

## ANALYST ACTION: HARRAH'S

In a tough-worded, 24-page report, David Hargreaves of Sterne Agee said Harrah's Operating Company may breach its 4.75 -times leverage covenant in the second half of the year, adding that the Operating Company has a cushion but is burning cash.

"Excessive leverage and a tough economy have left Harrah's operationally flat-footed, fatigued and cornered. In response, we believe management may have resorted to drastic cost cutting measures, potentially at the risk of straining its customer and employee relationships," he wrote.

Hargreaves made the case for customer alienation citing a 6.6 percent decline in fair share at various properties, and discounting reports of high customer satisfaction scores saying they are not explained. A customer trading up to a more upscale property because of bargain rates may be the reason for high cores, he said.

Meanwhile, he discounted reports of improved business volumes in Las Vegas, saying that casino operators are drawing customers by giving away the store.

Hargreaves sees HOC interest coverage at 1.2 times inferring from Harrah's reports, but thinks it might be just 1.1 times given his \$1.3 billion EBITDA estimate.