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STATE OF NEW JERSEY
CASINO CONTROL COMMISSION

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PUBLIC MEETING NO. 17-07-11

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Tuesday, July 11, 2017
Atlantic City Commission Offices
Joseph P. Lordi Public Meeting Room - First Floor
Tennessee Avenue and Boardwalk
Atlantic City, New Jersey 08401
10:33 a.m. to 1:52 p.m.

Certified Court Reporter: Darlene Sillitoe

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Public Meeting No. 17-07-11 July 11, 2017

1 B E F O R E :

2 CASINO CONTROL COMMISSION:

MATTHEW B. LEVINSON, CHAIR

3 SHARON ANNE HARRINGTON, VICE CHAIR

ALISA COOPER, COMMISSIONER

4

PRESENT FOR THE CASINO CONTROL COMMISSION:

5 DARYL W. NANCE, ADMINISTRATIVE ANALYST

DANIEL J. HENEGHAN, PUBLIC INFORMATION OFFICER

6

OFFICE OF THE GENERAL COUNSEL:

7 DIANNA W. FAUNTLEROY, GENERAL COUNSEL/EXECUTIVE
SECRETARY

8 TERESA M. PIMPINELLI, SENIOR COUNSEL

ELIZABETH F. CASEY, SENIOR COUNSEL

9

OFFICE OF REGULATORY AFFAIRS:

10 GLENN T. MacFADDEN, SUPERVISOR, LICENSING

11 DIVISION OF GAMING ENFORCEMENT:

DEPUTY ATTORNEYS GENERAL

12 TRACY E. RICHARDSON, DEPUTY ATTORNEY GENERAL

BRIAN C. BISCIEGLIA, DEPUTY ATTORNEY GENERAL

13 JOANNE S. BERMAN, DEPUTY ATTORNEY GENERAL

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1 A P P E A R A N C E S :

2 ITEM NO. 9 ELIZABETH F. CASEY, SENIOR COUNSEL
3 JOANNE S. BERMAN, DEPUTY ATTORNEY GENERAL
4 BROWNSTEIN, HYATT, FARBER, SCHRECK
5 PAUL M. O'GARA, ESQ.
6 FOR: CAESARS ENTITIES

7 ITEM NO. 10 ELIZABETH F. CASEY, SENIOR COUNSEL
8 JOANNE S. BERMAN, DEPUTY ATTORNEY GENERAL
9 TRACY E. RICHARDSON, DEPUTY ATTORNEY
10 GENERAL
11 BROWNSTEIN, HYATT, FARBER, SCHRECK
12 PAUL M. O'GARA, ESQ.
13 FOR: CAESARS ENTITIES

14 ITEM NO. 11 ELIZABETH F. CASEY, SENIOR COUNSEL
15 JOANNE S. BERMAN, DEPUTY ATTORNEY GENERAL
16 TRACY E. RICHARDSON, DEPUTY ATTORNEY
17 GENERAL
18 BROWNSTEIN, HYATT, FARBER, SCHRECK
19 PAUL M. O'GARA, ESQ.
20 FOR: CAESARS ENTITIES

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Public Meeting No. 17-07-11 July 11, 2017

	AGENDA		
	PUBLIC MEETING NO. 17-07-11		
	JULY 11, 2017, 10:33 a.m.		
	ITEM	PAGE	VOTE
1			
2			
3	1 Ratification of the minutes of the June 14, 2017, public meeting	9	10
4	2 Applications for initial casino key employee licenses		
5	a) Stephen E. Carter	10	12
	b) Danny Huynh	10	13
6	c) Daniel J. McMeanamin	10	11
	d) Imran Mohammad	10	11
7	e) Christopher J. O'Connor	10	11
	f) Steven G. Rac	10	11
8	3 Applications for casino key employee licenses and for qualification		
9	a) Donald W. Kneisel, II	13	14
	b) William C. Murtha	14	15
10	4 Approvals through Delegation of Authority between June 12, 2017, and July 7, 2017, pursuant to Resolution No. 17-01-11-11-C	15	
11			
12	5 Requests for inactivation of casino key employee licenses:	16	17
13	a) Dante Benvenuto		
14	b) Sergio M. Casares		
15	c) Larry W. Clark		
16	d) Howard S. Cohen		
17	e) Luis Espino		
18	f) Daniel M. Figueiredo		
19	g) Kevin P. Flanagan		
20	h) Gary P. Imperatore		
21	i) Thomas E. James		
22	j) Richard W. Luttrell		
23	k) Lance W. McCallion		
24	l) Kathleen J. Meiklejohn		
25	m) Karolyn M. O'Brien		
	n) James C. Roesberg		
	o) Dominic A. Tedeschi Jr.		
	p) Gary Vanhettinga		
	q) George H. Wilson		
26	6 Consideration of the lapse of casino key employee licenses:	17	18
27	a) Manmeeet K. Chawla		
28	b) Brian M. Kernan		
29	c) Carmella M. Kice		
30	d) Peter P. Lipuma, Jr.		
31	e) Raul C. Martir		

