PARK PLACE ENTERTAINMENT CORP
Form 10-K405
March 29, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2001
OR
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 1-14573

PARK PLACE ENTERTAINMENT CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	**88-0400631**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3930 Howard Hughes Parkway	**89109**
Las Vegas, Nevada	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: **(702) 699-5000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**New York**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Based upon the March 15, 2002 New York Stock Exchange closing price of $10.40 per share, the aggregate market value of the Registrant's outstanding Common Stock held by non-affiliates of the Registrant was approximately $2.9 billion. On that date, there were 301,710,133 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement in connection with the May 22, 2002 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. BUSINESS

General

As used in this document, the terms "Park Place," "Company," "we," "our," and "us," refer to Park Place Entertainment Corporation and its subsidiaries as a combined entity except where it is clear that the terms mean only Park Place Entertainment Corporation.

Park Place Entertainment Corporation is the world's largest gaming company, as measured by revenue, rooms and casino space. We own, operate, manage or have an interest in 28 properties in five countries the United States, Canada, South Africa, Uruguay and Australia.

Our brands are among the most respected and best recognized in the world: Caesars, Bally's, Flamingo, Hilton, Grand Casinos and Conrad. Together, our casino resorts feature two million square feet of gaming space, more than 28,000 hotel rooms, fine restaurants and a collection of theaters, showrooms, amphitheaters and other unique entertainment venues. We employ approximately 55,000 people worldwide and have our corporate headquarters in Las Vegas, Nevada. We reported net revenue of $4.6 billion in 2001.

Our principal properties are leaders in the three largest gaming markets in the United States the West (Nevada), the East (New Jersey and Delaware) and the Mid-South (Mississippi, Louisiana and southern Indiana).

In December 1998, we became a separate and independent public company resulting from the split of the lodging and gaming operations of Hilton Hotels Corporation through a tax-free distribution of Hilton's gaming division to its stockholders. At the same time, we acquired the Mississippi gaming operations of Grand Casinos, Inc. ("Grand") through a merger. In December 1999, we acquired all of the outstanding stock of Caesars World, Inc. and interests in several other gaming entities ("Caesars") from Starwood Hotels & Resorts Worldwide, Inc. for approximately $3 billion in cash.

We own, operate or manage the casino properties as noted in the table below.

Name and Location	Approximate Casino Square Footage(1)	Approximate Number of Slots	Approximate Number of Tables	Approximate Number of Rooms/Suites
Domestic Casinos				
Nevada				
Caesars Palace	152,000	1,922	105	2,423
Paris Las Vegas	85,000	1,756	96	2,916
Bally's Las Vegas	83,000	1,663	70	2,814
Flamingo Las Vegas	77,000	2,283	89	3,518
Las Vegas Hilton	79,000	1,344	73	2,953
Caesars Tahoe(2)	42,000	1,099	58	440
Reno Hilton	109,000	1,500	65	2,003
Flamingo Laughlin	57,000	1,538	51	1,906
New Jersey				
Bally's Atlantic City	164,000	4,320	144	1,246

Name and Location	Approximate Casino Square Footage(1)	Approximate Number of Slots	Approximate Number of Tables	Approximate Number of Rooms/Suites
Caesars Atlantic City	125,000	3,856	123	1,140
Atlantic City Hilton	60,000	2,024	84	804
Claridge Casino Hotel(3)	59,000	1,770	63	502
	1			
Mississippi				
Grand Casino Biloxi	134,000	2,877	89	985
Grand Casino Gulfport	110,000	2,312	72	1,001
Grand Casino Tunica	140,000	2,464	93	1,356
Sheraton Casino & Hotel	33,000	1,291	41	134
Bally's Casino Tunica	47,000	1,309	40	235
Indiana				
Caesars Indiana(4)	90,000	2,493	142	503
Louisiana				
Bally's Casino New Orleans(5)	30,000	1,216	30	
Delaware				
Dover Downs(6)	76,000	2,000		
International Casinos				
Australia(7)				
Conrad Jupiters Gold Coast	69,000	1,218	89	609
Conrad International Treasury Casino Brisbane	69,000	1,214	97	130
Uruguay				
Conrad Punta del Este Resort and Casino(8)	41,000	518	78	302
Canada				
Casino Nova Scotia Halifax(9)	32,000	733	39	352
Casino Nova Scotia Sydney(9)	16,000	372	11	
Casino Windsor(10)	100,000	3,321	105	389
South Africa				
Caesars Gauteng(11)	56,000	1,500	50	276
Caesars Palace at Sea(12)				
S.S. Crystal Harmony	3,000	87	8	
S.S. Crystal Symphony	4,000	114	8	

(1) Includes square footage attributable to race and sports books.

(2) We lease the building that houses the hotel and casino and lease the underlying land pursuant to a long-term ground and structure lease.

(3) We acquired the Claridge Casino Hotel on June 1, 2001.

(4) We manage Caesars Indiana and own an 82 percent interest in a joint venture that owns this property. In August 2001, we opened a new 503-room hotel at Caesars Indiana.

(5) We have a 49.9 percent ownership interest in and manage this property.

(6) We provide management services to the casino at the Dover Downs racetrack in Delaware.

(7) In February 2002, we entered into agreements to sell our 19.9 percent ownership in Jupiters Limited, which owns these two casinos. We will continue to manage these properties even after we sell our equity in Jupiters Limited.

(8) We have a 46.4 percent ownership interest in and manage this property.

(9) We have a 95 percent interest in Metropolitan Entertainment Group, which owns and operates the two properties on behalf of the Nova Scotia Gaming Corporation pursuant to an operating contract.

(10) We have a 50 percent interest in Windsor Casino Limited, which operates Casino Windsor. The province of Ontario owns the complex.

(11) We have a 25 percent interest in a joint venture that owns Caesars Gauteng and a 50 percent interest in a joint venture that manages Caesars Gauteng.

(12) We operate the Caesars Palace at Sea casinos on two Crystal Cruises, Inc. cruise ships, the Symphony and the Harmony, only while the ships are in international waters.

Nevada Casinos

We currently own and operate eight casino hotels in the state of Nevada: Caesars Palace, Paris Las Vegas, Bally's Las Vegas, Flamingo Las Vegas, Las Vegas Hilton, Caesars Tahoe, Reno Hilton, and Flamingo Laughlin.

Each Nevada casino hotel is open 24 hours a day, seven days a week, and offers a variety of casino games and slot machines, race and sports books, restaurants and various entertainment and shopping venues.

Caesars Palace

Caesars Palace, internationally renowned for over 35 years, is located on approximately 80 acres at the prominent "Four Corners" intersection of Flamingo and Las Vegas Boulevard on the Las Vegas Strip. Caesars Palace features 2,423 guest rooms and suites, approximately 152,000 square feet of gaming space and 16 restaurants. A 4.5 acre swimming pool complex, a 23,000 square foot spa/fitness facility, a wedding chapel and 110,000 square feet of meeting and convention space with an additional 49,000 square foot interim event/exhibit pavilion are also featured. Caesars Palace is also home to the Forum Shops, a highly themed shopping mall which features upscale boutiques, well known stores and dining from some of the world's premier chefs. Caesars Palace markets to upscale individual leisure guests and convention groups. In 2001, Caesars Palace completed two lavish 10,000 square foot pool villa suites and a new high-end gaming salon catering to premium customers. A 4,000-seat performing arts "Colosseum" is currently under construction and scheduled for completion in the first quarter of 2003. This venue is designed to provide the highest quality entertainment venue in Las Vegas and will initially serve as the three-year home for a theatrical spectacle featuring world renowned vocalist Celine Dion approximately 200 nights per year. The Colosseum will also be available to host other entertainment offerings.

Paris Las Vegas

Paris Las Vegas opened in September 1999. Located on approximately 24 acres, Paris Las Vegas features 2,916 spacious guest rooms, an 85,000 square foot casino, eight French-inspired restaurants, five lounges, 120,000 square feet of meeting and convention space, 31,000 square feet of retail space, a two-acre pool and a European health spa. This Parisian-themed resort also features authentic replicas of famous French landmarks including a 50-story half-scale Eiffel Tower. Paris Las Vegas is connected to Bally's Las Vegas by a retail mall. Marketing efforts for Paris Las Vegas are directed toward convention groups and the mid- to upper mid-market.

Bally's Las Vegas

Bally's Las Vegas is located on approximately 41 acres at the prominent "Four Corners" intersection of the Las Vegas Strip. This property, which is connected to Paris Las Vegas, features 2,814 guest rooms, an 83,000 square foot casino, nine restaurants, four lounges, 115,000 square feet of meeting and convention areas, 48,000 square feet of retail space, an Olympic-sized pool, tennis courts and a spa. Bally's Las Vegas also has a 1,040-seat showroom which attracts well known entertainers, as well as being home to one of the traditional Las Vegas shows, "Jubilee." Bally's Las Vegas caters to convention groups and the mid-market, including the group tour and travel segment. Bally's Las Vegas is currently connected to MGM Grand Las Vegas via a one-mile elevated public transit monorail. The monorail was acquired in September 2000 by The Las Vegas Monorail Company, a Nevada nonprofit corporation, which has commenced a system expansion project. When completed, the system will be approximately four miles long and will have seven stations directly connecting eight hotel-casinos (including Bally's Las Vegas, Flamingo Las Vegas and Las Vegas Hilton) on the east side of the Las Vegas Strip to the Las Vegas Convention Center. Completion of the expanded monorail system is scheduled for early 2004.

Flamingo Las Vegas

The Flamingo Las Vegas is located on approximately 27 acres at the center of the Las Vegas Strip, also at the prominent "Four Corners." This property features 3,518 guest rooms and suites, approximately 77,000 square feet of casino space, ten restaurants, approximately 66,000 square feet of meeting and convention area, 800 showroom seats, multiple pools and lagoons, tennis courts, a spa and health club, and a wedding chapel. The Flamingo Las Vegas focuses primarily on mid-market customers, particularly the group tour and travel market segment.

Las Vegas Hilton

The Las Vegas Hilton is located on approximately 61 acres adjacent to the Las Vegas Convention Center. With this prominent convention location, the Las Vegas Hilton focuses its marketing toward convention groups. This property features 2,953 guest rooms and suites, approximately 79,000 square feet of casino space, 12 restaurants and 225,000 square feet of meeting and convention area. The property also includes a 1,600-seat showroom featuring top entertainers, a night club, and a spa and health club.

Caesars Tahoe

Caesars Tahoe is located on the south shore of Lake Tahoe in Stateline, Nevada. This property features 440 guest rooms, a 42,000 square foot casino, five restaurants, a nightclub, a 1,500-seat showroom, a health spa, and approximately 16,000 square feet of meeting space. Caesars Tahoe draws a significant portion of its mid- to high-end resort destination travelers from the northern California area.

Reno Hilton

The Reno Hilton, which is located on 145 acres, features 2,003 guest rooms and suites, a 109,000 square foot casino, nine restaurants, a lounge and approximately 190,000 square feet of meeting and convention space. This property is also complemented by recreational facilities including an outdoor golf driving range on a man-made lake, outdoor tennis courts, and a 24-hour bowling center. The Reno Hilton focuses primarily on the mid-market and convention groups, as well as the locals market.

Flamingo Laughlin

The Flamingo Laughlin is located on 18 acres on the west bank of the Colorado River, 90 minutes south of Las Vegas. This property offers 1,906 guest rooms and suites, approximately 57,000 square feet of gaming space, five restaurants, a 300-seat showroom, a 26,000 square foot ballroom and convention center, a swimming pool and lighted tennis courts. The Flamingo Laughlin targets the budget and mid-market customer segments.

Cascata

In addition to the Nevada casinos, we own and operate Cascata, a premier high-desert championship golf course in southern Nevada. This 18-hole Rees Jones designed course complements the amenities offered by our Las Vegas properties and is available to selected casino guests.

New Jersey Casinos

In Atlantic City, New Jersey, the second largest gaming market in the United States, we own and operate four casino resorts along the famous Atlantic City Boardwalk.

The Atlantic City casinos are open 24 hours a day, seven days a week, and feature table games and slot machines similar to those offered at our Nevada casino hotels. Atlantic City casinos are not permitted to operate sports books; however, Bally's Atlantic City and Caesars Atlantic City feature simulcast horse racing.

Bally's Atlantic City

Bally's Atlantic City is located on an eight-acre site with ocean frontage at the intersection of Park Place and the Boardwalk. With its strategic center location on the Boardwalk, over 2,800 parking spaces and a bus terminal, Bally's Atlantic City is strongly positioned to attract significant walk-in and drive-in business and focuses on high-end players and the mid-market segment, including the mid- to upper mid-market slot player segment. Including The Wild Wild West Casino, this property offers 1,246 guest rooms and suites, a 164,000 square foot casino, 60,000 square feet of meeting and convention space, 14 restaurants and a health spa.

Caesars Atlantic City

Caesars Atlantic City is located on approximately ten acres at the center of the Boardwalk and features 1,140 guest rooms, approximately 125,000 square feet of casino space, ten restaurants, a 1,100-seat showroom and a health spa. Caesars Atlantic City also offers approximately 41,000 square feet of convention, meeting and banquet facilities, a multi-function grand ballroom and a four-story atrium to attract convention business as well as walk-in patrons from the Boardwalk.

Caesars Atlantic City also owns the Ocean One retail mall. The Ocean One mall is constructed on a pier that extends 900 feet over the Atlantic Ocean and is located directly in front of the Boardwalk entrance to Caesars Atlantic City. Ocean One contains approximately 400,000 square feet of restaurant and retail space on three floors.

Atlantic City Hilton

The Atlantic City Hilton is located on approximately five acres at the intersection of Boston and Pacific Avenues at the southern end of the Boardwalk in proximity to one of the major highways leading into Atlantic City. This location gives the Atlantic City Hilton an advantage in attracting destination-oriented customers arriving by automobile or bus. This property features 804 guest rooms, approximately 60,000 square feet of casino space, seven restaurants, a 1,200-seat theater, and a spa. The Atlantic City Hilton primarily focuses on personalized service for high-end and mid-market casino customers.

Claridge Casino Hotel

We acquired the Claridge Casino Hotel on June 1, 2001. The Claridge, adjacent to Bally's Atlantic City, adds 502 rooms, 59,000 square feet of gaming space and 1,100 parking spaces to our center-Boardwalk complex. The classic exterior of the Claridge, carefully preserved in its original early 1930s design, houses slots and table games, a spa, a 600-seat theater featuring headline entertainment, and fine dining.

An elevated pedestrian connector between the Claridge and Bally's Atlantic City is currently under construction. The new connector will add retail and meeting space to our center-Boardwalk resort corridor and allow consolidation of Claridge support facilities with Bally's Atlantic City.

Atlantic City Country Club

We also own and operate the historic Atlantic City Country Club established in 1897 in Northfield, New Jersey. This premier 18-hole golf course was extensively renovated in 1999 and is approximately a 10-minute drive from our Atlantic City properties. This amenity is used exclusively for our guests.

Mississippi Casinos

We own and operate five dockside casino hotels in Mississippi: Grand Casino Biloxi, Grand Casino Gulfport, Grand Casino Tunica, Sheraton Casino & Hotel and Bally's Casino Tunica.

The Mississippi casinos are open 24 hours a day, seven days a week, and feature table games and slot machines similar to those offered at our Nevada casino hotels. Mississippi casinos are not permitted to operate race and sports books.

Grand Casino Biloxi

Grand Casino Biloxi is the largest dockside casino on the Mississippi Gulf Coast and is one of a few properties on the Mississippi Gulf Coast that is oriented east to west, thereby maximizing the property's visibility from the highway. This location attracts both mid-market and budget travelers arriving for day trips or overnight stays via automobile and bus. It also draws the convention market with its 30,000 square feet

of convention space. Grand Casino Biloxi features approximately 134,000 square feet of gaming space, ten restaurants, 985 hotel rooms, a spa, a childcare entertainment center, and a 1,800-seat show theater. To better accommodate our guests, we opened a 1,200 space parking garage in July 2001.

Grand Casino Gulfport

Grand Casino Gulfport is a dockside casino on the Mississippi Gulf Coast that includes approximately 110,000 square feet of gaming area. Other amenities at this beachside resort include seven restaurants, a childcare entertainment center, a tropical pool with a lazy river, an arcade, a 500-seat theater, a spa, and 1,001 hotel rooms. The customer base at this property is primarily comprised of the locals market arriving by automobile and bus.

We own and operate the Grand Bear Golf Course on the Mississippi Gulf Coast which is strategically situated between the Grand Biloxi and Grand Gulfport properties. This 18-hole course designed by Jack Nicklaus is considered the premier golf course in the region. The course is available exclusively to our hotel and gaming guests.

Grand Casino Tunica

Grand Casino Tunica is located in Tunica County, Mississippi, approximately 15 miles south of the Memphis, Tennessee metropolitan area. Grand Casino Tunica is the largest dockside casino in Mississippi. Grand Casino Tunica is a 400,000 square foot, three-story, casino complex containing approximately 140,000 square feet of gaming space. Three hotels provide an aggregate of 1,356 rooms. To attract the mid-market, extended stay customers, Grand Casino Tunica is complemented by eight restaurants, an 18-hole Hale Irwin designed championship golf course and driving range, a spa, a recreational vehicle park and a sporting clays course. This property also has a 2,500-seat event center featuring headline entertainers and sporting events.

Other Mississippi Casinos

The Sheraton Casino & Hotel is also located in Tunica County, Mississippi and consists of 33,000 square feet of gaming space, an attached hotel with 134 rooms, and three restaurants and bars. Bally's Casino Tunica, primarily a "locals" casino, features a 47,000 square foot casino, a 235-room hotel, and an adjacent land-based facility with entertainment facilities and three restaurants.

Indiana Casino

In southern Indiana, across the Ohio River from Louisville, Kentucky, is Caesars Indiana, which we operate and in which we have an 82 percent equity interest. The resort's "Glory of Rome" riverboat casino is 450 feet long, 100 feet wide and four stories high, and is the largest cruising gaming vessel in the world. The riverboat is comprised of four decks including seven themed casinos offering 90,000 square feet of gaming space. A 170,000 square foot pavilion houses retail space, eight restaurants, and 24,000 square feet of convention space, including a 1,500-seat sports and entertainment coliseum. In August 2001, Caesars Indiana opened a new 503-room hotel. In 2002, Caesars Indiana will open an 18-hole championship golf course, Chariot Run.

Louisiana Casino

We have a 49.9 percent ownership interest in the Belle of Orleans, L.L.C. ("Belle") which owns Bally's Casino New Orleans, a 30,000 square foot riverboat casino facility that operates out of South Shore Harbor on Lake Pontchartrain in Orleans Parish, which is approximately eight miles from the French Quarter of New Orleans. Metro Riverboat Associates, Inc. owns the remaining 50.1 percent ownership interest in the Belle. We manage this casino under a management agreement with the Belle.

Delaware Operations

We provide management services to the casino at the Dover Downs racetrack in Delaware, which has approximately 2,000 slot machines. The casino is part of the Dover Downs complex, which features live automobile racing, live harness racing November through April, fine dining, and entertainment. The completion of the Dover Downs Hotel and Conference Center, featuring 240 guest rooms and suites and a state-of-the-art entertainment and conference center, is scheduled for the first half of 2002.

International Casinos

We operate seven international casino resorts on four continents, Australia, North America, South America and South Africa, as well as two casinos on international cruise ships.

Australia

In Australia, we operate two casino resorts under a management agreement with Jupiters Limited, an Australian public company. Jupiters Limited owns two casino resorts in Queensland, Australia, Conrad Jupiters Gold Coast and Conrad International Treasury Casino Brisbane. We currently have a 19.9 percent ownership interest in Jupiters Limited. However, in February 2002, we entered into an agreement with Jupiters Limited, whereby it will purchase 50 percent of our equity in Jupiters Limited. We also entered into a separate agreement to sell our remaining equity in Jupiters Limited to institutional investors. After-tax proceeds of these two transactions are currently estimated at $100 million and will be used to repay bank debt. The agreements are subject to shareholder, regulatory, and governmental approvals and financing arrangements by Jupiters Limited. The transactions are expected to be completed in the second quarter of 2002. Although we have agreed to sell our equity in Jupiters Limited, we will continue to manage the two Jupiters' Queensland casinos.

Conrad Jupiters is located in Broadbeach, Queensland and is surrounded by lush tropical gardens. This property, which is open 24 hours a day, features 609 hotel rooms, approximately 69,000 square feet of gaming space, a convention center and a 1,000-seat showroom. There is also a health center with a pool, spa, tennis and squash courts and a gym. Conrad Treasury is located in the central business district of Brisbane, Queensland's capital city. The casino is approximately 69,000 square feet in total, located on three levels of the Victoria-era Treasury building. The 130-room hotel is located in the historic Lands Administration Building, featuring Edwardian Baroque architecture and historic sandstone walls. The Conrad International Treasury Casino Brisbane has the exclusive right to conduct casino gaming in Brisbane until 2005. Both Conrad Jupiters and Conrad Treasury attract a significant portion of their customers from the local as well as the interstate markets, while the individual premium players travel from various parts of Asia.

Uruguay

In South America we operate, under a management agreement, the Conrad Punta del Este Resort and Casino, a five-star resort located on the beach in Punta del Este, Uruguay. The Conrad Punta del Este features 302 rooms and suites, both slot and table games, convention and meeting space, restaurants and shops, tennis courts, pools and a spa. The casino is open year round and 24 hours a day during the high season from December through February. A significant percentage of Conrad Punta del Este's customers travel from Brazil and Argentina and fluctuations in these countries' economies can affect this property's business. We also have a 46.4 percent ownership interest in Baluma Holdings S.A. that owns the resort.

Canada

Metropolitan Entertainment Group, of which we own 95 percent, owns and operates Casino Nova Scotia Halifax in Halifax, Nova Scotia and Casino Nova Scotia Sydney, which is a stand-alone casino, in Sydney, Cape Breton, Nova Scotia.

Casino Nova Scotia Halifax contains 32,000 square feet of casino space, 12,000 square feet of convention space, and three restaurants. We also own and operate the Sheraton Halifax Hotel featuring 352 guest rooms, 18,000 square feet of additional convention facilities, and a restaurant. This hotel is linked via pedway to the Casino Nova Scotia Halifax. Marketing efforts are focused toward convention guests.

Casino Nova Scotia Sydney is attached to a local sports arena and features approximately 16,000 square feet of gaming space, a restaurant and a lounge. The customer base at this casino is comprised mostly of locals, with some junket play from Toronto and Montreal.

We own 50 percent of Windsor Casino Limited, which operates Casino Windsor, a hotel/casino complex, under a management contract with its owner, the Province of Ontario, Canada. This property features a 100,000 square foot casino, 389 guest rooms, an 11,000 square foot ballroom and meeting rooms. Casino Windsor is located on the river in Windsor, Ontario, directly across from Detroit, Michigan.

South Africa

The Caesars Gauteng casino resort, located in Johannesburg, South Africa is operated by a joint venture in which we own a 50 percent interest. In addition, we have a 25 percent ownership interest in the joint venture that owns Caesars Gauteng. This property features a 56,000 square foot casino, two hotels with a total of 276 guest rooms, 11 restaurants, and 65,000 square feet of convention facilities.

Other

We operate the Caesars Palace at Sea casinos on two cruise ships, the Symphony and the Harmony, which are owned by Crystal Cruises, Inc. The casinos operate only when the ships are in international waters.

Other Developments

Saint Regis Mohawk Tribe

We entered into an agreement in April 2000 with the Saint Regis Mohawk Tribe in Hogansburg, New York. We paid $3 million for exclusive rights to develop a Class II or Class III casino project with the Tribe in the State of New York for a period of three years, or extended thereafter by mutual agreement. In November 2001, the parties also entered into a seven-year definitive management agreement for Park Place to manage a casino to be located at Kutsher's Country Club in Monticello, New York in return for a management fee equal to 30 percent of ebitda, as defined in the agreement. The management agreement is subject to the approval of the National Indian Gaming Commission.

We have entered into a definitive agreement, as amended, to acquire approximately 66 acres of the Kutsher's Resort Hotel and Country Club in Sullivan County, New York, for approximately $10 million, with an option to purchase the remaining 1,450 acres for $40 million. Upon approval by the Bureau of Indian Affairs ("BIA"), approximately 66 acres will be transferred to be held in trust for the Saint Regis Mohawk Nation.

As currently planned, the facility will include a 750-room hotel, 130,000 square feet of gaming space, 15,000 square feet of meeting space, restaurants and a spa.

All of the agreements and plans relating to the development and management of this project are contingent upon various regulatory and governmental approvals, including execution of a compact between the Saint Regis Mohawk Tribe and the State of New York, and receipt of approvals from the BIA, National Indian Gaming Commission and local planning and zoning boards. There is no guarantee that the requisite regulatory approvals will be received.

In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York three in Western New York and three in the Catskill Region, and approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The legislation also gives the governor the authority to negotiate state compacts with the tribes without further approval by the legislature. The constitutionality of this legislation has been challenged. (For a discussion of such litigation, see *Mohawk Litigation* in Item 3. Legal Proceedings.)

Macau

In the fourth quarter of 2001, Park Place, Mandalay Resort Group and a local Macau investor jointly submitted a tender proposal to the Macau Special Administrative Region seeking one of the three casino licenses that the Macau government intends to issue. Macau is a jurisdiction of the People's Republic of China and is adjacent to mainland China and Hong Kong. In February 2002, the Macau government advised the joint venture that it has selected three other proposals for initial negotiations and that the Company's joint venture is the first preferred alternate group. Therefore, if final negotiations between the Macau government and any of the three initial groups selected are not successfully completed, the joint venture would have the opportunity to negotiate with the Macau government for a gaming license.

Strategy

We have assembled a portfolio of assets that generated $4.6 billion in net revenues in 2001. Our strategy is to expand our core business and create value by:

Driving profitable revenue growth through new product offerings and technological innovation;

Increasing operational effectiveness through consolidation, cost control, and productivity enhancements;

Developing profitable opportunities presented by new markets and new ventures; and

Exercising financial discipline through targeted capital spending and rigorous assessment of asset value as we continue to reduce our debt.

In order to grow profitable revenues we intend to utilize our newly developed data warehouse and player recognition and rewards technology. This internally developed technology will allow us to more efficiently market, track and reward our customer base which should enhance our customer loyalty. In addition, we are building new amenities at our properties to offer more attractions to our existing and prospective customers. We are also pursuing consolidation and cost savings initiatives to increase operating leverage, which should translate revenue growth into accelerated earnings accretion.

A key element of our strategy is the disciplined use of our capital to generate attractive returns while continuing to reduce outstanding debt. We continually evaluate potential acquisition or development opportunities and may at any time be negotiating to engage in transactions or developments both domestically and internationally. Additionally, we regularly evaluate all of our assets within our portfolio and have and will continue to consider disposition of assets that, in our opinion, do not represent the best use of our capital. All of these measures are intended to drive profits of our company and create additional shareholder value.

Marketing

Our individual casinos target specific customer segments in their overall marketing promotions. These customer segments can be grouped into the following general categories: locals, convention groups, tour and travel groups, and free and independent travelers, comprised of budget-conscious travelers, middle-market guests, and high-end patrons. The locals, convention groups, and tour and travel groups can also be further stratified by income spending levels.

The amount of gaming activity varies significantly from time to time primarily due to general economic conditions, popularity of entertainment offerings, and occupancy rates in the hotels. Revenues from gaming operations vary depending upon the amount of gaming activity as well as variations in the odds for different games and chance. In addition to gaming activity, our properties to varying degrees generate revenues from hotel, restaurant, entertainment and other amenities which also vary due primarily to general economic conditions and competition.

We market our properties with advertising and loyalty programs. Advertising includes the use of television, radio, magazines, billboards and other mediums, including direct mail. We also maintain marketing offices both domestically and internationally. Many of our properties have loyalty programs, whereby casino patrons can receive complimentary meals, lodging, and entertainment based on specified amounts of casino play. Most of these programs also have a "cash back" feature that rewards customers with points based on play that can be redeemed for cash. These programs provide a base of customer information that enables us to target specific customers for promotions that might induce them to visit our casinos. In December 2001, we launched the Park Place Connection card in Las Vegas, which ultimately will unify all of our casino player loyalty programs under a single, umbrella program. This program is designed to develop new revenue streams, and protect existing ones, by encouraging Park Place guests at each of our properties to visit our other casino resorts.

Nevada

All of our Nevada properties are designed to enhance the entertainment experience of guests from each general category. Caesars Palace and Caesars Tahoe marketing efforts are directed at the mid- to high-end casino guests. Paris Las Vegas and Bally's Las Vegas direct their marketing efforts to the mid- to upper mid-market, including convention groups and tour and travel groups. The Reno Hilton and Las Vegas Hilton focus on meeting and convention groups. Our Flamingo Las Vegas and Flamingo Laughlin properties target the value-conscious and mid-market customers.

As part of the marketing efforts to higher-end players, our Nevada properties invite selected customers to their casinos and may pay for or reimburse the cost of their air transportation and provide them with complimentary rooms, food and beverage. In addition, we have a special flight program through which we provide free air transportation on our owned or chartered aircraft to selected groups or persons. Generally, these persons either have established casino credit limits or cash on deposit in the casino and have previously evidenced a willingness to play substantial amounts at the casino.

