of long-term investments		49.4			49.4
Other		(31.3)			(31.3)
Cash flows used in investing activities		(1,680.6)	(563.1)		(2,243.7)
Cash flows from financing activities					
Borrowings under lending agreements, net of financing costs		6,946.5	585.4	(585.4)	6,946.5
Repayments under lending agreements		(5,465.8)			(5,465.8)
Early extinguishments of debt		(1,195.0)			(1,195.0)
Scheduled debt retirements		(5.0)			(5.0)
Dividends paid	(282.7)				(282.7)
Proceeds from exercises of stock options	66.3				66.3
Excess tax benefit from stock equity plans	21.3				21.3
Minority interests distributions, net of contributions		(1.9)			(1.9)
Proceeds from issuance of senior notes, net of issue costs		739.1			739.1
Premiums paid on early entinguishments of debt		(56.7)			(56.7)
Losses on derivative contracts		(2.6)			(2.6)
Other		1.3			1.3
Transfers (to)/from affiliates		(780.5)		780.5	
Cash flows provided by/(used in) financing activities	(195.1)	179.4	585.4	195.1	764.8
Cash flows from discontinued operations					
Cash flows from operating activities		19.3			19.3
Cash flows from investing activities		(4.8)			(4.8)
Cash flows provided by discontinued Operation		14.5			14.5
Net increase in cash and cash equivalents		42.6	45.3	(12.7)	75.2
Cash and cash equivalents, beginning of period		667.4	81.7	(24.7)	724.4
Cash and cash equivalents, end of period	$	$ 710.0	$ 127.0	$ (37.4)	$ 799.6

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

(In millions)

	HET (Parent)	Subsidiary Issuer	Other Subsidiaries	Consolidating/ Eliminating Adjustments	Total
Cash flows provided by operating activities	$ 101.5	$ 589.3	$ 11.7	$ (107.3)	$ 595.2
Cash flows from investing activities					
Land, buildings, riverboats and equipment additions		(1,149.5)			(1,149.5)
Payments for businesses acquired, net of cash acquired		(1,942.5)			(1,942.5)
Insurance proceeds for hurricane losses for continuing operations		69.0			69.0
Insurance proceeds for hurricane losses for discontinued operations		32.1			32.1
Investments in and advances to nonconsolidated affiliates		(5.5)			(5.5)
Increase in construction payables		41.0			41.0
Proceeds from other asset sales		37.0			37.0
Proceeds from sales of discontinued operations		649.5			649.5
Proceeds from sale of long-term investments		2.7			2.7
Other		(22.9)			(22.9)
Cash flows used in investing activities		(2,289.1)			(2,289.1)
Cash flows from financing activities					
Borrowings under lending agreements, net of financing costs		11,599.4			11,599.4
Repayments under lending agreements		(10,522.9)			(10,522.9)
Early extinguishments of debt		(690.5)			(690.5)
Scheduled debt retirements		(307.5)			(307.5)
Dividends paid	(208.2)				(208.2)
Proceeds from exercises of stock options	106.7				106.7
Minority interests distributions, net of contributions		(12.2)			(12.2)
Proceeds from issuance of senior note, net of discount and issue costs		2,004.3			2,004.3
Premiums paid on early extinguishments of debt		(4.9)			(4.9)
Losses on derivative contracts		(7.9)			(7.9)
Other		(0.2)			(0.2)
Transfers (to)/from affiliates		(101.5)		101.5	
Cash flows provided by/(used in) financing activities	(101.5)	1,956.1		101.5	1,956.1
Cash flows from discontinued operations					
Cash flows from operating activities		(3.7)			(3.7)
Cash flows from investing activities		(23.1)			(23.1)
Cash flows provided by discontinued operations		(26.8)			(26.8)
Net increase in cash and cash equivalents		229.5	11.7	(5.8)	235.4
Cash and cash equivalents, beginning of period		437.9	70.0	(18.9)	489.0
Cash and cash equivalents, end of period	$	$ 667.4	$ 81.7	$ (24.7)	$ 724.4

The purchase price allocation process began in fourth quarter 2007 and will be completed within one year of the acquisition. Due to the timing of the closing of the Merger, it is not practicable to present a condensed balance sheet to disclose amounts assigned to major assets and liabilities. Values will be assigned to assets upon review of reports from third parties that we have engaged to perform valuation studies.

Note 19 Quarterly Results of Operations (Unaudited)

(In millions, except per share amounts)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Year**
2007[(1)]					
Revenues	$ 2,655.6	$ 2,701.7	$ 2,840.3	$ 2,627.5	$ 10,825.2
Income from operations	451.2	477.9	577.2	145.8	1,652.0
Income/(loss) from continuing operations	167.2	195.5	220.6	(56.1)	527.2
Net income/(loss)	185.3	237.5	244.4	(47.8)	619.4
Earnings/(loss) per share basic[(3)]					
From continuing operations	0.90	1.05	1.18	(0.30)	2.83
Net income/(loss)	1.00	1.28	1.31	(0.26)	3.33
Earnings/(loss) per share diluted[(3)]					
From continuing operations	0.88	1.03	1.16	(0.30)	2.77
Net income/(loss)	0.98	1.25	1.28	(0.26)	3.25
2006[(2)]					
Revenues	$ 2,356.9	$ 2,373.9	$ 2,512.5	$ 2,430.6	$ 9,673.9
Income from operations	453.1	431.7	441.9	229.7	1,556.6
Income from continuing operations	177.6	128.7	178.3	39.4	523.9
Net income	182.4	128.6	177.2	47.6	535.8
Earnings per share basic[(3)]					
From continuing operations	0.97	0.70	0.97	0.21	2.85
Net income	1.00	0.70	0.96	0.26	2.91
Earnings per share diluted[(3)]					
From continuing operations	0.95	0.69	0.96	0.21	2.79
Net income	0.98	0.69	0.95	0.25	2.85

(1) 2007 includes the following:

(Income)/loss	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Pretax charges for					
Project opening costs	$ 8.9	$ 8.3	$ 4.8	$ 3.4	$ 25.5
Insurance proceeds for hurricane losses	(18.7)	(37.0)	(61.1)	(13.4)	(130.3)
Impairment of intangible assets				169.6	169.6
Write-downs, reserves and recoveries	11.3	16.2	6.6	36.4	70.4
Merger and integration costs	4.0	3.5	0.7	5.1	13.4
After-tax write-downs, reserves and recoveries for discontinued operations	0.2	(0.1)	(1.1)	(1.4)	(2.4)
Insurance proceeds for hurricane losses, net of tax	(18.2)	(42.0)	(22.5)	(7.0)	(89.6)

(2) 2006 includes the following:

(Income)/loss	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Pretax charges for					
Project opening costs	$ 4.5	$ 4.7	$ 5.7	$ 6.0	$ 20.9
Write-downs, reserves and recoveries	3.2	7.2	(1.3)	74.3	83.3
Merger and integration costs	13.4	6.4	3.9	13.3	37.0
After-tax write-downs, reserves and recoveries for discontinued operations	(0.2)	0.1	1.7	(1.5)	

(3) The sum of the quarterly per share amounts may not equal the annual amount reported, as per share amounts are computed independently for each quarter and for the full year.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
Not applicable.

ITEM 9A. Controls and Procedures.
Disclosure Controls and Procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007, including controls and procedures to timely alert management to material information relating to the Company and its subsidiaries required to be included in our periodic SEC filings. Based on such evaluation, they have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms.

Internal Control over Financial Reporting

(a) Management s Annual Report on Internal Control Over Financial Reporting

Internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over our financial reporting.

We have evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007. The evaluation was performed using the internal control evaluation framework developed by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, management concluded that, as of such date, our internal control over financial reporting was effective.

Deloitte & Touche LLP has issued an attestation report on our internal control over financial reporting. Their report follows this Item 9A.

(b) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Harrah s Entertainment, Inc.

Las Vegas, Nevada

We have audited the internal control over financial reporting of Harrah s Entertainment, Inc. and subsidiaries (the Company) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated* Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 29, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company s adoption of new accounting standards.

/s/ Deloitte & Touche LLP

Las Vegas, Nevada

February 29, 2008

ITEM 9B. Other Information.
Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance.

Directors

As of December 31, 2007, the Directors of the Company were Gary W. Loveman, Barbara T. Alexander, Charles L. Atwood, Frank Biondi, Jr., Stephen F. Bollenbach, Ralph Horn, R. Brad Martin, Gary G. Michael, Robert G. Miller, Boake A. Sells, and Christopher J. Williams. On January 28, 2008, the resignations of these directors became effective and the individuals listed below were appointed to serve on the Board of Directors. Gary W. Loveman, one of our executive officers, was appointed to the Board of Directors. Because of our status as a privately-held company, we do not currently have a policy or procedures with respect to stockholder recommendations for nominees to the Board of Directors.

Name and Age	Principal Occupations or Employment
Jeffrey Benjamin (46)	Senior advisor to Apollo Global Management, LLC since 2002; Serves on the boards of directors of Exco Resources, Inc., Virgin Media Inc. and Goodman Global, Inc.
David Bonderman (68)	Founding partner of TPG Capital, LP; Serves as a director of Burger King Holdings, Inc., CoStar Group, Inc., Gemalto N.V., and Ryanair Holdings PLC, of which he is Chairman, the Wilderness Society, the Grand Canyon Trust, the World Wildlife Fund, the University of Washington Foundation, and the American Himalayan Foundation.
Anthony Civale (33)	Partner at Apollo Global Management, LLC since 1999; Serves on the boards of directors of Goodman Global, Inc., Berry Plastics Holding Corporation and Prestige Cruise Holdings, Inc.
Jonathan Coslet (44)	Senior Partner at TPG Capital, LP; Serves on the Harvard Business School Advisory Board for the West Coast and the Finance Committee of the Lucille Packard Children s Hospital at Stanford.
Kelvin Davis (47)	Senior Partner at TPG Capital, LP and Head of the firm s North American Buyouts Group; Chairman of the Board of Kraton Polymers LLP; Director of Metro-Goldwyn-Mayer Studios Inc., Altivity Packaging, LLC, Aleris International, and Univision Communications, Inc.
Karl Peterson (38)	Partner at TPG Capital, LP since 2004; President and Chief Executive Officer of Hotwire, Inc. from 2000 to 2003; Serves on the boards of directors of Univision Communications and Sabre Holdings.
Eric Press (42)	Partner at Apollo Global Management, LLC since 1998; Serves on the boards of directors of Prestige Cruise Holdings, Inc., Noranda Aluminum, Affinion Group, Metals USA Holdings and Quality Distribution, Inc.
Marc Rowan (45)	Founding partner of Apollo Global Management, LLC; Serves on the boards of directors of the general partner of AAA and Mobile Satellite Ventures.

Executive Officers

Name and Age	Positions and Offices Held and Principal Occupations or Employment During Past 5 Years
Gary W. Loveman (47)	Director since 2000; Chairman of the Board since January 1, 2005; Chief Executive Officer since January 2003; President since April 2001; Director of Coach, Inc., a designer and marketer of high-quality handbags and women s and men s accessories, and FedEx Corporation, a world-wide provider of transportation, e-commerce and business services, each of which are traded on the New York Stock Exchange.
Charles L. Atwood (59)	Vice Chairman since August 2006; Chief Financial Officer from April 2001 to August 2006; Senior Vice President from April 2001 to February 2006; Treasurer from October 1996 to November 2003; Director, Equity Residential, an owner and operator of multi-family properties traded on the New York Stock Exchange.
Stephen H. Brammell (50)	Senior Vice President and General Counsel since July 1999; Corporate Secretary from June 2004 to February 2006, from November 2002 to July 2003 and from May 2000 to February 2001.
Jonathan S. Halkyard (43)	Chief Financial Officer since August 2006; Senior Vice President since July 2005; Treasurer since November 2003; Vice President from November 2002 to July 2005.
Thomas M. Jenkin (53)	Western Division President since January 2004; Senior Vice President Southern Nevada from November 2002 to December 2003.
Janis L. Jones (58)	Senior Vice President, Communications/Government Relations since November 1999.
David W. Norton (39)	Senior Vice President and Chief Marketing Officer since January 2008; Senior Vice President Relationship Marketing from January 2003 to January 2008.
John Payne (39)	Central Division President since January 2007; Atlantic City Regional President from January 2006 to December 2006; Gulf Coast Regional President from June 2005 to January 2006; Senior Vice President and General Manager Harrah s New Orleans from November 2002 to June 2005.
Timothy S. Stanley (42)	Senior Vice President, Innovation and Gaming since January 2007; Chief Information Officer since January 2003; Senior Vice President, Information Technology from February 2004 to January 2007; Vice President, Information Technology from February 2001 to February 2004.
Mary H. Thomas (41)	Senior Vice President, Human Resources since February 2006; Senior Vice President, Human Resources North America, Allied Domecq Spirits & Wines from October 2000 to December 2005.
J. Carlos Tolosa (58)	Eastern Division President since January 2003; Western Division President from August 1997 to January 2003.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and officers to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of all forms filed. To our knowledge, based solely on review of the copies of such reports furnished to us and written representations that no other reports were required, during the past fiscal year all Section 16(a) filing requirements applicable to our officers and directors were met except with respect to Frank Biondi, Jr., Stephen F. Bollenbach, Ralph Horn, R. Brad Martin, Gary G. Michael, Boake A. Sells and Christopher J. Williams. Forms 4 reporting acquisitions of stock through dividend reinvestments through the Directors Stock Program in the accounts of Messrs. Biondi, Bollenbach, Horn, Martin, Michael, Sells and Williams, due November 23, 2007, were filed on November 26, 2007.

Code of Ethics

In February 2003, our Board adopted a Code of Business Conduct and Ethics that applies to our Chairman, Chief Executive Officer and President, Chief Operating Officer, Chief Financial Officer and Chief Accounting Officer and is intended to qualify as a code of ethics as defined by rules of the Securities and Exchange Commission. This Code, set forth as Exhibit 14 to this Report, is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting to an appropriate person or persons identified in the Code of violations of the Code; and
- accountability for adherence to the Code.

Audit Committee and Audit Committee Financial Expert

Prior to January 28, 2008, the Audit Committee was composed of Barbara T. Alexander, Stephen F. Bollenbach, Gary G. Michael and Christopher J. Williams. Each of these individuals had been determined by our Board to be independent and were designated as audit committee financial experts. After the closing of the Merger, the Audit Committee was reconstituted with two members: Karl Peterson and Eric Press. In light of our status as a privately-held company and the absence of a public trading market for our common stock, our Board has not designated any member of the Audit Committee as an audit committee financial expert. Though not formally considered by our Board given that our securities are no longer registered or traded on any national securities exchange, based upon the listing standards of the New York Stock Exchange, the national securities exchange upon which our common stock was listed prior to the Merger, we do not believe that either of Messrs. Peterson or Press would be considered independent because of their relationships with certain affiliates of the Sponsors and other entities which hold 100% of our outstanding voting common stock, and other relationships with us.

ITEM 11. Executive Compensation.
Compensation Discussion and Analysis

Corporate Governance

Our Human Resources Committee

The Human Resources Committee (the Committee or HRC) serves as the Company s compensation committee with the specific purpose of designing, approving, and evaluating the administration of the Company s compensation plans, policies, and programs. The Committee ensures that compensation programs are designed to encourage high performance, promote accountability and align employee interests with the interests of the Company s stockholders. The Committee is also charged with reviewing and recommending the compensation of the Chief Executive Officer and our other senior executives, including all of the named executive officers. The Committee operates under the Harrah s Entertainment, Inc. Corporate Governance Guidelines and the Human Resources Committee Charter. The HRC Charter was last updated on April 26, 2006, and it is reviewed no less than once per year with any recommended changes provided to the Board of Directors of the Company (the Board) for approval.

As of December 31, 2007, the Committee was comprised of five members: Frank J. Biondi, Jr. (Chair), Ralph Horn, R. Brad Martin, Robert G. Miller, and Boake A. Sells. In February 2008, after the closing of the Merger, the Committee was reconstituted with two members: Kelvin Davis and Marc Rowan. Other than the 2007 bonus payments (paid in 2008), 2007 compensation decisions were made by the Committee in place prior to the Merger. The qualifications of the Committee members stem from roles as corporate leaders, private investors, and board members of several large corporations. Their knowledge, intelligence, and experience in company operations, financial analytics, business operations, and understanding of human capital management enables the members to carry out the objectives of the Committee.

In fulfilling its responsibilities, the Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Committee or to specified executives of the Company, except that it shall not delegate its responsibilities for any matters where it has determined such compensation is intended to comply with (a) the exemptions under Section 16(b) of the Securities Exchange Act of 1934, or (b) Section 162(m) of the Internal Revenue Code.

HRC Consultant Relationships

The Committee has the authority to engage services of independent legal counsel, consultants and subject matter experts in order to analyze, review, and recommend actions with regard to Board compensation, executive officer compensation, or general compensation and plan provisions. The Company provides for appropriate funding for any such services commissioned by the Committee. These consultants are used by the HRC for purposes of executive compensation review, analysis, and recommendations. The HRC has in the past, and will continue in the future, to engage external consultants for the purposes of determining Chief Executive Officer and other senior executive compensation.

2007 HRC Activity

During four meetings in 2007, as delineated in the Human Resources Charter and as outlined below, the Committee performed various tasks in accordance with their assigned duties and responsibilities, including:

- Chief Executive Officer Compensation: reviewed and approved corporate goals and objectives relating to the compensation of the Chief Executive Officer, evaluated the performance of the Chief Executive Officer in light of these goals and objectives, and established the base compensation and annual bonus of the Chief Executive Officer based on such evaluation. No equity compensation was awarded to our Chief Executive Officer in 2007 due to the pending Merger.

- Other Senior Executive Compensation: set base compensation and annual bonus for all senior executives, which included an analysis relative to our competition peer group. No equity compensation was awarded to our senior executives in 2007 due to the pending Merger.

- Executive Compensation Plans: reviewed status of various executive compensation plans, programs and incentives, including the 2005 Senior Executive Incentive Plan, the Annual Management Bonus Plan, the Company s various deferred compensation plans and the Company s various equity plans.

