AMERICAN MEDICAL SECURITY GROUP INC
Form POS AM
May 24, 2002

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As filed with the Securities and Exchange Commission on May 24, 2002

Registration No. 333-86660

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Post-Effective Amendment No. 1

to

FORM S-3

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

AMERICAN MEDICAL SECURITY GROUP, INC.

(Exact name of registrant as specified in its charter)

Wisconsin	**39-1431799**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

**3100 AMS Boulevard
Green Bay, Wisconsin 54313
(920) 661-1111**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Timothy J. Moore
Senior Vice President of Corporate Affairs,
General Counsel and Secretary
American Medical Security Group, Inc.
3100 AMS Boulevard
Green Bay, Wisconsin 54313
(920) 661-1111**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Jeffrey B. Bartell **Bruce C. Davidson** Quarles & Brady LLP 411 East Wisconsin Avenue Milwaukee, Wisconsin 53202 (414) 277-5000	**John M. Olson** Foley & Lardner 777 East Wisconsin Avenue Milwaukee, Wisconsin 53202 (414) 271-2400	**Cynthia A. Rotell** Latham & Watkins 633 West Fifth Street, Suite 4000 Los Angeles, California 90071 (213) 485-1234

**Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.**

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, Dated May 24, 2002

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

2,610,000 Shares

Common Stock
$. per share

Our largest shareholder, Blue Cross & Blue Shield United of Wisconsin, is the sole selling shareholder in this offering and is offering 2,610,000 shares of our common stock. Our common stock is listed on the New York Stock Exchange under the symbol "AMZ." On May 23, 2002, the last reported sale price of our common stock on the New York Stock Exchange was $18.95 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Per Share	Total
Price to the public	$	$
Underwriting discount		
Proceeds to the selling shareholder		

The selling shareholder has granted an over-allotment option to the underwriters. Under this option, the underwriters may elect to purchase a maximum of 391,500 additional shares from the selling shareholder within 30 days following the date of this prospectus to cover

over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CIBC World Markets

Robert W. Baird & Co.

Stifel, Nicolaus & Company
Incorporated

The date of this prospectus is , 2002.

Table of Contents

Prospectus Summary

This summary highlights information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in the shares. You should read the entire prospectus carefully.

American Medical Security Group, Inc.

We develop and offer health and related insurance products designed to provide individuals and small employer groups with maximum choice at a reasonable cost. In order to increase choice for our insureds, we utilize a preferred provider organization, or PPO model. PPOs provide a wider choice of health professionals and more access to specialists than health maintenance organizations, or HMOs. To reduce the cost of insurance to our customers, we offer multiple health plan configurations incorporating various co-payment agreements and deductible rates, allowing customers to choose the benefit plan that fits their individual needs. We also employ a variety of medical cost management programs designed to help manage and control the overall cost of our products including care management, utilization review and subrogation review. Our proactive care management model is designed to improve the overall quality of care, while also managing the cost of certain complex chronic and acute medical conditions.

We believe that increased choice and affordability, through our product design and our cost management programs, make our products attractive to individuals and small group employers willing to accept increased financial and decision making responsibility for their health care. In addition to our health benefit plans, we also offer dental, life, prescription drug, disability and accidental death insurance, and provide self-funded benefit administration. We sell our products through a network of licensed independent agents in 32 states and the District of Columbia. We are a Wisconsin corporation organized in 1983.

Industry

In recent years a number of factors have caused significant changes within the health insurance industry. These factors have included dramatically increasing medical costs and insurance premiums, significant efforts by providers to shift the cost of health care to patients, increased regulation and growing demand for consumer choice. As a result it has become increasingly difficult for insurance companies to operate, resulting in significant industry consolidation and an overall decline in the number of companies in the U.S. marketing health insurance. This impact has been especially true in the small employer group and individual markets where many small group carriers became unprofitable and were forced out of the market. Many carriers, including ourselves, implemented successive years of significant rate increases to account for the higher costs associated with health insurance. We believe we have been successful in doing this and as a result our small employer group business has returned to profitability and we believe it will contribute to future earnings growth.

While the number of insurers serving the small employer group and individual markets has declined, these markets have been experiencing significant growth. This growing marketplace is seeking health insurance products that provide flexible plan designs and various price options allowing insureds to choose a benefit package that fits their budget.

Our Approach

As the individual and small employer group health insurance markets evolve, we believe that we are positioned to grow our business and profitability by focusing on the following competitive strengths:

Focus on PPO products. As consumers demand more choice in health care, PPOs are becoming

more popular. PPOs typically provide a wider choice of health professionals and more access to specialty health care than HMOs.

Balanced business model focused on customer choice. We offer a variety of products with a broad range of risk-sharing options to a geographically diverse market. For example, our small group products allow an employer with four employees to offer four different and distinct health plans.

Excellent customer service. We provide a number of value-added features to our customers including Nurse Healthline, Inc., our toll-free 24-hour health information line, case management services and toll-free, personal customer service 24 hours-a-day, seven days a week. In addition, over 95% of our customers' claims are processed within 30 days, and we maintain an approximate 99% financial claim accuracy record.

Outstanding agent relationships. We currently market products through approximately 25,000 independent agents, a 25% increase in the number of agents from the prior year. We have focused our marketing efforts on agents with whom we have strong existing relationships. As a result, we are continuing to build long-term, mutually beneficial agent relationships that enhance our overall distribution network.

Process orientation and underwriting discipline. We have developed proprietary and tested medical cost management practices and underwriting capabilities. Our custom-built, fully integrated management information system provides efficiency and service advantages while maintaining relatively low administrative expenses.

Infrastructure. Our existing information technology infrastructure, geographic location and economies of scale provide us with an administrative cost advantage. We have developed a custom-built, integrated management information system that includes underwriting, billing, enrollment, claims processing, utilization management, sales reporting, network analysis and service and status reporting. We believe our existing infrastructure has enough capacity to double our current volume of business.

Centralized, Midwestern location. Our operations are centralized at our Green Bay, Wisconsin corporate campus. We benefit from a stable, educated workforce and good labor relations.

Our Business Strategy

Our objective is to become the leading provider of health insurance products to individuals and small employer groups. The key elements of our strategy to achieve our objective are as follows:

- Increase penetration in existing markets
- Focus on products designed for consumer choice
- Diversify our revenue mix
- Leverage our existing operating efficiencies and flexible infrastructure

Products

We provide tailored products to meet the varied health insurance needs of individuals and small employer groups. Common features of our products include:

- Choice of co-pay, deductible and coinsurance levels
- Choice of PPO networks
- Availability of comprehensive prescription drug coverage
- Wellness and routine care coverage
- Nurse Healthline, Inc., our health information line

Small Employer Group. Small employer group medical insurance products are targeted to employer groups with 2-50 employees. Our average group size is approximately six employees. Distributed through a network of 20,000 independent agents, small employer group products are customized to allow employers to offer their employees multiple health plan options in a single package.

MedOne^{SM}. We market our MedOne^{SM} medical insurance products to individuals and their families. These products are designed to meet the various health insurance needs and budgets of consumers. Sold through independent agents, MedOne^{SM} insurance products are designed for cost-conscious consumers and feature attractive premium rates, protection from catastrophic medical costs and increased patient responsibility for routine health expenses.

Dental. GroupDentalChoice^{SM} offers our members a choice in benefit plans, with access to any dental provider, and coverage for a complete range of dental services, from preventative maintenance to major dental expenses. Our dental coverage product, can be purchased through employer sponsored plans or on a voluntary basis with no employer contribution requirements.

Other. We also offer self-funded benefit administration services for employers that want to assume a portion of the financial risk for their own health plans. In conjunction with our benefit administration services, we offer excess of loss reinsurance to cover catastrophic losses of the self-funded plan. Additionally, we offer COBRA administration services to groups subject to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

We augment our core business with a select line of products and services. Ancillary benefits available with our plans include term-life, short-term medical, short-term disability, accidental death and dependent life insurance.

We provide our members and plan participants with toll-free, personal customer service 24 hours-a-day, seven days a week. In addition, through our wholly owned subsidiary, Nurse Healthline, Inc., our members and plan participants have access to a toll-free 24-hour health information line staffed by registered nurses.

Spin-off and Other Recent Transactions

In September 1998, when our name was United Wisconsin Services, Inc., we spun off our managed care companies and specialty products business to our shareholders. We did this by transferring all of our subsidiaries comprising the managed care and specialty products business to a newly created subsidiary named Newco/UWS, Inc., a Wisconsin corporation, and distributing 100% of the issued and outstanding shares of common stock of Newco/UWS to our shareholders. In connection with the spin-off, we adopted our current name of American Medical Security Group, Inc., and Newco/UWS changed its name to United Wisconsin Services, Inc., which has since changed its name to Cobalt Corporation.

As of December 31, 2001, Blue Cross & Blue Shield United of Wisconsin, the selling shareholder in this offering, which is a wholly owned subsidiary of Cobalt, owned approximately 45% of our outstanding common stock. In early 2002, Cobalt and the selling shareholder amended their Schedule 13D filed with the Securities and Exchange Commission indicating, among other things, a desire to reduce the selling shareholder's investment in our stock and to nominate four persons for election to our Board of Directors at the 2002 annual meeting of shareholders.

On March 19, 2002, we entered into a stock purchase agreement with Cobalt and the selling shareholder in which we agreed to repurchase 1,400,000 shares of our common stock from the selling shareholder at a price of $13.00 per share in cash, or an aggregate of $18,200,000. We completed the share repurchase on March 22, 2002, reducing the selling shareholder's ownership to 39% of our outstanding common stock, and the selling shareholder withdrew its previously delivered notice of its intention to nominate a slate of directors for election at our 2002 annual meeting of shareholders.

On March 19, 2002, in accordance with the terms of the stock purchase agreement, our Board of Directors increased the size of the Board to 14 directors and appointed two new directors nominated by Cobalt, Thomas R. Hefty and Kenneth L. Evason, effective upon the closing of the share repurchase on March 22, 2002. Pursuant to the stock purchase agreement, Cobalt is entitled to designate two director nominees to our Board for so long as the selling shareholder holds at least 20% of the issued and

outstanding shares of our common stock and will be entitled to designate only one nominee to the Board for so long as the selling shareholder holds at least 10% but less than 20% of the issued and outstanding shares of our common stock. Mr. Hefty, or his successor on our Board, will resign effective immediately upon the date that the selling shareholder owns less than 20% of the then issued and outstanding shares of common stock and Mr. Evason, or his successor on our Board, will resign effective immediately upon the date that the selling shareholder owns less than 10% of the then issued and outstanding shares of our common stock. Following this offering, the selling shareholder will beneficially own 2,299,525 shares, or approximately 18%, of our common stock, assuming no exercise of the over-allotment option. For so long as Cobalt has any nominees on our Board, the selling shareholder has agreed to vote its shares for the slate of directors nominated by our Board of Directors. Pursuant to the stock purchase agreement, Cobalt and the selling shareholder have also agreed to certain "standstill" provisions. For a more complete description of the stock purchase agreement and related matters, see "Certain Transactions Stock Purchase Agreement" elsewhere in this prospectus.

Because the record date for our 2002 annual meeting of shareholders is April 15, 2002, purchasers of our common stock in this offering will not be entitled to vote shares purchased in this offering at this year's annual meeting.

Corporate Information

Our principal executive offices are located at 3100 AMS Boulevard, Green Bay, Wisconsin 54313. Our telephone number is (920) 661-1111.

The Selling Shareholder

Blue Cross & Blue Shield United of Wisconsin, an insurance company and a Wisconsin corporation, is selling all of the shares offered by this prospectus. We agreed to register the shares of the selling shareholder to be sold in this offering pursuant to a registration rights agreement dated September 1, 1998 and as part of a transaction effected on March 22, 2002 in which we repurchased 1,400,000 shares of our common stock from the selling shareholder. See "Certain Transactions" included elsewhere in this prospectus. The selling shareholder beneficially owned 4,909,525 shares, or 39%, of our common stock outstanding as of March 31 and April 30, 2002. Following this offering, the selling shareholder will beneficially own 2,299,525 shares, or approximately 18%, of our common stock, assuming no exercise of the over-allotment option.

The Offering

Common stock offered by the selling shareholder	2,610,000 shares
Common stock to be outstanding after the offering	12,590,166 shares
Use of proceeds	We will not receive any of the proceeds from this offering.
New York Stock Exchange symbol	AMZ
Risk factors	See the section entitled "Risk Factors" beginning on page 9 for a discussion of factors you should consider carefully before deciding to buy our common stock.

Unless otherwise stated, all information contained in this prospectus assumes no exercise of the over-allotment option granted to the underwriters.

The number of shares of common stock outstanding after this offering is based on the number of shares outstanding as of April 30, 2002 and excludes:

3,454,040 shares of common stock issuable upon exercise of options outstanding as of April 30, 2002 at a weighted average exercise price of $9.38 per share; and

241,297 shares of common stock available for future grant under our stock option plans.

Summary Consolidated Financial Data
(In thousands, except share data)

	Three Months Ended March 31,		Year Ended December 31,				
	2002	2001	2001	2000	1999	1998(1)	1997(1)
Statement of Operations Data:							
Revenues:							

	Three Months Ended March 31,		Year Ended December 31,				
Premium revenue	$ 194,401	$ 222,470	$ 838,672	$ 951,071	$ 1,056,107	$ 914,017	$ 957,204
Net investment income	3,924	4,514	17,443	19,007	19,766	20,550	22,217
Net realized investment gains (losses)	14	(27)	(779)	(325)	(854)	3,670	1,854
Other revenue	5,405	5,301	21,285	20,112	22,361	22,632	24,249
Total revenues	203,744	232,258	876,621	989,865	1,097,380	960,869	1,005,524
Expenses:							
Medical and other benefits	131,800	166,580	601,942	724,613	860,473	691,767	733,491
Selling, general and administrative	62,024	71,411	257,742	251,767	268,059	242,073	252,160
Interest	494	876	2,877	3,584	3,564	7,691	9,311
Amortization of goodwill and other intangibles(2)	183	907	3,628	3,785	4,273	8,781	7,975
Write-off of intangible assets and related charges						15,453	
Total expenses	194,501	239,774	866,189	983,749	1,136,369	965,765	1,002,937
Income (loss) from continuing operations, before income taxes	9,243	(7,516)	10,432	6,116	(38,989)	(4,896)	2,587
Income tax expense (benefit)	3,813	(2,376)	6,257	3,447	(13,043)	(1,868)	1,032
Income (loss) from continuing operations	5,430	(5,140)	4,175	2,669	(25,946)	(3,028)	1,555
Income from discontinued operations, less applicable income taxes						10,003	16,595
Net income (loss)	$ 5,430	$ (5,140)	$ 4,175	$ 2,669	$ (25,946)	$ 6,975	$ 18,150
Earnings (loss) per common share basic							
Continuing operations	$ 0.39	$ (0.36)	$ 0.30	$ 0.18	$ (1.58)	$ (0.18)	$ 0.10
Discontinued operations						0.60	1.01
Net income (loss) per common share basic	$ 0.39	$ (0.36)	$ 0.30	$ 0.18	$ (1.58)	$ 0.42	$ 1.11
Earnings (loss) per common share diluted							
Continuing operations	$ 0.37	$ (0.36)	$ 0.29	$ 0.18	$ (1.58)	$ (0.18)	$ 0.10
Discontinued operations						0.60	1.00
Net income (loss) per common share diluted	$ 0.37	$ (0.36)	$ 0.29	$ 0.18	$ (1.58)	$ 0.42	$ 1.10
Weighted average common shares outstanding	13,803	14,211	14,049	14,899	16,470	16,559	16,423
Cash dividends per common share	$	$	$	$	$	$ 0.36	$ 0.48

	March 31,
	2002

		March 31,
Balance Sheet Data:		
Cash and investments	$	272,790
Total assets		448,346
Notes payable		34,758
Total shareholders' equity		213,575

(1) Our discontinued operations include the operations of Newco/UWS., Inc., which is now known as Cobalt Corporation, through September 25, 1998, the date on which we spun off Newco/UWS to our shareholders. Our continuing operations prior to September 11, 1998 include interest on debt assumed by Newco/UWS on September 11, 1998, the spin-off effective date.

(2) Beginning January 1, 2002 we adopted Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which changed the way we account for goodwill. See Note 2 to the Consolidated Financial Statements for details regarding the impact of this change in accounting.

Risk Factors

You should carefully consider the following risk factors and other information in this prospectus before deciding to invest in the shares.

Risks Relating to Our Business

If we are unable to accurately estimate medical claims and control health care costs, our results of operations may be materially adversely affected.

We estimate the costs of our future medical claims and other expenses using actuarial methods based upon historical data, cost trends, product mix, seasonality, utilization of health care services and other relevant factors. We establish premiums based on these methods. The premiums we charge our customers generally are fixed for one-year periods, and therefore, costs we incur in excess of our medical claim projections generally are not recovered in the contract year through higher premiums. Certain factors may and often do cause actual health care costs to vary from what we estimated and reflected in premiums. These factors may include:

- an increase in the rates charged by providers of health care services and supplies, including pharmaceuticals;
- higher than expected use of health care services by our members;
- the occurrence of bioterrorism, catastrophes or epidemics;
- changes in the demographics of our members and medical trends affecting them; and
- new mandated benefits or other regulatory changes that increase our costs.

The occurrence of any of these factors, which are beyond our control, could result in a material adverse effect on our business, financial condition and results of operations.

We conduct business in a heavily regulated industry, and changes in government regulation could increase our costs of compliance or cause us to discontinue marketing our products in certain states.

Our business is extensively regulated by federal and state authorities. Some of the new federal and state regulations promulgated under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, relating to health care reform are unsettled. These regulations may require us to implement additional changes in our current programs and systems in order to maintain compliance, which will increase our expenses.

Federal and state legislatures are considering health care reform measures including a "Patients' Bill of Rights", which may result in higher medical costs. Additional proposed reform measures could materially affect our ability to apply medical underwriting standards to our MedOne^{SM} applicants upon issuance or renewal of coverage. In addition, the implementation of "prompt pay" laws, whereby a claim must be paid in a certain number of days regardless of whether it is a valid claim or not, subject to a right of recovery, may have a negative effect on our results of operations.

We are also subject to changes in state laws that may restrict the manner in which we provide telephonic health information through Nurse Healthline, Inc., which may require us to discontinue the service in a particular state. States periodically review laws and regulations regarding the selection and pricing of risks, and new regulations regarding these issues could increase our costs and decrease our premiums. We have in the past, and may in the future, decide to discontinue marketing our products in states which have enacted, or are considering, various health care reform regulations.

Our failure to comply with new or existing government regulation could subject us to significant fines and penalties.

Our efforts to measure, monitor and adjust our business practices to comply with the law are ongoing. Failure to comply with enacted regulations, including prompt pay laws and the other laws mentioned above, could require us to pay refunds or result in significant fines, penalties, or the loss of one or more of our licenses. We have been subject to regulatory penalties, assessments and restitution orders in a number of states in which we operate. We are currently subject to a regulatory proceeding in Florida and may from time to time be subject to inquiries in other states related to our rating activities and other practices. The result of these regulatory actions is unknown and may have a material adverse effect on us. Furthermore, federal and state laws and regulations continue to evolve. The costs of compliance may cause us to change our operations significantly, or adversely impact the health care provider networks with which we do business, which may adversely affect our business and results of operations.

Our current rating practice in certain states may be subject to regulatory review and change which could have a material adverse effect on our operating results.

We currently recalculate the premiums charged to MedOne^{SM} insureds at the annual renewal of the plan. We consider factors including age, geographic location, benefit design, provider network, family status, smoking status and health status. The use of health status to compute renewal premiums is sometimes called tier rating. This rating practice allows us to calculate premium rates based on the expectation of future health care costs. The Florida Department of Insurance is currently challenging our rating practice in a regulatory proceeding. An administrative law judge found in our favor in the Florida regulatory proceeding and has recommended to the Florida Department of Insurance that all claims against us be dropped. The administrative law judge's recommended order has been sent to the Commissioner of the Florida Department of Insurance for entry of a final order. We and the Department have filed arguments with the Commissioner, who must now decide whether to adopt the recommended order as presented or modify it. In a similar, but procedurally unrelated action, a Florida circuit court judge made substantially opposite rulings on similar facts and issues. See the immediately succeeding risk factor and "Business Legal Proceedings Florida Regulatory and Class Action Litigation." From time to time, other states may review and question this practice as well. The outcome of these regulatory inquiries and proceedings is uncertain. We may change our rating practices in certain of these states. If we do, this change may have an impact on our ability to competitively price our products and also may require us to increase the rates charged to our healthier members, potentially causing those members to seek coverage from our competitors. In addition, it is possible that such regulatory inquiries and proceedings could result in substantial fines or penalties, including the loss or suspension of our license to sell insurance in one or more states.

We are subject to class actions and other forms of litigation in the ordinary course of our business, including litigation based on new or evolving legal theories, which could result in significant liabilities and costs.

The nature of our business subjects us to a variety of legal actions and claims relating but not limited to the following:

- denial of health care benefits;

disputes over rate increases and practices or termination of coverage;

disputes with agents over compensation or other matters;

disputes related to claim administration errors and failure to disclose network rate discounts and other fee and rebate arrangements;

disputes over our co-payment calculations; and

customer audits of our compliance with our plan obligations.

In addition, we are defendants in a class action lawsuit in Florida alleging, among other things, that we did not follow applicable regulations in connection with the termination of insurance coverage. Plaintiffs claim we wrongfully terminated coverage, improperly notified insureds of conversion rights and charged improper premiums for new coverage. Plaintiffs also assert our renewal rating methodology violates Florida law. On April 24, 2002, the circuit court judge in this action found against us on the above issues and has ordered that the question of damages be tried before a jury. In a similar, but procedurally unrelated action, an administrative law judge made substantially opposite rulings on similar facts and issues. See the immediately preceding risk factor. For additional information, see "Business Legal Proceedings Florida Regulatory Action and Class Action Litigation." We cannot predict with certainty the outcome of this or other lawsuits or the potential costs involved. Regardless of the outcome, these lawsuits can result in negative publicity and force our management to devote significant time and attention to these matters as well as subjecting us to significant liability exposure and legal expenses.

Competition in our industry may limit our ability to attract new members or to maintain our existing membership in force.

We operate in a highly competitive environment. We compete primarily on the basis of price, benefit plan design, strength of provider networks, quality of customer service, reputation and quality of agent relations. We compete for members with other health insurance providers and managed care companies, many of whom have larger membership in regional markets and greater financial resources than we do. We can not assure you that we will be able to compete effectively in this industry. As a result, we may be unable to attract new members or maintain our existing membership and our revenues may be adversely affected.

Our future operating performance is largely dependent on our ability to execute our growth strategy.

We have experienced a decline in membership over the last several years as part of our strategy to improve profitability and exit certain markets. Our challenge will be to increase the number of individuals and small employer groups purchasing our products and services while encouraging our current preferred membership to retain their business relationship with us. If we do not successfully implement our growth goals, it will have an adverse effect on our future operating performance.

A failure of our information system could adversely affect our business.

Information processing is critical to our business. We depend on our information system for timely and accurate information. Our failure to maintain an effective and efficient information system or disruptions in our information system could cause disruptions in our business operations, including any of the following:

failure to comply with prompt pay laws;

loss of existing members;

difficulty in attracting new members;

disputes with members, providers and agents;

regulatory problems;

increases in administrative expenses; and

other adverse consequences.

We depend on the services of non-exclusive independent agents and brokers to market our products to potential customers. We cannot assure you that they will continue to market our products in the future or that they will not refer our members to our competitors.

We market our products solely through non-exclusive, independent agents and brokers. In addition, they frequently market the health care products of our competitors as well as our products. Most of the contracts are terminable

without cause upon 30-days notice by either party. We face intense competition for the services and allegiance of independent agents and brokers, and we cannot assure you that agents and brokers will continue to market our products and services.

If our insurers or reinsurers do not perform their obligations or offer affordable coverage with reasonable deductibles or limits, we could experience significant losses.

Our risk management program includes several insurance policies we have purchased to cover various property, business and other risks of loss. In addition, we carry several policies to cover our directors and officers and managed care errors and omissions. Many of the carriers marketing these lines of coverage are experiencing unfavorable claims experience and loss of their own reinsurance coverage. Several carriers have exited markets and no longer offer certain lines of coverage. Accordingly, there is no assurance that we will continue to be able to purchase insurance coverages for our own risk management at affordable premiums or with reasonable deductibles and policy limits.

We have entered into and will continue to enter into a variety of reinsurance arrangements under which we cede business to other insurance companies to mitigate large claims risk. Although reinsurance allows for greater diversification of risk relating to potential losses arising from large claims, we remain liable if these other insurance companies fail to perform their obligations.

As a result, any failure of an insurance company to perform its obligations under an agreement could expose us to significant losses.

Any loss of key personnel and the inability to attract and retain qualified employees could have a material adverse impact on our operations.

We are dependent on the continued services of our management team, including our key executives. Any loss of such personnel without adequate replacement could have a material adverse effect on us. Members of our senior management have developed relationships with some of our independent agents and brokers. If we are unable to retain these employees, the loss of their services could adversely impact our ability to maintain relations with certain independent agents and brokers who market our products. Additionally, we need qualified managers and skilled employees with insurance industry experience to operate our businesses successfully. From time to time there may be shortages of skilled labor which may make it more difficult and expensive for us to attract and retain qualified employees. If we are unable to attract and retain qualified individuals or our costs to do so increase significantly, our operations could be materially adversely affected.

Our inability to enter into or maintain satisfactory relationships with provider networks could harm our profitability.

Our profitability could be adversely impacted by our inability to contract on favorable terms with hospitals, physicians, dentists, pharmacies and other health care providers. The failure to secure cost-effective health care provider contracts may result in a loss of membership or higher medical costs. In addition, the inability to contract with providers, the inability to terminate contracts with existing providers and enter into arrangements with new providers to serve the same market or the inability of providers to provide adequate care, could adversely affect our results of operations.

If our insurance subsidiaries are not able to maintain their current rating by A.M. Best, our results of operations could be materially adversely affected.

We are assigned a rating by A.M. Best Company, a nationally recognized rating agency, which reflects its opinions of our insurance subsidiaries' financial strength, operating results and ability to meet their ongoing obligations. Decreases in our operating performance and other financial measures may result in a downward adjustment in our insurance subsidiaries' rating. In addition, other factors beyond our control such as general downward economic cycles and changes implemented by

the rating agencies, including changes in the criteria for the underwriting or the capital adequacy model, may result in a decrease in our rating. A downward adjustment in our insurance subsidiaries' rating by A.M. Best could cause our agents or potential customers to look at us with less favor, which could have a material adverse effect on our results of operations.

Regulations governing our insurance subsidiaries could affect our ability to satisfy our obligations to our creditors as they become due, including under our credit facility.

Our insurance subsidiaries are subject to regulations that limit their ability to transfer funds to us. If we are unable to obtain funds from our insurance subsidiaries, we will experience reduced cash flow, which could affect our ability to pay our obligations to creditors as they become due. Over the next three years we will be required to make substantial payments to permanently reduce the principal amount of outstanding balances under our credit facility. If our insurance subsidiaries are unable to provide these funds to us, we could default on the obligations under the credit facility. In addition, the credit facility restricts our ability to incur additional debt and therefore we may be unable to obtain additional funding to make these payments.

A recently enacted accounting pronouncement could require a write-off of all or part of our goodwill which would adversely affect our earnings and net worth.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. This statement requires that goodwill and intangible assets that have indefinite useful lives be tested at least annually for impairment and not be amortized. The effective date of the statement is January 1, 2002 and it may require us to write off all or part of our goodwill during 2002. Goodwill obtained in connection with the original acquisition of certain of our subsidiaries from their founders in 1996 is a substantial portion of our assets. At December 31, 2001, goodwill and other intangible assets represented $103.9 million of our total assets of $473.0 million.

Also, at December 31, 2001, our book value per share was $16.30 and was significantly higher than the $12.45 quoted market price per share. If we determine that the quoted market price per share is the appropriate measure of our fair value, the resulting impairment would be greater than 50% of the amount of goodwill and other intangibles on our December 31, 2001 balance sheet. If we determine that an impairment exists as of January 1, 2002, we would report the charge as the cumulative effect of a change in accounting principles in our consolidated financial statements. Although a write-off of all or a portion of our goodwill would be a non-cash charge, it could materially reduce our earnings and net worth.

If our regulated insurance subsidiaries are not able to comply with state capital standards, state regulators may require us to take certain actions that could have a material adverse effect on our results of operations and financial condition.

State regulations govern the amount of capital required to be retained in our regulated insurance subsidiaries and the ability of those regulated subsidiaries to pay dividends. Those state regulations include the requirement to maintain minimum levels of statutory capital and surplus, including meeting the requirements of the risk-based capital standards promulgated by the National Association of Insurance Commissioners. State regulators have broad authority to take certain actions in the event those capital requirements are not met. Those actions could significantly impact the way we conduct our business, reduce our ability to access capital from the operations of our regulated insurance subsidiaries and have a material adverse effect on our results of operations and financial condition. Any new minimum capital requirements adopted in the future through state regulation may increase our capital requirements.

Risks Relating to This Offering

Our stock price and trading volume may be subject to significant fluctuations.

From January 1 through April 30, 2002, the average daily trading volume for our common stock as reported by the NYSE has been approximately 37,000 shares. We are uncertain as to whether a more active trading market in our common stock will develop following this offering.

From time to time, the price and trading volume of our common stock may experience periods of significant volatility. In the twelve months ended March 31, 2002, our stock price has ranged from $4.80 to $18.15 per share. Our stock price and trading volume may fluctuate in response to a number of events and factors, including:

- quarterly variations in our operating results;
- changes in the market's expectations about our future operating results;
- changes in financial estimates and recommendations by securities analysts concerning us or the health insurance industry generally;
- operating and stock price performance of other companies that investors may deem comparable;
- news reports relating to our business and trends in our markets;
- changes in the laws and regulations affecting our business;
- acquisitions and financings by us or others in our industry; and
- sales or acquisitions of substantial amounts of our common stock by our directors and executive officers or principal shareholders, or the perception that such sales could occur.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We have implemented and Wisconsin law contains anti-takeover and other provisions that may adversely affect your rights as a holder of our common stock.

Our articles of incorporation contain provisions that could have the effect of discouraging or making it more difficult for someone to acquire us through a tender offer, a proxy contest or otherwise, even though such an acquisition might be economically beneficial to some of our shareholders. Our Board of Directors is divided into three classes of directors serving staggered terms of three years each. Directors may be removed and the resulting vacancies filled by the shareholders only with the affirmative vote of 80% of the outstanding shares entitled to vote in an election of directors. These provisions may make the removal of management more difficult, even in cases where removal would be favorable to the interests of our shareholders.

We have adopted a shareholder rights plan that is intended to discourage major accumulations of our stock without approval by our Board of Directors. The rights generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deterring or preventing a change of control.

We are subject to the Wisconsin Business Corporation Law, which contains several provisions that could have the effect of discouraging non-negotiated takeover proposals or impeding a business combination. These provisions include:

limiting the voting power of shareholders who own more than 20% of our stock;

requiring a supermajority vote of shareholders, in addition to any vote otherwise required, to approve business combinations with a 10% shareholder not meeting adequacy of price standards;

limiting actions that we can take while a takeover offer for us is being made or after a takeover offer has been publicly announced; and

prohibiting a business combination between us and a 10% shareholder for a period of three years, unless the combination or the acquisition of the 10% interest was approved by our Board of Directors prior to the time the shareholder became a 10% or greater beneficial owner of our shares.

We are also regulated as an insurance holding company by Wisconsin and Georgia, the jurisdictions in which our insurance subsidiaries are domiciled. With some exceptions, these laws require prior approval by state insurance regulators in the event anyone seeks to acquire more than 10% of our outstanding voting securities.

See "Description of Capital Stock" for a more detailed description of these and other provisions.

We do not intend to pay cash dividends.

We have not paid any cash dividends since the spin-off became effective September 11, 1998, and we do not plan to declare or pay dividends in the foreseeable future. Instead, we intend to retain cash for working capital needs, possible acquisitions, to reduce outstanding debt or for other corporate purposes. In addition, our credit agreement prohibits us from declaring or paying any cash dividends without the lenders' consent.

Forward-Looking Statements

This prospectus contains forward-looking statements within the meaning of the federal securities laws. These statements relate, among other things, to the following: earnings, liquidity, business strategy, product expansion and growth and effects of changes in government regulation. These statements may be found under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business." Forward-looking statements typically are identified by use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate" and similar words, although some forward-looking statements are expressed differently. You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including:

Unexpected increases in health care costs resulting from advances in medical technology, increased utilization of medical services and prescription drugs resulting from bioterrorism or otherwise, possible epidemics and natural or man-made disasters and other factors affecting the delivery and cost of health care that are beyond our control. There are also known trends, such as the aging of the population, that can have an uncertain effect on health care costs.

Our ability to distribute and sell our products profitably, including, changes in our business relationships with independent agents who sell our products, our ability to retain key producing sales agents, our ability to expand our distribution network, competitive factors such as the entrance of additional competitors into our markets, competitive pricing practices, our ability to generate new sales, sell new products and retain existing members, our ability to predict future health care cost trends and adequately price our products, and our ability to control expenses during a time of declining revenue and membership.

Federal and state laws adopted in recent years, currently proposed, such as the Patients' Bill of Rights, or that may be proposed in the future, which affect or may affect our operations, products, profitability or business prospects. Reform laws adopted in recent years generally limit our ability to use risk selection as a method of controlling costs for our small employer group business.

Regulatory factors, including delays in regulatory approvals of rate increases and policy forms; regulatory action resulting from market conduct activity and general administrative compliance with state and federal laws; restrictions on the ability of our subsidiaries to transfer funds to us or our other subsidiaries in the form of cash dividends, loans or advances without prior approval or notification; the granting and revoking of licenses to transact business; the amount and type of investments that we may hold; minimum reserve and surplus requirements; and risk-based capital requirements.

Factors related to our efforts to maintain an appropriate medical loss ratio in our small employer group and MedOne^{SM} health business, including implementing significant rate increases, terminating business in unprofitable markets, introducing redesigned products, and the willingness of employers and individuals to accept rate increases, premium repricing and redesigned products.

The development of and changes in claims reserves.

The effectiveness of our strategy to expand sales of our MedOne^{SM} products for individuals and families, to focus our small employer group health product sales in core markets and to grow our ancillary products, including our life, dental and self-funded benefit administration business.

The cost and other effects of legal and administrative proceedings, including the expense of investigating, litigating and settling any claims or paying any judgments against us, and the general increase in litigation involving managed care and medical insurers.

Adverse outcomes of the Florida class action or other litigation in excess of provisions made by us.

Restrictions imposed by financing arrangements that limit our ability to incur additional debt, pay future cash dividends and transfer assets.

Changes in rating agency policies and practices and the ability of our insurance subsidiaries to maintain or exceed their current A- (Excellent) rating by A.M. Best.

General economic conditions, including changes in employment, interest rates and inflation that may impact the performance of our investment portfolio or decisions of individuals and employers to purchase our products.

Our ability to maintain attractive preferred provider networks for our insureds.

Factors affecting our ability to hire and retain key executive, managerial, professional and technical employees.

Changes in accounting principles and the effects related to such changes.

Other business or investment considerations that we may disclose from time to time in our Securities and Exchange Commission filings or in other publicly disseminated written documents.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should also carefully consider the statements under "Risk Factors" and other sections of this prospectus, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements.

Common Stock Market Data

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol "AMZ." The following table sets forth the per share high and low sales prices for our common stock as reported on the NYSE. We paid no cash dividends during the periods indicated.

	2002		2001		2000	
	Share Price		Share Price		Share Price	
	High	Low	High	Low	High	Low
Quarter Ended:						
March 31	$ 18.15	$ 11.00	$ 7.00	$ 4.75	$ 7.75	$ 5.38
June 30 (through May 23, 2002)	20.60	15.45	6.96	5.00	7.25	5.00
September 30			6.85	4.80	8.50	6.25
December 31			12.45	5.60	6.38	4.25

Our credit agreement contains a covenant that prohibits us from declaring or paying any cash dividends. In addition, state insurance regulations limit dividends paid by our insurance subsidiaries to us. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for a discussion of insurance subsidiary dividend limitations.

As of April 15, 2002, there were 239 shareholders of record of our common stock. Based on information obtained from our transfer agent and from participants in security position listings and otherwise, we have reason to believe there are approximately 2,400 beneficial owners of shares of our common stock.

Use of Proceeds

The selling shareholder will receive all of the net proceeds from the sale of shares of common stock in this offering. We will not receive any of the proceeds from the sale of shares of common stock by the selling shareholder in this offering. See "Underwriting" for a description of our obligation to pay part of the expenses of this offering.