New Jersey

Our Atlantic City properties are positioned to attract significant walk-in traffic from the Boardwalk as well as drive in customers. Promotional dollars are spent on encouraging patrons arriving by car or

bus to visit our properties. These promotions often include coupons that can be redeemed for cash upon entering the casino.

Bally's Atlantic City and Caesars Atlantic City are linked by the Wild Wild West Casino and offer guests amenities that are designed to attract the mid- to upper mid-market player as well as high-end players. The Atlantic City Hilton focuses on personalized service for high-end and mid-market casino customers. The Claridge Casino Hotel, acquired in June 2001, is located adjacent to Bally's Atlantic City and is focused on value-conscious patrons.

Mid-South Region

Our Indiana, Louisiana and Mississippi gaming operations are provided on dockside or functioning riverboat casinos. Bally's Casino Tunica is primarily a locals casino, while the Sheraton Casino & Hotel and Grand Tunica market to mid-market travelers. Grand Biloxi markets to the mid-market and budget-conscious traveler while Grand Gulfport targets the locals market arriving by automobile and bus. Bally's Casino New Orleans, near the French Quarter, attracts locals and mid-market casino patrons. Caesars Indiana targets the Louisville, Kentucky market with amenities that appeal to budget-conscious travelers through upper-market patrons.

Credit Policy

We extend credit on a discretionary basis to qualified patrons, especially at our Las Vegas and Atlantic City properties, and to a much lesser extent at our other properties. We maintain strong controls over the extension of credit and evaluate each individual patron's creditworthiness before extending credit. Collection of our customers' debts is pursued by appropriate means, including legal proceedings when necessary, although the ultimate collectibility of customer receivables is impacted by many factors including changes in economic conditions in the patrons' home countries, changes in currency exchange rates, and judicial action.

Gaming Supervision and Controls

Our casino activities are conducted by experienced personnel who are well trained and supervised. As is the case of any business that extensively involves the handling of cash, gaming operations at our properties are subject to risk of loss as a result of dishonesty. However, we believe that we have reduced the risk to the extent practicable without impeding play and within reasonable cost limitations through supervision of employees and other internal controls. Our audit and cash controls include: locked cash boxes on the casino floor; daily cash and coin counts performed by employees independent of casino operations; 24-hour observation and supervision of the gaming area; observation and recording of gaming and other areas by closed-circuit television; and computer monitoring of our slot machines.

Events of September 11, 2001

The terrorist attacks of September 11, 2001 had a significant impact on the travel and tourism industries resulting in an overall reduction in visitation to many areas, especially the Las Vegas market. Disruption in air travel directly impacted visitation at our Las Vegas properties. Our regional markets in the eastern and midwestern areas of the United States, which are not as dependent on air travel, did not experience as much business disruption. The events on September 11, 2001, the potential for future terrorist attacks, the national and international responses to terrorist attacks and other acts of war or hostility have created many economic and political uncertainties which could adversely affect our business and results of operations in ways that cannot presently be predicted. Although we endeavor to obtain and maintain appropriate levels of insurance against extraordinary events, conditions in the marketplace make it unlikely that we will be able to maintain insurance against losses and interruptions caused by terrorist acts and acts of war.

Competition

There is intense competition in the gaming industry. The proliferation and legalization of gaming in its various forms throughout the world impact our operations in varying degrees. The construction of new properties or the enhancement or expansion of existing properties in any market in which we operate could have a negative impact on our business in that market.

During the past 25 years, legalized gaming has expanded from operating primarily in Nevada and New Jersey to the point where nearly every state has some form of gaming (including state-sponsored lotteries). "Las Vegas" style gaming is offered in many states, including the primary states in which we operate (Nevada, New Jersey, Mississippi, Indiana, and Louisiana). The business at our properties could be adversely affected if gaming were to be newly legalized or expanded under the laws of any state or locale located near our existing properties. Particularly, the legalization of gaming operations in jurisdictions located near or the expansion of casino gaming in Las Vegas, Atlantic City or the Gulf Coast of Mississippi could negatively affect our properties located there.

We also compete with legalized gaming from casinos located on Native American tribal lands. In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York three in Western New York and three in the Catskill Region, and approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The federal government has approved over 60 compacts with tribes in California, and casino-style gaming is now legal on those tribal lands. A proliferation of Native American gaming in New York or California, or a proliferation of Native American gaming in other areas located near our existing hotel casinos, may have an adverse effect on our operating results in those markets.

Our competitors in Las Vegas have announced projects that, if completed, will add significant casino space and hotel rooms to this market. We cannot determine the impact on our business if these, or other similar projects, are completed. These projects would increase the competition in an already competitive environment.

Certain competitors have begun construction on a 2000-room hotel/casino project in Atlantic City with an announced completion date in 2003. A second similar hotel/casino project adjacent to the first project has also been announced, however a specific timetable has not been disclosed. Other competitors have also announced projects that, if completed, will add significant casino space and hotel rooms to the Atlantic City market. Such new capacity could intensify competition in the Atlantic City marketplace, or alternatively, broaden Atlantic City's appeal to an expanded customer base. We cannot predict if these projects or other projects will be completed or how any additional capacity would affect our operating results.

International gaming operations are expanding as is gaming on the Internet. Several of our competitors have secured, or are seeking, licenses to operate Internet casinos. We are evaluating the technological, legal, regulatory and economic aspects of Internet gaming. At this stage, we cannot determine the effect that Internet gaming has had, or will have in the future, on our operating results. However, the proliferation of Internet-based gaming and sports wagering could adversely impact our domestic and international operations.

Environmental Matters

Park Place, like others in our industry, is subject to various federal, state, local and, in some cases, foreign laws, ordinances and regulations that (i) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous or toxic wastes, or (ii) may impose liability for the costs of cleaning up, and certain damages resulting from, sites of past spills, disposals or other releases of hazardous or toxic substances or wastes (collectively, "Environmental Laws"). We endeavor to maintain compliance with Environmental Laws, but, from time to time, current or historical operations at our properties may

have resulted or may result in noncompliance or liability for cleanup pursuant to Environmental Laws. In that regard, we may incur costs for cleaning up contamination relating to historical uses of certain of our properties.

Regulation and Licensing

The gaming industry is highly regulated and we must maintain our licenses and pay gaming taxes in order to continue our operations. Each of our casinos is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where located or docked. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interests in the gaming operations. Some jurisdictions, however, empower their regulators to investigate participation by licensees in gaming outside their jurisdiction and require access to and periodic reports concerning the gaming activities. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions.

Nevada Gaming Laws

The ownership and operation of casino gaming facilities in the State of Nevada are subject to the Nevada Gaming Control Act (the "Nevada Act") and the regulations promulgated thereunder and various local regulations. Our Nevada gaming operations are subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board and, depending on the facility's location, the Clark County Liquor and Gaming Licensing Board, Douglas County or the City of Reno, which we refer to collectively as the "Nevada Gaming Authorities."

The laws, regulations and supervisory procedures of the Nevada Gaming Authorities are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices and procedures;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Nevada Gaming Authorities;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenues through taxation and licensing fees.

Changes in such laws, regulations and procedures could have an adverse effect on our gaming operations.

Each of our subsidiaries that currently operates a casino in Nevada is required to be licensed by the Nevada Gaming Authorities. The gaming license requires the periodic payment of fees and taxes and is not transferable. We are required to be registered by the Nevada Gaming Commission as a publicly traded corporation and as such, are required periodically to submit detailed financial and operating reports to the Nevada Gaming Commission and furnish any other information that the Nevada Gaming Commission may require. No person may become a stockholder of, or receive any percentage of profits from, a licensed casino without first obtaining licenses and approvals from the Nevada Gaming Authorities. We and our licensed subsidiaries have obtained from the Nevada Gaming Authorities the various registrations, findings of suitability, approvals, permits, and licenses required to engage in gaming activities in Nevada.

The Nevada Gaming Authorities may investigate any individual who has a material relationship to, or material involvement with, us or any of our licensed subsidiaries in order to determine whether the individual is suitable or should be licensed as a business associate of a gaming licensee. The officers,

directors and key employees of Park Place and our licensed subsidiaries must file applications with the Nevada Gaming Authorities and may be required to be licensed or found suitable by the Nevada Gaming Authorities. The Nevada Gaming Authorities may deny an application for licensing for any cause which they deem reasonable. A finding of suitability is comparable to licensing, and both require submission of detailed personal and financial information followed by a thorough investigation. An applicant for licensing or an applicant for a finding of suitability must pay for all the costs of the investigation. Changes in licensed positions must be reported to the Nevada Gaming Authorities and, in addition to their authority to deny an application for a finding of suitability or licensing, the Nevada Gaming Authorities have the jurisdiction to disapprove a change in a corporate position.

If the Nevada Gaming Authorities were to find an officer, director or key employee unsuitable for licensing or unsuitable to continue having a relationship with us or any licensed subsidiary, we and the licensed subsidiary would have to sever all relationships with that person. In addition, the Nevada Gaming Commission may require us or a licensed subsidiary to terminate the employment of any person who refuses to file appropriate applications. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Nevada.

We and all licensed subsidiaries are required to submit detailed financial and operating reports to the Nevada Gaming Commission. Substantially all material loans, leases, sales of securities and similar financing transactions must be reported to, or approved by, the Nevada Gaming Commission.

If the Nevada Gaming Commission determined that we or a licensed subsidiary violated the Nevada Act, it could limit, condition, suspend or revoke our gaming licenses. In addition, we, the licensed subsidiary, and the persons involved could be subject to substantial fines for each separate violation of the Nevada Act at the discretion of the Nevada Gaming Commission. Further, a supervisor could be appointed by the Nevada Gaming Commission to operate a licensed subsidiary's gaming establishment and, under specified circumstances, earnings generated during the supervisor's appointment, except for the reasonable rental value of the premises, could be forfeited to the State of Nevada. Limitation, conditioning or suspension of any gaming license of a licensed subsidiary and the appointment of a supervisor could, or revocation of any gaming license would, have a material adverse effect on our gaming operations.

Any beneficial holder of our common stock, or any of our other voting securities, regardless of the number of shares owned, may be required to file an application, be investigated, and have that person's suitability as a beneficial holder of our voting securities determined if the Nevada Gaming Commission has reason to believe that the ownership would otherwise be inconsistent with the declared policies of the State of Nevada. The applicant must pay all costs of the investigation incurred by the Nevada Gaming Authorities in conducting any such investigation.

The Nevada Act requires any person who acquires a beneficial ownership of more than 5 percent of our voting securities to report such acquisition to the Nevada Gaming Commission. The Nevada Act requires that beneficial owners of more than 10 percent of our voting securities apply to the Nevada Gaming Commission for a finding of suitability within thirty days after the Chairman of the Nevada Gaming Control Board mails the written notice requiring such filing. An "institutional investor," as defined in the Nevada Act, which acquires beneficial ownership of more than 10 percent, but not more than 15 percent, of our voting securities may apply to the Nevada Gaming Commission for a waiver of a finding of suitability if the institutional investor holds our voting securities for investment purposes only. An institutional investor will be deemed to hold our voting securities for investment purposes if it acquired and holds our voting securities in the ordinary course of business as an institutional investor and not for the purpose of causing, directly or indirectly:

- the election of a majority of the members of the our board of directors;
- any change in our corporate charter, bylaws, management, policies or operations, or any of its gaming affiliates; or

- any other action which the Nevada Gaming Commission finds to be inconsistent with holding our voting securities for investment purposes only.

Activities which are not deemed to be inconsistent with holding voting securities for investment purposes only include:

- voting on all matters voted on by stockholders;
- making financial and other inquiries of management of the type normally made by securities analysts for informational purposes and not to cause a change in its management, policies or operations; and
- other activities as that the Nevada Gaming Commission may determine to be consistent with investment intent.

If the beneficial holder of our voting securities who must be found suitable is a corporation, partnership, limited partnership, limited liability company or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any person who fails or refuses to apply for a finding of suitability or a license within 30 days after being ordered to do so by the Nevada Gaming Commission or by the Chairman of the Nevada Gaming Control Board may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any stockholder found unsuitable and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the Nevada Gaming

Commission may be guilty of a criminal offense. We will be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or a licensed subsidiary, we:

- pay that person any dividend or interest upon any of our voting securities;
- allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person;
- pay remuneration in any form to that person for services rendered or otherwise; or
- fail to pursue all lawful efforts to require such unsuitable person to relinquish the voting securities including, if necessary, the immediate purchase of such voting securities for cash at fair market value.

Additionally, the Clark County Liquor and Gaming Licensing Board has the authority to approve all persons owning or controlling the stock of any corporation controlling a gaming licensee.

The Nevada Gaming Commission may, in its discretion, require the holder of any debt security of a registered publicly traded corporation, to file applications, be investigated and be found suitable to own the debt security of the registered corporation. If the Nevada Gaming Commission determines that a person is unsuitable to own the security, then pursuant to the Nevada Act, the registered publicly traded corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Nevada Gaming Commission, it:

- pays to the unsuitable person any dividend, interest or any distribution whatsoever;
- recognizes any voting right by such unsuitable person in connection with such securities;
- pays the unsuitable person remuneration in any form; or
- makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation or similar transaction.

We are required to maintain a current stock ledger in Nevada which may be examined by the Nevada Gaming Authorities at any time. If any securities are held in trust by an agent or by a nominee,

the record holder may be required to disclose the identity of the beneficial owner to the Nevada Gaming Authorities. A failure to make the disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner of any of our voting securities. The Nevada Gaming Commission has the power to require our stock certificates to bear a legend indicating that the securities are subject to the Nevada Act. To date, the Nevada Gaming Commission has not imposed that requirement on us.

We may not make a public offering of our securities without the prior approval of the Nevada Gaming Commission if we intend to use the securities or the proceeds therefrom to construct, acquire or finance gaming facilities in Nevada, or to retire or extend obligations incurred for those purposes. On December 20, 2000, the Nevada Gaming Commission granted us prior approval to make public offerings for a period of two years, subject to specified conditions, which we refer to as the "shelf approval." The shelf approval also applies to any company we wholly own that is a publicly traded corporation or would become a publicly traded corporation pursuant to a public offering. The shelf approval also includes approval for the licensed subsidiaries to guarantee any security issued by, and to hypothecate their assets to secure the payment or performance of any obligations issued by, us or an affiliate in a public offering under the shelf approval. The shelf approval also includes approval to place restrictions upon the transfer of and enter into agreements not to encumber the equity securities of the licensed subsidiaries, which we refer to as "stock restrictions." The shelf approval, however, may be rescinded for good cause without prior notice upon the issuance of an interlocutory stop order by the Chairman of the Nevada Gaming Control Board. The shelf approval does not constitute a finding,

recommendation or approval of the Nevada Gaming Authorities as to the accuracy or adequacy of any offering documents or the investment merits of the securities offered. Any representation to the contrary is unlawful.

Prior approval of the Nevada Gaming Commission must be obtained with respect to a change in control of us through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or any act or conduct by a person whereby the person obtains control of us. Entities seeking to acquire control of a registered publicly traded corporation must satisfy the Nevada Gaming Control Board and Nevada Gaming Commission in a variety of stringent standards before assuming control of the registered corporation. The Nevada Gaming Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Nevada legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and corporate defense tactics affecting Nevada gaming licenses, and registered publicly traded corporations that are affiliated with those operations, may be injurious to stable and productive corporate gaming. The Nevada Gaming Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Nevada's gaming industry and to further Nevada's policy to:

assure the financial stability of corporate gaming operators and their affiliates;

preserve the beneficial aspects of conducting business in the corporate form; and

promote a neutral environment for the orderly governance of corporate affairs.

Approvals may be required from the Nevada Gaming Commission before we can make exceptional repurchases of voting securities above their current market price and before a corporate acquisition opposed by management can be consummated. The Nevada Act also requires prior approval of a plan of recapitalization proposed by our board of directors in response to a tender offer made directly to its stockholders for the purpose of acquiring control of us.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Nevada and to the counties and cities in which the licensed

subsidiaries respective operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon either:

a percentage of the gross gaming revenues received;

the number of gaming devices operated; or

the number of table games operated.

A casino entertainment tax is also paid by casino operations where entertainment is furnished in connection with the selling or serving of food or refreshments or the selling of merchandise. Nevada corporate licensees that hold a license as an operator of a slot machine route, or a manufacturer's or distributor's license, also pay fees and taxes to the State of Nevada. The licensed subsidiaries currently pay monthly fees to the Nevada Gaming Commission equal to a maximum of 6.25 percent of gross gaming revenues.

Any person who is licensed, required to be licensed, registered, required to be registered, or is under common control with those persons (collectively, "licensees"), and who proposes to become involved in a gaming venture outside of Nevada, is required to deposit with the Nevada Gaming Control Board, and thereafter maintain, a revolving fund in the amount of $10,000 to pay the expenses of investigation of the Nevada Gaming Control Board of the licensee's participation in such foreign gaming. The revolving fund is subject to increase or decrease in the discretion of the Nevada Gaming Commission. Thereafter, licensees are required to comply with the reporting requirements imposed by the Nevada Act. A licensee is also subject to disciplinary action by the Nevada Gaming Commission if it:

knowingly violates any laws of the foreign jurisdiction pertaining to the foreign gaming operation;

fails to conduct the foreign gaming operation in accordance with the standards of honesty and integrity required of Nevada gaming operations;

engages in activities or enters into associations that are harmful to the State of Nevada or its ability to collect gaming taxes and fees; or

employs, contracts with or associates with a person in the foreign operation who has been denied a license or finding of suitability in Nevada on the ground of unsuitability.

The sale of alcoholic beverages at establishments operated by a licensed subsidiary is subject to licensing, control and regulation by applicable local regulatory agencies. All licenses are revocable and are not transferable. The agencies involved have full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could, and revocation would, have a material adverse effect upon the operations of the licensed subsidiary.

New Jersey Gaming Laws

The ownership and operation of casino gaming facilities in Atlantic City are subject to the New Jersey Casino Control Act (the "New Jersey Act"), regulations of the New Jersey Casino Control Commission (the "New Jersey Commission") and other applicable laws. No casino may operate unless it obtains the required permits or licenses and approvals from the New Jersey Commission. The New Jersey Commission is authorized under the New Jersey Act to adopt regulations covering a broad spectrum of gaming and gaming related activities and to prescribe the methods and forms of applications from all classes of licensees. These laws and regulations concern primarily:

the financial stability, integrity, responsibility, good character, honesty and business ability of casino service suppliers and casino operators, their directors, officers and employees, their security holders and others financially interested in casino operations;

the nature of casino hotel facilities; and

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

The State of New Jersey imposes taxes on gaming operations at the rate of 8 percent of gross gaming revenues. In addition, the New Jersey Act provides for an investment alternative tax of 2.5 percent of gross gaming revenues. This investment alternative tax may be offset by investment tax credits equal to 1.25 percent of gross gaming revenues, which are obtained by purchasing bonds issued by, or investing in housing or other development projects approved by, the Casino Reinvestment Development Authority.

The New Jersey Commission has broad discretion with regard to the issuance, renewal and revocation or suspension of casino licenses. A casino license is not transferable, is issued for a term of up to one year for the first two renewals and thereafter for a term of up to four years, subject to discretionary reopening of the licensing hearing by the New Jersey Commission at any time. A casino license must be renewed by filing an application which must be acted on by the New Jersey Commission before the license in force expires. At any time, upon a finding of disqualification or noncompliance, the New Jersey Commission may revoke or suspend a license or impose fines or other penalties.

The New Jersey Act imposes certain restrictions on the ownership and transfer of securities issued by a corporation that holds a casino license or is deemed a holding company, intermediary company, subsidiary or entity qualifier of a casino licensee. "Security" is defined by the New Jersey Act to include instruments that evidence either a beneficial ownership in an entity, such as common stock or preferred stock, or a creditor interest in an entity, such as a bond, note or mortgage. The New Jersey Act requires that the corporate charter of a publicly traded affiliate of a casino licensee must require that a holder of the company's securities who is disqualified by the New Jersey Commission dispose of

the securities. The corporate charter of a casino licensee or any privately-held affiliate of the licensee must:

- establish the right of prior approval by the New Jersey Commission with regard to a transfer of any security in the company; and

- create the absolute right of the company to repurchase at the market price or purchase price, whichever is less, any security in the company if the New Jersey Commission disapproves a transfer of the security under the New Jersey Act.

The New Jersey Commission has approved our corporate charter. The corporate charters of our subsidiaries that operate Bally's Atlantic City, the Atlantic City Hilton, Claridge Casino Hotel and Caesars Atlantic City and their privately-held affiliates likewise conform to the New Jersey Act's requirements described above for privately-held companies.

If the New Jersey Commission finds that an individual owner or holder of securities of a corporate licensee or an affiliate of the corporate licensee is not qualified under the New Jersey Act, the New Jersey Commission may propose remedial action, including divestiture of the securities held. If disqualified persons fail to divest themselves of the securities, the New Jersey Commission may revoke or suspend the license. However, if an affiliate of a casino licensee is a publicly traded company, and the New Jersey Commission makes a finding of disqualification with respect to any owner or holder of any security thereof, and the New Jersey Commission also finds that:

- the company has adopted the charter provisions;

- the company has made a good faith effort, including the prosecution of all legal remedies, to comply with any order of the New Jersey Commission requiring the divestiture of the security interest held by the disqualified owner or holder; and

- the disqualified owner or holder does not have the ability to control the corporate licensee or the affiliate, or to elect one or more members of the board of directors of the affiliate, the New

Jersey Commission will not take action against the casino licensee or its affiliate with respect to the continued ownership of the security interest by the disqualified owner or holder.

For purposes of the New Jersey Act, a security holder is presumed to have the ability to control a publicly traded corporation, or to elect one or more members of its board of directors, and thus require qualification, if the holder owns or beneficially holds 5 percent or more of any class of the equity securities of the corporation, unless the security holder rebuts the presumption of control or ability to elect by clear and convincing evidence. An "institutional investor," as that term is defined under the New Jersey Act, is entitled to a waiver of qualification if it holds less than 10 percent of any class of the equity securities of a publicly traded holding or intermediary company of a casino licensee and:

- the holdings were purchased for investment purposes only;

- there is no cause to believe the institutional investor may be found unqualified; and

- upon request by the New Jersey Commission, the institutional investor files a certified statement to the effect that it has no intention of influencing or affecting the affairs of the issuer, the casino licensee or its other affiliates. The New Jersey Commission may grant a waiver of qualification to an institutional investor holding 10 percent or more of the securities upon a showing of good cause and if the conditions specified above are met.

With respect to debt securities, the New Jersey Commission generally requires a person holding 15 percent or more of a debt issue of a publicly traded affiliate of a casino licensee to qualify under the New Jersey Act. We cannot assure you that the New Jersey Commission will continue to apply the 15 percent threshold, and the New Jersey Commission could at any time establish a lower threshold for qualification. The New Jersey Commission may make an exception to the qualification requirement for institutional investors, in which case the institutional holder is entitled to a waiver of qualification if the holder's position in the aggregate is not more than 20 percent of the total outstanding debt of the

affiliate and not more than 50 percent of any outstanding publicly traded issue of the debt, and if the institutional investor meets the conditions specified in the above paragraph. As with equity securities, the New Jersey Commission may grant a waiver of qualification to institutional investors holding larger positions upon a showing of good cause and if the institutional investor meets all of the conditions specified in the above paragraph.

Generally, the New Jersey Commission would require each institutional holder seeking a waiver of qualification to execute a certificate stating that:

- the holder has reviewed the definition of institutional investor under the New Jersey Act and believes that it meets the definition of institutional investor;
- the holder purchased the securities for investment purposes only and holds them in the ordinary course of business;
- the holder has no involvement in the business activities of, and no intention of influencing or affecting the affairs of, the issuer, the casino licensee or any affiliate; and
- if the holder subsequently determines to influence or affect the affairs of the issuer, the casino licensee or any affiliate, it will provide not less than 30 days' notice of its intent and will file with the New Jersey Commission an application for qualification before taking the action.

Beginning on the date the New Jersey Commission serves notice on a corporate licensee or an affiliate of the corporate licensee that a security holder of the corporation has been disqualified, it will be unlawful for the security holder to:

- receive any dividends or interest upon the securities;
- exercise, directly or through any trustee or nominee, any right conferred by the securities; or

- receive any remuneration in any form from the corporate licensee for services rendered or otherwise.

Persons who are required to qualify under the New Jersey Act because they hold debt or equity securities, and are not already qualified, are required to place the securities into an interim casino authorization trust pending qualification. Unless and until the New Jersey Commission has reason to believe that the investor may not qualify, the investor will retain the ability to direct the trustee how to vote, or whether to dispose of, the securities. If at any time the New Jersey Commission finds reasonable cause to believe that the investor may be found unqualified, it can order the trust to become "operative," in which case the investor will lose voting power, if any, over the securities but will retain the right to petition the New Jersey Commission to order the trustee to dispose of the securities.

Once an interim casino authorization trust is created and funded, and regardless of whether it becomes operative, the investor has no right to receive a return on the investment until the investor becomes qualified. Should an investor ultimately be found unqualified, the trustee would dispose of the trust property, and the proceeds would be distributed to the unqualified applicant only in an amount not exceeding the actual cost of the trust property. Any excess proceeds would be paid to the State of New Jersey. If the securities were sold by the trustee pending qualification, the investor would receive only actual cost, with disposition of the remainder of the proceeds, if any, to await the investor's qualification hearing.

If the New Jersey Commission determines that a licensee has violated the New Jersey Act or its regulations, then under certain circumstances, the licensee could be subject to fines or have its license suspended or revoked. In addition, if a person who is required to qualify under the New Jersey Act fails to qualify, including a security holder who fails to qualify and does not dispose of securities as may be required by the New Jersey Act, with the exception discussed above for publicly traded affiliates, the licensee could have its license suspended or revoked.

If a casino license is not renewed, is suspended for more than 120 days or is revoked, the New Jersey Commission can appoint a conservator. The conservator would be charged with the duty of conserving and preserving the assets so acquired and continuing the operation of the casino hotel of a suspended licensee or with operating and disposing of the casino hotel of a former licensee. The suspended licensee or former licensee would be entitled only to a fair return on its investment, to be determined under New Jersey law, with any excess to go to the State of New Jersey, if so directed by the New Jersey Commission. Suspension or revocation of any licenses or the appointment of a conservator by the New Jersey Commission would have a material adverse effect on the businesses of our Atlantic City casino hotels.

Mississippi Gaming Laws

The ownership and operation of casino facilities in the State of Mississippi, such as those at Grand Casino Biloxi, Grand Casino Gulfport, Grand Casino Tunica, Sheraton Casino & Hotel and Bally's Casino Tunica, are subject to extensive state and local regulation, but primarily the licensing and regulatory control of the Mississippi Gaming Commission (the "Mississippi Commission").

The Mississippi Gaming Control Act (the "Mississippi Act"), which legalized dockside casino gaming in Mississippi, is similar to the Nevada Gaming Control Act. The Mississippi Commission has adopted regulations which are also similar in many respects to the Nevada gaming regulations.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Commission are based upon declarations of public policy that are concerned with, among other things:

the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;

the establishment and maintenance of responsible accounting practices and procedures;

the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and safeguarding of assets and revenues, providing reliable record keeping and requiring the filing of periodic reports with the Mississippi Commission;

the prevention of cheating and fraudulent practices;

providing a source of state and local revenues through taxation and licensing fees; and

ensuring that gaming licensees, to the extent practicable, employ Mississippi residents.

The regulations are subject to amendment and interpretation by the Mississippi Commission. We believe that our compliance with the licensing procedures and regulatory requirements of the Mississippi Commission will not affect the marketability of our securities. Changes in Mississippi laws or regulations may limit or otherwise materially affect the types of gaming that may be conducted and such changes, if enacted, could have an adverse effect on us and our Mississippi gaming operations.

The Mississippi Act provides for legalized dockside gaming at the discretion of the fourteen Mississippi counties that border the Gulf Coast or the Mississippi River, but only if the voters in the county have not voted to prohibit gaming in that county. In recent years, certain anti-gaming groups proposed for adoption through the initiative and referendum process certain amendments to the Mississippi Constitution which would prohibit gaming in the state. The proposals were declared illegal by Mississippi courts on constitutional and procedural grounds. The latest ruling was appealed to the Mississippi Supreme Court, which affirmed the decision of the lower court. If another such proposal were to be offered and if a sufficient number of signatures were to be gathered to place a legal initiative on the ballot, it is possible for the voters of Mississippi to consider such a proposal in November of 2003.

As of January 1, 2002, dockside gaming was permissible in nine of the fourteen eligible counties in the state and gaming operations had commenced in Adams, Coahoma, Hancock, Harrison, Tunica, Warren and Washington counties. Under Mississippi law, gaming vessels must be

located on the Mississippi River or on navigable waters in eligible counties along the Mississippi River or in the waters lying south of the counties along the Mississippi Gulf Coast. The Mississippi Act permits unlimited stakes gaming on permanently moored vessels on a 24-hour basis and does not restrict the percentage of space which may be utilized for gaming.

