

HARRAHS ENTERTAINMENT INC
Form 10-K/A
August 08, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

**(Mark
One)**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 1-10410

HARRAH S ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

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

One Caesars Palace Drive
Las Vegas, Nevada
(Address of principal executive offices)

89109
(Zip code)

Registrant's telephone number, including area code:
(702) 407-6000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$0.10 per share	NEW YORK STOCK EXCHANGE
Special Stock Purchase Rights	CHICAGO STOCK EXCHANGE
	PACIFIC EXCHANGE
	PHILADELPHIA STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2005, based upon the closing price of \$72.07 for the Common Stock on the New York Stock Exchange on that date, was \$12,775,815,532.

As of January 31, 2006, the Registrant had 184,092,919 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference into Part III hereof

EXPLANATORY NOTE

Harrah's Entertainment, Inc. (the Company) is filing this Amendment No. 1 on Form 10-K/A (Amendment No. 1) to amend our previously filed Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (SEC) on March 14, 2006. The purpose of this Amendment No. 1 is to respond to an informal comment received from the staff of the SEC and amend our disclosures in Item 7 and Item 8 to clarify that, while information is obtained from third parties in the course of the process, management is responsible for the final determination of the purchase price allocations that occur following an acquisition and estimation of the self-insurance accruals.

Except as described above, no other changes have been made to the Form 10-K or the Annual Report to Stockholders, and this Amendment No. 1 does not amend, update or change any other information contained in the Form 10-K. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on March 14, 2006. Accordingly, this Amendment No. 1 should be read in conjunction with the Company's filings made with the Securities and Exchange Commission subsequent to the filing of the Form 10-K, including any amendments to those filings.

In accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, the complete text of Item 7 and Item 8, is set forth herein, including those portions of the text that have not been amended from that set forth in the original Form 10-K.

The only changes to the text in Item 7 of the original Form 10-K are as follows:

- The first paragraph under Strategic Acquisitions (page 32 of the original Form 10-K) was amended to clarify that management is responsible for the final determination of the purchase price allocations that occur following an acquisition.
- The second paragraph under Imperial Palace Hotel & Casino (page 33 of the original Form 10-K) was amended to clarify that management will take into account information obtained from third parties in determining the purchase price allocation for the Imperial Palace Hotel & Casino acquisition.
- The first paragraph under Goodwill and Other Intangible Assets (page 45 of the original Form 10-K) was amended to clarify that management is responsible for the final determination of the purchase price allocations that occur following an acquisition.
- The first paragraph under Self-Insurance Accruals (page 47 of the original Form 10-K) was amended to clarify that management is responsible for the determination of self-insurance accruals.

The only changes to the text in Item 8 of the original Form 10-K are as follows:

- The second paragraph under Goodwill and Other Intangible Assets within Note 1-Summary of Significant Accounting Policies (page 57 of the original Form 10-K) was amended to clarify that management is responsible for the final determination of the purchase price allocations that occur following an acquisition.
- The first paragraph under Self-Insurance Accruals (page 58 of the original Form 10-K) was amended to clarify that management is responsible for the determination of self-insurance accruals.
- The first paragraph under Note 2-Acquisitions (page 62 of the original Form 10-K) was amended to clarify that management is responsible for the final determination of the purchase price allocations that occur following an acquisition.
- The fourth paragraph under Note 2-Acquisitions (page 63 of the original Form 10-K) was amended to clarify that management will take into account information obtained from third parties in determining the purchase price allocation for the Imperial Palace Hotel & Casino acquisition.

PART II

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Harrah's Entertainment, Inc., a Delaware corporation, was incorporated on November 2, 1989, and prior to such date operated under predecessor companies. As of December 31, 2005, we operated 39 casinos primarily under the Harrah's, Caesars and Horseshoe brand names. Our casinos include land-based casinos and casino hotels, dockside and riverboat casinos, a greyhound racetrack, a thoroughbred racetrack, managed casinos and casinos on cruise ships. We also own four casinos that were closed as of December 31, 2005, due to damage from hurricanes in third quarter 2005.

In this discussion, the words Harrah's Entertainment, Company, we, our, and us refer to Harrah's Entertainment, Inc., together with its subsidiaries where appropriate.