Dividend Policy

We do not currently pay cash dividends and we do not plan to declare or pay dividends in the foreseeable future, but will instead retain cash for working capital needs, possible acquisitions, to reduce outstanding debt or for other corporate purposes. In addition, our credit agreement prohibits us from declaring or paying any cash dividends without the lenders' consent.

Capitalization

The following table sets forth our capitalization as of March 31, 2002. We are not selling any shares and will not receive any proceeds from this offering. The only adjustment to the balance sheet to reflect this offering will be related to our commitment to pay certain expenses of the offering, which will reduce our retained earnings. See "Underwriting" for a description of our obligation to pay part of the expenses of the offering. You should read this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto appearing elsewhere in this prospectus.

		March 31, 2002
		(In thousands)
Debt:		
Notes payable	$	34,758
Shareholders' equity:		
Redeemable preferred stock Series A Adjustable Rate Nonconvertible, $1,000 stated value, 22,879 shares authorized		
Preferred stock Series B Junior Cumulative (no par value, 10,000 shares authorized)		
Preferred stock (no par value, 467,121 shares authorized)		
Common stock (no par value, $1 stated value, 50,000,000 shares authorized, 16,654,315 issued and 12,590,166 outstanding)		16,654
Paid-in capital		187,892
Retained earnings		45,900
Accumulated other comprehensive loss (net of tax benefit)		(74)
Treasury stock (4,064,149 shares at cost)		(36,797)
Total shareholders' equity		213,575
Total capitalization	$	248,333

Selected Consolidated Financial Data

This section presents our selected historical consolidated financial data. You should read carefully the consolidated financial statements included in this prospectus, including the notes to the consolidated financial statements. The selected data in this section is not intended to replace the consolidated financial statements.

We derived the statement of operations data for the years ended December 31, 1999, 2000 and 2001 and balance sheet data as of December 31, 2000 and 2001 from the audited consolidated financial statements included in this prospectus. Those consolidated financial statements were audited by Ernst & Young LLP, independent auditors. We derived the statement of operations data for the years ended December 31, 1997 and 1998 and balance sheet data as of December 31, 1997 through 1999 from audited consolidated financial statements that are not included in this prospectus. We derived the statement of operations data for the three months ended March 31, 2002 and 2001, and the balance sheet data as of March 31, 2002, from the unaudited consolidated financial statements included in this prospectus which, in management's opinion, include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the information set forth herein. Results for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

	Three Months Ended March 31,		Year Ended December 31,				
	2002	2001	2001	2000	1999	1998(1)	1997(1)
	(In thousands, except share data)						
Statement of Operations Data:							
Revenues:							
Premium revenue	$ 194,401	$ 222,470	$ 838,672	$ 951,071	$ 1,056,107	$ 914,017	$ 957,204
Net investment income	3,924	4,514	17,443	19,007	19,766	20,550	22,217
Net realized investment gains (losses)	14	(27)	(779)	(325)	(854)	3,670	1,854

	Three Months Ended March 31,		Year Ended December 31,				
Other revenue	5,405	5,301	21,285	20,112	22,361	22,632	24,249
Total revenues	203,744	232,258	876,621	989,865	1,097,380	960,869	1,005,524
Expenses:							
Medical and other benefits	131,800	166,580	601,942	724,613	860,473	691,767	733,491
Selling, general and administrative	62,024	71,411	257,742	251,767	268,059	242,073	252,160
Interest	494	876	2,877	3,584	3,564	7,691	9,311
Amortization of goodwill and other intangibles(2)	183	907	3,628	3,785	4,273	8,781	7,975
Write-off of intangible assets and related charges						15,453	
Total expenses	194,501	239,774	866,189	983,749	1,136,369	965,765	1,002,937
Income (loss) from continuing operations,							
Before income taxes	9,243	(7,516)	10,432	6,116	(38,989)	(4,896)	2,587
Income tax expense (benefit)	3,813	(2,376)	6,257	3,447	(13,043)	(1,868)	1,032
Income (loss) from continuing operations	5,430	(5,140)	4,175	2,669	(25,946)	(3,028)	1,555
Income from discontinued operations, less applicable income taxes						10,003	16,595
Net income (loss)	$ 5,430	$ (5,140)	$ 4,175	$ 2,669	$ (25,946)	$ 6,975	$ 18,150
Earnings (loss) per common share basic							
Continuing operations	$ 0.39	$ (0.36)	$ 0.30	$ 0.18	$ (1.58)	$ (0.18)	$ 0.10
Discontinued operations						0.60	1.01
Net income (loss) per common share basic	$ 0.39	$ (0.36)	$ 0.30	$ 0.18	$ (1.58)	$ 0.42	$ 1.11
Earnings (loss) per common share diluted							
Continuing operations	$ 0.37	$ (0.36)	$ 0.29	$ 0.18	$ (1.58)	$ (0.18)	$ 0.10
Discontinued operations						0.60	1.00
Net income (loss) per common share diluted	$ 0.37	$ (0.36)	$ 0.29	$ 0.18	$ (1.58)	$ 0.42	$ 1.10
Weighted average common shares outstanding	13,803	14,211	14,049	14,899	16,470	16,559	16,423
Cash dividends per common share	$	$	$	$	$	$ 0.36	$ 0.48

19

	March 31, 2002	December 31, 2001	2000	1999	1998	1997
		(In thousands)				
Balance Sheet Data:						
Cash and investments	$ 272,790	$ 300,253	$ 284,982	$ 293,539	$ 309,562	$ 316,858
Total assets	448,346	473,015	471,923	503,094	498,722	648,136

		December 31,				
Notes payable	34,758	40,058	41,258	42,525	55,064	124,578
Total shareholders' equity	213,575	229,400	221,177	220,280	266,451	326,377

(1) Our discontinued operations include the operations of Newco/UWS, Inc., now known as Cobalt Corporation, through September 25, 1998, the date on which we spun off Newco/UWS to our shareholders. Our continuing operations prior to September 11, 1998 include interest on debt assumed by Newco/UWS on September 11, 1998, the spin-off effective date.

(2) Beginning January 1, 2002, we adopted Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which changed the way we account for goodwill. See Note 2 to the Consolidated Financial Statements for details regarding the impact of this change in accounting.

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

Overview

We are a provider of individual and small employer group insurance products. Our principal product offerings are health insurance for small employer groups and health insurance for individuals and families. We refer in this prospectus to health insurance products marketed to individuals and families as MedOne[SM]. We also offer dental, life, prescription drug, disability and accidental death insurance, and provide self-funded benefit administration. We market our products in 32 states and the District of Columbia through independent agents. We have approximately 75 sales managers located in sales offices throughout the United States to support the independent agents. Our products generally provide discounts to insureds that utilize preferred provider organizations or PPOs. We own a preferred provider network and also contract with other networks to ensure cost-effective health care choices to our members.

Summary of First Quarter 2002 Results

We reported net income of $5.4 million or $0.37 per diluted share for the first quarter of 2002. This compares to a net loss of $5.1 million or $0.36 per share for the first quarter of 2001. The improvement in profitability from the first quarter of the prior year primarily reflects improvement in the small employer group loss ratio, a charge related to legal matters in the first quarter of 2001, and a change in accounting for goodwill and other intangible assets.

The improvement in the small employer group loss ratio is attributed to management's strategic plan including increased premium rates on new and renewal business, focused marketing efforts for small employer group products in markets with the best prospects for profitability and future growth, and redesigned products to meet the changing needs of today's insurance consumers.

The results for the first quarter of 2001 reflect an after-tax charge of $5.8 million or $0.41 per share for legal matters related to an adverse ruling in a lawsuit brought against us by Skilstaf, Inc. Effective January 1, 2002, we adopted new rules on accounting for goodwill and other intangible assets. Goodwill is no longer amortized, but is instead tested annually for impairment. The first quarter 2001 results include goodwill amortization of $671,000 or $0.05 per share. See our Notes to Consolidated Financial Statements, Note 2, "Recent Accounting Pronouncements," for further discussion regarding the impact of the accounting change.

Summary of 2001 Results

Our financial performance improved considerably in 2001. The key factor in the improvement was the health loss ratio, which by year-end had dropped to its lowest point in over three years. This positive momentum is attributed to strategic decisions we made in late 1999 including (1) raising premiums on our new and renewal business, (2) focusing our marketing efforts for small employer group products in markets with the best prospects for profitability and growth, (3) redesigning our products to offer price and coverage choices, and (4) expanding the distribution of our MedOne[SM] products.

During the first quarter of 2001, we received an adverse decision by the Eleventh Circuit Federal Court of Appeals affirming a 1999 $6.9 million jury verdict in a lawsuit brought against us by Skilstaf, Inc., an employee leasing company. As a result, our 2001 reported results reflect an after-tax charge of $5.8 million or $0.41 per share. See our Notes to Consolidated Financial Statements, Note 8, "Commitments and Contingencies," for more detailed information regarding this case. Management has characterized this charge as a nonrecurring item in the following discussion of results of operations due to the unusual nature and size of the lawsuit and because it relates to a contract in force between 1992 and 1996.

Following is a discussion of management's strategic decisions made in late 1999 and their effect on our 2001 operations:

Product Pricing

Significant technological advancements in the health care field have continued in the past few years. As a result of this and other factors, including the inflationary effects of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and Medicare cost-shifting, our costs associated with health care have also increased. In the face of escalating claims cost trends that emerged in late 1998 and 1999, management implemented premium rate increases on our existing block of business. This action contributed greatly to the improvement in the health loss ratio and resulting earnings performance. After the effect of buydowns in coverage and terminations, average medical premium per member per month increased 14% from 2000 to 2001. In comparison, average medical claims costs per member per month increased only 7% for the same period. We are committed to a pricing strategy intended to maintain premium rate increases at a level necessary to achieve our target profit margins.

Focused Small Employer Group Marketing

We continue to analyze our geographic markets and are focusing our marketing efforts in those areas that offer the greatest potential for appropriate returns. As a consequence of government regulations and rapidly rising health care inflation resulting from advances in technology and drug treatments, our small employer group business experienced losses in 1998 and 1999. Since that time, we have taken steps to return our small employer group business to profitability. Those steps included exiting from certain unprofitable markets, shifting sales and marketing energies away from underperforming markets and realigning our small employer group agent force to producers with a commitment to us.

As a result of these actions and the premium rate increases previously discussed, our small employer group business has improved significantly over the past two years and is currently contributing to our improved financial performance. As anticipated, these focused efforts to improve profitability resulted in a decline in membership and revenues throughout 2001. We are currently taking steps to return our small group business to a growth mode while continuing to protect its margins. We remain committed to this business and believe that this large and growing sector of the economy has significant revenue and earnings potential.

Product Redesign

A significant portion of our product portfolio was redesigned during 2001 to keep pace with changes in the marketplace and to maximize our competitiveness. Consumers seem to be willing to accept higher co-payments and deductibles in exchange for more affordable premiums and protection from major medical bills. Our new products for small employer groups and individuals are designed to provide more affordable coverage for major medical expenses by shifting the financial responsibility for routine day-to-day health care to the patient. These new products feature attractive rates, real choice and protection from catastrophic medical costs. We have been introducing these products to our sales force for the past several months, and the agent reaction has been enthusiastic. In markets where the products have been fully launched, management has seen a positive trend in quote requests and new members.

MedOne℠ Expansion

Recognizing the significant earnings potential of the MedOne℠ product line, we are continuing to take steps to expand the distribution of this business. There are a number of key factors that make MedOne℠ a strategic focus and an attractive product line to sell. The current regulatory environment

allows us expanded flexibility in pricing, risk selection and plan design. The product line features higher deductibles and co-payments, thereby increasing consumers' involvement in health care cost decisions. In addition, the MedOne℠ business is well positioned in a slowing economy in which employers are faced with reducing their workforce or dropping their group health coverage. MedOne℠ represented 45% of our medical membership at the end of 2001, compared with 34% at the end of 2000. This shift in our product mix contributed to the improvement in the health loss ratio. While MedOne℠ products are more costly to sell and administer than small employer group products, the increased underwriting and risk management flexibility results in a lower loss ratio. The lower loss ratio was somewhat offset by the increase in the expense ratio during 2001. Management expects this product line to represent about half of our revenues by 2003.

Outlook for 2002

Increasing premium rates and realigning marketing efforts caused a drop in our new member enrollment and an increase in existing membership terminations resulting in decreased revenues throughout 2001. While this consequence was anticipated, management believes membership and revenues in 2002 will remain flat with 2001 with some further decline during the first half of 2002 before starting to improve by mid-year. Premium rate increases should moderate during 2002, which should improve persistency of small employer group membership. In addition, the introduction and roll out of new products is expected to have a positive impact on new sales. We are currently conducting significant marketing campaigns to recruit new MedOne[SM] and dental agents. These efforts are also attracting agents who want to sell our full line of products causing our force of professional, licensed agents selling our small employer group products to grow. We also believe that competitive pressures should ease somewhat in 2002 as other small employer group insurance carriers either exit the small employer group market or implement significant rate increases. We expect the health loss ratio to continue to improve, but at a more moderate rate during 2002.

Comparison of Results of Operations

We experienced unrelated nonrecurring charges during 1999 and 2001. As these nonrecurring items were not reflective of our ongoing operations, management has chosen to exclude their effects from the "Comparison of Results of Operations" and to describe each item separately. The following table illustrates the effect of nonrecurring items on our results:

	Three Months ended March 31,		Year ended December 31,		
	2002	2001	2001	2000	1999
	(In thousands)				
Income (loss) before nonrecurring item	$ 5,430	$ 710	$ 10,025	$ 2,669	$ (12,241)
Nonrecurring item, net of tax		(5,850)	(5,850)		(13,705)
Net income (loss)	$ 5,430	$ (5,140)	$ 4,175	$ 2,669	$ (25,946)

A summary description of each of the nonrecurring items is as follows:

During the third quarter of 1999, we ceased marketing and terminated all small employer group business in Florida, all small employer group and individual health insurance business in Maryland and all remaining business in Minnesota over a period of 18 months. This decision was made after it became clear to management that certain regulatory challenges existed that made it impossible to return these markets to profitability. We recorded a $13.7 million after-tax charge in 1999 for a premium deficiency reserve to recognize expected losses related to highly regulated markets.

During the first quarter of 2001, we received an adverse decision by the Eleventh Circuit Federal Court of Appeals affirming a 1999 $6.9 million jury verdict in a lawsuit brought against the Company by

Skilstaf, Inc., an employee leasing company. We recognized an after-tax charge of $5.8 million or $0.41 per share during the first quarter of 2001 representing the full loss including punitive damages and other expenses. In July 2001, at the direction of the district court, we paid the full amount of the verdict plus interest. This case is now closed.

Three months ended March 31, 2002 and 2001

Insurance premiums for the three months ended March 31, 2002 decreased 12.6% to $194.4 million from $222.5 million for the same period in 2001. The decrease primarily resulted from a decline in membership in select unprofitable small employer group and exited markets and high lapse rates of existing membership in core markets, partially offset by rising premium rates on the continuing block of business. Average fully insured medical premium per member per month for the first quarter of 2002 increased by 15.0% to $168, compared to the first quarter of 2001, reflecting significant rate actions taken by us. As a result of our actions to change our product mix, redefine our markets, increase profitability, and reposition ourself for the future, we expect quarterly insurance premiums to level before improving later in 2002.

Total medical and dental membership declined from 652,683 members at March 31, 2001 to 539,481 members at March 31, 2002. The membership decrease is primarily the result of our success in terminating business in several unprofitable markets, including exited markets, and premium rate increases resulting in lower new sales and higher lapses on existing business. Our MedOne^SM product for individuals and families continues to grow as a percentage of our overall business reflecting management's strategy to change our mix of business. MedOne^SM membership now accounts for 46% of our medical membership in force. At the end of 2000 and 2001, MedOne^SM membership accounted for 34% and 45%, respectively. We consider the MedOne^SM product to be a key strategic product and continue to take steps to accelerate membership and premium growth in this market.

Net investment income for the three months ended March 31, 2002 decreased to $3.9 million from $4.5 million for the three months ended March 31, 2001. The decrease in net investment income is due primarily to a decrease in the average annual investment yield. The average annual investment yield was 6.0% for the first quarter of 2002 compared to 6.6% for the first quarter of 2001. Invested assets in March 2002 have declined primarily as a result of the repurchase of 1.4 million shares of our common stock for a total cost of $19.5 million, including related transaction costs, from the selling shareholder.

The health segment loss ratio for the first quarter of 2002 was 68.5% compared to 75.7% for the first quarter of 2001. The significant improvement was due to management's actions and strategies to increase premium rates and combat medical inflation. These actions included premium rate increases, claims cost control initiatives and the exit from unprofitable small employer group markets. The reduction also reflects increased sales of MedOne^SM products, which are priced for a lower loss ratio but have higher selling and administrative costs. As anticipated, claim costs per member per month have increased slightly, but were surpassed by increased premiums per member per month. Average premium per member per month for the first quarter of 2002 increased 15.0% compared with the first quarter of 2001. Average claims costs increased only 4.1% over the same period.

The life segment loss ratio for the three months ended March 31, 2002 was 33.1% compared to 40.1% for the three months ended March 31, 2001. The life segment loss ratio tends to fluctuate from quarter to quarter as actual life claims experience fluctuates. The life segment loss ratio for the three month period ended March 31, 2002 is consistent with historical averages and anticipated average future results for this segment.

The selling, general and administrative, or SG&A, expense ratio includes commissions and selling expenses, administrative expenses (less other revenues), and premium taxes and assessments. The SG&A expense ratio for health segment products for the three months ended March 31, 2002 was 28.2%. This compares to the first quarter of 2001 SG&A expense ratio of 25.2%, excluding the non- recurring legal charge. The first quarter 2001 reported SG&A expense ratio, including the non-

recurring legal charge, was 29.4%. The increase from the prior year, excluding the non-recurring legal charge, largely reflects a product mix change driven by growth in the MedOne^SM business, which has higher selling and administrative costs but lower claim costs than small employer group products. Lower premium volume also contributed to the increase in the SG&A ratio.

The health segment combined ratio, which represents the sum of the health loss and expense ratios, was 96.7% for the three months ended March 31, 2002 compared to 100.9% for the same period in the prior year, excluding the non-recurring legal charge. The first quarter 2001 combined ratio including the non-recurring legal charge was 105.1%.

Years ended December 31, 2001 and 2000

Insurance premiums decreased 11.8% to $838.7 million in 2001 from $951.1 million in 2000. Premium revenues have decreased as a result of our membership decline. As discussed above, membership reductions have resulted from product repricing, market exits and focusing marketing efforts in profitable markets. Medical membership declined by 126,000 members during 2001. Our change in our product mix has also impacted premium revenue. The MedOne^SM business, which has become a larger percentage of our total business, has a smaller premium per member compared with the declining small employer group business. Partially offsetting the membership decline and the change in the product mix is the effect of increasing premium rates.

The health segment loss ratio improved 460 basis points to 72.6% for 2001 compared to 77.2% for 2000. The 2001 health loss ratio is at its lowest point in over three years. The improvement in the health loss ratio is due in part to improved performance on our small employer group business resulting from repricing efforts. In 2001, average premiums per member per month increased at a higher rate than average claims costs per member resulting in a lower loss ratio. The health loss ratio also benefited, to a lesser degree, from the change in product mix to a larger percentage of MedOne^SM business, which has a lower loss ratio. The life segment loss ratio remained relatively stable with the prior year at

36.4% for 2001 compared with 34.5% for 2000.

Net investment income decreased to $17.4 million in 2001 from $19.0 million in 2000. The decrease resulted mainly from a decrease in the annual investment yield. The annual investment yield was 6.4% for 2001 compared to 6.7% for the prior year. Investment gains and losses are realized in the normal investment process in response to market opportunities.

Other revenue, which primarily consists of administrative fee income from claim processing on self-funded business and other administrative services, increased slightly to $21.3 million in 2001 from $20.1 million in 2000. The increase resulted from a general increase in fees charged during 2001.

The expense ratio includes commissions, general and administrative expenses (less other revenues), premium taxes and assessments. The health segment expense ratio, excluding the first quarter litigation charge, increased to 26.6% in 2001 from 24.2% in 2000. The increase largely reflected the change in our product mix. MedOne℠ business has higher agent commissions and issue costs than small employer group products, but lower claim costs. The decrease in premium volume also contributed to the increase in the health expense ratio. For 2002, we expect the health segment expense ratio to increase slightly primarily as the result of investments in our distribution system and other selling costs and a continued expansion of the MedOne℠ business.

The health segment combined ratio, which represents the sum of the health loss ratio and the expense ratio, improved 220 basis points to 99.2% for 2001 from 101.4% for 2000. The 2.2% improvement in the combined ratio resulted in an improvement in pre-tax income of $18.1 million in 2001 over 2000.

Interest expense on outstanding debt decreased to $2.9 million in 2001 from $3.6 million in 2000. The interest rate charged on the line of credit is tied to the short-term borrowing rate, which declined throughout most of 2001 resulting in decreased interest expense for us. Amortization of goodwill and other intangible assets remained relatively stable at $3.6 million for 2001 compared to $3.8 million for

the prior year. As discussed in detail below under the caption "Recent Accounting Pronouncements," we will apply new accounting rules for goodwill and intangibles effective January 1, 2002.

The effective tax rate for 2001 was 60.0%. Excluding the effect of the first quarter litigation charge, the effective tax rate was 48.4% for 2001 compared to 56.4% for 2000. The change in the effective tax rate relates to the amortization of non-deductible goodwill and other permanent items in relation to pre-tax income. We had deferred tax assets recorded, net of valuation allowances, of $2.9 million related to state net operating loss carryforwards at December 31, 2001. State net operating loss carryforwards begin to expire in 2008. We believe that the deferred tax assets will be realized primarily through future state taxable income.

Years ended December 31, 2000 and 1999

Insurance premiums decreased 9.9% to $951.1 million for 2000 from $1,056.1 million reported for 1999. We acquired the majority of the fully insured group health business of Continental Assurance Company on January 1, 1999. Premiums on the Continental Assurance Company block of business declined approximately $70 million from 1999 to 2000, which accounted for the majority of the decrease in premium. The remainder of the decline in premiums from the prior year resulted from declining small employer group membership due to the exit from unprofitable markets. Partially offsetting the impact of the declining membership was the continued increase in premiums per member per month. Our average fully insured medical premium per member per month increased 7% to $136, compared to $127 for 1999.

The health segment loss ratio improved 320 basis points to 77.2% in 2000 from 80.4% reported in 1999, excluding the nonrecurring charge. The significant improvement was due to management's actions and strategies implemented during 2000 to manage medical inflation. These actions included premium increases, claims cost control initiatives and the exit from certain unprofitable small employer group markets and the related release of premium deficiency reserves. The improvement also reflected increased sales of MedOne℠ products, which are priced for a lower loss ratio due to its increased deductibles and co-payments. The life segment loss ratio improved to 34.5% for 2000 from 39.2% in 1999.

Net investment income decreased to $19.0 million in 2000 from $19.8 million in 1999. The decrease resulted from a slight decrease in average invested assets from 1999 to 2000. Average invested assets at cost decreased from $294.7 million at the end of 1999 to $283.8 million at the end of 2000. Investment gains and losses are realized in the normal investment process in response to market opportunities.

Other revenue, which primarily consists of administrative fee income from claim processing on self funded business and other administrative services, decreased slightly to $20.1 million in 2000 from $22.4 million in 1999. The decrease resulted from a decline in administrative fee revenue from blocks of business acquired in prior years.

The expense ratio includes commissions, general and administrative expenses (less other revenues), premium taxes and assessments. As anticipated, the health segment expense ratio increased to 24.2% in 2000 from 23.0% in 1999. The increase largely reflected the change in our product mix. MedOne[SM] business, which expanded significantly during 2000, has higher agent commissions and issue costs than our small employer group products, but lower claim costs. In addition, in the third quarter of 2000, we received a one-time assessment from the State of Minnesota related to our exit from the MedOne[SM] health insurance market in that state in early 1999. The assessment was $1.2 million in excess of our original provision for the assessment. Management expects no similar assessments from other exited markets. The decrease in premium volume also contributed to the increase in the health expense ratio.

The health segment combined ratio, which represents the sum of the health loss and expense ratios, improved 200 basis points to 101.4% for 2000 from 103.4% for 1999. The 2.0% improvement in the combined ratio resulted in an improvement in pre-tax income of $18.2 million to us in 2000.

Interest expense on outstanding debt remained flat compared to 1999 at $3.6 million. Amortization of goodwill and other intangible assets declined from 1999 to 2000 to $3.8 million from $4.3 million.

The effective tax rate for 2000 was 56.4% compared with 33.5% for 1999. The change in the effective tax rate relates to the amortization of non-deductible goodwill and other permanent items in relation to pre-tax income. We reported pre-tax income of $6.1 million in 2000 compared to a pre-tax loss of $39.0 million in 1999.

Critical Accounting Policies

Liabilities for Unpaid Claims

Our liabilities for unpaid claims are based on an estimation process that is complex and uses information obtained from both company specific and industry data, as well as general economic information. These estimates are developed using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services and other relevant factors. The amount recorded for unpaid claims liabilities is sensitive to judgments and assumptions made in the estimation process. The most significant assumptions used in the estimation process include determining claims cost trends, the expected consistency in the frequency and severity of claims incurred but not yet reported, changes in the timing of claims submission patterns from providers, changes in our speed of processing claims and expected costs to settle unpaid claims.

Actual conditions could differ from those assumed in the estimation process given the general economic and regulatory environment of our operations. Due to the uncertainties associated with the factors used in these assumptions, we could report materially different amounts in our statement of operations for a particular period under different conditions or using different assumptions. As is common in the health insurance industry, we believe that actual results may vary within a reasonable range of possible outcomes. We believe that the recorded liabilities for unpaid claims are in the higher end of a reasonable range of outcomes. We closely monitor and evaluate developments and emerging trends in claims costs to determine the reasonableness of judgments made. A retrospective test is performed on prior period claims liabilities and, as adjustments to the liabilities become necessary, the adjustments are reflected in current operations. We believe that the amount of medical and other benefits payable is adequate to cover our liabilities for unpaid claims.

In determining the liability for unpaid claims at December 31, 2001, management considered the potential impact of the September 11, 2001 events. Although the events of September 11, 2001 did not have a direct material effect on us, we anticipated an indirect impact including, but not limited to, increased utilization by the general population of mental health services for stress, anxiety, depression and similar conditions in the fourth quarter. Also, subsequent bio-terrorism threats and attacks were anticipated to result in increased utilization of health care services including office visits, laboratory tests and prescription drugs for flu-like symptoms in the fourth quarter. During the first quarter of 2002, we did not discern a material adverse effect related to these events and, therefore, no longer hold reserves for those matters as of March 31, 2002.

Litigation

We are involved in various legal and regulatory actions occurring in the normal course of business. The liabilities recorded for litigation are generally determined on a case-by-case basis and typically relate to disputes over policy coverage and benefits. In determining the amount to be recorded, judgments are made by management based on the facts and the merits of the case, advice from outside legal counsel, the general legal and regulatory environment of the originating state, historical results of similar cases and other relevant factors. The average cost for the settlement of the actions occurring in the normal course of our business approximates $30,000. However, inherent uncertainties surround legal

proceedings and actual results could differ from those assumed in determining the liabilities. The possibility exists that a decision could be rendered against us including punitive or other damage awards, which may have a material impact on the results of our operations. In estimating the liabilities for litigation as of December 31, 2001, we considered the recent unfavorable litigation environment we have experienced in certain states. Management's evaluation of the likely impact of these actions could change in the future and an unfavorable outcome could have a material effect on our financial condition, results of operations or cash flow of a future period. See our Notes to Consolidated Financial Statements, Note 8, "Commitments and Contingencies," for a detailed discussion of our material pending litigation.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* or Statement 142, effective for fiscal years beginning after December 15, 2001. We adopted Statement 142 on January 1, 2002. Statement 142 impacted us in two ways. First, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized. Other intangible assets will continue to be amortized over their useful lives. Second, goodwill and intangible assets with indefinite lives will be subject to an initial impairment test in accordance with Statement 142, and any remaining balance of goodwill and intangible assets will be subject to future annual impairment testing.

We are in the process of performing the first of the required impairment tests of goodwill and intangible assets deemed to have indefinite lives in 2002, effective as of January 1, 2002, by comparing the fair value of our reporting units to their carrying amounts (book value), including goodwill. In determining the fair value of our reporting units, we will consider valuation techniques such as the quoted market price of our stock, the present value of future cash flows and market comparison of similar assets and liabilities.

At December 31, 2001, our book value per share was $16.30 and was significantly higher than the $12.45 quoted market price per share. We have not yet determined what the effect of these tests will be on our earnings and financial position. If we determine that the quoted market price per share is the appropriate measure of our fair value, the resulting impairment would be greater than 50% of the amount of goodwill on our December 31, 2001 balance sheet. If it is determined that an impairment exists as of January 1, 2002, the charge would be reported as the cumulative effect of a change in accounting principle in our consolidated financial statements and would have no impact on cash flows or the statutory-basis capital and surplus of our insurance subsidiaries.

Liquidity and Capital Resources

Our sources of cash flow consist primarily of insurance premiums, administrative fee revenue and investment income. The primary uses of cash include payment of medical and other benefits, selling, general and administrative expenses and debt service costs. Positive cash flows are invested pending future payments of medical and other benefits and other operating expenses. Our investment policies are designed to maximize yield, preserve principal and provide liquidity to meet anticipated payment obligations.

Our cash provided by operations was $3.1 million for the three months ended March 31, 2002. This compares to cash used in operations of $8.1 million for the three months ended March 31, 2001. The improvement in cash flow primarily reflects our increased profitability. We expect cash flow to remain positive for the year 2002.

Our cash provided by operations was $17.6 million for 2001 and cash used in operations was $3.2 million for the year ended 2000. Excluding the payment for the Skilstaf litigation, cash provided by operations was $25.2 million for 2001. The increase in cash flows from operations is primarily the result

of improved underwriting margins in 2001 over 2000. Consistent with our earnings, cash flows increased significantly during the last half of 2001.

We are well capitalized and have a debt to total capital ratio of 14.0% at March 31, 2002, which is low by industry standards.

Our insurance subsidiaries operate in states that require certain levels of regulatory capital and surplus and may restrict dividends to their parent companies. The insurance regulator in each insurer's state of domicile may disapprove any dividend which, together with other dividends paid by an insurance company in the prior 12 months, exceeds the regulatory maximum, computed as the lesser (or in one instance, the greater) of 10% of statutory surplus or total statutory net gain from operations as of the end of the preceding calendar year. Our principal insurance subsidiary is subject to rules that limit dividends to the lesser of those two measures. In February 2002, we received a $5.0 million dividend from an insurance subsidiary that was used to make the required principal payment on our credit facility in 2002. In March 2002, we received a $20.0 million dividend from an insurance subsidiary with regulatory approval in conjunction with the repurchase of 1.4 million shares of our common stock from the selling shareholder. Consequently, any additional dividends of any amount this fiscal year will require regulatory approval.

The National Association of Insurance Commissioners has adopted risk-based capital standards for life and health insurers designed to evaluate the adequacy of statutory capital and surplus in relation to various business risks faced by such insurers. The risk-based capital formula is used by state insurance regulators as an early warning tool to identify insurance companies that potentially are inadequately capitalized. At December 31, 2001, each of our insurance subsidiaries had risk-based capital ratios substantially above the levels that would require action by us or a regulator.

During 2001, we purchased 367,000 shares of our outstanding common stock at an aggregate purchase price of $2.2 million. In October 2001, we reached our maximum authorized purchase threshold, bringing the total purchased under the program to 2.7 million shares at an aggregate purchase price of $18.0 million.

We maintain a revolving bank line of credit agreement with an outstanding balance and maximum commitment of $30.2 million as of March 31, 2002. At December 31, 2001, the outstanding balance and maximum commitment under the credit agreement was $35.2 million. In February 2002, in accordance with the revolving bank line of credit, we paid $5.0 million of the outstanding balance. Our obligations under the credit agreement are guaranteed by our subsidiary American Medical Security Holdings, Inc. and secured by pledges of the stock of American Medical Security Holdings, Inc. and United Wisconsin Life Insurance Company, our primary insurance subsidiary.

The credit agreement contains customary covenants which, among other matters, require us to achieve certain minimum financial results and restrict our ability to incur additional debt, pay future cash dividends and dispose of assets outside the ordinary course of business. We were in compliance with all such covenants at March 31, 2002 and anticipate continued compliance in the foreseeable future. We believe that the implementation of Statement of Financial Accounting Standards No. 142 will not adversely impact our compliance with debt covenants.

Our credit agreement was amended in January 2001 and April 2001 to revise the minimum financial requirements of certain covenants. The April 2001 amendment also revised our applicable interest rate on outstanding loans and the schedule of mandatory future commitment reductions including a $4.8 million maximum commitment reduction from $40.0 million to $35.2 million. The credit agreement was also amended in March 2002 to allow for the repurchase of 1,400,000 shares of our common stock at a total cost of $19.5 million, including related expenses, from the selling shareholder and further revise the minimum financial requirements under certain covenants and the schedule of mandatory future commitment reductions.

Annual principal amounts that mature related to the credit agreement are $10.0 million in 2003, $10.0 million in 2004 and $10.2 million in 2005. We anticipate using future cash flows from operations and existing capital and surplus, if necessary, to fund these capital resource needs.

We do not expect to pay any cash dividends in the foreseeable future and intend to employ our earnings in the continued development of our business. Our future dividend policy will depend on our earnings, capital requirements, debt covenant restrictions, financial condition and other factors considered relevant by the Board of Directors.

Market Risk Exposure

Our primary investment objective for our portfolio of investment securities is to maximize investment income while controlling risks and preserving principal. We seek to meet this investment objective through diversity of coupon rates, liquidity, investment type, industry, issuer, duration and geographic location. Investment grade debt securities made up 97% of our total investment portfolio at December 31, 2001. The below investment grade debt securities were investment grade when purchased and subsequently downgraded. None of the below investment grade securities were in default at December 31, 2001. We use outside investment managers who seek to maximize return on the portfolio within our investment guidelines. At March 31, 2002 and December 31, 2001, greater than 99% of our total investment portfolio was invested in debt securities.

The bond portfolio had an average quality rating of AA at March 31, 2002 and December 31, 2001 and AA- at December 31, 2000, as measured by Standard & Poor. Almost the entire portfolio was classified as available for sale. We had no investment mortgage loans, nonpublicly traded securities (except for principal only strips of U.S. government securities), real estate held for investment or financial derivatives. The market value of the total available for sale investment portfolio exceeded amortized cost by $2.9 million at December 31, 2001 as compared with March 31, 2002 and December 31, 2000 when the amortized cost of the total investment portfolio exceeded market value by $0.1 million and $6.1 million, respectively. We believe that cash flow from operations will be sufficient for our cash flow needs and that liquidation of our investment portfolio will not be necessary.

Our primary market risk is interest rate fluctuation. Assuming an immediate increase of 100 basis points in interest rates, the net hypothetical decline in fair value of shareholders' equity is estimated to be $5.6 million after-tax at December 31, 2001. This amount represents approximately 2.4% of our shareholders' equity.

At December 31, 2001, the fair value of our borrowings under the line of credit facility approximated the carrying value. Market risk was estimated as the potential increase in the fair value resulting from a hypothetical 1% decrease in our weighted average short-term borrowing rate at December 31, 2001, and was not materially different from the year-end carrying value.

Inflation

Health care costs have been rising and are expected to continue to rise at a rate that exceeds the consumer price index. Our cost control measures and premium rate increases are designed to reduce the adverse effect of medical cost inflation on our operations. In addition, we use our underwriting and medical management capabilities to help control inflation in health care costs. However, there can be no assurance that our efforts will offset fully the impact of inflation or that premium revenue increases will equal or exceed increasing health care costs.

Business

General

We develop and offer health and related insurance products designed to provide individuals and small employer groups with maximum choice at a reasonable cost. In order to increase choice for our insureds, we utilize a preferred provider organization, or PPO model. PPOs provide a wider choice of health professionals and more access to specialists than health maintenance organizations, or HMOs. To reduce the cost of insurance to our customers, we offer multiple health plan configurations incorporating various co-payment agreements and deductible rates, allowing customers to choose the benefit plan that fits their individual needs. We also employ a variety of medical cost management programs designed to help manage and control the overall cost of our products including care management, utilization review and subrogation review. Our proactive care management model is designed to improve the overall quality of care, while also managing the cost of certain complex chronic and acute medical conditions.