We and any subsidiary of ours that operates a casino in Mississippi (a "Mississippi Gaming Subsidiary") are subject to the licensing and regulatory control of the Mississippi Commission. We are registered under the Mississippi Act as a publicly traded corporation (a "Registered Corporation") of our Mississippi Gaming Subsidiaries. A Registered Corporation is required periodically to submit detailed financial and operating reports to the Mississippi Commission and furnish any other information which the Mississippi Commission may require. If we are unable to continue to satisfy the registration requirements of the Mississippi Act, we and the Mississippi Gaming Subsidiaries cannot own or operate gaming facilities in Mississippi. No person may become a stockholder of or receive any percentage of profits from a licensed subsidiary of a Registered Corporation without first obtaining licenses and approvals from the Mississippi Commission. We have obtained such approvals in connection with the licensing of the Mississippi Gaming Subsidiaries.

Each Mississippi Gaming Subsidiary must maintain a gaming license from the Mississippi Commission to operate a casino in Mississippi. Such licenses are issued by the Mississippi Commission subject to certain conditions, including continued compliance with all applicable state laws and regulations. Gaming licenses are not transferable, are issued for a three-year period (and may be continued for two additional three-year periods) and must be renewed periodically thereafter. There are no limitations on the number of gaming licenses which may be issued in Mississippi.

Certain of our officers and employees and the officers, directors and certain key employees of our Mississippi Gaming Subsidiaries must be found suitable or be licensed by the Mississippi Commission.

We believe we have obtained or applied for all necessary findings of suitability with respect to such persons associated with us or the Mississippi Gaming Subsidiaries, although the Mississippi Commission, in its discretion, may require additional persons to file applications for findings of suitability. In addition, any person having a material relationship or involvement with us may be required to be found suitable, in which case those persons must pay the costs and fees associated with such investigation. The Mississippi Commission may deny an application for a finding of suitability for any cause that it deems reasonable. Changes in certain licensed positions must be reported to the Mississippi Commission. In addition to its authority to deny an application for a finding of suitability, the Mississippi Commission has jurisdiction to disapprove a change in a person's corporate position or title and such changes must be reported to the Mississippi Commission. The Mississippi Commission has the power to require us and any Mississippi Gaming Subsidiaries to suspend or dismiss officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Determinations of suitability or questions pertaining to licensing are not subject to judicial review in Mississippi.

At any time, the Mississippi Commission has the power to investigate and require a finding of suitability of any of our record or beneficial stockholders. The Mississippi Act requires any person who acquires more than 5 percent of any class of voting securities of a Registered Corporation, as reported to the Securities and Exchange Commission ("SEC"), to report the acquisition to the Mississippi Commission, and such person may be required to be found suitable. Also, any person who becomes a beneficial owner of more than 10 percent of any class of voting securities of a Registered Corporation, as reported to the SEC, must apply for a finding of suitability by the Mississippi Commission and must pay the costs and fees that the Mississippi Commission incurs in conducting the investigation. The Mississippi Commission has generally exercised its discretion to require a finding of suitability of any beneficial owner of more than 5 percent of any class of voting securities of a Registered Corporation. However, the Mississippi Commission has adopted a policy that permits certain institutional investors to own beneficially up to 15 percent of a class of voting securities of a Registered Corporation without a finding of suitability. If a stockholder who must be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information, including a list of beneficial owners.

Any person who fails or refuses to apply for a finding of suitability or a license within thirty 30 days after being ordered to do so by the Mississippi Commission may be found unsuitable. The same restrictions apply to a record owner if the record owner, after request, fails to identify the beneficial owner. Any person found unsuitable and who holds, directly or indirectly, any beneficial ownership of our securities beyond the time that the Mississippi Commission prescribes, may be guilty of a misdemeanor. We may be subject to disciplinary action if, after receiving notice that a person is unsuitable to be a stockholder or to have any other relationship with us or the Mississippi Gaming Subsidiaries, the company involved:

pays the unsuitable person any dividend or other distribution upon such person's voting securities;

recognizes the exercise, directly or indirectly, of any voting rights conferred by securities held by the unsuitable person;

pays the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain limited and specific circumstances; or

fails to pursue all lawful efforts to require the unsuitable person to divest himself of the securities, including, if necessary, the immediate purchase of the securities for cash at a fair market value.

We may be required to disclose to the Mississippi Commission upon request the identities of the holders of any of our debt or other securities. In addition, under the Mississippi Act, the Mississippi Commission may, in its discretion require the holder of any debt security of a Registered Corporation

to file an application, be investigated and be found suitable to own the debt security if it has reason to believe that the ownership would be inconsistent with the declared policies of the State of Mississippi.

Although the Mississippi Commission generally does not require the individual holders of obligations such as notes to be investigated and found suitable, the Mississippi Commission retains the discretion to do so for any reason, including but not limited to, a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Commission in connection with the investigation.

If the Mississippi Commission determines that a person is unsuitable to own a debt security, then the Registered Corporation can be sanctioned, including the loss of its approvals, if without the prior approval of the Mississippi Commission it:

pays to the unsuitable person any dividend, interest, or any distribution whatsoever;

recognizes any voting right by the unsuitable person in connection with those securities;

pays the unsuitable person remuneration in any form; or

makes any payment to the unsuitable person by way of principal, redemption, conversion, exchange, liquidation, or similar transaction.

Each Mississippi Gaming Subsidiary must maintain in Mississippi a current ledger with respect to ownership of its equity securities and we must maintain in Mississippi a current list of our stockholders which must reflect the record ownership of each outstanding share of any class of equity security issued by us. The ledger and stockholder lists must be available for inspection by the Mississippi Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We must also render maximum assistance in determining the identity of the beneficial owner.

The Mississippi Act requires that the certificates representing securities of a Registered Corporation bear a legend indicating that the securities are subject to the Mississippi Act and the regulations of the Mississippi Commission. We have received from the Mississippi Commission a waiver from this legend requirement. The Mississippi Gaming Commission has the power to impose additional restrictions on the holders of securities at any time.

Substantially all material loans, leases, sales of securities and similar financing transactions by a Registered Corporation or a Mississippi Gaming Subsidiary must be reported to or approved by the Mississippi Commission. A Mississippi Gaming Subsidiary may not make a public offering of its securities, but may pledge or mortgage casino facilities. We may not make an issuance or a public offering of our securities without the prior approval of the Mississippi Commission if any part of the proceeds of the offering is to be used to finance the construction,

acquisition or operation of gaming facilities in Mississippi or to retire or extend obligations incurred for those purposes. Such approval, if given, does not constitute a recommendation or approval of the investment merits of the securities subject to the offering. We have received a waiver of the prior approval requirement for our securities offerings, subject to certain conditions.

Under the regulations of the Mississippi Commission, none of our Mississippi Gaming Subsidiaries may guarantee a security issued by us or an affiliated company pursuant to a public offering, or pledge its assets to secure payment or performance of the obligations evidenced by the security issued by us or the affiliated company, without the prior approval of the Mississippi Commission. The pledge of the stock of a Mississippi Gaming Subsidiary and the foreclosure of such a pledge are ineffective, without the prior approval of the Mississippi Commission. Moreover, restrictions on the transfer of an equity security issued by our Mississippi Gaming Subsidiaries and agreements not to encumber such securities are ineffective without the prior approval of the Mississippi Commission. We have obtained approvals

from the Mississippi Commission for such guarantees, pledges and restrictions in connection with securities offerings, subject to certain restrictions.

Changes in control of us through merger, consolidation, acquisition of assets, management or consulting agreements or any act or conduct by a person by which he or she obtains control may not occur without the prior approval of the Mississippi Commission. Entities seeking to acquire control of a Registered Corporation must satisfy the Mississippi Commission in a variety of stringent standards prior to assuming control of the Registered Corporation. The Mississippi Commission may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

The Mississippi legislature has declared that some corporate acquisitions opposed by management, repurchases of voting securities and other corporate defense tactics that affect corporate gaming licensees in Mississippi and Registered Corporations may be injurious to stable and productive corporate gaming. The Mississippi Commission has established a regulatory scheme to ameliorate the potentially adverse effects of these business practices upon Mississippi's gaming industry and to further Mississippi's policy to:

assure the financial stability of corporate gaming operations and their affiliates;

preserve the beneficial aspects of conducting business in the corporate form; and

promote a neutral environment for the orderly governance of corporate affairs.

Approvals are, in certain circumstances, required from the Mississippi Commission before a Registered Corporation may make exceptional repurchases of voting securities in excess of the current market price and before a corporate acquisition opposed by management can be consummated. Mississippi's gaming regulations also require prior approval by the Mississippi Commission of a plan of recapitalization proposed by the Registered Corporation's Board of Directors in response to a tender offer made directly to the Registered Corporation's stockholders for the purpose of acquiring control of the Registered Corporation.

Neither we nor any Mississippi Gaming Subsidiary may engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Commission. The Mississippi Commission may require determinations that, among other things, there are means for the Mississippi Commission to have access to information concerning the out-of-state gaming operations of us and our affiliates. We have previously obtained a waiver of foreign gaming approval from the Mississippi Commission for operations in other states in which we conduct gaming operations and will be required to obtain the approval or a waiver of such approval from the Mississippi Commission prior to engaging in any additional future gaming operations outside of Mississippi.

If the Mississippi Commission determined that we or a Mississippi Gaming Subsidiary violated a gaming law or regulation, the Mississippi Commission could limit, condition, suspend or revoke our approvals and the license of the Mississippi Gaming Subsidiary, subject to compliance with certain statutory and regulatory procedures. In addition, we, the Mississippi Gaming Subsidiary and the persons involved could be subject to substantial fines for each separate violation. Because of such a violation, the Mississippi Commission could seek to appoint a supervisor to operate the casino facilities. Limitation, conditioning or suspension of any gaming license or approval or the appointment of a supervisor could (and revocation of any gaming license would) materially adversely affect us, our gaming operations and our results of operations.

License fees and taxes, computed in various ways depending on the type of gaming or activity involved, are payable to the State of Mississippi and to the counties or cities in which a Mississippi

Gaming Subsidiary's operations are conducted. Depending upon the particular fee or tax involved, these fees and taxes are payable either monthly, quarterly or annually and are based upon:

a percentage of the gross gaming revenues received by the casino operation,

the number of gaming devices operated by the casino, or

the number of table games operated by the casino.

The license fee payable to the State of Mississippi is based upon "gaming receipts" (generally defined as gross receipts less payouts to customers as winnings) and equals 4 percent of gaming receipts of $50,000 or less per month, 6 percent of gaming receipts that exceed $50,000 but do not exceed $134,000 per month, and 8 percent of gaming receipts that exceed $134,000 per month.

The foregoing license fees are allowed as a credit against the licensee's Mississippi income tax liability for the year paid. The gross revenue fee imposed by the Mississippi cities and counties in which our casino operations are located, equals approximately 4 percent of the gaming receipts.

The Mississippi Commission's regulations require as a condition of licensure or license renewal that an existing licensed gaming establishment's plan include a 500-car parking facility in close proximity to the casino complex and infrastructure facilities which amount to at least 25 percent of the casino cost. We believe that our Mississippi Gaming Subsidiaries are in compliance with this requirement. The Mississippi Commission adopted amendments to the regulation that increase the infrastructure development requirement from 25 percent to 100 percent for new casinos (or upon acquisition of a closed casino), but grandfather existing licensees.

Both the local jurisdiction and the Alcoholic Beverage Control Division of the Mississippi State Tax Commission license, control and regulate the sale of alcoholic beverages by our subsidiaries. All of our Mississippi casinos are in areas designated as special resort areas, which allows the casinos to serve alcoholic beverages on a 24-hour basis. The Alcohol Beverage Control Division has the full power to limit, condition, suspend or revoke any license for the serving of alcoholic beverages or to place a licensee on probation with or without conditions. Any disciplinary action could, and revocation would, have a material adverse effect upon the casino's operations. Our and our Mississippi Gaming Subsidiaries' key officers and managers must be investigated by the Alcohol Beverage Control Division in connection with their liquor permits and changes in key positions must be approved by the Alcohol Beverage Control Division.

Louisiana Gaming Laws

The ownership and operation of a riverboat gaming vessel in the State of Louisiana is subject to the Louisiana Riverboat Economic Development and Gaming Control Act. The Louisiana Gaming Control Board regulates gaming activities. The Louisiana Board is responsible for investigating the background of all applicants seeking a riverboat gaming license, issuing the license and enforcing the laws, rules and regulations relating to riverboat gaming activities.

The Louisiana Board must find suitable the applicant, its officers, directors, key personnel, partners and persons holding a 5 percent or greater interest in the holder of a gaming license. The Louisiana Board may, in its discretion, also review the suitability of other security holders of, or persons affiliated with, a licensee. This finding of suitability requires the filing of an extensive application to the Louisiana Board disclosing personal, financial, criminal, business and other information. Our Louisiana affiliate, Bally's Louisiana, Inc., has filed the required forms with the Louisiana regulatory authorities with respect to a finding of suitability.

On March 24, 1994, the Louisiana Board's predecessor issued a riverboat gaming license to Belle of Orleans, L.L.C., a limited liability company in which we have a 49.9 percent interest. Belle of Orleans, L.L.C. commenced riverboat gaming operations in New Orleans on July 9, 1995. We are engaged in litigation with our 50.1 percent partner in the Belle of Orleans, L.L.C. See "Legal Proceedings" for a description of this litigation.

The Louisiana Act prohibits the transfer of a Louisiana gaming license. The Louisiana Board must approve the sale, assignment, transfer, pledge or disposition of securities which represent 5 percent or more of the total outstanding shares issued by a holder of a license and the Louisiana Board must find the transferee suitable. In addition, the Louisiana Board must approve certain contracts and leases entered into by a licensee and enterprises which transact business with the licensee must be licensed.

If a security holder of a licensee is found unsuitable, it will be unlawful for the security holder to:

- receive any dividend or interest with regard to the securities;
- exercise, directly or indirectly, any rights conferred by the securities; or
- receive any remuneration from the licensee for services rendered or otherwise.

The Louisiana Board may impose similar approval requirements on holders of securities of any intermediary or holding company of the licensee. Effective as of April 1, 2001, the State of Louisiana taxes riverboat gaming operations at the rate of 21.5 percent of net gaming proceeds. However, our riverboat at Bally's Casino New Orleans is subject to the following taxes on riverboat gaming operations effective as of April 1, 2001:

- for any month in which Belle receives net gaming proceeds of less than $6 million, Belle must pay a tax equal to 18.5 percent of net gaming proceeds;
- for any month in which Belle receives net gaming proceeds of at least $6 million but less than $8 million, Belle must pay a tax equal to 20.5 percent of net gaming proceeds for that month; and
- for any month in which Belle receives net gaming proceeds of $8 million or more, Belle must pay a tax equal to 21.5 percent of net gaming proceeds for that month.

Additionally, effective as of April 1, 2001, Belle is authorized to conduct dockside gaming activities, without the requirement to conduct cruises and excursions, provided that Belle complies with the following restrictions:

- the riverboat conducts gaming activities in an area not exceeding 30,000 square feet in the aggregate;
- the owner or operator of such riverboat does not participate directly or indirectly in the ownership, construction, operation, or subsidization of any hotel of a size exceeding 399 guest rooms within a distance of one mile from the berthing area of the licensed riverboat; and
- such riverboat does not maintain or offer for patron or public use on the vessel or at its terminal, berthing area, or any hotel referred to above, more than 8,000 square feet of restaurant facilities in the aggregate, exclusive of food preparation and handling areas.

On April 19, 1996, the Louisiana legislature approved legislation mandating statewide local elections on a parish-by-parish basis to determine whether to prohibit or continue to permit three individual types of gaming. On November 5, 1996, Louisiana voters determined whether each of the following types of gaming would be prohibited or permitted in the following described Louisiana parishes:

the operation of video draw poker devices in each parish;

the conduct of riverboat gaming in each parish that is contiguous to a statutorily designated river or waterway; or

the conduct of land-based casino gaming operations in Orleans Parish.

In Orleans Parish, where our riverboat casino currently operates, a majority of the voters elected to continue to permit the three types of gaming described above. The current legislation does not provide for any moratorium on future local elections on gaming. Further, the current legislation does

not provide for any moratorium that must expire before future local elections on gaming could be mandated or allowed. In addition, a change of berth by a licensee would require voter approval in the parish in which the new berth is located.

Delaware Gaming Laws

Video lottery operations in the State of Delaware are regulated by the Delaware State Lottery Office through the powers delegated to the Director of the Lottery pursuant to Title 29 of the Delaware Code. Under Delaware's video lottery program, video lottery machines are permitted at Delaware's licensed horse racing tracks.

Any person seeking to contract with the Delaware State Lottery Office for the provision of goods or services related to video lottery operations, including management services such as those we provide with respect to video lottery operation at the Dover Downs racetrack in Delaware, must be licensed by the Delaware State Lottery Office as a "technology provider." It is the ongoing duty of each technology provider licensee to notify the Director of the Lottery of any change in officers, partners, directors, key employees, video lottery operations employees or owners, collectively the "key individuals." An owner is a person who owns, directly or indirectly, 10 percent or more of an applicant or licensee. Key individuals are subject to a background investigation, and the failure of a key individual to satisfy a background investigation may constitute "cause" for the suspension or revocation of the technology provider's license. Our subsidiary has entered into an agreement to provide management services to the Lottery's agent that operates the video lottery machines at Dover Downs racetrack. Our subsidiary and its key officers have been found qualified as a technology provider.

Indiana Gaming Laws

Our Indiana casino riverboat operations are subject to the provisions of Indiana Code 4-33 (the "Indiana Riverboat Act") and the licensing and regulatory control of the Indiana Gaming Commission, as well as various local, county, and state regulatory agencies.

The Indiana Riverboat Act authorizes the issuance of up to 11 riverboat gaming licenses on waterways located in Indiana. The Indiana Riverboat Act strictly regulates the facilities, persons, associations and practices related to gaming operations pursuant to the police powers of the State of Indiana, including comprehensive law enforcement provisions. The Indiana Riverboat Act vests the Indiana Gaming Commission with the power and duties of administering, regulating and enforcing the system of riverboat gaming in the State of Indiana. The Indiana Gaming Commission's jurisdiction extends to every person, association, corporation, partnership and trust involved in riverboat gaming operations in the State of Indiana.

The Indiana Riverboat Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Indiana Gaming Commission. Each license granted entitles the licensee to own and operate one riverboat and gaming equipment as part of the gaming operation. A licensee may own no more than a 10 percent interest in any other owner's license.

The Indiana Riverboat Act restricts the granting of the 11 owner's licenses by location, with five to be awarded for riverboats operating in specific cities on Lake Michigan, five to be awarded for riverboats operating on the Ohio River, and one to be awarded for a riverboat operating on Patoka Lake. The Indiana Gaming Commission has not considered applicants for the eleventh license since the Patoka Lake site has been determined by the U.S. Army Corps of Engineers to be unsuitable for a casino vessel project.

Each owner's license runs for a period of five years. Thereafter, the license is subject to renewal on an annual basis upon a determination by the Indiana Gaming Commission that the licensee continues to be eligible for an owner's license pursuant to the Indiana Riverboat Act and the rules and regulations adopted thereunder. All riverboat licensees have a continuing duty to maintain suitability for licensure and are required to

notify the Indiana Gaming Commission of any material change in the

information submitted in its application or any other matter which would render the licensee ineligible. An owner's license does not create a property right but is a revocable privilege contingent upon continuing suitability for licensure. A licensed owner undergoes a complete investigation every three years.

The Indiana Gaming Commission may revoke, restrict or suspend an owner's license at any time that the Indiana Gaming Commission determines the licensee is in violation of the Indiana Riverboat Act or the rules and regulations of the Indiana Gaming Commission or if the Indiana Gaming Commission determines revocation of the license is in the best interest of the State of Indiana and will protect and enhance the credibility and integrity of riverboat gambling operations. If the Indiana Gaming Commission determines that a licensee is in violation of the Indiana Riverboat Act or the rules and regulations promulgated by the Indiana Gaming Commission, the Indiana Gaming Commission may initiate a disciplinary proceeding to revoke, restrict or suspend the license or take such other action, including imposition of civil penalties, that the Indiana Gaming Commission deems necessary. If for any reason the license is terminated, the assets of the riverboat gambling operation must be secured and cannot be disposed of without the approval of the Indiana Gaming Commission and the licensee remains under the jurisdiction of the Indiana Gaming Commission until all matters related to the license have been resolved.

A licensed owner may apply for and may hold other licenses that are necessary for the operation of a riverboat, including licenses to sell alcoholic beverages, a license to prepare and serve food, and any other necessary licenses. Furthermore, the Indiana Riverboat Act requires that officers, directors and employees of a gaming operation and suppliers of gaming equipment, devices, and supplies and certain other suppliers be licensed.

Applicants for licensure must submit comprehensive application and personal disclosure forms and undergo an exhaustive background investigation prior to the issuance of a license. The applicant must also disclose the identity of every stockholder or participant of the applicant and provide specific information with respect to certain stockholders holding significant interests, 5 percent or greater, in the applicant. The Indiana Gaming Commission has the authority to request specific information on any stockholder.

The Glory of Rome riverboat casino has been licensed to conduct gaming operations by the Indiana Gaming Commission pursuant to a license originally granted to RDI/Caesars Riverboat Casino, L.L.C., which we acquired from Starwood. An ownership interest in an owner's riverboat license may only be transferred after receiving approval from the Indiana Gaming Commission and upon compliance with the regulations issued under the Indiana Riverboat Act. The Indiana Gaming Commission approved the transfer of the interest in the riverboat owner's license to Park Place on March 30, 2000.

A riverboat owner licensee or any other person may not lease, hypothecate, borrow money against or loan money against an owner's riverboat gaming license.

The Indiana Riverboat Act does not limit the maximum bet or per patron loss. Minimum and maximum wagers on games are set by the licensee. Wagering may not be conducted with money or other negotiable currency. No person under the age of 21 is permitted to wager, and wagers may only be taken from a person present on a licensed riverboat.

Riverboats operating in Indiana must (1) have a valid certificate of inspection from the U.S. Coast Guard to carry at least 500 passengers; and (2) be at least 150 feet long. In addition, any riverboat that operates on the Ohio River must replicate, as nearly as possible, historic Indiana steamboat passenger vessels of the nineteenth century.

Gaming sessions are generally required to be at least two hours and are limited to a maximum duration of four hours. No gaming may be conducted while the boat is docked, except:

- for 30-minute time periods at the beginning and end of each cruise while the passengers are embarking and disembarking, in which case total gaming time is limited to four hours, including the pre- and post-docking periods; and

if the master of the riverboat reasonably determines that specific weather or water conditions present a danger to the riverboat, its passengers and crew;

if either the vessel or the docking facility is undergoing mechanical or structural repair;

if water traffic conditions present a danger to the riverboat, riverboat passengers and crew, or to other vessels on the water; or

if the master has been notified that a condition exists that would cause a violation of federal law if the riverboat were to cruise.

The Indiana Gaming Commission may grant extended cruise hours in its discretion.

After consultation with the U.S. Army Corps of Engineers, the Indiana Gaming Commission may determine the available navigable waterways that are suitable for the operation of riverboats under the Indiana Riverboat Act. If the U.S. Army Corps of Engineers rescinds an approval for the operation of riverboats on a waterway, a license issued under the Indiana Riverboat Act is void and the holder may not conduct or continue gaming operations under the Indiana Riverboat Act. The Indiana Gaming Commission requires employees working on a riverboat to have a valid merchant marine document from the U.S. Coast Guard.

The Indiana Riverboat Act imposes a 20 percent wagering tax on adjusted gross receipts from gaming. The tax imposed is to be paid by the licensed owner to the Indiana Department of State Revenue before the close of the business day following the day when the wagers are made. The Indiana Riverboat Act also requires that licensees pay a $3.00 admission tax for each person admitted to a gaming excursion. A riverboat license may be suspended for failure to pay such tax. The Indiana Gaming Commission also has promulgated regulations requiring riverboat owners to reimburse the Indiana Gaming Commission for the costs of inspectors and agents required to be present during the conduct of gambling operations. Further, the Indiana Gaming Commission may impose other fees and assessments. Riverboats are assessed for property tax purposes as real property and are taxed at rates determined by local taxing authorities. All Indiana state excise taxes, use taxes and gross retail taxes apply to sales on a riverboat.

The Indiana Gaming Commission may subject a licensee to fines, suspension or revocation of its license for any act that is in violation of the Indiana Riverboat Act, the rules and regulations of the Indiana Gaming Commission, or for an owner's license if the licensee has not begun regular riverboat excursions prior to the end of the twelve month period following receipt of a license from the Indiana Gaming Commission or if the Indiana Gaming Commission determines that the revocation of the license is in the best interests of the State of Indiana. A holder of a gaming license is required to post bond with the Indiana Gaming Commission in an amount that a local community will expend for infrastructure and other facilities associated with a riverboat operation.

The Indiana Riverboat Act places special emphasis upon minority and women's business enterprise participation in the riverboat industry. Any person issued a riverboat owner's license must establish goals of expending at least 10 percent of the total dollar value of the licensee's contracts for goods and services with minority business enterprises and 5 percent of the total dollar value of the licensee's contracts for goods and services with women's business enterprises. The Indiana Gaming Commission may suspend, limit or revoke the owner's license or fine or impose appropriate conditions on the licensee to ensure these goals are met. The Indiana Gaming Commission has indicated it will be vigilant in monitoring attainment of these goals.

An institutional investor that, individually or in association with others, acquires, directly or indirectly, 5 percent or more of any class of voting securities of a holding company of a licensee is required to notify the Indiana Gaming Commission and to provide additional information, including a certification that the voting securities were acquired and are held for investment purposes only, and may be subject to a finding of suitability. An institutional investor that, individually or in association with others, acquires, directly or indirectly, 15 percent or more of any class of voting securities of a holding company of a licensee is required to apply to the Indiana Gaming Commission for a finding of suitability. A person, other than an institutional investor, who acquires a direct or indirect beneficial ownership interest of 5 percent or more of any riverboat licensee, through any class of voting securities of the licensee or a holding company or intermediary company of the licensee, other than an institutional investor, is required to apply to the Indiana Gaming Commission for a finding of suitability.

A riverboat owner licensee may not enter into or perform any contract or transaction in which it transfers or receives consideration which is not commercially reasonable or which does not reflect the fair market value of the goods and services rendered or received. All contracts are subject to disapproval by the Indiana Gaming Commission. The Indiana Gaming Commission has a rule requiring the reporting of certain currency transactions, which is similar to that required by Federal authorities.

A riverboat owner licensee or applicant (or affiliate thereof) may not enter into a debt transaction of $1.0 million or more without the prior approval of the Indiana Gaming Commission. The Indiana Gaming Commission rules require that:

a written request for approval of the debt transaction, along with relevant information regarding the debt transaction, be submitted to the Indiana Gaming Commission at least ten days prior to a scheduled meeting of the Indiana Gaming Commission;

a representative of the riverboat licensee or applicant be present at the meeting to answer any questions; and

a decision regarding the approval of the debt transaction be issued by the Indiana Gaming Commission at the next following meeting. The Indiana Gaming Commission rules also authorize the Executive Director of the Indiana Gaming Commission to waive certain requirements.

Indiana Gaming Commission regulations also require a licensee or applicant (or affiliate) to conduct due diligence to ensure that each person with whom the licensee or applicant (or affiliate) enters into a debt transaction would be suitable for licensure under the Indiana Riverboat Act.

The Indiana Riverboat Act prohibits contributions to a candidate for a state, legislative, or local office, or to a candidate's committee or to a regular party committee by the holder of a riverboat owner's license or a supplier's license, by an officer of a licensee or by an officer of a person that holds at least a 1 percent interest in the licensee. The Indiana Gaming Commission has promulgated a rule requiring quarterly reporting by the holder of a riverboat owner's license or a supplier's license of officers of the licensee, officers of persons that hold at least a 1 percent interest in the licensee, and of persons who directly or indirectly own a 1 percent interest in the licensee.

The Indiana Gaming Commission adopted a rule which prohibits a distribution, except to allow payment of taxes, by a riverboat licensee to its partners, stockholders, itself, or any affiliated entity, if the distribution would impair the financial viability of the riverboat gaming operation. The Indiana Gaming Commission has adopted a rule which requires riverboat licensees to maintain, on a quarterly basis, a cash reserve in the amount of the actual payout for three days, and the cash reserve would include cash in the casino cage, cash in a bank account in Indiana, or cash equivalents not committed or obligated.

The study commission on the impact of legalized wagering in Indiana appointed by the Indiana governor has called for a limit on expansion of legalized wagering in Indiana.

Queensland, Australia Gaming Laws

Queensland, Australia, like the jurisdictions discussed above, has comprehensive laws and regulations governing the conduct of casino gaming. All persons connected with the ownership and operation of a casino, including us, our subsidiary that manages the Conrad Jupiters Gold Coast and the Conrad International Treasury Casino Brisbane and their principal stockholders, directors and officers, must be found suitable and/or licensed. A casino license once issued remains in force until surrendered or canceled. Queensland law defines the grounds for cancellation and, in that event, an administrator may be appointed to assume control of the casino hotel complex. The Queensland authorities have also conducted an investigation of, and have found suitable, us and our subsidiary BI Gaming Corp., which holds our Australian gaming assets.

Queensland imposes taxes on gaming operations at the rate of 20 percent of gross gaming revenues, except that gaming revenues arising from persons or groups participating in special flight programs or "junkets" are taxed at a 10 percent rate. A casino community benefit levy of 1 percent of gross gaming revenues is also imposed.