Roles in establishing compensation

Role of Human Resources Committee

The HRC has sole authority in setting the material compensation of the Company s senior executives, including base pay, incentive pay (bonus) and equity awards. The HRC receives information and input from senior executives of the Company and outside consultants (as described below) to help establish these material compensation determinations, but the HRC is the final arbiter on these decisions.

Role of company executives in establishing compensation

When determining the pay levels for the Chief Executive Officer and our other senior executives, the Committee solicits advice and counsel from internal as well as external resources. Internal Company resources include the Chief Executive Officer, Senior Vice President of Human Resources and Vice President of Compensation, Benefits, and Human Resource Systems and Services. The Senior Vice President of Human Resources is responsible for developing and implementing the Company s business plans and strategies for all companywide human resource functions, as well as day-to-day human resources operations. The Vice President of Compensation, Benefits, and Human Resource Systems and Services is responsible for the design, execution, and daily administration of the Company s compensation, benefits, and human resources shared-services operations. Both of these Human Resources executives attend the HRC meetings, at the request of the Committee Chair, and act as a source of informational resources and serve in an advisory capacity. The Corporate Secretary is also in attendance at each of the HRC meetings and oversees the legal aspects of the Company s executive compensation plans, updates the Committee regarding changes in laws and regulations affecting the Company s compensation policies, and records the minutes of each HRC meeting. The Chief Executive Officer also attends HRC meetings.

In 2007, the HRC Chair communicated directly with the Chief Executive Officer and top Human Resources executives in order to obtain external market data, industry data, internal pay information, individual and Company performance results, and updates on regulatory issues. The Committee Chair also delegated specific tasks to the Human Resources executives in order to facilitate the decision making process and to assist in the finalization of meeting agendas, documentation, and compensation data for Committee review and approval.

The Chief Executive Officer annually reviews the performance of our senior executives and, based on these reviews, recommends to the HRC compensation for all senior executives, other than his own compensation. The HRC, however, has the discretion to modify the recommendations and makes the final decisions regarding material compensation to senior executives, including base pay, incentive pay (bonus), and equity awards.

Role of outside consultants in establishing compensation

The Company s internal Human Resources executives regularly engage outside consultants related to the Company s compensation policies. Standing consulting relationships are held with several global consulting firms specializing in executive compensation, human capital management, and board of director pay practices. During 2007, the services engaged for the Human Resources Committee as set forth below:

1. Watson Wyatt Worldwide provided us with the development of the premium-equivalents for the Company s self-insured medical, dental, vision, and short term disability plans, recommended appropriate reserves for these plans, and reported on the plans financial performance. In addition, they served as a consultant on plan design, compliance, strategy, and vendor management for these plans.

2. Mercer Human Resources Consulting was retained by the Savings & Retirement Plan (401k) and Executive Deferred Compensation Plan Investment Committees to advise these Committees on investment management performance, monitoring, investment policy development, and investment manager searches. Mercer also provides plan design, compliance, and operational consulting for the Company s qualified defined contribution plan and non-qualified deferred compensation plans.

The consultants provided the information described above to the Company s compensation department to help formulate information that is then provided to the HRC. The consultants did not interact with each other in 2007, as they each work on discrete areas of compensation.

Objectives of Compensation Programs

The Company s executive compensation program is designed to achieve the following objectives:

- align our rewards strategy with our business objectives, including enhancing stockholder value and customer satisfaction,

- support a culture of strong performance by rewarding employees for results,

- attract, retain and motivate talented and experienced executives, and

- foster a shared commitment among our senior executives by aligning the Company s and their individual goals.

These objectives are ever present and are at the forefront of our compensation philosophy and all compensation design decisions.

Compensation Philosophy

The Company s compensation philosophy provides the foundation upon which all compensation programs are built. Our goal is to compensate our executives with a program that rewards loyalty, results-driven individual performance, and dedication to the organization s overall success. These principles define our compensation philosophy and are used to align our compensation programs with our business objectives. Further, the HRC specifically outlines in its charter the following duties and responsibilities in shaping and maintaining the Company s compensation philosophy:

- Assess whether the components of executive compensation support the Company s culture and business goals;

- Consider the impact of executive compensation programs on stockholders;

- Consider issues and approve policies regarding qualifying compensation for executives for tax deductibility purposes;

- Approve the appropriate balance of fixed and variable compensation; and

- Approve the appropriate role of performance based and retention based compensation.

The executive compensation program rewards our executives for their contributions in achieving the Company s mission of providing outstanding customer service and attaining strong financial results, as discussed in more detail below. The Company s executive compensation policy is designed to attract and retain high caliber executives and motivate them to superior performance for the benefit of the Company s stockholders.

Various Company policies are in place to shape our executive pay plans, including:

- Salaries are linked to competitive factors, internal equity, and can be increased as a result of successful job performance;

- The annual bonus program is competitively based and provides incentive compensation based on our financial performance;

Long-term compensation is tied to enhancing stockholder value and to our financial performance; and

Qualifying compensation paid to senior executives is designed to maximize tax deductibility, where possible.

The executive compensation practices are to compensate executives primarily on performance, with a large portion of potential compensation at risk. In the past, the HRC has set senior executive compensation with two driving principals in mind: (1) delivering financial results to our stockholders and (2) ensuring that our customers receive a great experience when visiting our properties. To that end, historically the HRC has set our senior executive compensation so that at least 50% of our senior executives total compensation be at risk based on these objectives.

Although many legislative changes and accounting rules have changed over the past several years impacting our executive compensation programs and polices, in 2007 there was only one material change in our executive compensation program. Due to the pending Merger, our senior executives were not awarded equity compensation in 2007.

Compensation Program Design

The executive compensation program is designed with our executive compensation objectives in mind and is comprised of fixed and variable pay plans, cash and non-cash plans, and short and long-term payment structures in order to recognize and reward executives for their contributions to the Company today and in the future.

The table below reflects our short-term and long-term executive compensation programs:

Short-term	**Long-term**
Fixed and Variable Pay	***Variable Pay***
Base Salary	Equity Awards
Annual Management Bonus Plan	Executive Supplemental Savings Plan II
2005 Senior Executive Incentive Plan	

The Company continually assesses and evaluates the internal and external competitiveness for all components of the executive compensation program. Internally, we look at critical and key positions that are directly linked to the profitability and viability of the Company. We ensure that the appropriate hierarchy of jobs is in place with appropriate ratios of Chief Executive Officer compensation to other senior executive compensation. We believe the appropriate ratio of Chief Executive Officer compensation compared to other senior executives ranges from 2:1 on the low end to 10:1 on the high end. These ratios are merely a reference point for the HRC in setting the compensation of our Chief Executive Officer, and were set after reviewing the job responsibilities of our Chief Executive Officer versus other senior executives and market practice. Internal equity is based on qualitative job evaluation methods, span of control, required skills and abilities, and long-term career growth opportunities. Externally, benchmarks are used to provide guidance and to ensure that our ability to attract, retain and recruit talented senior executives is intact. Due to the highly competitive nature of the gaming industry as well as the competitiveness across industries for talented senior executives, it is important for our pay plans to provide us the ability to internally develop executive talent, as well as recruit highly qualified senior executives.

External competitiveness is reviewed with the help of outside consultants and measured by data gathered from published executive compensation surveys and proxy data from peer companies. We define our peer group as one which operates under similar business conditions as the Company s, such as large gaming companies, hotel and lodging companies and large companies in the consumer services industries. We did not do a peer review in 2007, but the companies comprising our peer group for 2006 were:

American Real Estate Partners, L.P.	Las Vegas Sands Corp.
Aramark Corporation	Marriott International, Inc.
Boyd Gaming Corporation	MGM MIRAGE

Carnival Corporation	Penn National Gaming, Inc.
CBS Corporation	Starbucks Corporation
The DIRECTV Group, Inc.	Starwood Hotels & Resorts Worldwide, Inc.
GTECH Holdings Corporation	Station Casinos, Inc.
Hilton Hotels Corporation	Wynn Resorts, Limited.
IAC/InteractiveCorp	YUM! Brands, Inc.
International Game Technology	

When used in 2006, median revenue and market capitalization for the 19 peer companies listed above are $6 billion and $12 billion, respectively. The Company s revenue and market capitalization each fell at the 68th percentile of the peer group in 2006.

The peer group is used to benchmark senior executive compensation, which includes base salary, bonus, and long-term incentive pay. Each compensation element is considered individually and as a portion of total compensation, particularly when applying marketing data, which means that if one element is under or over our target market position, a corresponding adjustment does not necessarily take place if the executive s total compensation is positioned competitively. The Company targets its senior executive total direct compensation or TDC (base + bonus + long-term incentive opportunity) at the 75 90th percentile of the peer group. In June 2006, a TDC analysis was conducted in conjunction with Watson Wyatt Worldwide and the findings showed that we were within our 75 90th percentile range in base pay, bonus, long-term compensation, and total compensation. We target at the higher end of the market due to the competitive environment of the gaming industry, our goal to attract the most talented executives, and to support our efforts of retaining our executives for long-term business success.

The overall design of the executive compensation program and the elements thereof is a culmination of years of development and compensation plan design adjustments. Each year the plans have been reviewed for effectiveness, competitiveness, and legislative compliance. The current plans have been put into place with the approval of the HRC and in support of the principles of the compensation philosophy and objectives of the Company s pay practices and policies.

Impact of Performance on Compensation

The impact of individual performance on compensation is present in base pay merit increases, setting the annual bonus plan payout percentages as compared to base pay, and the amount of equity awards granted. The impact of the Company s financial performance and customer satisfaction is present in the calculation of the annual bonus payment and the intrinsic value of equity awards. Supporting a performance culture and providing compensation that is directly linked to outstanding individual and overall financial results is at the core of the Company s compensation philosophy and human capital management strategy.

For senior executives, the most significant compensation plans that are directly affected by the attainment of performance goals is the Annual Management Bonus Plan and 2005 Senior Executive Incentive Plan. All bonus plan performance criteria, target percentages, and plan awards were set in February 2007 for the bonus payments for fiscal 2007 (paid in 2008). The financial measurements used to determine the bonus under the Annual Management Bonus Plan are (1) Return on Invested Capital (ROIC), (2) Adjusted Earnings per Share (EPS), and (3) Operating Income (OI). The non-financial measurement used to determine plan payments is customer satisfaction. The financial measure for the 2005 Senior Executive Incentive Plan is earnings before interest, taxes, depreciation and amortization (EBITDA), as more fully described below.

Based on performance goals set by the HRC each year, there are minimum requirements that must be met in order for a bonus plan payment to be provided. Just as bonus payments are increased as performance goals are exceeded, results falling short of goals reduce or eliminate bonus payments. In order for senior executives to receive a bonus, a minimum attainment of 80% of financial and customer satisfaction scores approved by the HRC must be met. The 2007 requirements were set at the February 2007 HRC meeting.

Elements of Compensation

Elements of Active Employment Compensation and Benefits

The total direct compensation mix for each Named Executive Officer (NEO) varies. For our Chief Executive Officer, the allocation for 2007 was 45% for base salary and 55% for annual bonus. For the other NEOs in 2007, the average allocation was 57% for base salary and 43% for annual bonus. Due to the pending Merger, equity compensation was not awarded to our senior executives in 2007. Each compensation element is considered individually and as a component within the total compensation package. In reviewing each element of our senior executive s compensation, the HRC reviews peer data, internal and external benchmarks, the performance of the Company over the past 12 months (as compared to the Company s internal plan as well as compared to other gaming companies) and the executive s individual performance. Prior compensation and wealth accumulation is considered when making decisions regarding current and future compensation; however, it has not been a decision point used to cap a particular compensation element.

Base Salary

Salaries are reviewed each year and increases, if any, are based primarily on an executive s accomplishment of various performance objectives and salaries of executives holding similar positions within the peer group, or within our Company. Adjustments in base salary may be attributed to one of the following:

Merit: increases in base salary as a reward for meeting or exceeding objectives during a review period. The size of the increase is directly tied to pre-defined and weighted objectives (qualitative and quantitative) set forth at the onset of the review period. The greater the achievement in comparison to the goals, generally, the greater the increase. Merit increases can sometimes be distributed as lump-sum bonuses rather than increasing base salary.

Market: increases in base salary as a result of a competitive market analysis, or in coordination with a long term plan to pay a position at a more competitive level.

Promotional: increases in base salary as a result of increased responsibilities associated with a change in position.

Additional Responsibilities: increases in base salary as a result of additional duties, responsibilities, or organizational change. A promotion is not necessarily involved.

Retention: increases in base salary as a result of a senior executive s being recruited by or offered a position by another employer.

All of the above reasons for base salary adjustments for senior executives must be approved by the HRC and are not guaranteed as a matter of practice or in policy.

Our Chief Executive Officer did not receive an increase in base salary in 2007. The HRC determined in 2005 to provide an increase in Mr. Loveman s base salary in order to adjust the salary for the increased responsibilities due to the nearly 100% growth in Company s size as a result of the Caesars Entertainment, Inc. acquisition. The other NEOs average increase in base salary was 6.5% in 2007. The average increase for our NEOs reflect merit and market increases.

Senior Executive Incentive Plan

The 2005 Senior Executive Incentive Plan was approved by the Company s stockholders in 2004 to provide participating executives with incentive compensation based upon the achievement of pre-established performance goals. The 2005 Senior Executive Incentive Plan is designed to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the tax deductibility by the Company of compensation paid to executive officers named in the Summary Compensation Table to $1 million. The Committee approves which officers will participate each calendar year prior to, or at the time of, establishment of the performance objectives for a calendar year. In 2007, Messrs. Loveman, Atwood and Halkyard participated in the 2005 Senior Executive Incentive Plan. The 2005 Senior Executive Incentive Plan s objective for 2007 was based on the Company s EBITDA. Under the 2005 Senior Executive Incentive Plan, EBITDA is adjusted for the following income statement line items: write-downs, reserves and recoveries, project opening costs, and any gain or loss on early extinguishment of debt. Bonus amounts were set at 0.5% of EBITDA. The HRC set the same objective and criteria for 2008.

The Committee has discretion to decrease bonuses under the 2005 Senior Executive Incentive Plan and it has been the Committee s practice to decrease the bonuses by reference to the achieved performance goals and bonus formulas used under the Annual Management Bonus Plan discussed below. See the Summary Compensation Table for specific bonus amounts awarded to our NEOs in 2008 for 2007 performance. The HRC used their discretion to reduce the bonus amounts paid to the NEOs and other senior executives in order to align their payments with the formula outlined in the Annual Management Bonus Plan Administrative Rules.

The Committee has determined that Messrs. Loveman, Atwood and Halkyard and seven other officers will participate in the 2005 Senior Executive Incentive Plan for the year 2008. As noted above, the Committee has authority to reduce bonuses earned under the 2005 Senior Executive Incentive Plan and also has authority to approve bonuses outside of the 2005 Senior Executive Incentive Plan to reward executives for special personal achievement.

Annual Management Bonus Plan

The Annual Management Bonus Plan (the Bonus Plan) provides the opportunity for the Company s senior executives and other participants to earn an annual bonus payment based on meeting corporate financial and non-financial goals. These goals are set at the beginning of each fiscal year by the HRC. Under the Bonus Plan, the goals can pertain to operating income, pretax earnings, return on sales, earnings per share, a combination of objectives, or another objective approved by the Committee. For Messrs. Jenkin and Tolosa, who participated in the Bonus Plan for 2007, the objectives also include the operating income and customer satisfaction for their respective divisions. The goals may change annually to support the

Company s short or long-term business objectives. For the 2007 plan year, the plan s goal consisted of a combination of earnings per share, income from operations, return on invested capital, and customer satisfaction improvement. Although officers that participate in the 2005 Senior Executive Incentive Plan do not participate in the Annual Management Bonus Plan, goals are set for all officers under this plan. The measurement used to gauge the attainment of these goals is called the corporate score.

For 2007, financial goals are comprised of these separate measures, representing up to 90 percent of the corporate score.

Adjusted Earnings Per Share: This is a common measure of company performance followed closely by investors and the business press. This measure helps us focus on the value we deliver to stockholders. Adjusted earnings per share is earnings per share adjusted for pre-opening costs, write-downs, reserves and recoveries, and unusual non-operating costs. Adjusted Earnings Per Share comprised 45% of the corporate score for 2007, and was set at $4.28 per share for 2007.

Operating Income: As income is the lifeblood of any organization, the Committee believes that this is an excellent indication of our overall business health. Although this measure includes depreciation on assets, amortization, and corporate expenses, our officers have the ability to influence the outcome of this measure by supporting revenue generating business objectives and decreasing expenses whenever possible. Operating Income comprised 22.5% of the corporate score for 2007, and was set at $2,035 million for 2007.

Return on Invested Capital: As the Company continues to make large, innovative investments, such as investments in capital improvements at existing properties, development of new properties, it is imperative that we generate attractive returns for our investors. Annual ROIC performance is determined by dividing the after-tax operating income by average invested capital. Return on Invested Capital comprised 22.5% of the corporate score for 2007, and was set at 5.75% for 2007.

Non-financial goals consist of one key measurement: customer satisfaction. We believe we distinguish ourselves from competitors by providing excellent customer service. Supporting our property team members who have daily interaction with our external customers is critical to maintaining and improving guest service. Customer satisfaction is measured by surveys taken by a third party of our loyalty program (Total Rewards) customers. These surveys are taken weekly across a broad spectrum of customers. Customers are asked to rate our casinos performance using a simple A-B-C-D-F rating scale. The survey questions focus on friendly/helpful and wait time in key operating areas, such as beverage service, slot services, Total Rewards, cashier services and hotel operation services. Each of our casinos properties works against an annual baseline defined by a composite of their performance in these key operating areas from the previous years. Customer satisfaction comprised 10% of the corporate score for 2007, and was set at 4% change from non-A to A scores for 2007.

In February 2007, the HRC determined the thresholds for the corporate score for 2007. Bonus plan payments would only be paid when all three financial measures are at least 80 percent of target. Additionally, customer satisfaction must achieve a one percent or higher shift in non-A to A scores.

After the corporate score has been determined, a bonus matrix approved by the Committee provides for bonus amounts of participating executive officers and other participants that will result in the payment of a specified percentage of the participant s salary if the target objective is achieved. This percentage of salary is adjusted upward or downward based upon the level of corporate score achievement.