Public Meeting No. 17-07-11 July 11, 2017

1	CONTINUED	AGENDA		
		PUBLIC MEETING NO. 17-07011		
2		JULY 11, 2017, 10:33 a.m.		
	ITEM		PAGE	VOTE
3	7	Consideration of the initial application of Lloyd J. Reynolds for a casino key employee license (DKT-7-0010-CK)	19	20
4		Consideration of the resubmission		
5	8	application of David P. Marshall for a casino key employee license (DKT-14-0032-CR)	21	23
6		Joint Petition of Caesars Entertainment Corporation, Harrah's Atlantic City Operating Company, LLC, Bally's Park Place, Inc., Boardwalk Regency Corporation and Caesars Interactive Entertainment New Jersey, LLC,		
7	9	requesting permission for Jess M. Ravich to assume the duties and exercise the powers as a member of the board of directors for Caesars Entertainment Corporation pending plenary qualification (PRN 1561701)	23	27
8				
9				
10	10	Joint Petition of Caesars Entertainment Corporation, CEOC, LLC, Successor in Interest to Caesars Entertainment Operating Company, Inc., Boardwalk Regency, LLC, Successor in Interest to Boardwalk Regency Corporation and Bally's Park Place, LLC, Successor in Interest to Bally's Park Place, Inc., for approval of: (I) The reorganization of Caesars Entertainment Operating Company and related relief; (II) The merger of Caesars Acquisition Corporation with and into Caesars Entertainment Corporation and (III) issuance of casino licenses to Boardwalk Regency LLC, and Bally's Park Place, LLC, on the same terms and conditions as their predecessor entities and other relief (PRN 14215702)	27	176
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Public Meeting No. 17-07-11 July 11, 2017

6	8
<p>1 CONTINUED AGENDA PUBLIC MEETING NO. 17-07-11 JULY 11, 2017, 10:33 a.m. ITEM PAGE VOTE 3 11 Petition of CEOC, LLC, Successor in 27 126 Interest to Caesars Entertainment Operating Company, Inc., Boardwalk Regency, LLC, Successor in Interest to Boardwalk Regency Corporation and Bally's Park Place, LLC, Successor in Interest to Bally's Park Place, Inc., for (I) Approval of a Management Agreement pursuant to NJSA 5:12-82(C) and (II) issuance of a casino license to (NonCPLV) Manager and other relief (PRN 1301701) Timothy Donovan, sworn 42 Eric Hession, sworn 78</p> <p>10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25</p>	<p>1 (Public Meeting 17-07-11 was commenced at 10:33 a.m.) 2 3 MR. NANCE: Good morning. I'd like to 4 read an opening statement: 5 This is to advise the general public 6 that in compliance with Chapter 231 of the 7 public laws of 1975 entitled "Senator Bryon M. 8 Baer Open Public Meeting Act," the New Jersey 9 Casino Control Commission on June 27th, 2017, 10 filed with the Secretary of State at the State 11 House in Trenton a notice of this meeting. On 12 June 27th, 2017, copies were mailed to 13 subscribers. 