Uruguay Gaming Laws

Uruguay also has laws and regulations governing the establishment and operation of casino gaming. The Internal Auditors Bureau of Uruguay, under the authority of the Executive Power of the Oriental Republic of Uruguay, is responsible for establishing the terms under which casino operations are conducted, including suitability requirements of persons associated with gaming operations, authorized games, specifications for gaming equipment, security, surveillance and compliance. The Executive Power of the Oriental Republic of Uruguay has granted a concession to Baluma S.A., a corporation duly organized and existing under the laws of the Oriental Republic of Uruguay, as owner of the Conrad Punta del Este Resort and Casino to conduct casino operations. Uruguay imposes a casino concession fee on gaming operations conducted by the Punta del Este Resort and Casino at a fixed amount per fiscal year. Changes to these laws and regulations could have an adverse effect on our casino gaming operations in Uruguay.

Ontario, Canada Gaming Laws

Our Ontario casino gaming operations are subject to the regulatory control of the Alcohol and Gaming Commission of Ontario pursuant to the Gaming Control Act and certain contractual obligations to the Ontario Lottery and Gaming Corporation, a provincial crown corporation owned by the Province of Ontario.

Our subsidiary, Caesars World, Inc., owns 50 percent of Windsor Casino Limited, which operates Casino Windsor in Windsor, Ontario, Canada, on behalf of the Ontario Lottery and Gaming Corporation, pursuant to an operating agreement with the Ontario Lottery and Gaming Corporation. The operating agreement imposes certain obligations on Windsor Casino Limited relating to the operation of Casino Windsor. Pursuant to a support agreement between the stockholders of Windsor Casino Limited and the Ontario Lottery and Gaming Corporation, the stockholders, including our subsidiary, Caesars World, Inc., have certain obligations relating to the operation of Casino Windsor.

Windsor Casino Limited is required under the Gaming Control Act to be registered as a casino operator with the Alcohol and Gaming Commission of Ontario and must operate in accordance with the terms and conditions of its registration.

Pursuant to the Gaming Control Act and the terms of Windsor Casino Limited's registration, the Registrar of Alcohol and Gaming must approve any change in the directors or officers of Windsor Casino Limited. The Gaming Control Act also provides that the Alcohol and Gaming Commission of Ontario may require the submission of disclosures and informational material from any person who has an interest in Windsor Casino Limited. This includes parent companies and their directors and officers.

The Registrar of Alcohol and Gaming has the power, subject to the Gaming Control Act, to grant, renew, suspend or revoke registrations. The Registrar is entitled to make such inquiries and conduct such investigations as are necessary to determine that applicants for registration meet the requirements of the Gaming Control Act and to require information or material from any person who has an interest in an applicant for registration. The criteria to be considered in connection with registration under the Gaming Control Act include the financial responsibility, integrity and honesty of the applicant and the public interest. The Registrar may, at any time, revoke, suspend or refuse to renew Windsor Casino Limited's registration for any reason that would have disentitled it to registration.

Changes to these laws and regulations could have an adverse effect on our casino gaming operations in Ontario.

Nova Scotia, Canada Gaming Laws

Our Nova Scotia casino gaming operations are subject to the regulatory control of the Nova Scotia Alcohol and Gaming Authority ("NSAGA") pursuant to the Nova Scotia Gaming Control Act and certain contractual obligations to the Nova Scotia Gaming Corporation ("NSGC"), a provincial crown corporation owned by the Province of Nova Scotia.

One of our subsidiaries owns a 95 percent partnership interest in a registered partnership known as Metropolitan Entertainment Group ("Metropolitan") that operates casinos in Halifax and Sydney, Nova Scotia, on behalf of NSGC, pursuant to an Operating Contract with NSGC. The Operating Contract imposes certain obligations on Metropolitan relating to the operation of the Halifax and Sydney casinos.

Metropolitan is required to maintain registration as a casino operator with the NSAGA.

Under the Gaming Control Act the NSAGA must be notified within 15 days of any change in the information contained in the application for the license including any change in the officers or directors of a partner of a casino operator or any change in the beneficial ownership of the casino operator.

The Gaming Control Act also provides that the Director of Registration may require information or material from Metropolitan and may conduct investigations concerning any person who has an interest in the casino. This includes parent companies and their directors and officers.

NSAGA has the power to suspend or to revoke Metropolitan's registration at any time for any reason that would have disentitled Metropolitan to obtain registration or renewal of registration. Grounds for suspension or revocation include the lack of financial responsibility, integrity and honesty of the casino operator, parent companies of the casino operator and their officers and directors, failure to act in the public interest and failure to disclose information required by the Director of Investigations.

Changes to these laws and regulations could have an adverse effect on our casino gaming operations in Nova Scotia.

South Africa Gaming Laws

Our South African operations are subject to the Gauteng Gambling and Betting Act No. 4 of 1995 and the regulations issued thereunder. If an entity has directly or indirectly procured a controlling or financial interest of 1 percent or more in a casino license holder in Gauteng, then the acquiring entity will have to apply for the consent of the Gauteng Gambling Board for the holding of such an interest. The acquiring entity must apply to the Gauteng Gambling Board for consent to hold such an interest within 14 days after the transaction closes and the interest is procured.

The application for the consent of the Gauteng Gambling Board must be made within a period and in a manner prescribed by the Gauteng Gambling Board. In making such an application, all the

relevant provisions of the Gauteng Gambling and Betting Act relating to an application for a casino license apply. These include:

- the application itself;
- representations by interested persons;
- response by the applicant to such representations;
- further information and oral representations;
- public inspection of the application and representations;
- obtaining of a police report;
- the holding of a hearing which is open to members of the public, in which the applicant is afforded an opportunity to be heard, and where witnesses may be called; and
- a decision being given on the application and conditions being applied in the event of the application being granted.

The Gauteng Gambling Board may recover from the applicant all reasonable expenses incurred by the Gauteng Gambling Board in conducting the necessary investigation in respect of the application. Where consent is not granted, the acquiring entity shall, within the prescribed period and in the manner prescribed or determined by the Gauteng Gambling Board, dispose of the interest in question. In addition, the casino license holder must notify the Gauteng Gambling Board of the acquiring entity's identity and address as soon as practicable after it becomes aware of the procurement of an interest in it. The Gauteng Gambling Board has issued a permanent license subject to certain operating conditions to our casino gaming operations in South Africa.

Changes to these laws and regulations could have an adverse effect on our casino gaming operations in South Africa.

IRS Regulations

The Internal Revenue Code and Treasury Regulations require operators of casinos located in the United States to file information returns for U.S. citizens, including names and addresses of winners, for keno and slot machine winnings in excess of prescribed amounts. The Internal Revenue Code and Treasury Regulations also require operators to withhold taxes on some keno, bingo, and slot machine winnings of nonresident aliens. We are unable to predict the extent, to which these requirements, if extended, might impede or otherwise adversely affect operations of, and/or income from, the other games.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department and the gaming regulatory authorities in some of the domestic jurisdictions in which we operate casinos, or in which we have applied for licensing to operate a casino, require the reporting of currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation began in May 1985 and may have resulted in the loss of gaming revenues to jurisdictions outside the United States which are exempt from the ambit of these regulations.

Other Laws and Regulations

Each of the casino hotels and riverboat casinos described in this annual report is subject to extensive state and local regulations and, on a periodic basis, must obtain various licenses and permits, including those required to sell alcoholic beverages. We believe that we have obtained all required licenses and permits and our businesses are conducted in substantial compliance with applicable laws.

Headquarters

Our principal executive offices are located at 3930 Howard Hughes Parkway, Las Vegas, Nevada 89109. Our telephone number is (702) 699-5000.

Employees

At December 31, 2001, we had approximately 55,000 employees, of which approximately 19,000 were covered by various collective bargaining agreements providing, generally, for basic pay rates, working hours, other conditions of employment, and orderly settlement of labor disputes. On May 31, 2002, the collective bargaining agreement with the Hotel Employees and Restaurant Employees Union covering approximately 9,600 employees at our Las Vegas properties will expire. We expect to commence negotiations with the Hotel Employees and Restaurant Employees Union shortly for a new collective bargaining agreement. We believe that the aggregate compensation benefits and working conditions afforded our employees compare favorably with those received by employees in the gaming industry generally. Although strikes of short duration have from time to time occurred at certain of our facilities, we believe our employee relations are satisfactory.

Factors that May Affect Future Results
(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Certain information included in this Form 10-K and other materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company or its representatives) contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements can be identified by the fact that they do not relate strictly to historical or current facts. We have based these forward-looking statements on our current expectations about future events. The forward-looking statements include statements that reflect management's beliefs, plans, objectives, goals, expectations, anticipations, intentions with respect to the financial condition, results of operations, future performance and business of the Company including:

- statements relating to our business strategy; and
- our current and future development plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," or other words or expressions of similar meaning may identify forward-looking statements. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future. Such statements include information relating to plans for future expansion and other business development activities as well as capital spending, financing sources and the effects of regulation (including gaming and tax regulation) and competition. From time to time, oral or written forward-looking statements are also included in the Company's periodic reports on Forms 10-Q and 8-K, press releases and other materials released to the public.

Although we believe that the expectations in these forward-looking statements are reasonable, any or all of the forward-looking statements in this report and in any other public statements that are made may prove to be incorrect. This may occur as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties. Many factors discussed in this report, such as the competitive environment and government regulation, will be important in determining the Company's future performance. Consequently, actual results may differ materially from those that might be anticipated from forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this report or other public communications that we might make as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in Park Place's subsequent reports filed with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K should be consulted. The following discussion of risks, uncertainties and possible inaccurate assumptions relevant to the Company's business includes factors that management believes could cause Park Place's actual results to differ materially from expected and historical results. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

The Company's operations are affected by changes in local and national general economic and market conditions in the locations where those operations are conducted and where customers live.

Our ability to meet our debt service obligations will depend on our future performance, which will be subject to many factors that are beyond our control.

Our Nevada properties are adversely affected by disruptions in air travel.

As described under "Competition," the Company operates in very competitive environments, particularly Las Vegas, Atlantic City and Mississippi. To the extent that hotel and/or casinos are expanded by others in markets in which the Company operates, competition will increase and the increased competition could adversely impact our future operations. The growth in the number of guest rooms and casino capacity in Las Vegas, which increased sharply in recent years, and Atlantic City, which is currently undergoing the addition of two new hotel casinos may negatively affect our operating results. Additionally, the establishment of new large-scale gaming operations on Native American lands in the states of New York and California could adversely affect the operations of the Company properties in Atlantic City and Nevada.

As discussed under "Regulation and Licensing," the Company's gaming operations are highly regulated by governmental authorities. We will also become subject to regulation in any other jurisdiction where the Company conducts gaming in the future.

Changes in applicable laws or regulations could have a significant effect on our operations. Our ability to comply with gaming regulatory requirements, as well as possible changes in governmental and public acceptance of gaming could materially adversely affect our business.

The Company's properties are large consumers of electricity and other energy. Accordingly, the substantial increases in energy costs which have recently occurred and that we expect to continue will have a negative impact on our operating results. Additionally, higher energy and gasoline prices which affect our customers may adversely impact the number of customers who visit our properties and adversely impact our revenues.

Any future construction, including the Colosseum currently under construction at Caesars Palace in Las Vegas, can be affected by a number of factors, including time delays in obtaining necessary governmental permits and approvals and legal challenges. Changes may be made in the scope of a project's budgets and schedules for competitive, aesthetic or other reasons and these changes may also result from circumstances beyond our control. These circumstances include weather interference, shortages of materials and labor, work stoppages, labor disputes, unforeseen engineering, environmental or geological problems and unanticipated cost increases. Any circumstances could give rise to delays in the completion of any project we undertake and/or cost overruns.

The gaming industry represents a significant source of tax revenues to the state, county and local jurisdictions in which gaming is conducted. From time to time, various state and federal legislators and officials have proposed changes in tax laws, or in the administration of the laws affecting the gaming industry. Proposals in recent years that have not been enacted included a federal gaming tax and increases in state and local taxes. If enacted, such taxes would likely

impact our cash flows and could impact our ability to meet debt service requirements and could materially adversely affect our business.

Claims have been brought against us in various legal proceedings, and additional legal and/or regulatory claims may arise from time to time. While we believe that the ultimate disposition of current matters will not have a material impact on our financial condition or results of operations, it is possible that our cash flows and results of operations could be affected from time to time by the resolution of one or more of these contingencies. See the further discussion under "Legal Proceedings" in Item 3 of this report.

There is intense competition to attract and retain management and key employees in the gaming industry. Our business could be adversely affected in the event of the inability to recruit or retain key personnel.

While Park Place from time to time communicates with securities analysts, it is against our policy to disclose to them any material non-public information or other confidential business information. It should not be assumed that we agree with any statement or report issued by any analysts, irrespective of the content of the statement or report.

Item 2. PROPERTIES

Casino hotels owned and operated, leased and managed by Park Place are listed and described in Item 1 of this report.

Item 3. LEGAL PROCEEDINGS

The Company's subsidiaries are involved in various legal proceedings relating to routine matters of business. The Company is also party to legal proceedings relating to the Bally, Hilton, Grand and Caesars gaming businesses. The Company believes that all the actions brought against it are without merit and will continue to vigorously defend against them. While any proceeding or litigation has an element of uncertainty, the Company believes that the final outcome of these matters is not likely to have a material adverse effect upon its results of operations or financial position.

Belle of Orleans

The Company's wholly owned subsidiary, Bally's Louisiana, Inc., owns 49.9 percent of the Belle of Orleans, L.L.C. The Belle owns and holds the riverboat gaming license to operate Bally's Casino New Orleans. Metro Riverboat Associates, Inc. owns the remaining 50.1 percent in the Belle. Bally's Louisiana and Metro entered into an operating agreement defining the rights and obligations of the members of Belle, and the Belle entered into a management agreement providing for Bally's Louisiana to manage the casino. The parties are involved in numerous lawsuits, appeals and administrative hearings regarding their rights and obligations under those agreements. Cases are pending between the

parties in the Civil District Court for the Parish of Orleans, the Nineteenth Judicial District Court for the Parish of East Baton Rouge, the Louisiana First and Fourth Circuit Courts of Appeal, the Louisiana Supreme Court, and the U.S. District Court for the Eastern District of Louisiana. Metro's claims involve assignments of the management agreements by previous wholly owned Bally's entities to Bally's Louisiana, as well as the effects of Hilton's merger with Bally Entertainment Corporation in 1996, and Hilton's subsequent spin-off of its gaming operations to Park Place in 1998. Metro asserts that Bally's Louisiana is not entitled to manage the casino. Metro is seeking injunctive relief and unspecified damages. Metro has also filed an action in the United States District Court for the Eastern District of Louisiana against certain of Park Place's officers and directors and Bally's Louisiana. The lawsuit alleges civil racketeering and conspiracy activities among the named defendants and members of the Louisiana State Judiciary, the Louisiana Gaming Control Board, the Louisiana State Police, and the Louisiana Attorney General's office.

Bally Merger Litigation

On December 19, 2001, the Delaware Supreme Court affirmed the trial court's decision dismissing all of the plaintiff's claims in a purported class action against Bally Entertainment Corporation, its directors and Hilton Hotels Corporation, under the caption *Parnes v. Bally Entertainment Corporation, et al.* The action arose from the merger of Bally into Hilton in December 1996.

Slot Machine Litigation

On April 26, 1994, William H. Poulos brought a purported class action in the U.S. District Court for the Middle District of Florida, Orlando Division captioned *William H. Poulos, et al. v. Caesars World, Inc. et al.*, against 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Park Place. On May 10, 1994, another plaintiff filed a class action complaint in the United States District Court for the Middle District of Florida *William Ahearn, et al. v. Caesars World, Inc. et al.* alleging substantially the same allegations against 48 defendants, including Park Place. On September 26, 1995, a third action was filed against 45 defendants, including Park Place, in the U.S. District Court for the District of Nevada *Larry Schreier, et al. v. Caesars World, Inc. et al*. The court consolidated the three cases in the U.S. District Court for the District of Nevada under the case caption *William H. Poulos, et al. v. Caesars World, Inc. et al.* The consolidated complaints allege that the defendants are involved in a scheme to induce people to play electronic video poker and slot machines based on false beliefs regarding how such machines operate and the extent to which a player is likely to win on any given play. The actions included claims under the federal Racketeering Influenced and Corrupt Organizations Act, fraud, unjust enrichment and negligent misrepresentation, and seek unspecified compensatory and punitive damages. The case has not been certified as a class action.

Las Vegas Hilton Sale Litigation

In July 2000, the Company entered into an agreement to sell the Las Vegas Hilton to Las Vegas Convention Hotel, LLC, which failed to complete the transaction on the date set for closing. The Company filed a complaint in the Eighth Judicial District Court for the State of Nevada against Las Vegas Convention Hotel LLC, et al. seeking declaratory relief to retain the $20 million in deposits and recover additional damages for breach of contract. The Company also filed a complaint in the United States District Court for the District of Nevada for damages against Edward Roski, Jr. as guarantor of the transaction. The defendants have filed actions against Park Place and Hilton Hotels Corporation in the Eighth Judicial District Court, which actions have been consolidated with Park Place's action in that Court, alleging breach of contract and tortious interference with contract, and seeking non-specific general, special, and punitive damages, specific performance to compel the sale of the property to plaintiffs at a purchase price less than that required under the original contract, and injunctive relief to prevent Park Place from selling the property to any other person.

Flixcorp Litigation

Bally Data Systems, Inc. and Bally Entertainment Inc. are defendants in an action entitled *Flixcorp of America, Ltd. v. Bally Data Systems, et al.*, filed in the Circuit Court of Cook County, Illinois in 1987. The litigation involves a breach of contract claim arising out of a purported agreement to develop and manufacture videotape dispensing machines. Plaintiffs allege $167 million in damages, while the companies strongly dispute both liability and damages. The matter is currently scheduled for trial in the third quarter of 2002.

Mohawk Litigation

In April 2000, the Company entered into an agreement with the Saint Regis Mohawk Tribe pursuant to which we obtained the exclusive rights to develop a Class II or Class III casino project in the state of New York with the Tribe. There are various other parties alleging that the grant of rights to

the Company somehow infringed upon their rights. Such parties have commenced the various lawsuits discussed below.

On April 26, 2000, certain individual members of the Saint Regis Mohawk Tribe purported to commence a class action proceeding in a "tribal court" in Hogansburg, New York, against Park Place and certain of its executives. The proceeding seeks to nullify Park Place's agreement with the Saint Regis Mohawk Tribe to develop and manage gaming facilities in the State of New York. The Company believes that the purported tribal court in which the proceeding has been invoked is an invalid forum and is not recognized by the lawful government of the Saint Regis Mohawk Tribe or by the United States Department of the Interior. On June 2, 2000, Park Place and certain of its executives filed an action in the United States District Court for the Northern District of New York seeking to enjoin the dissident Tribe members from proceeding in the tribal court with an action that Park Place believes has been unlawfully convened and is without merit. In September 2000, the District Court dismissed the Park Place action on the grounds that the Court lacked jurisdiction. In October 2000, Park Place appealed the judgment to the United States Court of Appeals for the Second Circuit. In January 2002, the Second Circuit remanded the matter to the District Court. During the pendency of the appeal, on March 21, 2001, the purported tribal court rendered a purported default judgment against Park Place in the approximate amount of $1.8 billion, which judgment Park Place refuses to recognize as valid. On or about June 27, 2001, the plaintiffs in the purported tribal court action commenced an action in the United States District Court for the Northern District of New York, seeking recognition and enforcement of the purported tribal court judgment as well as punitive damages of $5 million and certain other costs. Both Park Place and plaintiffs have moved for summary judgment and are awaiting a determination of their motions. Park Place is pursuing all necessary actions to enjoin any efforts to enforce the purported judgment.

On June 6, 2000, President R.C.-St. Regis Management Company and its principal, Ivan Kaufman, filed an action in the Supreme Court of the State of New York, County of Nassau, against Park Place and certain of its executives seeking compensatory and punitive damages in the amount of approximately $550 million. The action alleges claims based on breach of a proposed letter agreement between plaintiffs, Park Place, and the Saint Regis Mohawk Tribe concerning the Tribe's existing casino in Hogansburg, New York, fraudulent inducement, tortious interference with contract, and defamation. Alternatively, plaintiffs seek specific performance and/or injunctive relief in connection with the proposed letter agreement. In September 2000, plaintiffs voluntarily dismissed three of the contract-related claims that had been brought against the individually named defendants.

On November 13, 2000, Catskill Development, LLC, Mohawk Management LLC and Monticello Raceway Development Company LLC (collectively, "Catskill Development") filed an action against Park Place in the United States District Court for the Southern District of New York. The action arises out of Catskill Development's efforts to develop land in Sullivan County as an Indian gaming facility in conjunction with the Saint Regis Mohawk Tribe. Catskill Development claims that Park Place wrongfully interfered with several agreements between itself and the Tribe pertaining to the proposed gaming facility. The plaintiffs alleged tortious interference with contract and prospective business relationships, unfair competition and state anti-trust violations and sought over $3 billion in damages. On May 11, 2001, the District Court granted Park Place's motion to dismiss three of the four claims made by Catskill Development. On May 30, 2001, Catskill Development moved for reconsideration of that ruling and the District Court reinstated one of the dismissed claims.

On March 29, 2001, Park Place and its then general counsel, Clive Cummis, sued thirty individual tribal members in the Supreme Court of the State of New York, New York County, in the case of *Park Place Entertainment et al. v. Marlene Arquette, et al.*, alleging malicious defamation and interference with contract in connection with the individuals' purported tribal court proceedings and media publication of their purported "default judgment" against Park Place, all of which has been injurious to the good name and reputation of Park Place and Plaintiffs. On November 14, 2001, the Court granted defendants' motion to transfer venue to Franklin County.

On or about October 23, 2001, Scutti Enterprise, LLC commenced an action seeking over $500 million alleging that Park Place wrongfully interfered with its relationship with the Saint Regis Mohawk Tribe pertaining to the proposed redevelopment and management of the Mohawk Bingo Palace. On March 13, 2002, the court dismissed the complaint with prejudice.

On or about January 29, 2002 two actions were filed in the Supreme Court of the State of New York, County of Albany, challenging legislation that, among other things, authorized the Governor of the State of New York to execute tribal-state gaming compacts, approved the use of slot machines as "games of chance," approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The matters are captioned *Dalton v. Pataki, et al.* and *Karr v. Pataki, et al.* Plaintiffs seek a declaratory judgment declaring the legislation unconstitutional and enjoining the implementation thereof. Park Place has received consent of all parties in each action to intervene, and has sought to do so.

Stratosphere Stand-By Equity Commitment

Grand is a defendant in *Stratosphere Litigation, L.L.C. v. Grand Casinos, Inc. a Minnesota Corporation*, pending in the United States District Court of Nevada. In March 1995, Grand entered into a Standby Equity Commitment Agreement with Stratosphere in which Grand agreed, subject to certain terms and conditions, to purchase up to $20 million of additional equity in Stratosphere during each of the first three years Stratosphere operated if Stratosphere's consolidated cash flow during each of such years did not exceed $50 million. The enforceability of the Standby Equity Commitment was the subject of litigation in the U.S. District Court as a result of an action brought by the Trustee in Bankruptcy for the Stratosphere. On February 19, 1998, the U.S. Bankruptcy Court for the District of Nevada ruled in favor of Grand that the Standby Equity Commitment is not enforceable in Bankruptcy Court as a matter of law. On April 4, 2001, the U.S. District Court entered a judgment in favor of Grand on all counts and on May 4, 2001, plaintiffs appealed the judgment to the Ninth Circuit Court of Appeals. This lawsuit to which Grand and its subsidiaries are parties arose out of actions prior to Grand's merger with Park Place. Any liabilities with respect thereto are an obligation of Grand, and Grand is to be indemnified by Lakes Gaming, Inc. (the company that retained the non-Mississippi business of Grand prior to the merger). If Lakes is unable to satisfy its indemnification obligations, Grand will be responsible for any liabilities, which could have a material adverse effect on Park Place.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock trades on the New York Stock Exchange under the symbol "PPE." The following table sets forth, for the calendar quarters indicated, the high and low sale prices of our common stock on the New York Stock Exchange Composite Tape.

	2000		2001	
	High	Low	High	Low
First quarter	$ 12.25	$ 10.00	$ 12.13	$ 9.29
Second quarter	13.81	10.88	12.93	9.55
Third quarter	15.13	12.06	12.24	6.00
Fourth quarter	14.00	11.44	9.50	6.90

As of March 15, 2002 there were approximately 11,000 holders of record of our common stock.

Pursuant to the Amended and Restated Certificate of Incorporation, our authorized capital stock consists of 400,000,000 shares of common stock, par value $0.01 per share, and 100,000,000 shares of

preferred stock, par value $0.01 per share. Our Board of Directors has approved a stock repurchase plan that authorizes the repurchase of up to 40 million shares of our common stock. Cumulatively, through December 31, 2001, we have repurchased 21.1 million shares of our common stock.

Dividends

We do not currently anticipate paying cash dividends.

Preferred Stock Purchase Rights

On December 29, 1998, the Board of Directors adopted a Preferred Share Purchase Rights Plan and declared a dividend distribution of one Right on each outstanding share of our common stock and one Right on each share of common stock issued between such date and the earliest of

the Distribution Date and the Expiration Date (as these terms are defined in the Rights Plan). Stockholders may transfer the Rights with the common stock only until they become exercisable.

Generally, the Rights become exercisable only if a person or group (other than Exempt Persons, as defined below) acquires 15 percent or more of the then outstanding shares of common stock or announces a tender offer which would result in ownership by a person or group of 15 percent or more of the then outstanding shares of common stock. Each Right entitles stockholders to buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $40.

If a person or group (other than Exempt Persons) acquires 15 percent or more of our shares of common stock, each holder of a Right will be entitled to receive upon exercise a number of shares of the common stock having a market value equal to two times the then current purchase price of the Right. If, after a person or group acquires 15 percent or more of our shares of common stock, we are acquired in a merger or engage in certain other business combination transactions or transfers of assets, each Right entitles its holder to purchase, at the Right's then current price, a number of the acquiring company's common shares having a then current market value of twice the Right's exercise price.

Following the acquisition by a person or group of beneficial ownership of 15 percent or more of our common stock (other than Exempt Persons) and prior to an acquisition of 50 percent or more of our common stock, the board of directors may exchange the Rights (other than Rights owned by the person or group), in whole or in part, at an exchange ratio described in the Rights Plan.

Prior to the acquisition by a person or group of beneficial ownership of 15 percent or more of our common stock, the Rights are redeemable for $.001 per Right at the option of the board of directors.

"Exempt Person" means:

Park Place or any of our subsidiaries;

any of our employee benefit plans;

any entity or trustee holding shares of our capital stock for or pursuant to the terms of any such plan or for the purpose of funding other employee benefits for our or our subsidiaries' employees; or

Barron Hilton or the Conrad N. Hilton Fund.

Item 6. SELECTED FINANCIAL DATA

We have derived the following historical information from our audited financial statements for 1997 through 2001. The information is only a summary and should be read in conjunction with

Management's Discussion and Analysis in Item 7 and the historical financial statements and related notes in Item 8.

	Fiscal Years Ended or as of December 31,				
	2001	2000	1999	1998	1997
	(dollars in millions, except per share amounts)				
Results of Operations(1):					
Total revenue(2)	$ 4,631	$ 4,658	$ 3,025	$ 2,200	$ 2,062
Total operating income	407	696	399	302	201

	Fiscal Years Ended or as of December 31,				
Income (loss) before cumulative effect of accounting change(3)	(24)	143	138	109	67
Income (loss) before cumulative effect of accounting change per share					
Basic	$ (0.08)	$ 0.48	$ 0.46	$ 0.42	$ 0.25
Diluted	$ (0.08)	$ 0.46	$ 0.45	$ 0.42	$ 0.25
Other Operating Data:					
Cash flows from					
Operating activities	$ 633	$ 752	$ 519	$ 318	$ 375
Investing activities	(538)	(435)	(3,610)	(584)	(583)
Financing activities	(88)	(342)	3,055	449	175
EBITDA(4)	$ 1,078	$ 1,240	$ 778	$ 556	$ 512
Balance Sheet:					
Cash and equivalents	$ 328	$ 321	$ 346	$ 382	$ 199
Total assets	10,808	10,995	11,151	7,174	5,630
Total debt	5,308	5,398	5,624	2,472	1,306
Total stockholders'/division equity	3,767	3,784	3,740	3,608	3,381

(1) Operating results are significantly affected by the acquisition of the Grand Casino Mississippi properties (immediately following the spin-off of Park Place from Hilton) in December 1998 and the acquisition of Caesars World, Inc. in December 1999.

(2) Revenues reflect reclassifications consistent with the consensus provisions of EITF 00-14 and EITF 00-22 adopted in 2001 relating to "cash back" rebates, refunds, coupons or other incentives. This did not impact operating income or net income.

(3) Includes the total after-tax impact of pre-opening expenses, impairment losses, and other one-time amounts as follows: $118 million in 2001, $31 million in 2000, $47 million in 1999, $19 million in 1998, and $59 million in 1997.