In April 2005, the Committee reviewed a report on executive compensation that it commissioned from the Hay Group. Based on that report, the Committee approved an enhancement to the bonus target percentages for the Chief Executive Officer and other senior executives. This enhancement affects the target bonus percentages by applying a multiplier triggered by a corporate score of 1.1 or greater. The multiplier starts at 121% and caps at 250% for a corporate score of 1.1 and 1.5, respectively.

After the end of the fiscal year, the Chief Executive Officer assesses the Company s performance against the financial and customer satisfaction targets set by the HRC. Taking into account the Company s performance against the targets set by the HRC, the Chief Executive Officer will develop and recommend a performance score of 0 to 1.5 to the Committee.

The Committee has the authority under the Annual Management Bonus Plan to adjust any goal or bonus points with respect to executive officers. These decisions are subjective and based generally on a review of the circumstances affecting results to determine if any events were unusual or unforeseen. For 2007, the HRC reviewed the corporate score and approved adjustments based on information presented by the Chief Executive Officer. The HRC, similarly, approved adjustments to the corporate score for 2006. The adjustments approved by the HRC for 2007 were based on unexpected occurrences that were beyond the control of the Company s management (such as union elections in Atlantic City and Las Vegas, fires in Lake Tahoe and San Diego, affecting Harrah s Rincon), and acquisitions that were not planned for (such as our acquisition in

2007 of a golf course in Macau).

The 2007 corporate score of .80 was approved by the HRC in February 2008 and payments will be made in accordance with the Annual Management Bonus Plan based on this score. For 2007, the HRC approved bonuses as a percent of eligible earnings for the Named Executive Officers as follows: 120% Mr. Loveman, 100% for Mr. Atwood, 86% for Mr. Jenkin, 60% for Mr. Halkyard, and 60% for Mr. Tolosa. Although officers that participate in the 2005 Senior Executive Incentive Plan do not participate in the Annual Management Bonus Plan, goals are set for all officers under this plan.

Due to the recent closing of the Merger, goals under the Annual Management Bonus Plan have not been set for 2008.

Equity Awards

As approved by stockholders in 2006, the Harrah s Entertainment, Inc. Amended and Restated 2004 Equity Incentive Award Plan (2004 EIAP) promoted the success and enhances the value of the Company by linking the personal interests of the members of the Board, employees, and senior executives to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The 2004 EIAP was intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of key employees. The 2004 EIAP provided for the grant of stock options, both incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards, and performance-based awards to eligible individuals.

Historically, the annual grant process for all eligible employees takes place during the summer HRC meeting. The actual timing of the annual grant process is driven by the natural building of pay elements as the year progresses (base, bonus, and then equity). In the first and second quarters of the calendar year, the Company s management team is heavily involved in performance reviews, corresponding merit increases, and bonus payments. During the second and third quarters, the Company focuses on the equity grants. The second reason for the timing of grants is simply a product of the work load throughout the year, and with a summer equity grant date the administrative burden placed on the Company can be more easily absorbed. Lastly, the timing of the equity grants corresponds with the annual review of base salary by the HRC for our Chief Executive Officer and the other senior executives of the Company. Grant approvals can also be placed on the HRC agendas through the year, if necessary or appropriate. All equity grant dates coincide with the date the award is approved by the HRC, and as prescribed by the 2004 EIAP, the grant price is the average of the high and low price on the date prior to grant.

Historically, the HRC has approved the award grants after considering the recommendations made by the Chief Executive Officer for senior executives, and determines the grant size for the Chief Executive Officer. Generally, historically, the size of an equity grant is based on a target percent of base pay, but is adjusted higher or lower from the target percent based on individual performance, job responsibilities, and expected future performance. The Committee determines awards that it believes will be suitable for providing an adequate incentive for both performance and retention purposes. The dollar value of the award is determined by applying conventional methods for valuing equity awards.

As a result of the Merger, all unvested awards under the 2004 EIAP (and all predecessor equity incentive plans) vested at the closing in January 2008. Except for options awarded under the 2004 EIAP that were rolled over into the post-acquisition Company by Mr. Loveman, participants in the 2004 EIAP (and all predecessor plans) received consideration in the Merger for their awards. Participants who held restricted shares pursuant to the 2004 EIAP Plan (and any predecessor plans) received $90.00 per share, less any applicable withholding taxes. Participants who held options or stock appreciation rights under the 2004 EIAP (and any predecessor plans) received a cash payment equal to the excess of (a) the product of the number of shares subject to such options or stock appreciation right and the $90.00 per share merger consideration, over (b) the aggregate exercise price of the options or stock appreciation right, less any applicable withholding taxes. As a result of the Merger, no further awards will be made under the 2004 EIAP or any predecessor equity incentive plan.

In February 2008, the Board of Directors approved and adopted the Harrah s Entertainment, Inc. Management Equity Incentive Plan (the Equity Plan). The purpose of the Equity Plan is to promote our long term financial interests and growth by attracting and retaining management and other personnel and key service providers with the training, experience and ability to enable them to make a substantial contribution to the success of our business; to motivate management personnel by means of growth-related incentives to achieve long range goals; and to further the alignment of interests of participants with those of our stockholders.

In February 2008, the Board of Directors approved grants as follows to our named executive officers:

Executive	Number of Shares of Time Based Options	Number of Shares of Performance Based Options
Gary Loveman	466,729	549,224
Charles Atwood	40,212	24,127
Jonathan Halkyard	51,147	30,688
Thomas Jenkin	68,785	41,271
Carlos Tolosa	29,630	17,778

Except as described below, the time based options vest and become exercisable in equal increments of 20% on each of the first five anniversaries of the Merger. The time vested options have a strike price equivalent to fair market value on the date of grant (as determined reasonably and in good faith by the Board of Directors). Messrs Atwood and Tolosa have time based options which vest 50% at 18 months after the date of the Merger and 50% at the third anniversary of the Merger.

The performance based options vest based on investment return to our stockholders. One-half of the performance based options become eligible to vest upon the stockholders receiving cash proceeds equal to two times their amount invested (the 2X options), and one-half of the performance based options become eligible to vest upon the stockholders receiving cash proceeds equal to three times their amount invested (the 3X options). In addition, the performance based options may vest earlier at lower thresholds upon liquidity events prior to December 31, 2011, as well as pro-rata, in certain circumstances.

The combination of time and performance based vesting of the options is designed to compensate executives for long term commitment to the Company, while motivating sustained increases in our financial performance and helping ensure the stockholders have received an appropriate return on their invested capital.

Employment Agreements and Severance Agreements

We have entered into employment agreements with each of our NEO s, and severance agreements which each of our NEO s, other than Mr. Loveman. The HRC and the board of directors have put these agreements in place in order to attract and retain the highest quality executives. At least annually, the Company s compensation department reviews our termination and change in control arrangements against peer companies as part of its review of the Company s overall compensation package for executives to ensure that it is competitive. The compensation department s analysis is performed by reviewing each of our executives under several factors, including the individual s role in the organization, the importance of the individual to the organization, the ability to replace the executive if he/she were to leave the organization, and the level of competitiveness in the marketplace to replace an executive while minimizing the affect to the on-going business of the Company. The compensation department presents its assessment to the Committee for feedback. The Committee reviews the information, and determines if changes are necessary to the termination and severance packages of our executives.

Policy Concerning Tax Deductibility

The HRC s policy with respect to qualifying compensation paid to its executive officers for tax deductibility purposes is that executive compensation plans will generally be designed and implemented to maximize tax deductibility. However, non-deductible compensation may be paid to executive officers when necessary for competitive reasons or to attract or retain a key executive, or where achieving maximum tax deductibility would be considered disadvantageous to the best interests of the Company. For 2007, Messrs. Loveman, Atwood, Jenkin and Tolosa received total compensation over the $1 million deductibility limit so that $2,667,630, $5,266,431, $3,343,567 and $5,241,834, respectively, of their total compensation will not be deductible by the Company. The Company s 2005 Senior Executive Incentive Plan is intended to comply with Section 162(m) of the Internal Revenue Code so that annual bonuses paid under these plans will be eligible for deduction by the Company. See Senior Executive Incentive Plan above.

Stock Ownership Requirements

In 2002, our board of directors adopted a policy requiring our executives to own shares of our common stock, excluding stock options or unvested restricted stock, having a value equal to or greater than an established multiple ranging between one times and three times the executive s annual base salary. We maintained these guidelines in an effort to firmly align the interests of our executives with those of our stockholders and to ensure our executives maintained a significant stake in our long term performance. As a privately held company, we no longer have a policy regarding stock ownership.

Chief Executive Officer s Compensation

The objectives of our Chief Executive Officer are approved annually by the Committee. These objectives are revisited each year. The objectives for 2007 were:

- developing and implementing the Company s strategic direction;
- maximizing stockholder value, increasing the Company s earnings per share to established goals and ensuring implementation of measures related to reducing corporate overhead;
- fostering the Company s commitment to financial integrity, legal and regulatory compliance, and ethical business conduct;
- preserving and enhancing the Company s leadership in promoting responsible gaming;
- assuring customer satisfaction and loyalty through operational and service excellence and technological innovation;
- enhancing employee effectiveness by creating a high performance employee culture and removing layers in operating reporting structure; and
- pursuing new development opportunities for the Company.

The Committee s assessment of the Chief Executive Officer s performance is based on a subjective review of performance against these objectives. Specific weights may be assigned to particular objectives at the discretion of the Committee, and those weightings, or more focused objectives are communicated to the Chief Executive Officer at the time the goals are set forth. However, no specific weights were set against the Chief Executive Officer s objectives in 2007.

As Chief Executive Officer, Mr. Loveman s base salary was based on his performance, his responsibilities and the compensation levels for comparable positions in other companies in the hospitality, gaming, entertainment, restaurant and retail industries. Merit increases in his salary are a subjective determination by the Committee, which bases its decision upon his prior year s performance versus his objectives as well as upon an analysis of competitive salaries. Although base salary increases are subjective, the Committee reviews Mr. Loveman s base salary against peer groups, his roles and responsibilities within the Company, his contribution to the Company s success and his individual performance against his stated objective criteria.

The Committee used the 2005 Senior Executive Incentive Plan to determine the Chief Executive Officer s bonus for 2007. Under this plan, bonus is based on the Company achieving a specific financial objective. For 2007, the objective was based on the Company s EBITDA, as more fully described above. The HRC has discretion to reduce bonuses (as permitted by Section 162(m) of the Internal Revenue Code), and it is the normal practice of the Committee to reduce the Chief Executive Officer s bonus by reference to the achievement of performance goals and bonus formulas used under the Annual Management Bonus Plan. For 2007, the Committee reviewed the Chief Executive Officer s performance against his objectives, and determined to pay him a bonus in an amount that would have been paid under the Annual Management Bonus Plan as if he was a participant under that plan, as more fully described above.

Mr. Loveman s salary, bonus and equity awards differ from those of our other named executive officers in order to (a) keep Mr. Loveman s compensation in line with Chief Executive Officer s of our other gaming, hotel and lodging companies, as well as other consumer oriented companies, (b) compensate him for the role as the leader and public face of the Company and (c) compensate him for attracting and retaining the Company s senior executive team.

Personal Benefits and Perquisites

During 2007, all of our NEOs received a financial counseling reimbursement benefit, and were eligible to participate in the Company s deferred compensation plan, the Executive Supplemental Savings Plan II, and the Company s health and welfare benefit plans, including the Harrah s Savings and Retirement Plan. The NEOs also received matching amounts from the Company pursuant to the plan documents, which are the same for all employees eligible for these plans. Amounts received by each NEO pursuant to these benefits are included in the Summary Compensation Table set forth herein.

Additionally, we provided for their personal use company aircraft for Messrs. Loveman and Tolosa at certain times during 2007. Lodging expenses were incurred by Mr. Loveman for use of his Las Vegas-based residence. We also provided security for Mr. Loveman and his family. The decision to provide Mr. Loveman with the personal security benefit was prompted by the results of an analysis provided by an independent professional consulting firm specializing in executive safety and security. Based on these results, the HRC approved personal security services to Mr. Loveman and his family.

These perquisites are more fully described in the Summary Compensation Table set forth herein.

Our use of perquisites as an element of compensation is limited. We do not view perquisites as a significant element of our comprehensive compensation structure, but do believe that they can be used in conjunction with base salary to attract, motivate and retain individuals in a competitive environment.

Under the Company s group life insurance program, senior executives, including the NEOs, are eligible for an employer provided life insurance benefit equal to three times their base annual salary, with a maximum benefit of $5.0 million. Mr. Loveman is provided with a life insurance benefit of $3.5 million under our group life insurance program and additional life insurance policies with a benefit of $2.5 million.

In addition to the standard group long term disability benefit, the Chief Executive Officer and all other NEOs are covered under a Company-paid individual long-term disability insurance policy paying an additional $5,000 monthly benefit. Mr. Loveman is also covered under a supplemental long-term disability policy with a maximum benefit of $5,000,000 payable in a lump sum.

Elements of Post-Employment Compensation and Benefits

Employment Arrangements

Chief Executive Officer

Mr. Loveman entered into a new employment agreement on January 28, 2008, which provides that Mr. Loveman will serve as Chief Executive Officer and President until January 28, 2013, and the agreement shall extend for additional one year terms thereafter unless terminated by the Company or Mr. Loveman at least 60 days prior to each anniversary thereafter. Mr. Loveman s annual salary is $2,000,000, subject to annual merit reviews by the Human Resources Committee. Pursuant to the agreement, Mr. Loveman received a grant of stock options pursuant to the Equity Plan (described above).

Pursuant to his employment agreement, Mr. Loveman is entitled to participate in the annual incentive bonus compensation programs with a minimum target bonus of 1.5 times his annual salary. In addition, the agreement entitles Mr. Loveman to an individual long-term disability policy with a $180,000 annual maximum benefit and an individual long term disability excess policy with an additional $540,000 annual maximum benefit. Mr. Loveman is also entitled to life insurance with a death benefit of at least three times his base annual salary. In addition, Mr. Loveman is entitled to financial counseling reimbursed by the Company, up to $50,000 per year. The agreement also requires Mr. Loveman, for security purposes, to use the Company s aircraft, or other private aircraft, for himself and his family for business and personal travel. The agreement also provides that Mr. Loveman will be provided with accommodations while performing his duties in Las Vegas, and the Company will also pay Mr. Loveman a gross-up payment for any taxes incurred for such accommodations. Our Board can terminate the employment agreement with or without cause, and Mr. Loveman can resign, at any time.

If the Company terminates the agreement without cause, or if Mr. Loveman resigns for good reason:

Mr. Loveman will be paid, in equal installments over a 24 month period, two times his annual salary plus his target bonus;

Mr. Loveman will continue to have the right to participate in Company benefit plans (other than bonus and long-term incentive plans) for a period of two years beginning on the date of termination; and

his pro-rated bonus (at target) for the year of termination.

Cause is defined under the agreement as:

(i) the willful failure of Mr. Loveman to substantially perform his duties with the Company or to follow a lawful reasonable directive from the Board of Directors of the Company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Mr. Loveman by the Board which specifically identifies the manner in which the Board believes that Mr. Loveman has willfully not substantially performed his duties or has willfully failed to follow a lawful reasonable directive and Mr. Loveman is given a reasonable opportunity (not to exceed thirty (30) days) to cure any such failure, if curable.

(ii) (a) any willful act of fraud, or embezzlement or theft by Mr. Loveman, in each case, in connection with his duties under the employment agreement or in the course of his employment or (b) Mr. Loveman s admission in any court, or conviction of, or plea of *novo contender* to, a felony that could reasonably be expected to result in damage to the business or reputation of the Company.

(iii) Mr. Loveman being found unsuitable for or having a gaming license denied or revoked by the gaming regulatory authorities in Arizona, California, Colorado, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Jersey, New York, or North Carolina.

(iv) (x) Mr. Loveman s willful and material violation of, or noncompliance with, any securities laws or stock exchange listing rules, including, without limitation, the Sarbanes-Oxley Act of 2002, provided that such violation or noncompliance resulted in material economic harm to the Company, or (y) a final judicial order or determination prohibiting Mr. Loveman from service as an officer pursuant to the Securities and Exchange Act of 1934 or the rules of the New York Stock Exchange.

Good Reason shall mean, without Mr. Loveman s express written consent, the occurrence of any of the following circumstances unless, in the case of paragraphs (a), (d), (e), (f), or (g) such circumstances are fully corrected prior to the date of termination specified in the written notice given by Mr. Loveman notifying the Company of his resignation for Good Reason:

(a) The assignment to Mr. Loveman of any duties materially inconsistent with his status as Chief Executive Officer of the Company or a material adverse alteration in the nature or status of his responsibilities, duties or authority;

(b) The requirement that Mr. Loveman report to anyone other than the Board;

(c) The failure of Mr. Loveman to be elected/re-elected as a member of the Board;

(d) A reduction by the Company in Mr. Loveman s annual base salary of Two Million Dollars ($2,000,000.00), as the same may be increased from time to time pursuant by the HRC;

(e) The relocation of the Company s principal executive offices from Las Vegas, Nevada, to a location more than fifty (50) miles from such offices, or the Company s requiring Mr. Loveman either: (i) to be based anywhere other than the location of the Company s principal offices in Las Vegas (except for required travel on the Company s business to an extent substantially consistent with Mr. Loveman s present business travel obligations); or (ii) to relocate his primary residence from Boston to Las Vegas;

(f) The failure by the Company to pay to Mr. Loveman any material portion of his current compensation, except pursuant to a compensation deferral elected by Mr. Loveman, or to pay to Mr. Loveman any material portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(g) The failure by the Company to continue in effect compensation plans (and Mr. Loveman s participation in such compensation plans) which provide benefits on an aggregate basis that are not materially less favorable, both in terms of the amount of benefits provided and the level of Mr. Loveman s participation relative to other participants at Mr. Loveman s grade level, to those in which Mr. Loveman is participating as of January 28, 2008;

(h) The failure by the Company to continue to provide Mr. Loveman with benefits substantially similar to those enjoyed by him under the Savings and Retirement Plan and the life insurance, medical, health and accident, and disability plans in which Mr. Loveman is participating as of January 28, 2008, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive Mr. Loveman of any material fringe benefit enjoyed by Mr. Loveman as of January 28, 2008, except as permitted by the employment agreement;

(i) Delivery of a written Notice of non-renewal of the employment agreement by the Company to Mr. Loveman; or

(j) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform the employment agreement.