14 Members of the press will be permitted 15 to take photographs. We ask that this be done 16 in a manner which is not distracting to the 17 Commission. 18 The use of cell phones in the public 19 meeting room is prohibited. 20 Any member of the public who wish to 21 address the Commission will be given the 22 opportunity to do so before the Commission 23 adjourns for the day. 24 Please stand for the Pledge of 25 Allegiance.</p>
7	9
<p>1 ITEMS NO. 10 AND 11 EXHIBITS: 2 NO. DESCRIPTION ID EVD 3 PETITIONERS EXHIBITS 4 P-1 Boardwalk Regency, LLC, and Bally's X X Park Place, LLC - NJCCC Presentation, 5 7-11-17 (Charts - 12 Pages) 6 7 DIVISION EXHIBITS 8 D-1 Letter report, 6-23-2017, to Matthew X X Levinson, Chairman, CCC, from Joanne 9 Berman, Deputy Attorney General, DGE Re: Petition of CEOC, LLC, Boardwalk 10 Regency, LLC, and Bally's Park Place, LLC, for approval of a Management 11 Agreement pursuant to NJSA 5:12-82C (PRN 1301701) 12 D-2 Letter Report, 6-23-17, to Matthew X X 13 Levinson, Chairman, CCC, from Joanne Berman, Deputy Attorney General, DGE 14 Re: Petition of CEOC, LLC, Boardwalk Regency, LLC, and Bally's Park Place, 15 LLC, for issuance of a casino license to NonCPLV Manager, LLC (PRN 1301701) 16 D-3 Report to the Casino Control X X 17 Commission on the petition of Caesars Entertainment Corporation, et al., 18 for: (I) Approval of the reorganization 19 of Caesars Entertainment Operating Company and related relief (II) Merger of Caesars Acquisition 20 Corporation with and into Caesars Entertainment Corporation (III) Issuance of casino licenses to 21 Boardwalk Regency, LLC, and Bally's Park Place, LLC, on the same terms 22 and conditions as their predecessor entities and other relief, 6-23-17 23 (REQUEST TO REDACT) 24 25</p>	<p>1 ITEM NO. 1 2 (The Flag Salute was recited.) 3 MS. FAUNTLEROY: Good morning. Please 4 answer when I call your name for the record, 5 please. 6 Commissioners Cooper? 7 VICE CHAIR COOPER: Present. 8 MS. FAUNTLEROY: Vice Chair Harrington? 9 VICE CHAIR HARRINGTON: Here. 10 MS. FAUNTLEROY: And Chairman Levinson? 11 CHAIR LEVINSON: Here. 12 MS. FAUNTLEROY: Thank you. 13 Matters discussed in closed session this 14 morning included employee license matters; 15 approval of the June 14, 2017, closed-session 16 minutes; and approval of the hiring of the 17 recommended candidate to the position of 18 Research Analyst in the Division of Regulatory 19 Affairs, PPD Unit. 20 The first matter for your consideration 21 is the ratification of the minutes of the 22 public portion of the June 14, 2017, meeting. 23 CHAIR LEVINSON: Thank you. 24 Do I have a motion? 25 VICE CHAIR HARRINGTON: I move.</p>

