Harrah’s announces plan to reduce debt burden

Harrah’s Entertainment on Wednesday announced a plan to exchange USD 2.8 billion in bonds for new notes with an extended due date – the latest in a series of efforts to lower the company’s mounting debt burden.

If approved by bondholders, the offer is expected to buy the company more time as it navigates a recession that has pummeled earnings as debts come due.

The new, second priority notes carry a 10 percent interest rate, mature in 2018 and are secured by Harrah’s assets.

Harrah’s executed a similar debt swap in December, which reduced the company’s debt by about USD 1 billion and postponed maturities by several years. In return for helping the company ride out the recession and fend off bankruptcy, bondholders received higher interest rates for their notes.

Thanks to recent stimulus legislation signed into law by President Barack Obama, companies now get to defer taxes on the forgiven debt, which was previously taxed as income.

Analysts expected Harrah’s to initiate such offers this year to further trim debt. With banks reluctant to lend money in the downturn, Harrah’s has few options but to negotiate with lenders and hope they are willing to gamble on the prospect of a distant rebound rather than foreclosing on casinos in a hasty grab for cash.

Earlier Wednesday, bond rating agency Moody’s warned that Harrah’s might not have enough cash to make debt payments this year, given the company’s spending needs and some USD 700 million in bonds coming due over the next couple of years.

Moody’s made a similarly downbeat forecast last week about Harrah’s competitor MGM Mirage, which is also hurting for cash but for somewhat different reasons.

Harrah’s spokesman Gary Thompson declined comment on bankruptcy concerns, saying such predictions were speculative.

Moody’s on Wednesday downgraded several classes of Harrah’s debt and lowered the company’s credit ratings, citing a „high probability of default“ as declining business in Las Vegas and Atlantic City chips away at the company’s ability to make debt payments.

Moody’s said Harrah’s has just enough cash to cover interest payments. After payments and money the company is expected to need for operations, that leaves a negative cash balance this year and next, Moody’s said.

Harrah’s took on nearly USD 24 billion in debt when the company went private with backing from private equity firms Apollo Management and TPG in January 2008. The USD 30.7 billion leveraged buyout, one of the nation’s largest during the credit boom, nearly doubled the company’s debt at a time when the economy was slowing down.

The company’s credit standing will likely remain weak even if Harrah’s is able to exchange more of its notes and reduce debt, Moody’s said.

Harrah’s has trimmed costs by laying off workers, slashing benefits and suspending work on a hotel expansion at its Caesars Palace flagship.

The company’s agreements with lenders, struck during the real estate boom with liberal terms, allowed for Harrah’s to add the value of cost cuts – estimated at more than USD 400 million dollars – to its cash flow figures, inflating earnings figures reported to lenders and helping to keep the company out of default.