We believe that increased choice and affordability, through our product design and our cost management programs, make our products attractive to individuals and small group employers willing to accept increased financial and decision making responsibility for their health care. In addition to our health benefit plans, we also offer dental, life, prescription drug, disability and accidental death insurance, and provide self-funded benefit administration. We sell our products through a network of licensed independent agents in 32 states and the District of Columbia. We are a Wisconsin corporation organized in 1983.

Industry

In recent years a number of factors have caused significant changes within the health insurance industry. Dramatically increasing medical costs, as a result of continuing advances in heath care technology as well as higher utilization, have caused significant increases in insurance premiums. According to the National Coalition on Health Care, an average American family spends one out of every eight dollars on health care, four times greater than they spent in 1980. Additionally, there have been increased efforts by providers to shift the cost of health care to patients with private health care coverage as a result of the Balanced Budget Act of 1997, which reduced Medicare reimbursements to hospitals by an estimated $100 billion over five years.

There has also been increasing demand for choice by insureds. Armed with an increasing amount of health care information available through public sources, including the Internet, insureds are acting like consumers and exercising more control over health care decisions. As a result, we believe the health care delivery system is becoming more patient-directed as opposed to physician-directed. Furthermore, the industry has evolved away from HMOs and their more restrictive network models toward PPOs. PPOs represent a managed care "middle ground" in which individuals and their employers have a wider choice of medical providers. According to William H. Mercer, Inc., a healthcare consulting firm, nearly half of all insured U.S. employees are now enrolled in PPO plans.

Finally, the industry has been subject to an increasing amount of regulation. According to a 1999 Health Insurance Association of America study, the number of state mandates affecting the industry increased 25-fold in the last two decades. This trend continues with current state regulatory activity underway relating to individual and small employer group reform, prompt payment issues and mental health parity. At the federal level, legislative actions being considered include the "Patients' Bill of Rights", the Privacy Act, mental health parity and others.

As a result it has become increasingly difficult for insurance companies to operate, resulting in a significant industry consolidation and an overall decline in the number of companies in the U.S. marketing health insurance. Many of these companies went out of business or were forced to sell their

health insurance lines of business to competitors. According to Irving Levin Associates, a healthcare consulting firm, there have been 275 mergers or acquisitions in the managed care industry since 1994.

Small Employer Group and Individual Markets

The small employer group and individual markets are rapidly growing segments of the overall health benefits industry. According to the Small Business Administration, the small employer group sector includes 25 million small businesses, nearly 75% of all U.S. private establishments, and employs over half of the private sector workforce. In 1998, according to a report by the Small Business Administration, seven of the 10 industries that added the most new jobs were in sectors dominated by small businesses.

The individual market sector is also demonstrating significant growth potential in an uncertain economic environment. An increasing number of individuals are seeking their own health care coverage by virtue of losing their employment and benefits. In other cases, individuals are seeking coverage because their employers have stopped sponsoring health insurance.

The small group sector was specifically impacted by rising claims cost trends resulting from the Health Insurance Portability and Accountability Act of 1996, or HIPAA. Essentially, the legislation guaranteed coverage for small employers and certain individuals, without traditional underwriting. At the same time, state rating caps limited the ability of insurers to set premium prices based on actuarial risk. As a result, most small group carriers became unprofitable and were forced to implement successive years of significant rate increases to account for the higher costs associated with the additional risks.

Rising medical costs, exacerbated by an economic recession, have changed the dynamics in the small employer group market. Employers are increasingly forced to choose between eliminating employee health benefits entirely or limiting their contributions and administrative role, thereby increasing the responsibility of employees for their own health care decisions and payments. Small employers electing to retain employee health care benefits are seeking affordable and flexible plans that provide coverage for significant health care problems, while leaving with the insured responsibility for routine health care costs.

During the past several years, in response to dramatic changes in the industry and regulatory environment, we have implemented aggressive rate action necessary to counter significant cost pressure, particularly in the small employer group sector. We believe those costs issues have now been largely accounted for in our pricing. The small employer group business segment has returned to profitability, and we believe it will contribute to future earnings growth.

Our Approach

We offer unique health and other insurance products designed to provide individuals and small employer groups maximum choice at a reasonable cost. Unlike other insurance companies that focus on the health benefits industry in general, we focus exclusively on the individual and small employer group markets. Our approach to these markets is based on the following key attributes:

Focus on PPO products. As consumers demand more choice in health care, PPOs represent a more attractive delivery model because they typically provide a wider choice of health professionals and more access to specialty health care than HMOs. We utilize a PPO delivery model and in each geographic market we serve, we offer our insureds a choice of PPO networks.

Balanced business model focused on customer choice. We offer a variety of health plans with various co-payment and deductible levels, allowing consumers to choose the best plans to fit their individual needs. For example, our small group products allow an employer with four employees to offer four different and distinct health plans.

Excellent customer service. We provide a number of value-added features to customers, including Nurse Healthline, Inc., our toll-free 24 hour-a-day health information line, case management services and toll-free, personal customer service 24 hours-a-day, seven days a week. In addition, over 95% of our customers' claims are processed within 30 days and we maintain an approximate 99% financial claim accuracy record.

Outstanding agent relationships. We currently market products through approximately 25,000 independent agents, a 25% increase in the number of agents from the prior year. We have focused our marketing efforts on agents with whom we have strong existing relationships. As a result, we are continuing to build long-term, mutually beneficial agent relationships that enhance our overall distribution network.

Process orientation and underwriting discipline. We have developed proprietary and tested medical cost management practices and underwriting capabilities. Our custom-built, fully integrated management information system provides efficiency and service advantages while maintaining relatively low administrative expenses.

Infrastructure. Our existing information technology infrastructure, geographic location and economies of scale provide us with an administrative cost advantage. We have developed a custom-built, integrated management information system that includes underwriting, billing, enrollment, claims processing, utilization management, sales reporting, network analysis and service and status reporting. We believe our existing infrastructure has enough capacity to allow us to double our current volume of business.

Centralized, Midwestern location. Our operations are centralized at our Green Bay, Wisconsin corporate campus. We benefit from a stable, educated workforce and good labor relations.

Strategy

Our objective is to become the leading provider of health insurance products to individuals and small employer groups. The key elements of our strategy to achieve our objective are as follows:

Increase penetration in existing markets. We intend to increase our penetration in our existing markets by continuing to introduce flexible new products for small employer groups. We intend to roll out new products that feature more attractive rates for employers, as a result of higher deductibles and co-payments for the insureds, while providing the insured with maximum flexibility through a choice of PPO networks. In the individual insurance market, we have recently introduced, in response to consumer demand for more affordable health coverage, a lower premium product that has been well received by our members. We intend to aggressively recruit additional agents licensed to sell our individual products in order to increase our sales of the products in the markets we serve.

Focus on products designed for consumer choice. We will continue to develop and offer benefit plan structures that utilize broad networks of health care providers as well as deductible and co-payment structures designed to allow our members to take more active decision making and financial responsibility for their routine health care needs.

Diversify our revenue mix. We seek to diversify our revenue mix by pursuing sales of products and services that enable us to increase our revenue stream and generate more stable and predictable margins than our small employer group product. As a result, we are more actively marketing our health insurance for individuals and dental insurance for both individuals and small employer groups. Dental products are sold to members purchasing our health insurance. We also sell dental insurance to groups on a stand-alone basis.

Leverage our existing operating efficiencies and flexible infrastructure. We have developed and maintain a low fixed cost organizational structure providing us significant capacity to expand our book of business.

To take advantage of our low administrative cost structure we intend to aggressively pursue additional sales of our existing products through the introduction of new small employer group products and the expansion of our sales force for products marketed to individuals. We will continue to invest in our flexible IT system in order to streamline our internal processes and generate additional efficiencies and to add functionality enabling us to offer additional services to our agents and members. We estimate that our current physical operations and flexible IT system provide us with enough capacity to quickly and economically double our existing base of insureds.

Products

We provide tailored products to meet the varied health insurance needs of our primary markets, including individuals and small employer groups. Common features of our products include:

- Choice of co-pay, deductible and coinsurance levels
- Choice of PPO networks
- Availability of comprehensive prescription drug coverage
- Wellness and routine care coverage
- Nurse Healthline, Inc., our 24 hour-a-day health information line

Small Employer Group

Small employer group medical insurance products are targeted to employer groups with 2-50 employees. Our average group size is approximately six employees. Distributed through a network of 20,000 independent agents, small employer group products are customized for businesses to offer their employees multiple health plan options in a single package. For example, this strategy allows an employer with four employees to offer four different and distinct health plans, one for each employee. Although the premium cost of the plans may vary, the ability to offer different plans to individual employees is without any additional cost to the employer.

MedOne^{SM}

MedOne^{SM} medical insurance products are marketed to individuals and their families. These products are designed to meet the various health insurance needs and budgets of consumers. Sold through independent agents, MedOne^{SM} insurance products are designed for cost-conscious consumers and feature more attractive premium rates, protection from catastrophic medical costs and increased patient responsibility for routine health expenses. Premiums may be periodically adjusted upon renewal of plans to reflect underwriting criteria. Insureds may select deductible and co-pay features to offset premium increases. In addition, we also offer custom, private label products for individuals and families that are sold through arrangements with select general agents.

Dental

GroupDentalChoice^{SM} offers our members a choice in benefit plans, with access to any dental provider, and coverage for a complete range of dental services from preventative maintenance to major dental expenses. Our dental product can be purchased through employer sponsored plans or on a voluntary basis with no employer contribution requirements. Dental coverage can be purchased with our group medical insurance or on a stand-alone basis. Approximately 68% of our dental members have stand-alone plans. More than half of the stand-alone members were originally tied to our group medical products which have since lapsed.

Other

We also offer self-funded benefit administration services for employers that want to assume a portion of the financial risk for their own health plans. In conjunction with our benefit administration services, we offer excess of loss reinsurance to cover catastrophic losses of the self-funded plan. Additionally, we offer COBRA administration services to groups subject to regulations under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

We augment our core business with a select line of products and services. Ancillary benefits available with our plans include term life, short-term medical, short-term disability, accidental death and dependent life insurance. Voluntary term life insurance products may be elected by employees with no employer contribution requirements.

We provide our members and plan participants with toll-free, personal customer service 24 hours-a-day, seven days a week. In addition, through our wholly owned subsidiary, Nurse Healthline, Inc., our members and plan participants have access to a toll-free 24 hour-a-day health information line staffed by registered nurses.

Providers

Our wholly owned subsidiary, Accountable Health Plans of America, Inc., operates a commercial PPO network that is utilized by approximately 20% of our members and contracts with providers primarily in Texas, Florida, Iowa, Nebraska, Wisconsin, Arizona, North Dakota and South Dakota. We also lease our PPO network to other insurers, third party administrators and employers that self insure their benefit plans for a monthly per member fee. Approximately 33% of Accountable Health Plan's membership is derived from us.

We contract with approximately 60 commercial provider networks for our fully insured and self-funded product offerings. A master payor agreement is in place for each provider network that allows us to access each network's provider contracts for our PPO and exclusive provider organization products.

We currently contract with Merck-Medco Managed Care, LLC for management of prescription benefits offered with our products. This arrangement allows members to access their prescription benefits at thousands of retail outlets nationwide or through a mail-order service. It is designed to provide cost benefits to us and ease of administration. This arrangement expires at the end of 2002, and we are currently evaluating Merck-Medco's offerings against its competitors.

Medical Cost Management and Other Services

Our new care management model is a single streamlined process merging utilization review, including pre-certification, concurrent review and retrospective review, with discharge planning and case management. Under this model certain patients are assigned a care manager to assist the insured during the entire episode of care. The integrated model is designed to support physician-directed treatment plans, improve cost savings, promote quality of care for our members and enhance member and provider satisfaction. We continue to apply the more traditional approach to reviewing certain select hospital admission and medical services; however, for other complex and costly conditions, we are applying our new, proactive care management approach. Our care management program provides coordination of care to patients with chronic, complex medical conditions. Designated clinical staff manage transplant-related care situations. Clinical direction is provided by our Chief Medical Officer, two full-time medical directors and licensed nurse professionals.

Our utilization review activities are accredited by the American Accreditation HealthCare Commission/URAC and meet national standards.

We also offer a demand management telephone service through our Nurse Healthline, Inc. subsidiary. Members can access Nurse Healthline registered nurses 24 hours-a-day, 365 days a year. By using a computerized algorithm-based system, Nurse Healthline is able to provide information to members to assist them in gauging the severity of a problem and accessing appropriate health care. Nurse Healthline also offers a maternal wellness program designed to encourage expectant mothers to receive appropriate prenatal care and to provide them with educational materials. Through the maternal wellness program, Nurse Healthline is able to identify potential high risk pregnancies and when appropriate, refer members to our care management staff to develop a plan promoting quality, cost-effective care.

Our subrogation department is responsible for investigating potential injury claims prior to final claims adjudication to determine if other insurance coverage is available. Claims are identified primarily through the use of a diagnosis code table built into the adjudication system, and are investigated via the telephone to expedite the process. We also pursue recoveries post-adjudication when we learn that the insured has other insurance coverage that is considered primary. The majority of savings achieved are due to the identification of motor vehicle accidents, as well as work-related injuries and illnesses.

Our special investigation team proactively searches for fraud and abuse on questionable claims submitted by providers and insureds. As a corporate member of the National Healthcare Anti-Fraud Association, we follow all state regulatory compliance requirements for filing fraud cases. When appropriate, information is shared with the federal and state regulatory and law enforcement agencies. In addition, we pursue recoveries post-adjudication when fraud or misrepresentation has been established.

Sales and Marketing

We currently market our products in 32 states and the District of Columbia. The leading states with respect to medical membership during 2001 were Florida, Illinois, Michigan, Texas, Arizona and Wisconsin, which together accounted for over 50% of our medical membership. Our small employer group products are marketed to employers with 2-50 employees. Our average group size is approximately six employees.

We conduct product sales through licensed independent agents. During 2001, we continued to increase the number of agents selling our products to support our initiative to grow MedOne[SM] sales. We market products through approximately 25,000 independent agents. Custom private label products for individuals and their families are marketed under arrangements with select general agents. Distribution of these products is limited to the general agent and their contracted agent force. Agents are paid commissions on premiums generated from new and renewal sales. We offer an attractive incentive and service package to agents, creating an environment as an agent friendly company.

We divide our sales territory into two regions, each of which is the responsibility of a Regional Vice President. The Regional Vice Presidents work with approximately 75 sales managers in offices located throughout the United States in coordinating our sales and marketing efforts. Sales office staff provide product training to agents and support local agent needs. In addition, our Vice President, Sales and Marketing, Special Markets, oversees proprietary marketers that together accounted for premium production of approximately 7% of total premium revenue in 2001. Proprietary marketers are independent agents that produce primarily MedOne[SM] business through lead generation and independent sub-agents located throughout our sales territory.

We also market, on a limited basis, a MedOne[SM] medical insurance product for individuals over the Internet through several online insurance agencies. In 2001, we introduced eAMS.com, a secured website for agents designed to support their sales activities in marketing our products. The website allows agents to track their business, get news from the home and field offices, print forms and promotional material and track commissions and incentives.

36

Properties

Our headquarters are located in Green Bay, Wisconsin, in a 400,000 square foot office building owned by one of our subsidiaries, U&C Real Estate Partnership. U&C Real Estate Partnership leases the property to another subsidiary of ours, American Medical Security, Inc. The property is pledged as collateral to the commercial lender pursuant to a mortgage that continues until January 1, 2004. As further security, the lease and rents are also assigned to the commerical lender. We also lease property at approximately 30 locations throughout the United States primarily for our field sales and provider network offices.

Operations and Information Technology

Our core operational and administrative functions are supported by a single, custom-built, fully integrated management information system. The efficiency, cost and service advantages of this integrated information technology platform differentiate us from many of our competitors. The information system supports all operational functions including: underwriting, billing, enrollment, claims processing, customer service, agent licensing and compensation, utilization management, network analysis and sales reporting. All of our operational data is contained on a single on-line database, enabling us to query information and perform data analysis to identify and report trends in utilization, product mix, claims costs and other relevant business factors. This ability assists us in maintaining our current pricing strategy and in making business decisions based on comprehensive, accurate and timely information. It also gives us the capability to leverage our customer service reputation while maintaining relatively low administrative expenses. In addition, the cost to support and maintain an integrated system is low, and our system has a high record of availability.

We use extensive personal computer-based network and software applications that are integrated with our platform system and we continuously upgrade and enhance our technology and software applications to meet our current business needs. We have integrated software into our system with specific functionality for case management and for the repricing of claims in accordance with PPO contracts providing us with further cost savings. Our system is highly scaleable with considerable capacity to expand our business through upgrades with minimal investment required.

We provide eAMS.com, an Internet portal for our independent sales agents. The website provides agents with account status and activity, compensation information, updated provider network information, forms access and other general company communications. Through the use of the website, agents are able to provide potential customers with application forms, quotes and current information, which creates efficiency and cost savings.

Competition

The market for our health insurance products is highly competitive. The major competition for our products comes from national and regional firms. Many of our competitors have larger membership in regional markets or greater financial resources. The small employer group business is typically agency-controlled and is highly price sensitive. The small employer group business is put out for bid more frequently than larger group business. In addition, because most of our products are marketed primarily through independent agencies, most of which represent more than one company, we experience competition within each agency. We and other insurers in the small employer group health insurance market compete primarily on the basis of price, benefit plan design, strength of provider networks, quality of customer service, reputation and quality of agent relations.

Reinsurance

We have entered into a variety of reinsurance arrangements under which we cede business to other insurance companies to mitigate large claim risk and assume risk from other insurance carriers in

connection with certain acquisitions and other business. See our Notes to Consolidated Financial Statements, Note 1, "Organization and Significant Accounting Policies Reinsurance" for a summary of reinsurance assumed and ceded.

We transfer, through excess of loss arrangements, certain of our risks on the small employer group health business and life insurance business. This reinsurance allows for greater diversification of risk to control exposure to potential losses arising from large claims. In addition, it permits us to enhance our premium and asset growth while maintaining favorable risk-based capital ratios. All excess of loss reinsurers with which we contract are currently rated A- (Excellent) or better by A.M. Best.

Investments

We attempt to minimize our business risk through conservative investment policies. Investment guidelines set quality, concentration and return parameters. Individual fixed income issues must carry an investment grade rating at the time of purchase, with an ongoing average portfolio rating of "A-" or better, based on ratings of Standard & Poor's Corporation or another nationally recognized securities rating organization. Investment grade debt securities made up 97% of our total investment portfolio at December 31, 2001. Below investment grade debt securities in our investment portfolio were investment grade when purchased and subsequently downgraded. We invest in securities authorized by applicable state laws and regulations and follow investment policies designed to maximize yield, preserve principal and provide liquidity. Our portfolio contains no investments in mortgage loans, non-publicly traded securities (except for principal only strips of U.S. government securities), real estate held for investment or financial derivatives.

With the exception of short-term investments and securities on deposit with various state regulators, we have delegated investment responsibilities to external investment managers. Such investment responsibilities, however, must be carried out within the investment parameters established by us, which are amended from time to time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk Exposure" and our Notes to Consolidated Financial Statements, Note 4, "Investments," for additional information on our investments.

Regulation

Government regulation of employee benefit plans, including health care coverage and health plans, is a changing area of law that varies from jurisdiction to jurisdiction and generally gives responsible state and federal administrative agencies broad discretion with respect to the regulation of health plans, health insurers and related entities. We strive to maintain compliance in all material respects with all federal and state regulations applicable to our current operations. To maintain such compliance, it may be necessary for us to make changes from time to time in our services, products, structure or operations. Additional governmental regulation or future interpretation of existing regulations could increase the cost of our compliance or otherwise affect our operations, products, profitability or business prospects.

We are unable to predict what additional government regulations affecting our business may be enacted in the future or how existing or future regulations might be interpreted. Most jurisdictions have enacted small employer group insurance and rating reforms that generally limit the ability of insurers and health plans to use risk selection as a method of controlling costs for the small employer group business. These laws sometimes limit or eliminate use of pre-existing condition exclusions, use of health status and rating and use of industry codes and rating, and limit the amount of rate increases from year to year. Under these laws, cost control through provider contracting and managing care may become more important, and we believe our experience in these areas will allow us to compete effectively. We regularly monitor state and federal legislative and regulatory activity as it affects our business.

Federal Insurance Regulation

In recent years, federal legislation significantly expanded federal regulation of small group health plans and health care coverage. The Health Insurance Portability and Accountability Act of 1996, commonly referred to as HIPAA, places restrictions on the use of pre-existing conditions and eligibility restrictions based upon health status, and prohibited cancellation of coverage due to claims experience or health status. HIPAA also prohibits insurance companies from declining coverage to small employers. Additional federal laws that took effect in 1998 include prohibitions against separate, lower dollar maximums for mental health benefits and requirements relating to minimum coverage for maternity inpatient hospitalization. Many requirements of the federal legislation are similar to small group reforms that have been in place for many years.

HIPAA also established new requirements regarding the confidentiality and security of patient health information and standard formats for the electronic transmission of health care data, including code sets. Final privacy rules adopted in 2001 will require changes in the way health information is handled. The privacy regulations require most covered entities to be in compliance by April 2003. Final regulations regarding the standard formats for the transmission of health care information have also been released and require compliance by October 2003. We are taking action to comply with the privacy and standardization regulations. The regulations will have the effect of increasing our expenses.

During 2001, we implemented procedures to comply with the privacy standards for personal information required by the Gramm-Leach-Bliley Act, or GLBA. GLBA also allows, among other things, bank holding companies to engage in a substantially broader range of activities, including insurance underwriting, and allows insurers and other financial insurance companies to acquire banks.

The U. S. Department of Labor has published regulations that revise claims procedures for employee benefit plans governed by ERISA effective for claims filed on or after July 1, 2002. The regulations govern the time frame for making benefit decisions for claims and appeals, and notification of claimants' rights under the regulations. We are taking action to comply with the claims procedure regulations.

Congress has proposed numerous other health care reform measures in recent years. Congress continues to consider legislation referred to as a "Patients' Bill of Rights" which could affect various aspects of our business. We are unable to predict when or whether such legislation or any additional federal proposals will be enacted. See "Risk Factors" above.

State Insurance Regulation

Our insurance subsidiaries are subject to extensive regulation by various insurance regulatory bodies in each state in which the respective entities are licensed. This extensive supervisory power over insurance companies is designed to protect policyholders, rather than investors, and relates to:

- the licensing of insurance companies;
- the approval of forms and insurance policies used, and, in some cases, the rates charged in connection with those forms;
- the nature of, and limitation on, an insurance company's investments;
- policy administration and claim paying procedures;
- periodic examination of the operations of insurance companies;
- the form and content of annual financial statements and other reports required to be filed on the financial condition of insurance companies;
- capital adequacy; and

transactions with affiliates and changes in control.

Our insurance subsidiaries are required to file periodic statutory financial statements in each jurisdiction in which they are licensed. On an ongoing basis, states consider various health care reform measures relating to network management, mandated benefits, underwriting, appeals and administrative procedures and other matters.

The National Association of Insurance Commissioners has adopted risk-based capital requirements for life and health insurers to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks associated with asset quality, mortality and morbidity, asset and liability matching and other business factors. The risk-based capital formula is used by state insurance regulators as an early warning tool to identify insurance companies that potentially are inadequately capitalized. At December 31, 2001, our insurance subsidiaries had risk-based capital ratios substantially above the levels that would require action by us or a regulator.

Dividends paid by our insurance subsidiaries to us are limited by state insurance regulations. For additional information on dividend restrictions, see our Notes to Consolidated Financial Statements, Note 9, "Shareholders' Equity Restrictions on Dividends From Subsidiaries."

Insurance Holding Company Systems

We are an insurance holding company system under applicable state laws. As such, we and our insurance subsidiaries are subject to regulation under state insurance holding company laws and regulations in the states in which the insurance subsidiaries are domiciled. The insurance holding company laws and regulations generally require annual registration with the state departments of insurance and the filing of reports describing capital structure, ownership, financial condition, certain intercompany transactions and general business operations. Various notice and reporting requirements often apply to transactions between an insurer and its affiliated companies, depending on the size and nature of the transactions. Certain state insurance holding company laws and regulations also require prior regulatory approval or notice of certain material intercompany transactions. Direct or indirect acquisition of control of an insurance company requires the prior approval of state regulators in the insurer's state of domicile and sometimes other jurisdictions as well. Acquisition of a controlling interest of our stock would constitute an acquisition of a controlling interest in each of our insurance subsidiaries. Under applicable state law, control is generally presumed to exist in any person who beneficially owns or controls greater than 10% of a company's shares.

Other State Regulations

Certain of our subsidiaries are licensed as third party administrators. Regulations governing third party administrators, although differing greatly from state to state, generally contain requirements for administrative procedures, periodic reporting obligations and minimum financial requirements. Certain of the operations of our subsidiaries are also subject to laws and/or regulations governing PPO, managed care and utilization review activities. PPO and managed care regulations generally contain requirements pertaining to grievance procedures, third party review of certain coverage determinations, provider networks, provider contracting and reporting requirements that vary from state to state. Utilization review regulations generally require compliance with specific standards for the performance of utilization review services including confidentiality, staffing, appeals and reporting requirements. In some cases, the regulated PPO, managed care and utilization review activities are delegated by subsidiaries to a third party.

ERISA

The provision of goods and services to or through certain types of employee health benefit plans is subject to the Employee Retirement Income Security Act of 1974, as amended, which is commonly

referred to as ERISA. ERISA is a complex set of laws and regulations that are subject to periodic interpretation by the United States Department of Labor and the Internal Revenue Service. ERISA governs how our business units may do business with employers whose employee benefit plans are covered by ERISA, particularly employers that self fund benefit plans. There have been legislative attempts to limit ERISA's preemptive effect on state laws. If such limitations were to be enacted, they might increase our liability exposure under state law-based suits relating to employee health benefits offered by our health plans and could permit greater state regulation of other aspects of those businesses' operations.

Legal Proceedings

Florida Regulatory Action and Class Action Litigation

In May 2001, the Florida Department of Insurance issued an administrative complaint against our wholly owned subsidiary, United Wisconsin Life Insurance Company, or UWLIC, challenging UWLIC's rating and other practices in Florida relating to our MedOne^{SM} products. MedOne^{SM} products sold by us in Florida are written pursuant to a group master policy issued to an association domiciled in a state other than Florida. Therefore, management believes we are exempt from most of Florida rating requirements and that we have not violated rating or other regulations applicable to us. The complaint seeks penalties or other administrative actions including possible suspension or revocation of UWLIC's certificate of authority to do business in Florida. The case was presented to an Administrative Law Judge in a hearing held in January 2002.

In a separate proceeding, a class action lawsuit was filed against two of our subsidiaries, American Medical Security, Inc. and UWLIC in February 2000 in the Circuit Court for Palm Beach County, Florida, by Evelyn Addison and others alleging that we failed to follow Florida law in discontinuing writing certain health insurance policies and offering new policies in 1998, and that we wrongfully terminated coverage, improperly notified insureds of conversion rights and charged improper premiums for new coverage. Plaintiffs also alleged that our renewal rating methodology violates Florida law. Plaintiffs are seeking unspecified damages. A bench trial on the liability issues of the case was held in Circuit Court in March 2002.

We believe that the administrative matter and the class action lawsuit, although procedurally unrelated, arise from essentially the same set of facts and involve substantially similar legal issues. The substantially similar issues in the two cases include: (1) whether group coverage issued by us to individuals from 1993 to the present is exempt from most portions of Chapter 627, Part VII, of the Florida Insurance Code, which relates to insurance rates and contracts for group health insurance policies; (2) whether we complied with Florida law when we discontinued certain coverage and replaced the discontinued coverage with certain other coverage in 1999; (3) whether Florida law prohibits tier rating of out-of-state groups; and (4) whether we properly notified insureds whose coverage had been discontinued of their rights to purchase conversion coverage.

In a Recommended Order entered April 25, 2002, the Administrative Law Judge in the administrative hearing found in our favor on all of the above issues and held that the evidence presented by the Florida Department of Insurance did not support a conclusion that we had violated any provisions of the Florida insurance statutes or regulations. The Administrative Law Judge recommended that all counts of the Department's administrative complaint be dismissed. The Recommended Order has been sent to the Commissioner of the Florida Department of Insurance for entry of a final order. We and the Department have filed arguments with the Commissioner, who must now decide whether to adopt the Recommended Order as presented or modify it.

In a Final Judgment entered April 24, 2002, the Circuit Court in the class action lawsuit found against us on all of the above issues and ordered that the question of damages be tried before a jury at a time

to be scheduled by the Court. The damages portion of the lawsuit is expected to be heard before a jury later this year.

In light of the conflicting findings of the Administrative Law Judge and the Circuit Court Judge, we requested that the Court in the class action lawsuit reconsider its ruling. The request was denied, and we are seeking appellate review of the Circuit Court's ruling.

Skilstaf Litigation

In August 1999, a $6.9 million verdict was entered against American Medical Security, Inc., our third party administrator subsidiary, in the United States District Court for the Middle District of Alabama. Following unsuccessful appeals to the Eleventh Circuit Federal Appeals Court and the U.S. Supreme Court, we paid the full amount of the verdict plus interest in July 2001.

Health Administrators Litigation

In February 2000, a $5.4 million verdict was entered against American Medical Security, Inc. and United Wisconsin Life Insurance Company, one of our insurance subsidiaries, in the Common Pleas Court of Delaware County, Ohio, Civil Division, in a lawsuit brought against American

Medical Security and United Wisconsin Life Insurance in 1996 by Health Administrators of America, Inc., an insurance agency owned and operated by a former agent of American Medical Security. The lawsuit alleges breach of written and oral contracts involving commission amounts and fraud. The case was heard and decided by a magistrate who awarded damages to Health Administrators, based on breach of written commission and agent contracts and ruled in favor of us on breach of oral contracts and fraud. We filed objections with the Common Pleas Court requesting that the magistrate's decision against us be reversed. The Common Pleas Court approved the magistrate's decision in April 2000. As a result, we filed a notice of appeal with the Court of Appeals, Delaware County, Ohio, Fifth Appellate District. On March 29, 2001, the Court of Appeals affirmed a portion of the verdict, with modifications, representing approximately $3.0 million in damages, and reversed and remanded the remaining issues in the case representing approximately $2.4 million in damages. We appealed the $3.0 million portion of the damages to the Ohio Supreme Court, which, in July 2001, declined to take the appeal. We paid substantially all of the approximately $3.0 million judgment in December 2001. Briefs have been submitted for the remanded portion of the case, and the parties are awaiting the trial court's decision.

We are involved in the previouly described and various other legal and regulatory actions occurring in the normal course of business. Based on current information including consultation with outside counsel, management believes any ultimate liability that may arise from the above-mentioned and all other legal and regulatory actions would not materially affect our consolidated financial position or results of operations. However, management's evaluation of the likely impact of these actions could change in the future and an unfavorable outcome could have a material adverse effect on our consolidated financial position, results of operations or cash flow of a future period.

Employees

As of December 31, 2001, we had 1,702 employees, 1,467 of which are located at our home office facility in Green Bay, Wisconsin. None of our employees are represented by a union.

Trademarks

We have filed for and maintain various service marks, trademarks and trade names at the federal level and in various states. Although we consider our registered service marks, trademarks and trade names important in the operation of our business, our business is not dependent on any individual service mark, trademark or trade name.

42

Management

Management and Board of Directors

This section sets forth information as of March 31, 2002 covering our executive officers and directors. All of our officers serve terms of one year and until their successors are elected and qualified. Our board of directors is divided into three classes, with directors in each class serving staggered terms of three years each and until their successors are elected and qualified.

Name	Age	Title
Samuel V. Miller	56	Chairman of the Board, President, Chief Executive Officer and Director
Gary D. Guengerich	56	Executive Vice President, Chief Financial Officer and Treasurer
James C. Modaff	44	Executive Vice President and Chief Actuary
Thomas G. Zielinski	54	Executive Vice President, Operations
Timothy J. Moore	50	Senior Vice President of Corporate Affairs, General Counsel and Secretary
Timothy F. O'Keefe	47	Senior Vice President and Chief Marketing Officer
Clifford A. Bowers	50	Vice President, Corporate Communications
John R. Wirch	48	Vice President, Human Resources
Roger H. Ballou	50	Director
W. Francis Brennan	65	Director
Mark A. Brodhagen, DDS	53	Director
Kenneth L. Evason	52	Director

Name	Age	Title
Thomas R. Hefty	54	Director
James C. Hickman	74	Director
William R. Johnson	75	Director
Eugene A. Menden	71	Director
Edward L. Meyer, Jr.	64	Director
Michael T. Riordan	51	Director
H.T. Richard Schreyer	61	Director
Frank L. Skillern	65	Director
J. Gus Swoboda	66	Director

Samuel V. Miller has been our Chairman of the Board, President and Chief Executive Officer since September 1998. Prior to that time, he was an Executive Vice President with us since December 1995. Mr. Miller also served as President and Chief Executive Officer of American Medical Security Holdings, Inc., one of our subsidiaries, since October 1996. During 1994 and 1995, Mr. Miller was a member of the executive staff planning group with the Travelers Group, serving as Chairman and Group Chief Executive of National Benefit Insurance Company and Primerica Financial Services Ltd. of Canada. Prior to 1994, Mr. Miller spent 10 years as President and Chief Executive Officer of American Express Life Assurance Company.

Gary D. Guengerich has been our Executive Vice President and Chief Financial Officer since September 1998. He has also served as our Treasurer since August 2001 and at certain other times during his employment with us. Mr. Guengerich served in the same capacities with American Medical Security Holdings, Inc. since November 1997. Prior to joining us, Mr. Guengerich was Senior Vice President and Comptroller of First Colony Life Insurance where he was employed since 1981.

James C. Modaff has been our Executive Vice President and Chief Actuary since August 1999. Prior to joining us, he was a principal of Milliman & Robertson, Inc., a national actuarial and consulting firm, for the majority of his 14-year career with the firm.

Thomas G. Zielinski has been our Executive Vice President of Operations since August 1999. Prior to joining us, he was a Vice President of Humana, Inc., a health services company, where he served as Executive Director of the Wisconsin Service Center of Humana, Inc. and in various other capacities, including Vice President, with a predecessor company of Humana, Inc. since 1981.

Timothy J. Moore has been our Senior Vice President of Corporate Affairs, General Counsel and Secretary since September 1998. He also served in that capacity with American Medical Security Holdings, Inc. since March 1997. Prior to that time, Mr. Moore was a partner with the national law firm of Katten Muchin & Zavis, practicing at the firm from 1987 to 1997.

Timothy F. O'Keefe has been our Senior Vice President and Chief Marketing Officer since January 2002. Prior to joining us, he was President of the Major Medical Division of Conseco, Inc.'s Insurance Operations, having served in other senior management positions from 1997 until he became President in 1998. From 1991 to 1997 he held various positions, including Chief Marketing Officer, with various subsidiaries of Pioneer Financial Services.

Clifford A. Bowers has been our Vice President of Corporate Communications since September 1998. He also served in that capacity with American Medical Security Holdings, Inc. since October 1997. From 1988 to 1997, Mr. Bowers was Director of Communications with Fort Howard Corporation, a paper manufacturer. Prior to that time, Mr. Bowers held management positions with Tenneco, Manville and Brunswick corporations.

John R. Wirch has been our Vice President of Human Resources since September 1998. He also served in that capacity with American Medical Security Holdings, Inc. since February 1996. Prior to that time, Mr. Wirch was Vice President of Human Resources for Little Rapids Corporation, a manufacturer of specialty papers, from 1993 to 1996, having served as Director of Human Resources of Little Rapids Corporation from 1980 to 1993.

Roger H. Ballou is President and Chief Executive Officer of CDI Corporation, a staffing and project management company. He is a former Chairman and Chief Executive Officer of Global Vacation Group where he served from March 1998 to September 2000. Immediately prior to that time, Mr. Ballou served as a senior advisor to Thayer Capital Partners, a venture capital firm. From 1995 to 1997, Mr. Ballou served as Vice Chairman and Chief Marketing Officer and then as President and Chief Operating Officer of Alamo Rent-a-Car. From 1989 to 1995, Mr. Ballou was President of the Travel Services Group of American Express Company. Mr. Ballou is a Director of CDI and Alliance Data Systems Corp., a transaction, credit and database marketing services firm.

W. Francis Brennan is a retired Executive Vice President of UNUM Corporation, a life and health insurance company, where he served on the boards of UNUM's insurance affiliates in the United States, Canada, the United Kingdom and Japan. He joined UNUM in 1984 and retired in 1995. Prior to joining UNUM, Mr. Brennan was a Vice President with Connecticut General Life Insurance Company.