OVERVIEW

2005 was a transformational year for Harrah's Entertainment as we consummated our acquisition of Caesars Entertainment, Inc. (Caesars) on June 13, 2005, and became the world's largest provider of branded casino entertainment. As a larger company, our strategy is to focus on exploiting the value of our five major brands Harrah's, Caesars, Horseshoe, Total Rewards and the World Series of Poker. As we study markets in which we operate, or may operate, we will brand casinos tailored to customers in each market. We are already using our most internationally recognized brand, Caesars, in development plans for several integrated resorts in international jurisdictions. We believe that the customer-relationship marketing and business-intelligence capabilities fueled by Total Rewards, our customer loyalty program, are constantly bringing us closer to our customers so we better understand their preferences, and from that understanding, we are able to improve entertainment experiences we offer accordingly.

Certain events that affected our 2005 results, or that may affect future results, are listed below. These items are discussed in greater detail elsewhere in our discussion of operating results and in the Debt and Liquidity section.

- On June 13, 2005, we completed our acquisition of Caesars, adding 15 properties to our portfolio. The purchase price allocation process began in June 2005 and will be completed within one year of the date of the acquisition. The results of the Caesars properties are included with our operating results subsequent to their acquisition. We immediately began the integration and conversion of systems, customer databases and operations in order to achieve synergies and increase market share and visitation.
- On August 29, 2005, Hurricane Katrina hit the Gulf Coast, causing significant damage to our assets in Biloxi and Gulfport, Mississippi. Our assets in New Orleans also sustained damage, and we suffered various losses as a result of Hurricane Katrina. Then on September 24, 2005, Hurricane Rita hit the Gulf Coast, causing significant damage to our assets in Lake Charles, Louisiana. At December 31, 2005, all four properties remained closed.
- On April 26, 2005, we sold the assets and certain related liabilities of Harrah's East Chicago and Harrah's Tunica to an unrelated third party. Results for Harrah's East Chicago and Harrah's Tunica are presented as discontinued operations for all periods presented. We reported a pretax gain of approximately \$119.6 million on the sale of these two properties in the second quarter of 2005.
- Charges of \$287.9 million were taken in fourth quarter 2005 to write off the goodwill and other intangible assets for Harrah's Lake Charles, Harrah's Louisiana Downs, Grand Casino Biloxi and Grand Casino Gulfport. Of the total charges, \$194.7 million are reported in Write-downs, reserves and recoveries. Charges for Grand Casino Gulfport of \$78.6 million, after taxes, are reported in Discontinued operations.
- During 2005, we issued \$1.0 billion of 5.625% Senior Notes, \$750 million of 5.75% Senior Notes and \$250 million of Senior Floating Rate Notes to finance our acquisitions, to reduce our effective interest rate and/or lengthen debt maturities.

- We retired \$990.5 million of our 7.875% Senior Notes. Charges of \$3.3 million for premiums paid and the write-off of unamortized deferred financing costs related to the 7.875% Senior Notes were charged to Income from continuing operations.
- On December 23, 2005, we acquired the assets of the Imperial Palace Hotel & Casino (Imperial Palace) in Las Vegas, Nevada. The Imperial Palace occupies an 18.5 acre site on the Las Vegas Strip that is situated between Harrah s Las Vegas and the Flamingo and is across the Strip from Caesars Palace. This acquisition is one of a number of moves designed to strategically position the Company for development in Las Vegas.
- We announced intentions to pursue development opportunities for international resorts in Singapore, the Bahamas, Spain and Slovenia, each in cooperation with local developers and operators.

OVERALL OPERATING RESULTS

The results of Harrah s East Chicago and Harrah s Tunica, through the date of their sale in April 2005, are presented in Discontinued operations for all periods presented, and beginning June 13, 2005, the operating results of Reno Hilton, Flamingo Laughlin, Grand Casino Gulfport and a hotel in Halifax, Nova Scotia, through its sale in November 2005, are also presented in Discontinued operations. The discussion that follows is related to our continuing operations.