If the Company terminates the agreement for cause or Mr. Loveman terminates without good reason, Mr. Loveman s salary will end as of the termination date.

After his employment with the Company terminates for any reason, Mr. Loveman will be entitled to participate in the Company s group health insurance plans applicable to corporate executives, including family coverage, for his lifetime. The Company will pay 80% of the premium on an after-tax basis for this coverage, and Mr. Loveman will incur imputed taxable income equal to the amount of the Company s payment. When Mr. Loveman becomes eligible for Medicare coverage, the Company s group health insurance plan will become secondary, and Mr. Loveman will be eligible for the same group health benefits as normally provided to our other retired management directors. He will incur imputed taxable income equal to the premium cost of this benefit.

If a change in control were to occur during the term of Mr. Loveman s employment agreement, and his employment was terminated involuntarily or he resigned for good reason within two years after the change in control, or if his employment was involuntarily terminated within six months before the change in control by reason of the request of the buyer, Mr. Loveman would be entitled to receive the benefits described above under termination without cause by the Company or by Mr. Loveman for good reason, except that (a) the multiplier would be three times (in lieu of two times) and (b) the payment would be in a lump sum (as opposed to over a 24 month period). In addition, if the payments are subject to a federal excise tax imposed on Mr. Loveman (the Excise Tax), the employment agreement requires the Company to pay Mr. Loveman an additional amount (the Gross-Up Payment) so that the net amount retained by Mr. Loveman after deduction of any Excise Tax on the change in control payments and all Excise Taxes and other taxes on the Gross-Up Payment, will equal the initial change in control payment, less normal taxes.

The agreement provides that Mr. Loveman will not compete with the Company or solicit employees to leave the Company above a certain grade level for a period of two years after termination of his active full time employment (which for this purpose does not include the salary continuation period).

Named Executive Officer Employment Arrangements

We also have employment agreements with our other NEOs and members of our senior management team, which provides for a base salary, subject to merit increases as our Human Resources Committee of the Board of Directors may approve. The agreements of Messrs. Jenkin, Halkyard and Tolosa expire on February 28, 2008; and Mr. Atwood s agreement expires January 27, 2010. We anticipate entering into new employment agreements with our NEOs in the near future.

During the term of these employment agreements, each executive is entitled to participate in the incentive compensation programs and other benefits accorded to our senior officers, including eligibility to receive bonus compensation and equity awards under the 2004 EIAP as approved by the Human Resources Committee. The Company can terminate the employment agreement immediately with or without cause upon 30 days prior written notice. The executive can voluntarily resign upon 30 days prior written notice, or upon six months prior written notice if he or she is going to work or act in competition with the Company.

If the Company terminates any of these agreements without cause or does not renew the agreement upon expiration, the executive will receive eighteen months salary continuation and will not compete with the Company during that time. Stock options, restricted stock and stock appreciation rights will generally continue to be exercisable and to vest during the salary continuation, including vesting upon a change in control. If there were a change in control during the salary continuation and noncompete period, any unvested stock options would vest.

If (a) the executive attains age fifty (50) and, when added to his or her number of years of continuous service with the company, including any period of salary continuation, the sum of his or her age and years of service equals or exceeds sixty-five (65), and at any time after the occurrence of both such events Executive s employment is terminated and his employment then terminates either (1) without cause or (2) due to non-renewal of the agreement, or (b) the executive attains age fifty-five (55) and, when added to his number of years of continuous service with the company, including any period of salary continuation, the sum of his age and years of service equals or exceeds sixty-five (65) and Executive s employment is terminated other than for cause, he will be entitled to lifetime coverage under our group health insurance plan. The executive will be required to pay 20% of the premium for this coverage and the Company will pay the remaining premium, which will be imputed taxable income to the executive. This insurance coverage terminates if the executive competes with the Company.

Severance Agreements

We have entered into severance agreements with each of the NEOs, other than Mr. Loveman. The severance agreements relate to a change in control, which occurred pursuant to the definition of change in control in the severance agreements on January 28, 2008 as a result of the Merger. We believe these agreements reinforce and encourage the attention and dedication of our executives if they are faced with the possibility of a change in control of the Company that could affect their employment. The Severance Agreements of Messrs. Atwood, Jenkin, Halkyard and Tolosa became effective January 1, 2004.

The severance agreements provide, under the circumstances described below, for a compensation payment (the Compensation Payment) of:

three times annual compensation (which includes salary and bonus (calculated as the average of the Executive s annual bonuses for the three highest calendar years during the five calendar years preceding the calendar year in which the change in control occurred) amounts but excludes restricted stock vestings and compensation or dividends related to restricted stock, stock options or stock appreciation rights).

any bonus accrued for the prior year and pro-rata for the current year up to the date of termination.

an additional payment (the Gross-Up Payment) so that the net amount retained on the payments made under the Severance Agreement (Severance Payments) which are subject to a federal excise tax imposed on the executive (the Excise Tax) will equal the initial Severance Payments less normal taxes.

life, accident and health insurance benefits for twenty four months substantially similar to those which the executive was receiving immediately prior to termination.

reasonable legal fees and expenses incurred by the executive as a result of termination.

The severance agreements entitle each of them to the Compensation Payment after a change in control if, within two years of the change in control, their employment is terminated without cause, or they resign with good reason, or if their employment is terminated without cause within six months before a change in control at the request of the buyer.

Good Reason is defined under the severance agreements as, without the executive s express written consent, the occurrence after Change in Control of the Company, of any of the following circumstances unless such circumstances occur by reason of their death, disability or the executive s voluntary termination or voluntary retirement, or, in the case of paragraphs (i), (ii), (iii), (iv) or (v), such circumstances are fully corrected prior to the date of termination, respectively, given in respect thereof:

(i) The assignment to executive of any duties materially inconsistent with his status immediately prior to the Change in Control or a material adverse alteration in the nature or status of his or her responsibilities;

(ii) A reduction by the Company in executive s annual base salary as in effect on the date of the severance agreement or as the same may have been increased from time to time;

(iii) The relocation of the Company s executive offices where executive is located just prior to the Change in Control to a location more than fifty (50) miles from such offices, or the Company s requiring executive to be based anywhere other than the location of such executive offices (except for required travel on the Company s business to an extent substantially consistent with your business travel obligations during the year prior to the Change in Control);

(iv) The failure by the Company to pay to executive any material portion of current compensation, except pursuant to a compensation deferral elected by executive required by agreement, or to pay any material portion of an installment of deferred compensation under any deferred compensation program of the Company within thirty (30) days of the date such compensation is due;

(v) Except as permitted by any agreement, the failure by the Company to continue in effect any compensation plan in which executive is participating immediately prior to the Change in Control which is material to executive s total compensation, including but not limited to, the Company s annual bonus plan, the ESSP, or the Stock Option Plan or any substitute plans, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue executive s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants at grade level;

(vi) The failure by the Company to continue to provide executive with benefits substantially similar to those enjoyed by executive under the Savings and Retirement Plan and the life insurance, medical, health and accident, and disability plans in which executive is participating at the time of the Change in Control, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits or deprive executive of any material fringe benefit enjoyed by executive at the time of Change in Control;

(vii) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement; or

(viii) Any purported termination of executive s employment by the Company which is not effected pursuant to a notice of termination satisfying the requirements set forth in the severance agreement.

A Change in Control is defined in the Severance Agreements as the occurrence of any of the following:

1. any person becomes the beneficial owner of 25% or more of our then outstanding voting securities, regardless of comparative voting power of such securities;

2. within a two-year period, members of the Board of Directors at the beginning of such period and their approved successors no longer constitute a majority of the Board;

3. the closing of a merger or other reorganization where the voting securities of the Company prior to the merger or reorganization represent less than a majority of the voting securities after the merger or consolidation; or

4. stockholder approval of the liquidation or dissolution of the Company.

In addition to payments described above, under the severance agreements, NEOs receive accelerated vesting of certain stock options, or if the executive s employment terminates subsequent to a change in control or within six months before the change in control by request of the buyer, accelerated vesting of all options (Accelerated Payments). Any unvested restricted stock and stock options granted prior to 2001 will vest automatically upon a change in control regardless of whether the executive is terminated, as will any stock options granted in 2001 or later which are not assumed by the acquiring company. All unvested stock options granted in 2001 and later, including those assumed by the acquiring company, will vest if the executive becomes eligible for a Compensation Payment. At the election of the Company, the Company may cash out all or part of the executive s outstanding and unexercised options, with the cash payment based upon the higher of the closing price of the Company s common stock on the date of termination and the highest per share price for Company common stock actually paid in connection with any change in control. The Merger constituted a Change in Control under the Severance Agreements and all equity awards held by Messrs. Atwood, Jenkin, Halkyard and Tolosa were cancelled and cashed-out at the merger consideration of $90.00 per share (less applicable exercise prices and withholding taxes).

None of the executives is entitled to the Compensation Payment after a change in control if their termination is (i) by the Company for cause, or (ii) voluntary and not for good reason (as defined above).

For purposes of the severance agreements, Cause shall mean:

(i) willful failure to perform substantially duties or to follow a lawful reasonable directive from a supervisor or the Board, as applicable, (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered by a supervisor or the Board, as applicable, which specifically identifies the manner in which a supervisor or the Board, as applicable, believe that the executive has not substantially performed his or her duties or to follow a lawful reasonable directive and you are given a reasonable opportunity (not to exceed thirty (30 days) to cure any such failure to substantially perform, if curable;

(ii) (A) any willful act of fraud, or embezzlement or theft, in each case, in connection with the executive s duties to the Company of in the course of employment with the Company or (B) admission in any court, or conviction of, a felony involving moral turpitude, fraud, or embezzlement, theft or misrepresentation, in each case against the Company;

(iii) being found unsuitable for or having a gaming license denied or revoked by the gaming regulatory authorities in Arizona, California, Colorado, Illinois, Indiana, Iowa, Kansas, Louisiana, Mississippi, Missouri, Nevada, New Jersey, New York and North Carolina;

(iv) (A) willful and material violation of, or noncompliance with, any securities laws or stock exchange listing rules, including, without limitation, the Sarbanes Oxley Act of 2002 if applicable, provided that such violation or noncompliance resulted in material economic harm to the Company, or (B) a final judicial order of determination prohibiting the executive from service as an officer pursuant to the Securities Exchange Act of 1934 and the rules of the New York Stock Exchange.

If an executive officer becomes entitled to payments under a severance agreement (Severance Payments) which is subject to a federal excise tax imposed on the executive (the Excise Tax), the severance agreements require the Company to pay the executive an additional amount (the Gross-Up Payment) so that the net amount retained by the executive after deduction of any Excise Tax on the Severance Payments and all Excise Taxes and other taxes on the Gross-Up Payment, will equal the initial Severance Payments less normal taxes.

Each severance agreement has a term of one calendar year and is renewed automatically each year starting January 1 unless we give the executive six months notice of non-renewal. In cases where a potential change in control (as defined) has occurred or the non-renewal is done in contemplation of a potential change in control, we must give the executive one year s notice. Each severance agreement provides that if a change in control occurs during the original or extended term of the agreement, then the agreement will automatically continue in effect for a period of 24 months beyond the month in which the change in control occurred. Therefore, since the Merger was a change in control under the severance agreement, each NEOs severance agreement shall continue in effect until January 2010 (24 months after the change in control occurred).

Deferred Compensation Plans

The Company has one deferred compensation plan, the Executive Supplemental Savings Plan II (ESSP II), currently active, although there are five other plans that contain deferred compensation assets: Harrah s Executive Deferred Compensation Plan (EDCP), the Harrah s Executive Supplemental Savings Plan (ESSP), Harrah s Deferred Compensation Plan, the Restated Park Place Entertainment Corporation Executive Deferred Compensation Plan, and the Caesars World, Inc. Executive Security Plan.

Further deferrals into the EDCP were terminated in 2001 when the Human Resources Committee approved the ESSP, which permits certain key employees, including executive officers, to make deferrals of specified percentages of salary and bonus. No deferrals were allowed after December 2004 into ESSP, and the Company approved the ESSP II, which complies with the American Jobs Creation Act of 2004 and allowed deferrals starting in 2005. ESSP II, similar to ESSP, allows participants to choose from a selection of varied investment alternatives and the results of these investments will be reflected in their deferral accounts. To assure payment of these deferrals, a trust fund was established similar to the escrow fund for the EDCP. The trust fund is funded to match the various types of investments selected by participants for their deferrals.

ESSP and ESSP II do not provide a fixed interest rate, as the EDCP does, and therefore the market risk of plan investments is borne by participants rather than the Company. To encourage EDCP participants to transfer their account balances to the ESSP thereby reducing the Company s market risk, the Company approved a program in 2001 that provided incentives to a limited number of participants to transfer their EDCP account balances to the ESSP. Under this program, a currently employed EDCP participant who was five or more years away from becoming vested in the EDCP retirement rate, including any executive officers who were in this group, received an enhancement in his or her account balance if the participant elected to transfer the account balance to the ESSP. The initial enhancement was the greater of (a) twice the difference between the participant s termination account balance and retirement account balance, (b) 40% of the termination account balance, not to exceed $100,000, or (c) four times the termination account balance not to exceed $10,000. Upon achieving eligibility for the EDCP retirement rate (age 55 and 10 years of service), the participant electing this program will receive an additional enhancement equal to 50% of the initial enhancement. Pursuant to the ESSP, the additional enhancement vested upon the closing of the Merger. Mr. Loveman elected to participate in this enhancement program, and therefore no longer has an account in the EDCP.

Messrs. Atwood, Jenkin and Tolosa maintain a balance in the EDCP. Under the EDCP, the executive earns the retirement rate under the EDCP if he attains (a) specified age and service requirements (55 years of age plus 10 years of service or 60 years of age) or (2) attains specified age and service requirements (is at least 50 years old, and when added to years of service, equals 65 or greater) and if his employment is terminated without cause pursuant to his employment agreement. The executive receives service credit under the EDCP for any salary continuation and noncompete period. Additionally, if an executive is separated from service within 24 months of the Merger, the executive earns the retirement rate under the EDCP. Messrs. Atwood and Tolosa have attained the specified age and service requirements under the EDCP to earn the retirement rate. Mr. Jenkin will receive the retirement rate if he (1) is terminated without cause under his employment agreement, (2) is separated from service within 24 months after the Merger, or (3) he meets the age requirement.

While further deferrals into the EDCP were terminated, and while most EDCP participants transferred their EDCP account balance to the ESSP, amounts deferred pursuant to the EDCP prior to its termination and not transferred to the ESSP remain subject to the terms and conditions of the EDCP and will continue to earn interest as described above.

Under the deferred compensation plans, a change in control of the Company (such as the Merger) requires that the trust and escrow fund be fully funded.

REPORT OF THE HUMAN RESOURCES COMMITTEE

To the Board of Directors of Harrah s Entertainment, Inc.:

Our role is to assist the Board of Directors in its oversight of the Company s executive compensation, including approval and evaluation of director and officer compensation plans, programs and policies and administration of the Company s bonus and other incentive compensation plans.

We have reviewed and discussed with management the Compensation Discussion and Analysis.

Based on the review and discussion referred to above, we recommend to the Board of Directors that the Compensation Discussion and Analysis referred to above be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

Kelvin Davis
Marc Rowan

The above Report of the Human Resources Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

The Summary Compensation Table below sets forth certain compensation information concerning the Company s Chief Executive Officer, Chief Financial Officer and our three additional most highly compensated executive officers during 2007.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[2]	Option Awards and Stock Appreciation Rights ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4]	All Other Compensation ($)[5]	Total($)
Gary W. Loveman,	2007	2,000,000		937,504	8,509,684	2,400,000		1,575,044	15,422,232
Chairman,	2006	2,000,000		937,504	7,673,070	2,490,000		1,139,271	14,239,845
President and CEO									
Jonathan S. Halkyard,	2007	560,769			445,580	336,461		39,882	1,382,692
Senior Vice President,	2006	420,740			494,175	236,772		15,832	1,167,519
Chief Financial Officer and Treasurer[1]									
Charles L. Atwood,	2007	1,300,000			2,569,501	1,300,000	2,310	55,940	5,227,751
Vice Chairman and	2006	1,122,885		393,970	2,617,175	1,164,993	2,322	164,783	5,466,128
Former Chief Financial Officer									
Thomas M. Jenkin,	2007	1,134,615			1,242,669	978,605	213,821	57,559	3,627,269
President, Western Division	2006	1,035,769		181,449	1,262,919	1,326,432	198,963	115,323	4,120,855
J. Carlos Tolosa,	2007	1,075,000			2,116,274	645,000	96,286	334,653	4,267,213
President, Eastern Division	2006	1,035,773		295,770	1,745,111	602,290	91,049	357,605	4,127,598

(1) Mr. Halkyard became our Chief Financial Officer on August 1, 2006.

(2) The value of stock awards, option awards and stock appreciation rights was determined as required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). See Note 15 in the Notes to Consolidated Financial Statements for details on assumptions used in the valuation. The Merger triggered accelerated vesting of the unvested restricted stock, option awards, and stock appreciation rights. The value of the 2008 vesting of option awards and stock appreciation rights as a result of the Merger is as follows: Mr. Loveman, $10,329,474; Mr. Halkyard, $237,232; Mr. Atwood, $1,668,170; Mr. Jenkin, $774,778; and Mr. Tolosa, $777,169.

(3) Non-Equity Incentive Plan Compensation amounts for 2007 were determined in February 2008 by the HRC pursuant to the Senior Executive Incentive Plan for Messrs. Loveman, Atwood and Halkyard and the Annual Management Bonus Plan for Messrs. Jenkin and Tolosa. The plans provide the opportunity for the Company s senior executives and other participants to earn an annual bonus payment based on meeting corporate financial and non-financial goals, which are established each plan year by the HRC. See Compensation Discussion and Analysis Elements of Compensation Annual Management Bonus Plan for more details on the plan.