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10	<p>1 ITEM NO. 2</p> <p>2 CHAIR LEVINSON: Any discussion on the</p> <p>3 minutes?</p> <p>4 (No response.)</p> <p>5 CHAIR LEVINSON: All those in favor?</p> <p>6 (Ayes.)</p> <p>7 CHAIR LEVINSON: Opposed?</p> <p>8 (No response.)</p> <p>9 CHAIR LEVINSON: Motion carries.</p> <p>10 MS. FAUNTLEROY: Thank you.</p> <p>11 The next matter for your consideration</p> <p>12 are applications for initial casino key</p> <p>13 employee licenses. There are several that are</p> <p>14 identified on your agenda as A through F. I</p> <p>15 will call A and B separately, as there are</p> <p>16 objections that have been raised with respect</p> <p>17 to those matters.</p> <p>18 The other matters, there are no</p> <p>19 objection, and the recommendation is that you</p> <p>20 grant those licenses.</p> <p>21 CHAIR LEVINSON: Thank you.</p> <p>22 I'll entertain a motion for 2c, 2d, 2e,</p> <p>23 and 2f?</p> <p>24 COMMISSIONER COOPER: Mr. Chairman, I</p> <p>25 move to grant the four initial casino key</p>	12
11	<p>1 ITEM NO. 2</p> <p>2 employee licenses.</p> <p>3 CHAIR LEVINSON: Thank you.</p> <p>4 A second?</p> <p>5 VICE CHAIR HARRINGTON: Second.</p> <p>6 CHAIR LEVINSON: Any discussion on these</p> <p>7 individually?</p> <p>8 (No response.)</p> <p>9 CHAIR LEVINSON: All those in favor?</p> <p>10 (Ayes.)</p> <p>11 CHAIR LEVINSON: Opposed?</p> <p>12 (No response.)</p> <p>13 CHAIR LEVINSON: Motion carries.</p> <p>14 MS. FAUNTLEROY: Thank you.</p> <p>15 Item 2a is Stephen E. Carter. An</p> <p>16 objection has been raised, and staff recommends</p> <p>17 that the matter be remanded to the contested</p> <p>18 case process.</p> <p>19 CHAIR LEVINSON: Thank you.</p> <p>20 Is there a motion for Mr. Carter?</p> <p>21 COMMISSIONER COOPER: I move to remand</p> <p>22 for a hearing, the initial casino key employee</p> <p>23 application license application of Stephen E.</p> <p>24 Carter.</p> <p>25 CHAIR LEVINSON: Thank you.</p>	13
	<p>1 ITEM NO. 2</p> <p>2 Second?</p> <p>3 VICE CHAIR HARRINGTON: Second.</p> <p>4 CHAIR LEVINSON: Any discussion?</p> <p>5 (No response.)</p> <p>6 CHAIR LEVINSON: All those in favor?</p> <p>7 (Ayes.)</p> <p>8 CHAIR LEVINSON: Opposed?</p> <p>9 (No response.)</p> <p>10 CHAIR LEVINSON: Motion carries.</p> <p>11 MS. FAUNTLEROY: Thank you.</p> <p>12 2b is Danny Huynh. Again, an objection</p> <p>13 has been raised and a recommendation of the</p> <p>14 matter be remanded to the contested case</p> <p>15 process for the hearing.</p> <p>16 CHAIR LEVINSON: Thank you.</p> <p>17 I'd entertain a motion.</p> <p>18 COMMISSIONER COOPER: Mr. Chairman, I</p> <p>19 move to remand for a hearing the initial casino</p> <p>20 key employee license application of Danny</p> <p>21 Huynh.</p> <p>22 CHAIR LEVINSON: Thank you.</p> <p>23 Second?</p> <p>24 VICE CHAIR HARRINGTON: Second.</p> <p>25 CHAIR LEVINSON: Any discussion on this</p>	