Mark A. Brodhagen, DDS, a practicing dentist, is the owner and President of Mark A. Brodhagen DDS, SC, doing business as Brodhagen Dental Care, in Green Bay, Wisconsin, which he founded in 1974. He is a member of the Wisconsin and American Dental Associations. He has also served as a dental consultant to a number of managed health care companies.

Kenneth L. Evason has been a Director, President and Chief Executive Officer of Jacobus Wealth Management, Inc., an investment management company, since June 2001. From 1987 to 2000, he was President and Chief Executive Officer of Clarica U.S. Inc., formerly known as Mutual Group, U.S., a financial services organization.

Thomas R. Hefty has been Chairman of the Board, President and Chief Executive Officer of Cobalt since 1998, and has been Chairman of the Board since 1988 and President since 1986 of the selling

shareholder. Prior to our spin-off of Cobalt in 1998, Mr. Hefty was President of United Wisconsin Services, Inc. from 1986 through 1998 and Chairman of the Board and Chief Executive Officer of United Wisconsin Services, Inc. from 1991 through 1998. He was Deputy Insurance Commissioner for the Office of the Commissioner of Insurance for the State of Wisconsin from 1979 to 1982. Mr. Hefty is a Director of the selling shareholder, Cobalt and Artisan Funds, Inc., an investment company.

James C. Hickman has been an Emeritus Professor and Emeritus Dean of the School of Business at the University of Wisconsin-Madison since July 1993. He was a Professor at the School of Business from 1972 to 1993, serving as Dean from 1985 to 1990.

William R. Johnson has been Chairman of the Board of Johansen Capital Associates, Inc., a financial and investment consulting firm, since 1986. Before establishing Johansen Capital, he was founder, Chairman, President and Chief Executive Officer of National Investment Services of America, Inc.

Eugene A. Menden is a retired Vice President and director of Marquette Medical Systems, Inc., formerly known as Marquette Electronics, Inc., a manufacturer of medical electronic products, where he also held various other senior management positions in his over 20-year career with the company. He retired in 1992.

Edward L. Meyer is Chairman of the Board of Anamax Corporation, a food by-products recycling company, and its affiliated companies. He was named Chairman of the Board in 1997, after serving as President and Secretary earlier in his 40-year career with Anamax Corporation. Mr. Meyer is a director of Marshall & Ilsley Corporation, a bank holding company.

Michael T. Riordan was the Chairman, President and Chief Executive Officer of Paragon Trade Brands, Inc., a disposable diaper manufacturer, from May 2000 to February 2002. He was President and Chief Operating Officer of Fort James Corporation, a consumer products company, from 1997 to 1998 and held various positions including Chairman, President and Chief Executive Officer with Fort Howard Corporation from 1992 to 1997. He is also a director of The Dial Corporation and Wallace Computer Services, Inc.

H.T. Richard Schreyer was managing partner and audit partner in Ernst & Young LLP's Milwaukee office from 1985 until his retirement from the accounting firm in 1998. He served in various other management positions during his 35-year career with Ernst & Young LLP.

Frank L. Skillern was Chief Executive Officer of American Express Centurion Bank, a consumer bank located in Salt Lake City, Utah, from 1996 until his retirement in 1999. He was Chairman of the Board of Directors of American Express Centurion Bank from his retirement to December 2000, having served as a director since 1991. From 1994 to 1996 he was President, Consumer Card Group, USA, American Express Travel Related Services Company, having served as an Executive Vice President for the prior two years.

J. Gus Swoboda is a retired Senior Vice President of Wisconsin Public Service Corporation, an electric and gas utility, where he also held various other senior management positions. He joined Wisconsin Public Service in 1959 and retired in 1997. Mr. Swoboda was the Chairman of the Board of First Northern Capital Corp. from 1995 until its acquisition by Bank Mutual Corporation in November 2000. He is a director of Bank Mutual Corporation, and Chairman of the Board of its subsidiary, First Northern Saving Bank.

Mr. Evason and Mr. Hefty became directors and serve on the Board pursuant to the terms of our March 19, 2002 stock purchase agreement with Cobalt Corporation and the selling shareholder. See "Certain Transactions Stock Purchase Agreement."

Principal and Selling Shareholders

The following table sets forth information with respect to the beneficial ownership of our common stock as of March 31, 2002, and as adjusted to reflect the sale of the common stock in this offering, by:

each person known by us to own beneficially more than 5% of our common stock;

each of our directors;

each of our executive officers named in the executive compensation table incorporated by reference in this prospectus;

all of our directors and executive officers as a group; and

the selling shareholder.

We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, the persons included in this table have sole voting and investment power with respect to all the shares of common stock beneficially owned by them, subject to applicable community property laws. The number of shares beneficially owned by a person includes shares of common stock that are subject to stock options that are either currently exercisable or exercisable within 60 days after March 31, 2002. These shares are also deemed outstanding for the purpose of computing the percentage of outstanding shares owned by the person. These shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of any other person. Information is as of March 31, 2002 with respect to Mr. Miller and the selling shareholder and, with respect to other principal shareholders, is as of their most recently filed report with the Securities and Exchange Commission in accordance with Section 13(d) or 13(g) of the Exchange Act.

This table does not reflect the exercise of the over-allotment option granted by the selling shareholder to the underwriters nor does the table reflect the possibility that any of our principal shareholders will purchase shares in this offering.

	Shares of Common Stock Beneficially Owned Prior To Offering(1)			**Shares of Common Stock Beneficially Owned After Offering**	
Name of Beneficial Owner	**Number**	**Percentage**	**Shares of Common Stock Offered**	**Number**	**Percentage**
Blue Cross & Blue Shield United of Wisconsin(2) 401 West Michigan Street Milwaukee, WI 53203	4,909,525	39.0%	2,610,000	2,299,525	18.3%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11thFloor Santa Monica, CA 90401	1,195,900	9.5		1,195,900	9.5
Heartland Advisors, Inc.(3) 789 North Water Street Milwaukee, WI 53202	1,111,600	8.8		1,111,600	8.8

	Shares of Common Stock Beneficially Owned Prior To Offering(1)		Shares of Common Stock Beneficially Owned After Offering	
Wellington Management Company, LLP(4) 75 State Street Boston, MA 02109	1,088,400	8.6	1,088,400	8.6

Samuel V. Miller(5)(6) 3100 AMS Boulevard Green Bay, WI 54313	758,818	5.7	758,818	5.7
Roger H. Ballou	20,848	*	20,848	*
W. Francis Brennan	29,000	*	29,000	*
Mark A. Brodhagen	1,667	*	1,667	*
Kenneth L. Evason(6)		*		*
Thomas R. Hefty(2)(6)	176,705	1.4	176,705	1.4
James C. Hickman(6)	19,200	*	19,200	*
William R. Johnson(6)	38,000	*	38,000	*
Eugene A. Menden(6)	20,500	*	20,500	*
Edward L. Meyer, Jr.	1,667	*	1,667	*
Michael T. Riordan(5)	24,000	*	24,000	*
H.T. Richard Schreyer(5)	6,792	*	6,792	*
Frank L. Skillern	29,000	*	29,000	*
J. Gus Swoboda	20,500	*	20,500	*
Gary D. Guengerich	185,438	1.5	185,438	1.5
James C. Modaff	102,750	*	102,750	*
Thomas G. Zielinski	126,893	1.0	126,893	1.0
Timothy J. Moore	88,363	*	88,363	*
All directors and executive officers as a group: 21 persons	1,695,768	12.0	1,695,768	12.0

* Less than 1%.

(1) Includes the following number of shares which the individual has the right to acquire within 60 days of March 31, 2002, upon the exercise of stock options: Mr. Miller, 727,318 shares; Messrs. Ballou, Brennan, Hickman, Johnson, Menden, Riordan, Skillern, and Swoboda, 19,000 shares each; Messrs. Brodhagen, Meyer and Schreyer, 1,667 shares each; Mr. Hefty, 155,543 shares; Mr. Guengerich, 170,538 shares; Mr. Modaff, 102,750 shares; Mr. Zielinski, 106,250 shares; Mr. Moore, 79,886 shares; and all directors and executive officers as a group, 1,541,248 shares.

(2)

The 4,909,525 shares owned by the selling shareholder after our share repurchase effected on March 22, 2002 are deemed to be beneficially owned by Cobalt Corporation, 401 West Michigan Street, Milwaukee, Wisconsin 53203, and by Wisconsin United for Health Foundation, Inc., 401 East Doty Street, Madison, Wisconsin 53701. Cobalt is the sole owner of the selling shareholder and the Wisconsin United for Health Foundation beneficially owns approximately 77.5% of the outstanding shares of Cobalt's common stock. As President of the selling shareholder, Mr. Thomas Hefty, one of our directors, may be deemed an indirect beneficial owner of the 4,909,525 shares owned by the selling shareholder. Mr. Hefty has disclaimed beneficial ownership of these shares.

(3)

The 1,111,600 shares may be deemed beneficially owned by William J. Nasgovitz as a result of his position as President and as a principal shareholder of Heartland Advisors, Inc. and as an officer and director of Heartland Group, Inc. Mr. Nasgovitz's address is 789 North Water Street, Milwaukee, Wisconsin 53202. Heartland Advisors, Inc. has sole voting

power with respect to 436,900 shares and sole dispositive power with respect to 1,111,600 shares beneficially owned and does not have shared voting or shared dispositive power with respect to any shares. Mr. Nasgovitz has sole voting power with respect to 500,000 shares of the 1,111,600 shares beneficially owned.

(4)

Wellington Management Company, LLP has shared voting power with respect to 388,900 shares and shared dispositive power with respect to 1,088,400 shares beneficially owned and does not have sole voting power or sole dispositive power with respect to any shares.

(5)

Includes the following shares owned jointly with such person's spouse, with respect to which such person shares voting power and dispositive power: Mr. Miller, 6,500 shares; Mr. Riordan, 5,000 shares; and Mr. Schreyer, 2,000 shares.

(6)

Messrs. Evason, Hefty, Hickman, Johnson, Menden and Miller are the beneficial owners of shares of common stock of Cobalt, the parent of the selling shareholder. The individuals beneficially own the following shares of Cobalt common stock, which includes shares indicated that the individual has the right to acquire within 60 days of March 31, 2002, upon the exercise of stock options to purchase Cobalt common stock: Mr. Evason, 16,900 shares; Mr. Hefty, 562,163 shares including 528,579 stock options; Mr. Hickman, 6,826 shares including 6,626 stock options; Mr. Johnson, 8,626 shares including 6,626 stock options; Mr. Menden, 8,126 shares including 6,626 stock options; and Mr. Miller, 200,019 shares including 198,019 stock options.

Certain Transactions

Spin-off Transaction

On May 27, 1998, when we were known as United Wisconsin Services, Inc., our Board of Directors approved a plan to spin off our managed care companies and specialty products business to our shareholders. On September 11, 1998, we contributed all of our subsidiaries comprising the managed care and specialty products business to a newly created subsidiary named Newco/UWS, Inc., a Wisconsin corporation. On September 25, 1998, we spun off the managed care and specialty products business through a distribution of 100% of the issued and outstanding shares of common stock of Newco/UWS to our shareholders as of September 11, 1998. In connection with the spin-off, we adopted our current name of American Medical Security Group, Inc. and Newco/UWS changed its name to United Wisconsin Services, Inc., which is now known as Cobalt Corporation. As a result of the transactions entered into in connection with the spin-off, Cobalt owns the businesses and assets of, and is responsible for the liabilities associated with, the managed care and specialty products business formerly conducted by us. We continue to own the business and assets of, and are responsible for the liabilities associated with our individual and small employer group business.

As of December 31, 2001, Blue Cross & Blue Shield United of Wisconsin, the selling shareholder in this offering, which is a wholly owned subsidiary of Cobalt, owned approximately 45% of our outstanding common stock. In early 2002, Cobalt and the selling shareholder amended their Schedule 13D filed with the Securities and Exchange Commission indicating, among other things, a desire to reduce the selling shareholder's investment in our stock and to nominate four persons for election to our Board of Directors at the 2002 annual meeting of shareholders.

Stock Purchase Agreement

On March 19, 2002, we entered into a stock purchase agreement with Cobalt and the selling shareholder whereby we agreed to repurchase 1,400,000 shares of common stock from the selling shareholder at a price of $13.00 per share in cash, which is equal to the five-day average closing price for the five trading days prior to March 19, 2002, discounted by 6%, or an aggregate of $18,200,000. We completed the share repurchase on March 22, 2002, which reduced the selling shareholder's ownership to 39% of our outstanding common stock.

In addition, pursuant to the stock purchase agreement Cobalt and the selling shareholder agreed to an underwritten secondary offering by the selling shareholder of at least 3,000,000 shares of our common stock, with the exact number of shares to be as many shares as the underwriters advise may be sold therein. We agreed to cooperate in, and pay a portion of the expenses of, the offering. This offering is being conducted in satisfaction of the obligations contained in the stock purchase agreement and the 1998 registration rights agreement described below under "Registration Rights Agreement."

Upon consummation of the share repurchase, the selling shareholder withdrew its previously disclosed notice of intention to nominate four persons for election at our 2002 annual meeting of shareholders. In accordance with the terms of the stock purchase agreement, on March 19, 2002, our Board of Directors increased the size of our Board to 14 directors and appointed two new directors nominated by Cobalt, Thomas R. Hefty and Kenneth L. Evason, effective upon the closing of the share repurchase, which occurred on March 22, 2002. Pursuant to the stock purchase agreement, Cobalt is entitled to designate two director nominees to the Board for so long as the selling shareholder holds at least 20% of the issued and outstanding shares of our common stock and is entitled to designate only one nominee to our Board for so long as the selling shareholder holds at least 10% but less than 20% of the issued and outstanding shares of our common stock. Mr. Hefty, or his successor on our Board, will resign effective upon the date that the selling shareholder owns less than 20% of the then issued and outstanding shares of our common stock and Mr. Evason, or his successor on our Board, will

resign effective immediately upon the date that the selling shareholder owns less than 10% of the then issued and outstanding shares of our common stock.

The stock purchase agreement also contains certain standstill provisions whereby Cobalt agreed that, for so long as Cobalt has any nominee on the Board, Cobalt and the selling shareholder will not, directly or indirectly,

- acquire any of our voting securities;
- make or in any way participate in any solicitation of proxies or otherwise influence any person on how to vote (or act by written consent with respect to) any of our voting securities for the election of directors or approval of shareholder proposals;
- seek, propose or make any public statement that is critical of our management or reasonably likely to be publicly disclosed regarding any business combination, sale or purchase of assets or securities or other extraordinary transaction involving us or our subsidiaries;
- deposit any of our voting securities in any voting trust, arrangement or agreement (other than a trust, arrangement or agreement that is not formed for the purpose of taking, and does not take, any actions prohibited by the standstill provisions);
- call or seek to have called any meeting of our shareholders;
- otherwise act to control or influence our management, Board, or policies or make any public statement critical of any nominees recommended by our Board of Directors for election as directors;
- seek representation on, or a change in the composition of, our Board, except in accordance with the stock purchase agreement;

make any public statement (including a request to waive the standstill provision), or any other statement that would require public disclosure, regarding any of the foregoing;

have any discussions or enter into any arrangements with any other person regarding any of the above provisions; or

make or disclose any written request, or any written or oral request to our Board, to amend, waive or terminate any of the above provisions, other than oral disclosure to management not requiring public disclosure.

Cobalt also agreed that, for so long as Cobalt has any nominees on the Board, all shares of our common stock beneficially owned by Cobalt or the selling shareholder will be present and counted for purposes of a quorum at all of our shareholders' meetings at which directors will be elected and will be voted in favor of any nominees recommended by our Board of Directors for election as directors. Cobalt and the selling shareholder are free to vote their shares in their sole discretion on any other matters and are free to vote their shares in their sole discretion on the election of directors in the event that we are in breach of our obligations relating to the designation of the Cobalt nominees to our Board of Directors.

Cobalt has the right, at any time after December 31, 2002, or earlier in the event that we are in material breach of our obligations pursuant to the stock purchase agreement, upon 30 days' prior written notice, to terminate such voting agreements and the standstill provisions (other than the provisions relating to its agreement not to seek representation on, or change the composition of the Board of Directors and not make solicitations, which may not be terminated prior to December 31, 2003) contained in the stock purchase agreement, provided that Cobalt's nominees then serving on our Board must resign from the Board at the time Cobalt gives notice of termination.

We are required by the stock purchase agreement to amend our shareholder rights agreement upon consummation of this offering if the selling shareholder owns more than 12% of the then issued and outstanding shares of our common stock. Such amendment will provide that an "Acquiring Person" under the shareholder rights agreement means any person beneficially owning the lesser of (1) 20% of the outstanding shares of our common stock or (2) the percentage, rounded up to the nearest whole number, of issued and outstanding shares of our common stock then held by the selling shareholder. If, following consummation of this offering, the selling shareholder's percentage ownership of our common stock decreases, we have the right to further amend the shareholder rights agreement to lower the percentage of issued and outstanding shares of our common stock then held by the selling shareholder.

We filed a copy of the stock purchase agreement with the Securities and Exchange Commission on March 20, 2002 as an exhibit to our Current Report on Form 8-K dated March 19, 2002.

Reinsurance Agreements and Certain Insurance Policies

During 1998, we and Cobalt, or our respective subsidiaries, entered into various quota share reinsurance agreements or amendments to existing agreements pursuant to which each company cedes to the other certain risks related to life insurance, health insurance, dental insurance, point-of-service and other insurance plans. Each company acting as the reinsurer also provides administrative services to the other company acting as the ceding company. As consideration for such reinsurance, the ceding company receives a ceding commission of approximately 0.5% of the gross premiums reinsured under each applicable agreement. In addition, our workers compensation and employers liability insurance policy, which is purchased through an independent agent, and our long-term disability and executive medical reimbursement insurance policies are underwritten by a subsidiary of Cobalt. For fiscal 2001, 2000 and 1999, we received $103,221, $107,406 and $115,449, respectively, from Cobalt or its subsidiaries pursuant to the reinsurance agreements and paid to Cobalt, its subsidiaries or agents, $362, $28,176 and $78,025, respectively, pursuant to the reinsurance agreements and $411,701, $536,048 and $461,387, respectively, as premiums for the insurance policies. Thomas R. Hefty, one of our directors, is an executive officer of Cobalt and its subsidiaries.

Registration Rights Agreement

We and the selling shareholder have entered into a registration rights agreement dated as of September 1, 1998, which contains certain registration rights granted by us with respect to shares of our common stock owned by the selling shareholder. Pursuant to the terms of the agreement, the selling shareholder is entitled to certain demand registration rights until the earlier of July 31, 2008, or the date on which the selling shareholder owns in the aggregate less than 3% of our outstanding common stock. If effected, this offering will constitute one of two demand registration rights granted to the selling shareholder pursuant to the registration rights agreement. In addition, the selling shareholder is entitled, subject to certain limitations, to include its shares of our common stock in a registration statement prepared by us for another offering.

Also, if the selling shareholder proposes to sell its common stock to a third party, the selling shareholder may request that we register its shares prior to such sale, and we shall use our best efforts to register all of the shares that the selling shareholder proposes to sell. The selling shareholder has agreed not to acquire any additional shares of our common stock other than as a result of any stock dividend or distribution, without our consent, until July 31, 2008. The registration rights agreement continues in effect except as modified by the stock purchase agreement.

Description of Capital Stock

The following brief description of our capital stock is only a summary. It is subject in all respects to applicable Wisconsin law and to the provisions of our restated articles of incorporation, our bylaws and our shareholder rights agreement, copies of which have been filed with the Securities and Exchange Commission, to which you should refer for more complete information.

Our authorized capital stock consists of 50,000,000 shares of common stock, no par value per share, and 500,000 shares of preferred stock, no par value per share. As of April 30, 2002, there were 12,590,166 shares of common stock outstanding and 3,454,040 shares of common stock were issuable upon exercise of outstanding options. As of that date, there were no shares of preferred stock outstanding; two series of preferred stock have been designated as described below.

Common Stock

Voting Rights. Subject to Section 180.1150(2) of the Wisconsin Business Corporation Law (the "WBCL"), described below under " Certain Statutory Provisions", holders of common stock are entitled to one vote for each share of common stock held by them on all matters to be voted upon by the shareholders, including the election of directors. Holders of common stock are not entitled to cumulative voting rights in the election of directors. Directors are elected by a plurality of the votes cast. Generally, unless a greater vote is required by our articles of incorporation, our bylaws or Wisconsin law, all other matters to be voted on by shareholders must be approved by a majority of the votes cast on the matter at a meeting at which a quorum is present, subject to any voting rights granted to holders of any then-outstanding preferred stock.

Dividends. Subject to the rights of the holders of any series of preferred stock that may be outstanding, and any applicable restrictions on the payment of dividends, our Board of Directors, may, in its discretion, declare and pay dividends on the common stock out of earnings or assets legally available for the payment of dividends. Because we are a holding company, our ability to pay dividends depends primarily upon the ability of our subsidiaries to pay dividends or otherwise transfer funds to us. Various financing arrangements, charter provisions and regulatory requirements may impose restrictions on the ability of our insurance subsidiaries to transfer funds to us in the form of dividends, loans or advances.

Liquidation and Dissolution. Subject to the rights of the holders of any series of preferred stock that may be outstanding, if we are liquidated, any amounts remaining after the payment of liabilities will be paid pro rata to the holders of the common stock.

Other Matters. Holders of common stock are not entitled to any preemptive, conversion or redemption rights. The outstanding shares of common stock are validly issued, fully paid and nonassessable, except for certain statutory liabilities which may be imposed by Section 180.0622 of the WBCL, as judicially interpreted, for unpaid employee wages. Section 180.0622(2)(b) provides that the shareholders of a Wisconsin corporation are personally liable, to an amount equal to the consideration for which their shares without par value were issued, for all debts owing to employees of the corporation for services performed for the corporation, but not exceeding six months service in any one case.

The common stock is listed on the NYSE under the symbol "AMZ."

The transfer agent and registrar for the common stock is LaSalle Bank National Association.

Preferred Stock

Our Board of Directors is authorized to issue shares of preferred stock from time to time, without further shareholder action, in one or more designated series, with such voting rights (if any), dividend rights, redemption rights, liquidation rights, conversion rights, and such other preferences, limitations and relative rights as are set forth in the resolutions providing for the issue of each series adopted by the Board of Directors. The rights of holders of the common stock are subject to, and may be adversely affected by, the rights, preferences and privileges of any series of preferred stock which may be issued. In addition, the issuance of preferred stock, although providing flexibility in connection with possible acquisitions and other corporate purposes could, under some circumstances, make it more difficult for a third party to gain control of us, discourage bids for the common stock at a premium, or otherwise adversely affect the market price of the common stock. As of the date of this prospectus, there are no shares of preferred stock issued and outstanding; two series of preferred stock have been designated by the Board of Directors.

In December 1991, the Board of Directors designated 25,000 shares of our authorized but unissued preferred stock as Series A Adjustable Rate Nonconvertible Preferred Stock to be used as the employers' matching contribution under the 401(k) plan covering salaried and non-union hourly employees of us and the selling shareholder. On January 3, 1995, we redeemed all of the outstanding shares of Series A preferred stock and discontinued its use as the employer's matching contribution to the 401(k) plan. We have no present intention to issue any more shares of Series A preferred stock.

As described below under " Rights Associated with the Common Stock," 10,000 shares of Series B preferred stock have been created in connection with our rights agreement.

Rights Associated with the Common Stock

On August 9, 2001, our Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of common stock payable on August 20, 2001 to the shareholders of record on that date. Each right entitles the registered holder to purchase from us one ten-thousandth of one share (a "unit") of Series B Junior Cumulative Preferred Stock, no par value per share, at a purchase price of $30 per unit, subject to adjustment. The description and terms of the rights are set forth in a rights agreement between us and LaSalle Bank National Association, as successor rights agent to Firstar Bank, N.A., as amended.

As with most shareholder rights agreements, the terms of our rights agreement are complex and not easily summarized, particularly as they relate to the acquisition of our common stock and the exercisability of the rights. This summary may not contain all of the information that is important to you. Accordingly, if you want more complete information, you should read the rights agreement in its entirety.

The rights are attached to all common stock certificates representing outstanding shares, and no separate rights certificates have been distributed. Generally, the rights will separate from the common stock and be represented by separate certificates approximately 10 business days after a person or group (an "Acquiring Person") acquires or commences a tender offer for 12% or more of our outstanding common stock.

The selling shareholder and its affiliates and associates will not be deemed to be an "Acquiring Person" as long as, at any time while they hold more than 12% of our outstanding common stock, they do not acquire beneficial ownership of any additional shares of common stock other than by dividend or grant from us. The rights agreement has also been amended to clarify its intent and confirm that the rights agreement would not be automatically triggered solely by a potential purchaser of Cobalt entering into an agreement to acquire the stock of Cobalt or the selling shareholder or the consummation of such a transaction. However, in either case, the rights agreement would apply in the event a purchaser owns any of our common stock other than that acquired in a transaction with Cobalt, or later acquired additional shares of our common stock without the permission of our Board of Directors. We are required by the stock purchase agreement to amend our shareholder rights agreement upon

consummation of this offering to increase the percentage stock ownership threshold in the definition of "Acquiring Person" if the selling shareholder owns more than 12% of the then issued and outstanding shares of our common stock. See "Certain Transactions Stock Purchase Agreement."

After the rights separate from the common stock, certificates representing the rights will be mailed to record holders of the common stock. Once distributed, the rights certificates alone will represent the rights.

All shares of common stock issued prior to the date the rights separate from the common stock will be issued with the rights attached. The rights are not exercisable until the date the rights separate from the common stock. The rights will expire on August 20, 2011, unless extended or unless earlier redeemed, exchanged or terminated by us.

The Series B Preferred Stock. 10,000 shares of Series B preferred stock have been designated and 5,000 of those shares have been initially reserved for issuance upon the exercise of rights pursuant to the rights agreement. Because of the nature of the dividend, liquidation and voting rights of the Series B preferred stock, the value of a one ten-thousandth share interest in a share of Series B preferred stock purchasable upon exercise of each right should approximate the value of one share of our common stock. Each share of Series B preferred stock will be entitled to a minimum preferential quarterly dividend payment of $1 per share but will be entitled to an aggregate dividend of 10,000 times the dividend declared per common share. If we are liquidated, the holders of the Series B preferred stock will be entitled to a minimum preferential liquidation payment of $100 per share plus an amount equal to accrued and unpaid dividends but will be entitled to an aggregate payment of 10,000 times the payment made per common share. Each Series B preferred share will have 10,000 votes and will vote together with the common stock, except as otherwise provided in the rights agreement or by law. If there is any merger, consolidation or other transaction in which shares of our common stock are exchanged, each share of Series B preferred will be entitled to receive 10,000 times the amount received per common share. These rights are protected by customary anti-dilution provisions. Shares of Series B preferred stock are not redeemable.

Triggering Events. If an acquiror obtains or has the right to obtain 12% or more of the outstanding shares of our common stock (other than as a result of our repurchases of stock), then each right will entitle the holder to purchase a number of shares of our common stock with a then current market value of $60 for $30, unless this amount is adjusted (in other words, having a value equal to two times the exercise price of the right).

Each right will entitle the holder to purchase a number of shares of common stock of the acquiror having a then current market value of twice the exercise price of the right if the acquiror obtains 12% or more of our outstanding common stock, and any of the following occurs:

- we merge into another entity;
- an acquiring entity merges into us and our common shares are changed or exchanged; or
- 50% or more of our assets, cash flow or earning power is sold or transferred.

Under our rights agreement, any rights that are or were owned by an acquiror of more than 12% of our outstanding common stock will be void.

After an acquiror obtains 12% or more, but less than 50%, of our outstanding common stock, our Board of Directors may, at its option, exchange all or part of the then outstanding and exercisable rights for shares of common stock or Series B preferred stock. If our Board exercises this option, the exchange ratio will be one share of common stock or one ten-thousandth of a Series B preferred share per right, adjusted to reflect any stock split, stock dividend or similar transaction.

Redemption Provisions. Our Board of Directors may, at its option, redeem all of the outstanding rights at any time prior to 10 business days following the acquisition by any person of 12% or more of the outstanding shares of our common stock, at a redemption price of $0.001 per right (subject to adjustment in some circumstances). The right to exercise the rights will terminate when our Board of Directors orders the redemption of the rights, and then the only right of the holders of the rights will be to receive the redemption price.

Other Matters. Holders of rights have no rights as shareholders, including the right to vote or receive dividends, simply by virtue of holding the rights.

The rights agreement may be amended by our Board of Directors without the approval of the holders of the rights prior to the date the rights separate from the common stock. However, after that date, the rights agreement may not be amended in any manner that would adversely affect the interests of the holders of the rights, excluding the interest of any acquiring person. No amendment may be made at a time when the rights are not redeemable.

Because the rights may cause substantial dilution to a person or group that attempts to acquire more than 12% of our stock without approval of our Board of Directors and without conditioning the offer on redemption of the rights or amendment of the rights to prevent this dilution, the rights may discourage unsolicited offers for our stock. The rights should not affect any potential acquiror willing to make an offer for all of the outstanding common stock at a price that is fair and not inadequate and otherwise in the best interests of us and our shareholders. The rights also should not interfere with any merger or other business combination approved by our Board of Directors since our Board may, at its option, at any time until 10 business days following the date a shareholder acquires 12% or more of our common stock, redeem all the rights as described above. In addition, the rights should not interfere with a proxy contest.

For more information concerning our rights agreement, you should read the more detailed summary contained in our registration statement on Form 8-A dated August 14, 2001, and our rights agreement, as amended, which have been filed with the Securities and Exchange Commission.

Certain Charter and Bylaw Provisions

Some provisions of our articles of incorporation and our bylaws could have the effect of discouraging a potential acquiror or making it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise, even though this type of acquisition might be economically beneficial to our shareholders. In addition, these provisions may make the removal of management more difficult, even in cases where the removal would be favorable to the interests of our shareholders.

Board of Directors. Our articles of incorporation divide the Board of Directors into three classes of not less than three nor more than five directors each. Within those limits, our bylaws provide that the number of directors shall be as determined by the Board of Directors from time to time. One class is elected each year for a three-year term. A director may be removed from office, with or without cause, only by the affirmative vote of at least 80% of the outstanding shares entitled to vote for the election of that director, and any vacancy so created may be filled by the affirmative vote of at least 80% of such shares. However, whenever the holders of any one or more series of our preferred stock have the right, voting separately as a class or by series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of those directorships will be governed by the applicable terms of the series of preferred stock, and the directors so elected will not be divided into classes unless expressly so provided by the terms of the series. These provisions of our articles of incorporation may only be amended by the affirmative vote of shareholders possessing at least 75% of the voting power of the then outstanding shares of all classes of our stock generally possessing voting rights in elections of directors, considered for this purpose as one class.

Under the bylaws, vacancies in the Board of Directors, including vacancies created by an increase in the number of directors, may be filled by the remaining directors.

Advance Notice Requirements for Shareholder Proposals and Director Nominees. Our bylaws require advance notice with regard to business proposed to be submitted by a shareholder at any annual or special meeting of our shareholders, including the nomination of candidates for election as directors. Notice of proposed shareholder business must be timely given in writing to our corporate secretary prior to the meeting. To be timely, notice must be received at our principal executive offices within the time frames specified in our bylaws. The notice must also contain certain information specified in our bylaws, including, with respect to a director nomination, the written consent of the nominee to serve as a director if elected.

Certain Statutory Provisions

The Wisconsin Business Corporation Law or WBCL, under which we are incorporated, contains certain provisions that may be important when considering the rights of holders of our capital stock. The description set forth below is intended as a summary only. For complete information, you should review the applicable provisions of the WBCL.

Control Share Voting Restrictions. Section 180.1150(2) of the WBCL provides that the voting power of shares of a "resident domestic corporation," which we are, held by any "person", including shares issuable upon conversion of convertible securities or upon exercise of options or warrants, in excess of 20% of the voting power in the election of directors shall be limited to 10% of the full voting power of those shares. This statutory voting restriction is not applicable to shares acquired before April 22, 1986, shares acquired directly from us, shares as to which our shareholders vote to restore the full voting power and under certain other circumstances more fully described in Section 180.1150(3). This statutory voting restriction is not applicable to the selling shareholder with respect to the shares of our common stock held by the selling shareholder as of the date of this prospectus.

Fair Price Provisions. Sections 180.1130 to 180.1133 of the WBCL provide that certain business combinations not meeting specified adequacy-of-price standards must be approved by the vote of at least 80% of the votes entitled to be cast by outstanding voting shares of the corporation, voting together as a single voting group, and by two-thirds of the votes entitled to be cast by shareholders other than a significant shareholder who is a party to the transaction or an affiliate or associate of the significant shareholder.

The term "business combination" is defined to include, subject to certain exceptions, a merger or share exchange of a resident domestic corporation or any subsidiary with, or the sale or other disposition of substantially all assets of the resident domestic corporation to, any significant shareholder or affiliate of the significant shareholder.

"Significant shareholder" is defined generally to include a person that is the beneficial owner of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or an affiliate of the resident domestic corporation who was a 10% beneficial owner within the preceding two years.

Actions During a Take-over Offer. Section 180.1134 of the WBCL provides that, in addition to any vote otherwise required by law or the articles of incorporation, a resident domestic corporation must receive approval at a shareholders' meeting of the holders of a majority of the shares entitled to vote before the corporation can take the actions listed below while a "take-over offer" is being made for the

corporation's voting shares or after a take-over offer has been publicly announced and before it is concluded:

Shareholder approval is required for the corporation to acquire more than 5% of the corporation's outstanding voting shares at a price above the market value from any individual who or organization which owns more than 3% of the outstanding voting shares and has held those shares for less than two years, unless an equal or better offer is made to acquire all voting shares.

Shareholder approval is also required for the corporation to sell or option assets of the corporation which amount to at least 10% of the market value of the corporation, unless the corporation has at least three directors who are not officers or employees and a majority of those directors vote not to be governed by this restriction.

Business Combination Provisions. Sections 180.1140 to 180.1144 of the WBCL provide that a "resident domestic corporation," such as us, may not engage in a "business combination" with an "interested stockholder" for three years after the date (the "stock acquisition date") the interested stockholder acquired his or her 10% or greater interest, unless the business combination or the acquisition of the 10% or greater interest was approved before the stock acquisition date by the corporation's board of directors. After the three-year period, a business combination that was not so approved may be consummated only if it is approved by a majority of the outstanding voting shares not held by the interested stockholder or is made at a specified formula price intended to provide a fair price for the shares held by noninterested stockholders.

A "business combination" includes a merger or share exchange, or a sale, lease, exchange, mortgage, pledge, transfer or other disposition of assets equal to at least 5% of the aggregate market value of the stock or assets of the corporation or 10% of its earning power, or the issuance of stock or rights to purchase stock having a market value equal to at least 5% of the outstanding stock, the adoption of a plan of liquidation or dissolution, and other enumerated transactions involving an interested stockholder or an affiliate or associate of an interested stockholder.

An "interested stockholder" is a person who beneficially owns at least 10% of the voting power of the outstanding voting stock of the corporation or who is an affiliate or associate of the corporation and beneficially owned 10% of the voting power of the then outstanding voting stock at any time within three years prior to the date in question.

Insurance Holding Company Provisions. Because we are an insurance holding company and various of our subsidiaries are insurance companies, state statutes and administrative rules regulate, among other things, certain transactions in our common stock. These statutes generally provide that the acquisition of 10% or more of our voting securities creates a rebuttable presumption that "control" of our insurance company subsidiaries is being acquired in the transaction, unless the applicable state regulator, upon application, determines otherwise. Thus, subject to certain exceptions, any person attempting to acquire 10% or more of our stock must, prior to such acquisition, file certain documents with the appropriate state insurance regulators and obtain the regulators' prior approval of the acquisition.

These statutory and administrative restrictions may have the effect of discouraging or making it more difficult for a person to acquire a substantial equity interest in us and may otherwise restrict the market for the purchase or sale of a significant number of shares of our common stock.

Shares Eligible For Future Sale

Upon completion of this offering, we will have 12,590,166 shares of common stock outstanding based upon shares outstanding as of April 30, 2002. All shares of our common stock outstanding after this offering will be freely tradeable without restriction or further registration under the Securities Act unless held by an "affiliate" of our company, as that term is defined in Rule 144 under the Securities Act. Sales of shares of our common stock by affiliates will be subject to the volume limitations and other restrictions set forth in Rule 144.

Lock-Up Agreements

We, our directors and the selling shareholder have agreed that, subject to certain exceptions, for a period of 90 days following the date of this prospectus, we and such persons may not offer, sell, pledge or otherwise dispose of shares of our common stock without the prior written consent of CIBC World Markets Corp.

