

# SEC to look into trades in Harrah's

The US Securities and Exchange Commission is expected to examine suspicious option trades in the run-up to the USD 25.9 billion (GBP 13.7 billion) bid for Harrah's Entertainment tabled by a private equity consortium this week.

The watchdog is expected to look into a 15-fold jump in call option trading volumes in the days before the owner of Caesars Palace announced the takeover approach from the buyout firms Texas Pacific and Apollo Management.

Call options confer the right to buy shares at a specified price in the future and their purchase implies an expectation that the stock price will rise, as it tends to whenever a takeover bid is announced. The number of put options traded in Harrah's, which stood at 1,051 on September 18, soared to 16,627 on September 21 and to 23,597 on September 28, according to Insideoptions.com, which tracks suspicious trading activity. The price of an "October call" soared from USD 0.60 on the morning of September 20 to USD 1.45 by the end of September 21.

Jon Najarian, a Chicago-based trader who runs Insideoptions.com, said: "This is extremely unusual and suspicious trading activity and it's pretty clear that there have been at least two leaks. As private equity deals get bigger and bigger, the scope for insider trading has increased dramatically. There are now so many people involved in some of these deals that it's getting harder and harder to keep them secret."

It is not uncommon for each private equity firm to involve at least 20 people in a large deal, Mr Najarian said. These include the dealmakers, as well as bankers, lawyers and

secretaries. The number of participants multiplies if a group of private equity firms come together in a consortium deal and again if the approach is made hand-in-hand with the target company's own management team.

The expected investigation into the Harrah's offer comes barely two months after the SEC began looking into a similar trading pattern in the run-up to the agreed USD 33 billion buyout of HCA, America's biggest hospital chain. That investigation is thought to be ongoing. The HCA investigation, in turn, came just a month after the SEC froze an estimated USD 862,000 in profits that it said could have been earned from suspicious trades occurring a few days before Petco Animal Supplies, the American pet products company, was sold to a private equity consortium for USD 1.62 billion.

Although the Financial Services Authority in Britain is not known to be investigating suspicious trades surrounding the buyout of UK companies, Dilwyn Griffiths, the watchdog's head of market monitoring, acknowledged the dangers posed by the growth of so-called private equity "club" deals. Mr Griffiths said yesterday: "The more parties to a deal, the more challenging it is to keep a deal confidential."

It also emerged yesterday that the price of so-called credit-default swaps in Harrah's, a bet on a company's ability to repay debt, surged by 21 per cent last week. This signals an expectation that Harrah's will find it harder to repay its debts in the future, as it would if it was bought in a leveraged buyout.

Harrah's operates 39 casinos around the United States, including in Atlantic City, Las Vegas and New Orleans.