(4) EBITDA is earnings before interest, taxes, depreciation, amortization, pre-opening expenses, investment loss, asset impairments, and other one-time amounts. EBITDA is presented supplementally because this is how we review and analyze the results at each property. We have excluded one-time items, such as pre-opening expenses, investment loss, asset impairments, and the impact of asset sales, from EBITDA as these items do not impact operating results on a recurring basis. For 2001, one-time items totaled $177 million which included $2 million of pre-opening expenses, a $124 million impairment loss on the Las Vegas Hilton, a $19 million loss on the sale of the Flamingo Reno, and a $32 million loss primarily related to the write-off of senior discount notes of Aladdin Gaming Holdings, LLC. Pretax one-time items totaled $48 million in 2000 and consisted of $3 million of pre-opening expenses, an impairment loss of $55 million on the planned sale of the Las Vegas Hilton, a gain of $18 million on the sale of the Flamingo Kansas City Riverboat Casino, a gain of $7 million on the sale of certain trademark rights associated with the Bally name, and costs of $15 million primarily related to fulfilling employment contracts with our deceased former president and chief executive officer, who passed away in October 2000. In 1999, we recognized a $26 million impairment loss associated with the planned sale of the Flamingo Reno and pre-opening expenses of $47 million primarily related to the opening of Paris Las Vegas. We recorded impairment losses of $16 million on a riverboat and $13 million in spin-off costs during 1998. Impairment losses and other costs associated with the closure of another riverboat

totaled $96 million in 1997. This information should not be considered as an alternative to any measure of performance as promulgated under generally accepted accounting principles (such as operating income or income (loss) before cumulative effect of accounting change) nor should it be considered as an indicator of our overall financial performance. Our calculation of EBITDA may be different from the calculations used by other companies and therefore comparability may be limited.

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

Results of Operations

Results of operations include our wholly owned subsidiaries and investments accounted for under the equity method of accounting. After our merger with Grand Casinos, Inc. on December 31, 1998, the opening of Paris Las Vegas on September 1, 1999, our acquisition of Caesars World, Inc. and other gaming assets from Starwood Hotels & Resorts Worldwide, Inc. on December 29, 1999, and our purchase of the Claridge Casino Hotel on June 1, 2001, we operate the following portfolio of properties under the Caesars, Bally's, Paris, Flamingo, Grand, Hilton, Claridge, and Conrad brand names:

- eight casino hotels in Nevada;
- four casino hotels in Atlantic City, New Jersey;
- five dockside casinos in Mississippi;
- an 82 percent owned and managed riverboat casino in Indiana;
- a 49.9 percent owned and managed riverboat casino in New Orleans;
- three partially owned and/or managed casino hotels in Canada;
- two partially owned and managed casino hotels in Australia (we have entered into agreements to sell our ownership interests in the parent company of these casino hotels, although we will continue to manage them);
- a partially owned and managed casino hotel in Punta del Este, Uruguay;
- a partially owned and managed casino hotel in Johannesburg, South Africa;
- two casinos on cruise ships; and
- managed slot operations at a racetrack in Delaware.

We have experienced a number of changes, during the period covered in this discussion, resulting in increases in the number of subsidiaries and investments (as listed above).

On September 1, 1999, we opened the 2,916 room Paris Las Vegas on the Las Vegas Strip. On December 29, 1999, we completed our acquisition of Caesars World, Inc. As a result of the Caesars acquisition, we now own Caesars Palace, Caesars Atlantic City, Caesars Tahoe, Sheraton Casino & Hotel Tunica, an 82 percent interest in Caesars Indiana, a 95 percent interest in Casino Nova Scotia Sydney and Casino Nova Scotia Halifax, a 25 percent interest in Caesars Gauteng, a 50 percent interest in the management company of Casino Windsor in Ontario, Canada, an interest in Caesars Palace at Sea, and we manage the slot operations at the Dover Downs racetrack in Delaware. Only two days of the results of operations for the Caesars properties are included in our consolidated statement of operations for the year ended December 31, 1999, as the acquisition was completed on December 29, 1999.

The following discussion presents an analysis of our results of operations for the years ended December 31, 2001, 2000 and 1999. EBITDA (earnings before interest, taxes, depreciation, amortization, pre-opening expenses, investment loss, and "Impairment losses and other, net") is presented supplementally in the tables below and in the discussion of our operating results because this

is how we review and analyze the results of each property. EBITDA can be computed directly from our consolidated statements of income by adding the amounts shown for (1) depreciation and amortization, (2) pre-opening expense, and (3) "Impairment losses and other, net" to operating income (which is income before interest, taxes and investment loss). This information should not be considered as an alternative to any measure of performance as promulgated under accounting principles generally accepted in the United States of America, (such as operating income or net income (loss)), nor should it be considered as an indicator of our overall financial performance. Our calculation of EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

Comparison of December 31, 2001 with December 31, 2000

A summary of our consolidated revenue and earnings for the years ended December 31, 2001 and 2000 is as follows (in millions, except per share amounts):

	2001	2000
Revenue	$ 4,631	$ 4,658
Operating income	407	696
Net income (loss)	(24)	143
Basic earnings (loss) per share	(0.08)	0.48
Diluted earnings (loss) per share	(0.08)	0.46
Other operating data:		
Cash flows from operating activities	$ 633	$ 752
Cash flows from investing activities	(538)	(435)
Cash flows from financing activities	(88)	(342)
EBITDA	1,078	1,240

For the year ended December 31, 2001, we recorded a net loss of $24 million or a loss per share of $0.08 compared to net income of $143 million or diluted earnings per share of $0.46 for the year ended December 31, 2000. Current-year results were negatively impacted by pre-opening expenses of $2 million, asset write-downs and investment losses totaling $175 million ($117 million net of tax or $0.39 per share) consisting of a $124 million impairment loss on the Las Vegas Hilton, a $19 million impairment loss on sale of the Flamingo Reno, and investments losses totaling $32 million primarily related to senior discount notes of Aladdin Gaming Holdings, LLC. In addition, earnings declined significantly, especially in the Las Vegas market, due to the impact on travel and leisure spending resulting from the September 11, 2001 terrorist attacks. Results for 2000 were impacted by pre-opening expenses of $3 million and net impairment and other losses totaling $45 million ($29 million net of tax or $0.09 per diluted share) consisting of an impairment loss of $55 million on the planned sale of the Las Vegas Hilton, a gain of $18 million on the sale of the Flamingo Kansas City Riverboat Casino, a gain of $7 million on the sale of certain trademark rights associated with the Bally name, and costs of $15 million related to fulfilling employment contract obligations with our deceased former president and chief executive officer.

Western Region

	Revenues Year ended December 31,		EBITDA Year ended December 31,	
	2001	2000	2001	2000
	(in millions)			
Paris/Bally's	$ 650	$ 667	$ 167	$ 194
Caesars Palace	496	490	87	119
Flamingo Las Vegas	288	312	91	116
Other	603	655	60	102
Total Western Region	$ 2,037	$ 2,124	$ 405	$ 531

The Western Region recorded a $126 million decline in EBITDA in 2001 compared to 2000. Occupancy for the Western Region was 89 percent in 2001 compared to 92 percent in 2000. The average room rate in 2001 was $90 compared to $89 in 2000. In addition to a significant increase in energy costs between years, the terrorist attacks of September 11th crippled an already slowing economy and disrupted air travel, which is the primary source of transportation used by our Las Vegas guests. The year-over-year decline in visitation and EBITDA in the third and fourth quarters of 2001 overshadowed steady performances during the first two quarters of 2001 by our properties at the "Four Corners." During the fourth quarter of 2001, Western Region properties began to recover from the effects of the September 11th attacks, however, the timing of a full recovery cannot be accurately estimated.

The combined Paris/Bally's properties had a solid performance through the first two quarters of 2001 compared to 2000. Table game volume was up, slot handle had increased, and occupancy had improved resulting in an EBITDA increase of $2 million compared to the six months ended June 30, 2000. However, the uncertainties created by the September 11th terrorist attacks resulted in significantly lower visitation and gaming volumes during the second half of 2001 compared to the corresponding period in 2000.

For the first half of 2001, EBITDA at Caesars Palace was down $3 million from the first half of 2000, primarily resulting from the timing of the New Year's weekend and the impact of having Chinese New Year and the Superbowl fall on the same weekend. For the second half of 2001, EBITDA declined $29 million compared to the second half of 2000 due primarily to the impacts of September 11. Additional allowances for uncollectible accounts receivable were also recorded during the fourth quarter of 2001 based upon the economic uncertainties caused by the September 11th attacks and the general slowing of the economy.

EBITDA at the Flamingo Las Vegas was 22 percent lower in 2001 than in 2000. Higher operating costs, including significant marketing costs during the fourth quarter of 2001, coupled with reduced occupancy and lower average room rates resulting from travel disruptions were the primary components of the decline. With the general lowering of room rates in Las Vegas after September 11, the Flamingo's target market of value conscious travelers migrated to higher ends of the hotel spectrum, including our own Caesars, Paris, and Bally's properties. As the Las Vegas market recovers, we expect the Flamingo to return to its normal historic run rates.

The Las Vegas Hilton, Reno Hilton, Caesars Tahoe, Flamingo Laughlin, and Flamingo Reno properties each posted operating results in 2001 that were lower than in 2000. Of the $42 million decline in EBITDA between years, $28 million relates to the third and fourth quarters of 2001, including the impacts of September 11. In the fourth quarter of 2001 we closed and sold the Flamingo Reno, which had not been profitable, to focus our efforts on the Reno Hilton.

Current and potential competitors have indicated expansion and new development plans for the Las Vegas Strip, which are in various stages of planning and construction. We cannot predict what impact these expansions or new developments, if completed, will have on our future results of operations.

Eastern Region

	Revenues Year ended December 31,		EBITDA Year ended December 31,	
	2001	2000	2001	2000
	(in millions)			
Bally's Atlantic City	$ 527	$ 521	$ 172	$ 177
Caesars Atlantic City	484	476	156	155
Atlantic City Hilton	299	298	68	70
Other	94	8	16	8
Total Eastern Region	$ 1,404	$ 1,303	$ 412	$ 410

Revenues for the Eastern Region increased 8 percent while EBITDA remained relatively flat for the year ended December 31, 2001 compared to 2000. The acquisition of the Claridge Casino Hotel in June 2001 provided the majority of the revenue increase. The average room

rate in the Eastern Region decreased to $91 in 2001 from $94 in 2000 while occupancy improved to 97 percent from 96 percent. Including the results of the Claridge since its June acquisition, table game volumes and win for the Eastern Region in 2001 were up 3 percent over 2000. Slot handle and win were up 11 percent in 2001 compared to 2000. A strong fourth quarter, despite the effects of September 11 and increased energy costs, propelled the region to the year-over-year increase in EBITDA. In an effort to expand entertainment offerings in Atlantic City, we sponsored the first concert in the newly renovated Boardwalk Hall, which positively impacted our Atlantic City business.

Bally's Atlantic City EBITDA for 2001 declined 3 percent compared to 2000 primarily due to a 3 percent decrease in table game volume and increased energy costs. Fourth quarter 2001 EBITDA improved $3 million over the fourth quarter of 2000 due to increased table game volume and a return to normal table game hold percentage. These strong fourth quarter results helped mitigate the impact of inclement weather experienced during the first quarter of 2001.

The increase in revenues and EBITDA for 2001 at Caesars Atlantic City was due primarily to a 6 percent increase in slot handle. The addition and upgrade of slot machines coupled with changes to the mix of denominations were major drivers of the improvement between years.

For the year ended December 31, 2001, the Atlantic City Hilton posted a $1 million gain in revenues but a $2 million decline in EBITDA when compared to 2000. Additional operating expenses, including increased marketing costs, offset a 4 percent increase in slot handle.

In the table above, "Other" includes the fees received for management services to the casino at the Dover Downs racetrack in Delaware and the operations of the Claridge acquired in June 2001. The revenue and EBITDA increases between years relate to the Claridge. While these incremental contributions to Eastern Region operating results are modest, the location of the Claridge adjacent to Bally's Atlantic City provides additional capacity to our existing Boardwalk complex. A connector bridge is under construction between these two properties as part of the strategic integration of the Claridge.

Certain competitors have begun construction on a 2,000-room hotel/casino project in Atlantic City with an announced completion date in 2003. A second similar hotel/casino project adjacent to the first has also been announced, however, a specific timetable has not been disclosed. Other competitors have also announced expansion projects that will add significant casino space and hotel rooms to the Atlantic City market, if completed. Such potential new capacity could intensify competition in the Atlantic City marketplace, or alternatively broaden Atlantic City's appeal to an expanded customer base. We cannot predict if these projects or other projects will be completed or how any additional capacity would affect our operating results.

In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York three in Western New York and three in the Catskill Region, and approved the use of video lottery terminals at racetracks and authorized the participation of New York in a multi-state lottery. A proliferation of Native American gaming in New York or the legalization or expansion of casino gaming in other jurisdictions located near our existing hotel casinos could have an adverse effect on our operating results in Atlantic City. (See *Other Developments Saint Regis Mohawk Tribe* in Item 1. Business.)

Mid-South Region

	Revenues Year ended December 31,		EBITDA Year ended December 31,	
	2001	2000	2001	2000
	(in millions)			
Caesars Indiana	$ 221	$ 190	$ 60	$ 49
Grand Biloxi	236	246	54	64
Grand Gulfport	186	188	47	45
Grand Tunica	216	244	42	51
Other	189	199	30	34
Total Mid-South Region	$ 1,048	$ 1,067	$ 233	$ 243

Revenues for the Mid-South Region declined by 2 percent and EBITDA declined by 4 percent in 2001 compared to 2000. EBITDA improvements at Caesars Indiana and Grand Gulfport were offset by continued competitive pressures in the Tunica market and unfavorable results in Biloxi. The average room rate for the Mid-South Region was $57 and occupancy was 90 percent for 2001 compared to an average room rate of $53 and occupancy of 91 percent for 2000. The impact of the September 11th terrorist attacks had a significant effect on our operating results immediately following the attacks. By the end of the fourth quarter of 2001, operations at our Mid-South properties had returned to near pre-September 11 levels.

Caesars Indiana posted a 16 percent increase in revenues and a 22 percent increase in EBITDA in 2001 when compared to 2000. The increases were driven primarily by the opening of the new 500-room hotel in late August 2001. Table game volume was up 10 percent and slot handle increased 18 percent. Current amenities (including restaurants, retail shops, an entertainment venue, and a conference center) will be enhanced with the completion in mid-2002 of a golf course currently under construction.

The $10 million decline in EBITDA at Grand Biloxi in 2001 resulted primarily from a 4 percent decrease in both slot handle and win and a significant increase in marketing expenditures due to competitive conditions in the Biloxi market.

Grand Gulfport reported a $2 million decrease in revenues, but a $2 million increase in EBITDA for 2001 compared to 2000. Hold percentages for both table games and slots returned to normal levels and offset decreases in slot handle and table game volume. Cost containment measures were also successfully implemented.

EBITDA for 2001 at Grand Tunica decreased $9 million compared to 2000. Slot handle was down 9 percent between years due to the oversupply and competitive conditions in the Tunica market.

International

On a combined basis, the International properties reported revenues of $142 million in 2001 compared to $164 million in 2000. EBITDA was $85 million in 2001 compared to $105 million in 2000. Of the $20 million year-over-year EBITDA decline, $11 million related to the fourth quarter of 2001 resulting from travel reductions and restrictions, lower visitation to Canadian-based casinos due to tighter border controls, political and economic turmoil in Argentina (one of the principal feeder markets for our casino in Uruguay) and the impact of adverse currency translation. On a combined basis, the International properties reported an average room rate of $82 and occupancy of 68 percent in 2001 compared to an average room rate of $89 and occupancy of 68 percent in 2000.

In February 2002, we entered into an agreement with Jupiters Limited, whereby it will purchase 50 percent of our equity in Jupiters Limited. We also entered into a separate agreement to sell our remaining equity in Jupiters Limited to institutional investors. After-tax proceeds of these two transactions are currently estimated at $100 million and will be used to repay bank debt. The agreements are subject to shareholder, regulatory, and governmental approvals and financing arrangements by Jupiters Limited. The transactions are expected to be completed in the second quarter

of 2002. Although we have agreed to sell our equity in Jupiters Limited, we will continue to manage the two Jupiters' Queensland casinos.

Depreciation and Amortization

Depreciation and amortization increased $30 million to $526 million in 2001. The increase includes the impact from the continual upgrading of our properties as well as new capital projects including the hotel at Caesars Indiana and the pool villas and high-limit gaming areas at Caesars Palace. In addition, depreciation and amortization for 2000 was lower than normal because of the elimination of depreciation on the Las Vegas Hilton for the second half of the year while it was being held for sale. Goodwill amortization of approximately $50 million, included in each year, ceased effective January 1, 2002 under the provisions of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

Corporate Expense

Corporate expense increased $8 million to $57 million for the year ended December 31, 2001. The consolidation of corporate functions to the Las Vegas headquarters office and the addition of programs and key personnel were the primary components of the increase.

Impairment Losses and Other, Net

During 2001, we recognized impairment losses on the Las Vegas Hilton and the sale of the Flamingo Reno totaling $143 million. During 2000, we recognized net impairment and other losses totaling $45 million consisting of an impairment loss of $55 million on the planned sale of the Las Vegas Hilton, a gain of $18 million on the sale of the Flamingo Kansas City Riverboat Casino, a gain of $7 million on the sale of certain trademark rights associated with the Bally name, and costs of $15 million related to fulfilling employment contract obligations with our deceased former president and chief executive officer. (See Note 14 of the Notes to Consolidated Financial Statements for additional information.)

Net Interest Expense

Consolidated net interest expense decreased $46 million to $385 million for 2001 compared to 2000. The decrease in net interest expense was due primarily to a decline in the rates paid on variable-rate debt and a reduction in average long-term debt outstanding, partially offset by changes in the mix of fixed-rate and variable-rate debt. During 2001, we issued $775 million of fixed-rate debt and used the proceeds to pay down variable-rate debt under our credit facilities. During 2001, we reduced outstanding debt by $90 million utilizing a portion of our operating cash flows. Capitalized interest in 2001 was $13 million compared to $7 million in 2000.

Investment Loss

During the third quarter of 2001, we recognized impairment losses on investments totaling $32 million primarily related to senior discount notes of Aladdin Gaming Holdings, LLC. (See Note 5 of the Notes to Consolidated Financial Statements for additional information.)

Income Taxes

Despite posting a pretax loss in 2001, we incurred tax expense of $12 million primarily due to the non-deductible amortization of goodwill. The effective income tax rate for 2000 was 45.7 percent. Our effective income tax rate is determined by the level and composition of pretax income subject to varying foreign, state, and local taxes and exceeds the federal statutory rate due primarily to non-deductible amortization of goodwill.

Comparison of December 31, 2000 with December 31, 1999

A summary of our consolidated revenue and earnings for the years ended December 31, 2000 and 1999 is as follows (in millions, except per share amounts):

	2000	1999
Revenue	$ 4,658	$ 3,025
Operating income	696	399
Net income	143	136
Basic earnings per share	0.48	0.45
Diluted earnings per share	0.46	0.44
Other operating data:		
Cash flows from operating activities	$ 752	$ 519
Cash flows from investing activities	(435)	(3,610)
Cash flows from financing activities	(342)	3,055
EBITDA	1,240	778

We recorded net income of $143 million or diluted earnings per share of $0.46, for the year ended December 31, 2000, compared with net income of $136 million or diluted earnings per share of $0.44, for the year ended December 31, 1999. The increase was primarily associated with the Caesars acquisition and a full year of operating results from Paris Las Vegas, which opened on September 1, 1999. Results for 2000 were impacted by pre-opening expenses of $3 million and net impairment and other losses totaling $45 million ($29 million net of tax or $0.09 per diluted share) consisting of an impairment loss of $55 million on the planned sale of the Las Vegas Hilton, a gain of $18 million on the sale of the Flamingo Kansas City Riverboat Casino, a gain of $7 million on the sale of certain trademark rights associated with the Bally name, and costs of $15 million related to fulfilling employment contract obligations with our deceased former president and chief executive officer, who passed away in October 2000. Results for 1999 were impacted by a $26 million impairment loss associated with the planned sale of our Flamingo Reno property and pre-opening expenses of $47 million primarily related to the opening of Paris Las Vegas.

For the year ended December 31, 2000, EBITDA increased $462 million when compared to 1999. The Caesars properties contributed EBITDA of $138 million in the Western Region, $163 million in the Eastern Region, $67 million in the Mid-South Region, and $51 million from the International properties for a total of $419 million. Excluding the Caesars properties, the Western Region increased $37 million, the Eastern Region increased $34 million, the Mid-South Region decreased $29 million, and the International properties increased $14 million.

Western Region

EBITDA for the Western Region was $531 million for the year ended December 31, 2000 compared to $356 million for 1999. The increase in EBITDA was primarily attributable to the acquisition of Caesars and a full year of Paris operations, which opened on September 1, 1999. Caesars Palace generated EBITDA of $119 million in 2000. Occupancy for the Western Region was 92 percent in 2000 compared to 88 percent in 1999. The average room rate in 2000 was $89 compared to $79 in the prior year. The increase in the average room rate was primarily a result of the addition of Caesars Palace, Caesars Tahoe, and a full year of Paris Las Vegas operations.

The combined Paris/Bally's properties generated EBITDA of $194 million in 2000, an increase of $64 million from 1999. The increase in EBITDA was primarily attributable to a full year of Paris operations in 2000.

EBITDA at the Flamingo Las Vegas increased $4 million to $116 million in 2000. New marketing programs targeted at table game customers resulted in an 8 percent increase in table game volume while slot volume also improved. The Flamingo Las Vegas continues to provide consistent returns based on the power of its location.

EBITDA at the Las Vegas Hilton was $31 million in 2000 compared to $59 million in 1999. The decline primarily resulted from a decrease in table game volume associated with the property's held for sale status during the second half of the year compounded by a decrease in the table game hold percentage. In July 2000, we entered into an agreement to sell the Las Vegas Hilton, however, the purchaser breached the agreement in January 2001 and did not complete the transaction.

Combined EBITDA from Caesars Tahoe, the Reno Hilton, the Flamingo Reno, and the Flamingo Laughlin was $71 million in 2000 compared to $55 million in 1999. The increase resulted primarily from the addition of Caesars Tahoe.

Eastern Region

EBITDA for the Eastern Region was $410 million for the year ended December 31, 2000 compared to $213 million for 1999. The increase is due to the addition of Caesars Atlantic City and local and national marketing efforts, which drove incremental visitation to our properties in Atlantic City. Year-over-year improvements were somewhat diluted by inclement weather experienced during December 2000, which significantly reduced visitation and play during December. Caesars Atlantic City recorded EBITDA of $155 million during 2000. The average room rate in the Eastern Region was $94 during 2000 compared to $88 during 1999, while occupancy was 96 percent in both years.

Bally's Park Place generated EBITDA of $177 million in 2000 compared to $165 million in 1999, an increase of 7 percent. The increase resulted from improvements in table game volume and slot handle as well as the Wild Wild West expansion, which opened in September 2000. This expansion added approximately 10,000 square feet of gaming space and 300 slot machines and formed the largest contiguous gaming complex on the Boardwalk, comprised of Bally's Atlantic City, Caesars Atlantic City, and the Wild Wild West.

For the year ended December 31, 2000, the Atlantic City Hilton reported EBITDA of $70 million, a 46 percent increase from $48 million in 1999. The improvement was driven primarily by a 26 percent increase in slot handle resulting from an increase in the number of smaller denomination slot machines, special slot promotions, and other marketing efforts.

Mid-South Region

EBITDA for the Mid-South Region was $243 million for the year ended December 31, 2000 compared to $205 million for the year ended December 31, 1999. The increase in EBITDA is primarily attributable to the $49 million in EBITDA generated by Caesars Indiana, partially offset by declines at other Mid-South properties. The average room rate for the region was $53 and occupancy was 91 percent during 2000 compared to an average room rate of $58 and occupancy of 88 percent during 1999.

Grand Biloxi reported EBITDA of $64 million for the year ended December 31, 2000 compared to $74 million for 1999. The decline is attributable to competitive conditions from supply added in New Orleans and Biloxi. During 2000, significant costs were incurred for marketing

and promotional efforts, which resulted in lower EBITDA margins. However, table game drop for 2000 increased 14 percent compared to 1999 while slot handle remained steady.

Grand Gulfport generated $45 million in EBITDA during 2000 compared to $43 million during 1999. Table game drop increased 16 percent and slot handle improved 7 percent in 2000 due to marketing efforts and the June 1999 addition of the Oasis Resort and Spa.

For the year ended December 31, 2000, Grand Tunica reported EBITDA of $51 million, down from $61 million reported for the year ended December 31, 1999. The decline was due to competitive market conditions, increased promotional spending, and inclement weather experienced during December 2000.

International

On a combined basis, EBITDA from the International properties was $105 million in 2000 compared to $40 million in 1999, an increase of $65 million. The Caesars properties recorded EBITDA of $51 million in 2000. During 2000, temporary casino facilities were replaced with permanent casino facilities at Caesars Gauteng in South Africa and Nova Scotia Casino Halifax in Canada. On a combined basis, the International properties reported an average room rate of $89 and occupancy of 68 percent in 2000 compared to an average room rate of $97 and occupancy of 62 percent in 1999.

Depreciation and Amortization

Consolidated depreciation and amortization increased $190 million to $496 million for the year ended December 31, 2000. The increase was primarily attributable to the addition of the Caesars properties and Paris, which opened in September 1999, partially offset by the elimination of depreciation expense at the Las Vegas Hilton for the second half of 2000 while it was being held for sale.

Corporate Expense

Corporate expense increased $13 million to $49 million for the year ended December 31, 2000. The increase was primarily attributable to the acquisition of Caesars as well as the move to consolidate corporate functions to the Las Vegas headquarters office.

Net Interest Expense

Consolidated net interest expense increased from $146 million in 1999 to $431 million in 2000. The increase in net interest expense was due primarily to an increase in average long-term debt outstanding of approximately $3 billion associated with the Caesars acquisition in December 1999 and a decrease in capitalized interest with the completion of Paris. We used a combination of fixed-rate debt and bank credit facilities to fund the acquisition of Caesars. Capitalized interest in 2000 was $7 million compared to $37 million in 1999. During 2000 we reduced outstanding debt by $226 million utilizing a portion of our operating cash flows.

Income Taxes

The effective income tax rate for the year ended December 31, 2000 was 45.7 percent compared to 44.7 percent for 1999. Our effective income tax rate is determined by the level and composition of pretax income subject to varying foreign, state, and local taxes and exceeds the federal statutory rate due primarily to non-deductible amortization of goodwill.

Financial Condition

Liquidity

As of December 31, 2001, we had cash and cash equivalents of $328 million. Net cash provided by operating activities was $633 million in 2001 and $752 million in 2000. We had availability under our credit facilities of $1.4 billion at December 31, 2001, subject to continuing compliance with existing covenant restrictions. We expect to finance our operations and capital expenditures through cash flow from operations, existing cash balances, borrowings under our credit facilities, new issuances in the public bond markets, and commercial paper borrowings. In accordance with the various state gaming regulations under which we operate and in order to operate our casinos effectively, we must maintain a certain amount of cash in our casinos at all times. Therefore, a portion of the cash amounts reflected on our balance sheets at any given time would not be available to meet any liquidity demands. Cash flows from operations could be negatively impacted if our casino operations,

especially the Las Vegas market, were not to recover from the downturns experienced after the terrorist attacks of September 11, 2001. Our current 364-day $1.3 billion credit facility expires in August 2002, but is subject to annual renewals. No amounts were outstanding under the 364-day credit facility at December 31, 2001. We expect to renew this facility in the ordinary course prior to its expiration. If

this facility were not to be renewed, our borrowing capacity after August 2002 under the credit facilities would be limited to the availability under the multi-year credit facility, which was $128 million at December 31, 2001.

Capital Spending and Acquisitions

Investing cash flow activities include maintenance capital expenditures, new construction, and improvement projects at existing facilities. For the year ended December 31, 2001, net cash used in investing activities included $459 million related to capital expenditures for normal maintenance and expansion projects. Expansion projects primarily consisted of the master plan at Caesars Indiana (including the 500-room hotel and the 3,000-space parking garage that opened in late August 2001) and master plan projects at Caesars Palace (including the Pool Villas, valet parking expansion, and a 4,000-seat performing arts "Colosseum").

Capital expenditures for 2000 were $468 million including the Wild Wild West Casino expansion in Atlantic City; the pavilion, related restaurants, and partial construction of the hotel at Caesars Indiana; casino, suite and restaurant expansions at Caesars Palace; and the purchase and completion of construction of a golf course in southern Nevada to provide a complete array of services for our Las Vegas guests. For 1999, capital expenditures were $653 million primarily consisting of Paris Las Vegas, the Terrace Hotel at Grand Tunica, the Oasis Resort and Spa at Grand Gulfport and the expansion of Grand Biloxi.

During 2002 we intend to spend approximately $290 million on maintenance capital expenditures at our casino properties, and approximately $160 million on selective expansion or improvement investments at certain of our existing properties. These projects include the Colosseum and related expansions at Caesars Palace, a connector bridge between the Claridge and Bally's Atlantic City, a golf course at Caesars Indiana, and a new restaurant offering at Paris Las Vegas.