Stock Options

An additional 3,454,040 shares of our common stock may be issued in the future upon the exercise of options granted under our stock option plans and 241,297 shares of our common stock are available for grant under our stock option plans. We have registered or will register the issuance of these shares under the Securities Act and, therefore, these shares will be freely tradeable when issued, subject to the volume limitations and other conditions of Rule 144 in the case of shares held by our affiliates.

Registration Rights

The selling shareholder has rights to cause us to register under the Securities Act the sale of all or part of its remaining shares of our common stock following this offering. See "Certain Transactions Registration Rights Agreement" included elsewhere in this prospectus.

58

Underwriting

We and the selling shareholder have entered into an underwriting agreement with the underwriters named below. CIBC World Markets Corp., Robert W. Baird & Co. Incorporated and Stifel, Nicolaus & Company, Incorporated are acting as representatives of the underwriters.

The underwriting agreement provides for the purchase of a specific number of shares of common stock by each of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock set forth opposite its name below:

Underwriter	Number of Shares
CIBC World Markets Corp.	
Robert W. Baird & Co. Incorporated	
Stifel, Nicolaus & Company, Incorporated	
Total	2,610,000

The underwriters have agreed to purchase all of the shares offered by this prospectus, other than those covered by the over-allotment option described below, if any are purchased. Under the underwriting agreement, if an underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances.

The shares should be ready for delivery on or about , 2002 against payment in immediately available funds. The underwriters are offering the shares subject to various conditions and may reject all or part of any order. The representatives have advised us and the selling shareholder that the underwriters propose to offer the shares directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to other securities dealers at such price less a concession of $ per share. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $ per share to other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

The selling shareholder has granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of 391,500 additional shares from the selling shareholder to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the initial public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to public will be $ and the total proceeds to the selling shareholder will be $. We are receiving no proceeds in this offering. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the foregoing table.

The following table provides information regarding the amount of the discount to be paid to the underwriters by the selling shareholder:

	Per Share	Total Without Exercise of Over-Allotment Option	Total With Full Exercise of Over-Allotment Option
Blue Cross & Blue Shield United of Wisconsin	$	$	$

We and the selling shareholder estimate that the total expenses of the offering, excluding the underwriting discount, will be approximately $975,000. We have entered into an arrangement with the selling shareholder regarding payment of the offering expenses. The principal components of the expenses of the offering, excluding the underwriting discount, will include the fees and expenses of our accountants and attorneys, the fees of our registrar and transfer agent, the cost of printing this prospectus, and the filing fees paid to the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. Under our arrangement with the selling shareholder, it is solely responsible for the underwriting discount. With respect to the other offering expenses, we are responsible for the first $650,000 and we and the selling shareholder will share equally any amount in excess of $650,000. Under this arrangement, we and the selling shareholder estimate that our portions of the total expenses of the offering, excluding the underwriting discount, will be approximately $812,500 and $162,500, respectively.

We and the selling shareholder have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Our directors and the selling shareholder have agreed to a 90-day "lock up" with respect to shares of common stock that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. We have entered into a similar lock-up agreement with respect to the issuance and sale of our equity securities. This means that, subject to certain exceptions, for a period of 90 days following the date of this prospectus, we and such persons may not offer, sell, pledge or otherwise dispose of these securities without the prior written consent of CIBC World Markets Corp.

The representatives have informed us that they do not expect discretionary sales by the underwriters to exceed five percent of the shares offered by this prospectus.

Rules of the Securities and Exchange Commission may limit the ability of the underwriters to bid for or purchase shares before the distribution of the shares is completed. However, the underwriters may engage in the following activities in accordance with the rules:

Stabilizing transactions The representatives may make bids or purchases for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.

Over-allotments and syndicate covering transactions The underwriters may sell more shares of our common stock in connection with this offering than the number of shares that they have committed to purchase. This over-allotment creates a short position for the underwriters. This short sales position may involve either "covered" short sales or "naked" short sales. Covered short sales are short sales made in an amount not greater than the underwriters' over-allotment option to purchase additional shares in this offering described above. The underwriters may close out any covered short position either by exercising their over-allotment option or by purchasing shares in the open market. To determine how they will close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market, as compared to the price at which they may purchase shares through the over-allotment option. Naked short sales are short sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short

position is more likely to be created if the underwriters are concerned that, in the open market after pricing, there may be downward pressure on the price of the shares that could adversely affect investors who purchase shares in this offering.

Penalty bids If the representatives purchase shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.

Passive market making Market makers in the shares who are underwriters or prospective underwriters may make bids for or purchases of shares, subject to limitations, until the time, if ever, at which a stabilizing bid is made.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales or to stabilize the market price of our common stock may have the effect of raising or maintaining the market price of our common stock or preventing or mitigating a decline in the market price of our common stock. As a result, the price of the shares of our common stock may be higher than the price that might otherwise exist in the open market. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages resales of the shares.

Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of the shares. These transactions may occur on the New York Stock Exchange or otherwise. If such transactions are commenced, they may be discontinued without notice at any time.

Legal Matters

The validity of the shares of our common stock offered by this prospectus will be passed upon for us by Quarles & Brady LLP, Milwaukee, Wisconsin. Latham & Watkins, Los Angeles, California, has acted as counsel for the underwriters with respect to certain legal matters in connection with the offering. Foley & Lardner, Milwaukee, Wisconsin, has acted as counsel for the selling shareholder with respect to certain legal matters in connection with the offering.

Experts

Our consolidated financial statements at December 31, 2001 and 2000, and for each of the three years in the period ended December 31, 2001, and schedules appearing in and incorporated by reference in this prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report appearing elsewhere in this prospectus, and are included in reliance upon that report given on the authority of the firm as experts in accounting and auditing.

Where You Can Find More Information

We have filed a registration statement on Form S-3 with the Securities and Exchange Commission in connection with this offering. We file annual quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy the registration statement and any other documents we have filed at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the Public Reference Room. Our Securities and Exchange Commission filings are also available to the public at the Securities and Exchange Commission's Internet site at "http://www.sec.gov".

This prospectus is part of a registration statement and does not contain all of the information included in the registration statement. Whenever a reference is made in this prospectus to any of our contracts

or other documents, the reference may not be complete and, for a copy of the contract or document, you should refer to the exhibits that are part of the registration statement.

The Securities and Exchange Commission allows us to "incorporate by reference" into this prospectus the information we file with it, which means that we can disclose important information to you by referring you to those documents. Information incorporated by reference is part of this prospectus. Later information filed with the Securities and Exchange Commission will update and supersede this information.

We incorporate by reference the documents listed below and any future filings made with the Securities and Exchange Commission under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering is completed:

Annual Report on Form 10-K for the year ended December 31, 2001 (including the information incorporated by reference in the Form 10-K from the proxy statement for our 2002 annual meeting of shareholders filed on April 22, 2002).

Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

Current Reports on Form 8-K filed February 5, March 20, March 26 and April 26, 2002.

The description of our common stock incorporated by reference in our Registration Statement on Form 8-A dated June 13, 1994, and any amendment or report filed for the purpose of updating that description.

The description of the preferred share purchase rights issued pursuant to our shareholder rights agreement contained in our Registration Statement on Form 8-A dated August 14, 2001, and any amendment or report filed for the purpose of updating that description.

An updated description of our capital stock is included in this prospectus under "Description of Capital Stock."

You may request a copy of any of these filings, at no cost, by contacting us by telephone or in writing at:

American Medical Security Group, Inc.
Attn: Corporate Secretary
3100 AMS Boulevard
Green Bay, WI 54307-9032
Phone: (920) 661-1111

Index to Financial Statements

The following financial statement schedules are also included:

All other schedules for which provision is made in applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors and Shareholders
American Medical Security Group, Inc.

We have audited the accompanying consolidated balance sheets of American Medical Security Group, Inc. and its subsidiaries, (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index on Page F-1. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Milwaukee, Wisconsin
January 31, 2002

American Medical Security Group, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2002	December 31, 2001	December 31, 2000
	(unaudited)		
Assets:			
Investments:			
Securities available for sale, at fair value:			
Fixed maturities	$ 250,217	$ 269,753	$ 262,428
Equity securities preferred		722	2,368
Fixed maturity securities held to maturity, at amortized cost	4,303	4,286	4,320
Trading securities, at fair value	666	517	260
Total investments	255,186	275,278	269,376
Cash and cash equivalents	17,604	24,975	15,606
Other assets:			
Property and equipment, net	34,460	33,381	32,451
Goodwill, net	92,944	100,343	103,241
Other intangibles, net	3,408	3,591	4,321
Other assets	44,744	35,447	46,928
Total other assets	175,556	172,762	186,941
Total assets	$ 448,346	$ 473,015	$ 471,923
Liabilities and Shareholders' Equity:			
Liabilities:			
Medical and other benefits payable	$ 132,569	$ 135,504	$ 145,310
Advance premiums	16,634	16,737	17,568
Payables and accrued expenses	26,656	28,032	25,902
Notes payable	34,758	40,058	41,258
Other liabilities	24,154	23,284	20,708
Total liabilities	234,771	243,615	250,746
Redeemable preferred stock Series A adjustable rate			
Nonconvertible, $1,000 stated value, 22,879 shares authorized			
Shareholders' equity:			
Preferred stock (no par value, 477,121 shares authorized)			
Common stock (no par value, $1 stated value, 50,000,000 shares authorized, 16,654,315 issued and 12,590,166 outstanding for 2002, 16,654,315 issued and 13,955,439 outstanding for 2001, 16,654,315 issued and 14,270,945 outstanding for 2000)	16,654	16,654	16,654
Paid-in capital	187,892	187,927	187,956
Retained earnings	45,900	40,470	36,295
	(74)	1,903	(3,948)

	December 31,		
Accumulated other comprehensive income (loss) (net of tax benefit of $40 for 2002, expense of $1,024 for 2001 and benefit of $2,126 for 2000)			
Treasury stock (4,064,149 shares for 2002, 2,698,876 for 2001 and 2,383,370 for 2000, at cost)	(36,797)	(17,554)	(15,780)
Total shareholders' equity	213,575	229,400	221,177
Total liabilities and shareholders' equity	$ 448,346	$ 473,015	$ 471,923

See accompanying Notes to Consolidated Financial Statements

American Medical Security Group, Inc.

Consolidated Statements of Operations

(In thousands, except share data)

	Three months ended March 31,		Year ended December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Revenues:					
Insurance premiums	$ 194,401	$ 222,470	$ 838,672	$ 951,071	$ 1,056,107
Net investment income	3,924	4,514	17,443	19,007	19,766
Net realized investment gains (losses)	14	(27)	(779)	(325)	(854)
Other revenue	5,405	5,301	21,285	20,112	22,361
Total revenues	203,744	232,258	876,621	989,865	1,097,380
Expenses:					
Medical and other benefits	131,800	166,580	601,942	724,613	860,473
Selling, general and administrative	62,024	71,411	257,742	251,767	268,059
Interest	494	876	2,877	3,584	3,564
Amortization of goodwill and other intangibles	183	907	3,628	3,785	4,273
Total expenses	194,501	239,774	866,189	983,749	1,136,369
Income (loss) before income taxes	9,243	(7,516)	10,432	6,116	(38,989)
Income tax expense (benefit)	3,813	(2,376)	6,257	3,447	(13,043)
Net income (loss)	$ 5,430	$ (5,140)	$ 4,175	$ 2,669	$ (25,946)
Earnings (loss) per common share basic	$ 0.39	$ (0.36)	$ 0.30	$ 0.18	$ (1.58)

	Three months ended March 31,		Year ended December 31,		
Earnings (loss) per common share diluted	$ 0.37	$ (0.36)	$ 0.29	$ 0.18	$ (1.58)

See accompanying Notes to Consolidated Financial Statements

American Medical Security Group, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31,		Year ended December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Operating Activities:					
Net income (loss)	$ 5,430	$ (5,140)	$ 4,175	$ 2,669	$ (25,946)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	2,226	2,427	10,493	9,762	11,038
Net realized investment losses (gains)	(14)	27	779	325	854
Net change in trading securities	(149)	16	(257)	(260)	
Deferred income tax expense (benefit)	(2,694)	(2,571)	609	6,029	(7,112)
Changes in operating accounts:					
Other assets	1,870	1,408	7,722	9,119	(12,945)
Medical and other benefits payable	(2,935)	(12,025)	(9,806)	(23,807)	55,984
Advance premiums	(103)	445	(831)	291	(880)
Payables and accrued expenses	(1,376)	8,237	2,130	858	1,605
Other liabilities	860	(880)	2,576	(8,145)	3,830
Net cash provided by (used in) operating activities	3,115	(8,056)	17,590	(3,159)	26,428
Investing Activities:					
Purchases of available for sale securities	(32,283)	(40,470)	(143,148)	(14,512)	(190,834)
Proceeds from sale of available for sale securities	49,214	43,679	129,038	25,460	172,086
Proceeds from maturity of available for sale securities		3,050	15,417	4,045	20,805
Purchases of held to maturity securities	(1,335)				(686)
Proceeds from maturity of held to maturity securities	1,295			630	770
Purchases of property and equipment	(2,799)	(1,891)	(6,546)	(4,584)	(2,976)
Proceeds from sale of property and equipment			21	13	1,049
Net cash provided by (used in) investing activities	14,092	4,368	(5,218)	11,052	214

	Three Months Ended March 31,		Year ended December 31,		
Financing Activities:					
Issuance of common stock	262		413	4	5
Purchase of treasury stock	(19,540)	(1,134)	(2,216)	(8,292)	(7,488)
Proceeds from notes payable borrowings				39,158	5,000
Repayment of notes payable	(5,300)	(300)	(1,200)	(40,423)	(17,541)
Net cash used in financing activities	(24,578)	(1,434)	(3,003)	(9,553)	(20,024)
Cash and cash equivalents:					
Net increase (decrease) during year	(7,371)	(5,122)	9,369	(1,660)	6,618
Balance at beginning of year	24,975	15,606	15,606	17,266	10,648
Balance at end of year	$ 17,604	$ 10,484	$ 24,975	$ 15,606	$ 17,266

See accompanying Notes to Consolidated Financial Statements

F-5

American Medical Security Group, Inc.

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)

(In thousands, except share data)

	Common Stock						
	Shares	Amount	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 1999	16,653,179	$ 16,653	$ 188,981	$ 59,572	$ 1,245	$	$
Comprehensive loss:							
Net loss				(25,946)			

&nbhe registration for resale (the Shelf Registration) under the Securities Act of the remaining Released Sha constituting Delivered Shares (the Registered Shares) and the listing of the Registered Shares on NASDAQ.

In February 2012, the Company received the Delivered Shares, placed them into its treasury, and o 1.8 million newly issued shares of its common stock and an underwriters allotment of 271,697 shar public offering, at $9.00 per share. As a result of the public offering, the Company s common stoc on the NASDAQ under the symbol CZR. In connection with this public offering, the Company 1.742-for-one split of its common stock.

The Shelf Registration was filed in February 2012, and, upon its effectiveness, 50% of the Register Shares became eligible for resale under the Shelf Registration. The remaining 50% of the Registere Shares became eligible for resale in August 2012.

Common Stock	Accumulated Other Comprehensive Income (Loss)

In March 2012, the Company filed a prospectus with the SEC, as part of a registration statement, to shares of common stock, up to a maximum aggregate offering price of $500.0 million. In April 201 Company entered into an equity distribution agreement with Citigroup Global Markets Inc. and Cre Suisse Securities (USA) LLC, whereby the Company may issue and sell up to 10.0 million shares o Company s common stock from time to time. As of September 30, 2012, the Company has sold 15 shares with an aggregate offering price of approximately $216,000.

16

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Non-controlling Interests

In March 2012, Rock and Caesars Interactive Entertainment Inc. (CIE), a majority-owned subsic
Caesars, entered into an agreement pursuant to which Rock purchased approximately 6,155 shares
common stock for $30.4 million in cash and agreed to purchase additional shares of CIE common s
or before July 2, 2012. In June 2012, CIE and Rock modified the agreement such that CIE issued to
approximately 382 shares of CIE common stock and a promissory note for $28.5 million in exchan
$30.4 million in cash. The promissory note is convertible into approximately 5,773 shares of CIE c
stock upon the satisfaction of certain specified criteria and is classified as long-term debt in our
consolidated condensed balance sheet at September 30, 2012. Pursuant to the terms of the original
agreement, Rock has the option to purchase approximately 3,140 additional shares of CIE common
for $19.2 million in cash, which option must be exercised on or before November 15, 2012.

Loss Per Share

Basic loss per share from continuing operations and discontinued operations is calculated by dividi
from continuing operations and income from discontinued operations, respectively, net of income t
by the weighted-average number of common shares outstanding for each period. Because the Comp
generated net losses for the quarter and nine months ended September 30, 2012 and 2011, the
weighted-average basic shares outstanding was used in calculating diluted loss per share from conti
operations, and diluted earnings per share from discontinued operations, as using diluted shares wo
anti-dilutive to loss per share.

The following table shows the number of shares which were excluded from the computation of dilu
loss per share for the quarter and nine months ended September 30, 2012 and 2011, as they were
anti-dilutive:

	Quarter Ended September 30,		Nine Months End September 30,	
(In millions)	**2012**	**2011**	**2012**	**201**
Stock options outstanding	8.1	6.8	7.4	5
Warrants outstanding	0.4	0.1	0.4	0
Total anti-dilutive potential common shares	8.5	6.9	7.8	6

Note 8 Stock-Based Compensation

Our stock-based compensation expense consists primarily of time-based and performance-based op
of Caesars Entertainment and one of its subsidiaries that have been granted to management, other
personnel and key service providers. The Company has recognized compensation expense associate
its stock-based compensation programs as follows:

	Quarter Ended September 30,		Nine Months End September 30,	
(In millions)	**2012**	**2011**	**2012**	**201**
Amounts included in:				
Corporate expense	$ 6.3	$ 4.1	$ 20.5	$ 10
Property, general, administrative, and other	3.5	3.3	22.5	7
Total stock-based compensation expense	$ 9.8	$ 7.4	$ 43.0	$ 17

Common Stock

Accumulated Other Comprehensive Income (Loss)

During the quarter and nine months ended September 30, 2012, the Company recorded $2.0 millior $18.2 million, respectively, of expense related to stock-based awards of its subsidiaries, of which $ million and $17.3 million, respectively, related to liability-classified awards that are re-measured to value at each reporting date, and $0.2 million and $0.9 million, respectively, related to equity-class awards that are measured at their fair value at the date of grant.

In February 2012, the Company declared a 1.742-for-one stock split in connection with its public o and the Board of Directors adopted the 2012 Performance Incentive Plan (the 2012 Incentive Plar Directors, employees, officers and consultants or advisors who render services to the Company or i subsidiaries may be selected to receive awards under the 2012 Incentive Plan. Our Board of Directo subcommittee thereof has the authority to administer the 2012 Incentive Plan. The 2012 Incentive F includes the following limits:

no more than 6,867,018 shares may be issued with respect to incentive stock options under 2012 Incentive Plan;

the maximum number of shares of common stock subject to those options and stock appre rights that are granted during any calendar year to any individual under the 2012 Incentive 3,433,509 shares, prior to consideration of the July 2012 amendment as further described b

the maximum number of shares of common stock which may be delivered pursuant to performance-based awards (other than options and stock appreciation rights intended to sat the requirements for performance-based compensation under Internal Revenue Code Section 162(m), and other than cash awards covered by the cap in the following sentence) granted to any one participant in any calendar year will not exceed 1,373,404 shares, either individually or in the aggregate;

17

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

in addition, the aggregate amount of compensation to be paid to any one participant in resp
all performance-based awards payable only in cash and not related to shares of common st
granted to that participant in any one calendar year will not exceed $25.0 million; and

awards cancelled during the year will be counted against the limits in the preceding two bu
the extent required by Section 162 (m) of the Internal Revenue Code.

As a result of adopting the 2012 Incentive Plan, options may no longer be granted under the Compa
Management Equity Incentive Plan adopted February 27, 2008 (the 2008 Incentive Plan).

During the third quarter of 2012, the Company s stockholders approved (1) an amendment to the 2
Incentive Plan to increase the maximum number of shares of the Company s common stock with r
which stock options and stock appreciation rights may be granted during any calendar year to any
individual under the 2012 Incentive Plan from 3,433,509 shares to 6,500,000 shares, and (2) a one-
stock option exchange program (the Option Exchange), to permit the Company to cancel certain
options held by some of our employees, service providers and directors in exchange for new, replac
options to purchase an equal number of shares of our common stock (the Replacement Options)

Options eligible for the Option Exchange (the Eligible Options) were granted on or prior to Febr
2012 and had an exercise price equal to or greater than $20.09 per share. Replacement Options hav
exercise price of $8.22 per share, a ten-year term and a new vesting schedule determined on a
grant-by-grant basis, as follows:

Vesting of Time-Based Options. Each Replacement Option granted in exchange for a time-
eligible option will have a new vesting schedule as follows: 20% of the Replacement Optio
be immediately vested, with the remainder vesting in four equal installments of 20% each o
of the first four anniversaries of the exchange date.

Vesting of Performance-Based Options. Each Replacement Option granted in exchange for
performance-based eligible option will have a new vesting schedule as follows:

With respect to the Eligible Options subject to vesting if funds affiliated with TPG Ca
L.P. (the TPG Members) and Apollo Global Management, LLC (the Apollo Mem
together with the TPG Members, the Sponsors) achieve a return on their investmen
equal to or greater than 1.5x, the Replacement Options granted in exchange for such o
will vest on the date that the Company s 30-day trailing average closing common sto
equals or exceeds $35.00 per share.

With respect to the Eligible Options subject to vesting if funds affiliated with the Spo
achieve a return on their investment that is equal to or greater than 2.0x, the Replacem
Options granted in exchange for such options will vest on the date that the Company
30-day trailing average closing common stock price equals or exceeds $57.41 per sha

Vesting of Loveman Performance-Based Option. With respect to the Eligible Option to pur
290,334 shares of the Company s common stock granted on November 29, 2011 to Gary
Loveman, the Company s Chairman of the Board, Chief Executive Officer and President,
vesting of which differs from the vesting of the other outstanding performance-based eligib
options described above and is eligible to vest if funds affiliated with the Sponsors achieve

Common Stock

Accumulated Other Comprehensive Income (Loss)

return on their investment that is equal to or greater than 1.0x (the Loveman Performance
Option), the Replacement Option granted in exchange for the Loveman Performance-Bas
Option will vest on the date that the Company s 30-day trailing average closing common s
price equals or exceeds $57.41 per share.

As a result of the Option Exchange, additional expense of $2.2 million was recognized in the third
of 2012. An additional $13.0 million will be recognized in future periods as the Replacement Optio
vest.

18

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

The following is a summary of share-based option activity, adjusted for the stock split, including op under the 2008 Incentive Plan and 2012 Incentive Plan and warrants to purchase common stock, fo nine months ended September 30, 2012:

	Shares	We Av Ex P
Outstanding at December 31, 2011	8,744,649	$
Granted	7,992,285	$
Canceled	(8,296,470)	$
Outstanding at September 30, 2012	8,440,464	$
Vested and expected to vest at September 30, 2012	7,033,200	$
Exercisable at September 30, 2012	1,404,145	$

Note 9 Write-downs, Reserves, and Project Opening Costs, net of Recoveries

Write-downs, reserves, and project opening costs, net of recoveries include project opening costs ar various pre-tax charges to record contingent liability reserves, costs associated with efficiency proje project write-offs, demolition costs, and other non-routine transactions, net of recoveries of previou recorded non-routine reserves.

The components of write-downs, reserves, and project opening costs, net of recoveries are as follov

(In millions)	**Quarter Ended September 30, 2012**	**2011**	**Nine Months September 2012**	
Write-downs and reserves, net of recoveries:				
Divestitures and abandonments	$ 28.1	$ 4.2	$ 42.7	$
Remediation costs	6.4	1.7	12.4	
Efficiency projects	1.8	10.6	9.6	
Gain on Thistledown contribution	(11.0)		(11.0)	
Other	4.5	(4.0)	5.0	
Total write-downs and reserves, net of recoveries	29.8	12.5	58.7	
Project opening costs	2.8		4.7	
Total write-downs, reserves, and project opening costs, net of recoveries	$ 32.6	$ 12.5	$ 63.4	$

Divestitures and abandonments include (gains)/losses on divested or abandoned assets and costs associated with various projects that are determined to no longer be viable. For the quarter and nine months ended September 30, 2012, divestitures and abandonments include charges of $20.2 millior $24.7 million, respectively, related to a previously halted development project in Biloxi, Mississipp

Remediation costs relate to projects at certain of our Las Vegas properties.

Common Stock	Accumulated Other Comprehensive Income (Loss)

Efficiency projects represent costs incurred to identify and implement efficiency programs aimed a streamlining corporate and operating functions to achieve cost savings and efficiencies, such as Pro Renewal, an initiative designed to reinvent certain aspects of the Company s functional and operat to gain significant further cost reductions and streamline its operations.

As previously discussed in Note 2, Acquisitions, Investments and Dispositions, the Company di its Thistledown property recognizing an $11.0 million gain on the transaction.

Other includes contingent liability reserves, demolition costs, and other non-routine transactions.

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Note 10 Income Taxes

Total income taxes were allocated as follows:

(In millions)	Quarter Ended September 30, 2012	2011	Nine Months Ende September 30, 2012	2011
Income tax benefit on loss before income taxes	$ 225.5	$ 77.7	$ 502.9	$ 271
Income tax expense on discontinued operations	(1.8)	(7.2)	(18.0)	(22
Accumulated other comprehensive loss	(4.1)	14.2	(8.7)	14
Goodwill		(5.3)		(5
Accumulated deficit				(6
Additional paid-in capital	2.1		2.1	

We classify reserves for tax uncertainties within accrued expenses and deferred credits and other in consolidated condensed balance sheets, separate from any related income tax payable or deferred in taxes. Reserve amounts relate to any potential income tax liabilities resulting from uncertain tax po as well as potential interest or penalties associated with those liabilities.

The effective tax rate for the quarter and nine months ended September 30, 2012 was 30.8% and 32 respectively. The primary cause for the diversion from the federal statutory rate of 35% is the negat impact of nondeductible goodwill impairments.

We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. We are under regular and recurring audit by the Internal Revenue Service (IRS) on positions, and it is possible that the amount of the liability for unrecognized tax benefits could chan during the next twelve months. The IRS audit of our 2008 federal income tax year concluded durin quarter ended June 30, 2010. The IRS proposed an adjustment to our cancellation of debt income ta position which was appealed. In the quarter ended June 30, 2012, the issue was settled resulting in a reduction of our net operating loss carryforwards of approximately $5 million. In connection with t settlement, the total amount of unrecognized tax benefits (UTB) decreased by $72.2 million. The in UTB did not impact the Company s effective tax rate.

Note 11 Fair Value Measurements

Items Measured at Fair Value on a Recurring Basis

The following table shows the fair value of our financial assets and financial liabilities that are requ be measured at fair value as of September 30, 2012 and December 31, 2011:

(In millions)	Balance	Level 1	Level 2	Leve
September 30, 2012				
Assets:				
Investments	$ 117.8	$ 117.0	$ 0.8	$
Derivative instruments	*		*	
Liabilities:				
Derivative instruments	(347.0)		(347.0)	
December 31, 2011				
Assets:				
Investments	$ 108.4	$ 106.9	$ 1.5	$
Derivative instruments	*		*	
Liabilities:				

Common Stock	Accumulated Other Comprehensive Income (Loss)			
		Derivative instruments	(336.1)	(336.1)

* Amount rounds to zero

20

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

The following section describes the valuation methodologies used to estimate or measure fair value inputs, and significant assumptions:

Investments Investments consist of debt and equity securities with maturity dates greater than 90 the date of the security s acquisition. The majority of these securities are traded in active markets, readily determined market values, and use Level 1 inputs. Securities for which there are not active or the market values are not readily determinable are valued using Level 2 inputs. All of these inve are included in either prepayments and other current assets or deferred charges and other in our consolidated condensed balance sheets.

The fair value of investments in marketable securities were as follows:

(In millions)	September 30, 2012		December 31, 2011	
Corporate bonds	$	0.8	$	1.5
Equity securities		2.9		2.4
Government bonds		112.1		102.5
Other liquid investments		2.0		2.0
Total investments	$	117.8	$	108.4

Gross unrealized gains and losses on marketable securities at September 30, 2012 and December 3 were not material.

Derivative instruments The estimated fair values of our derivative instruments are derived from r prices obtained from dealer quotes for similar, but not identical, assets or liabilities. Such quotes re the estimated amounts we would receive or pay to terminate the contracts. Our derivatives are reco their fair values, adjusted for the credit rating of the counterparty if the derivative is an asset, or adj for the credit rating of the Company if the derivative is a liability. See Note 6, Derivative Instrum more information.

Items Measured at Fair Value on a Non-recurring Basis

The following table shows the fair value of our assets that are required to be measured at fair value September 30, 2012 and the total impairment recorded on these assets during the three months end September 30, 2012:

(In millions)	Balance	Level 1	Level 2	Level 3	T Impa
September 30, 2012					
Assets:					
Intangible and tangible assets	$ 1,647.1	$	$	$ 1,647.1	$ (

The following section describes the valuation methodologies used to estimate or measure fair value inputs, and significant assumptions:

Intangible and tangible assets Market and income approaches were used to value the intangible a tangible assets in accordance with the provisions of FASB Codification Subtopic 350, *Intangibles Goodwill and Other*, and Subtopic 360, *Property, Plant, and Equipment*. Inputs included an expect range of market values, probabilities made by management that each value could be achieved, expe cash flows, recent comparable transactions, discounted cash flows, discount rate, royalty rate, grow and tax rate. See Note 4, Goodwill and Other Intangible Assets, for further discussion regarding

Common Stock

Accumulated Other Comprehensive Income (Loss)

valuation of our intangible assets.

Items Disclosed at Fair Value

Long-term debt The fair value of the Company s debt has been calculated based on the borrowin
available as of September 30, 2012, for debt with similar terms and maturities, and based on marke
quotes of our publicly traded debt. As of September 30, 2012, the Company s outstanding debt had
value of $19,672.1 million and a carrying value of $20,758.5 million.

21

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Note 12 Litigation, Contractual Commitments and Contingent Liabilities

Litigation

The Supreme Court of Nevada decided in early 2008 that food purchased for subsequent use in the provision of complimentary and/or employee meals is exempt from use tax. Previously, such purch were subject to use tax and the Company has claimed, but not recognized into earnings, a use tax re totaling $32.2 million, plus interest, as a result of the 2008 decision. In early 2009, the Nevada Department of Taxation (Department) audited our refund claim, but has taken the position that t purchases are now subject to sales tax; therefore, they subsequently issued a sales tax assessment to $27.4 million plus interest after application of our refund on use tax.

On October 21, 2010, the administrative law judge (ALJ) issued a decision and ruled in our favo number of key issues. Although both the Company and the Nevada Department of Taxation filed a appeal of the decision with the Nevada Tax Commission (Commission), the case was returned to for further factual development. The ALJ s issued a second decision on March 8, 2012, reversing h previous, partially favorable ruling relating to the taxability of complimentary employee meals and affirmed the taxability of complimentary meals but limited the entire sales tax assessment to the am of the Company s use tax refund claims resulting in no use tax refund awarded but no sales tax am due. The ALJ decision was affirmed in the Commission hearing on June 25, 2012 and the Commis final decision was issued on July 31, 2012. We filed a petition for judicial review with the District on August 7, 2012.

Subsequent to the written Commission decision issued in February for another gaming company, th Department has issued draft regulations requiring the collection of sales tax on the retail value of complimentary meals and the cost of employee meals. Although the Commission approved the regu on June 25, 2012, there are several additional approvals required, including by the Legislative Commission, before the regulation is finalized. On June 6, 2012, the Department issued additional guidance regarding the payment of sales tax on complimentary and employee meals, maintaining th meals are taxable as of February 15, 2012 but that the payment of the tax is due, without penalty or interest, at the earlier of (a) one month after approval of the regulation by the Legislative Commiss (b) one month after a Nevada Supreme Court decision, (c) the effective date of any legislation or (d) June 30, 2013. The Department stated that it provided this additional guidance regarding the de of payment requirements because the Legislative Commission has not had the opportunity to appro regulation and because there are several ongoing appeals that have not been heard by the Tax Com and the Nevada Supreme Court.

Due to uncertainty regarding the ultimate outcome of our pending litigation and/or the final approv form of the pending regulation, we continue to record certain reserves against loss on this matter.

The Company is party to ordinary and routine litigation incidental to our business. We do not expec outcome of any pending litigation to have a material adverse effect on our consolidated financial po results of operations, or cash flows.

Contractual Commitments and Contingent Liabilities

Material changes to our aggregate indebtedness are described in Note 5, Debt. At September 30, estimated interest payments for the years ended December 31, 2012 through 2016 are approximatel million, $1,770 million, $1,774 million, $1,397 million, and $1,228 million, respectively, and our estimated interest payments thereafter are approximately $1,783 million.

There have been no material changes of our other known contractual obligations or contingent liabi to those set forth in our 2011 10-K.

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		22

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Note 13 Supplemental Cash Flow Disclosures

Cash Paid for Interest and Taxes

The following table reconciles our interest expense, net of capitalized interest, per the consolidated condensed statements of comprehensive loss, to cash paid for interest:

(In millions)	Nine Months Ended September 30, 2012	2011
Interest expense, net of interest capitalized	$ 1,574.3	$ 1,448.3
Adjustments to reconcile to cash paid for interest:		
Net change in accruals	(138.7)	(201.8)
Amortization of deferred finance charges	(66.5)	(54.0)
Net amortization of discounts and premiums	(166.2)	(122.2)
Amortization of accumulated other comprehensive loss	(21.2)	(60.6)
Rollover of PIK interest to principal	(1.0)	(1.1)
Change in fair value of derivative instruments	(10.9)	62.4
Cash paid for interest	$ 1,169.8	$ 1,071.0
Cash payments/(refunds) of income taxes, net	$ 9.1	$ (2.4)

Significant non-cash transactions during the nine months ended September 30, 2012 include a contribution of 1.8 million shares by the Participating Co-Investors, as further described in Note 7, Stockholders Equity, Non-controlling Interests and Loss Per Share, non-cash intangible asset i of $439.0 million, as further described in Note 4, Goodwill and Other Intangible Assets, and nor impairment charges on tangible assets of $281.5 million, as further described in Note 3, Property Equipment, net.

Note 14 Related Party Transactions

In connection with the Acquisition, the Sponsors entered into a services agreement with Caesars Entertainment relating to the provision of financial and strategic advisory services and consulting s In addition, we pay a monitoring fee for management services and advice. Fees paid to the Sponsor which are included in corporate expense in our consolidated condensed statements of comprehensiv were $7.5 million in each of the quarters ended September 30, 2012 and 2011 and $22.5 million for of the nine-month periods ended September 30, 2012 and 2011. We also reimburse the Sponsors fo expenses that they incur related to their management services.

Note 15 Recent Accounting Pronouncements

Effective January 1, 2012, we adopted the updated guidance related to fair value measurement and disclosure requirements. The changes result in common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards and change the word used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. This new guidance did not have any impact on our consolidated financial position, results of operations, or cash flows.

Effective January 1, 2012, we adopted the new guidance for the presentation of comprehensive inco The new guidance requires that all nonowner changes in stockholders equity be presented either i single continuous statement of comprehensive income or in two separate but consecutive statement

Common Stock	Accumulated Other Comprehensive Income (Loss)

this is a presentation and disclosure requirement, there was no impact on our consolidated financial position, results of operations, or cash flows upon adoption.

Effective January 1, 2012, we adopted the revised guidance for goodwill impairment testing. The n guidance allows an entity to perform a qualitative assessment on goodwill to determine whether it i likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. In July 2012 guidance was amended to include assessments for indefinite-lived intangible assets. The Company adopted the amended guidance in the second quarter of 2012 as permitted under the amendment.

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Note 16 Subsequent Events

Sale of Harrah s St Louis Casino

As disclosed in Note 2, Acquisitions, Investments and Dispositions, the Company entered into a agreement to sell its Harrah s St. Louis casino to Penn for $610.0 million. The sale closed on Nove 2012 and the Company expects to record any gain or loss on the transaction in the fourth quarter of

9% Notes

In August 2012, Caesars Operating Escrow LLC and Caesars Escrow Corporation, wholly-owned unrestricted subsidiaries of CEOC, completed the offering of the 9% Notes, the proceeds of which placed into escrow and recorded as restricted cash. On October 5, 2012, the escrow conditions were satisfied and CEOC assumed the 9% notes. CEOC used $478.8 million of the net proceeds from thi transaction to repay a portion of its senior secured term loans under the Credit Facilities in connecti with the extension transactions occurring subsequent to September 30, 2012 as described in Exter Transactions Under the Credit Facility below.

