

HARRAHS ENTERTAINMENT INC
Form 10-Q
August 13, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-10410

HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

I.R.S. No. 62-1411755
(I.R.S. Employer)

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of incorporation or organization)

Identification No.)

One Caesars Palace Drive

Las Vegas, Nevada
(Address of principal executive offices)

89109
(Zip Code)

(702) 407-6000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller

Smaller reporting company

reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 1, 2009, the Registrant had 10 shares of voting Common Stock and 40,678,719 shares of non-voting Common Stock outstanding.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited Consolidated Condensed Financial Statements of Harrah's Entertainment, Inc., a Delaware corporation, have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and notes necessary for complete financial statements in conformity with generally accepted accounting principles in the United States. The results for the periods indicated are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of operating results.

Results of operations for interim periods are not necessarily indicative of a full year of operations. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

HARRAHS ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(UNAUDITED)

(In millions, except share amounts)	June 30, 2009	Successor December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 947.1	\$ 650.5
Receivables, less allowance for doubtful accounts of \$216.5 and \$201.4	316.6	394.0
Deferred income taxes	151.2	157.6
Income tax receivable	9.0	5.5
Prepayments and other	249.3	216.4
Inventories	56.3	62.7
Total current assets	1,729.5	1,486.7
Land, buildings, riverboats and equipment	19,184.1	18,881.4
Less: accumulated depreciation	(959.4)	(614.3)
	18,224.7	18,267.1
Assets held for sale	7.3	49.3
Goodwill (Note 4)	4,647.1	4,902.2
Intangible assets (Note 4)	5,181.5	5,307.9
Investments in and advances to non-consolidated affiliates	30.5	30.4
Deferred costs and other	891.8	1,005.0
	\$ 30,712.4	\$ 31,048.6
LIABILITIES AND STOCKHOLDERS EQUITY/(DEFICIT)		
Current liabilities		
Accounts payable	\$ 265.2	\$ 382.3
Interest payable	200.6	417.7
Accrued expenses	1,216.6	1,115.0
Current portion of long-term debt (Note 6)	31.9	85.6
Total current liabilities	1,714.3	2,000.6
Long-term debt (Note 6)	19,345.7	23,123.3
Deferred credits and other	718.2	669.1
Deferred income taxes	5,741.3	4,327.0
	27,519.5	30,120.0
Commitments and contingencies (Notes 6, 9 through 11 and 13)		
Preferred stock; \$0.01 par value; 40,000,000 shares authorized; 19,896,658 and 19,912,447 shares issued and outstanding (net of 38,876 and 23,088 shares held in treasury)	2,465.3	2,289.4
Stockholders' equity/(deficit) (Notes 3, 5 and 6)		
Common stock, non-voting and voting; \$0.01 par value; 80,000,020 shares authorized; 40,678,729 and 40,711,008 shares issued and outstanding (net of 79,481 and 47,201 shares held in treasury)	0.4	0.4
Additional paid-in capital	3,702.3	3,825.1
Accumulated deficit	(2,940.6)	(5,096.3)

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Accumulated other comprehensive loss	(90.7)	(139.6)
Total Harrah's Entertainment, Inc. stockholders' equity/(deficit)	671.4	(1,410.4)
Non-controlling interests	56.2	49.6
Total equity/(deficit)	727.6	(1,360.8)
	\$ 30,712.4	\$ 31,048.6