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<p>1 ITEM NO. 3</p> <p>2 (No response.)</p> <p>3 CHAIR LEVINSON: This is a roll call</p> <p>4 vote.</p> <p>5 MS. FAUNTLEROY: Commissioner Cooper?</p> <p>6 COMMISSIONER COOPER: Yes.</p> <p>7 MS. FAUNTLEROY: Vice Chair Harrington?</p> <p>8 VICE CHAIR HARRINGTON: Yes.</p> <p>9 MS. FAUNTLEROY: And Chairman Levinson?</p> <p>10 CHAIR LEVINSON: Yes.</p> <p>11 MS. FAUNTLEROY: Thank you.</p> <p>12 3b is William C. Murtha, Executive Vice</p> <p>13 President, General Counsel and Secretary for</p> <p>14 Tropicana Atlantic City Corp.</p> <p>15 CHAIR LEVINSON: Thank you.</p> <p>16 I'll entertain a motion for Mr. Murtha.</p> <p>17 VICE CHAIR HARRINGTON: I move that we</p> <p>18 grant resubmitted key license and</p> <p>19 qualification.</p> <p>20 CHAIR LEVINSON: Thank you.</p> <p>21 Second?</p> <p>22 COMMISSIONER COOPER: I'll second that.</p> <p>23 CHAIR LEVINSON: Any discussion on this?</p> <p>24 (No response.)</p> <p>25 CHAIR LEVINSON: This, too, is a roll</p>	<p>1 ITEM NO. 5</p> <p>2 They are: Patrick Ciboldi, Svapnil S.</p> <p>3 Desai, Stephen E. Frank, Rockelle D. Grant, and</p> <p>4 Mehulkumar D. Patel.</p> <p>5 CHAIR LEVINSON: Thank you.</p> <p>6 MR. MacFADDEN: No action is required.</p> <p>7 MS. FAUNTLEROY: Thank you.</p> <p>8 Item No. 5 are requests for inactivation</p> <p>9 of casino key employee licenses.</p> <p>10 Again, Mr. MacFadden will review those</p> <p>11 matters with you.</p> <p>12 MR. MacFADDEN: Item 5 consists of 17</p> <p>13 individuals who, in lieu of filing a</p> <p>14 resubmission application, have requested to be</p> <p>15 placed on the inactive list not to exceed five</p> <p>16 years.</p> <p>17 Staff recommends granting the requested</p> <p>18 relief.</p> <p>19 CHAIR LEVINSON: Thank you.</p> <p>20 Any questions on any of these</p> <p>21 individually?</p> <p>22 (No response.)</p> <p>23 CHAIR LEVINSON: Hearing none --</p> <p>24 VICE CHAIR HARRINGTON: No.</p> <p>25 CHAIR LEVINSON: Oh. Yeah?</p>
15	17
<p>1 ITEM NO. 4</p> <p>2 call vote.</p> <p>3 MS. FAUNTLEROY: Commissioner Cooper?</p> <p>4 COMMISSIONER COOPER: Yes.</p> <p>5 MS. FAUNTLEROY: Vice Chair Harrington?</p> <p>6 VICE CHAIR HARRINGTON: Yes.</p> <p>7 MS. FAUNTLEROY: And Chairman Levinson?</p> <p>8 CHAIR LEVINSON: Yes.</p> <p>9 MS. FAUNTLEROY: Thank you.</p> <p>10 Item No. 4 are approvals through</p> <p>11 Delegation of Authority between June 2 [sic],</p> <p>12 2017, and July 7, 2017, pursuant to the</p> <p>13 Delegated Authority Resolution.</p> <p>14 Glenn MacFadden will review those</p> <p>15 matters with you, but no vote is required.</p> <p>16 CHAIR LEVINSON: Thank you. Good</p> <p>17 morning.</p> <p>18 MR. MacFADDEN: Thank you. Good</p> <p>19 morning, Mr. Chairman and Commissioners.</p> <p>20 VICE CHAIR HARRINGTON: Good morning.</p> <p>21 CHAIR LEVINSON: Item 4 consists of five</p> <p>22 individuals who were issued a temporary key</p> <p>23 casino license via Delegated Authority</p> <p>24 subsequent to the June 14, 2017, public</p> <p>25 meeting.</p>	<p>1 ITEM NO. 6</p> <p>2 VICE CHAIR HARRINGTON: No. No.</p> <p>3 CHAIR LEVINSON: Hearing none, I'll</p> <p>4 entertain a motion.</p> <p>5 COMMISSIONER COOPER: I move to grant</p> <p>6 the requested relief and order that the 17</p> <p>7 casino key employee licenses be inactivated.</p> <p>8 CHAIR LEVINSON: A second?</p> <p>9 VICE CHAIR HARRINGTON: Second.</p> <p>10 CHAIR LEVINSON: All those in favor?</p> <p>11 (Ayes.)</p> <p>12 CHAIR LEVINSON: Opposed?</p> <p>13 (No response.)</p> <p>14 CHAIR LEVINSON: Motion carries.</p> <p>15 MS. FAUNTLEROY: Item No. 6 for your</p> <p>16 consideration are the lapsing of several casino</p> <p>17 key employee licenses.</p> <p>18 Again, Mr. MacFadden will discuss those</p> <p>19 with you.</p> <p>20 MR. MacFADDEN: Item 6 consists of five</p> <p>21 individuals whose casino key employee review</p> <p>22 deadline has passed and have neither filed the</p> <p>23 resubmission paperwork nor requested to be</p> <p>24 placed on the inactive list.</p> <p>25 Those individuals are: Manmeet K.</p>