Extension Transactions Under the Credit Facility

On October 5, 2012, CEOC consummated extension transactions with lenders under its Credit Faci pursuant to which CEOC (i) extended the maturity of $957.5 million aggregate principal amount of B-2 and B-3 term loans held by consenting lenders from January 28, 2015 to January 28, 2018, whi new B-6 term loans; (ii) converted $276.6 million aggregate principal amount of original maturity revolver commitments held by consenting lenders to B-6 term loans; and (iii) extended the maturity $12.2 million aggregate principal amount of original maturity revolver commitments held by conse lenders who elected not to convert their commitments to term loans, from January 28, 2014 to Janu 2017 and increased the interest rate and the undrawn commitment fee with respect to such extended revolver commitments. The Term B-6 Loans have a springing maturity to April 14, 2017 if more th $250.0 million of CEOC s 11.25% Senior Secured Notes due 2017 remain outstanding on April 14 As a result of these transactions, CEOC repaid $478.8 million principal amount of term loans of ex lenders and terminated $144.4 million principal amount of revolving commitments of extending le

On October 29, 2012, CEOC consummated extension transactions under its Credit Facilities pursua which CEOC converted $150.0 million aggregate principal amount of original maturity revolver commitments held by consenting lenders to B-6 term loans. As a result of these transactions, CEOC repaid $75.0 million principal amount of term loans of extending lenders, terminated $150.0 millio principal amount of revolving commitments of extending lenders, and increased the amount of outstanding B-6 term loans by $75.0 million. In addition to the foregoing, CEOC may elect to exter and/or convert additional term loans and/or revolver commitments from time to time.

After taking into account the extensions, repayments and commitment reductions described above, was $2,738.9 million face value of B-6 term loans outstanding, $1,026.4 million face value of B-1, and B-3 term loans outstanding with a maturity of January 28, 2015, $607.1 million of revolving commitments outstanding with a maturity of January 28, 2014 and $31.1 million of revolving commitments outstanding with a maturity of January 28, 2017.

Baltimore, Maryland

In July 2012, a consortium led by the Company was awarded the license to operate a casino in dow Baltimore. In October 2012, Caesars entered into definitive agreements with investors associated w Rock Gaming, The Stronach Group, Caves Valley Partners and Brown Capital Management to forr joint venture that will build and own the casino. Subject to regulatory approvals and receipt of proje financing, Caesars expects to begin construction of the casino in the first half of 2013 and to open t casino to the public in the middle of 2014. Pursuant to such definitive agreements, we committed to

Common Stock

Accumulated Other Comprehensive Income (Loss)

contribute a maximum of $78.0 million in capital to the joint venture, $12.0 million of which has previously been contributed, for the purpose of developing and constructing the casino. Caesars has approximately 52% ownership interest in the joint venture, which is a consolidated subsidiary.

24

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Bill s Gamblin Hall and Saloon Conversion Financing

In November 2012, the Company entered into a $185.0 million, seven year senior secured credit fac bearing interest at LIBOR plus 9.75% with a LIBOR floor of 1.25% to fund the conversion of Bill Gamblin Hall & Saloon into a boutique lifestyle hotel that includes a dayclub/nightclub. The conv will include a complete remodeling of the guest rooms, casino floor, and common areas, the additio second floor restaurant, and the construction of an approximately 65,000 square foot rooftop pool a dayclub/nightclub. The Company will own the property and manage the casino, hotel, and food and beverage operations, and the dayclub/nightclub will be leased to a third party. The renovated hotel, and restaurant are expected to open in December 2013 and the dayclub/nightclub is expected to ope April 2014.

Note 17 Consolidating Financial Information of Guarantors and Issuers

CEOC is the issuer of certain registered debt securities, a portion of which is guaranteed by Caesars Entertainment (Parent-Only Guaranteed Debt) and a portion of which is guaranteed by both Cae Entertainment and certain wholly-owned subsidiaries of CEOC (Parent and Subsidiary Guarantee The table below presents the condensed consolidating financial information relevant to these two guarantee structures as of September 30, 2012, and December 31, 2011, and for the quarters and ni months ended September 30, 2012 and 2011. The CEC (parent guarantor), subsidiary issuer, and subsidiary non-guarantors of parent-only guaranteed debt columns represent the information relatec Parent-Only Guaranteed Debt structure. The CEC (parent guarantor), subsidiary issuer, subsidiary guarantors of parent and subsidiary guaranteed debt, and subsidiary non-guarantors of parent and subsidiary guaranteed debt columns represent the information related to the Parent and Subsidiary Guaranteed Debt structure.

In lieu of providing separate unaudited financial statements for the guarantor subsidiaries, we have included the accompanying condensed consolidating financial statements based on Rule 3-10 of the Regulation S-X. Management does not believe that separate financial statements of the guarantor subsidiaries are material to our investors; therefore, separate financial statements and other disclosu concerning the guarantor subsidiaries are not presented.

25

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2012

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	
Assets							
Cash and cash equivalents	$ 19.3	$ 430.0	$ 289.8	$ 450.3	$ 740.1	$	$
Restricted cash				799.4	799.4		
Assets held for sale			9.7		9.7		
Other current assets	29.8	339.7	680.0	399.5	1,079.5	(567.7)	
Property and equipment, net		192.8	9,084.2	7,311.6	16,395.8		1
Goodwill			1,279.2	1,821.6	3,100.8		
Intangible assets other than goodwill		4.4	3,259.4	778.9	4,038.3		
Investments in subsidiaries		12,440.2	759.7	899.7	1,659.4	(14,099.6)	
Restricted cash				269.3	269.3		
Intercompany receivables	660.1	1,088.3	585.9	153.6	739.5	(2,487.9)	
Assets held for sale			592.3		592.3		
Other long-term assets	0.6	317.4	178.2	373.2	551.4		
	$ 709.8	$ 14,812.8	$ 16,718.4	$ 13,257.1	$ 29,975.5	$ (17,155.2)	$ 2
Liabilities and Stockholders Equity/(Deficit)							
Interest payable	$	$ 326.3	$ 1.7	$ 20.7	$ 22.4	$	$
Current portion of long-term debt		11.9	21.9	763.5	785.4		
Liabilities held for sale			8.2		8.2		

Common Stock

Accumulated Other Comprehensive Income (Loss)

Other current liabilities	33.9	398.6	816.9	789.4	1,606.3	(567.7)	
Long-term debt		14,733.7	52.5	6,074.8	6,127.3	(899.8)	1
Accumulated losses of subsidiaries in excess of investment	587.5					(587.5)	
Deferred credits and other		611.5	161.0	119.6	280.6		
Deferred income taxes		376.6	2,427.3	1,945.7	4,373.0		
Intercompany payables	55.0	714.4	871.7	846.8	1,718.5	(2,487.9)	
	676.4	17,173.0	4,361.2	10,560.5	14,921.7	(4,542.9)	2
Total Caesars stockholders equity/(deficit)	33.4	(2,360.2)	12,357.2	2,615.3	14,972.5	(12,612.3)	
Non-controlling interests				81.3	81.3		
Total equity/(deficit)	33.4	(2,360.2)	12,357.2	2,696.6	15,053.8	(12,612.3)	
	$ 709.8	$ 14,812.8	$ 16,718.4	$ 13,257.1	$ 29,975.5	$ (17,155.2)	$ 2

26

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2011

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	
Assets							
Cash and cash equivalents	$ 3.9	$ 16.6	$ 372.5	$ 501.6	$ 874.1	$	$
Assets held for sale			11.6		11.6		
Other current assets	15.7	322.4	672.1	418.5	1,090.6	(497.7)	
Property and equipment, net		205.6	9,499.8	7,364.5	16,864.3		
Goodwill			1,526.2	1,834.2	3,360.4		
Intangible assets other than goodwill		4.9	3,524.2	834.1	4,358.3		
Investments in subsidiaries	535.8	13,568.0	886.8	882.9	1,769.7	(15,873.5)	
Restricted cash				451.1	451.1		
Intercompany receivables	469.0	1,102.8	586.0	98.7	684.7	(2,256.5)	
Assets held for sale			593.4		593.4		
Other long-term assets	5.0	324.9	187.1	323.4	510.5		
	$ 1,029.4	$ 15,545.2	$ 17,859.7	$ 12,709.0	$ 30,568.7	$ (18,627.7)	$
Liabilities and Stockholders Equity/(Deficit)							
Interest payable	$	$ 174.0	$ 0.8	$ 16.6	$ 17.4	$	$
Current portion of long-term debt		20.2	7.0	13.2	20.2		

Accumulated Other Comprehensive Income (Loss)

Common Stock

Liabilities held for sale			10.1		10.1		
Other current liabilities	22.7	303.5	830.4	702.0	1,532.4	(497.7)	
Long-term debt		14,446.3	69.8	6,100.7	6,170.5	(857.3)	
Deferred credits and other		612.5	166.0	123.3	289.3		
Deferred income taxes		647.7	2,558.8	1,991.6	4,550.4		
Intercompany payables		420.2	871.7	964.6	1,836.3	(2,256.5)	
	22.7	16,624.4	4,514.6	9,912.0	14,426.6	(3,611.5)	
Total Caesars stockholders equity/(deficit)	1,006.7	(1,079.2)	13,345.1	2,750.3	16,095.4	(15,016.2)	
Non-controlling interests				46.7	46.7		
Total equity/(deficit)	1,006.7	(1,079.2)	13,345.1	2,797.0	16,142.1	(15,016.2)	
	$ 1,029.4	$ 15,545.2	$ 17,859.7	$ 12,709.0	$ 30,568.7	$ (18,627.7)	$

27

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME/(LO

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Net revenues	$	$ 29.4	$ 1,275.0	$ 939.5	$ 2,214.5	$ (45.5)	$ 2,
Direct operating expenses		12.1	681.2	454.3	1,135.5		1,
Property, general, administrative, and other			297.8	283.1	580.9	(37.7)	
Depreciation and amortization		1.7	112.4	67.9	180.3		
Intangible and tangible asset impairment charges			416.0	3.0	419.0		
Loss/(income) on interests in subsidiaries	503.9	224.0	(4.1)		(4.1)	(723.8)	
Corporate expense	6.4	34.9	8.1	10.2	18.3	(7.8)	
Other operating expenses		1.3	58.6	15.5	74.1		
Total operating expenses	510.3	274.0	1,570.0	834.0	2,404.0	(769.3)	2,
(Loss)/income from operations	(510.3)	(244.6)	(295.0)	105.5	(189.5)	723.8	(
Interest expense, net of interest capitalized	(0.4)	(482.0)	(7.2)	(76.8)	(84.0)	50.7	(
Other income, including interest income	4.3	10.7	5.3	35.0	40.3	(50.7)	
(Loss)/income from continuing operations	(506.4)	(715.9)	(296.9)	63.7	(233.2)	723.8	(

Common Stock

Accumulated Other Comprehensive Income (Loss)

before income taxes							
Benefit/(provision) for income taxes	0.9	171.0	57.5	(4.9)	52.6	1.0	
Net (loss)/income from continuing operations, net of taxes	(505.5)	(544.9)	(239.4)	58.8	(180.6)	724.8	(
Discontinued operations							
Income from discontinued operations			4.6		4.6		
Provision for income taxes			(0.8)		(0.8)	(1.0)	
Income from discontinued operations, net of income taxes			3.8		3.8	(1.0)	
Net (loss)/income	(505.5)	(544.9)	(235.6)	58.8	(176.8)	723.8	(
Less: net loss attributable to non-controlling interests				(2.1)	(2.1)		
Net (loss)/income attributable to Caesars	(505.5)	(544.9)	(235.6)	56.7	(178.9)	723.8	(
Other comprehensive income/(loss):							
Total other comprehensive income/(loss), net of income taxes		6.8		(8.3)	(8.3)		
Less: foreign currency translation adjustments attributable to non-controlling interests				0.2	0.2		
Comprehensive (loss)/income attributable to Caesars	$ (505.5)	$ (538.1)	$ (235.6)	$ 48.6	$ (187.0)	$ 723.8	$ (

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME/(LO

FOR THE QUARTER ENDED SEPTEMBER 30, 2011

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Net revenues	$	$ 29.0	$ 1,316.2	$ 893.7	$ 2,209.9	$ (49.2)	$ 2.
Direct operating expenses		13.4	700.0	457.7	1,157.7		1.
Property, general, administrative, and other		12.6	327.3	239.3	566.6	(34.9)	
Depreciation and amortization		1.7	106.0	69.1	175.1		
Intangible and tangible asset impairment charges				27.1	27.1		
Write-downs, reserves, and project opening costs, net of recoveries		10.6	4.3	(2.4)	1.9		
Loss/(income) on interests in subsidiaries	161.7	(87.4)	(11.5)		(11.5)	(62.8)	
Corporate expense	7.0	20.0	7.2	16.6	23.8	(14.3)	
Other operating expenses	(0.2)	0.3	24.4	17.1	41.5		
Total operating expenses	168.5	(28.8)	1,157.7	824.5	1,982.2	(112.0)	2.
(Loss)/income from operations	(168.5)	57.8	158.5	69.2	227.7	62.8	
Interest expense, net of interest capitalized		(413.5)	(7.3)	(74.1)	(81.4)	44.6	(
Other income, including interest income	3.3	14.3	3.8	31.4	35.2	(44.6)	

Common Stock	Accumulated Other Comprehensive Income (Loss)								
		(Loss)/income from continuing operations before income taxes	(165.2)	(341.4)	155.0	26.5	181.5	62.8	(
		Benefit/(provision) for income taxes	1.2	148.2	(58.7)	(16.9)	(75.6)	3.9	
		Net (loss)/income from continuing operations, net of taxes	(164.0)	(193.2)	96.3	9.6	105.9	66.7	(
		Discontinued operations							
		Income from discontinued operations			18.4		18.4		
		Provision for income taxes			(3.3)		(3.3)	(3.9)	
		Income from discontinued operations, net of income taxes			15.1		15.1	(3.9)	
		Net (loss)/income	(164.0)	(193.2)	111.4	9.6	121.0	62.8	(
		Less: net income attributable to non-controlling interests				9.4	9.4		
		Net (loss)/income attributable to Caesars	(164.0)	(193.2)	111.4	19.0	130.4	62.8	(
		Other comprehensive loss:							
		Total other comprehensive loss, net of income taxes		(27.6)		(3.0)	(3.0)		
		Less: foreign currency translation adjustments attributable to non-controlling interests				(0.2)	(0.2)		
		Comprehensive (loss)/income attributable to Caesars	$ (164.0)	$ (220.8)	$ 111.4	$ 15.8	$ 127.2	$ 62.8	$ (

29

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME/(LO

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Net revenues	$	$ 83.0	$ 3,832.8	$ 2,800.6	$ 6,633.4	$ (143.9)	$ 6
Direct operating expenses		33.9	2,053.2	1,373.5	3,426.7		3
Property, general, administrative, and other		12.2	872.6	812.1	1,684.7	(119.0)	1
Depreciation and amortization		5.1	330.8	210.7	541.5		
Intangible and tangible asset impairment charges			616.5	104.0	720.5		
Loss/(income) on interests in subsidiaries	1,024.2	219.0	0.8		0.8	(1,244.0)	
Corporate expense	18.5	98.4	21.9	31.3	53.2	(24.9)	
Other operating expenses		6.9	124.8	72.3	197.1		
Total operating expenses	1,042.7	375.5	4,020.6	2,603.9	6,624.5	(1,387.9)	6
(Loss)/income from operations	(1,042.7)	(292.5)	(187.8)	196.7	8.9	1,244.0	
Interest expense, net of interest capitalized	(0.4)	(1,452.9)	(21.8)	(248.7)	(270.5)	149.5	(1
Gains on early extinguishments of debt				79.5	79.5		
	13.3	40.0	16.1	99.5	115.6	(149.5)	

Common Stock

Accumulated Other Comprehensive Income (Loss)

Other income, including interest income							
(Loss)/income from continuing operations before income taxes	(1,029.8)	(1,705.4)	(193.5)	127.0	(66.5)	1,244.0	(1
Benefit/(provision) for income taxes	2.0	525.1	18.2	(52.1)	(33.9)	9.7	
Net (loss)/income from continuing operations, net of taxes	(1,027.8)	(1,180.3)	(175.3)	74.9	(100.4)	1,253.7	(1
Discontinued operations							
Income from discontinued operations			46.5		46.5		
Provision for income taxes			(8.3)		(8.3)	(9.7)	
Income from discontinued operations, net of income taxes			38.2		38.2	(9.7)	
Net (loss)/income	(1,027.8)	(1,180.3)	(137.1)	74.9	(62.2)	1,244.0	(1
Less: net loss attributable to non-controlling interests				(1.5)	(1.5)		
Net (loss)/income attributable to Caesars	(1,027.8)	(1,180.3)	(137.1)	73.4	(63.7)	1,244.0	(1
Other comprehensive (loss)/income:							
Total other comprehensive (loss)/income, net of income taxes		(19.0)		29.7	29.7		
Less: foreign currency translation adjustments attributable to non-controlling interests				(1.3)	(1.3)		
Comprehensive (loss)/income attributable to Caesars	$ (1,027.8)	$ (1,199.3)	$ (137.1)	$ 101.8	$ (35.3)	$ 1,244.0	$ (1

Common Stock	Accumulated Other Comprehensive Income (Loss)	30

Common Stock

Accumulated Other Comprehensive Income (Loss)

[Table of Contents](#)

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME/(LO

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Net revenues	$	$ 92.3	$ 3,884.4	$ 2,649.6	$ 6,534.0	$ (158.8)	$ 6,
Direct operating expenses		38.4	2,058.1	1,346.8	3,404.9		3.
Property, general, administrative, and other		40.0	939.5	696.5	1,636.0	(104.1)	1.
Depreciation and amortization		5.1	320.1	193.4	513.5		
Intangible and tangible asset impairment charges				27.1	27.1		
Write-downs, reserves, and project opening costs, net of recoveries		38.7	16.6	4.7	21.3		
Loss/(income) on interests in subsidiaries	462.3	(316.1)	(37.7)		(37.7)	(108.5)	
Corporate expense	17.2	75.2	15.5	61.9	77.4	(54.7)	
Other operating expenses		1.0	72.7	51.8	124.5		
Total operating expenses	479.5	(117.7)	3,384.8	2,382.2	5,767.0	(267.3)	5.
(Loss)/income from operations	(479.5)	210.0	499.6	267.4	767.0	108.5	
Interest expense, net of interest capitalized		(1,328.9)	(25.5)	(241.0)	(266.5)	147.1	(1.
				47.9	47.9		

Common Stock

Accumulated Other Comprehensive Income (Loss)

Gains on early extinguishments of debt							
Other income, including interest income	10.0	37.9	13.2	102.7	115.9	(147.1)	
(Loss)/income from continuing operations before income taxes	(469.5)	(1,081.0)	487.3	177.0	664.3	108.5	(
Benefit/(provision) for income taxes	2.5	496.1	(183.8)	(56.0)	(239.8)	12.4	
Net (loss)/income from continuing operations, net of taxes	(467.0)	(584.9)	303.5	121.0	424.5	120.9	(
Discontinued operations							
Income from discontinued operations			57.9		57.9		
Provision for income taxes			(10.3)		(10.3)	(12.4)	
Income from discontinued operations, net of income taxes			47.6		47.6	(12.4)	
Net (loss)/income	(467.0)	(584.9)	351.1	121.0	472.1	108.5	(
Less: net income attributable to non-controlling interests				4.3	4.3		
Net (loss)/income attributable to Caesars	(467.0)	(584.9)	351.1	125.3	476.4	108.5	(
Other comprehensive loss:							
Total other comprehensive loss, net of income taxes		(3.6)		(23.4)	(23.4)		
Less: foreign currency translation adjustments attributable to non-controlling interests				(3.6)	(3.6)		
Comprehensive (loss)/income attributable to Caesars	$ (467.0)	$ (588.5)	$ 351.1	$ 98.3	$ 449.4	$ 108.5	$ (

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		31

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Cash flows provided by/(used in) operating activities	$ 262.5	$ 53.8	$ (82.7)	$ 15.0	$ (67.7)	$ 9.7	$
Cash flows from investing activities							
Acquisitions of property and equipment, net of change in construction payables		(0.7)	(104.6)	(198.7)	(303.3)		(
Change in restricted cash				(551.0)	(551.0)		(
Payments to acquire business, net of transactions costs and cash acquired				7.7	7.7		
Return of investment in subsidiary			92.5		92.5	(92.5)	
Investments in/advances to non-consolidated affiliates and other				(22.8)	(22.8)		
Purchase of additional interests in subsidiaries	(127.7)	(22.8)				150.5	
Cash received in conjunction with the sale of a subsidiary, net of cash contributed				42.4	42.4		
				(36.0)	(36.0)		

Common Stock

Accumulated Other Comprehensive Income (Loss)

Payments to acquire investments							
Proceeds from the sale and maturity of investments				27.0	27.0		
Other	(0.6)		(8.0)	2.3	(5.7)		
Cash flows (used in)/provided by investing activities	(128.3)	(23.5)	(20.1)	(729.1)	(749.2)	58.0	(
Cash flows from financing activities							
Proceeds from issuance of long-term debt		110.9		2,358.5	2,358.5		2.
Assumption of debt issued by non-guarantors		1,250.0		(1,250.0)	(1,250.0)		
Debt issuance costs and fees		(24.7)		(7.2)	(7.2)		
Borrowings under lending agreements		453.0					
Repayments under lending agreements		(608.0)					(
Cash paid for early extinguishments of debt		(1,095.6)		(355.0)	(355.0)		(1.
Scheduled debt retirements		(11.3)	(1.4)		(1.4)		
Purchase of additional interests in subsidiary			(9.6)		(9.6)		
Proceeds from sale of additional interest in a subsidiary				32.2	32.2		
Issuance of common stock in public offering, net of fees	17.4						
Other			(8.2)	(1.0)	(9.2)		
Transfers (to)/from affiliates	(136.2)	308.8	0.1	(114.7)	(114.6)	(58.0)	
Cash flows (used in)/provided by financing activities	(118.8)	383.1	(19.1)	662.8	643.7	(58.0)	
Cash flows from discontinued operations							
Cash flows from operating activities			39.9		39.9	(9.7)	
Cash flows from investing activities			(2.3)		(2.3)		
Net cash provided by discontinued operations			37.6		37.6	(9.7)	

Common Stock	Accumulated Other Comprehensive Income (Loss)								
		Net increase/(decrease) in cash and cash equivalents	15.4	413.4	(84.3)	(51.3)	(135.6)		
		Change in cash classified as assets held for sale			1.6		1.6		
		Cash and cash equivalents, beginning of period	3.9	16.6	372.5	501.6	874.1		
		Cash and cash equivalents, end of period	$ 19.3	$ 430.0	$ 289.8	$ 450.3	$ 740.1	$	$ 1.

32

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAESARS ENTERTAINMENT CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

(In millions)

	CEC (Parent Guarantor)	Subsidiary Issuer	Subsidiary Guarantors of Parent and Subsidiary Guaranteed Debt (a)	Subsidiary Non-Guarantors of Parent and Subsidiary Guaranteed Debt (b)	Subsidiary Non-Guarantors of Parent-Only Guaranteed Debt (a) + (b)	Consolidating/ Eliminating Adjustments	T
Cash flows provided by/(used in) operating activities	$ 169.4	$ (62.6)	$ (43.9)	$ 205.3	$ 161.4	$	$
Cash flows from investing activities							
Acquisitions of property and equipment, net of change in construction payables		(8.8)	(79.8)	(73.0)	(152.8)		(
Change in restricted cash				(544.0)	(544.0)		(
Payments to acquire certain gaming rights				(22.7)	(22.7)		
Payments to acquire a business, net of transaction costs and cash acquired	(108.5)	(103.2)	(15.6)	(19.0)	(34.6)	227.3	
Investment in/advances to non-consolidated affiliates and other				(76.0)	(76.0)		
Payments to acquire investments				(23.8)	(23.8)		
Proceeds from the sale and maturity of investments				14.0	14.0		
Other			(3.8)	4.8	1.0		
Cash flows (used in)/provided by investing activities	(108.5)	(112.0)	(99.2)	(739.7)	(838.9)	227.3	(

Common Stock **Accumulated Other Comprehensive Income (Loss)**

Cash flows from financing activities							
Proceeds from the issuance of long-term debt		418.3		445.5	445.5		
Debt issuance costs and fees		(3.2)		(14.3)	(14.3)		
Borrowings under lending agreements		135.0					
Repayments under lending agreements		(135.0)					(
Cash paid for early extinguishments of debt			(1.2)	(124.7)	(125.9)		(
Scheduled debt retirements		(19.3)		(15.1)	(15.1)		
Other	(1.6)		(5.0)	4.8	(0.2)		
(Distributions to) and transfers from Affiliates	(82.0)	24.7	15.6	269.0	284.6	(227.3)	
Cash flows (used in)/provided by financing activities	(83.6)	420.5	9.4	565.2	574.6	(227.3)	
Cash flows from discontinued operations							
Cash flows from operating activities			46.7		46.7		
Cash flows from investing activities			(3.3)		(3.3)		
Net cash provided by discontinued operations			43.4		43.4		
Net (decrease)/increase in cash and cash equivalents	(22.7)	245.9	(90.3)	30.8	(59.5)		
Change in cash classified as assets held for sale			2.0		2.0		
Cash and cash equivalents, beginning of period	136.0	61.0	344.7	431.8	776.5		
Cash and cash equivalents, end of period	$ 113.3	$ 306.9	$ 256.4	$ 462.6	$ 719.0	$	$ 1,

33

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Ope

The following discussion and analysis of the financial position and operating results of Caesars Entertainment for the quarters and nine months ended September 30, 2012 and 2011 should be reac conjunction with Management s Discussion and Analysis of Financial Condition and Results of O presented in the 2011 10-K.

RECENT EVENTS

On October 29, 2012, Hurricane Sandy made landfall near Atlantic City, New Jersey. As a result o Hurricane Sandy, our properties in Atlantic City were closed for approximately five days. Further, of these properties sustained minor damage from the storm. We are in the process of assessing the i of Hurricane Sandy on our operations in that region, including any post-storm disruption on our abi attract customers to these facilities. We have insurance that covers portions of any losses from a na disaster such as this, but it is subject to deductibles and maximum payouts. Therefore, our ability to estimate the impact that this storm and its aftermath will have on our results of operations in this re for the current quarter and future quarters is subject to uncertainty. However, the results of operatio this region could be significantly affected in the fourth quarter of 2012, subject to our determinatio potential insurance recoveries, if any.

REGIONAL AGGREGATION

The executive officers of the Company review operating results, assess performance, and make dec related to the allocation of resources on a property-by-property basis. We believe, therefore, that ea property is an operating segment and that it is appropriate to aggregate and present the operations o Company as one reportable segment. To provide more meaningful information than would be possi a consolidated basis, the Company s casino properties (as of September 30, 2012 or otherwise note below), have been grouped into seven regions as shown in the table below to facilitate discussion o Company s operating results.

In May 2012, the Company entered into an agreement to sell its Harrah s St. Louis casino to Penn Gaming, Inc. for a purchase price of $610.0 million. The sale closed on November 2, 2012 and the proceeds generated from the sale of Harrah s St. Louis are expected to be utilized to fund CEOC c expenditures. As a result of the transaction, the assets and liabilities of the Harrah s St. Louis casin are included in the sale are classified as held for sale in the consolidated condensed balance sheets a September 30, 2012 and December 31, 2011. The results of the Harrah s St. Louis casino are prese Discontinued Operations in the consolidated condensed statements of comprehensive loss for the q and nine months ended September 30, 2012 and 2011 and are no longer included in the Iowa/Misso region results.

Las Vegas	Atlantic City	Louisiana/Mississippi	Iowa/Missouri
Caesars Palace	Harrah s Atlantic City	Harrah s New Orleans	Harrah s North Ka
Bally s Las Vegas	Showboat Atlantic City	Harrah s Louisiana Downs	Harrah s Council B
Flamingo Las Vegas [(a)]	Bally s Atlantic City	Horseshoe Bossier City	Horseshoe Council Bluffs/Bluffs Run
Harrah s Las Vegas	Caesars Atlantic City	Grand Biloxi	
Paris Las Vegas	Harrah s Philadelphia[(g)]	Harrah s Tunica	
Rio		Horseshoe Tunica	
Imperial Palace		Tunica Roadhouse Hotel & Casino	
Bill s Gamblin Hall & Saloon			
Planet Hollywood Resort & Casino			

Illinois/Indiana	Other Nevada	Managed and International

Common Stock

Accumulated Other Comprehensive Income (Loss)

Horseshoe Southern Indiana	Harrah s Reno	Harrah s Ak-Chin[d]
Harrah s Joliet[c]	Harrah s Lake Tahoe	Harrah s Cherokee[d]
Horseshoe Hammond	Harveys Lake Tahoe	Harrah s Rincon[d]
Harrah s Metropolis	Harrah s Laughlin	Horseshoe Cleveland [h]
		Conrad Punta del Este [b]
		Caesars Windsor [e]
		London Clubs International [f]

(a) Includes O Shea s Casino, which is adjacent to this property. O Shea s Casino temporarily c operations on April 30, 2012 and is expected to reopen in 2013.

(b) We have an approximately 95% ownership interest in and manage this property.

(c) We have an 80% ownership interest in and manage this property.

(d) Managed.

(e) Windsor Casino Limited (WCL) operates this property and the province of Ontario owns th complex. As of June 2012, we own 100% of WCL and its results are consolidated into our resu Prior to June 2012, we had a 50% ownership interest in WCL that was accounted for under the method.

(f) We own, operate, or manage 10 casino clubs in the provinces of the United Kingdom and two i Egypt. We have a 70% ownership interest in and manage one casino in South Africa.

(g) Prior to May 2012, this property operated under the Harrah s Chester name. We have a 99.5% ownership interest in and manage this property.

(h) We manage this property and have a 20% interest in Rock Ohio Caesars, LLC, which owns thi property.

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

CONSOLIDATED OPERATING RESULTS

(Dollars in millions)	Quarter Ended September 30, 2012	2011	Percentage Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	2011	Percent Favora (Unfavor
Casino revenues	$ 1,580.0	$ 1,629.5	(3.0)%	$ 4,758.4	$ 4,846.5	(1
Net revenues	2,198.4	2,189.7	0.4%	6,572.5	6,467.5	1
(Loss)/income from operations	(220.6)	179.8	**	(82.3)	606.0	
Loss from continuing operations, net of income taxes	(506.2)	(184.6)	(174.2)%	(1,054.8)	(506.5)	(108
Income from discontinued operations, net of income taxes	2.8	11.2	(75.0)%	28.5	35.2	(19
Net loss attributable to Caesars	(505.5)	(164.0)	(208.2)%	(1,027.8)	(467.0)	(120
Operating margin *	(10.0)%	8.2%	(18.2) pts	(1.3)%	9.4%	(10

* Operating margin is calculated as income/(loss) from operations divided by net revenues for th respective period.

** Not meaningful

Quarter ended September 30, 2012 compared with September 30, 2011

Net revenues for the third quarter of 2012 increased 0.4% compared with the year-earlier period, du mainly to an increase in other revenues from the Company s interactive operations, which include Ltd. (Playtika), a wholly-owned subsidiary of CIE, and higher revenues from Caesars manager companies resulting from the opening of Horseshoe Cleveland earlier this year. These increases we largely offset by lower casino revenues in all but the Las Vegas and Illinois/Indiana regions.

Loss from operations for the third quarter of 2012 was $220.6 million compared with income from operations of $179.8 million in the prior-year quarter. This change was due mainly to non-cash cha totaling $419.0 million, comprised of intangible asset impairments of $247.0 million related to goo $127.0 million related to trademarks, and $32.0 million related to gaming rights, and a tangible ass impairment of $13.0 million.

Net loss attributable to Caesars for the third quarter of 2012 was $505.5 million, up $341.5 million, 208.2%, from the third quarter of 2011. Higher net losses in the third quarter of 2012 reflect the impairment charges discussed above, increased interest expense for the third quarter of 2012 and ch in the tax rate benefit as further described in Other Factors Affecting Net Income that follows he

Nine Months Ended September 30, 2012 compared with September 30, 2011

Net revenues for the nine months ended September 30, 2012 were $6,572.5 million, up $105.0 mill 1.6%, from the year-earlier period due mainly to increased rooms revenues in the Las Vegas region part to the opening of the Octavius Tower at Caesars Palace earlier this year, revenues from the Co interactive operations, and higher revenues from Caesars management companies described abov Strength in the Las Vegas region resulted in higher casino revenues, which were more than offset b decreases in casino revenues across all other regions, most significantly in Atlantic City.

Common Stock

Accumulated Other Comprehensive Income (Loss)

For the nine months ended September 30, 2012, loss from operations was $82.3 million compared t
income from operations of $606.0 million in the year-ago period. This change was due mainly to $7
million of non-cash impairment charges comprised of the intangible and tangible asset impairments
discussed above, together with a $33.0 million intangible asset impairment related to trademarks re
in the second quarter of 2012, and tangible asset impairments of $167.5 million related to a previou
halted development project in Biloxi, Mississippi and $101.0 million related to the Macau land
concessions, recorded in the first and second quarters of 2012, respectively. Income from operation
the nine months ended September 30, 2011 included a non-cash tangible asset impairment charge o
million related to the termination of a development stage project in Spain. Also contributing to the
from operations in 2012 was higher depreciation expense associated with the opening of the Octavi
Tower, partially offset by the income impact of higher revenues.

Net loss attributable to Caesars for the nine months ended September 30, 2012 was $1,027.8 millio
$560.8 million, or 120.1%, from the same period in 2011 and reflects the decrease in income from
operations described above, higher interest expense, and changes in the tax rate benefit, partially of
an increase in gains on early extinguishments of debt as further described in Other Factors Affecti
Income that follows herein.

35

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Performance Metrics

The Company measures its performance in part through the tracking of trips by rated customers, wh
means a customer whose gaming activity is tracked through the Total Rewards customer-loyalty sy
(trips), and by spend per rated customer trip (spend per trip). A trip is created by a Total Rew
holder engaging in one or more of the following activities while at one of the Company s propertie
(1) hotel stay, (2) gaming activity, or (3) a comp redemption, which means the receipt of a complin
item given out by the Company s casinos. In markets where we have multiple properties, customer
engage in trip generating activities at more than one property in a day. In these instances, we consid
market as a whole and do not count multiple trips. Customer spend means the cumulative rated theo
spend (which is the amount of money expected to be retained by the casino based upon the mathem
underlying the particular game as a fraction of the amount of money wagered by the customer) acro
game types for a specific customer. For the Atlantic City region, the Company refers to customers t
stay at a hotel in one of its properties as lodgers and customers that may play at a casino located in
its properties but do not stay at a hotel at such property as non-lodgers.

The following table reflects the percentage increase/(decrease) in trips and spend per trip for the U.
regions for the third quarter and the nine-month periods of 2012 compared with the same periods in

	Quarter Ended September 30,		Nine Months Ended September 30,	
	Trips	Spend per Trip	Trips	Spend per Tr
Consolidated Caesars	(4.9)%	1.3%	(1.9)%	(0.6)
Las Vegas region	(0.4)%	7.8%	2.3%	0.8
Atlantic City region:				
Lodgers	(4.5)%	(2.8)%	(6.2)%	(1.3)
Non-lodgers	(5.1)%	(4.1)%	(4.1)%	(1.2)
All other regions	(6.0)%	(0.6)%	(1.4)%	(1.9)

Trips across all regions decreased in the third quarter of 2012 when compared with the same period
2011, resulting in a decline of 4.9% on a consolidated basis, due mainly to economic and competiti
pressures as well as hurricane-related property closures in the Louisiana/Mississippi region in Augu
2012. Trips for the nine months ended September 30, 2012 decreased 1.9% on a consolidated basis
compared with the same period in 2011, as increased trips in the Las Vegas region were unable to o
the large declines in Atlantic City and modest declines in the rest of the U.S. regions. The overall in
in spend per trip for the third quarter of 2012 was attributable to a large increase in the Las Vegas r
due primarily to strength in the international high-end segment, as well as modest increases in the
Iowa/Missouri and Louisiana/Mississippi regions. For the nine months ended September 30, 2012,
per trip declined 0.6% compared with 2011, due mainly to decreases in all U.S. regions, except Las
Vegas, which increased slightly.

On a consolidated basis in 2012, third quarter cash average daily room rates decreased from $91 to
and remained flat for the nine-month period, due primarily to decreases in our groups segment, and
occupancy percentage remained flat in the third quarter and the nine months ended September 30, 2
when compared with 2011 periods.