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAHS ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In millions)	Successor			Predecessor	
	Second Quarter Ended June 30, 2009	Second Quarter Ended June 30, 2008	Six Months Ended June 30, 2009	January 28, 2008 Through June 30, 2008	January 1, 2008 Through January 27, 2008
Revenues					
Casino	\$ 1,810.6	\$ 2,057.5	\$ 3,622.8	\$ 3,523.1	\$ 614.6
Food and beverage	376.9	431.3	747.8	732.6	118.4
Rooms	271.6	335.9	546.3	577.5	96.4
Management fees	15.2	17.1	28.6	29.2	5.0
Other	148.9	168.7	288.4	280.5	42.7
Less: casino promotional allowances	(351.8)	(408.4)	(707.8)	(700.3)	(117.0)
Net revenues	2,271.4	2,602.1	4,526.1	4,442.6	760.1
Operating expenses					
Direct					
Casino	977.1	1,131.0	1,970.4	1,907.7	340.6
Food and beverage	154.4	183.7	298.2	308.0	50.5
Rooms	54.1	64.1	106.1	114.5	19.6
Property general, administrative and other	500.3	577.3	1,004.6	987.2	178.2
Depreciation and amortization	168.8	176.2	341.2	300.4	63.5
Write-downs, reserves and recoveries	26.9	50.1	54.3	(108.7)	4.7
Impairment of intangible assets	297.1		297.1		
Project opening costs	0.6	7.2	2.6	10.0	0.7
Corporate expense	41.7	36.6	72.0	61.3	8.5
Merger and integration costs	0.1	5.1	0.3	22.1	125.6
Loss/(income) on interests in non-consolidated affiliates	0.3	(0.5)	0.1	(1.3)	(0.5)
Amortization of intangible assets	43.7	48.2	87.5	80.5	5.5
Total operating expenses	2,265.1	2,279.0	4,234.4	3,681.7	796.9
Income/(loss) from operations	6.3	323.1	291.7	760.9	(36.8)
Interest expense, net of interest capitalized	(463.4)	(468.0)	(960.2)	(935.9)	(89.7)
Gains/(losses) on early extinguishments of debt	4,279.5		4,280.7	(211.3)	
Other income, including interest income	10.6	3.8	19.1	11.5	1.1
Income/(loss) from continuing operations before income taxes ⁽¹⁾	3,833.0	(141.1)	3,631.3	(374.8)	(125.4)
(Provision)/benefit for income taxes	(1,536.2)	43.5	(1,461.9)	101.7	26.0
Income/(loss) from continuing operations, net of tax ⁽¹⁾	2,296.8	(97.6)	2,169.4	(273.1)	(99.4)
Discontinued operations					
(Loss)/income from discontinued operations	(0.2)	(0.2)	(0.3)	140.8	0.1
Benefit/(provision) for income taxes	0.1	0.6	0.1	(53.2)	
(Loss)/income from discontinued operations, net	(0.1)	0.4	(0.2)	87.6	0.1
Net income/(loss) ⁽¹⁾	2,296.7	(97.2)	2,169.2	(185.5)	(99.3)
Less: net (income)/loss attributable to non-controlling interests	(7.7)	(0.4)	(12.9)	1.0	(1.6)

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Net income/(loss) attributable to Harrah's Entertainment, Inc. ⁽¹⁾	\$ 2,289.0	\$ (97.6)	\$ 2,156.3	\$ (184.5)	\$ (100.9)
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⁽¹⁾ Due to the January 1, 2009 adoption of a recent accounting pronouncement, certain 2008 amounts have been recasted to conform to the 2009 presentation. See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAHS ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In millions)	Successor		Predecessor
	Six Months Ended June 30, 2009	January 28, 2008 Through June 30, 2008	January 1, 2008 Through January 27, 2008
Cash flows from operating activities			
Net income/(loss) attributable to Harrah's Entertainment, Inc.	\$ 2,156.3	\$ (184.5)	\$ (100.9)
Adjustments to reconcile net loss to cash flows from operating activities:			
Loss/(income) from discontinued operations, before income taxes	0.3	(140.8)	(0.1)
Income from insurance claims for hurricane damage		(185.4)	
(Gains)/losses on early extinguishments of debt	(4,280.7)	211.3	
Depreciation and amortization	571.0	489.3	104.9
Write-downs, reserves and recoveries	306.1	32.6	(0.1)
Other non-cash items	29.6	120.6	34.4
Share-based compensation expense	8.4	6.9	50.9
Deferred income taxes	1,419.0	(190.5)	(19.0)
Tax benefit from stock equity plans			42.6
Non-controlling interests' share of net income/(loss)	12.9	(1.0)	1.6
Loss/(income) on interests in non-consolidated affiliates	0.1	(1.3)	(0.5)
Net change in insurance receivables for hurricane damage		0.9	
Returns on investment in non-consolidated affiliates	1.2	0.3	0.1
Insurance proceeds for hurricane losses		97.9	
Net losses/(gains) from asset sales	0.3	8.4	(7.4)
Net change in long-term accounts	(0.6)	(94.8)	68.3
Net change in working capital accounts	(131.5)	558.6	(167.6)
Cash flows provided by operating activities	92.4	728.5	7.2
Cash flows from investing activities			
Land, buildings, riverboats and equipment additions	(277.1)	(670.3)	(117.4)
Insurance proceeds for hurricane losses for discontinued operations		83.3	
Insurance proceeds for hurricane losses for continuing operations		98.1	
Payment for Merger		(17,490.2)	
Payments for businesses acquired, net of cash acquired			0.1
Investments in and advances to non-consolidated affiliates		(5.9)	
Proceeds from other asset sales	34.1	3.6	3.1
(Decrease)/increase in construction payables	(17.3)	49.1	(8.2)
Other	(7.8)	(24.2)	(1.7)
Cash flows used in investing activities	(268.1)	(17,956.5)	(124.1)
Cash flows from financing activities			
Proceeds from issuance of long-term debt, net of discounts	1,323.1	20,354.6	11,316.3
Deferred financing costs	(32.1)	(510.1)	
Borrowings under lending agreements, net of deferred financing costs	1,550.0		
Repayments under lending agreements	(1,826.4)	(5,815.5)	(11,288.8)
Early extinguishments of debt	(480.7)	(1,873.6)	(87.7)
Premiums paid on early extinguishments of debt		(238.0)	
Scheduled debt retirements	(11.5)	(6.5)	
Equity contribution from buyout		6,007.0	
Purchase of additional interest in subsidiary	(31.9)		
Non-controlling interests' distributions, net of contributions	(10.3)	(1.2)	(1.6)
Proceeds from exercises of stock options			2.4
Excess tax benefit from stock equity plans		(50.5)	77.5
Other	(8.2)	0.1	(0.8)