Investing cash flow activities for 2001 also include the acquisition of the Claridge Casino Hotel in June 2001. This property is adjacent to Bally's Atlantic City and provides additional hotel rooms and parking for our Boardwalk complex guests. Acquisition amounts in 1999 relate to our purchase of Caesars World, Inc. and interests in other gaming entities from Starwood Hotels & Resorts Worldwide, Inc.

Proposed Projects

Saint Regis Mohawk Tribe

We entered into an agreement in April 2000 with the Saint Regis Mohawk Tribe in Hogansburg, New York. We paid $3 million for exclusive rights to develop a Class II or Class III casino project with the Tribe in the State of New York for a period of three years, or extended thereafter by mutual agreement. In November 2001, the parties also entered into a seven-year definitive management agreement for Park Place to manage a casino to be located at Kutsher's Country Club in Monticello, New York in return for a management fee equal to 30 percent of ebitda, as defined in the agreement. The management agreement is subject to the approval of the National Indian Gaming Commission.

We have entered into a definitive agreement, as amended, to acquire approximately 66 acres of the Kutsher's Resort Hotel and Country Club in Sullivan County, New York, for approximately $10 million, with an option to purchase the remaining 1,450 acres for $40 million. Upon approval by the Bureau of Indian Affairs ("BIA"), approximately 66 acres will be transferred to be held in trust for the Saint Regis Mohawk Nation.

The facility will include a 750-room hotel, 130,000 square feet of gaming space, 15,000 square feet of meeting space, eight restaurants and a spa.

All of the agreements and plans relating to the development and management of this project are contingent upon various regulatory and governmental approvals, including execution of a compact between the Saint Regis Mohawk Tribe and the State of New York, and receipt of approvals from the

BIA, National Indian Gaming Commission and local planning and zoning boards. There is no guarantee that the requisite regulatory approvals will be received.

In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York three in Western New York and three in the Catskill Region, and approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The legislation also gives the governor the authority to negotiate state compacts with the tribes without further approval by the legislature. The constitutionality of this legislation has been challenged. (For a discussion of such litigation, see *Mohawk Litigation* in Item 3. Legal Proceedings.)

Macau

In the fourth quarter of 2001, Park Place, Mandalay Resort Group and a local Macau investor jointly submitted a tender proposal to the Macau Special Administrative Region seeking one of the three casino licenses that the Macau government intends to issue. Macau is a jurisdiction of the People's Republic of China and is adjacent to mainland China and Hong Kong. In February 2002, the Macau government advised the joint venture that it has selected three other proposals for initial negotiations and that the Company's joint venture is the first preferred alternate group. Therefore, if final negotiations between the Macau government and any of the three initial groups selected are not successfully completed, the joint venture would have the opportunity to negotiate with the Macau government for a gaming license.

Other

We are interested in expanding our business through the acquisition of quality gaming assets and selective new development. We believe that we are well positioned to, and may from time to time, pursue strategic acquisitions, dispositions, or alliances, which we believe to be financially beneficial to our long-term interests. We also believe that in addition to our cash flow from operations, we will have access to financial resources sufficient to finance our future growth.

Financing

We have revolving bank credit facilities with a syndicate of financial institutions. At December 31, 2001, the total aggregate commitment was $3.3 billion, consisting of a $1.3 billion 364-day revolving facility expiring August 2002 and a $2.0 billion multi-year revolving facility expiring December 2003 with a $1.4 billion 2-year extension upon expiration or termination of the existing multi-year facility. Approximately $1.4 billion was available at December 31, 2001, subject to continuing compliance with existing covenant restrictions.

The credit facilities contain financial covenants including a maximum leverage ratio (total debt to ebitda, as defined) of 5.50 to 1.00 and a minimum interest coverage ratio (ebitda, as defined, to interest expense) of 2.50 to 1.00. We are required to compute our actual leverage and interest coverage ratios on a rolling twelve-month basis as of the end of each calendar quarter. If we are not in compliance with the required covenant ratios, an event of default would occur, which if not cured could cause the entire outstanding borrowings under the credit facilities to become immediately due and payable. The maximum leverage covenant adjusts to 5.25 to 1.00 as of September 30, 2002, 5.00 to 1.00 as of December 31, 2002, and 4.50 to 1.00 for each quarterly testing period thereafter. The minimum interest coverage covenant adjusts to 2.75 to 1.00 as of September 30, 2002 and for each quarterly testing period thereafter. As of December 31, 2001, the Company was in compliance with the applicable covenants.

Borrowings under the credit facilities bear interest at a floating rate and may be obtained, at our option, as LIBOR advances for varying periods, or as base rate advances, each adjusted for an applicable margin (as further described in the credit facilities), or as competitive bid loans. The applicable interest rate is based upon the leverage ratio noted above as well as our credit rating and may be adjusted quarterly. As of December 31, 2001, our senior unsecured debt was rated Ba1 by Moody's and BBB- by Standard & Poor's. The margin above LIBOR is based on the highest rating of either of the agencies. If our debt were downgraded one level by Standard & Poor's to BB+, the

annual interest on our credit facilities would increase by approximately $6 million per year based on outstanding borrowings of $1.9 billion at December 31, 2001. At December 31, 2001, LIBOR advances under the multi-year credit facility bear an all-in interest of LIBOR plus 128 basis points. Base rate advances include a margin equal to the applicable margin for LIBOR loans in effect from time to time minus 1.25% plus the base rate interest defined as the higher of: (1) the federal funds rate plus 0.50%, or (2) the reference rate as publicly announced by Bank of America in San Francisco. Competitive bid loans shall bear interest either on an absolute rate bid basis or on the basis of a spread above or

below LIBOR. The maximum applicable margin for LIBOR loans is 1.75% under the 364-day revolver and the five-year revolver plus or minus pre-determined discounts based on our leverage ratios.

We have established a $1.0 billion commercial paper program. To the extent that we incur debt under this program, we must maintain an equivalent amount of credit available under our credit facilities. We have borrowed under the program for varying periods during 2001 and 2000. At December 31, 2001, no amounts were outstanding under the commercial paper program. At December 31, 2000, $54 million was outstanding under the commercial paper program. Interest under the program is at market rates, for varying periods.

In May 2001, we issued $350 million of 8.125% senior subordinated notes due 2011 through a private placement offering to institutional investors. In August 2001, we completed our exchange offer for identical notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with our other senior subordinated indebtedness and are junior to all of our senior indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

In August 2001, we issued $425 million of 7.50% senior notes due 2009 through a private placement offering to institutional investors. These notes were subsequently exchanged for notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with our other senior indebtedness and are senior to all of our subordinated indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

In March 2002, we issued $375 million of 7.875% senior subordinated notes due 2010 through a private placement offering to institutional investors. We plan to exchange these notes for notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with our other senior subordinated indebtedness and are junior to all of our senior indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

Our indebtedness contains certain customary affirmative and negative covenants and also contains customary events of default, including without limitation, payment defaults, breaches of representations and warranties, covenant defaults, certain events of bankruptcy and insolvency and cross defaults to other material indebtedness. At December 31, 2001, we were in compliance with all debt covenants.

In January 1999, we filed a shelf registration statement with the Securities and Exchange Commission registering up to $1 billion in debt or equity securities. The terms of any securities offered pursuant to the shelf registration will be determined by market conditions at the time of issuance. In November 1999, $400 million of 8.5% senior notes were issued and in September 2000, $400 million of 8.875% senior subordinated notes were issued under this shelf registration statement. Availability under the shelf registration statement at December 31, 2001 was approximately $200 million.

We have structured our long-term debt to mature at various amounts and intervals throughout the next 10 years. We issue debt as needed to maintain a flexible capital structure, subject to the availability of appropriate rates and terms. The table below reflects the actual payments due based on balances existing at December 31, 2001. As previously discussed, in March 2002 we issued $375 million of senior subordinated notes due 2010. The issuance of these notes provides us with capacity under the multi-year credit facility to redeem the $300 million of 7.375% senior notes when they become due in

June 2002. The actual maturities by year for our long-term debt and contractual obligations for our long-term leases are shown in the table below (amounts in millions):

	Payments Due By Year						
	2002	2003	2004	2005	2006	Thereafter	Total
Long-term debt	$ 307	$ 804	$ 325	$ 1,800	$ 397	$ 1,675	$ 5,308
Operating leases	21	18	16	15	11	194	275
Total	$ 328	$ 822	$ 341	$ 1,815	$ 408	$ 1,869	$ 5,583

Our Board of Directors has approved the repurchase of up to 40 million shares under a common stock repurchase program. Cumulatively, through December 31, 2001, we had repurchased a total of 21.1 million shares of our common stock at an average price of $11.52 resulting in 18.9 million shares remaining available under the stock repurchase program. The amount and timing of any additional purchases will depend on market conditions and our financial position. We currently expect that excess free cash flow will be used primarily to reduce debt outstanding.

Regulation and Taxes

The gaming industry is highly regulated and we must adhere to various regulations and maintain our licenses to continue our operations. The ownership, management, and operation of gaming facilities are subject to extensive federal, state, provincial, tribal and/or local laws, rules, and regulations, which are administered by the relevant regulatory agency or agencies in each jurisdiction. These laws, rules, and regulations vary from jurisdiction to jurisdiction, but generally concern the responsibility, financial stability, and character of the owners and managers of gaming operations as well as persons financially interested or involved in gaming operations. The regulatory environment in any particular jurisdiction may change in the future and any such change could have a material adverse effect on our results of operations.

The gaming industry provides a significant source of tax revenue for the states, counties, and municipalities in which we operate. Occasionally, proposals are made by federal and state legislators to amend tax laws affecting the gaming industry. Changes in such laws, if any, could have a material effect on our results of operations.

Significant Accounting Policies

A summary of our significant accounting policies can be found in Note 2 of the Notes to Consolidated Financial Statements. Our preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to 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 reported amounts of revenue and expenses during the reporting period. Significant among those estimates are the useful lives and potential impairment of long-term assets, such as investments, buildings, equipment and goodwill; the adequacy of our allowance for uncollectible receivables; and the amount of litigation and self insurance reserves. These estimated amounts are based on our best judgments using both historical information and known trends in our company and in our industry. Because of the uncertainty inherent in any estimate, it is likely that the actual results will differ from the initial estimates, and the differences could be material.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. It also further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for business combinations initiated after June 30, 2001.

Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we are required to adopt SFAS No. 142 effective January 2002. Goodwill amortization, which is included in depreciation and amortization on the consolidated statements of operations, was $50 million in 2001, $50 million in 2000, and $34 million in 1999. Pursuant to SFAS No. 142, this goodwill amortization ceased on January 1, 2002.

At December 31, 2001, we had approximately $1.8 billion of unamortized goodwill. Approximately two-thirds of the total relates to the acquisition of the Bally's properties in December 1996, while the remainder relates primarily to the Caesars acquisition in December 1999. In accordance with the initial adoption of SFAS No. 142, each property with assigned goodwill will need to be valued as an operating entity. If the fair value of the operating entity is greater than the book value, including assigned goodwill, no further testing is required. However, if the book value, including goodwill, is greater than the fair value of the operating entity, the assets and liabilities of the operating entity will need to be valued. The difference between the fair value of the operating entity and the fair value of the assets is the implied fair value of goodwill. To the extent that the implied fair value of goodwill is less than the book value of goodwill, an impairment exists that will be recognized as a cumulative effect of a change in accounting in the first quarter of 2002.

The Company has engaged an independent company to assist in the valuation of properties with a significant amount of assigned goodwill. Based on the preliminary estimates of fair value of the operating entities, the assets and liabilities of certain properties will need to be valued to

determine the implied fair value of goodwill. The valuation of these assets and liabilities has not been completed, however, it is likely that there will be an impairment charge relating to goodwill associated with prior acquisitions.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. The requirements of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material effect on our financial position or results of operations.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. We are exposed to market risk in the form of changes in interest rates and the potential impact such change may have on our variable-rate debt. We attempt to limit the impact of changes in interest rates by balancing the mix of our borrowings pursuant to our credit facilities and commercial paper program and our long-term fixed-rate debt. We have not invested in derivative-based financial instruments.

Of our total outstanding long-term debt of $5.3 billion at December 31, 2001, $1.9 billion is subject to variable interest rates, which averaged 3.14% at December 31, 2001. Our variable-rate debt is affected by the general level of LIBOR interest rates. Therefore, our interest rates on the credit facilities will change as LIBOR changes. Based on our $1.9 billion of outstanding debt under the credit facilities at December 31, 2001, a hypothetical 100 basis point (1%) change in interest rates would result in an annual interest expense change of approximately $19 million.

The fair value of debt under the credit facilities approximates the carrying value. The total fair value of long-term debt at December 31, 2001 was $5,352 million and the carrying value was $5,308 million. The fair values are based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt of the same remaining maturities.

Item 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Park Place Entertainment Corporation:

We have audited the accompanying consolidated balance sheets of Park Place Entertainment Corporation (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and

cash flows for the years then ended. Our audits also included the financial statement schedule for the years ended December 31, 2001 and 2000 included at Item 14(a)(1). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. The consolidated financial statements of the Company for the year ended December 31, 1999 before the reclassification described in Note 2 to the financial statements, were audited by other auditors whose report, dated February 22, 2000, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also audited the adjustments described in Note 2 that were applied to reclassify the 1999 consolidated financial statements to give retroactive effect to the Company's adoption of Emerging Issues Task Force ("EITF") 00-14 "Accounting for Certain Sales Incentives" and EITF 00-22 "Accounting for 'Points' and Certain Other Time-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." In our opinion, such adjustments are appropriate and have been properly applied.

DELOITTE & TOUCHE LLP
Las Vegas, Nevada
January 29, 2002, except for paragraph 8 of Note 8,
as to which the date is March 14, 2002, and Note 17, as to
which the date is February 20, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of Park Place Entertainment Corporation:

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Park Place Entertainment Corporation (a Delaware corporation) and subsidiaries (the "Company") for the year ended December 31, 1999, prior to the reclassification (and, therefore, are not presented herein) for the Company's adoption of EITF 00-14 "Accounting for Certain Sales Incentives" and EITF 00-22 "Accounting for 'Points' and Certain Other Time-Based Sales Incentive Offers, and Offers for Free Products of Services to Be Delivered in the Future" as described in Note 2 to the reclassified consolidated financial statements. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of Park Place Entertainment Corporation and subsidiaries' operations and their cash flows for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 of notes to the consolidated financial statements, effective January 1, 1999, the Company changed its method of accounting for pre-opening expenses.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 14(a)(1) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of

the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended December 31, 1999, and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements for the year ended December 31, 1999, taken as a whole.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 22, 2000

PARK PLACE ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except par value)

	December 31,	
	2001	**2000**
Assets		
Cash and equivalents	$ 328	$ 321
Accounts receivable, net	222	253
Inventories, prepaids, and other	141	148
Income taxes receivable	9	31
Deferred income taxes	111	94
Total current assets	811	847
Investments	201	250
Property and equipment, net	7,731	7,805
Goodwill, net	1,811	1,843
Other assets	254	250
Total assets	$ 10,808	$ 10,995
Liabilities and stockholders' equity		
Accounts payable	$ 46	$ 70
Current maturities of long-term debt	7	1
Accrued expenses	583	606
Total current liabilities	636	677
Long-term debt, net of current maturities	5,301	5,397
Deferred income taxes, net	1,021	1,044
Other liabilities	83	93
Total liabilities	7,041	7,211
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value, 400.0 million shares authorized, 322.4 million and 313.5 million shares issued at December 31, 2001 and 2000, respectively	3	3
Additional paid-in capital	3,788	3,702
Retained earnings	255	279

	December 31,	
Accumulated other comprehensive income (loss)	(35)	(15)
Common stock in treasury, at cost, 21.1 million shares and 15.9 million shares, respectively	(244)	(185)
Total stockholders' equity	3,767	3,784
Total liabilities and stockholders' equity	$ 10,808	$ 10,995

See notes to consolidated financial statements

PARK PLACE ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in millions, except per share amounts)

	Years ended December 31,		
	2001	**2000**	**1999**
Revenues			
Casino	$ 3,271	$ 3,242	$ 2,118
Rooms	554	568	392
Food and beverage	452	460	287
Other revenue	354	388	228
	4,631	4,658	3,025
Expenses			
Casino	1,764	1,658	1,077
Rooms	185	186	142
Food and beverage	410	414	268
Other expense	1,137	1,111	724
Depreciation and amortization	526	496	306
Pre-opening expense	2	3	47
Impairment losses and other, net	143	45	26
Corporate expense	57	49	36
	4,224	3,962	2,626
Operating income	407	696	399
Interest and dividend income	11	21	11
Interest expense	(385)	(441)	(146)
Interest expense, net from unconsolidated affiliates	(11)	(11)	(11)
Investment loss	(32)		
Income (loss) before income taxes, minority interest and cumulative effect of accounting change	(10)	265	253

	Years ended December 31,		
Provision for income taxes	12	121	113
Minority interest, net	2	1	2
Income (loss) before cumulative effect of accounting change	(24)	143	138
Cumulative effect of accounting change, net of tax			(2)
Net income (loss)	$ (24)	$ 143	$ 136
Basic earnings (loss) per share			
Income (loss) before cumulative effect of accounting change	$ (0.08)	$ 0.48	$ 0.46
Cumulative effect of accounting change			(0.01)
Net income (loss) per share	$ (0.08)	$ 0.48	$ 0.45
Diluted earnings (loss) per share			
Income (loss) before cumulative effect of accounting change	$ (0.08)	$ 0.46	$ 0.45
Cumulative effect of accounting change			(0.01)
Net income (loss) per share	$ (0.08)	$ 0.46	$ 0.44

See notes to consolidated financial statements

PARK PLACE ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(dollars in millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 1998	$ 3	$ 3,613	$	$ (8)	$	$ 3,608
Net income			136			136
Currency translation adjustment				3		3
Comprehensive income						139
Options exercised (including tax benefits)		26				26
Treasury stock acquired					(29)	(29)
Adjustment to spin-off of the Company		(4)				(4)
Balance, December 31, 1999	3	3,635	136	(5)	(29)	3,740
Net income			143			143

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Currency translation adjustment				(10)		(10)
Comprehensive income						133
Options exercised (including tax benefits)		59				59
Treasury stock acquired					(156)	(156)
Adjustment to spin-off of the Company		8				8
Balance, December 31, 2000	3	3,702	279	(15)	(185)	3,784
Net loss			(24)			(24)
Currency translation adjustment				(20)		(20)
Comprehensive loss						(44)
Options exercised (including tax benefits)		85				85
Treasury stock acquired					(59)	(59)
Supplemental retention plan		1				1
Balance, December 31, 2001	$ 3	$ 3,788	$ 255	$ (35)	$ (244)	$ 3,767

See notes to consolidated financial statements

PARK PLACE ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	Years Ended December 31,		
	2001	2000	1999
Operating activities			
Net income (loss)	$ (24)	$ 143	$ 136
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	526	496	306
Pre-opening expense	2	3	47
Impairment losses and other, net	143	37	26
Investment loss	32		
Amortization of debt issue costs	10	10	6
Change in working capital components:			
Accounts receivable, net	34	35	(50)
Inventories, prepaids, and other	19	4	(16)
Accounts payable and accrued expenses	(76)	(7)	54

	Years Ended December 31,		
Income taxes payable/receivable	22	(45)	13
Change in deferred income taxes	(34)	73	3
Distributions from equity investments in excess of earnings	2	20	3
Other	(23)	(17)	(9)
Net cash provided by operating activities	633	752	519
Investing activities			
Capital expenditures	(459)	(468)	(653)
Pre-opening expense	(2)	(3)	(47)
Acquisitions, net of cash acquired	(48)		(2,920)
Other	(29)	36	10
Net cash used in investing activities	(538)	(435)	(3,610)
Financing activities			
Change in credit facilities and commercial paper	(870)	(1,114)	3,078
Payments on debt		(12)	(631)
Proceeds from issuance of notes	772	900	694
Payments to Hilton			(71)
Purchases of treasury stock	(59)	(156)	(29)
Proceeds from exercise of stock options	80	48	26
Other	(11)	(8)	(12)
Net cash provided by (used in) financing activities	(88)	(342)	3,055
Increase (decrease) in cash and equivalents	7	(25)	(36)
Cash and equivalents at beginning of year	321	346	382
Cash and equivalents at end of year	$ 328	$ 321	$ 346
Supplemental Disclosures of Cash Flow Information			
Cash paid for:			
Interest, net of amounts capitalized	$ 368	$ 392	$ 120
Income taxes, net of refunds	$ 2	$ 70	$ 87

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation and Organization

Park Place Entertainment Corporation ("Park Place" or the "Company"), a Delaware corporation, was formed in June 1998. On December 31, 1998, Hilton Hotels Corporation ("Hilton") completed the transfer of the operations, assets and liabilities of its gaming business to

the Company. Also on December 31, 1998, immediately following the Hilton distribution, the Company acquired, by means of a merger, the Mississippi gaming business of Grand Casinos, Inc. ("Grand") in exchange for the assumption of debt and the issuance of Company common stock on a one-for-one basis. On December 29, 1999, the Company acquired all of the outstanding stock of Caesars World, Inc. and interests in several other gaming entities ("Caesars") from Starwood Hotels & Resorts Worldwide, Inc. for cash.

The Company is primarily engaged in the ownership, operation and development of gaming facilities. The operations of the Company currently are conducted under the Caesars, Bally's, Paris, Flamingo, Grand, Hilton, and Conrad brands. The Company operates a total of twenty-eight casinos, including seventeen wholly owned casino hotels located in the United States; of which eight are located in Nevada; four are located in Atlantic City, New Jersey; and five are located in Mississippi. The Company has a 49.9 percent owned and managed riverboat casino in New Orleans and an 82 percent interest in a joint venture, which owns a riverboat casino in Harrison County, Indiana. The Company partially owns and manages two casino hotels in Australia, one casino hotel in Punta del Este, Uruguay, two casinos in Nova Scotia, Canada, one casino in South Africa, and has an interest in two casinos on cruise ships. The Company provides management services to a casino in Windsor, Canada and the slot operations at the Dover Downs racetrack in Delaware.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiaries and investments in unconsolidated affiliates, which are 50 percent or less owned, accounted for under the equity method. All material intercompany accounts and transactions are eliminated. Minority interests for consolidated entities that are less than 100 percent owned were $14 million and $15 million at December 31, 2001 and 2000, respectively, and are included in other liabilities on the consolidated balance sheets.

Cash and Equivalents

Cash and equivalents include investments with initial maturities of three months or less.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of short-term investments and receivables.

The Company extends credit to certain casino customers following an evaluation of the creditworthiness of the individual. The Company maintains an allowance for doubtful accounts to reduce the casino receivables to their estimated collectible amount. As of December 31, 2001, management believes that there are no concentrations of credit risk for which an allowance has not been established and recorded. The collectibility of foreign and domestic receivables could be affected by future economic or other significant events in the United States or in the countries in which such foreign customers reside.

Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year-end exchange rates. Income accounts are translated at the average of exchange rates during the year. Gains

and losses, net of applicable deferred income taxes, are reflected in stockholders' equity. Gains and losses from foreign currency transactions are included in the statements of operations.

Inventories

Inventories, prepaids, and other at December 31, 2001 and 2000, include inventories of $49 million and $50 million, respectively. Inventories consist primarily of food and beverage items and are stated at the lower of cost or market. Cost is determined by the first-in first-out method.

Property and Equipment

Property and equipment are stated at cost. Interest incurred during construction of facilities or expansions is capitalized at the Company's weighted-average borrowing rate and amortized over the life of the related asset. Interest capitalization is ceased when a project is substantially completed or construction activities are no longer underway. Interest capitalized for the years ended December 31, 2001, 2000, and 1999 was $13 million, $7 million, and $37 million, respectively. Costs of improvements are capitalized. Costs of normal repairs and maintenance are charged to expense as incurred. Upon the sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of operations.

Depreciation is provided on a straight-line basis over the estimated useful life of the assets. Leasehold improvements are amortized over the shorter of the asset life or lease term. The service lives of assets are generally 30 to 40 years for buildings and riverboats and 3 to 10 years for furniture and equipment.

The carrying values of the Company's assets are reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. If it is determined that an impairment loss has occurred, then an impairment loss is recognized in the statement of operations.

Goodwill

Through December 31, 2001, the excess of the purchase price over the fair value of net assets of businesses acquired (goodwill) has been amortized using the straight-line method over 40 years. Cumulative goodwill amortization was $202 million and $152 million at December 31, 2001 and 2000, respectively. Goodwill amortization of $50 million in 2001, $50 million in 2000 and $34 million in 1999 is included in depreciation and amortization. (See *Recently Issued Accounting Pronouncements*.)

Unamortized Debt Issue Costs

Debt discount and issuance costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense based on the related debt agreements using the straight line method which approximates the effective interest method. The unamortized amounts are included in other assets on the consolidated balance sheets.

Self Insurance

The Company is self-insured for various levels of general liability, workers' compensation, and employee medical and life insurance coverage. Self-insurance reserves are estimated based on the Company's claims experience and are included in accrued expenses on the consolidated balance sheets.

Casino Revenue and Promotional Allowances

Casino revenue is the aggregate of gaming wins and losses. The revenue components presented in the consolidated financial statements exclude the retail value of rooms, food and beverage, and other

goods or services provided to customers on a complimentary basis. For additional information, the complimentary revenues which have been excluded from the accompanying statements of operations are as follows:

	2001	2000	1999
		(in millions)	
Rooms	$ 206	$ 190	$ 105
Food and beverage	330	312	192
Other	30	29	20
Total complimentary revenues	$ 566	$ 531	$ 317

The estimated departmental costs of providing these complimentaries are classified in the statements of operations as an expense of the department issuing the complimentary, primarily the casino department.

	2001	2000	1999
		(in millions)	
Rooms	$ 79	$ 71	$ 43
Food and beverage	276	259	159
Other	29	27	17
Total cost of promotional allowances	$ 384	$ 357	$ 219

Pre-Opening Expense

Pre-opening expense includes operating expenses and incremental salaries and wages directly related to a facility or project during its construction.

In the first quarter of 1999, the Company adopted Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities." The provisions of SOP 98-5 require that the Company expense costs of start-up activities (pre-opening, pre-operating, and organizational costs) as those costs are incurred and required the write-off of any unamortized balances upon implementation. Adoption of the SOP resulted in an expense of approximately $2 million, net of tax, which has been accounted for as a cumulative effect of accounting change. Pre-opening expenses in 1999 primarily related to the opening of Paris Las Vegas in September 1999.

Earnings (Loss) Per Share ("EPS")

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," basic EPS is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. The weighted-average number of common shares outstanding for the years ended December 31, 2001, 2000 and 1999 was 299 million, 301 million and 303 million, respectively. Diluted EPS reflects the effect of potential common stock, which consists solely of assumed stock option exercises. The dilutive effect of the assumed exercise of stock options would have increased the weighted-average number of common shares by 3 million for the year ended December 31, 2001, however, the additional shares were excluded from the EPS calculation because of the net loss experienced during that period. The dilutive effect of the assumed exercise of stock options increased the weighted-average number of common shares by 7 million and 6 million for the years ended December 31, 2000 and 1999, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

In the first quarter of 2001, the Emerging Issues Task Force ("EITF") reached a consensus on certain issues in EITF 00-22 "Accounting for 'Points' and Certain Other Time-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." EITF 00-22 requires that cash rebates or refunds as part of a customer loyalty program be shown as a reduction of revenues. The majority of the customer loyalty programs at the Company's casinos have a "cash back" feature, to which EITF 00-22 applies. The Company adopted the consensus provisions of EITF 00-22 in the first quarter of 2001.

EITF 00-14 "Accounting for Certain Sales Incentives," which is effective January 1, 2002, focuses on the accounting for, and presentation of, discounts, coupons, and rebates. EITF 00-14 requires that cash or equivalent amounts provided or returned to customers as part of a transaction should not be shown as an expense but should be an offset to the related revenue. The Company's casinos offer cash inducements and match-play coupons to customers to encourage visitation and play at the casinos. The Company early adopted the provisions of EITF 00-14 for

2001 year-end reporting.

With the adoption of the new standards, all prior-year periods presented have been reclassified to conform to the new presentation. This resulted in a reduction of casino revenues (and a corresponding reduction in casino expenses) of $238 million in 2000 and $151 million in 1999. The requirements of EITF 00-14 and EITF 00-22 do not have an impact on previously reported operating income or net income.

The consolidated financial statements for prior years reflect certain other reclassifications to conform with classifications adopted in 2001. These classifications have no effect on previously reported net income.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. It also further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS No. 141 are effective for business combinations initiated after June 30, 2001.

Under SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, Park Place is required to adopt SFAS No. 142 effective January 1, 2002. Goodwill amortization, which is included in depreciation and amortization on the consolidated statements of operations, was $50 million in 2001, $50 million in 2000, and $34 million in 1999. Pursuant to SFAS No. 142, this goodwill amortization ceased on January 1, 2002.