(4) Includes above market earnings on the balance the executives maintain in the EDCP. Mr. Atwood and Mr. Tolosa have attained the specified age and service requirements such that they earn the retirement rate of interest on their EDCP balances. Mr. Jenkin has not attained the specified age and service requirements to earn the retirement rate of interest. However, we have assumed Mr. Jenkin will attain the specified age and service requirements in calculating the above market earnings on his EDCP balance. In October 1995, the HRC approved a fixed retirement rate of 15.5% for all account balances under the EDCP as of December 31, 1995 (subject to plan minimum

rates contained in the EDCP). The interest rates on post 1995 deferrals continue to be approved each year by the Committee. The retirement rate on post 1995 deferrals during 2007 was the EDCP s minimum retirement rate which was 9.1%.

(5) All Other Compensation includes the amounts in the following table:

Name	Year	Executive Security ($)	Allocated amount for aircraft usage ($)	Allocated amount for company lodging and the associated taxes ($)	Matching contributions to the ESSP II ($)	Dividends paid on unvested stock awards ($)
Gary W. Loveman	2007	693,991	461,977	162,448		
	2006	276,720	435,786	141,665		123,958
Charles L. Atwood	2006				28,119	91,500
Thomas M. Jenkin	2007				28,967	
	2006				25,823	61,000
J. Carlos Tolosa	2007		248,196			
	2006		174,696			97,600

All other compensation is detailed in the above table only to the extent that the amount of any individual perquisite item exceeds the greater of $25,000 or 10% of the executive s total perquisites.

Mr. Loveman is required to have executive security protection which is provided at the Company s cost; See Compensation Discussion & Analysis Personal Benefits and Perquisites for additional information.

The amount allocated to Messrs. Loveman and Tolosa for personal and/or commuting aircraft usage is calculated based on the incremental cost to us of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and other miscellaneous variable costs. Since our aircraft are used primarily for business travel, we do not include the fixed costs that do not change based on usage, such as pilots salaries, depreciation of the purchase costs of the Company-owned aircraft, and the cost of maintenance not specifically related to trips. For security reasons, Mr. Loveman is required to use Company aircraft for personal and commuter travel.

The amount allocated to Mr. Loveman for company lodging while in Las Vegas and the associated taxes are based on his respective taxable earnings for such lodging.

The Company does not provide a fixed benefit pension plan for its executives but maintains a deferred compensation plan, the Executive Supplemental Savings Plan II (ESSP II), under which the executives may defer a portion of their compensation. The ESSP II is a variable investment plan that allows the executives to direct their investments by choosing among several investment alternatives.

The executives received quarterly dividends during 2007 on their unvested restricted stock awards on the same basis as all stockholders of the Company and as all other employees holding unvested restricted stock awards.

As a result of the Merger, the executives received the following payments due to the acceleration of vesting and cash out of all awards under our equity award plans: Mr. Loveman, $89,097,053; Mr. Halkyard, $4,811,551; Mr. Atwood, $11,774,775; Mr. Jenkin, $6,698,600 and Mr. Tolosa, $14,030,134.

Discussion of Summary Compensation Table

Each of our named executive officers have entered into employment and severance agreements (except Mr. Loveman who does not have a severance agreement) with the Company that relate to the benefits that the named executive officers receive upon termination. See Compensation Discussion & Analysis Elements of Post Employment Compensation and Benefits Employment Arrangements for additional information.

The following table gives information regarding potential incentive compensation for 2007 to our executive officers named in the Summary Compensation Table. No equity awards were granted to any of our executive officers named in the Summary Compensation Table in 2007.

GRANTS OF PLAN-BASED AWARDS

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards							
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)**	**All Other Option Awards: Number of Securities Underlying Options/ SARs (#)**	**Exercise or Base Price of Option/SARs Awards ($/Sh)**	**Closing Market Price on Grant Date ($/Sh)**	**Grant date fair value of stock and option/ SARs awards ($)**
Gary W. Loveman	n/a	2,400,000	3,000,000	5,000,000								
Jonathan S. Halkyard	n/a	336,461	420,577	1,051,442								
Charles L. Atwood	n/a	1,300,000	1,625,000	4,062,500								

Thomas M. Jenkin	n/a	680,769	850,961	2,127,403
J. Carlos Tolosa	n/a	645,000	806,250	2,015,625

(1) Represents potential threshold, target and maximum incentive compensation for 2007. Amounts actually paid for 2007 are described in the Non Equity Incentive Plan Compensation column in the Summary Compensation Table.

Discussion of Grants of Plan Based Awards Table

The Harrah s Entertainment, Inc. Amended and Restated 2004 Equity Incentive Award Plan (2004 EIAP) promotes the success and enhances the value of the Company by linking the personal interests of the members of the Board, employees, and senior executives to those of Company stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company stockholders.

Historically, each executive officer is normally granted an equity award that will give such officer an estimated dollar value of stock compensation targeted to equal a percentage of salary. This percentage increases commensurate with the grade level of the officer and is determined by an assessment of competitive stock awards. The Human Resource Committee determines awards that it believes will be suitable for providing an adequate incentive for both performance and retention purposes. The dollar value of the award is determined by applying conventional methods for valuing equity awards. For a more detailed discussion of how equity grants are determined, see Compensation Discussion & Analysis Elements of Compensation Equity Awards. However, due to the pending Merger, no equity awards were granted to any of our executive officers named in the Summary Compensation Table in 2007.

Other than as noted below related to Mr. Loveman, pursuant to the Merger Agreement, all vested and unvested equity awards were terminated upon the consummation of the Merger in exchange for (a) $90.00 per share for restricted stock and (b) the difference between $90.00 per share and the exercise price per share for options and stock appreciation rights.

On January 27, 2008, Mr. Loveman and the Company entered into a stock option rollover agreement that provides for the conversion of options to purchase shares of the Company prior to the Merger into options to purchase shares of the Company following the Merger with such conversion preserving the intrinsic spread value of the converted option. The rollover option is immediately exercisable with respect to 133,333 shares of non-voting common stock of the Company at an exercise price of $25.00 per share. The rollover options expire on June 17, 2012.

In February 2008, the Board of Directors approved and adopted the Harrah s Entertainment, Inc. Management Equity Incentive Plan and awarded grants to each of our named executive officers. See Compensation Discussion and Analysis Elements of Compensation-Equity Awards for more information.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Options/SARs Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options/SARs (#) Exercisable	Number of Securities Underlying Unexercised Options/SARs (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options/SARs (#)	Options/SARs Exercise Price ($)	Options/SARs Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested ($)(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Gary W. Loveman	350,000			28.8125	11/15/2010				
	136,600			25.6250	1/2/2011				
	85,000			47.0250	6/19/2009				
	170,694	170,695		46.1350	9/5/2009				
	130,000			43.4950	6/18/2010				
	250,000			52.5850	6/16/2011				
	400,000	600,000		73.9500	6/17/2012				
	70,000	280,000		64.9700	7/19/2013				
						54,189	4,809,274		
Jonathan S. Halkyard	8,387			43.4950	6/18/2010				
	50,000			43.4350	11/11/2010				
	25,000			52.5850	6/16/2011				
	26,667	13,333		73.9500	6/17/2012				
	8,202	16,404		64.9700	7/19/2013				
Charles L. Atwood	25,000			43.4950	6/18/2010				
	82,000			52.5850	6/16/2011				
	133,333	66,667		73.9500	6/17/2012				
	57,719	115,438		64.9700	7/19/2013				
Thomas M. Jenkin	18,978			43.4950	6/18/2010				
	18,333			47.1000	11/13/2010				
	37,733			52.5850	6/16/2011				
	66,667	33,333		73.9500	6/17/2012				
	26,805	53,609		64.9700	7/19/2013				
J. Carlos Tolosa	51,208	51,209		46.1350	9/05/2009				
	75,000			43.4950	6/18/2010				
	65,000			52.5850	6/16/2011				
	66,667	33,333		73.9500	6/17/2012				
	26,805	53,609		64.9700	7/19/2013				

(1) Except for certain grants made to Mr. Loveman, annual option and SARs awards granted to employees vest in 1/3 increments over a two and one half to three year period. Other award grants vest as determined by the Human Resource Committee.

(2) The options and SARs granted to the executives after February 2002 expire seven years from the original date of grant. Options granted prior to February 2002 expire ten years from the date of grant.

(3) The unvested stock awards granted to Mr. Loveman vested on January 1, 2008.

(4) The market value of the awards is $88.75 per share, the closing price of our stock on December 31, 2007.

For a discussion of the treatment of equity awards in the Merger, see above under Discussion of Grants of Plan Based Awards Table.

The following table gives certain information concerning stock option exercises during 2007 by our executive officers named in the Summary Compensation Table. It also gives information concerning option values.

OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting ($)(1)
Gary W. Loveman			27,095	2,241,298
Jonathan S. Halkyard(2)	6,458	246,933		
Charles L. Atwood			60,000	4,963,200
Thomas M. Jenkin			40,000	3,308,800
J. Carlos Tolosa			64,000	5,294,080

(1) Vested on January 1, 2007 at $82.72 per share
(2) Exercised on March 20, 2007 at $83.62 per share
For a discussion of the treatment of equity awards in the Merger, see above under Discussion of Grants of Plan Based Awards Table.

NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in 2007 ($)(1)	Registrant Contributions in 2007 ($)(1)	Aggregate Earnings in 2007 ($)(1)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance in 2007 ($)(2)
Gary W. Loveman	2,228,750	53,700	635,009		12,668,012
Jonathan S. Halkyard	104,054	11,025	37,721		498,941
Charles L. Atwood			199,132		1,958,851
Thomas M. Jenkin	445,070	28,967	643,540		7,186,113
J. Carlos Tolosa	290,250	25,950	324,986		4,195,870

(1) The following deferred compensation contribution and earnings amounts were reported in the 2007 Summary Compensation Table.

Name	Contributions in 2007 ($)	Above Market Earnings in 2007 ($)
Gary W. Loveman	2,282,450	
Jonathan S. Halkyard	115,079	
Charles L. Atwood		2,310
Thomas M. Jenkin	474,037	213,821
J. Carlos Tolosa	316,200	96,286

All other earnings were at market rates from deferred compensation investments directed by the executives.

(2) The following deferred compensation contribution and earnings amounts were reported in the Summary Compensation Table in previous years.

Name	Prior Year Contributions and Above Market

	Earnings Amounts ($)
Gary W. Loveman	8,951,799
Jonathan S. Halkyard	68,750
Charles L. Atwood	1,258,758
Thomas M. Jenkin	
J. Carlos Tolosa	

Discussion of Nonqualified Deferred Compensation Table

The Company does not provide a fixed benefit pension plan for its executives but maintains deferred compensation plans (collectively, DCP) and an Executive Supplemental Savings Plan II (ESSP II). During 2007, certain key employees, including executive officers, could defer a portion of their salary and bonus into the ESSP II. The ESSP II is a variable investment plan that allows the executives to direct their investments by choosing among several investment alternatives. All the named executives were participants in the ESSP II during 2007. The contributions of the executives and the Company into the ESSP II during 2007 are reflected in the above table. The earnings of the executives in 2007 on current and prior year deferrals are also reflected in the above table.

The ESSP II replaced our Executive Supplemental Savings Plan (ESSP) for future deferrals beginning on January 1, 2005. No deferrals were allowed after December 2004 into ESSP, and the Company approved the ESSP II, which complies with the American Jobs Creation Act of 2004 and allowed deferrals starting in 2005. All the named executives maintain a balance in the ESSP and their earnings for 2007 are included in the above table.

Messrs. Atwood, Jenkin and Tolosa also maintain a balance in the Executive Deferred Compensation Plan (EDCP). Under the EDCP, the executive earns the retirement rate under the EDCP if he attains (a) specified age and service requirements (55 years of age plus 10 years of service or 60 years of age) or (2) attains specified age and service requirements (is at least 50 years old, and when added to years of service, equals 65 or greater) and if his employment is terminated without cause pursuant to his employment agreement. The executive receives service credit under the EDCP for any salary continuation and noncompete period. Additionally, if an executive is separated from service within 24 months of the Merger, the executive earns the retirement rate under the EDCP. Messrs. Atwood and Tolosa have attained the specified age and service requirements under the EDCP to earn the retirement rate. Mr. Jenkin will receive the retirement rate if he (1) is terminated without cause under his employment agreement, (2) is separated from service within 24 months after the Merger, or (3) he meets the age requirement. Further deferrals into the EDCP were terminated in 2001. The Human Resources Committee approves the EDCP retirement rate (which cannot be lower than a specified formula rate) annually. In October 1995, the Human Resources Committee approved a fixed retirement rate of 15.5% for all account balances under the EDCP as of December 31, 1995 (subject to plan minimum rates contained in the EDCP). The interest rates on post-1995 deferrals continue to be approved each year by the Committee. The retirement rate on post-1995 deferrals during 2007 was the Plan s minimum retirement rate of 9.12%. Messrs. Atwood s, Jenkin s and Tolosa s earnings in 2007 under the EDCP are included in the above table.

The table below shows the investment funds available under the ESSP and the ESSP II and the annual rate of return for each fund for the year ended December 31, 2007:

Name of Fund	2007 Rate of Return	Name of Fund	2007 Rate of Return
500 Index Trust B	5.25%	Mid Cap Stock Trust	23.59%
Aggressive Growth Lifecycle	8.70%	Mid Value Trust	0.51%
Brandes International Equity	8.01%	Moderate Lifecycle	8.30%
Conservative Lifecycle	8.10%	Money Market Trust B	4.82%
Diversified Research	1.36%	Small Cap Growth Trust	13.98%
Equity-Income Trust	3.39%	Small Cap Value Trust	(2.92)%
Growth Lifecycle	8.60%	Turner Core Growth	22.43%
Managed Bond	8.13%		

Pursuant to the terms of the DCP and ESSP II, any unvested amounts of the participants in the plans became fully vested upon the Merger.

Potential Payments Upon Termination or Change of Control

We have entered into employment and severance agreements (other than with Mr. Loveman who only has an employment agreement) with the named executive officers that require us to make payments and provide various benefits to the executives in the event of the executive s termination or a change of control in the Company. The terms of the agreements are described above under Compensation Discussion and Analysis Elements of Post-Employment Compensation and Benefits Employment Arrangements. The estimated value of the payments and benefits due to the executives pursuant to their agreements under various termination events are detailed below.

As a result of the Merger, certain payments were made to our named executive officers due to the acceleration of vesting and cash-out of all awards under our equity award plans. In addition, unvested amounts, if any, under our Savings and Retirement Plan and Deferred Compensation Plans became vested. The table below outlines the payments made and other additional amounts accrued as a result of the Merger which occurred on January 28, 2008.

Executive Benefits and Payments at the Change in Control	Gary Loveman(1)	Charles Atwood(2)	Jonathan Halkyard(3)	Carlos Tolosa(4)	Thomas Jenkin(5)
Compensation:					
Stock Options/SARS Unvested and Accelerated	$ 13,428,400	$ 2,889,413	$ 410,592	$ 1,341,833	$ 1,341,833
Stock Options/SARS Vested and Unexercised	75,618,653	8,885,362	4,400,959	12,688,301	5,356,767
Benefits and Perquisites:					
Acceleration of Interest from conversion to ESSP	50,000				
Totals	$ 89,097,053	$ 11,774,775	$ 4,811,551	$ 14,030,134	$ 6,698,600

(1) On January 27, 2008, Mr. Loveman and the Company entered into a stock option rollover agreement that provides for the conversion of options to purchase shares of the Company prior to the Merger into options to purchase shares of the Company following the Merger with such conversion preserving the intrinsic spread value of the converted option. The rollover option is immediately exercisable with respect to 133,333 shares of non-voting common stock of the Company at an exercise price of $25.00 per share. The rollover options expire on June 17, 2012. In addition, Mr. Loveman invested $14,999,990 of the proceeds noted above in the equity of the Company after the Merger.

(2) Mr. Atwood invested $4,100,000 of the proceeds noted above in the equity of the Company after the Merger.

(3) Mr. Halkyard invested $1,719,395 of the proceeds noted above in the equity of the Company after the Merger.

(4) Mr. Tolosa invested $4,400,000 of the proceeds noted above in the equity of the Company after the Merger.

(5) Mr. Jenkin invested $2,227,500 of the proceeds noted above in the equity of the Company after the Merger.

In addition, the following tables show the estimated amount of potential cash severance payable to each of the named executive officers, as well as the estimated value of continuing benefits, based on compensation and benefit levels in effect on December 31, 2007, assuming the executive s employment terminates effective December 31, 2007. For Mr. Loveman, we have assumed that his new employment agreement dated January 28, 2008 was in place as of December 31, 2007.

For each of the named executive officers, we have assumed that their employment was terminated on December 31, 2007, and the market value of their unvested equity awards was $88.75, which was the closing market price of our stock on December 31, 2007. Due to the numerous factors involved in estimating these amounts, the actual value of benefits and amounts to be paid can only be determined upon an executive s termination of employment.

Gary W. Loveman	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Compensation:							
Base Salary			10,000,000		15,000,000	4,000,000	
Short Term Incentive			3,000,000		3,000,000		
Long Term Incentives:							
Unvested and Accelerated Restricted Stock			4,809,274		4,809,274	4,809,274	2,404,637
Unvested and Accelerated Stock Options and SARs			16,523,567		22,812,567	22,812,567	19,175,484
Benefits and Perquisites:							
Post-retirement Health Care(2)	283,575	283,575	283,575	283,575	283,575	283,575	
Life & Accident Insurance and Benefits(3)			21,068		21,068	21,068	6,000,000
Disability Insurance and Benefits(4)						30,000 per mo. and 5,000,000	
Acceleration of Interest from conversion to ESSP					50,000		

Gary W. Loveman	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Accrued Vacation Pay							
Financial Planning							
Gross-Up Payment for Excise Taxes							
Totals	283,575	283,575	34,637,484	283,575	45,976,484	36,926,484 and 30,000 per mo.	27,580,121

(1) Base salary payments will be offset by disability payments.
(2) Reflects the estimated present value of all future premiums under the Company s health plans.
(3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive s beneficiaries in the event of the executive s death.
(4) Reflects the estimated amount of proceeds payable to the executive in the event of the executive s disability.