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Cash flows provided by financing activities	472.0	17,866.3	17.3
Cash flows from discontinued operations			
Cash flows from operating activities	0.3	(0.6)	0.5
Cash flows (used in)/provided by discontinued operations	0.3	(0.6)	0.5
Net increase/(decrease) in cash and cash equivalents	296.6	637.7	(99.1)
Cash and cash equivalents, beginning of period	650.5	610.9	710.0
Cash and cash equivalents, end of period	\$ 947.1	\$ 1,248.6	\$ 610.9

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAHS ENTERTAINMENT, INC.

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT) AND COMPREHENSIVE INCOME

(Notes 3, 5 and 6)

(In millions)	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss		Non-controlling interests	Total	Comprehensive Income
	Shares Outstanding	Amount							
Successor Balance December 31, 2008	40.7	\$ 0.4	\$ 3,825.1	\$ (5,096.3)	\$ (139.6)	\$	49.6	\$ (1,360.8)	
Net income				2,156.3			12.9	2,169.2	\$ 2,169.2
Share-based compensation expense			8.4					8.4	
Stock payouts			(1.1)					(1.1)	
Cumulative preferred stock dividends			(177.3)					(177.3)	
Debt exchange transaction, net of tax provision of \$52.3			80.0					80.0	
Pension adjustment, net of tax provision of \$0.0					0.3			0.3	0.3
Foreign currency translation adjustments, net of tax provision of \$8.7					22.3			22.3	22.3
Fair market value of swap agreements, net of tax provision of \$2.6					4.7			4.7	4.7
Adjustment for FIN 48 tax implications			(1.5)					(1.5)	
Purchase of non-controlling interest in subsidiary			(31.9)					(31.9)	
Non-controlling interests distributions, net of contributions							(6.3)	(6.3)	
Fair market value of interest rate cap agreements on commercial mortgage backed securities, net of tax benefit of \$12.0					21.3			21.3	21.3
Reclassification of loss on derivative instrument from other comprehensive loss to net loss, net of tax provision of \$0.1					0.3			0.3	0.3
Other			0.6	(0.6)					
2009 Successor Comprehensive Income									\$ 2,218.1
Successor Balance June 30, 2009	40.7	\$ 0.4	\$ 3,702.3	\$ (2,940.6)	\$ (90.7)	\$	56.2	\$ 727.6	

See accompanying Notes to Consolidated Condensed Financial Statements.

HARRAHS ENTERTAINMENT, INC.**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****JUNE 30, 2009****(UNAUDITED)****Note 1 Basis of Presentation and Organization**

Harrah's Entertainment, Inc. (Harrah's Entertainment, the Company, we, our or us, and including our subsidiaries where the context requires) is a Delaware corporation. As of June 30, 2009, we own or manage 53 casinos, primarily under the Harrah's, Caesars and Horseshoe brand names in the United States. Our casino entertainment facilities include 34 land-based casinos, 12 riverboat or dockside casinos, three managed casinos on Indian lands, one combination thoroughbred racetrack and casino, one combination greyhound racetrack and casino, one combination harness racetrack and casino and one managed casino in Canada. Our 34 land-based casinos include one in Uruguay, eleven in the United Kingdom, three in Egypt and one in South Africa. We view each property as an operating segment and aggregate all operating segments into one reporting segment.