(In millions, except earnings per share)	2005	2004	2003	Percentage Increase/(Decrease)			
				05 vs 04	04 vs 03		
Casino revenues	\$ 6,071.5	\$ 4,077.7	\$ 3,458.4	48.9	% 17.9	%	
Total revenues	7,111.0	4,548.3	3,948.9	56.3	%	15.2	%
Income from operations	979.7	791.1	678.8	23.8	%	16.5	%
Income from continuing operations	263.5	329.5	261.1	(20.0))%	26.2	%
Net income	236.4	367.7	292.6	(35.7))%	25.7	%
Earnings per share diluted							
From continuing operations	1.75	2.92	2.36	(40.1))%	23.7	%
Net income	1.57	3.26	2.65	(51.8))%	23.0	%
Operating margin	13.8	% 17.4	% 17.2	% (3.6))pts	0.2	pt

2005 included results from properties acquired in the Caesars acquisition subsequent to June 13, 2005, and a full year s results from properties acquired from Horseshoe Gaming Holding Corp. (Horseshoe Gaming) on July 1, 2004. Caesars properties contributed \$2.1 billion in revenues and \$321.4 million in income from operations in the approximate six months that we owned them in 2005. The properties acquired from Horseshoe Gaming contributed \$882.2 million in revenues and \$169.6 million in income from operations in 2005 vs. \$416.6 million in revenues and \$79.1 million in income from operations in the six months that we owned them in 2004. 2005 results were also affected by the loss of revenues and income from operations from four properties closed due to hurricane damage. Excluding results from properties acquired from Caesars and Horseshoe Gaming and from properties closed due to hurricane damage, revenues were 4.3% higher than in 2004; however, income from operations and net income were lower due to a charge in 2005 for impairment of intangible assets.

In 2004, total revenues increased for the seventh consecutive year and were 15.2% higher than in 2003, primarily as a result of the acquisition of Horseshoe Gaming on July 1, 2004, strong results from our properties in Southern Nevada and organic growth at most of our properties. We define organic growth as year-over-year increase in gaming revenues for properties that we have owned and operated for both periods. Our 2004 income from operations was 16.5% higher than in 2003, driven by increased revenues and lower gaming taxes at our Bluffs Run property as a result of legislation that settled an issue related to gaming taxes for casinos at racetracks. Net income increased 25.7% and diluted earnings per share increased 23.0% over our 2003 results.

HURRICANE DAMAGE

Grand Casino Biloxi and Grand Casino Gulfport

On August 29, 2005, Hurricane Katrina hit the Gulf Coast, causing significant damage to our assets in Biloxi and Gulfport, Mississippi. We plan to rebuild in Biloxi, but at this time we are unable to determine the amount of time needed to reconstruct the damaged assets. In December 2005, we reached an agreement to sell the Gulfport assets in their as is condition. Harrah's Entertainment will retain all insurance proceeds related to the Gulfport property. Insurance covers the repair or replacement of our assets that suffered loss or damages. The deductible under these policies is \$15 million. We are working closely with our insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to us as a result of the damages and losses. Based on current estimates, insurance proceeds are expected to equal or exceed the net book value of the impacted assets; therefore, we do not expect to record a loss after insurance recoveries. Our insurance policies also provide coverage for interruption to our business, including lost profits, and reimbursement for other expenses and costs we have incurred relating to the damages and losses suffered. Due to our expectation that the costs incurred in the aftermath of the storm will be less than the anticipated business interruption insurance proceeds, post-storm costs are being offset by the expected recovery, and there is no current income statement impact. To the extent that business interruption proceeds ultimately exceed the costs incurred, the excess is expected to be recorded as income in the line item,

Write-downs, reserves and recoveries. We have written off property and inventories that were destroyed by Hurricane Katrina and recorded receivables in anticipation of insurance proceeds that will reimburse us for those losses and for expenses that we expect to recover under our insurance programs. As of December 31, 2005, we had received approximately \$69.5 million in advances from our insurance carriers related to the Mississippi Gulf Coast properties and had net receivables of \$174.5 million for which we believe collection is probable. Intangible assets of \$88.7 million related to Grand Casino Biloxi and \$93.2 million related to Grand Casino Gulfport were written off in the fourth quarter of 2005.

Harrah's New Orleans

Our assets in New Orleans sustained damage, and we suffered various losses as a result of Hurricane Katrina. At December 31, 2005, the casino remained closed, but the property reopened on February 17, 2006. Insurance covers the repair or replacement of our assets that suffered loss or damage, and we are working closely with our insurance carriers and claims adjusters to ascertain the full amount of insurance proceeds due to us as a result of the damages and the loss the Company suffered. Our insurance policies also provide coverage for interruption to our business, including lost profits, and reimbursement for other expenses and costs that we have incurred relating to the damages and loss we have suffered. The combined property damage and business interruption deductible under the policies insuring the New Orleans assets is \$10 million. Based on loss estimates and expenses incurred, we have recorded \$22.8 million in charges in the line item, Write-downs, reserves and recoveries. As of December 31, 2005, approximately \$16.9 million in advances had been received from our insurance carriers, and we had net receivables of \$21.3 million for which we believe collection is probable.