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<p>1 ITEM NO. 6</p> <p>2 Chawla, Brian M. Kernan, Carmella M. Kice,</p> <p>3 Peter P. Lipuma, Jr., and Raul C. Martir.</p> <p>4 Consequently, staff recommends that the</p> <p>5 casino key employee licenses of these five</p> <p>6 individuals be allowed to lapse.</p> <p>7 CHAIR LEVINSON: Thank you.</p> <p>8 Commissioners, any questions on these</p> <p>9 individually?</p> <p>10 (No response.)</p> <p>11 CHAIR LEVINSON: Entertain a motion?</p> <p>12 VICE CHAIR HARRINGTON: Mr. Chairman, I</p> <p>13 move that we find that the five casino key</p> <p>14 employee licenses lapsed pursuant to NJAC</p> <p>15 19:41A-6.1(f) of the regulations.</p> <p>16 CHAIR LEVINSON: Thank you.</p> <p>17 Is there a second?</p> <p>18 COMMISSIONER COOPER: I'll second that.</p> <p>19 CHAIR LEVINSON: All those in favor?</p> <p>20 (Ayes.)</p> <p>21 CHAIR LEVINSON: Opposed?</p> <p>22 (No response.)</p> <p>23 CHAIR LEVINSON: Motion carries.</p> <p>24 MR. MacFADDEN: Thank you.</p> <p>25 CHAIR LEVINSON: Thank you.</p>	<p>1 ITEM NO. 7</p> <p>2 MR. BISCIEGLIA: The Division has the --</p> <p>3 excuse me. The Commission has the Division's</p> <p>4 letter of June 6, 2017. The Division has</p> <p>5 nothing further to add but will answer any</p> <p>6 questions the Commission may have.</p> <p>7 Thank you.</p> <p>8 CHAIR LEVINSON: Thank you.</p> <p>9 Commissioners, any questions for either</p> <p>10 counsel?</p> <p>11 (No response.)</p> <p>12 CHAIR LEVINSON: Hearing none, I'll</p> <p>13 entertain a motion?</p> <p>14 COMMISSIONER COOPER: Mr. Chairman, I</p> <p>15 move to grant the initial application of Lloyd</p> <p>16 J. Reynolds for a casino key employee license.</p> <p>17 CHAIR LEVINSON: Thank you.</p> <p>18 Is there a second?</p> <p>19 VICE CHAIR HARRINGTON: Second.</p> <p>20 CHAIR LEVINSON: Any discussion?</p> <p>21 (No response.)</p> <p>22 CHAIR LEVINSON: All those in favor?</p> <p>23 (Ayes.)</p> <p>24 CHAIR LEVINSON: Opposed?</p> <p>25 (No response.)</p>
19	21
<p>1 ITEM NO. 7</p> <p>2 MS. FAUNTLEROY: Item No. 7 is the</p> <p>3 initial application of Lloyd J. Reynolds for a</p> <p>4 casino key employee license.</p> <p>5 Senior Counsel Pimpinelli is here to</p> <p>6 review that with you.</p> <p>7 MS. PIMPINELLI: Good morning, Chair and</p> <p>8 Commissioners.</p> <p>9 CHAIR LEVINSON: Good morning.</p> <p>10 MS. PIMPINELLI: For your consideration</p> <p>11 is the initial application of Lloyd J. Reynolds</p> <p>12 for his casino key employee license.</p> <p>13 The Commission remanded this matter to</p> <p>14 the contested case hearing process at its April</p> <p>15 17, 2017 meeting. Subsequent to that and after</p> <p>16 meeting with Mr. Reynolds, the Division filed a</p> <p>17 supplement letter recommending that the</p> <p>18 Commission grant the pending application.</p> <p>19 Brian Bisciegliia is here on behalf of</p> <p>20 the Division.</p> <p>21 CHAIR LEVINSON: Thank you.</p> <p>22 Mr. Bisciegliia?</p> <p>23 MR. BISCIEGLIA: Thank you. Good</p> <p>24 morning, Chair and Commissioners.</p> <p>25 CHAIR LEVINSON: Good morning.</p>	<p>1 ITEM NO. 8</p> <p>2 CHAIR LEVINSON: Motion carries.</p> <p>3 MS. FAUNTLEROY: Thank you.</p> <p>4 Item No. 8 is the resubmission</p> <p>5 application of David P. Marshall for a casino</p> <p>6 key employee license.</p> <p>7 Again, Senior Counsel Pimpinelli will</p> <p>8 review that with you.</p> <p>9 MS. PIMPINELLI: Chairman and</p> <p>10 Commissioners --</p> <p>11 (Conferring.)</p> <p>12 MS. FAUNTLEROY: Let's take a brief</p> <p>13 recess.</p> <p>14 CHAIR LEVINSON: Okay.</p> <p>15 (There was a pause in the proceedings.)</p> <p>16 MS. FAUNTLEROY: No. 8 again is David</p> <p>17 Marshall. This matter is before you as a</p> <p>18 resubmission application. There's an objection</p> <p>19 that's been raised. Mr. Marshall did not</p> <p>20 complete the remand process, and as a result,</p> <p>21 now the matter is before you with a request</p> <p>22 that it be denied.</p> <p>23 CHAIR LEVINSON: Thank you.</p> <p>24 Mr. Bisciegliia?</p> <p>25 MR. BISCIEGLIA: Thank you.</p>