Assuming the employment of Messrs Atwood, Halkyard, Jenkin and Tolosa was terminated on December 31, 2007, and the market value of the executive s unvested equity awards was $88.75, which was the market price of our stock on December 31, 2007, the executive would be eligible for the following payments and benefits:

Jonathan S. Halkyard	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Compensation:							
Base Salary			900,000		2,481,772	900,000	
Short Term Incentive			336,461		420,577	336,461	
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			587,416		587,416	587,416	293,708
Benefits and Perquisites:							
Post-retirement Health Care(2)					19,096	323,599	
Life & Accident Insurance and Benefits(3)					3,336		1,800,000
Disability Insurance and Benefits(4)						30,000 per mo.	
Accrued Vacation Pay	10,514	10,514	10,514	10,514	10,514	10,514	10,514
Financial Planning			7,500		7,500		
Gross-Up Payment for Excise Taxes					987,795		
Totals	10,514	10,514	1,841,891	10,514	4,518,006	2,157,990 and 30,000 per mo.	2,104,222

(1) Base salary payments will be offset by disability payments.
(2) Reflects the estimated present value of all future premiums under the Company s health plans.
(3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive s beneficiaries in the event of the executive s death.
(4) Reflects the estimated amount of proceeds payable to the executive in the event of the executive s disability.

Charles L. Atwood	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Compensation:							
Base Salary			1,950,000		7,807,493	1,950,000	
Short Term Incentive			1,300,000		1,625,000	1,300,000	
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			3,731,787		3,731,787	3,731,787	1,865,894
Benefits and Perquisites:							
Post-retirement Health Care(2)	166,291	166,291	166,291		166,291	166,291	
Life & Accident Insurance and Benefits(3)					32,659		3,500,000
Disability Insurance and Benefits(4)						30,000 per mo.	
Accrued Vacation Pay	44,282	44,282	44,282	44,282	44,282	44,282	44,282
Financial Planning			15,000		15,000		
Gross-Up Payment for Excise Taxes							
Totals	210,573	210,573	7,207,360	44,282	13,422,512	7,192,360 and 30,000 per mo.	5,410,176

(1) Base salary payments will be offset by disability payments.
(2) Reflects the estimated present value of all future premiums under the Company s health plans.
(3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive s beneficiaries in the event of the executive s death.
(4) Reflects the estimated amount of proceeds payable to the executive in the event of the executive s disability.

Thomas M. Jenkin	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Compensation:							
Base Salary			1,800,000		7,041,432	1,800,000	
Short Term Incentive			978,605		850,961	978,605	
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			1,768,150		1,768,150	1,768,150	884,074
Benefits and Perquisites:							
Post-retirement Health Care(2)	235,174	235,174	235,174		235,174	235,174	
Life & Accident Insurance and Benefits(3)					13,855		3,500,000
Disability Insurance and Benefits(4)						30,000 per mo.	
Acceleration of vesting in EDCP retirement interest rate			1,459,243		1,459,243	1,459,243	
Accrued Vacation Pay	106,154	106,154	106,154	106,154	106,154	106,154	106,154
Financial Planning			15,000		15,000		
Gross-Up Payment for Excise Taxes					2,610,143		
Totals	341,328	341,328	6,362,326	106,154	14,100,112	6,347,326 and	4,490,228

	30,000 per mo.

(1) Base salary payments will be offset by disability payments.
(2) Reflects the estimated present value of all future premiums under the Company s health plans.
(3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive s beneficiaries in the event of the executive s death.
(4) Reflects the estimated present value of the cost of coverage for disability insurance and the amount of proceeds payable to the executive in the event of the executive s disability.

J. Carlos Tolosa	Voluntary Termination ($)	Retirement ($)	Involuntary Not for Cause Termination ($)	For Cause Termination ($)	Involuntary or Good Reason Termination (Change in Control) ($)	Disability ($)(1)	Death ($)
Compensation:							
Base Salary			1,612,500		5,327,290	1,612,500	
Short Term Incentive			645,000		806,250	645,000	
Long Term Incentives:							
Unvested and Accelerated Restricted Stock							
Unvested and Accelerated Stock Options and SARs			3,950,422		3,950,422	3,950,422	1,975,211
Benefits and Perquisites:							
Post-retirement Health Care(2)	197,153	197,153	197,153		197,153	197,153	99,803
Life & Accident Insurance and Benefits(3)					30,186		3,225,000
Disability Insurance and Benefits(4)						30,000 per mo.	
Accrued Vacation Pay	76,737	76,737	76,737	76,737	76,737	76,737	76,737
Financial Planning			15,000		15,000		
Gross-Up Payment for Excise Taxes							
Totals	273,890	273,890	6,496,812	76,737	10,403,038	6,481,812 and 30,000 per mo.	5,376,751

(1) Base salary payments will be offset by disability payments.
(2) Reflects the estimated present value of all future premiums under the Company s health plans.
(3) Reflects the estimated present value of the cost of coverage for life and accident insurance policies and the estimated amount of proceeds payable to the executive s beneficiaries in the event of the executive s death.
(4) Reflects the estimated amount of proceeds payable to the executive in the event of the executive s disability.

Compensation of Directors

During 2007, directors who were not employees of the Company or any of our subsidiaries earned a monthly fee of $14,583.33 plus $1,500 for each non-regularly scheduled committee meeting they attended as a committee member. Committee chairpersons received an additional monthly retainer as follows: Audit Committee received $1,666.67, Human Resources Committee received $833.33, and Nominating/Corporate Governance Committee received $416.67. Directors were reimbursed for expenses reasonably incurred in connection with their service on the Board.

Pursuant to a director stock program, each director automatically received 50% of his or her director fees in our common stock in lieu of cash fees. Each director had the right to make an annual election to receive the remaining 50% of his or her director fees in common stock in lieu of cash fees for the duration of the program.

Grants of our common stock pursuant to the director stock program were made quarterly for an amount of our common stock, based on the market value on the grant date, equal in value to 50% of the fees that the director earned during the previous three-month grant period (or 100% of the fees if the director elected to receive the remaining 50% of fees in our common stock). Shares of our common stock that were granted could be disposed of until at least six months after the date of grant. A director could make an annual election to defer the grant of shares to be made the ensuing fiscal year. Prior to January 28, 2008, deferred shares were granted within 30 days after the director left our Board in a lump sum or in up to ten annual installments, as he or she elected. Those elections were made prior to each fiscal year. We created a trust to assure the payment of benefits pursuant to the directors stock program. Pursuant to the consummation of the Merger, the directors who elected to defer the grant of shares received $90.00 per share in accordance with their payment election.

The following table sets forth the compensation provided by the Company to non-management directors during 2007:

Name	**Fees Earned or Paid in Cash ($)**	**Stock Awards ($)(2)(4)**	**Option Awards ($)(3)(4)**	**Non-Equity Incentive Plan Compensation ($)**	**Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(5)**	**All Other Compensation ($)(6)**	**Total ($)**
Barbara T. Alexander		207,000	7,450				214,450
Frank J. Biondi, Jr.	95,000	95,000	9,110			7,943	207,053
Stephen F. Bollenbach	92,000	92,000				2,852	186,852
Ralph Horn		175,000			11,494	42,327	228,821
R. Brad Martin	6,000	175,000				45,311	226,311
Gary G. Michael(1)	102,750	93,750	7,626			8,856	212,982
Robert G. Miller	87,500	89,872				360	177,732
Boake A. Sells		177,794			389,783	53,940	621,517
Christopher J. Williams		187,000	5,401			12,283	204,684

(1) Mr. Michael is a member of our Compliance Committee, which oversees our compliance programs for gaming and other laws and regulations we are subject to. Mr. Michael was appointed to the Compliance Committee because he is a member of the Audit Committee. For his services on the Compliance Committee, Mr. Michael received a per meeting fee in 2007 of $1,000, and was paid an annual retainer of $5,000. In 2007, Mr. Michael received $10,000 for his service on the Compliance Committee, which was paid in cash.

(2) Totals reflect grants made pursuant to our director stock program in payment of fees and the 2007 compensation expense for stock awards made to Messrs. Miller and Sells under the stock grant program for non-management directors. The stock grant program was terminated on February 21, 2001.

(3) Totals reflect 2007 compensation expense for option awards made to Ms. Alexander, Mr. Biondi, Mr. Michael and Mr. Williams under the stock option programs for non-management directors. These programs have been discontinued.

(4) The value of stock and option awards was determined as required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)). See Note 15 in the Notes to Consolidated Financial Statements for details on assumptions used in the valuation of the awards. Outstanding stock and option awards at December 31, 2007 for each director are as follows: Ms. Alexander: 7,000 option awards; Mr. Biondi: 9,000 option awards; Mr. Horn: 4,000 option awards; Mr. Martin: 4,000 option awards; Mr. Michael: 6,500 option awards; Mr. Miller: 4,000 option awards and 200 stock awards; Mr. Sells: 4,000 option awards and 200 stock awards; Mr. Williams: 5,000 option awards. The closing of the Merger on January 28, 2008 triggered accelerated vesting of the unvested stock awards and option awards. The value of the 2008 vesting of stock awards and option awards is as follows: Ms. Alexander, $24,275; Mr. Biondi, $38,812; Mr. Michael, $24,848; Mr. Miller, $2,372; Mr. Sells, $2,794; and Mr. Williams, $13,010.

(5) Messrs. Horn and Sells maintain a balance in our Executive Deferred Compensation Plan (EDCP). In October 1995, the Human Resources Committee approved a fixed retirement rate of 15.5% for all account balances under the EDCP as of December 31, 1995 (subject to plan minimum rates contained in the EDCP). The interest rates on post 1995 deferrals continue to be approved each year by the Committee. The retirement rate on post 1995 deferrals during 2007 was the Plan s minimum retirement rate of 9.12%, and the retirement rate during 2007 for post 1995 deferrals has been approved once again at the Plan s minimum retirement rate.

(6) All Other Compensation includes the following:

The cost of participation in the Company s group health insurance plan for Messrs. Horn, Martin and Sells was $1,593, $16,301 and $15,543, respectively.

Quarterly dividends on unvested restricted stock awards and quarterly dividend reinvestments on deferred stock grants pursuant to the directors stock program. Totals for quarterly dividends on unvested restricted stock awards for 2007 were as follows: Mr. Miller, $360; and Mr. Sells, $360. Totals for quarterly dividend reinvestments for 2007 were as follows: Mr. Biondi, $7,943; Mr. Bollenbach, $2,852; Mr. Horn, $40,734; Mr. Martin, $29,010; Mr. Michael, $8,856; Mr. Sells, $38,037; and Mr. Williams, $12,283.

Until May 1, 1996, directors were eligible to participate in an unfunded compensation deferral program, the Executive Deferred Compensation Plan. Two non-management directors who served in 2007 deferred part of their cash fees pursuant to the Executive Deferred Compensation Plan prior to May 1, 1996 and currently have account balances in the Plan. See Compensation Discussion and Analysis Elements of Post-Employment Compensation Deferred Compensation Plans for more information about the Executive Deferred Compensation Plan.

Each non-management director was also provided with travel accident insurance of $500,000 while traveling on behalf of the Company. Incumbent non-management directors who served on the Board as of February 21, 2001, are entitled to participate in the Company s standard group health insurance plans while serving as a director. This program was not available to directors elected or appointed after February 21, 2001. The Company paid the premium cost for this insurance. Each director receiving these benefits incurred taxable income equal to the premium cost of the group insurance.

Non-management directors elected prior to February 21, 2001 received a grant of 1,000 shares of restricted stock vesting in ten annual installments over ten years. Directors who served a full ten years under this program received another ten-year grant of 1,000 shares. Messrs. Miller and Sells received this grant. This program was terminated on February 21, 2001, with respect to further grants to new directors. Non-management directors who were initially elected between February 2001 and January 2004 received a non-qualified stock option grant of 5,000 shares upon being elected or appointed to the Board. Directors serving during that same time period received an annual nonqualified stock option grant of 2,000 shares. These stock option programs have been discontinued.

Pursuant to the Company s Amended and Restated 2004 Equity Incentive Award Plan, directors were eligible for grants of equity awards as may be approved by the Human Resources Committee from time to time. No equity awards were granted to our directors during 2007.

In November 2003, our Board of Directors implemented stock ownership guidelines for its non-management members. Within two years of first being elected, a director was expected to own and maintain a number of shares of the Company s common stock having a minimum value equal to two times his or her annual retainer. Shares granted to a director for his or her service on the Company s Board of Directors were included in determining the value of the director s holdings. As a privately held company, we no longer have a policy regarding stock ownership guidelines.

Pursuant to the consummation of the Merger, all options held by non-management directors, vested and unvested, were cancelled in consideration for the difference between $90.00 per share and the exercise per share of each option held.

In recognition for the years of dedication and service to the Harrah s stockholders prior to the Merger, the non-management directors that resigned effective upon the closing of the Merger were each given an antique slot machine and complimentary stays in a suite (or best available room) at our properties for the next 5 years, subject to availability. Each stay is limited to three complimentary nights. Complimentary privileges include golf and tickets to entertainment performances, subject to certain limitations.

Currently, none of our directors receive compensation for their service as a member of our Board of Directors. They are reimbursed for any expenses incurred in connection with their service.

Human Resources Committee Interlocks and Insider Participation

During 2007, the members of the Human Resources Committee Frank J. Biondi, Jr., Ralph Horn, R. Brad Martin, Robert G. Miller, and Boake A. Sells. None of these individuals were current or former officers or employees of the Company or any of our subsidiaries. During 2007, none of our executive officers served as a director or member of a compensation committee (or other committee serving an equivalent function) of any other entity whose executive officers served as a director or member of our Human Resources Committee.

After the closing of the Merger, the Committee was reconstituted with two members: Kelvin Davis and Marc Rowan. Neither of these individuals are current or former officers or employees of the Company or any of our subsidiaries.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Equity Compensation Plan Information

The table below sets forth information regarding our equity compensation plans as of December 31, 2007.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights[1]	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by stockholders[2]	11,200,113	$ 60.93	7,939,543
Equity compensation plans not approved by stockholders[3]	50,097	57.49	8,897
Total	11,250,210	60.91	7,948,440

(1) The weighted average remaining contract life for the options, warrants and rights set forth in this column is 4.2 years.
(2) Includes the Company s Amended and Restated 2004 Equity Incentive Award Plan, 2001 Executive Stock Incentive Plan, 1996 Non-Management Directors Stock Incentive Plan, 1990 Restricted Stock Plan, 1990 Stock Option Plan, Park Place Entertainment Corporation 1998 Stock Incentive Plan, and the Caesars Entertainment, Inc. 2004 Long-Term Incentive Plan.
(3) Includes the Harrah s Entertainment, Inc. 2001 Broad-Based Stock Incentive Plan. The 2001 Broad-Based Stock Incentive Plan was not required to be approved by stockholders pursuant to rules of the New York Stock Exchange in existence at that time.

All of the Company s equity award plans in place were terminated as of the date of the Merger. In February 2008, our Board of Directors approved the Harrah s Entertainment, Inc. Management Equity Incentive Plan and granted options to purchase our non-voting common stock to certain of our officers and employees.

Ownership of Harrah s Entertainment Common Stock

The following table lists the beneficial ownership of our common stock as of February 25, 2008, by Hamlet Holdings, Inc., the Sponsors, all current directors, our five executive officers named in the Summary Compensation Table and all directors and executive officers as a group.

	Shares of Stock Beneficially Owned			Ownership Percentage		
Name	Voting Common Stock	Non-Voting Common Stock	Non-Voting Preferred Stock	Voting Common Stock	Non-Voting Common Stock	Non-Voting Preferred Stock
Apollo[1][2]		31,387,726	15,351,275	%	77%	77%
TPG[2][3]		31,387,726	15,351,275		77	77
Hamlet Holdings[4]	10			100		
Charles L. Atwood		27,533.09	13,466.91		*	*
Jeffrey Benjamin[1]						
David Bonderman[3][4]				17		
Anthony Civale[1]						
Jonathan Coslet[3][4]				17		
Kelvin Davis[3]						
Jonathan S. Halkyard		11,546.41	5,647.54		*	*
Thomas M. Jenkin		14,958.53	7,316.47		*	*
Gary W. Loveman[5]		234,063.76	49,269.14		*	*
Karl Peterson[3]						
Eric Press[1]						
Marc Rowan[1][4]				17		
J. Carlos Tolosa		29,547.71	14,452.29		*	*
All directors and executive officers as a group[4][6]	10	374,035.54	117,731.47	50	1	1

* Indicates less than 1%

(1) Includes all of the non-voting capital stock held by Apollo Hamlet Holdings, LLC and Apollo Hamlet Holdings B, LLC. Each of Apollo Hamlet Holdings, LLC and Apollo Hamlet Holdings B, LLC is an affiliate of, and is controlled by, affiliates of Apollo. Each of Messrs. Benjamin, Civale, Press and Rowan may be deemed to be a beneficial owner of these interests due to his status as an employee of or consultant to Apollo, and each such person disclaims beneficial ownership of any such interests in which he does not have a pecuniary interest. The address of Messrs. Benjamin, Civale, Press and Rowan and Apollo is c/o Apollo Global Management, LLC, 9 West 57th Street, New York, New York 10019.

(2) Includes all of the non-voting capital stock held by certain co-investors, the disposition of which will be jointly controlled by Apollo and TPG.

(3) Includes all of the non-voting capital stock held by TPG Hamlet Holdings, LLC and TPG Hamlet Holdings B, LLC. Each of TPG Hamlet Holdings, LLC and TPG Hamlet Holdings B, LLC is an affiliate of, and is controlled by, affiliates of TPG. Each of Messrs. Bonderman, Coslet, Davis and Peterson may be deemed to be a beneficial owner of these interests due to his status as an employee of TPG, and each such person disclaims beneficial ownership of any such interests in which he does not have a pecuniary interest. The address of Messrs. Bonderman, Coslet, Davis and Peterson and TPG is c/o TPG Capital, LP, 345 California Street, Suite 3300, San Francisco, California 94104.