On January 28, 2008, Harrah's Entertainment was acquired by affiliates of Apollo Global Management, LLC (Apollo) and TPG Capital, LP (TPG) in an all cash transaction, hereinafter referred to as the Merger. Although Harrah's Entertainment continued as the same legal entity after the Merger, the accompanying Consolidated Statement of Operations, the Consolidated Condensed Statement of Cash Flows and the Consolidated Condensed Statement of Comprehensive Loss for the six months ended June 30, 2008, are presented as the Predecessor period for the period preceding the Merger and as the Successor period for the period succeeding the Merger. As a result of the application of purchase accounting as of the Merger date, the consolidated condensed financial statements for the Successor period and the Predecessor period are presented on different bases and are, therefore, not comparable.

We have reclassified certain amounts for prior periods to conform to our 2009 presentation.

Note 2 The Merger

The Merger was completed on January 28, 2008, and was financed by a combination of borrowings under the Company's new term loan facility due 2015, the issuance of Senior Notes due 2016 and Senior Toggle Notes due 2018, certain real estate term loans and equity investments of Apollo/TPG, co-investors and members of management. See Note 6 for a discussion of our debt.

The purchase price was approximately \$30.7 billion, including the assumption of \$12.4 billion of debt and approximately \$1.0 billion of transaction costs. All of the outstanding shares of Harrah's Entertainment stock were redeemed, with stockholders receiving \$90.00 in cash for each outstanding share of common stock.

As a result of the Merger, the issued and outstanding shares of non-voting common stock and non-voting preferred stock of Harrah's Entertainment are owned by entities affiliated with Apollo/TPG, certain co-investors and members of management, and the issued and outstanding shares of voting common stock of Harrah's Entertainment are owned by Hamlet Holdings LLC, which is owned by certain individuals affiliated with Apollo/TPG. As a result of the Merger, our stock is no longer publicly traded.

The following unaudited pro forma consolidated financial information assumes that the Merger was completed at the beginning of 2008.

(In millions)	Six Months Ended June 30, 2008
Net revenues	\$ 5,202.7
Loss from continuing operations, net of tax ⁽¹⁾	\$ (463.1)
Net loss attributable to Harrah's Entertainment, Inc.	\$ (375.4)

- ⁽¹⁾ Due to the January 1, 2009 adoption of a recent accounting pronouncement, certain 2008 amounts have been reclassified to conform to the 2009 presentation.

For the six months ended June 30, 2008, pro forma results include \$5.1 million of costs related to the Merger. Pro forma results for the six months ended June 30, 2008, include non-recurring charges of \$82.8 million related to the accelerated vesting of stock options, stock appreciation rights (SARs) and restricted stock and \$64.9 million of other costs related to the Merger.

The unaudited pro forma results are presented for comparative purposes only. The pro forma results are not necessarily indicative of what our actual results would have been had the Merger been completed at the beginning of the period, or of future results.

Note 3 Stock-Based Employee Compensation

As of June 30, 2009, there was approximately \$55.5 million of total unrecognized compensation cost related to stock option grants. In 2009, our share-based compensation expense consists primarily of time-based options and performance-based options that have been granted to management, other personnel and key service providers. The compensation cost that has been charged against income for stock option grants for the quarter and six months ended June 30, 2009, was approximately \$4.3 million and \$8.4 million, respectively. Of the total charged against income for the quarter ended June 30, 2009, \$1.8 million is included in Corporate expense and \$2.5 million is included in Property general, administrative and other in the Consolidated Condensed Statement of Operations. For the six months ended June 30, 2009, \$3.2 million is included in Corporate expense and \$5.2 million is included in Property general, administrative and other in the Consolidated Condensed Statement of Operations.

The compensation cost that was charged against income for stock option grants was approximately \$5.2 million and \$6.9 million for the quarter ended June 30, 2008, and for the Successor period January 28, 2008, through June 30, 2008, respectively. For the quarter ended June 30, 2008, \$3.8 million was included in Corporate expense and \$1.4 million was included in Property general, administrative and other in the Consolidated Condensed Statement of Operations and \$5.1 million was included in Corporate expense and \$1.8 million was included in Property general, administrative and other in the Consolidated Condensed Statement of Operations for the period January 28, 2008, through June 30, 2008.

There was no material award activity in the six months ended June 30, 2009.

In connection with the Merger, outstanding and unexercised stock options and stock appreciation rights, whether vested or unvested, and unvested restricted stock were cancelled and converted into the right to receive cash, accelerating the recognition of compensation costs of \$82.8 million, which was included in Merger and integration costs in the Consolidated Condensed Statement of Operations in the period from January 1, 2008, through January 27, 2008 (Predecessor period).

Note 4 Goodwill and Other Intangible Assets

The following table sets forth changes in our goodwill for the year ended June 30, 2009:

(In millions)