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22	<p>1 ITEM NO. 8</p> <p>2 Mr. Marshall has unfortunately been</p> <p>3 unresponsive to both the Division and</p> <p>4 Commission communication. It was discovered</p> <p>5 that Mr. Marshall had relocated to Ohio, so it</p> <p>6 is believed that we had his most current</p> <p>7 address, and both the Division and the</p> <p>8 Commission had attempted to contact him, and</p> <p>9 two conferences were scheduled that he did not</p> <p>10 appear at. And with his failure to appear</p> <p>11 today, the Division must ask that his</p> <p>12 application be denied.</p> <p>13 Thank you.</p> <p>14 CHAIR LEVINSON: Thank you.</p> <p>15 So he was actually -- we know that he</p> <p>16 was receiving these files? These weren't</p> <p>17 coming back?</p> <p>18 MR. BISCIEGLIA: Yes. The first</p> <p>19 conference with scheduled, we sent a letter to</p> <p>20 his former address. But after he didn't show</p> <p>21 up, in the interest of making sure he was</p> <p>22 aware, I personally had a search done for his</p> <p>23 most current address, which was shown to be in</p> <p>24 Ohio, and further communication was sent there.</p> <p>25 CHAIR LEVINSON: Thank you.</p>	24	<p>1 ITEM NO. 9</p> <p>2 Caesars Entertainment Corp., Harrah's Atlantic</p> <p>3 City Operating Company, LLC, Bally's Park</p> <p>4 Place, Inc., Boardwalk Regency Corporation, and</p> <p>5 Caesars Interactive Entertainment New Jersey,</p> <p>6 LLC, requesting permission for Jess M. Ravich</p> <p>7 to assume the duties and exercise the powers as</p> <p>8 member of the board of directors for Caesars</p> <p>9 Interactive, pending his plenary qualification.</p> <p>10 Senior Counsel Casey will take you</p> <p>11 through that matter.</p> <p>12 CHAIR LEVINSON: Thank you.</p> <p>13 MS. CASEY: Thank you.</p> <p>14 Good morning, Chair, Commissioners.</p> <p>15 CHAIR LEVINSON: Good morning.</p> <p>16 MS. CASEY: As Miss Fauntleroy just</p> <p>17 stated, before you is the Joint Petition of the</p> <p>18 Caesars entities for the permission for Jess M.</p> <p>19 Ravich to assume the duties and exercise the</p> <p>20 powers as a member of the board of directors of</p> <p>21 Caesars Entertainment Corporation pending</p> <p>22 plenary qualification.</p> <p>23 The parties are represented. Miss</p> <p>24 Berman is here on behalf of the Division. Mr.</p> <p>25 Ago -- I'm sorry. Mr. O'Gara is here on behalf</p>
23	<p>1 ITEM NO. 9</p> <p>2 And I know both agencies tried very hard</p> <p>3 to contact him.</p> <p>4 Commissioners, any further questions?</p> <p>5 VICE CHAIR HARRINGTON: No questions.</p> <p>6 CHAIR LEVINSON: I'll entertain a</p> <p>7 motion.</p> <p>8 VICE CHAIR HARRINGTON: I'm sorry.</p> <p>9 MS. FAUNTLEROY: No. Okay.</p> <p>10 VICE CHAIR HARRINGTON: I move that we</p> <p>11 find David P. Marshall disqualified pursuant to</p> <p>12 NJSA 5:12-80(b) and (d), NJSA 5:12-86(b), NJSA</p> <p>13 5:12-89(b) and; A, deny his resubmitted</p> <p>14 application for a casino key employee license;</p> <p>15 and, B, revoke his casino employee license.</p> <p>16 CHAIR LEVINSON: Thank you.</p> <p>17 Is there a second?</p> <p>18 COMMISSIONER COOPER: I'll second that.</p> <p>19 CHAIR LEVINSON: All those in favor?</p> <p>20 (Ayes.)</p> <p>21 CHAIR LEVINSON: Opposed?</p> <p>22 (No response.)</p> <p>23 CHAIR LEVINSON: Motion carries.</p> <p>24 MS. FAUNTLEROY: Thank you.</p> <p>25 Item No. 9 is the Joint Petition of</p>	25	<p>1 ITEM NO. 9</p> <p>2 of the Caesars --</p> <p>3 MR. O'GARA: Mr. Agnellini? I can</p> <p>4 arrange this.</p> <p>5 MS. CASEY: You look really good today.</p> <p>6 MR. O'GARA: I can arrange that.</p> <p>7 (Laughter.)</p> <p>8 MS. CASEY: A Draft Resolution was</p> <p>9 circulated to the parties.</p> <p>10 CHAIR LEVINSON: Thank you very much.</p> <p>11 Mr. O'Gara?</p> <p>12 MR. O'GARA: If you'll recall, at -- I</p> <p>13 believe a month ago there were nine -- seven of</p> <p>14 the individuals that were going on the board</p> <p>15 temporarily qualified. Mr. Ravich had not.</p> <p>16 His fingerprints had not come through and he</p> <p>17 was not processed. Mr. Ravich will become the</p> <p>18 tenth, and we'd ask that you so find him.</p> <p>19 And we reviewed the Resolution and have</p> <p>20 no problem.</p> <p>21 CHAIR LEVINSON: Thank you very much.</p> <p>22 Division?</p> <p>23 MS. BERMAN: Good morning, Chairman and</p> <p>24 Commissioners. My name is Joanne Berman. I'm</p> <p>25 a deputy attorney general for the Division of</p>