(4) The members of Hamlet Holdings are Leon Black, Joshua Harris, Marc Rowan, each of whom is affiliated with Apollo, and David Bonderman, James Coulter and Jonathan Coslet, each of whom is affiliated with TPG. Each member holds approximately 17% of the limited liability company interests of Hamlet Holdings.

(5) Includes 133,333 non-voting common shares that may be acquired within 60 days pursuant to outstanding stock options.

(6) The address of each of our named executive officers is c/o Harrah s Entertainment, Inc., One Caesars Palace Drive, Las Vegas, Nevada 89109.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence.
One of our former directors, Stephen F. Bollenbach was Co-Chairman and Chief Executive Officer of Hilton Hotels Corporation. We own a 50% interest in Windsor Casino Limited, which operates Casino Windsor in Ontario, Canada. A subsidiary of Hilton Hotels owns the other 50% of Windsor Casino Limited.

Other than as noted above, there were no reportable relationships or transactions for 2007.

Related Party Transaction Policy

Our board of directors has approved related party transaction policy and procedures which gives our Audit Committee the power to approve or disapprove potential related party transactions of our directors and executive officers, their immediate family members and entities where they hold a 5% or greater beneficial ownership interest. The Audit Committee is charged with reviewing all relevant facts and circumstances of a related party transaction, including if the transaction is on terms comparable to those that could be obtained in arm s length dealings with an unrelated third party and the extent of the person s interest in the transaction.

The policy has pre-approved the following related party transactions:

Compensation to an executive officer or director that is reported in the company s public filings and has been approved by the Human Resources Committee or our board of directors;

Transactions where the interest arises only from (a) the person s position as a director on the related party s board; (b) direct or indirect ownership of less than 5% of the related party or (c) the person s position as a partner with the related party with less than 5% interest and not the general partner of the partnership; and

Transactions involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

Related Party Transaction is defined as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds $120,000, and in which any related person had, has or will have a direct or indirect interest.

The following discussion reflects our relationships and related party transactions entered into in connection with the Merger and does not reflect relationships prior to that time.

Hamlet Holdings Operating Agreement

All holders of Hamlet Holdings equity securities are parties to Hamlet Holdings limited liability company operating agreement. The operating agreement provides, among other things, for the various responsibilities of the members. The members include Leon Black, Joshua Harris and Marc Rowan, each of whom is affiliated with Apollo (the Apollo Members), and David Bonderman, James Coulter and Jonathan Coslet, each of whom is affiliated with TPG (the TPG Members and, together with the Apollo Members, the Members). The Members have the full and exclusive right to manage Hamlet Holdings and the consent of at least one member from Apollo and one member from TPG is required for all decisions by or on behalf of Hamlet Holdings. The operating agreement also contains customary indemnification rights.

Stockholders Agreement

In connection with the Merger, Hamlet Holdings, the Sponsors and certain of their affiliates, the co-investors and certain of their affiliates entered into a stockholders agreement with the Company. The stockholders agreement contains, among other things, the agreement among the stockholders to restrict their ability to transfer stock of the Company as well as rights of first refusal, tag-along rights, drag-along rights and piggyback rights. Pursuant to the stockholders agreement, certain of the stockholders have, subject to certain exceptions, preemptive rights on future offerings of equity securities by the Company. The stockholders agreement also provides the stockholders with certain rights with respect to the approval of certain matters and the designation of nominees to serve on the Board of Directors of the Company, as well as registration rights of securities of the Company that they own.

The Board of Directors of the Company will initially be comprised of at least nine (9) directors, (i) four (4) of whom shall be designated by the Apollo Members and (ii) four (4) of whom shall be designated by the TPG Members, and (iii) one (1) of whom shall be the chairman. As ownership in the Company by either of the Sponsors decreases, the stockholders agreement provides for the reduction in the number of directors each of the Apollo Members or TPG Members can designate.

Pursuant to the stockholders agreement, approval of the Board of Directors and at least two directors (one designated by Apollo Members and one designed by TPG Members) are required for various transactions by us, including, among other things, our liquidation, dissolution, merger, sale of all or substantially all of our assets as well as the issuance of our securities in connection with certain acquisitions and joint ventures.

Management Investor Rights Agreement

In connection with the Merger, the Company entered into a Management Investor Rights Agreement with certain holders of securities of the Company, including certain members of management of the Company. The agreement governs certain aspects of the Company s relationship with its management securityholders. The agreement, among other things:

- restricts the ability of management securityholders to transfer shares of non-voting common stock or non-voting preferred stock of the Company, with certain exceptions, prior to a qualified public offering;
- allows the Sponsors to require management securityholders to participate in sale transactions in which the Sponsors sell more than 40% of their shares of non-voting common stock and non-voting preferred stock;
- allows management securityholders to participate in sale transactions in which the Sponsors sell shares of non-voting common stock and non-voting preferred stock, subject to certain exceptions;
- allows management securityholders to participate in registered offerings in which the Sponsors sell their shares of non-voting common stock and non-voting preferred stock, subject to certain limitations;
- allows management securityholders below the level of senior vice president to require Harrah s Entertainment to repurchase shares of non-voting common stock and non-voting preferred stock in the event that a management securityholder below the level of senior vice president experiences an economic hardship prior to an initial public offering, subject to annual limits on the company s repurchase obligations;
- allows management securityholders to require the Company to repurchase shares of non-voting common stock and non-voting preferred stock upon termination of employment without cause or for good reason; and
- allows the Company to repurchase, subject to applicable laws, all or any portion of the Company s non-voting common stock and non-voting preferred stock held by management securityholders upon the termination of their employment with the Company or its subsidiaries, in certain circumstances.

The agreement will terminate upon the earliest to occur of the dissolution of Hamlet Holdings or the occurrence of any event that reduces the number of securityholders to one.

Services Agreement

Upon the completion of the Merger, the Sponsors and their affiliates entered into a services agreement with the Company relating to the provision of certain financial and strategic advisory services and consulting services. The Company paid the Sponsors a one time transaction fee of $200 million for structuring the Merger and will pay an annual fee for their management services and advice equal to the greater of $30 million and 1% of the Company s earnings before interest, taxes, depreciation and amortization. Also, under the services agreement, the Sponsors will have the right to act, in return for additional fees based on a percentage of the gross transaction value, as our financial advisor or investment banker for any merger, acquisition, disposition, financing or the like if we decide we need to engage someone to fill such a role. We will agree to indemnify the Sponsors and their affiliates and their directors, officers and representatives for losses relating to the services contemplated by the services agreement and the engagement of affiliates of the Sponsors pursuant to, and the performance by them of the services contemplated by, the services agreement.

Shared Services Agreement

Harrah s Operating Company, Inc. (HOC) entered into a shared services agreement with the certain of our entities involved in the CMBS financing (the CMBS Entities), pursuant to which HOC will provide to the CMBS Entities certain corporate services. The services include but are not limited to: information technology services; website management services; operations and production services; vendor relationship management services; strategic sourcing services; real estate services; development services; construction services; finance and accounting services; procurement services; treasury and trust services; human resources services; marketing and public relations services; legal services; insurance services; corporate/executive services; payroll services; security and surveillance services; government relation services; communication services; consulting services; and data access services.

Pursuant to the agreement, HOC granted the CMBS Entities the right to use certain software and other intellectual property rights granted or licensed to us and/or our direct or indirect subsidiaries. The agreement provides that the cost of the services described above will be allocated between HOC and the CMBS Entities on the property-level basis that the

Company has historically used to allocate such costs, and on a 70%/30% basis for those costs that have not previously been allocated to the various properties, or pursuant to such other methods as the board of directors of the Company determines in good faith to be an equitable allocation of such costs between us and the CMBS Entities. The agreement also memorializes certain short-term cash management arrangements and other operating efficiencies that reflect the way in which the Company has historically operated its business. Payments made to HOC under the shared services agreement are subordinated to the obligations of the CMBS Entities under the CMBS financing. In addition, the agreement provides that certain insurance proceeds payable in respect of assets underling the CMBS financing and HOC properties will be paid first to the CMBS Entities to the extent of amounts payable thereto. The agreement terminates in January 2014 and may be terminated by the parties at any time prior to January 2014.

License Agreement

One of our subsidiaries entered into license agreements with certain of the CMBS Entities pursuant to which the CMBS Entities license certain trademarks that are owned or licensed by such subsidiary.

Director Independence

As of February 25, 2008, our Board of Directors is composed of Jeffrey Benjamin, David Bonderman, Anthony Civale, Jonathan Coslet, Kelvin Davis, Gary Loveman, Karl Peterson, Eric Press and Marc Rowan. Though not formally considered by our Board given that our securities are no longer registered or traded on any national securities exchange, based upon the listing standards of the New York Stock Exchange, the national securities exchange upon which our common stock was listed prior to the Merger, we do not believe that any or our directors would be considered independent because of their relationships with certain affiliates of the funds and other entities which hold 100% of our outstanding voting common stock, and other relationships with us.

ITEM 14. Principal Accountant Fees and Services.

FEES PAID TO DELOITTE & TOUCHE LLP

The following table summarizes the aggregate fees paid or accrued by the Company to Deloitte & Touche LLP during 2007 and 2006

	2007	2006
	(in thousands)	
Audit Fees[a]	$ 7,407	$ 8,199
Audit-Related Fees[b]	561	638
Tax Fees[c]	165	312
All Other Fees		
Total	$ 8,133	$ 9,149

(a) **Audit Fees** Fees for audit services billed in 2007 and 2006 consisted of:

Audit of the Company s annual financial statements, including the audits of the various subsidiaries conducting gaming operations as required by the regulations of the respective jurisdictions;

Sarbanes-Oxley Act, Section 404 attestation services;

Reviews of the Company s quarterly financial statements; and

Comfort letters, statutory and regulatory audits, consents and other services related to Securities and Exchange Commission (SEC) matters.

(b) **Audit-Related Fees** Fees for audit-related services billed in 2007 and 2006 consisted of:

Quarterly revenue and compliance audits performed at certain of our properties as required by state gaming regulations;

Financial accounting and reporting consultations;

Sarbanes-Oxley Act, Section 404 advisory services;

Internal control reviews;

Employee benefit plan audits; and

Agreed-upon procedures engagements.

(c) **Tax Fees** Fees for tax services paid in 2007 and 2006 consisted of tax compliance and tax planning and advice:

Fees for tax compliance services totaled $12,000 and $70,000 in 2007 and 2006, respectively. Tax compliance services are services rendered based upon facts already in existence or transactions that have already occurred to document, compute, and obtain government approval for amounts to be included in tax filings and consisted of:

i. Federal, state and local income tax return assistance

ii. Requests for technical advice from taxing authorities

iii. Assistance with tax audits and appeals

Fees for tax planning and advice services totaled $153,000 and $242,000 in 2007 and 2006, respectively. Tax planning and advice are services rendered with respect to proposed transactions or that alter a transaction to obtain a particular tax result. Such services consisted of:

i. Purchase and installation of tax return preparation software

ii. Tax advice related to structuring certain proposed mergers, acquisitions and disposals

iii. Tax advice related to the alteration of employee benefit plans

iv. Tax advice related to an intra-group restructuring

		2007	2006
Memo:	Ratio of Tax Planning and Advice Fees and All Other Fees to Audit Fees, Audit-Related Fees and Tax Compliance Fees	0.02:1	0.03:1

In considering the nature of the services provided by the independent auditor, the Audit Committee determined that such services are compatible with the provision of independent audit services. The Audit Committee discussed these services with the independent auditor and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

The services performed by Deloitte & Touche LLP in 2007 and 2006 were pre-approved in accordance with the pre-approval policy and procedures adopted by the Audit Committee at its February 26, 2003, meeting, and amended at its April 15, 2004, meeting. This policy describes the permitted audit, audit-related, tax and other services that Deloitte & Touche may perform. Any requests for audit services must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Except for such services which fall under the *de minimis* provision of the pre-approval policy, any requests for audit-related, tax or other services also must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant specific pre-approval between meetings, as necessary, has been delegated to the Chairperson of the Audit Committee. The Chairperson must update the Audit Committee at the next regularly scheduled meeting of any services that were granted specific pre-approval.

In addition, although not required by the rules and regulations of the SEC, the Audit Committee generally requests a range of fees associated with each proposed service. Providing a range of fees for a service incorporates appropriate oversight and control of the independent auditor relationship, while permitting the Company to receive immediate assistance from the independent auditor when time is of the essence.

The policy contains a *de minimis* provision that operates to provide retroactive approval for permissible non-audit, tax and other services under certain circumstances. The provision allows for the pre-approval requirement to be waived if all of the following criteria are met:

1. The service is not an audit, review or other attest service;

2. The estimated fees for such services to be provided under this provision do not exceed a defined amount of total fees paid to the independent auditor in a given fiscal year;

3. Such services were not recognized at the time of the engagement to be non-audit services; and

4. Such services are promptly brought to the attention of the Audit Committee and approved by the Audit Committee or its designee.

The fees approved under the *de minimis* provision were as follows:

	2007	2006
	(in thousands)	
Audit-Related Services	$	$
Tax Services		21
All Other Services		

PART IV

ITEM 15. Exhibits, Financial Statement Schedules.
(a) 1. Financial statements of the Company (including related notes to consolidated financial statements) filed as part of this report are listed below:

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets as of December 31, 2007 and 2006.

Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Stockholders Equity and Comprehensive Income for the Years Ended December 31, 2007, 2006 and 2005.

Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005.

2. Schedules for the years ended December 31, 2007, 2006 and 2005, are as follows:

Schedule II Consolidated valuation and qualifying accounts.

Schedules I, III, IV, and V are not applicable and have therefore been omitted.

3. Exhibits

Exhibit Number	**Exhibit Description**
3.1	Amended Certificate of Incorporation of Harrah s Entertainment, Inc. (Incorporated by reference to the exhibit to the Company s Registration Statement on Form S-8 filed January 31, 2008.)
3.2	Bylaws of Harrah s Entertainment, Inc., as amended on January 28, 2008. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed February 1, 2008.)
4.1	Certificate of Designation of Non-Voting Perpetual Preferred Stock of Harrah s Entertainment, Inc., dated January 28, 2008. (Incorporated by reference to the exhibit to the Company s Registration Statement on Form S-8 filed January 31, 2008.)
4.2	Indenture, dated as of December 18, 1998, among Harrah s Operating Company, Inc. as obligor, Harrah s Entertainment, Inc., as Guarantor, and IBJ Schroder Bank & Trust Company, as Trustee relating to the 7 $^{1}/2$% Senior Notes Due 2009. (Incorporated by reference to the exhibit to the Registration Statement on Form S-3 of Harrah s Entertainment, Inc. and Harrah s Operating Company, Inc., File No. 333-69263, filed December 18, 1998.)
4.3	Indenture, dated as of November 9, 1999 between Park Place Entertainment Corp., as Issuer, and Norwest Bank Minnesota, N.A., as Trustee relating to the 8.5% Senior Notes due 2006 and 8.875% Senior Subordinated Notes due 2008. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.4	Officers Certificate, dated as of September 12, 2000 with respect to the 8.875% Senior Subordinated Notes due 2008. (Incorporated by reference to the exhibit to Park Place Entertainment Corporation s Current Report on Form 8-K, filed September 19, 2000.)
4.5	First Supplemental Indenture, dated as of June 13, 2005, to Indenture dated as of November 9, 1999, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 8.5% Senior Notes due 2006 and the 8.875% Senior Subordinated Notes due 2008. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.6	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, to the Indenture, dated as of November 9,

1999, as supplemented by certain Officers Certificates dated as of November 9, 1999 and September 12, 2000, and as further amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 8.5% Senior Notes due 2006 and the 8.875% Senior Subordinated Notes due 2008. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)

Exhibit Number	Exhibit Description
4.7	Indenture, dated as of January 29, 2001, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and Bank One Trust Company, N.A., as Trustee, relating to the 8.0% Senior Notes Due 2011. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
4.8	Indenture, dated as of May 14, 2001, between Park Place Entertainment Corp., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 8 1/8% Senior Subordinated Notes due 2011. (Incorporated by reference to the exhibit to the Registration Statement on Form S-4 of Park Place Entertainment Corporation, File No. 333-62508, filed June 7, 2001.)
4.9	First Supplemental Indenture, dated as of June 13, 2005, to Indenture, dated as of May 14, 2001, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 8 1/8% Senior Subordinated Notes due 2011. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.10	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, to the Indenture, dated as of May 14, 2001, as amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 8 1/8% Senior Subordinated Notes due 2011. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)
4.11	Indenture, dated as of August 22, 2001, between Park Place Entertainment Corp., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 7.50% Senior Notes due 2009. (Incorporated by reference to the exhibit to the Registration Statement on Form S-4 of Park Place Entertainment Corporation, File No. 333-69838, filed September 21, 2001.)
4.12	First Supplemental Indenture, dated as of June 13, 2005, to Indenture, dated as of August 22, 2001, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 7.50% Senior Notes due 2009. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.13	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, to the Indenture, dated as of August 22, 2001, as amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 7.50% Senior Notes due 2009. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)
4.14	Indenture, dated as of March 14, 2002, between Park Place Entertainment Corp., as Issuer, and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 7 7/8% Senior Subordinated Notes due 2010. (Incorporated by reference to the exhibit to the Registration Statement on Form S-4 of Park Place Entertainment Corporation, File No. 333-86142, filed April 12, 2002.)
4.15	First Supplemental Indenture, dated as of June 13, 2005, to Indenture, dated as of March 14, 2002, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 7 7/8% Senior Subordinated Notes due 2010. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.16	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and Wells Fargo Bank, National Association, as Trustee, to the Indenture, dated as of March 14, 2002, as amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 7 7/8% Senior Subordinated Notes due 2010. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)
4.17	Indenture, dated as of April 11, 2003, between Park Place Entertainment Corp., as Issuer, and U.S. Bank National Association, as Trustee, with respect to the 7% Senior Notes due 2013. (Incorporated by reference to the exhibit to the Registration Statement on Form S-4 of Park Place Entertainment Corporation, File No. 333-104829, filed April 29, 2003.)