A 450-room luxury hotel that is under construction adjacent to the casino facility also sustained damage due to Hurricane Katrina. We have a separate Builders Risk insurance policy that covers costs associated with repairing any damage. The deductible under this policy is \$250,000. We recorded a charge of \$250,000 in the third quarter in the line item, Write-downs, reserves and recoveries. The time required to resume construction, as well as the increased demands for construction labor and materials in the market, could cause the cost of the construction to increase and the time to complete the construction to be extended. Construction resumed in fourth quarter 2005, and we expect the hotel to open in third quarter 2006.

Harrah's Lake Charles

On September 24, 2005, Hurricane Rita hit the Gulf Coast, causing significant damage to our assets in Lake Charles, Louisiana. Insurance covers the repair or replacement of our assets that suffered loss or damage and provides coverage for interruption to our business, including lost profits. The deductible of \$10 million under the policies that cover our damages and losses in Lake Charles applies both to physical damage and to business interruption. Based on estimates to date, losses have exceeded the deductible under this insurance policy, and we

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recorded \$16.9 million in charges related to Lake Charles in the line item, Write-downs, reserves and recoveries. We have written off property and inventories that were destroyed by Hurricane Rita and recorded receivables in anticipation of insurance proceeds that will reimburse us for those losses and for expenses that we expect to recover under our insurance programs. As of December 31, 2005, approximately \$14.7 million in advances had been received from our insurance carriers, and we had net receivables of \$42.9 million for which we believe collection is probable. In our review of goodwill and other intangible assets completed during fourth quarter 2005, we determined that the entire \$56 million of goodwill carried at Lake Charles was impaired, and it was written off.

REGIONAL RESULTS AND DEVELOPMENT PLANS

The executive decision makers of our Company review operating results, assess performance and make decisions related to the allocation of resources on a property-by-property basis. We, therefore, consider each property to be an operating segment and that it is appropriate to aggregate and present the operations of our Company as one reportable segment. In order to provide more detail in a more understandable manner than would be possible on a consolidated basis, our properties have been grouped as follows to facilitate discussion of our operating results:

West	East	North Central	South Central	Managed/Other
Harrah s Reno	Harrah s Atlantic City	Harrah s Joliet	Harrah s Lake Charles(2)	Harrah s Ak-Chin
Harrah s/Harveys Lake Tahoe	Showboat Atlantic City	Harrah s North Kansas City	Harrah s New Orleans(2)	Harrah s Cherokee
Bill s Harrah s Las Vegas	Caesars Atlantic City(1)	Harrah s Council Bluffs	Harrah s Louisiana Downs	Harrah s Prairie Band
Harrah s Laughlin	Bally s Atlantic City(1)	Bluffs Run	Horseshoe Bossier City	Harrah s Rincon
Caesars Palace(1)		Harrah s St. Louis	Horseshoe Tunica	Punta del Este
Paris(1)		Harrah s Metropolis	Grand Tunica(1)	(Uruguay)(1)
Bally s Las Vegas(1)		Horseshoe Hammond	Sheraton Tunica(1)	Windsor(1)
Flamingo Las Vegas(1)		Caesars Indiana(1)	Grand Biloxi(1)(2)	S.S. Crystal Symphony(1)(4)
Reno Hilton(1)(3)			Grand Gulfport(1)(2)(3)	S.S. Crystal Serenity(1)(4)
Flamingo Laughlin(1)(3)				
Imperial Palace				

- (1) Acquired from Caesars.
- (2) Closed due to hurricanes as of December 31, 2005.
- (3) Included in Discontinued operations.
- (4) Agreements to operate the Caesars Palace at Sea casinos on cruise ships owned by Crystal Cruises, Inc. expire in the second quarter of 2006.

West Results

(In millions)	2005	2004	2003	Percentage Increase/(Decrease)		
				05 vs 04	04 vs 03	
Casino revenues	\$ 1,544.3	\$ 1,040.8	\$ 904.7	48.4	%	15.0
Total revenues	2,565.7	1,514.9	1,346.7	69.4	%	12.5
Income from operations	544.5	306.0	220.8	77.9	%	38.6
Operating margin	21.3	% 20.2	% 16.4	%	1.1	