REGIONAL OPERATING RESULTS

Las Vegas Region

Quarter Ended September 30,	Percent Favorable/	Nine Months Ended September 30,	Perce Favora

Common Stock	Accumulated Other Comprehensive Income (Loss)

(Dollars in millions)	2012	2011	(Unfavorable)	2012	2011	(Unfavor
Casino revenues	$ 387.9	$ 369.1	5.1%	$ 1,212.3	$ 1,157.3	4
Net revenues	735.1	733.1	0.3%	2,287.3	2,245.9	1
Income from operations	62.4	88.2	(29.3)%	310.4	348.4	(10
Operating margin *	8.5%	12.0%	(3.5) pts	13.6%	15.5%	(1

* Operating margin is calculated as income/(loss) from operations divided by net revenues for the respective period.

Third-quarter net revenues were relatively flat for the region when compared with 2011, as increase casino revenues were mostly offset by decreases in food and beverage and other revenues combine higher promotional allowances. Revenues rose slightly, despite the negative impact on results caus Project Linq construction activities, including the closure of

36

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

O Shea s casino in May 2012, the closure of several retail outlets at Harrah s Las Vegas and the c
renovation of the Imperial Palace, which the Company estimates to have reduced net revenues by approximately $10 million to $15 million. Trips were relatively flat, while spend per trip increased due primarily to strength in the international high-end segment. Hotel revenues in the region were relatively flat when compared with 2011, due in part to the 662 additional Octavius Tower rooms, o by a decrease in cash average daily room rates from $89 in 2011 to $87 in 2012 and a decrease in to occupancy percentage of 1.8 percentage points.

Income from operations decreased for the third quarter of 2012 by 29.3% primarily due to increase property operating expenses, non-cash intangible asset impairment charges of $3.0 million and an i in write-downs, reserves, and project opening costs, net of recoveries, associated with demolition c prepare for Project Linq. Additionally, the Company estimates that the impact caused by the Projec construction activities reduced income from operations by approximately $5 million to $10 million

Net revenues for the nine months ended September 30, 2012 in the Las Vegas region increased $41 million, or 1.8%, from 2011, due primarily to strength in the international, high-end gaming segme contributing to higher casino revenues and the January 2012 opening of the Octavius Tower contrib to higher rooms revenue. Revenues rose, despite the negative impact on results caused by Project L construction activities which the Company estimates to have reduced net revenues by approximatel million to $30 million. Trips increased by 2.3% in the nine months ended September 30, 2012 from and cash average daily room rates increased 1.2% to $93 from $92.

Income from operations decreased 10.9% for the nine months ended September 30, 2012, due prim an increase in depreciation expense and increases in property operating expenses associated with th Octavius Tower, as well as the intangible impairment charges as discussed above. Additionally, the Company estimates that the impact caused by the Project Linq construction activities reduced incon from operations by approximately $10 million to $20 million.

During 2011, we commenced construction on Project Linq, a dining, entertainment, and retail development between our Flamingo and Imperial Palace casinos, on the east side of the Las Vegas which is scheduled to open in phases beginning in the second half of 2013. Project Linq also includ construction of a 550-foot observation wheel, the High Roller, which is expected to open in the firs quarter of 2014. Through September 30, 2012, $147.2 million had been spent on this project, of wh $94.5 million was spent in 2012.

Atlantic City Region

(Dollars in millions)	**Quarter Ended September 30, 2012**	**2011**	**Percent Favorable/ (Unfavorable)**	**Nine Months Ended September 30, 2012**	**2011**	**Perce Favora (Unfavor**
Casino revenues	$ 397.9	$ 422.1	(5.7)%	$ 1,136.4	$ 1,227.6	(7
Net revenues	477.3	497.5	(4.1)%	1,346.2	1,424.2	(5
Income from operations	47.3	39.7	19.1%	82.4	93.6	(12
Operating margin *	9.9%	8.0%	1.9 pts	6.1%	6.6%	(0

* Operating margin is calculated as income/(loss) from operations divided by net revenues for the respective period.

Net revenues for the third quarter of 2012 in the Atlantic City region were down $20.2 million, or 4 from 2011, due mainly to lower casino revenues, largely resulting from a decline in trips. Trips by l and non-lodgers declined 4.5% and 5.1%, respectively, in the third quarter of 2012 from 2011 due r to new competition in the region. Spend per trip for lodgers and non-lodger decreased 2.8% and 4.1 respectively. The Company expects the market to continue to be challenged by local and regional

Common Stock

Accumulated Other Comprehensive Income (Loss)

competition. Income from operations increased in the third quarter of 2012 by 19.1% compared wit due mainly to decreased property operating expenses resulting from cost savings initiatives and low property tax assessments in Atlantic City, partially offset by the decline in net revenues.

In the nine months ended September 30, 2012, net revenues decreased from 2011 by $78.0 million, 5.5%, due largely to trip and spend per trip declines in both the lodger and non-lodger segments. In from operations was down by 12.0% due mainly to the income impact of lower revenues, partially by a decrease in property operating expenses including decreases in property tax expense due to lov property tax assessments in Atlantic City.

The Company is exploring an opportunity to develop an approximately $140 million convention ce with the support of the NJ Casino Reinvestment Development Authority that would be connected to Harrah s Atlantic City property. The ability to develop this project will be subject to several factor including the Company s ability to obtain financing.

37

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Louisiana/Mississippi Region

(Dollars in millions)	Quarter Ended September 30, 2012	2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	2011	Perce Favora (Unfavor
Casino revenues	$ 242.5	$ 267.8	(9.4)%	$ 760.0	$ 775.4	(2
Net revenues	266.2	291.7	(8.7)%	843.5	845.5	(0
(Loss)/income from operations	(183.0)	35.4	**	(271.2)	106.0	
Operating margin *	(68.7)%	12.1%	(80.8) pts	(32.2)%	12.5%	(44

* Operating margin is calculated as income/(loss) from operations divided by net revenues for th respective period.

** Not meaningful.

Third quarter of 2012 net revenues in the Louisiana/Mississippi region decreased $25.5 million, or from 2011. Revenues were negatively impacted by the closures of two casinos in the region as a res Hurricane Isaac in August 2012, which contributed to a 6.2% decline in trips. Loss from operations $183.0 million in the third quarter of 2012 compared with income from operations of $35.4 million 2011. This change was due primarily to the non-cash intangible asset impairment charges of $176.0 million, of which $175.0 million related to goodwill and $1.0 million related to gaming rights, as w non-cash tangible asset impairment charge of $13.0 million and a $20.2 million charge for exit acti related to the halted development project in Biloxi, Mississippi. Also contributing to the loss from operations is the income impact of lower revenues and non-recurring costs associated with hurricane-related damage to the closed properties. The Company estimates that the negative impact Hurricane Isaac on its loss from operations was approximately $8 million to $10 million.

For the nine months ended September 30, 2012, net revenues in the region were down slightly com with 2011, as revenue increases achieved in the first and second quarters of 2012 were offset by the quarter hurricane-related impact. Loss from operations was $271.2 million in the nine months ende September 30, 2012, compared with income from operations of $106.0 million in 2011. This chang due mainly to the third quarter of 2012 intangible and tangible asset impairment charges described as well as a $172.0 million charge in the first quarter of 2012, of which $167.5 million was a non-c tangible asset impairment related to the previously halted development project in Biloxi, Mississipp

Iowa/Missouri Region

The following results exclude Harrah s St. Louis casino which has been classified as a Discontinue Operation in our consolidated condensed statements of comprehensive loss for the quarter and nine months ended September 30, 2012 and 2011 as a result of the sale of this property.

(Dollars in millions)	Quarter Ended September 30, 2012	2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	2011	Perc Favor (Unfavo
Casino revenues	$ 107.6	$ 111.3	(3.3)%	$ 326.1	$ 328.5	(
Net revenues	117.0	119.9	(2.4)%	350.6	352.1	(
Income from operations	38.8	27.5	41.1%	94.6	79.7	1
Operating margin *	33.2%	22.9%	10.3 pts	27.0%	22.6%	

*

Common Stock

Accumulated Other Comprehensive Income (Loss)

Operating margin is calculated as income/(loss) from operations divided by net revenues for the respective period.

Net revenues in the third quarter of 2012 in the Iowa/Missouri region decreased $2.9 million, or 2.4 from 2011 due mainly to a decline in casino revenues resulting from new competition in the Kansas market. Income from operations increased for the third quarter of 2012 from 2011 due mainly to a reduction in property operating expenses resulting from the refinement of estimates of costs remain the discontinued operations of the Harrah s St. Louis casino as a result of the imminent closing of transaction.

Net revenues in the nine months ended September 30, 2012 decreased $1.5 million, or 0.4%, from Spend per trip increased while trips to the properties in the region declined as a result of the new competition mentioned above. Income from operations increased for the nine months ended September 30, 2012 from 2011 due mainly to reduced property operating expenses that more than lower revenues.

38

Accumulated Other Comprehensive Income (Loss)

Common Stock

Table of Contents

Illinois/Indiana Region

(Dollars in millions)	Quarter Ended September 30, 2012	Quarter Ended September 30, 2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Perc Favor (Unfavo
Casino revenues	$ 250.8	$ 249.1	0.7%	$ 765.0	$ 775.5	(
Net revenues	263.5	260.2	1.3%	802.7	806.1	(
Income from operations	40.5	30.5	32.8%	121.6	110.2	1
Operating margin *	15.4%	11.7%	3.7 pts	15.1%	13.7%	

* Operating margin is calculated as income/(loss) from operations divided by net revenues for the respective period.

Third quarter of 2012 net revenues in the Illinois/Indiana region increased slightly from 2011. Sper trip declined while increased competitive pressures in the region resulted in fewer trips, despite the reopening earlier this year of the bridge that allows direct access by customers to our Southern Indi property, which closure affected the property starting in early September 2011. Income from operat for the third quarter of 2012 increased 32.8% from the same period in 2011 due mainly to higher re together with reduced property operating expenses as a result of cost savings initiatives.

Net revenues in the nine months ended September 30, 2012 decreased $3.4 million, or 0.4%, from due to declines in casino revenues. Trips and spend per trip were negatively impacted by the compe mentioned above. Income from operations for the nine months ended September 30, 2012 increased 10.3% when compared with 2011 due mainly to reduced property operating expenses mentioned ab

Other Nevada Region

(Dollars in millions)	Quarter Ended September 30, 2012	Quarter Ended September 30, 2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011	Perce Favora (Unfavor
Casino revenues	$ 98.7	$ 107.7	(8.4)%	$ 255.4	$ 274.8	(7
Net revenues	134.1	140.9	(4.8)%	336.4	355.1	(5
(Loss)/income from operations	(75.2)	30.3	**	(61.5)	48.4	
Operating margin *	(56.1)%	21.5%	(77.6) pts	(18.3)%	13.6%	(31

* Operating margin is calculated as income/(loss) from operations divided by net revenues for th respective period.

** Not meaningful.

Third quarter of 2012 net revenues decreased $6.8 million, or 4.8%, from the same period in 2011 mainly to a decline in casino revenues. Trips to the properties in the region, as well as spend per tri declined in the third quarter of 2012 compared with 2011 due to local competitive pressures and th Company expects the market to continue to be challenged. There was a loss from operations of $75 million in the third quarter of 2012 compared with income from operations of $30.3 million in 201 change was due mainly to non-cash intangible asset impairment charges of $103.0 million recorded 2012 quarter, comprised of $72.0 million related to goodwill and $31.0 million related to gaming ri

Common Stock	Accumulated Other Comprehensive Income (Loss)

Net revenues in the nine months ended September 30, 2012 decreased $18.7 million, or 5.3%, from largely due to a decline in casino revenues resulting from the challenging, competitive environment region. Loss from operations in the nine months ended September 30, 2012 was $61.5 million com with income from continuing operations of $48.4 million, a decrease of $109.9 million. This chang due mainly to the non-cash impairment charges in the quarter discussed above, coupled with the in impact of lower revenues.

Managed, International, and Other

The Managed region includes companies that operate three Indian-owned casinos, as well as Horse Cleveland and Caesars Windsor, and the results of Thistledown through August 2012 when the rac was contributed to Rock Ohio Caesars, LLC, a joint venture in which Caesars holds a 20% owners interest. Subsequent to August 2012, the Managed region includes the results of the subsidiary that manages Thistledown. See Note 2, Acquisitions, Investments and Dispositions for further discu International region includes the results of Caesars international operations. The Other region is c of corporate expenses, including administrative, marketing, and development costs, income from c non-consolidated affiliates, and the results of CIE, which consists of the businesses related to the W Series of Poker® (WSOP) brand, an online real-money business in the U.K. and alliances with o gaming providers in Italy and France, and the results of Playtika, since it was acquired in May 201

39

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

(Dollars in millions)	Quarter Ended September 30, 2012	2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	2011	Perc Favor (Unfavo
Net revenues						
Managed	$ 37.0	$ 13.6	172.1%	$ 62.0	$ 36.9	6
International	105.7	110.9	(4.7)%	340.6	336.2	
Other	62.5	21.8	186.7%	203.2	65.4	21
Total net revenues	$ 205.2	$ 146.3	40.3%	$ 605.8	$ 438.5	3
(Loss)/income from operations						
Managed	$ (2.1)	$ 2.2	**	$ 3.0	$ 5.0	(4
International	(3.9)	(0.3)	**	(89.0)	19.7	
Other	(145.3)	(73.8)	(96.9)%	(272.5)	(205.0)	(3
Total loss from operations	$ (151.3)	$ (71.9)	(110.4)%	$ (358.5)	$ (180.3)	(9

** Not meaningful.

Net revenues in the third quarter of 2012 for Managed, International, and Other increased $58.9 mi or 40.3%, from 2011, due primarily to higher revenues associated with the Company s growing int operations. Net revenue increases were also attributable to the opening of a new managed casino, Horseshoe Cleveland, which began operations in May 2012, including an increase in reimbursable expenses for Horseshoe Cleveland that is presented on a gross revenue basis, thus resulting in an in in net revenues and an equally offsetting increase in operating expenses. Loss from operations incre $79.4 million in the third quarter of 2012 from 2011, due mainly to non-cash intangible asset impai charges of $124.0 million in the 2012 quarter related to trademarks and increased corporate expens Increases in corporate expenses were attributable to the consolidation of certain functions at corpor increased stock-based compensation expense.

In the nine months ended September 30, 2012, net revenues for the region increased $167.3 million 38.2%, from 2011, due mainly to increases associated with our interactive operations, as well as inc revenues from the opening of Horseshoe Cleveland, as discussed above. Loss from operations incre $178.2 million, or 98.8%, in the nine months ended September 30, 2012 from 2011, due mainly to increase in corporate expense, the impairment charges mentioned above and impairment charges re in the second quarter of 2012, consisting of a $33.0 million intangible asset impairment related to trademarks and a tangible asset impairment of $101.0 million related to the Macau land concession Increases in corporate expenses were attributable to the consolidation of certain functions at corpor increased stock-based compensation expense. Increased earnings in our interactive business partly these unfavorable charges.

OTHER FACTORS AFFECTING NET INCOME

Expense/(income) (In millions)	Quarter Ended September 30, 2012	2011	Percent Favorable/ (Unfavorable)	Nine Months Ended September 30, 2012	2011	Perc Favor (Unfavo
Interest expense, net of interest capitalized	$ 515.7	$ 450.3	(14.5)%	$ 1,574.3	$ 1,448.3	
Gains on early extinguishments of debt				(79.5)	(47.9)	6
Benefit for income taxes	(225.5)	(77.7)	190.2%	(502.9)	(271.2)	8
	(2.8)	(11.2)	(75.0)%	(28.5)	(35.2)	(

Common Stock	Accumulated Other Comprehensive Income (Loss)

Income from discontinued operations, net of income taxes

Interest Expense, Net of Interest Capitalized

Interest expense, net of interest capitalized, increased by $65.4 million, or 14.5%, in the third quart 2012, due primarily to higher interest rates as a result of extending the maturities of our debt combi with higher debt balances compared with the year-ago quarter, and a $66.2 million decrease in mark-to-market gains on derivatives resulting from $6.2 million of gains in 2012 compared with ga $72.4 million in 2011, partially offset by $33.9 million of lower amortization of deferred losses in accumulated other comprehensive loss.

Interest expense, net of interest capitalized, increased by $126.0 million or 8.7% for the nine month ended September 30, 2012 from 2011, due primarily to higher interest rates as a result of extending maturities of our debt combined with higher debt balances compared with the year-ago quarter, and $73.3 million decrease in mark-to-market gains on derivatives resulting from $10.9 million of losse 2012 compared with gains of $62.4 million in 2011, and the write off of deferred financing costs an discounts associated with debt transactions completed in the nine months ended September 30, 201

40

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Interest expense is reported net of interest capitalized of $9.5 million and $11.6 million for the third quarter of 2012 and 2011, respectively, and $27.6 million and $12.2 million for the nine months en September 30, 2012 and 2011, respectively. Interest capitalized in 2012 is primarily related to Proj Linq. Cash paid for interest was $285.6 million and $211.0 million for the third quarter of 2012 and respectively, and $1,169.8 million and $1,071.0 million for the nine months ended September 30, 2 and 2011, respectively.

Gains on Early Extinguishments of Debt

During the nine months ended September 30, 2012, the Company recognized gains on early extinguishments of debt of $79.5 million, net of deferred financing costs, due primarily to the purch $202.4 million face value of CMBS Loans for $122.0 million. During the nine months ended September 30, 2011, the Company recognized gains on early extinguishments of debt of $47.9 mill of deferred financing costs, due to purchases of $158.1 million face value of CMBS Loans for $108 million.

Tax Rate Benefit

The effective tax rate benefit for the quarter ended September 30, 2012 and September 30, 2011, w 30.8% and 29.6%, respectively. The reason for the increase in the quarterly rate at September 30, 2 that the negative impact to the 2012 rate, which is primarily caused by nondeductible goodwill impairments, was relatively less than the negative impact to the 2011 rate, which was primarily cau nondeductible foreign losses and nondeductible losses on company-owned life insurance policies.

The effective tax rate benefit for the nine months ended September 30, 2012 and September 30, 20 32.3% and 34.9%, respectively. The primary cause of the difference in tax rates relates to the negat impact of nondeductible goodwill impairments incurred in 2012.

LIQUIDITY AND CAPITAL RESOURCES

Cost Savings Initiatives

Caesars Entertainment has undertaken comprehensive cost-reduction efforts to rightsize expenses w business levels through its implementation of Project Renewal. As a part of Project Renewal, we de a shared-services organization that will enable more efficient decision making and sharing of best practices. Caesars anticipates that the Company will have a permanently lower cost structure and w benefit from greater concentration of specified talent and quicker decision making. We estimate tha Project Renewal and other cost-savings programs produced $50.8 million and $135.3 million, in incremental cost savings for the third quarter and nine months ended of 2012, respectively, when compared with the same periods in 2011. Additionally, as of September 30, 2012, we expect that th cost-savings programs will produce additional annual cost savings of $204.3 million, based on the f implementation of current projects that are in process. As we finalize our estimates of cost reductio activities, this amount could change.

Capital Spending and Development

We incur capital expenditures in the normal course of business, and we perform ongoing refurbishn and maintenance at our existing casino entertainment facilities, to maintain our quality standards. W continue to pursue development and acquisition opportunities for additional casino entertainment a other hospitality facilities that meet our strategic and return on investment criteria.

Our planned development projects, if they proceed, will require, individually and in the aggregate, significant capital commitments and, if completed, may result in significant additional revenues. Th commitment of capital, the timing of completion, and the commencement of operations of develop projects are contingent upon, among other things, negotiation of final agreements and receipt of app

Common Stock	Accumulated Other Comprehensive Income (Loss)

from the appropriate political and regulatory bodies. We must also comply with covenants and restr set forth in our debt agreements.

Our capital spending for the nine months ended September 30, 2012 totaled $304.0 million, which includes an increase of $33.9 million of construction payables. Estimated total capital expenditures 2012, including 2012 expenditures associated with Project Linq, are expected to be between $520.0 million and $560.0 million.

Cash used for capital expenditures in the normal course of business is typically made available fron flows generated by our operating activities and established debt programs, while cash used for development projects, including projects currently under development as well as additional projects pursued, is typically funded from established debt programs, specific project financing, and additio debt offerings. As a result of the sale of Harrah s St. Louis, the Company expects to use the net pro from the sale to fund CEOC capital expenditures. Proceeds not used for capital expenditures are rec to be used to purchase certain outstanding debt obligations of CEOC.

41

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Liquidity and Capital Resources

Our cash and cash equivalents, excluding restricted cash, totaled $1,189.4 million at September 30, compared with $894.6 million at December 31, 2011. Restricted cash totaled $1,068.7 million at September 30, 2012, the current portion of which includes the $750.0 million of proceeds from our August 2012 debt offering that were held in escrow until October 5, 2012, when escrow conditions satisfied. Nearly all of the remaining restricted cash consists of cash reserved under loan agreement development projects and certain expenditures incurred in the normal course of business, such as ir service, real estate taxes, property insurance, and capital improvements. The net proceeds generated the sale of Harrah s St. Louis are expected to be utilized to fund CEOC capital expenditures. Proce used for capital expenditures are required to be used to purchase certain outstanding debt obligation CEOC. Our cash flows from operating, investing, and financing activities associated with Harrah s Louis, which is defined as discontinued operations for the nine months ended September 30, 2012, included in our consolidated condensed statements of cash flows.

We are a highly leveraged company and a substantial portion of our operating cash flows are used t debt service. As of September 30, 2012, we had $20,758.5 million book value of indebtedness outstanding, including capital lease indebtedness. This amount includes the August 2012 debt offer $750.0 million which is classified as current in our consolidated condensed balance sheet at Septem 2012 due to escrow conditions not being satisfied as of that date. On October 5, 2012, the escrow conditions were satisfied and the debt was reclassified to long-term. Cash paid for interest for the n months ended September 30, 2012 was $1,169.8 million. Payments of short-term debt obligations o than the $750.0 million described above, and payments of other commitments, are expected to be n from operating cash flows and from borrowings under our established debt programs. Our operatin inflows are typically used for operating expenses, debt service costs, working capital needs, and cap expenditures in the normal course of business. Long-term obligations are expected to be paid throu operating cash flows, refinancing of debt, or, if necessary, additional debt or equity offerings.

In addition to cash flows from operations, available sources of cash include amounts available unde current revolving credit facility. At September 30, 2012, our additional borrowing capacity under th credit facility was $975.5 million. After taking into account the extensions, repayments and commi reductions described in Note 16, Subsequent Events, in Item 1 of this Form 10-Q, there was $2,7 million face value of B-6 term loans outstanding, $1,026.4 million face value of B-1, B-2 and B-3 t loans outstanding with a maturity of January 28, 2015, $607.1 million of revolving commitments outstanding with a maturity of January 28, 2014 and $31.1 million of revolving commitments outst with a maturity of January 28, 2017.

In March 2012, the Company filed a prospectus with the SEC, as part of a registration statement, to shares of common stock, up to a maximum aggregate offering price of $500.0 million, and, in Apri the Company entered into an equity distribution agreement whereby the Company may issue and se to 10.0 million shares of the Company s common stock from time to time.

In recent years, we have not been generating sufficient operating cash flows to fund our investing activities, requiring us to fund our investments with additional financing. Our ability to fund our operations and pay our debt and debt service obligations depends, in part, upon economic and other factors that are beyond our control, and disruptions in capital markets and restrictive covenants rela our existing debt could impact our ability to secure additional funds through financing activities.

A substantial portion of our financing is comprised of credit facility and notes financing obtained b CEOC. The CEOC financings are neither secured nor guaranteed by Caesars other wholly-owned subsidiaries, including certain subsidiaries that own properties that secure $4,829.1 million face val of September 30, 2012, of the CMBS loans. Information pertaining solely to the consolidated finan position and results of CEOC and its subsidiaries can be found in Exhibit 99.1 of this 10-Q.

Please refer to Note 5, Debt, in Item 1 of this Form 10-Q for details on our debt outstanding. Thi includes, among other things, a table presenting details on our individual borrowings outstanding as

Common Stock	Accumulated Other Comprehensive Income (Loss)

September 30, 2012 and December 31, 2011, changes in our debt outstanding, and certain changes terms of existing debt for the quarter ended September 30, 2012. Note 5 also includes details on res covenants related to certain of our borrowings. Note 6, Derivative Instruments, discusses the use interest rate swap and interest rate cap derivatives to manage the mix of our debt between fixed and variable rate instruments.

As described in Note 5 to our consolidated condensed financial statements, certain of our borrowin covenants and requirements that include, among other things, the maintenance of specific levels of financial ratios. Failure to comply with these covenants can result in limiting our long-term growth prospects by hindering our ability to incur future indebtedness or grow through acquisitions.

42

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

We are in compliance with CEOC s senior secured credit facilities and indentures, including the se
secured leverage ratio, as of September 30, 2012. In order to comply with the quarterly senior secur
leverage ratio in the future, the Company will need to achieve a certain amount of Adjusted
EBITDA-Pro-Forma - CEOC Restricted and / or reduced levels of total senior secured net debt (tot
senior secured debt less unrestricted cash). The factors that could impact the foregoing include (a) c
in gaming trips, spend per trip and hotel metrics, which are correlated to a consumer recovery, (b) a
to effect cost-savings initiatives, (c) asset sales, (d) issuing additional second lien or unsecured debt
(e) equity financings, (f) delays in development project spending, or (g) a combination thereof. In
addition, under certain circumstances, our senior secured credit facilities allow us to apply cash
contributions received by CEOC as an increase to Adjusted EBITDA if CEOC is unable to meet its
Secured Leverage Ratio. However, there is no guarantee that such contributions will be forthcomin

Based upon the Company s current operating forecast, as well as our ability to achieve one or more
factors noted above, the Company believes that it will continue to be in compliance with the senior
secured leverage ratio and meet its cash flow needs during the next twelve months. As discussed ea
this Item 2, we continue to assess the impact of Hurricane Sandy on our forecasted results of operat
and Adjusted EBITDA in the Atlantic City region. If the Company was unable to maintain complia
with the senior secured leverage ratio and the Company failed to remedy a default pursuant to the te
its senior secured credit facilities, there would be an event of default under the senior secured cre
agreement. We cannot assure you that our business will generate sufficient cash flows from operati
that we will be successful in sales of assets, or that future borrowings will be available to us, to fun
liquidity needs and pay our indebtedness when due. If we are unable to meet our liquidity needs or
indebtedness when it is due, we may be required to further reduce expenses, sell additional assets, o
attempt to restructure our debt. Any such actions could negatively impact our competitive position
revenue generation. In addition, we have pledged a significant portion of our assets as collateral un
certain of our debt agreements, and, if any of those lenders accelerate the repayment of borrowings
can be no assurance that we will have sufficient assets to repay our indebtedness.

Guarantees of Third-Party Debt and Other Obligations and Commitments

Material changes to our aggregate indebtedness are described in Note 5, Debt, of this Form 10-Q
September 30, 2012, our estimated interest payments for the years ended December 31, 2012 throu
2016 are approximately $441 million, $1,770 million, $1,774 million, $1,397 million and $1,228 m
respectively, and our estimated interest payments thereafter are $1,783 million.

There have been no material changes outside the ordinary course of business to our other known
contractual obligations, which are set forth in the table included in our 2011 10-K.

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE

SECURITIES LITIGATION REFORM ACT OF 1995

This quarterly report on Form 10-Q contains or may contain forward-looking statements intende
qualify for the safe harbor from liability established by the Private Securities Litigation Reform Ac
1995. These statements can be identified by the fact that they do not relate strictly to historical or cu
facts. We have based these forward-looking statements on our current expectations about future eve
Further, statements that include words such as may, will, project, might, expect, be
intend, could, would, estimate, continue, or pursue, or the negative of these word
expressions of similar meaning may identify forward-looking statements. These forward-looking
statements are found at various places throughout the report. These forward-looking statements, inc
without limitation, those relating to future actions, new projects, strategies, future performance, the
outcome of contingencies such as legal proceedings, and future financial results, wherever they occ
this report, are necessarily estimates reflecting the best judgment of our management and involve a
number of risks and uncertainties that could cause actual results to differ materially from those sug
by the forward-looking statements. These forward-looking statements should, therefore, be conside
light of various important factors set forth above and from time to time in our filings with the Secu
and Exchange Commission.

In addition to the risk factors set forth above, important factors that could cause actual results to dif
materially from estimates or projections contained in the forward-looking statements include witho
limitation:

the impact of our substantial indebtedness;

the effects of local and national economic, credit, and capital market conditions on th
economy, in general, and on the gaming industry, in particular;

the ability to realize the expense reductions from cost savings programs;

access to available and reasonable financing on a timely basis;

the ability of our customer-tracking, customer loyalty, and yield-management progra
continue to increase customer loyalty and same-store or hotel sales;

changes in laws, including increased tax rates, smoking bans, regulations or accounti
standards, third-party relations and approvals, and decisions, disciplines, and fines of
regulators and governmental bodies;

the ability to recoup costs of capital investments through higher revenues;

abnormal gaming holds (gaming hold is the amount of money that is retained by th
from wagers by customers);

Common Stock	Accumulated Other Comprehensive Income (Loss)

the ability to timely and cost-effectively integrate companies that we acquire into our operations;

the effects of competition, including locations of competitors and operating and mark competition.

the potential difficulties in employee retention and recruitment as a result of our subs indebtedness or any other factor;

construction factors, including delays, increased costs of labor and materials, availabi labor and materials, zoning issues, environmental restrictions, soil and water conditio weather and other hazards, site access matters and building permit issues;

litigation outcomes and judicial and governmental body actions, including gaming legislative action, referenda, regulatory disciplinary actions, and fines and taxation;

the effects of environmental and structural building conditions relating to our propert

access to insurance on reasonable terms for our assets;

acts of war or terrorist incidents, severe weather conditions, uprisings or natural disas

losses sustained as a result of natural disasters, including losses in revenues and dama property, and the impact of severe weather conditions on our ability to attract custom certain of our facilities, such as the amount of losses and disruption to our company a result of Hurricane Sandy in late October 2012; and

the impact, if any, of unfunded pension benefits under multi-employer pension plans.

You are cautioned to not place undue reliance on these forward-looking statements, which speak or of the date of this quarterly report for Form 10-Q. We undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect events or circumstances after th of this quarterly report on Form 10-Q or to reflect the occurrence of unanticipated events, except as required by law.

44

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as inter rates, foreign currency exchange rates, and commodity prices. Our primary exposure to market risk interest rate risk associated with our debt. We attempt to limit our exposure to interest rate risk by managing the mix of our debt between fixed-rate and variable-rate obligations. Of our $23,467.3 million face value of debt, including capital lease obligations, at September 30, 2012, we have ente interest rate swap agreements to fix the interest rate on $5,750.0 million of variable rate debt, and $ million of debt remains subject to variable interest rates.

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instrumer do not purchase or hold any derivative financial instruments for trading purposes.

Foreign currency translation gains and losses were not material to our results of operations for the c ended September 30, 2012. Our only material ownership interests in businesses in foreign countries London Clubs, Caesars Golf Macau, and an approximate 95% ownership of a casino in Uruguay. Therefore, we have not been subject to material foreign currency exchange rate risk from the effect exchange rate movements of foreign currencies would have on our future results of operations or ca flows.

From time to time, we hold investments in various available-for-sale equity securities; however, ou exposure to price risk arising from the ownership of these investments is not material to our consoli financial position, results of operations, or cash flows.

Item 4. Controls and Procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of ou disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securitie Exchange Act of 1934, as amended (the Exchange Act)), as of September 30, 2012. Based on su evaluation, they have concluded that, as of such date, our disclosure controls and procedures are eff and designed to ensure that information required to be disclosed by us in reports that we file or sub under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and commur to management, including our principal executive officer and principal financial officer, to allow ti decisions regarding required disclosure.

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

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Supreme Court of Nevada decided in early 2008 that food purchased for subsequent use in the provision of complimentary and/or employee meals is exempt from use tax. Previously, such purch were subject to use tax and the Company has claimed, but not recognized into earnings, a use tax re totaling $32.2 million, plus interest, as a result of the 2008 decision. In early 2009, the Nevada Department of Taxation (Department) audited our refund claim, but has taken the position that t purchases are now subject to sales tax; therefore, they subsequently issued a sales tax assessment to $27.4 million plus interest after application of our refund on use tax.

On October 21, 2010, the administrative law judge (ALJ) issued a decision and ruled in our favo number of key issues. Although both the Company and the Nevada Department of Taxation filed an appeal of the decision with the Nevada Tax Commission (Commission), the case was returned to for further factual development. The ALJ s issued a second decision on March 8, 2012, reversing h previous, partially favorable ruling relating to the taxability of complimentary employee meals and affirmed the taxability of complimentary meals but limited the entire sales tax assessment to the am of the Company s use tax refund claims resulting in no use tax refund awarded but no sales tax am due. The ALJ decision was affirmed in the Commission hearing on June 25, 2012 and the Commiss final decision was issued on July 31, 2012. We filed a petition for judicial review with the District C on August 7, 2012.

Subsequent to the written Commission decision issued in February for another gaming company, th Department has issued draft regulations requiring the collection of sales tax on the retail value of complimentary meals and the cost of employee meals. Although the Commission approved the regu on June 25, 2012, there are several additional approvals required, including by the Legislative Commission, before the regulation is finalized. On June 6, 2012, the Department issued additional guidance regarding the payment of sales tax on complimentary and employee meals, maintaining th meals are taxable as of February 15, 2012 but that the payment of the tax is due, without penalty or interest, at the earlier of (a) one month after approval of the regulation by the Legislative Commissi (b) one month after a Nevada Supreme Court decision, (c) the effective date of any legislation or (d) June 30, 2013. The Department stated that it provided this additional guidance regarding the de of payment requirements because the Legislative Commission has not had the opportunity to appro regulation and because there are several ongoing appeals that have not been heard by the Tax Com and the Nevada Supreme Court.

Due to uncertainty regarding the ultimate outcome of our pending litigation and/or the final approv form of the pending regulation, we continue to record certain reserves against loss on this matter.

The Company is party to ordinary and routine litigation incidental to our business. We do not expec outcome of any pending litigation to have a material adverse effect on our consolidated financial po results of operations, or cash flows.

Item 1A. Risk Factors

There were no material changes from the risk factors set forth under Part I, Item 1A Risk Factors Company s Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Common Stock	Accumulated Other Comprehensive Income (Loss)

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Our 2013 Annual Meeting of Stockholders is scheduled for April 24, 2013.

46

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Item 6. Exhibits

Exhibit Number	Exhibit Description	Filed Herewith	Form	Incorporated by Reference Period Ending	Exhibit	Fili
3.1	Certificate of Amendment of Certificate of Incorporation of Caesars Entertainment Operating Company, Inc. dated November 22, 2010		8-K		3.3	11/2
3.2	Restated Certificate of Incorporation of Harrah s Operating Company, Inc. (f/k/a Embassy Suites, Inc.), as amended.		S-4		3.1	10/2
3.3	Certificate of Amendment of Restated Certificate of Incorporation of Harrah s Operating Company, Inc., dated May 19, 2008.		10-K	12/31/2008	3.4	3/1
3.4	Bylaws of Harrah s Operating Company, Inc., as amended.		S-4		3.4	10/2
3.5	Second Amended and Restated Certificate of Incorporation of Caesars Entertainment Corporation, dated February 8, 2012		10-K	12/31/2011	3.7	3/1
3.6	Amended Bylaws of Caesars Entertainment Corporation, as amended, dated February 8, 2012.		10-K	12/31/2011	3.8	3/1
4.1	Certificate of Designation of Non-Voting Perpetual Preferred Stock of Harrah s Entertainment, Inc., dated January 28, 2008.		S-8		4.4	1/3
4.2	Certificate of Amendment to the Certificate of Designation of Non-Voting Perpetual Preferred Stock of Harrah s Entertainment, Inc., dated March 29, 2010.		8-K		3.1	3/3
4.3	Certificate of Elimination of Non-Voting Perpetual Preferred Stock of Harrah s Entertainment, Inc., dated March 29, 2010.		8-K		3.2	3/3
4.4	Indenture, dated as of April 11, 2003, between Park Place Entertainment Corp., as Issuer, and U.S. Bank National Association, as Trustee, with respect to the 7% Senior Notes due 2013.		*S-4		4.1	4/2
4.5	First Supplemental Indenture, dated as of June 13, 2005, between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc., Caesars Entertainment, Inc. and U.S. Bank National Association, as Trustee, with respect to the 7% Senior		10-Q	6/30/2005	4.22	8/9

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		Notes due 2013.
		47

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

4.6	Second Supplemental Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and U.S. Bank National Association, as Trustee, to the Indenture, dated as of April 11, 2003, as amended and supplemented by a First Supplemental Indenture, dated as of June 13, 2005, with respect to the 7% Senior Notes due 2013.	8-K		4.7	8/
4.7	Indenture, dated as of December 11, 2003, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.375% Senior Notes due 2013.	10-K	12/31/2003	10.6	3/
4.8	Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Entertainment, Inc., as Guarantor, Harrah s Operating Company, Inc., as Issuer, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024.	8-K		4.8	8/
4.9	First Supplemental Indenture, dated as of September 9, 2005, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024.	**S-3/A		4.7	9/1
4.10	Second Supplemental Indenture, dated as of January 8, 2008, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024.	10-K	12/31/2007	4.25	2/2
4.11	Third Supplemental Indenture, dated as of January 28, 2008, to Amended and Restated Indenture, dated as of July 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc. as Guarantor, and U.S. Bank National Association, as Trustee, relating to the Floating Rate Contingent Convertible Senior Notes due 2024.	8-K		4.1	1/2
4.12	Indenture, dated as of May 27, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015.	8-K		4.1	6/
4.13	First Supplemental Indenture, dated as of August 19, 2005, to Indenture, dated as of May 27, 2005, between Harrah s Operating	S-4		4.44	8/2

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015.