Exhibit Number	Exhibit Description
4.18	First Supplemental Indenture, dated as of June 13, 2005, to Indenture, dated as of April 11, 2003, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and U.S. Bank National Association, as Trustee, with respect to the 7% Senior Notes due 2013. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.)
4.19	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and U.S. Bank National Association, as Trustee, to the Indenture, dated as of April 11, 2003, as amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 7% Senior Notes due 2013. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)
4.20	Indenture, dated as of December 11, 2003, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.375% Senior Notes due 2013. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
4.21	Indenture, dated as of June 25, 2004, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.50% Senior Notes due 2010. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
4.22	Indenture, dated as of February 9, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Senior Floating Rate Notes due 2008. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.)
4.23	Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed August 2, 2005.)
4.24	First Supplemental Indenture, dated as of September 9, 2005, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024. (Incorporated by reference to the exhibit to the Registration Statement on Form S-3/A of Harrah s Entertainment, Inc., File No. 333-127210, filed September 19, 2005.)
*4.25	Second Supplemental Indenture, dated as of January 8, 2008, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024.
4.26	Third Supplemental Indenture, dated as of January 28, 2008, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed January 28, 2008)
4.27	Indenture, dated as of May 27, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed June 3, 2005.)
4.28	First Supplemental Indenture, dated as of August 19, 2005, to Indenture, dated as of May 27, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015. (Incorporated by reference to the exhibit to the Registration Statement on Form S-4 of Harrah s Entertainment, Inc., File No. 333-127840, filed August 25, 2005.)
4.29	Second Supplemental Indenture, dated as of September 28, 2005, to Indenture, dated as of May 27, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K, filed October 3, 2005.)

Exhibit Number	Exhibit Description
4.30	Indenture dated as of September 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.75% Senior Notes due 2017. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K, filed October 3, 2005.)
4.31	Indenture, dated as of June 9, 2006, between Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. National Bank Association, as Trustee, relating to the 6.50% Senior Notes due 2016. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K, filed June 14, 2006.)
4.32	Officers Certificate, dated as of June 9, 2006, pursuant to Sections 301 and 303 of the Indenture dated as of June 9, 2006 between Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. National Bank Association, as Trustee, relating to the 6.50% Senior Notes due 2016. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K, filed June 14, 2006.)
4.33	Indenture, dated as of February 1, 2008, by and among Harrah s Operating Company, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee, relating to the 10.5% Senior Cash Pay Notes due 2016 and 10.5%/11.5% Senior Toggle Notes due 2018. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K, filed February 4, 2008.)
4.34	Registration Rights Agreement, dated as of February 1, 2008, by and among Harrah s Operating Company, Inc., the Guarantors (as defined therein), Citigroup Global Markets Inc., Banc of America Securities LLC, Credit Suisse Securities (USA), LLC, Deutsche Bank Securities, Inc., J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated as representatives of Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Banc of America Securities LLC, Credit Suisse Securities (USA) LLC, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear, Sterns & Co., Inc., Goldman, Sachs & Co., Morgan Stanley & Co. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K, filed February 4, 2008.)
4.35	Stockholders Agreement, dated as of January 28, 2008, by and among Apollo Hamlet Holdings, LLC, Apollo Hamlet Holdings B, LLC, TPG Hamlet Holdings, LLC, TPG Hamlet Holdings B, LLC, Co-Invest Hamlet Holdings, Series LLC, Co-Invest Hamlet Holdings B, LLC, Hamlet Holdings LLC and Harrah s Entertainment, Inc., and, solely with respect to Sections 3.01 and 6.07, Apollo Investment Fund VI, L.P. and TPG V Hamlet AIV, L.P. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
4.36	Services Agreement, dated as of January 28, 2008, by and among Harrah s Entertainment, Inc., Apollo Management VI, L.P., Apollo Alternative Assets, L.P. and TPG Capital, L.P. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
4.37	Management Investor Rights Agreement, dated as of January 28, 2008, by and among Harrah s Entertainment, Inc., Apollo Hamlet Holdings, LLC, Apollo Hamlet Holdings B, LLC, TPG Hamlet Holdings, LLC, TPG Hamlet Holdings B, LLC, Hamlet Holdings LLC and the stockholders that are parties thereto (incorporated by reference to Exhibit 4.2 to Harrah s Entertainment, Inc. s Registration Statement on Form S-8 filed January 31, 2008)
10.1	Credit Agreement, dated as of January 28, 2008, by and among Hamlet Merger Inc., Harrah s Operating Company, Inc. as Borrower, the Lenders party thereto from time to time, Bank of America, N.A., as Administrative Agent and Collateral Agent, Deutsche Bank AG New York Branch, as Syndication Agent, and Citibank, N.A., Credit Suisse, Cayman Islands Branch, JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Credit Partners L.P., Morgan Stanley Senior Funding, Inc., and Bear Sterns Corporate Lending, Inc., as Co-Documentation Agents. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.2	Guaranty and Pledge Agreement, dated as of January 28, 2008, made by Hamlet Merger Inc. in favor of Bank of America, N.A., as Administrative Agent and Collateral Agent. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.3	Senior Unsecured Interim Loan Agreement, dated as of January 28, 2008, by and among Harrah s Operating Company, Inc., as Borrower, the Lenders party thereto from time to time, Citibank, N.A., as Administrative Agent, Deutsche Bank AG New York Branch, as Syndication Agent, Banc of America Bridge LLC, Credit Suisse, Cayman Islands Branch, JPMorgan Chase Bank, N.A., and Merrill Lynch Capital Corporation, as Co-Documentation Agents, Citigroup Global Markets Inc., Deutsche Bank Securities, Inc., Banc of America Securities LLC, Credit Suisse Securities (USA) LLC, J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Bookrunners and Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., as Joint Lead Arrangers. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)

Exhibit Number	Exhibit Description
10.4	Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Propco, LLC, Harrah s Atlantic City Propco, LLC, Tahoe Propco, LLC, Rio Propco, LLC, Flamingo Las Vegas Propco, LLC and Showboat Propco, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.5	First Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 1, LLC, Harrah s Atlantic City Mezz 1, LLC, Tahoe Mezz 1, LLC, Rio Mezz 1, LLC, Flamingo Las Vegas Mezz 1, LLC and Showboat Atlantic City Mezz 1, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.6	Second Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 2, LLC, Harrah s Atlantic City Mezz 2, LLC, Tahoe Mezz 2, LLC, Rio Mezz 2, LLC, Flamingo Las Vegas Mezz 2, LLC and Showboat Atlantic City Mezz 2, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.7	Third Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 3, LLC, Harrah s Atlantic City Mezz 3, LLC, Tahoe Mezz 3, LLC, Rio Mezz 3, LLC, Flamingo Las Vegas Mezz 3, LLC and Showboat Atlantic City Mezz 3, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.8	Fourth Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 4, LLC, Harrah s Atlantic City Mezz 4, LLC, Tahoe Mezz 4, LLC, Rio Mezz 4, LLC, Flamingo Las Vegas Mezz 4, LLC and Showboat Atlantic City Mezz 4, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.9	Fifth Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 5, LLC, Harrah s Atlantic City Mezz 5, LLC, Tahoe Mezz 5, LLC, Rio Mezz 5, LLC, Flamingo Las Vegas Mezz 5, LLC and Showboat Atlantic City Mezz 5, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.9	Sixth Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 6, LLC, Harrah s Atlantic City Mezz 6, LLC, Tahoe Mezz 6, LLC, Rio Mezz 6, LLC, Flamingo Las Vegas Mezz 6, LLC and Showboat Atlantic City Mezz 6, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.10	Seventh Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 7, LLC, Harrah s Atlantic City Mezz 7, LLC, Tahoe Mezz 7, LLC, Rio Mezz 7, LLC, Flamingo Las Vegas Mezz 7, LLC and Showboat Atlantic City Mezz 7, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.11	Eighth Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 8, LLC, Harrah s Atlantic City Mezz 8, LLC, Tahoe Mezz 8, LLC, Rio Mezz 8, LLC, Flamingo Las Vegas Mezz 8, LLC and Showboat Atlantic City Mezz 8, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.12	Ninth Mezzanine Loan Agreement, dated as of January 28, 2008, by and among Harrah s Las Vegas Mezz 9, LLC, Harrah s Atlantic City Mezz 9, LLC, Tahoe Mezz 9, LLC, Rio Mezz 9, LLC, Flamingo Las Vegas Mezz 9, LLC and Showboat Atlantic City Mezz 9, LLC, as Borrowers, and JPMorgan Chase Bank, N.A., as Lender. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)

Exhibit Number	Exhibit Description
10.13	Employment Agreement, dated as of January 28, 2008, by and between Harrah s Entertainment, Inc. and Gary W. Loveman. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.14	Rollover Option Agreement, dated as of January 28, 2008, by and between Harrah s Entertainment, Inc. and Gary W. Loveman. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K/A filed February 7, 2008.)
10.15	Form of Employment Agreement between Harrah s Operating Company, Inc. and Charles L. Atwood, Stephen H. Brammell, Jonathan S. Halkyard, Thomas M. Jenkin, Janis L. Jones, David W. Norton, John Payne, Virginia E. Shanks, Timothy S. Stanley, Mary H. Thomas and J. Carlos Tolosa. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
10.16	Form of Severance Agreement entered into with Charles L. Atwood, Stephen H. Brammell, Jonathan S. Halkyard, Thomas M. Jenkin, Janis L. Jones, David W. Norton, John Payne, Virginia E. Shanks, Timothy S. Stanley, Mary H. Thomas and J. Carlos Tolosa. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.)
10.17	Form of Indemnification Agreement entered into by The Promus Companies Incorporated and each of its directors and executive officers. (Incorporated by reference to the exhibit to the Registration Statement of Harrah s Entertainment, Inc. on Form 10, File No. 1-10410, filed on December 13, 1989.)
10.18	Form of Supplemental Indemnification Agreement entered into by Harrah s Entertainment, Inc. and each of its directors and executive officers. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K filed July 21, 2006.)
10.19	Financial Counseling Plan of Harrah s Entertainment, Inc. as amended June 1996. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)
10.20	Summary Plan Description of Executive Term Life Insurance Plan. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1996.)
10.21	Harrah s Entertainment, Inc. 2005 Senior Executive Incentive Plan. (Incorporated by reference from Annex C to the Company s Proxy Statement, filed March 4, 2004.)
10.22	The 2001 Restatement of the Harrah s Entertainment, Inc. Savings And Retirement Plan, effective January 1, 2002. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.)
10.23	First Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan effective January 1, 1997. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.24	Second Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan effective January 1, 2002. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.25	Third Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan effective November 24, 2003. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

Exhibit Number	Exhibit Description
10.26	Fourth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan executed December 22, 2003. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.27	Fifth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan effective January 1, 2005. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.28	Sixth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan adopted July 20, 2005. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.29	Seventh Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan effective August 30, 2005. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.30	Eighth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan adopted September 20, 2006. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.31	Ninth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan adopted November 7, 2006. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.32	Tenth Amendment to the 2001 Restatement of the Harrah s Entertainment, Inc. Savings and Retirement Plan executed December 29, 2006. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.33	Trust Agreement dated June 20, 2001 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank Minnesota, N.A. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.)
10.34	Escrow Agreement, dated February 6, 1990, by and between The Promus Companies Incorporated, certain subsidiaries thereof, and Sovran Bank, as escrow agent (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 29, 1989.)
10.35	Amendment to Escrow Agreement dated as of October 29, 1993 among The Promus Companies Incorporated, certain subsidiaries thereof, and NationsBank, formerly Sovran Bank. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1993.)
10.36	Amendment, dated as of June 7, 1995, to Escrow Agreement among The Promus Companies Incorporated, certain subsidiaries thereof and NationsBank. (Incorporated by reference to the exhibit to the Company s Current Report on Form 8-K filed June 15, 1995.)
10.37	Amendment, dated as of July 18, 1996, to Escrow Agreement between Harrah s Entertainment, Inc. and NationsBank. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
10.38	Amendment, dated as of October 30, 1997, to Escrow Agreement between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc. and NationsBank. (Incorporated by reference from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1997, filed March 10, 1998, File No. 1-10410.)
10.39	Amendment to Escrow Agreement, dated April 26, 2000, between Harrah s Entertainment, Inc. and Wells Fargo Bank Minnesota, N.A., Successor to Bank of America, N.A. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.)
10.40	Letter Agreement with Wells Fargo Bank Minnesota, N.A., dated August 31, 2000, concerning appointment as Escrow Agent under Escrow Agreement for deferred compensation plans. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.)
* 10.41	Harrah s Entertainment, Inc. Amended and Restated Executive Deferred Compensation Trust Agreement dated January 11, 2006 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank, N.A.
* 10.42	Amendment to the Harrah s Entertainment, Inc. Amended and Restated Executive Deferred Compensation Trust Agreement effective January 28, 2008 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank, N.A.

Exhibit Number	Exhibit Description
10.43	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Deferred Compensation Plan, effective August 3, 2007. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.44	Amendment and Restatement of Harrah s Entertainment, Inc. Deferred Compensation Plan, effective as of August 3, 2007. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.45	Amendment and Restatement of Park Place Entertainment Corporation Executive Deferred Compensation Plan, effective as of August 3, 2007. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.46	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Supplemental Savings Plan, effective as of August 3, 2007. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.47	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Supplemental Savings Plan II, effective as of August 3, 2007. (Incorporated by reference to the exhibit to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
*12	Computation of Ratios.
14	Harrah s Entertainment, Inc. Code of Business Conduct and Ethics for Principal Officers, adopted February 26, 2003. (Incorporated by reference to the exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed March 10, 2003.)
*21	List of subsidiaries of Harrah s Entertainment, Inc.
*23	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
*31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 29, 2008.
*31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 29, 2008.
*32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 29, 2008.
*32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 29, 2008.
*99	Description of Governmental Regulation.

* Filed herewith.

Management contract of compensatory plan or arrangement required to be filed as an exhibit to this Form pursuant to Item 15(a)(3) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 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.

February 29, 2008

By: /s/ GARY W. LOVEMAN
Gary W. Loveman
Chairman of the Board,
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JEFFREY BENJAMIN **Jeffrey Benjamin**	Director	February 29, 2008
/s/ DAVID BONDERMAN **David Bonderman**	Director	February 29, 2008
/s/ ANTHONY CIVALE **Anthony Civale**	Director	February 29, 2008
/s/ JONATHAN COSLET **Jonathan Coslet**	Director	February 29, 2008
/s/ KELVIN DAVIS **Kelvin Davis**	Director	February 29, 2008
/s/ GARY W. LOVEMAN	Director, Chairman of the Board, Chief Executive Officer and President	February 29, 2008

Gary W. Loveman		
/s/ KARL PETERSON **Karl Peterson**	Director	February 29, 2008
/s/ ERIC PRESS **Eric Press**	Director	February 29, 2008
/s/ MARC ROWAN **Marc Rowan**	Director	February 29, 2008
/s/ JONATHAN S. HALKYARD **Jonathan S. Halkyard**	Senor Vice President, Chief Financial Officer and Treasurer	February 29, 2008
/s/ ANTHONY D. MCDUFFIE **Anthony D. McDuffie**	Senior Vice President, Controller and Chief Accounting Officer	February 29, 2008

Schedule II

HARRAH S ENTERTAINMENT, INC.

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

(In millions)

Column A	Column B	Column C Additions		Column D	Column E
Description	**Balance at Beginning of Period**	**Charged to Costs and Expenses**	**Charged to Other Accounts**	**Deductions from Reserves**	**Balance at End of Period**
YEAR ENDED DECEMBER 31, 2007					
Allowance for doubtful accounts					
Current	$ 94.7	$ 135.3	$	$ (103.8) [a]	$ 126.2
Long-term	$ 0.3	$	$	$	$ 0.3
Liability to sellers under acquisition agreement [b]	$ 2.0	$	$	$ (0.2)	$ 1.8
YEAR ENDED DECEMBER 31, 2006					
Allowance for doubtful accounts					
Current	$ 111.8	$ 71.8	$	$ (88.9) [a]	$ 94.7
Long-term	$ 0.3	$	$	$	$ 0.3
Liability to sellers under acquisition agreement [b]	$ 3.6	$	$	$ (1.6)	$ 2.0
YEAR ENDED DECEMBER 31, 2005					
Allowance for doubtful accounts					
Current	$ 48.6	$ 29.5	$ 75.8 [c]	$ (42.1) [a]	$ 111.8
Long-term	$	$	$ 0.3 [c]	$	$ 0.3
Liability to sellers under acquisition agreement [b]	$ 23.6	$	$	$ (20.0)	$ 3.6
Reserve for structural repairs [d]	$ 0.7	$	$	$ (0.7)	$

(a) Uncollectible accounts written off, net of amounts recovered.

(b) We acquired Players International, Inc., (Players) in March 2000. In 1995, Players acquired a hotel and land adjacent to its riverboat gaming facility in Lake Charles, Louisiana, for cash plus future payments to the seller based on the number of passengers boarding the riverboat casinos during a defined term. In accordance with the guidance provided by APB 16 regarding the recognition of liabilities assumed in a business combination accounted for as a purchase, Players estimated the net present value of the future payments to be made to the sellers and recorded that amount as a component of the total consideration paid to acquire these assets. Our recording of this liability in connection with the purchase price allocation process following the Players acquisition was originally reported in 2000. Our casino operations in Lake Charles sustained significant damage in late third quarter 2005 as a result of Hurricane Rita. As a result of hurricane damage, and upon the Company s subsequent decision to scale back operations in Lake Charles and ultimately sell the property, the current and long-term portions of this obligation were written down in fourth quarter 2005; the credit is included in Discontinued operations on our Consolidated Statements of Income. We sold Harrah s Lake Charles in fourth quarter 2006. Prior to the sale, the current and long-term portions of this obligation were included in Liabilities held for sale on our Consolidated Balance Sheets. The remaining long-term portion of this liability is included in Deferred credits and other on our Consolidated Balance Sheets; the current portion of this obligation is included in Accrued expenses on our Consolidated Balance Sheets.

(c) 2005 Charged to Other Accounts consists primarily of the balances acquired from our acquisition of Caesars Entertainment, Inc., on June 13, 2005.

(d) During 2002, we discovered that water leaks had caused considerable damage to a hotel tower at our property in Reno, Nevada. Following an initial assessment of the extent of the damage, our design and construction department (assisted by third-party experts) estimated that the costs to repair the damage would total approximately $5 million.