At December 31, 2001, the Company had approximately $1.8 billion of unamortized goodwill. Approximately two-thirds of the total relates to the acquisition of the Bally's properties in 1996, while the remainder relates primarily to the Caesars acquisition in December 1999. In accordance with the initial adoption of SFAS No. 142, each property with assigned goodwill will need to be valued as an operating entity. If the fair value of the operating entity is greater than the book value, including assigned goodwill, no further testing is required. However, if the book value, including goodwill, is greater than the fair value of the operating entity, the assets and liabilities of the operating entity will need to be valued. The difference between the fair value of the operating entity and the fair value of the assets is the implied fair value of goodwill. To the extent that the implied fair value of goodwill is less than the book value of goodwill, an impairment exists that will be recognized as a cumulative effect of a change in accounting in the first quarter of 2002.

The Company has engaged an independent company to assist in the valuation of properties with a significant amount of assigned goodwill. Based on the preliminary estimates of fair value of the

operating entities, the assets and liabilities of certain properties will need to be valued to determine the implied fair value of goodwill. The valuation of these assets and liabilities has not been completed, however, it is likely that there will be an impairment charge relating to goodwill associated with prior acquisitions.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. The requirements of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 144 is not expected to have a material effect on the Company's financial position or results of operations.

Note 3. Acquisitions

Caesars Acquisition

Effective December 29, 1999, the Company acquired Caesars pursuant to an agreement dated April 27, 1999. Aggregate consideration consisted of approximately $3.0 billion in cash. The acquisition was accounted for using the purchase method of accounting. The purchase price was allocated based on estimated fair values at the date of acquisition. A total of approximately $620 million, representing the excess of acquisition cost over the estimated fair value of Caesars tangible net assets, was allocated to goodwill. Goodwill amortization was based on a 40-year life.

Unaudited Pro Forma Information

The following unaudited pro forma information has been prepared assuming that this acquisition had taken place at the beginning of the period. This pro forma information does not purport to be indicative of future results or what would have occurred had this acquisition been made as of such date.

	1999
	(unaudited) (in millions, except per share amounts)
Revenue	$ 4,393
Operating income	555
Net income	62
Basic and Diluted EPS	0.20

Claridge Acquisition

In August 2000, Park Place submitted a letter of intent to purchase the Claridge Casino Hotel in Atlantic City, which was in a Chapter 11 proceeding. In November 2000, Claridge submitted its reorganization plan supporting a purchase by Park Place for $65 million. After bankruptcy court and regulatory approvals, the purchase closed and Park Place commenced operating the property on June 1, 2001.

Note 4. Accounts Receivable

Accounts receivable at December 31, 2001 and 2000 are as follows:

	2001	2000
	(in millions)	
Casino accounts receivable	$ 234	$ 272
Less allowance for doubtful accounts	(60)	(83)
	174	189
Hotel and other accounts receivable, net	48	64
Total	$ 222	$ 253

The provision for estimated uncollectible receivables, primarily included in casino expenses, was $143 million in 2001, $117 million in 2000, and $53 million in 1999.

Note 5. Investments

Investments in and notes from affiliates at December 31, 2001 and 2000 are as follows:

	2001	2000
	(in millions)	
Equity investments		
Casino hotels	$ 119	$ 140
Notes receivable	80	50
Other	2	60

	2001	2000
Total	$ 201	$ 250

Investments in casino hotels consist of investments in less than 50 percent owned unconsolidated affiliates which includes two partially owned and managed casino hotels in Australia, one casino hotel in Punta del Este, Uruguay, one casino in Windsor, Canada, and one casino in South Africa.

During 2001, the Company recognized impairment losses on investments totaling $32 million primarily related to senior discount notes of Aladdin Gaming Holdings, LLC. In addition, investments in other bonds were exchanged or converted in connection with the acquisition of the Claridge Casino Hotel in June 2001.

Investment in Aladdin Notes

In February 1999, the Company purchased approximately 30 percent of the senior discount notes of Aladdin Gaming Holdings, LLC, the parent company of Aladdin Gaming, LLC d.b.a. Aladdin Resort and Casino ("Aladdin") in the open market. The Aladdin is adjacent to Paris/Bally's on the Las Vegas Strip. During the next two years, the Company purchased an additional 3 percent of the senior discount notes for a total ownership of approximately one-third of the outstanding notes. These notes are subordinate to the Aladdin's senior bank debt and asset-secured bank financing. In September 2001, the Aladdin filed for bankruptcy. Based on that event and the property's poor operating results and general economic slow-down, the Company decided to write-off its total investment in the Aladdin Gaming Holdings, LLC notes.

Note 6. Property and Equipment

Property and equipment at December 31, 2001 and 2000 are as follows:

	2001	2000
	(in millions)	
Land	$ 1,714	$ 1,704
Buildings, riverboats and leasehold improvements	5,932	5,758
Furniture and equipment	1,387	1,236
Construction in progress	82	107
	9,115	8,805
Less accumulated depreciation and amortization	(1,384)	(1,000)
Total	$ 7,731	$ 7,805

Note 7. Accrued Expenses

Accrued expenses at December 31, 2001 and 2000 are as follows:

	2001	2000
	(in millions)	
Compensation and benefits	$ 170	$ 182
Customer deposits	40	47
Outstanding casino chip liability	35	44
Gaming and property taxes	53	53
Interest	76	72
Other	209	208

	2001	2000
Total	$ 583	$ 606

Note 8. Debt

Long-term debt at December 31, 2001 and 2000 consists of the following:

	2001	2000
	(in millions)	
Credit facilities	$ 1,904	$ 2,720
Commercial paper		54
7.375% Senior Notes, due 2002, net of unamortized discount of $1 million in 2000	300	299
7.95% Senior Notes, due 2003, net of unamortized discount of $1 million	299	299
7.0% Senior Notes, due 2004	325	325
8.5% Senior Notes, due 2006, net of unamortized discount of $3 million	397	397
7.5% Senior Notes, due 2009	425	
7.875% Senior Subordinated Notes, due 2005	400	400
9.375% Senior Subordinated Notes, due 2007	500	500
8.875% Senior Subordinated Notes, due 2008	400	400
8.125% Senior Subordinated Notes, due 2011, net of unamortized discount of $3 million	347	
Other	11	4
	5,308	5,398
Less current maturities	(7)	(1)
Net long-term debt	$ 5,301	$ 5,397

Debt maturities during the next five years are as follows:

	(in millions)
2002	$ 7
2003	1,104
2004	325
2005	1,800
2006	397
Thereafter	1,675
	$ 5,308

The debt maturities schedule above and the consolidated balance sheet exclude from current maturities the $300 million of 7.375% Senior Notes due in 2002 because the Company intends to use its availability under the multi-year credit facility to pay off these Notes.

The Company's credit facilities were amended in August 2001 and modified in November 2001 resulting in the following credit facilities being in place: (1) a $1.3 billion 364-day revolving credit facility and (2) a $2.0 billion multi-year facility expiring in December 2003 with a

$1.4 billion 2-year extension upon expiration or termination of the existing multi-year facility.

The credit facilities contain financial covenants including a maximum leverage ratio (total debt to ebitda, as defined) of 5.50 to 1.00 and a minimum interest coverage ratio (ebitda, as defined, to interest expense) of 2.50 to 1.00. The maximum leverage covenant adjusts to 5.25 to 1.00 as of September 2002, 5.00 to 1.00 as of December 2002, and 4.50 to 1.00 for each quarterly testing period thereafter. The minimum interest coverage covenant adjusts to 2.75 to 1.00 after September 2002. As of December 31, 2001, the Company was in compliance with the applicable covenants.

Borrowings under the credit facilities bear interest at a floating rate and may be obtained at the Company's option as LIBOR advances for varying periods, or as base rate advances, each adjusted for an applicable margin (as further described in the credit facilities), or as competitive bid loans. As of December 31, 2001, LIBOR advances under the 364-day revolving credit facility bear interest at LIBOR plus 112.5 basis points and LIBOR advances under the multi-year facility bear interest at LIBOR plus 107.5. These rates may be adjusted quarterly based on the Company's leverage ratio or debt ratings. In addition, there is a facility fee for borrowed and unborrowed amounts which was 15 basis points under the 364-day revolving credit facility and 20 basis points under the multi-year facility. Base rate advances will bear interest at the base rate (defined as the higher of: (1) the federal funds rate plus 0.50%, or (2) the reference rate as publicly announced by Bank of America in San Francisco) plus a margin equal to the applicable margin for LIBOR loans in effect from time to time minus 1.25%. Competitive bid loans bear interest either on an absolute rate bid basis or on the basis of a spread above or below LIBOR. The maximum applicable margin for LIBOR loans is 1.75% plus or minus pre-determined discounts based on the Company's leverage ratios. The weighted-average interest rate on outstanding borrowings under the credit facilities was 3.14% at December 31, 2001 and 8.09% at December 31, 2000.

The Company has established a $1.0 billion commercial paper program. To the extent that the Company incurs debt under this program, it must maintain an equivalent amount of credit available under its credit facilities. The Company has borrowed under the program for varying periods during 2001 and 2000. At December 31, 2001, there were no amounts outstanding under the commercial paper program. At December 31, 2000, $54 million was outstanding under this program. The weighted-average interest rate at December 31, 2000 was 7.40%.

In May 2001, the Company issued $350 million of 8.125% senior subordinated notes due 2011 through a private placement offering to institutional investors. In August 2001, the Company completed its exchange offer for identical notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with the Company's other senior subordinated indebtedness and are junior to all of the Company's senior indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

In August 2001, the Company issued $425 million of 7.50% senior notes due 2009 through a private placement offering to institutional investors. These notes were subsequently exchanged for notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with the Company's other senior indebtedness and are senior to all of the Company's junior indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

On March 14, 2002, the Company issued $375 million of 7.875% senior subordinated notes due 2010 through a private placement offering to institutional investors. The Company plans to exchange these notes for notes registered under the Securities Act of 1933, as amended. The notes are redeemable at any time prior to their maturity at the redemption prices described in the indenture governing such notes. The notes are unsecured obligations, rank equal with the Company's other senior subordinated indebtedness and are junior to all of the Company's senior indebtedness. Proceeds from this offering were used to reduce borrowings under the credit facilities.

The estimated fair value of long-term debt (including current maturities) at December 31, 2001 and 2000 was $5,352 million and $5,424 million, respectively. The fair values are based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Note 9. Income Taxes

The provisions for income taxes for the three years ended December 31 are as follows:

	2001	2000	1999
	(in millions)		

	2001	2000	1999
Current			
Federal	$ 21	$ 23	$ 99
State, foreign and local	31	30	15
	52	53	114
Deferred	(40)	68	(1)
Total	$ 12	$ 121	$ 113

The income tax effects of temporary differences between financial and income tax reporting that gave rise to deferred income tax assets and liabilities at December 31, 2001 and 2000 are as follows:

	2001	2000
	(in millions)	
Deferred tax assets		
Accrued expenses	$ 72	$ 62
Insurance and other reserves	44	47
Benefit plans	13	17
Pre-opening expense	4	7
Foreign tax credit carryovers (began expiring in 2001)	56	46
Capital loss carryover (expires in 2002)	15	21
Other	50	48
	254	248
Valuation allowance	(32)	(36)
	222	212
Deferred tax liabilities		
Fixed assets, primarily depreciation	(972)	(1,029)
Other	(160)	(133)
	(1,132)	(1,162)
Net deferred tax liability	$ (910)	$ (950)

A reconciliation of the federal income tax rate to the Company's effective tax rate is as follows:

	2001	2000	1999
Federal income tax rate	35.0 %	35.0 %	35.0%
Foreign, state and local income taxes, net of federal tax benefits	(137.8)	6.1	2.0
Goodwill amortization	(192.2)	6.6	4.7
Tax return true-up and permanent items	175.0	(2.0)	3.0

	2001	2000	1999
Effective tax rate	(120.0)%	45.7 %	44.7%

Note 10. Stockholders' Equity

Four hundred million shares of common stock with a par value of $0.01 per share are authorized. As of December 31, 2001, 322.4 million shares were issued and 301.3 million were outstanding. As of December 31, 2000, 313.5 million shares were issued and 297.6 million shares were outstanding. One hundred million shares of preferred stock with a par value of $0.01 per share are authorized, of which no amounts have been issued.

The Board of Directors has approved an aggregate of 40 million shares under a common stock repurchase program. Cumulatively, through December 31, 2001, the Company repurchased a total of 21.1 million shares of its common stock at an average price of $11.52 resulting in 18.9 million shares remaining available under the stock repurchase program.

The Company has a Preferred Share Purchase Rights Plan under which a right is attached to each share of the Company's common stock. The Rights may only become exercisable under certain circumstances involving actual or potential acquisitions of the Company's common stock by a specified person or affiliated group. Depending on the circumstances, if the Rights become exercisable, the holder may be entitled to purchase units of the Company's junior participating preferred stock, shares of the Company's common stock or shares of common stock of the acquiror. The Rights remain in existence until 2008 unless they are terminated, exercised or redeemed.

Note 11. Stock Options

At December 31, 2001 and 2000, 55.6 million shares and 45.6 million shares, respectively, of common stock were reserved for the exercise of options under the Company's Stock Incentive Plans. Options may be granted to salaried officers, directors, and other key employees of the Company to purchase common stock at not less than the fair market value at the date of grant. Generally, options may be exercised in installments commencing one year after the date of grant. The Stock Incentive Plans also permit the granting of Stock Appreciation Rights ("SARs"). No SARs have been granted as of December 31, 2001.

The following table summarizes information for the stock option plans for the years ended December 31, 2001, 2000 and 1999:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	33,378,300	$ 8.97	35,773,113	$ 8.27	32,810,464	$ 8.24
Granted	3,563,880	11.12	4,637,400	11.77	6,938,660	7.92
Exercised	(8,494,639)	8.98	(6,424,211)	7.07	(3,341,807)	7.00
Cancelled	(1,179,690)	10.65	(608,002)	9.45	(634,204)	9.34
Outstanding at end of year	27,267,851	9.17	33,378,300	8.97	35,773,113	8.27
Options exercisable at end of year	17,984,474	$ 8.46	22,460,785	$ 8.58	19,248,145	$ 8.17
Options available at end of year	10,071,492		2,455,682		5,950,080	

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options Outstanding		Options Exercisable

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 4.27 - $ 6.38	7,089,316	4.45 years	$ 6.31	6,589,316	$ 6.30
6.50 - 9.11	6,957,245	5.93	7.37	5,207,125	7.59
9.27 - 11.23	7,050,880	7.18	10.82	3,326,573	10.45
11.28 - 14.44	6,170,410	6.97	12.60	2,861,460	12.72
$ 4.27 - $14.44	27,267,851	6.10	$ 9.17	17,984,474	$ 8.46

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, compensation expense recognized was different than what would have otherwise been recognized under the fair value based method defined in SFAS No. 123, "Accounting for Stock-Based Compensation." Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	2001	2000	1999
	(in millions, except per share amounts)		
Net income (loss)			
As reported	$ (24)	$ 143	$ 136
Pro forma	(35)	114	111
Basic EPS			
As reported	$ (0.08)	$ 0.48	$ 0.45
Pro forma	(0.12)	0.38	0.37
Diluted EPS			
As reported	$ (0.08)	$ 0.46	$ 0.44
Pro forma	(0.12)	0.37	0.36

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2001, 2000 and 1999, respectively: dividend yield of zero percent for each of the three years; expected volatility of

40 percent for each of the three years; risk-free interest rates of 4.92, 6.45 and 5.30 percent and expected life of six years for each of the options granted. As a result of the distribution, the fair values of the Hilton options were adjusted and prior periods were restated based on the relative values of Hilton and Park Place common stock at December 31, 1998. The weighted-average grant date fair value of options granted by Park Place was $5.19 for 2001, $5.82 for 2000 and $3.30 for 1999.

Note 12. Employee Pension and Savings Plans

A significant number of the Company's employees are covered by union sponsored, collectively bargained, multi-employer pension plans. The Company contributed and charged to expense $18 million, $22 million and $13 million in 2001, 2000, and 1999, respectively, for such plans. Information from the plans' administrators is not sufficient to permit the Company to determine its share, if any, of unfunded vested benefits.

The Company and its subsidiaries also sponsor several defined contribution plans (401(k) savings plans). These plans allow for pretax and after tax employee contributions and employer matching contributions. Such amounts contributed to the plans are invested at the participants' direction. The Company's matching contribution expense for such plans was $22 million in 2001, $19 million in 2000, and $11 million in 1999.

The Company also maintains a Non-qualified Deferred Compensation Plan for certain employees. This plan allows participants to defer a portion of their salary on a pretax basis and accumulate tax-deferred earnings plus interest. The Company provides a matching contribution of 50 percent of the employee contribution, subject to a maximum Company contribution of 5 percent of an employee's annual compensation. These deferrals are in addition to those allowed in the Company's 401(k) plans.

In November 2001, the Company established a Supplemental Retention Plan for selected executives. Participants in this non-qualified unfunded retirement plan are granted rights that vest over four years. At retirement, or in other circumstances as defined, shares of Company common stock are distributed equal to the number of rights credited to a participant's account. The shares issued under the plan will be treasury shares and are limited to a maximum of 2.5 million shares.

The Company maintains an Employee Stock Purchase Plan by which the Company is authorized to issue up to five million shares of common stock to its full-time employees. Under the terms of the Plan, employees can elect to have a percentage of their earnings withheld to purchase the Company's common stock at 95 percent of the lower of the market price on the first day of the purchase period or the last day of the purchase period.

Note 13. Leases

The Company and its subsidiaries lease both real estate and equipment used in operations, which are classified as operating leases. Rental costs relating to operating leases and charged to expense were approximately $40 million in 2001, $41 million in 2000, and $30 million in 1999, including contingent rental payments of $19 million in 2001, $21 million in 2000, and $17 million in 1999.

The following is a schedule of future minimum lease commitments under noncancellable operating leases as of December 31, 2001 (in millions):

2002	$ 21
2003	18
2004	16
2005	15
2006	11
Thereafter	194
Total minimum lease payments	$ 275

The Company leases the land and building for the Caesars Tahoe facility. This lease expires in 2028 and is renewable for an additional 25-year period. The lease provides for a minimum rental payment of $4.6 million for 2002, increasing by 2.5 percent in each subsequent year, and for percentage rent of 1 percent of the casino hotel's gross revenue (as therein defined).

The Company has also entered into various operating leases for land adjacent to its dockside casinos in Mississippi. The lease for land adjacent to the Grand Casino Gulfport is for the period from July 1, 1997, through June 30, 2002, and contains renewal options for an additional 40 years. The Company is required to make annual rental payments of $1.3 million subject to adjustment as defined, plus 5 percent of gross annual gaming revenues in excess of $25 million and 3 percent of all non-gaming revenues. The lessor of the Grand Casino Gulfport site has the right to cancel the lease at any time for reason of port expansion, in which case the lessor will be liable to the Company for the depreciated value of improvements and other structures placed on the leased premises, as defined.

The lease for land adjacent to the Grand Casino Biloxi has an initial term of 99 years and provides for rental payments of 5 percent of casino revenues (as defined therein) with a minimum payment of $2.5 million per year. Park Place can cancel the lease by making a payment equal to six months of lease payments. The Company also entered into a 15-year lease for submerged land adjacent to the Grand Casino Biloxi with an option to extend the lease for five years after the expiration of the initial 15-year term in 2008. The lease provides for annual rental payments of $0.9 million and subsequent increases as defined in the agreement.

The lease for land adjacent to the Grand Casino Tunica provides for annual rental payments of $3.3 million in 2002, subject to adjustment as defined in each subsequent year. The initial term of the lease was for six years beginning in 1993 with nine six-year renewal options, for a total of 60 years.

Note 14. Impairment Losses and Other

During 2001, the Company recognized impairment losses on the Las Vegas Hilton and the sale of the Flamingo Reno totaling $143 million.

Las Vegas Hilton

In July 2000, a definitive agreement was signed that would have resulted in the sale of the property, building and equipment of the Las Vegas Hilton for a base price of $300 million. The agreement provided that Park Place would retain receivables relating to high-end casino play, and would attempt to service high-end customers at other properties. As anticipated by the agreement, and once it was announced, high-end gaming customers gradually ceased play at the Las Vegas Hilton.

During the third and fourth quarters of 2000, revenues began to reflect the loss of the high-end play without incremental locals' play or increased convention business. Operating income was also negatively impacted as costs associated with the high-end play could not be reduced as quickly because the property continued to provide service to the remaining high-end market pending closing of the sale. Additionally, the held-for-sale status affected the property's ability to compete for other casino business.

In January 2001, the purchaser failed to further extend the closing date and did not complete the transaction, thereby breaching the terms of the agreement. The Company ceased its efforts to sell the property and continued to operate it in the normal course, but with a focus on locals' play and convention business. However, the facilities were originally designed to cater to and accommodate high-end play as well as convention patrons.

During 2001, revenues declined from $73 million in the first quarter to $48 million in the third quarter. Operating income during 2001 was $7 million in the first quarter, a loss of $3 million in the second quarter, and a loss of $14 million in the third quarter. The successive quarters of operating losses coupled with the significant reduction in convention and group visitation into Las Vegas resulting from the events of September 11 necessitated a review of the Las Vegas Hilton assets for impairment.

Based on an analysis of expected future cash flows, an impairment existed. An independent appraisal company using a combination of future cash flow analysis and market/sales comparison analysis made an appraisal of the Las Vegas Hilton resulting in a fair value that was $124 million less than the carrying value of the assets. A $124 million write-down of fixed assets was made in the third quarter of 2001.

Flamingo Reno

On October 5, 2001, the Company entered into an agreement to sell the Flamingo Reno. In anticipation of the sale, the facility was closed on October 23, 2001. The Company provided employees with 60 days of salary continuation from October 5, 2001 and health benefits through the end of 2001. The sale was completed in December 2001. As a result of the sales agreement, a $19 million loss was recognized in the third quarter of 2001. The loss includes the write-down of the assets to be sold and employee termination and other incremental costs of closing the property, net of the sales price.

2000 Transactions

In conjunction with the spin-off from Hilton in December 1998, the Company entered into a disposition agreement with Hilton with respect to the Flamingo Hilton Riverboat Casino located in Kansas City, Missouri. This asset was not part of the tax-free spin-off transaction at December 31, 1998 due to lack of regulatory approvals. However, the agreement provided for the Company to receive the equivalent economic value of this asset upon sale or other disposition. In June 2000, Hilton sold this asset to a third party. As a result of this sale and in accordance with the disposition agreement, the Company recognized a pretax gain of $18 million in 2000.

In July 2000, the Company entered into an agreement to sell the Las Vegas Hilton to an unrelated third party, subject to regulatory approvals. The Company was to receive $300 million for the property, building, and equipment plus an amount for net working capital (excluding certain gaming customer receivables to be retained by Park Place). In connection with this planned disposition, the Company recognized a pretax non-cash impairment loss of $55 million in 2000. By November 2000, all regulatory approvals related to the transaction had been received. In January 2001, the purchaser did not complete the transaction thereby breaching the terms of the agreement. Legal actions regarding the failed transaction and the $20 million in letter of credit and escrow funds have been filed by the Company and the purchaser (see Note 15 for further discussion).

In connection with the purchase of Bally by Hilton in 1996 and the subsequent spin-off, Park Place obtained the rights to the "Bally" trademarks. In October 2000, the Company recognized a pretax gain of $7 million in connection with the sale of certain trademark rights associated with the Bally name.

In October 2000, Arthur M. Goldberg, the Company's president and chief executive officer passed away. In fulfillment of this executive's employment contract obligations, the Company recognized a pretax charge of approximately $15 million for salary commitments and certain life insurance benefits.

1999 Transaction

In December 1999, the Company entered into a definitive agreement to sell the Flamingo Reno for approximately $20 million in cash. In connection with this agreement, the Company recognized an impairment loss of $26 million in 1999. In July 2000, the Company announced that the sales agreement had been cancelled.

Note 15. Commitments and Contingencies

New Projects

Saint Regis Mohawk Tribe

Park Place entered into an agreement in April 2000 with the Saint Regis Mohawk Tribe in Hogansburg, New York. Park Place paid $3 million for exclusive rights to develop a Class II or

Class III casino project with the Tribe in the State of New York for a period of three years, or extended thereafter by mutual agreement. The parties also agreed to enter into a seven-year definitive management agreement for Park Place to manage the casino in return for a management fee equal to 30 percent of ebitda, as defined in the agreement. The agreement is subject to the approval of the National Indian Gaming Commission.

The Company has entered into a definitive agreement, as amended, to acquire approximately 66 acres of the Kutsher's Resort Hotel and Country Club in Sullivan County, New York, for approximately $10 million, with an option to purchase the remaining 1,400 acres for $40 million. Approximately 66 acres will be transferred to be held in trust for the Saint Regis Mohawk Tribe subject to approval of the Bureau of Indian Affairs ("BIA").

The facility will include a 750-room hotel, 130,000 square feet of gaming space, 15,000 square feet of meeting space, 8 restaurants and a spa.

All of the agreements and plans relating to the development and management of this project are contingent upon various regulatory approvals, including a compact between the Saint Regis Mohawk Tribe and the State of New York, and receipt of approvals from the BIA, National Indian Gaming Commission and local planning and zoning boards.

In October 2001, the New York State Legislature enacted a bill, which the governor signed, authorizing a total of six Indian casinos in the state of New York three in Western New York and three in the Catskill Region. The legislation also gives the governor the authority to negotiate state compacts with the tribes without further approval by the legislature.

Litigation

The Company's subsidiaries are involved in various legal proceedings relating to routine matters of business. The Company is also party to legal proceedings relating to the Bally, Hilton, Grand and Caesars gaming businesses. The Company believes that all the actions brought against it are without merit and will continue to vigorously defend against them. While any proceeding or litigation has an element of uncertainty, the Company believes that the final outcome of these matters is not likely to have a material adverse effect upon its results of operations or financial position.

Belle of Orleans

The Company's wholly owned subsidiary, Bally's Louisiana, Inc., owns 49.9 percent of the Belle of Orleans, L.L.C. The Belle owns and holds the riverboat gaming license to operate Bally's Casino New Orleans. Metro Riverboat Associates, Inc. owns the remaining 50.1 percent in the Belle. Bally's Louisiana and Metro entered into an operating agreement defining the rights and obligations of the members of Belle, and the Belle entered into a management agreement providing for Bally's Louisiana to manage the casino. The parties are involved in numerous

lawsuits, appeals and administrative hearings regarding their rights and obligations under those agreements. Cases are pending between the parties in the Civil District Court for the Parish of Orleans, the Nineteenth Judicial District Court for the Parish of East Baton Rouge, the Louisiana First and Fourth Circuit Courts of Appeal, the Louisiana Supreme Court, and the U.S. District Court for the Eastern District of Louisiana. Metro's claims involve assignments of the management agreements by previous wholly owned Bally's entities to Bally's Louisiana, as well as the effects of Hilton's merger with Bally Entertainment Corporation in 1996, and Hilton's subsequent spin-off of its gaming operations to Park Place in 1998. Metro asserts that Bally's Louisiana is not entitled to manage the casino. Metro is seeking injunctive relief and unspecified damages. Metro has also filed an action in the United States District Court for the Eastern District of Louisiana against certain of Park Place's officers and directors and Bally's Louisiana. The lawsuit alleges civil racketeering and conspiracy activities among the named defendants and members of the Louisiana State Judiciary, the Louisiana Gaming Control Board, the Louisiana State Police, and the Louisiana Attorney General's office.

Bally Merger Litigation

On December 19, 2001, the Delaware Supreme Court affirmed the trial court's decision dismissing all of the plaintiff's claims in a purported class action against Bally Entertainment Corporation, its directors and Hilton Hotels Corporation, under the caption *Parnes v. Bally Entertainment Corporation*, *et al*. The action arose from the merger of Bally into Hilton in December 1996.

Slot Machine Litigation

On April 26, 1994, William H. Poulos brought a purported class action in the U.S. District Court for the Middle District of Florida, Orlando Division captioned *William H. Poulos, et al. v. Caesars World, Inc. et al.*, against 41 manufacturers, distributors and casino operators of video poker and electronic slot machines, including Park Place. On May 10, 1994, another plaintiff filed a class action complaint in the United States District Court for the Middle District of Florida *William Ahearn, et al. v. Caesars World, Inc. et al.* alleging substantially the same allegations against 48 defendants, including Park Place. On September 26, 1995, a third action was filed against 45 defendants, including Park Place, in the U.S. District Court for the District of Nevada *Larry Schreier, et al. v. Caesars World, Inc. et al*. The court consolidated the three cases in the U.S. District Court for the District of Nevada under the case caption *William H. Poulos, et al. v. Caesars World, Inc. et al.* The consolidated complaints allege that the defendants are involved in a scheme to induce people to play electronic video poker and slot machines based on false beliefs regarding how such machines operate and the extent to which a player is likely to win on any given play. The actions included claims under the federal Racketeering Influenced and Corrupt Organizations Act, fraud, unjust enrichment and negligent misrepresentation, and seek unspecified compensatory and punitive damages. The case has not been certified as a class action.

Las Vegas Hilton Sale Litigation

In July 2000, the Company entered into an agreement to sell the Las Vegas Hilton to Las Vegas Convention Hotel, LLC, which failed to complete the transaction on the date set for closing. The Company filed a complaint in the Eighth Judicial District Court for the State of Nevada against Las Vegas Convention Hotel LLC, et al. seeking declaratory relief to retain the $20 million in deposits and recover additional damages for breach of contract. The Company also filed a complaint in the United States District Court for the District of Nevada for damages against Edward Roski, Jr. as guarantor of the transaction. The defendants have filed actions against Park Place and Hilton Hotels Corporation in the Eighth Judicial District Court, which actions have been consolidated with Park Place's action in that Court, alleging breach of contract and tortious interference with contract, and seeking non-specific general, special, and punitive damages, specific performance to compel the sale of the property to plaintiffs at a purchase price less than that required under the original contract, and injunctive relief to prevent Park Place from selling the property to any other person.