48

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

4.14	Second Supplemental Indenture, dated as of September 28, 2005, to Indenture, dated as of May 27, 2005, between Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.625% Senior Notes due 2015.	8-K		4.4	10
4.15	Indenture dated as of September 28, 2005, among Harrah s Operating Company, Inc., as Issuer, Harrah s Entertainment, Inc., as Guarantor, and U.S. Bank National Association, as Trustee, relating to the 5.75% Senior Notes due 2017.	8-K		4.1	10
4.16	Indenture, dated as of June 9, 2006, between Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. National Bank Association, as Trustee, relating to the 6.50% Senior Notes due 2016.	8-K		4.1	6/1
4.17	Officers Certificate, dated as of June 9, 2006, pursuant to Sections 301 and 303 of the Indenture dated as of June 9, 2006 between Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. National Bank Association, as Trustee, relating to the 6.50% Senior Notes due 2016.	8-K		4.2	6/1
4.18	Indenture, dated as of February 1, 2008, by and among Harrah s Operating Company, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee, relating to the 10.75% Senior Cash Pay Notes due 2016 and 10.75%/11.5% Senior Toggle Notes due 2018.	8-K		10.1	2/
4.19	First Supplemental Indenture, dated as of June 12, 2008, by and among Harrah s Operating Company, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee, relating to the 10.75% Senior Cash Pay Notes due 2016 and 10.75%/11.5% Senior Toggle Notes due 2018.	10-Q	6/30/2008	4.34	8/1
4.20	Second Supplemental Indenture, dated as of January 9, 2009, by and among Harrah s Operating Company, Inc., the Guarantors (as defined therein) and U.S. Bank National Association, as Trustee relating to the 10.75% Senior Notes due 2016 and 10.75%/11.5% Senior Toggle Notes due 2018.	10-Q	3/31/2009	4.35	5/1
4.21	First Supplemental Indenture, dated as of March 26, 2009, by and among Harrah s Operating Company, Inc., the Note Guarantors (as defined therein) and U.S. Bank National Association, as Trustee relating to the 10.75% Senior Notes due 2016 and 10.75%/11.5% Senior Toggle Notes due 2018.	8-K		4.1	3/3

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

4.22	Indenture, dated as of December 24, 2008, by and among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. Bank National Association, as Trustee, relating to the 10.00% Second-Priority Senior Secured Notes due 2018 and 10.00% Second-Priority Senior Secured Notes due 2015.	S-4/A		4.39	12/2
4.23	First Supplemental Indenture, dated as of July 22, 2009, by and among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. Bank National Association, as Trustee, relating to the 10.00% Second-Priority Senior Secured Notes due 2018 and 10.00% Second-Priority Senior Secured Notes due 2015.	10-Q	6/30/2009	4.38	8/1
4.24	Collateral Agreement, dated as of December 24, 2008, by and among Harrah s Operating Company, Inc. as Issuer, each Subsidiary of the Issuer identified therein, and U.S. Bank National Association, as Collateral Agent.	S-4/A		4.40	12/2
4.25	Indenture, dated as of April 15, 2009, by and among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. Bank National Association, as trustee and collateral agent.	8-K		4.1	4/2
4.26	First Supplemental Indenture, dated May 18, 2009, by and among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. Bank National Association, as trustee relating to the 10.00% Second-Priority Senior Secured Notes due 2018.	10-Q	6/30/2009	4.40	8/1
4.27	Indenture, dated as of June 10, 2009, by and among Harrah s Operating Escrow LLC, Harrah s Escrow Corporation, Harrah s Entertainment, Inc. and U.S. Bank National Association, as trustee, relating to the 11.25% Senior Secured Notes due 2017.	8-K		4.1	6/1
4.28	Supplemental Indenture, dated as of June 10, 2009, by and among Harrah s Operating Company, Inc. and U.S. Bank National Association, as trustee, relating to the 11.25% Senior Secured Notes due 2017.	8-K		4.2	6/1
4.29	Second Supplemental Indenture, dated as of September 11, 2009, by and among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc. and U.S. Bank National Association, as trustee, relating to the 11.25% Senior Secured Notes due 2017.	8-K		4.1	9/1
4.30	Indenture, dated as of April 16, 2010, by and among Harrah s Operating Escrow LLC, Harrah s Escrow Corporation, Harrah s Entertainment, Inc. and U.S. Bank National Association, as trustee, relating to the 12.75% Second-Priority Senior Secured Notes due 2018.	8-K		4.1	4/2
4.31	Supplemental Indenture, dated as of May 20, 2010, by and among Harrah s Operating Company, Inc.	8-K		4.1	5/2

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		and U.S. Bank National Association, as trustee
		50

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

4.32	Stockholders Agreement, dated as of January 28, 2008, by and among Apollo Hamlet Holdings, LLC, Apollo Hamlet Holdings B, LLC, TPG Hamlet Holdings, LLC, TPG Hamlet Holdings B, LLC, Co-Invest Hamlet Holdings, Series LLC, Co-Invest Hamlet Holdings B, LLC, Hamlet Holdings LLC and Harrah s Entertainment, Inc., and, solely with respect to Sections 3.01 and 6.07, Apollo Investment Fund VI, L.P. and TPG V Hamlet AIV, L.P.	8-K/A		10.14	2/
4.33	Services Agreement, dated as of January 28, 2008, by and among Harrah s Entertainment, Inc., Apollo Management VI, L.P., Apollo Alternative Assets, L.P. and TPG Capital, L.P.	8-K/A		10.15	2/
4.34	Supplemental Indenture, dated as of March 1, 2012, by and among Caesars Entertainment Operating Company, Inc. and U.S. Bank National Association, as trustee.	8-K		4.1	3/
4.35	Indenture dated as of February 3, 2012 among Chester Downs and Marina, LLC , a Pennsylvania limited liability company, Chester Downs Finance Corp., and, together with the Company, Subsidiary Guarantors party hereto from time to time, U.S. Bank National Association, as trustee and U.S. Bank National Association, as collateral agent.	10-K	12/31/2011	4.43	3/1
4.36	Indenture, dated as of February 14, 2012, by and among Caesars Operating Escrow LLC, Caesars Escrow Corporation, Caesars Entertainment Corporation and U.S. Bank National Association, as trustee.	8-K		4.1	2/1
4.37	Registration Rights Agreement, dated as of February 14, 2012, by and among Caesars Operating Escrow LLC, Caesars Escrow Corporation, Caesars Entertainment Corporation and J.P. Morgan Securities LLC, as representative of the initial purchasers.	8-K		4.2	2/1
4.38	Registration Rights Agreement Joinder, dated as of March 1, 2012 (to the Registration Rights Agreement, dated as of February 14, 2012), by and among Caesars Entertainment Operating Company, Inc. and J.P. Morgan Securities LLC, as representative of the initial purchasers.	8-K		4.2	3/
4.39	Equity Distribution Agreement, dated April 12, 2012, between Caesars Entertainment Corporation, Citigroup Global Markets, Inc. and Credit Suisse Securities (USA) LLC.	8-K		1.1	4/1
4.40	Indenture dated as of August 22, 2012 among Caesars Operating Escrow, LLC, Caesars Escrow Corporation, Caesars Entertainment Corporation, and U.S. Bank National Association, as trustee, related to the 9% Senior Secured Notes due 2020.	8-K		4.1	8/2

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		51

Common Stock | **Accumulated Other Comprehensive Income (Loss)**

Table of Contents

4.41	Registration Rights Agreement, dated as of August 22, 2012, by and among Caesars Operating Escrow, LLC, Caesars Escrow Corporation, Caesars Entertainment Corporation, and Citigroup Global Markets Inc. as representative of the initial purchasers.	8-K	4.2	8/2
4.42	Supplemental Indenture, dated as of October 5, 2012, among Caesars Entertainment Operating Company, Inc., and U.S. Bank National Association, as trustee, related to the 9% Senior Notes due 2020.	8-K	4.1	10/1
4.43	Joinder to Registration Rights Agreement, dated October 5, 2012 (to the Registration Rights Agreement, dated August 22, 2012) by and among Caesars Operating Escrow LLC , Caesars Escrow Corporation, Caesars Entertainment Corporation and Citigroup Global Markets, as representative of the several Initial Purchasers.	8-K	4.2	10/1
10.1	Credit Agreement, dated as of January 28, 2008, by and among Hamlet Merger Inc., Harrah s Operating Company, Inc. as Borrower, the Lenders party thereto from time to time, Bank of America, N.A., as Administrative Agent and Collateral Agent, Deutsche Bank AG New York Branch, as Syndication Agent, and Citibank, N.A., Credit Suisse, Cayman Islands Branch, JPMorgan Chase Bank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman Sachs Credit Partners L.P., Morgan Stanley Senior Funding, Inc., and Bear Sterns Corporate Lending, Inc., as Co-Documentation Agents.	8-K/A	10.1	2/7
10.2	Amendment and Waiver to Credit Agreement, dated as of June 3, 2009, among Harrah s Operating Company, Inc., Harrah s Entertainment, Inc., the lenders from time to time party thereto (the Lenders), Bank of America, N.A, as administrative agent, and the other parties thereto.	8-K/A	10.1	6/1
10.3	Incremental Facility Amendment, dated as of September 26, 2009 to the Credit Agreement dated as of January 28, 2008.	8-K	99.1	9/2
10.4	Amended and Restated Collateral Agreement dated and effective as of January 28, 2008 (as amended and restated on June 10, 2009), among Harrah s Operating Company, Inc., each Subsidiary Party that is party thereto and Bank of America, N.A., as Collateral Agent.	8-K	10.3	6/1
10.5	Amended and Restated Guaranty and Pledge Agreement dated and effective as of January 28, 2008 (as amended and restated on June 10, 2009), made by Harrah s Entertainment, Inc. (as successor to Hamlet Merger Inc.) in favor of Bank of America, N.A., as Administrative Agent and Collateral Agent.	8-K	10.4	6/1

52

Common Stock	Accumulated Other Comprehensive Income (Loss)

[Table of Contents](#)

10.6	Intercreditor Agreement, dated as of January 28, 2008 by and among Bank of America, N.A. as administrative agent and collateral agent under the Credit Agreement, Citibank, N.A. as administrative agent under the Bridge-Loan Agreement and U.S. Bank National Association as Trustee under the Indenture.	10-K	12/31/2008	10.3	3/1
10.7	Intercreditor Agreement, dated as of December 24, 2008 among Bank of America, N.A. as Credit Agreement Agent, each Other First Priority Lien Obligations Agent from time to time, U.S. Bank National Association as Trustee and each collateral agent for any Future Second Lien Indebtedness from time to time.	10-K	12/31/2008	10.4	3/1
10.8	Joinder and Supplement to the Intercreditor Agreement, dated as of April 15, 2009 by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as Trustee under the Intercreditor Agreement, Bank of America, N.A., as Credit Agreement Agent under the Intercreditor Agreement, and any other First Lien Agent and Second Priority Agent from time to time party to the Intercreditor Agreement.	8-K		10.1	4/2
10.9	First Lien Intercreditor Agreement, dated as of June 10, 2009, by and among Bank of America, N.A., as collateral agent for the First Lien Secured Parties and as Authorized Representative for the Credit Agreement Secured Parties, U.S. Bank National Association, as Authorized Representative for the Initial Other First Lien Secured Parties, and each additional Authorized Representative from time to time party to the First Lien Intercreditor Agreement.	8-K/A		10.1	6/1
10.10	Joinder and Supplement to Intercreditor Agreement, by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as Trustee under the Intercreditor Agreement, Bank of America, N.A., as Credit Agreement Agent under the Intercreditor Agreement, U.S. Bank National Association as a Second Priority Agent under the Intercreditor Agreement and any other First Lien Agent and Second Priority Agent from time to time party to the Intercreditor Agreement.	10-K	12/31/2008	10.4	3/1
10.11	Joinder and Supplement to the Intercreditor Agreement, dated as of September 11, 2009 by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as Trustee under the Intercreditor Agreement, Bank of America, N.A., as Credit Agreement Agent under the Intercreditor Agreement, and any other First Lien Agent and Second Priority Agent from time to time party to the Intercreditor Agreement.	8-K		10.1	9/1

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		53

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.12	Amendment Agreement, dated as of March 1, 2012, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc. each Subsidiary Loan Party party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent under the Amended and Restated Credit Agreement dated as of May 20, 2011, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc., the lenders party thereto from time to time and the other parties party thereto.	8-K	10.1	3/
10.13	Reaffirmation Agreement, dated as of March 1, 2012, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc. each Subsidiary Loan Party party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent under the Amended and Restated Credit Agreement dated as of May 20, 2011, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc., the lenders party thereto from time to time and the other parties party thereto.	8-K	10.2	3/
10.14	Joinder and Supplement to the Intercreditor Agreement, dated as of March 1, 2012, by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as second priority agent, Bank of America, N.A., as credit agreement agent and U.S. Bank National Association, as other first priority lien obligations agent.	8-K	10.3	3/
10.15	Other First Lien Secured Party Consent to the Collateral Agreement, dated as of March 1, 2012, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Collateral Agreement dated as of January 28, 2008, as amended and restated as of June 10, 2009.	8-K	10.4	3/
10.16	Other First Lien Secured Party Consent to the Guaranty and Pledge Agreement, dated as of March 1, 2012, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Guaranty and Pledge Agreement dated as of January 28, 2008, as amended and restated as of June 10, 2009.	8-K	10.5	3/
10.17	Other First Lien Secured Party Consent, dated as of September 11, 2009, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Amended and Restated Collateral Agreement dated and effective as of January 28, 2008 (as amended and restated on June 10, 2009).	8-K	10.2	9/1
10.18	Other First Lien Secured Party Consent, dated as of September 11, 2009, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Amended and Restated Guaranty and Pledge Agreement dated and effective as of January 28, 2008 (as amended and restated on June 10, 2009).	8-K	10.3	9/1

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		54

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.19	Amended and Restated Loan Agreement, dated as of February 19, 2010, between PHW Las Vegas, LLC and Wells Fargo Bank, N.A. as trustee for the Credit Suite First Boston Mortgage Securities Corp. Commercial Pass-Through Certificates, Series 2007-TFL2.	10-Q	3/31/2010	10.24	5/1
10.20	Guaranty Agreement, dated February 19, 2010, by and between Harrah s Entertainment, Inc. and Wells Fargo Bank, N.A., as trustee for The Credit Suisse First Boston Mortgage Securities Corp. Commercial Mortgage Pass-Through Certificates, series 2007-TFL2.	8-K		99.1	2/2
10.21	Employment Agreement, made as of January 28, 2008, and amended on March 13, 2009, by and between Harrah s Entertainment, Inc. and Gary W. Loveman.	10-K	12/31/2008	10.16	3/1
10.22	Financial Counseling Plan of Harrah s Entertainment, Inc., as amended January 1996.	10-K	12/31/1995	10.22	3/6
10.23	Harrah s Entertainment, Inc. 2009 Senior Executive Incentive Plan, effective January 1, 2009.	8-K		10.2	12/1
10.24	Trust Agreement dated June 20, 2001 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank Minnesota, N.A.	10-Q	9/30/2001	10.4	11/
10.25	Escrow Agreement, dated February 6, 1990, by and between The Promus Companies Incorporated, certain subsidiaries thereof, and Sovran Bank, as escrow agent	10-K	12/29/1989	Unknown	3/2
10.26	Amendment to Escrow Agreement dated as of October 29, 1993 among The Promus Companies Incorporated, certain subsidiaries thereof, and NationsBank, formerly Sovran Bank.	10-K	12/31/1993	10.66	3/2
10.27	Amendment, dated as of June 7, 1995, to Escrow Agreement among The Promus Companies Incorporated, certain subsidiaries thereof and NationsBank.	8-K		10.12	6/1
10.28	Amendment, dated as of July 18, 1996, to Escrow Agreement between Harrah s Entertainment, Inc. and NationsBank.	10-Q	9/30/1996	10.1	11/1
10.29	Amendment, dated as of October 30, 1997, to Escrow Agreement between Harrah s Entertainment, Inc., Harrah s Operating Company, Inc. and NationsBank.	10-K	12/31/1997	10.82	3/1
10.30	Amendment to Escrow Agreement, dated April 26, 2000, between Harrah s Entertainment, Inc. and Wells Fargo Bank Minnesota, N.A., Successor to Bank of America, N.A.	10-Q	9/30/2000	10.8	11/1
10.31		10-Q	9/30/2000	10.7	11/1

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		Letter Agreement with Wells Fargo Bank Minnesota, N.A., dated August 31, 2000, concerning appointment as Escrow Agent under Escrow Agreement for deferred compensation plans.

55

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.32	Harrah s Entertainment, Inc. Amended and Restated Executive Deferred Compensation Trust Agreement dated January 11, 2006 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank, N.A.	10-K	12/31/2007	10.41	2/2
10.33	Amendment to the Harrah s Entertainment, Inc. Amended and Restated Executive Deferred Compensation Trust Agreement effective January 28, 2008 by and between Harrah s Entertainment, Inc. and Wells Fargo Bank, N.A.	10-K	12/31/2007	10.42	2/2
10.34	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Deferred Compensation Plan, effective August 3, 2007.	10-Q	6/30/2007	10.69	8/
10.35	Amendment and Restatement of Harrah s Entertainment, Inc. Deferred Compensation Plan, effective as of August 3, 2007.	10-Q	6/30/2007	10.70	8/
10.36	Amendment and Restatement of Park Place Entertainment Corporation Executive Deferred Compensation Plan, effective as of August 3, 2007.	10-Q	6/30/2007	10.71	8/
10.37	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Supplemental Savings Plan, effective as of August 3, 2007.	10-Q	6/30/2007	10.72	8/
10.38	Amendment and Restatement of Harrah s Entertainment, Inc. Executive Supplemental Savings Plan II, effective as of August 3, 2007.	10-Q	6/30/2007	10.73	8/
10.39	First Amendment to the Amendment and Restatement of Harrah s Entertainment, Inc. Amendment and Restatement of Harrah s Entertainment, Inc. Executive Supplemental Savings Plan II, effective as of February 9, 2009.	8-K		10.2	2/1
10.40	Stock Option Grant Agreement dated February 27, 2008 between Gary W. Loveman and Harrah s Entertainment, Inc.	10-Q	6/30/2008	10.52	8/1
10.41	Stock Option Grant Agreement dated February 27, 2008 between Thomas M. Jenkin and Harrah s Entertainment, Inc.	10-Q	6/30/2008	10.56	8/1
10.42	Form of Stock Option Grant Agreement dated July 1, 2008 between Harrah s Entertainment, Inc. and each of Lynn C. Swann and Christopher J. Williams.	10-Q	6/30/2008	10.57	8/1
10.43	Form of Stock Option Grant Agreement dated March 1, 2010 between Harrah s Entertainment, Inc. and each of Thomas M. Jenkin, John W. R. Payne, Peter E. Murphy, and Mary H. Thomas.	10-K	12/31/2009	10.61	3/
10.44	Joinder and Supplement to the Intercreditor Agreement, dated as of May 20, 2010, by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as second priority agent, Bank of America, N.A., as credit agreement agent and U.S. Bank national	8-K		10.1	5/2

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		Association, as other first priority lien obligations agent.

56

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.45	Additional Secured Party Consent, dated as of May 20, 2010, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Collateral Agreement dated as of December 24, 2008.	8-K	10.2	5/2
10.46	Investment and Exchange Agreement, dated as of June 3, 2010, among Harrah s Entertainment, Inc., Harrah s BC, Inc. and Paulson & Co, Inc., on behalf of the several investment funds and accounts managed by it.	8-K	10.1	6/
10.47	Investment and Exchange Agreement, dated as of June 3, 2010, among Harrah s Entertainment, Inc., Harrah s BC, Inc. Apollo Management VI, L.P., on behalf of certain affiliated investment funds, and TPG Capital, L.P., on behalf of certain affiliated investment funds.	8-K	10.1	6/
10.48	Second Amended and Restated Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Propco, LLC, Harrah s Atlantic City Propco, LLC, Rio Propco, LLC, Flamingo Las Vegas Propco, LLC, Harrah s Laughlin Propco, LLC, and Paris Las Vegas Propco, LLC, as Borrower, JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Morgan Stanley Mortgage Capital Holdings LLC, German American Capital Corporation, and Bank of America, N.A., as Collateral Agent.	8-K	10.1	9/
10.49	Second Amended and Restated First Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 1, LLC, Harrah s Atlantic City Mezz 1, LLC, Rio Mezz 1, LLC, Flamingo Las Vegas Mezz 1, LLC, Harrah s Laughlin Mezz 1, LLC, and Paris Las Vegas Mezz 1, LLC, as Borrower, JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.2	9/
10.50	Second Amended and Restated Second Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 2, LLC, Harrah s Atlantic City Mezz 2, LLC, Rio Mezz 2, LLC, Flamingo Las Vegas Mezz 2, LLC, Harrah s Laughlin Mezz 2, LLC, and Paris Las Vegas Mezz 2, LLC, as Borrower, JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.3	9/

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		57

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.51	Second Amended and Restated Third Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 3, LLC, Harrah s Atlantic City Mezz 3, LLC, Rio Mezz 3, LLC, Flamingo Las Vegas Mezz 3, LLC, Harrah s Laughlin Mezz 3, LLC, and Paris Las Vegas Mezz 3, LLC, as Borrower, JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.4	9
10.52	Second Amended and Restated Fourth Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 4, LLC, Harrah s Atlantic City Mezz 4, LLC, Rio Mezz 4, LLC, Flamingo Las Vegas Mezz 4, LLC, Harrah s Laughlin Mezz 4, LLC, and Paris Las Vegas Mezz 4, LLC, as Borrower, JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.5	9
10.53	Second Amended and Restated Fifth Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 5, LLC, Harrah s Atlantic City Mezz 5, LLC, Rio Mezz 5, LLC, Flamingo Las Vegas Mezz 5, LLC, Harrah s Laughlin Mezz 5, LLC, and Paris Las Vegas Mezz 5, LLC, as Borrower, Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), German American Capital Corporation, and Bank of America, N.A., as Collateral Agent.	8-K	10.6	9
10.54	Second Amended and Restated Sixth Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 6, LLC, Harrah s Atlantic City Mezz 6, LLC, Rio Mezz 6, LLC, Flamingo Las Vegas Mezz 6, LLC, Harrah s Laughlin Mezz 6, LLC, and Paris Las Vegas Mezz 6, LLC, as Borrower, Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, German American Capital Corporation, and Bank of America, N.A., as Collateral Agent.	8-K	10.7	9

Common Stock **Accumulated Other Comprehensive Income (Loss)**

Table of Contents

10.55	Second Amended and Restated Seventh Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 7, LLC, Harrah s Atlantic City Mezz 7, LLC, Rio Mezz 7, LLC, Flamingo Las Vegas Mezz 7, LLC, Harrah s Laughlin Mezz 7, LLC, and Paris Las Vegas Mezz 7, LLC, as Borrower, Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, and Bank of America, N.A., as Collateral Agent.	8-K	10.8	9
10.56	Second Amended and Restated Eighth Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 8, LLC, Harrah s Atlantic City Mezz 8, LLC, Rio Mezz 8, LLC, Flamingo Las Vegas Mezz 8, LLC, Harrah s Laughlin Mezz 8, LLC, and Paris Las Vegas Mezz 8, LLC, as Borrower, Goldman Sachs Mortgage Company, and Bank of America, N.A., as Collateral Agent.	8-K	10.9	9
10.57	Second Amended and Restated Ninth Mezzanine Loan Agreement dated as of August 31, 2010, among Harrah s Las Vegas Mezz 9, LLC, Harrah s Atlantic City Mezz 9, LLC, Rio Mezz 9, LLC, Flamingo Las Vegas Mezz 9, LLC, Harrah s Laughlin Mezz 9, LLC, and Paris Las Vegas Mezz 9, LLC, as Borrower, Goldman Sachs Mortgage Company, and Bank of America, N.A., as Collateral Agent.	8-K	10.10	9
10.58	Note Sales Agreement dated as of August 31, 2010, among each first mezzanine lender, each second mezzanine lender, each third mezzanine lender, fourth mezzanine lender, fifth mezzanine lender, sixth mezzanine lender, seventh mezzanine lender, eighth mezzanine lender and ninth mezzanine lender, and specified mezzanine lender, Harrah s Entertainment, Inc., each Mortgage Loan Borrower, each Mezzanine Borrower and each Operating Company.	8-K	10.11	9
10.59	Form of Management Agreement entered into between each Mortgage Loan Borrower and its respective Operating Company.	8-K	10.12	9
10.60	Form of Amended and Restated Operating Lease (Hotel Component) entered into between each Mortgage Loan Borrower, its respective Operating Company and its respective Management Company.	8-K	10.13	9
10.61	Form of Amended and Restated Operating Lease (Casino Component) entered into between each Mortgage Loan Borrower, its respective Operating Company and its respective Management Company.	8-K	10.14	9

59

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.62	Agreement Among Mortgage Noteholders, dated August 31, 2010, among JPMorgan Chase Bank, N.A., as Note A-1 Holder, Bank of America, N.A., as Note A-2 Holder, Citibank, N.A., as Note A-3 Holder, Credit Suisse, Cayman Islands Branch, as Note A-4 Holder, German American Capital Corporation, as Note A-5 Holder, Merrill Lynch Mortgage Lending, Inc., as Note A-6 Holder, JP Morgan Chase Bank, N.A., as Note A-7 Holder, Goldman Sachs Mortgage Company, as Note A-9 Holder, Bank of America, N.A., as Collateral Agent, and Bank of America, N.A. as Servicer.	8-K	10.15	9
10.63	Agreement Among First Mezzanine Noteholders, dated August 31, 2010, among JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.16	9
10.64	Agreement Among Second Mezzanine Noteholders, dated August 31, 2010, among JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.17	9
10.65	Agreement Among Third Mezzanine Noteholders, dated August 31, 2010, among JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent.	8-K	10.18	9
10.66	Agreement Among Fourth Mezzanine Noteholders, dated August 31, 2010, among JPMorgan Chase Bank, N.A., Bank of America, N.A., Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Merrill Lynch Mortgage Lending, Inc., Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), and Bank of America, N.A., as Collateral Agent. (Incorporated by reference to the exhibit filed with the Company s Current Report on Form 8-K filed on September 3, 2010.)	8-K	10.19	9
10.67	Agreement Among Fifth Mezzanine Noteholders, dated August 31, 2010, among Citibank, N.A., Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, Blackstone Special Funding (Ireland), German American Capital Corporation, and Bank of America, N.A., as Collateral Agent.	8-K	10.20	9

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		60

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.68	Agreement Among Sixth Mezzanine Noteholders, dated August 31, 2010, among Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, German American Capital Corporation, and Bank of America, N.A., as Collateral Agent.	8-K	10.21	9/3
10.69	Agreement Among Seventh Mezzanine Noteholders, dated August 31, 2010, among Credit Suisse AG, Cayman Islands Branch (f/k/a Credit Suisse, Cayman Islands Branch), Goldman Sachs Mortgage Company, and Bank of America, N.A., as Collateral Agent.	8-K	10.22	9/3
10.70	Intercreditor Agreement, dated August 31, 2010, among the senior lender, first mezzanine lender, second mezzanine lender, third mezzanine lender, fourth mezzanine lender, fifth mezzanine lender, sixth mezzanine lender, seventh mezzanine lender, eighth mezzanine lender, and ninth mezzanine lender.	8-K	10.23	9/3
10.71	Form of Indemnification Agreement entered into by Caesars Entertainment Corporation and each of its directors and executive officers.	S-1	10.75	11/1
10.72	Irrevocable Proxy of Hamlet Holdings LLC, dated November 22, 2010	8-K	10.1	11/2
10.73	Amended and Restated Management Investors Rights Agreement, dated November 22, 2010	8-K	10.2	11/2
10.74	Registration Rights Agreement, dated as of November 23, 2010, by and between Caesars Entertainment Corporation and Paulson & Co. Inc., on behalf of the several investment funds and accounts managed by it	8-K	10.3	11/2
10.75	Credit Agreement dated as of April 25, 2011 between the Company, the Borrowers, the lenders (as defined therein) party thereto and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent for the lenders.	8-K	10.1	4/2
10.76	Completion Guarantee dated as of April 25, 2011 by the Company in favor of JPMorgan Chase Bank, N.A., as administrative agent and collateral agent for the lenders (as defined therein).	8-K	10.2	4/2
10.77	Disbursement Agreement dated as of April 25, 2011 between the Borrowers, JPMorgan Chase Bank, N.A. as disbursement agent and agent and Fulcrum LLC as construction consultant.	8-K	10.3	4/2

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.78	Amendment Agreement dated as of May 20, 2011, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc. each Subsidiary Loan Party party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent under the Credit Agreement dated as of January 28, 2008, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc., the lenders party thereto from time to time and the other parties party thereto.	8-K/A		10.1	5/2
10.79	Caesars Entertainment Corporation Management Equity Incentive Plan, as amended and restated on November 29, 2011.	S-1/A		10.78	12/2
10.80	Form of Employment Agreement between Caesars Entertainment Operating Company, Inc., and Jonathan S. Halkyard, Thomas M. Jenkin, and John W. R. Payne.	8-K		10.1	1/9
10.81	Employment Agreement, made as of January 31, 2011, by and between Caesars Entertainment Operating Company, Inc. and Mary H. Thomas.	S-1/A		10.84	1/2
10.82	Caesars Entertainment Corporation 2012 Performance Incentive Plan.	S-1/A		10.89	2/2
10.83	Form of Release and Contribution Agreement, dated as of January 25, 2012, by and among Caesars Entertainment Corporation, Co-Invest Hamlet Holdings, Series LLC, Co-Invest Hamlet Holdings B, LLC and the Participating Co-Investors listed on Schedule I.	S-1/A		10.90	2/2
10.84	Form of First Amendment to the Stockholders Agreement by and among Apollo Hamlet Holdings, LLC, Apollo Hamlet Holdings B, LLC, TPG Hamlet Holdings, LLC, TPG Hamlet Holdings B, LLC, Co-Invest Hamlet Holdings, Series LLC, Co-Invest Hamlet Holdings B, LLC, Hamlet Holdings LLC and Caesars Entertainment Corporation.	S-1/A		10.91	2/2
10.85	Form of Acknowledgment to the Services Agreement among Caesars Entertainment Corporation, Apollo Management VI, L.P., Apollo Alternative Assets, L.P. and TPG Capital, L.P.	S-1/A		10.92	2/2
10.86	Escrow Agreement, dated as of February 14, 2012, by and among Caesars Operating Escrow LLC, Caesars Escrow Corporation, U.S. Bank National Association, as escrow agent and securities intermediary and U.S. Bank National Association, as trustee.	8-K		10.1	2/1
10.87	Form of Stock Option Grant Agreement dated April 16, 2012 between Caesars Entertainment Corporation and Gary W. Loveman.	10-Q	3/31/2012	10.96	5/9

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		62

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

10.88	Amendment No.1 to the Caesars Entertainment Corporation 2012 Performance Incentive Plan	8-K		10.1	7/2
10.89	Form of Caesars Entertainment Corporation 2012 Performance Incentive Plan Nonqualified Option Award Agreement	SC-TO-I		(d)(3)	7/2
10.90	Form of Caesars Entertainment Corporation 2012 Performance Incentive Plan Nonqualified Option Award Agreement (Replacement Options)	SC-TO-I		(d)(4)	7/2
10.91	Form of Caesars Entertainment Corporation 2012 Performance Incentive Plan Nonqualified Option Award Agreement (Replacement Options Granted to Gary W. Loveman)	SC-TO-I		(d)(5)	7/2
10.92	Form of Caesars Entertainment Corporation Management Equity Incentive Plan Stock Option Grant Agreement	SC-TO-I		(d)(7)	7/2
10.93	Form of Amendment to Caesars Entertainment Corporation Management Equity Incentive Plan Stock Option Grant Agreement	SC-TO-I		(d)(8)	7/2
10.94	Equity Interest Purchase Agreement with Exhibits A-F with Penn National Gaming, Inc., Caesars Entertainment Operating Company, Inc., Harrah s Maryland Heights Operating Company, Players Maryland Heights Nevada, LLC and Harrah s Maryland Heights, LLC, dated May 7, 2012.	10-Q	6/30/2012	10.102	8/8
10.95	Escrow Agreement, dated as of August 22, 2012, among U.S. Bank National Association, as escrow agent and securities intermediary, U.S. Bank National Association, as Trustee, Caesars Escrow Corporation, and Caesars Operating Escrow LLC.	8-K		10.1	8/2
10.96	Reaffirmation Agreement, dated as of October 5, 2012, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc. each Subsidiary Loan Party party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent under the Amended and Restated Credit Agreement dated as of May 20, 2011, among Caesars Entertainment Corporation, Caesars Entertainment Operating Company, Inc., the lenders party thereto from time to time and the other parties party thereto.	8-K		10.1	10/1
10.97	Joinder and Supplement to the Intercreditor Agreement, dated as of October 5, 2012, by and among U.S. Bank National Association, as new trustee, U.S. Bank National Association, as second priority agent, Bank of America, N.A., as credit agreement agent and U.S. Bank National Association, as other first priority lien obligations agent.	8-K		10.2	10/1

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		63

Common Stock | **Accumulated Other Comprehensive Income (Loss)**

Table of Contents

10.98	Other First Lien Secured Party Consent to the Collateral Agreement, dated as of October 5, 2012, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Collateral Agreement dated as of January 28, 2008, as amended and restated as of June 10, 2009.		8-K		10.3	10/1
10.99	Other First Lien Secured Party Consent to the Guaranty and Pledge Agreement, dated as of October 5, 2012, by U.S. Bank National Association, as agent or trustee for persons who shall become Secured Parties under the Guaranty and Pledge Agreement dated as of January 28, 2008, as amended and restated as of June 10, 2009.		8-K		10.4	10/1
10.100	2012 Performance Incentive Plan Nonqualified Option Award Agreement, dated September 12, 2012 between Caesars Entertainment Corporation and Gary W. Loveman.	X				
10.101	2012 Performance Incentive Plan Nonqualified Option Award Agreement, dated September 10, 2012 between Caesars Entertainment Corporation and John Payne.	X				
14	Harrah s Entertainment, Inc. Code of Business Conduct and Ethics for Principal Officers, adopted February 26, 2003.		10-K	12/31/2002	14	3/9
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.	X				
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.	X				
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.	X				
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated November 8, 2012.	X				
99.1	Supplemental Discussion of the Financial Results of Caesars Entertainment Operating Company, Inc.	X				
99.2	Supplemental Discussion of the Financial Results of Caesars Entertainment s Commercial Mortgage-Backed Securities Related Properties	X				
***101	The following financial statements from the Company s Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL: (i) Consolidated Condensed Balance Sheets, (ii) Consolidated Condensed Statements of Comprehensive Loss, (iii) Consolidated					

Common Stock	Accumulated Other Comprehensive Income (Loss)	
		Condensed Statement of Stockholders Equity (iv) Consolidated Condensed Statements of Cash Flows (v) Notes to Consolidated Condensed Financial Statements.

64

Common Stock

Accumulated Other Comprehensive Income (Loss)

Table of Contents

Management contract or compensatory plan or arrangement required to be filed as an exhibit t
Form pursuant to Item 6 of Form 10-Q.

* Filed by Park Place Entertainment Corporation

** Filed by Harrah s Entertainment, Inc.

*** Furnished herewith.

Common Stock	Accumulated Other Comprehensive Income (Loss)

Table of Contents

SIGNATURE

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

CAESARS ENTERTAINMENT CORPORATION

November 8, 2012 By: /s/ Diane E. Wilfong

Senior Vice President, Controller, and Chief Accounting O

66