Flixcorp Litigation

Bally Data Systems, Inc. and Bally Entertainment Inc. are defendants in an action entitled *Flixcorp of America, Ltd. v. Bally Data Systems, et al.*, filed in the Circuit Court of Cook County, Illinois in 1987. The litigation involves a breach of contract claim arising out of a purported agreement to develop and manufacture videotape dispensing machines. Plaintiffs allege $167 million in damages, while the companies strongly dispute both liability and damages. The matter is currently scheduled for trial in the third quarter of 2002.

Mohawk Litigation

In April 2000, the Company entered into an agreement with the Saint Regis Mohawk Tribe pursuant to which we obtained the exclusive rights to develop a Class II or Class III casino project in the state of New York with the Tribe. There are various other parties alleging that the

grant of rights to

the Company somehow infringed upon their rights. Such parties have commenced the various lawsuits discussed below.

On April 26, 2000, certain individual members of the Saint Regis Mohawk Tribe purported to commence a class action proceeding in a "tribal court" in Hogansburg, New York, against Park Place and certain of its executives. The proceeding seeks to nullify Park Place's agreement with the Saint Regis Mohawk Tribe to develop and manage gaming facilities in the State of New York. The Company believes that the purported tribal court in which the proceeding has been invoked is an invalid forum and is not recognized by the lawful government of the Saint Regis Mohawk Tribe or by the United States Department of the Interior. On June 2, 2000, Park Place and certain of its executives filed an action in the United States District Court for the Northern District of New York seeking to enjoin the dissident Tribe members from proceeding in the tribal court with an action that Park Place believes has been unlawfully convened and is without merit. In September 2000, the District Court dismissed the Park Place action on the grounds that the Court lacked jurisdiction. In October 2000, Park Place appealed the judgment to the United States Court of Appeals for the Second Circuit. In January 2002, the Second Circuit remanded the matter to the District Court. During the pendency of the appeal, on March 21, 2001, the purported tribal court rendered a purported default judgment against Park Place in the approximate amount of $1.8 billion, which judgment Park Place refuses to recognize as valid. On or about June 27, 2001, the plaintiffs in the purported tribal court action commenced an action in the United States District Court for the Northern District of New York, seeking recognition and enforcement of the purported tribal court judgment as well as punitive damages of $5 million and certain other costs. Both Park Place and plaintiffs have moved for summary judgment and are awaiting a determination of their motions. Park Place is pursuing all necessary actions to enjoin any efforts to enforce the purported judgment.

On June 6, 2000, President R.C.-St. Regis Management Company and its principal, Ivan Kaufman, filed an action in the Supreme Court of the State of New York, County of Nassau, against Park Place and certain of its executives seeking compensatory and punitive damages in the amount of approximately $550 million. The action alleges claims based on breach of a proposed letter agreement between plaintiffs, Park Place, and the Saint Regis Mohawk Tribe concerning the Tribe's existing casino in Hogansburg, New York, fraudulent inducement, tortious interference with contract, and defamation. Alternatively, plaintiffs seek specific performance and/or injunctive relief in connection with the proposed letter agreement. In September 2000, plaintiffs voluntarily dismissed three of the contract-related claims that had been brought against the individually named defendants.

On November 13, 2000, Catskill Development, LLC, Mohawk Management LLC and Monticello Raceway Development Company LLC (collectively, "Catskill Development") filed an action against Park Place in the United States District Court for the Southern District of New York. The action arises out of Catskill Development's efforts to develop land in Sullivan County as an Indian gaming facility in conjunction with the Saint Regis Mohawk Tribe. Catskill Development claims that Park Place wrongfully interfered with several agreements between itself and the Tribe pertaining to the proposed gaming facility. The plaintiffs alleged tortious interference with contract and prospective business relationships, unfair competition and state anti-trust violations and sought over $3 billion in damages. On May 11, 2001, the District Court granted Park Place's motion to dismiss three of the four claims made by Catskill Development. On May 30, 2001, Catskill Development moved for reconsideration of that ruling and the District Court reinstated one of the dismissed claims.

On March 29, 2001, Park Place and its then general counsel, Clive Cummis, sued thirty individual tribal members in the Supreme Court of the State of New York, New York County, in the case of *Park Place Entertainment et al. v. Marlene Arquette, et al.*, alleging malicious defamation and interference with contract in connection with the individuals' purported tribal court proceedings and media publication of their purported "default judgment" against Park Place, all of which has been injurious to the good name and reputation of Park Place and Plaintiffs. On November 14, 2001, the Court granted defendants' motion to transfer venue to Franklin County.

On or about October 23, 2001, Scutti Enterprise, LLC commenced an action seeking over $500 million alleging that Park Place wrongfully interfered with its relationship with the Saint Regis Mohawk Tribe pertaining to the proposed redevelopment and management of the Mohawk Bingo Palace. The court has dismissed the complaint with prejudice.

On or about January 29, 2002 two actions were filed in the Supreme Court of the State of New York, County of Albany, challenging legislation that, among other things, authorized the Governor of the State of New York to execute tribal-state gaming compacts, approved the

use of slot machines as "games of chance," approved the use of video lottery terminals at racetracks and authorized the participation of New York State in a multi-state lottery. The matters are captioned *Dalton v. Pataki, et al*. and *Karr v. Pataki, et al.* Plaintiffs seek a declaratory judgment declaring the legislation unconstitutional and enjoining the implementation thereof. Park Place has received consent of all parties in each action to intervene, and has sought to do so.

Stratosphere Stand-By Equity Commitment

Grand is a defendant in *Stratosphere Litigation, L.L.C. v. Grand Casinos, Inc. a Minnesota Corporation*, pending in the United States District Court of Nevada. In March 1995, Grand entered into a Standby Equity Commitment Agreement with Stratosphere in which Grand agreed, subject to certain terms and conditions, to purchase up to $20 million of additional equity in Stratosphere during each of the first three years Stratosphere operated if Stratosphere's consolidated cash flow during each of such years did not exceed $50 million. The enforceability of the Standby Equity Commitment was the subject of litigation in the U.S. District Court as a result of an action brought by the Trustee in Bankruptcy for the Stratosphere. On February 19, 1998, the U.S. Bankruptcy Court for the District of Nevada ruled in favor of Grand that the Standby Equity Commitment is not enforceable in Bankruptcy Court as a matter of law. On April 4, 2001, the U.S. District Court entered a judgment in favor of Grand on all counts and on May 4, 2001, plaintiffs appealed the judgment to the Ninth Circuit Court of Appeals. This lawsuit to which Grand and its subsidiaries are parties arose out of actions prior to Grand's merger with Park Place. Any liabilities with respect thereto are an obligation of Grand, and Grand is to be indemnified by Lakes Gaming, Inc. (the company that retained the non-Mississippi business of Grand prior to the merger). If Lakes is unable to satisfy its indemnification obligations, Grand will be responsible for any liabilities, which could have a material adverse effect on Park Place.

Note 16. Quarterly Financial Data (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(dollars in millions, except per share amounts)				
Year Ended December 31, 2001					
Revenues(1)	$ 1,161	$ 1,171	$ 1,189	$ 1,110	$ 4,631
Operating income (loss)	184	179	(18)	62	407
Net income (loss)	45	48	(101)	(16)	(24)
Basic EPS(2)	0.15	0.16	(0.34)	(0.05)	(0.08)
Diluted EPS(2)	0.15	0.16	(0.34)	(0.05)	(0.08)
Year Ended December 31, 2000					
Revenues(1)	$ 1,177	$ 1,189	$ 1,212	$ 1,080	$ 4,658
Operating income	197	167	222	110	696
Net income (loss)	52	31	67	(7)	143
Basic EPS(2)	0.17	0.10	0.22	(0.02)	0.48
Diluted EPS(2)	0.17	0.10	0.22	(0.02)	0.46

(1) As discussed in Note 2, the Company adopted the provisions of EITF 00-14 and EITF 00-22 in 2001 relating to cash rebates, refunds, coupons and discounts. The revenues shown above differ

from those previously reported on Form 10-Q because of the required "cash back" reclassifications. Operating income (loss) and net income (loss) were not affected.

(2) The sum of Basic and Diluted EPS for the four quarters may differ from the annual EPS due to the required method of computing weighted average number of shares in the respective periods.

Note 17. Subsequent Event

On February 20, 2002, we entered into an agreement with Jupiters Limited, whereby it will purchase 50 percent of our equity in Jupiters Limited. We also entered into a separate agreement to sell our remaining equity in Jupiters Limited to institutional investors. After-tax proceeds of these two transactions are currently estimated at $100 million and will be used to repay bank debt. The agreements are subject to shareholder, regulatory, and governmental approvals and financing arrangements by Jupiters Limited. The transactions are expected to be completed in the second quarter of 2002. Although we have agreed to sell our equity in Jupiters Limited, we will continue to manage the two Jupiters' Queensland casinos.

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

Effective March 24, 2000, the Company dismissed Arthur Andersen LLP ("AA"). The decision to change accountants was approved by the Audit Committee and the Board of Directors of the Company.

The report of AA on the Company's consolidated balance sheet as of December 31, 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 1999, did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two most recent fiscal years and the interim periods subsequent to December 31, 1999 through March 24, 2000, there were no disputes between the Company and AA as to matters of accounting principles or practices, financial statement disclosures, or audit scope or procedure, which disagreements, if not resolved to the satisfaction of AA, would have caused it to make a reference to the subject matter of the disagreement in connection with its reports on the financial statements for such periods. AA has furnished the Company with a letter addressed to the Securities and Exchange Commission stating that it agrees with the above statements. A copy of this letter was included as an exhibit to the Report on Form 8-K filed with the Commission in March 2000.

The Company has engaged the firm of Deloitte & Touche LLP as independent accountants for the Company's fiscal years ended December 31, 2001 and 2000 to replace AA. The Company's Board of Directors approved the selection of Deloitte & Touche LLP as independent accountants upon recommendation of the Company's Audit Committee.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

We incorporate by reference the information appearing under "Directors and Executive Officers" in our Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the Company's year ended December 31, 2001 and forwarded to stockholders prior to the Company's 2002 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

We incorporate by reference the information appearing under "Executive Compensation" in our Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

We incorporate by reference the information appearing under "Security Ownership of Directors and Executive Officers" and "Principal Stockholders" in our Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We incorporate by reference the information appearing under and "Related Party Transactions" in our Proxy Statement.

PART IV

Item 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statement Schedules.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(in millions)

Year ended December 31,	Balance at beginning of year	Charged to Costs and Expenses	Charged (credited) to other accounts	Deductions	Other	Balance at end of year
1999						
Allowance for doubtful accounts	$ 34	$ 53	$	$ 46	$ 43 (A)	$ 84
2000						
Allowance for doubtful accounts	84	115	5	138	17 (B)	83
2001						
Allowance for doubtful accounts	83	141	2	155	(11)(B)	60

(A) Includes balances acquired during the period.

(B) Includes recoveries during the period.

(a)(2) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of June 30, 1998, by and among Hilton Hotels Corporation, the Registrant, Gaming Acquisition Corporation, GCI Lakes, Inc. and Grand Casinos, Inc. (incorporated by reference to Exhibit 2.1 to the Form 10-Q for the quarter ended June 30, 1998 of Hilton Hotels Corporation).
2.2	Stock Purchase Agreement dated as of April 27, 1999 by and among the Registrant and Starwood Hotels & Resorts Worldwide, Inc., ITT Sheraton Corporation, Starwood Canada Corp., Caesars World, Inc., Desert Inn Corporation and Sheraton Tunica Corporation (incorporated by reference from Exhibit 2.1 to the Quarterly Report on Form 10-Q of the Registrant dated March 31, 1999, filed with the Commission on May 17, 1999).
2.3	Amendment No.1 dated as of December 29, 1999, to the Stock Purchase Agreement by and among the Registrant and Starwood Hotels & Resorts Worldwide, Inc. (incorporated by reference from Exhibit 2.1 to the Current Report on Form 8-K of the Registrant filed with the Commission on December 30, 1999).
3.1	

Exhibit Number	Description
	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference from Exhibit 4.1 to the Registration Statement on Form S-8 of the Registrant filed with the Commission on December 22, 1998).
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 4.2 to the Registration Statement on Form S-8 of the Registrant filed with the Commission on December 22, 1998).
4.1	Indenture dated as of August 2, 1999 by and among the Registrant and Norwest Bank Minnesota, N.A., with respect to $300 million aggregate principal amount of 7.95% Senior Notes due 2003 (incorporated by reference to the Registration Statement on Form S-4 Amendment No. 1 filed with the Commission on September 22, 1999).
4.2	Registration Rights Agreement dated as of August 2, 1999 by and among the Registrant and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Banc of America Securities LLC, Deutsche Bank Securities Inc., SG Cowen Securities Corporation, Scotia Capital Markets (USA) Inc., BNY Capital Markets, Inc. First Union Capital Markets Corp., PNC Capital Markets, Inc., Bear, Stearns & Co. Inc. and Norwest Investment Services, Inc. (incorporated by reference to the Registration Statement on Form S-4 Amendment No. 1 filed with the Commission on September 22, 1999).
4.3	Rights Agreement dated as of December 29, 1998 by and among the Registrant and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (incorporated by reference from Exhibit 1 to the Registrant's Form 8-A filed with the Commission on December 30, 1998).
4.4	Indenture dated as of December 21, 1998 by and among the Registrant and First Union National Bank, as trustee, with respect to $400 million aggregate principal amount of 7 7/8% Senior Subordinated Notes due 2005 (incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).
4.5	First Supplemental Indenture dated as of December 31, 1998 by and among Hilton Hotels Corporation, BNY Western Trust Company, as Trustee, and the Registrant, to the Indenture dated as of April 15, 1997 between Hilton Hotels Corporation and BNY Western Trust Company, as Trustee (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).
4.6	Five Year Credit Agreement dated as of December 31, 1998 among the Registrant, Bank of America National Trust Association, as Administrative Agent, and NationsBanc Montgomery Securities, LLC, as Lead Arranger (incorporated by reference to Exhibit 99.10 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).

4.7	Amendment No. 1 to the Five Year Credit Agreement dated as of August 31, 1999 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Documentation Agents referred to in the Five Year Credit Agreement dated as of December 31, 1998, and Bank of America National Trust and Savings Association, as Administrative Agent (incorporated by reference to the Registration Statement on Form S-4 Amendment No. 1 filed with the Commission on September 22, 1999).
4.8	Officers' Certificate dated as of November 9, 1999 with respect to $400 million principal amount of 8.5% Senior Notes due 2006 (incorporated by reference to the Current Report on Form 8-K of the Registrant filed with the Commission on November 12, 1999).
4.9	Indenture dated as of February 22, 2000 by and among the Registrant and Norwest Bank Minnesota, N.A., with respect to $500 million aggregate principal amount of 9 3/8% Senior Subordinated Notes due 2007 (incorporated by reference to Exhibit 4.1 to the registration Statement on Form S-4 filed with the Commission on March 22, 2000).
4.10	Amendment No. 2 to the Five Year Credit Agreement dated as of August 28, 2000 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Documentation Agents referred to in the Five Year Credit Agreement dated as of December 31, 1998, as amended, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 4.1 of the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on November 14, 2000).
4.11	$1.9 Billion Short Term Credit Agreement dated as of August 28, 2000 among Park Place Entertainment Corporation, the Lenders, Documentation Agents, Co-Arrangers and Senior Managing Agents referred to therein, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.2 of the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on November 14, 2000).

4.12 Officers' Certificate dated as of September 12, 2000 with respect to $400 million principal amount of 8.875% Senior Subordinated Notes due 2008 (incorporated by reference to the Current Report on Form 8-K of the Registrant filed with the Commission on September 19, 2000).

4.13 Indenture dated as of May 14, 2001 by and among the Registrant and Wells Fargo Bank Minnesota, N.A., with respect to the 8.125% Senior Subordinated Notes due 2011 (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-4 filed with the Commission on June 7, 2001).

4.14 Indenture dated as of August 22, 2001 by and among the Registrant and Wells Fargo Bank Minnesota, N.A., with respect to the 7.50% Senior Notes due 2009 (incorporated by reference to Exhibit 4.1 of the Registration Statement on Form S-4 filed with the Commission on September 21, 2001).

4.15 Registration Rights Agreement dated as of August 22, 2001 by and among the Registrant and Credit Suisse First Boston Corporation, Banc of America Securities LLC, Deutsche Bank Alex. Brown Inc., Dresdner Kleinwort Wasserstein-Grantchester, Inc., BNY Capital Markets, Inc., Commerzbank Capital Markets Corporation, First Union Securities, Inc., Fleet Securities, Inc., Scotia Capital (USA) Inc., SG Cowen Securities Corporation and Wells Fargo Brokerage Services, LLC (incorporated by reference to Exhibit 4.2 of the Registration Statement on Form S-4 filed with the Commission on September 21, 2001).

4.16 Amendment No. 3 to Five Year Credit Agreement dated as of August 23, 2001 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Documentation Agents referred to in the Five Year Agreement dated as of December 31, 1998, as amended, and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.1 of the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on November 14, 2001).

4.17 Short Term Credit Agreement dated as of August 23, 2001 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Co-Documentation Agents referred to therein, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 4.2 of the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on November 14, 2001).

4.18 Multi-Year Credit Agreement dated as of August 23, 2001 among Park Place Entertainment Corporation, the Lenders, Co-Documentation Agents, and Syndication Agent referred to therein, and Bank of America, N.A. as Administrative Agent (incorporated by reference to Exhibit 4.3 of the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on November 14, 2001).

4.19 Amendment No. 4 to Five Year Credit Agreement dated as of November 5, 2001 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Documentation Agents referred to in the Five Year Agreement dated as of December 31, 1998, as amended, and Bank of America, N.A., as Administrative Agent.

4.20 Amendment No. 1 to Short Term Credit Agreement dated as of November 5, 2001 among Park Place Entertainment Corporation, the Lenders, Syndication Agent and Co-Documentation Agents referred to in the Short Term Agreement dated as of August 23, 2001, and Bank of America, N.A. as Administrative Agent.

10.1 Lease Agreement between the Mississippi Department of Economic and Community Development and the Mississippi State Port Authority at Gulfport, as lessor, and Grand Casinos, Inc., as lessee, dated as of May 20, 1992 (incorporated by reference to Exhibit 10VV to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended August 2, 1992 (File No. 0-19565)).

10.2 Ground Lease between Mavar, Inc., a Mississippi Corporation, as lessor and Grand Casinos of Mississippi, Inc., a Minnesota corporation, as lessee, dated as of June 23, 1992 (incorporated by reference to Exhibit 10XX to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended August 2, 1992 (File No. 0-19565)).

10.3 Fifth Lease Amendment between the State of Mississippi through its duly authorized agencies. The Mississippi Department of Economic and Community Development and the Mississippi State Port Authority at Gulfport and Grand Casinos of Mississippi, Inc. dated July 8, 1996 (incorporated by reference to Exhibit 10.13 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 29, 1996).

10.4 First Amendment to Ground Lease with Mavar, Inc. and Grand Casinos, Inc., dated November 9, 1992 (incorporated by reference to Exhibit 10MMM to Grand Casinos, Inc.'s Report on Form 10-Q for the quarter ended November 1, 1992 (File No. 0-19565)).

10.5 Application for Standard Lease of Public Trust Tidelands, dated December 7, 1992 (incorporated by reference to Exhibit 10NNN to Grand Casinos, Inc.'s Report on Form 10-Q for the quarter ended November 1, 1992 (File No. 0-19565)).

10.6 Second Lease Amendment with consent to Assignment between the State of Mississippi and Grand Casinos, Inc. (incorporated by reference to Exhibit 10.9 to Grand Casinos, Inc.'s Report on Form 10-Q for the quarter ended January 31, 1993 (File No. 0-19565)).

10.7 Second Amendment to Lease Agreement dated as of February 1, 1993 between Mavar, Inc. and Grand Casinos of Mississippi, Inc. Biloxi (incorporated by reference to Exhibit 10.10 to Grand Casinos, Inc.'s Report on Form 10-Q for the quarter ended January 31, 1993 (File No. 0-19565)).

10.8 Public Trust Tidelands lease dated January 28, 1993 by and between the Secretary of State of the State of Mississippi, on behalf of the State of Mississippi and Grand Casinos of Mississippi, Inc. Biloxi (incorporated by reference to Exhibit 10.11 to the Grand Casinos, Inc.'s Report on Form 10-Q for the quarter ended January 31, 1993 (File No. 0-19565)).

10.9 Standby Equity Commitment dated March 9, 1995 by and between Grand Casinos, Inc. and Stratosphere Corporation (incorporated by reference to Exhibit 10.51 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended January 1, 1995 (File No. 0-19565)).

10.10 First Amendment to Port Authority Ground Lease dated as of December 14, 1992, between the Mississippi Department of Economic and Community Development, the Mississippi State Port Authority at Gulfport, and Grand Casinos, Inc. (incorporated by reference to Exhibit 10.31 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.11 Third Amendment to Port Authority Ground Lease dated as of February 9, 1994, between the Mississippi Department of Economic and Community Development, the Mississippi State Port Authority at Gulfport, and Grand Casinos of Mississippi, Inc. Gulfport (incorporated by reference to Exhibit 10.32 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.12 Fourth Amendment to Port Authority Ground Lease dated as of June 3, 1994, between the Mississippi Department of Economic and Community Development, the Mississippi State Port Authority at Gulfport, and Grand Casinos of Mississippi, Inc. Gulfport (incorporated by reference to Exhibit 10.33 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.13 Fifth Amendment to Port Authority Ground Lease dated as of November 30, 1995, between the Mississippi Department of Economic and Community Development, the Mississippi State Port Authority at Gulfport, and Grand Casinos of Mississippi, Inc. Gulfport (incorporated by reference to Exhibit 10.34 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.14 Ground Sublease Agreement between Grand Casinos of Mississippi, Inc. Gulfport and CHC/GCI Gulfport Limited Partnership dated as of April 1, 1994 (incorporated by reference to Exhibit 10.35 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.15 First Amendment to Ground Sublease Agreement dated as of February 3, 1995 by and between Grand Casinos of Mississippi, Inc. Gulfport and CHC/GCI Gulfport Limited Partnership (incorporated by reference to Exhibit 10.36 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.16 Ground Sublease Agreement between Grand Casinos of Mississippi, Inc. Biloxi and CHC/GCI Gulfport Limited Partnership dated as of September 1, 1994 (incorporated by reference to Exhibit 10.37 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.17 First Amendment to Ground Sublease Agreement dated as of February 3, 1995 by and between Grand Casinos of Mississippi, Inc. Biloxi and CHC/GCI Biloxi Limited Partnership (incorporated by reference to Exhibit 10.38 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.18 Public Trust Tidelands Lease dated as of June 20, 1994 by and between the State of Mississippi and CHC/GCI Biloxi Limited Partnership (incorporated by reference to Exhibit 10.39 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.19 First Amendment to Public Trust Tidelands Lease dated as of November 30, 1995 by and between the State of Mississippi and Grand Casinos Biloxi Theater, Inc. (incorporated by reference to Exhibit 10.40 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.20 Memorandum of Lease dated as of January 20, 1995 by and between the Board of Levy Commissioners for the Yazoo-Mississippi delta and BL Development Corp. (incorporated by reference to Exhibit 10.41 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.21 First Amendment to Lease dated as of November 30, 1995 by and between the Board of Levee Commissioners for the Yazoo-Mississippi Delta and BL Development Corp. (incorporated by reference to Exhibit 10.42 to Grand Casinos, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 1995).

10.22 Distribution Agreement dated as of December 31, 1998 between Hilton Hotels Corporation and the Registrant (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).

10.23 Debt Assumption Agreement dated as of December 31, 1998 between Hilton Hotels Corporation and the Registrant (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).

10.24 Assignment and License Agreement dated as of December 31, 1998 by and between Hilton Hotels Corporation, Conrad International Royalty Corporation and the Registrant (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).

10.25 Non-Competition Agreements dated as of December 31, 1998 by and between Lyle Berman, Thomas J. Brosig, Stanley M. Taube and the Registrant (incorporated by reference to Exhibit 99.8 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).

10.26 Employment Agreement between the Registrant and Arthur M. Goldberg (incorporated by reference to Exhibit 99.11 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).*

10.27 Employment Agreement between the Registrant and Stephen F. Bollenbach (incorporated by reference to Exhibit 99.12 to the Current Report on Form 8-K of the Registrant filed with the Commission on January 8, 1999).*

10.28 1991 Grand Casinos, Inc. Stock Option and Compensation Plan, as amended. (Incorporated by reference to Exhibit 4.3 to the Registrant's Form S-8 dated January 8, 1999).*

10.29 Park Place Entertainment Corporation 1998 Independent Director Stock Option Plan, as amended (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to Form S-8 of the Registrant filed with the Commission on June 15, 2000).*

10.30 Amended and Restated Park Place Entertainment Corporation Employee Stock Purchase Plan, effective July 1, 2000.*

10.31 Park Place Entertainment Corporation 1998 Stock Incentive Plan (incorporated by reference to Exhibit 4.3 to the Registrant's Form S-8 dated December 22, 1998); and the 1998 Stock Incentive Plan, as amended May 11, 2001, (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 filed with the Commission on July 31, 2001).*

10.32 First Amendment to Employment Agreement between the Registrant and Arthur M. Goldberg dated as of January 1, 2000 (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on May 15, 2000).*

10.33 Hotel Sales Agreement between LVH Corporation (a subsidiary of the Registrant) and Las Vegas Convention Hotel, LLC, dated as of July 11, 2000 (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q of the Registrant filed with the Commission on August 14, 2000).

10.34 Employment Agreement between the Registrant and Thomas Gallagher dated as of October 23, 2000 (incorporated by reference to Exhibit 10.34 to the Registrant's Form 10-K filed with the Commission on March 29, 2001).*

10.35 Employment Agreement between the Registrant and Wallace Barr, dated as of November 1, 2001.*

10.36 Executive Employment Agreement between the Registrant and Scott A. LaPorta, dated as of January 1, 1999 and Agreement between the Registrant and Scott A. LaPorta, dated as of January 30, 2002.*

10.37 Executive Employment Agreement between the Registrant and Clive S. Cummis, dated as of January 1, 1999 and Agreement between the Registrant and Clive S. Cummis, dated as of December 31, 2001.*

10.38 Park Place Entertainment Corporation Supplemental Retention Plan and form of Supplement Retention Plan Rights Agreement.*

10.39 Employment Agreement between the Registrant and Kim Sinatra, dated February 1, 2002.*

10.40 Restated Park Place Entertainment Corporation Executive Deferred Compensation Plan as Restated and Amended effective January 1, 2000.*

10.41 Park Place Entertainment Corporation Executive Death Benefit Plan.*

10.42 Park Place Entertainment Corporation Directors' Retirement Benefit Plan.*

10.43 Change of Control Agreement between Registrant and Wallace Barr, dated November 1, 2001.*

10.44	Change of Control Agreement between Registrant and Kim Sinatra, dated March 25, 2002.*
10.45	Employment Agreement between Registrant and Harry C. Hagerty, III, dated as of March 14, 2002.*
10.46	Change of Control Agreement between Registrant and Harry C. Hagerty, III, dated March 25, 2002.*
21	Subsidiaries of the Registrant
23	Consent of Deloitte & Touche LLP

*

Management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K

On October 31, 2001, the Company filed a Current Report on Form 8-K dated October 31, 2001. The Company reported under "Items 5 and 7" its press release of results for the quarter ended September 30, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PARK PLACE ENTERTAINMENT CORPORATION

By: /s/ KIM SINATRA

Kim Sinatra
Executive Vice President, Chief Legal Officer and Secretary

Dated: March 18, 2002

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 and in their capacities and on the dates indicated.

Signature	Title	Date
/s/ STEPHEN F. BOLLENBACH	Chairman of the Board	March 18, 2002
Stephen F. Bollenbach		
/s/ A. STEVEN CROWN	Director	March 18, 2002
A. Steven Crown		
/s/ BARBARA BELL COLEMAN	Director	March 18, 2002

Signature	Title	Date
Barbara Bell Coleman /s/ CLIVE S. CUMMIS	Vice Chairman	March 18, 2002
Clive S. Cummis /s/ PETER G. ERNAUT	Director	March 18, 2002
Peter G. Ernaut /s/ THOMAS E. GALLAGHER	President and Chief Executive Officer (Principal Executive Officer) and Director	March 18, 2002
Thomas E. Gallagher		

/s/ BARRON HILTON Barron Hilton	Director	March 18, 2002
/s/ ERIC M. HILTON Eric M. Hilton	Director	March 18, 2002
/s/ PAUL X. KELLEY Paul X. Kelley	Director	March 18, 2002
/s/ GILBERT L. SHELTON Gilbert L. Shelton	Director	March 18, 2002
/s/ WESLEY D. ALLISON Wesley D. Allison	Vice President and Controller (Principal Accounting Officer)	March 18, 2002

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