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<p style="text-align: right;">26</p> <p>1 ITEM NO. 9 2 Gaming Enforcement. 3 We filed a letter of no objection to Mr. 4 Ravich's temporary qualification on June 22nd. 5 We also have reviewed the Draft 6 Resolution, and it is acceptable to us. 7 Thank you. 8 CHAIR LEVINSON: Thank you. 9 Commissioners, any questions for either 10 counsel? 11 VICE CHAIR HARRINGTON: No. 12 CHAIR LEVINSON: I'll entertain a 13 motion. 14 COMMISSIONER COOPER: Mr. Chairman, I 15 move to adopt the Draft Resolution and 16 authorize Jess M. Ravich on temporary basis and 17 prior to his plenary qualification to assume 18 the duties and exercise the powers as a member 19 of the board of directors for Caesars 20 Entertainment Corporation subject to the 21 conditions contained in NJSA 5:12-85.1c and 22 NJAC 13:69C-2.7. 23 CHAIR LEVINSON: Thank you. 24 Is there a second? 25 VICE CHAIR HARRINGTON: Second.</p>	<p style="text-align: right;">28</p> <p>1 ITEM NO. 10/11 2 issuance of casino licenses to Boardwalk 3 Regency, LLC, and Bally's Park Place, LLC, on 4 the same terms and conditions as the 5 predecessor entities and other relief. That is 6 Petition No. 1431702. 7 Item No. 11 is the Petition of CEOC, 8 LLC, Successor in Interest to Caesars 9 Entertainment Operating Company, Inc., 10 Boardwalk Regency, LLC, Successor in Interest 11 to Boardwalk Regency Company, and Bally's Park 12 Place, LLC, Successor in Interest to Bally's 13 Park Place, Inc., for: One, approval of a 14 Management Agreement pursuant to NJSA 15 5:12-82(c); and, two, issuance of a casino 16 license to nonCPLV Manager and other relief. 17 That would be Petition No. 1301701. 18 Again, they'll be addressed jointly. 19 Senior Counsel Casey will lead us through that 20 matter. 21 CHAIR LEVINSON: Thank you. 22 MS. CASEY: Thank you again. 23 For your consideration are these two 24 Petitions from the Caesars Enterprise entities, 25 as Miss Fauntleroy has just described. The</p>
<p style="text-align: right;">27</p> <p>1 ITEM NO. 10/11 2 CHAIR LEVINSON: Any discussion? 3 (No response.) 4 CHAIR LEVINSON: This is a roll call 5 vote. 6 MS. FAUNTLEROY: Commissioner Cooper? 7 COMMISSIONER COOPER: Yes. 8 MS. FAUNTLEROY: Vice Chair Harrington? 9 VICE CHAIR HARRINGTON: Yes. 10 MS. FAUNTLEROY: And Chairman Levinson? 11 CHAIR LEVINSON: Yes. 12 MS. FAUNTLEROY: Okay. Item No. 10 and 13 11 we will address together. 14 Item No. 10 is the Joint Petition of 15 Caesars Entertainment Corporation, CEOC, LLC, 16 Successor in Interest to Caesars Entertainment 17 Operating Company, Inc., Boardwalk Regency, 18 LLC, Successor in Interest to Boardwalk Regency 19 Corp., and Bally's Park Place, LLC, Successor 20 in Interest to Bally's Park Place, Inc., for 21 approval of: One, the reorganization of 22 Caesars Entertainment Operating Company and 23 related relief; two, the merger of Caesars 24 Acquisition Corporation with and into Caesars 25 Entertainment Corporation; and, three, the</p>	<p style="text-align: right;">29</p> <p>1 ITEM NO. 10/11 2 Petitions are the second and third filed by 3 Petitioners in a series, requesting various 4 relief as indicated, stemming from the Third 5 Amended Joint Plan of Reorganization confirmed 6 by the United States Bankruptcy Court on 7 January 17th, 2017. 8 The parties are represented. Mr. O'Gara 9 is here on behalf of the Caesars entities, and 10 Ms. Richardson and Ms. Berman are here on 11 behalf of the Division. 12 A Draft Resolution -- Draft Resolutions 13 were circulated to the parties prior to this 14 meeting. 15 CHAIR LEVINSON: Thank you. 16 Counsel, just again make your 17 appearances known for the record. 18 MR. O'GARA: Yeah. Paul O'Gara from 19 Brownstein for Caesars. 20 CHAIR LEVINSON: Thank you. 21 MS. BERMAN: Joanne Berman for the 22 Division of Gaming Enforcement. 23 CHAIR LEVINSON: Thank you. 24 MS. RICHARDSON: Good morning, Chairman 25 and Commissioners. Tracy Richardson, Deputy</p>

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<p>1 ITEM NO. 10/11</p> <p>2 Attorney General, for the Division of Gaming</p> <p>3 Enforcement.</p> <p>4 CHAIR LEVINSON: Thank you.</p> <p>5 Daryl, can you mark the exhibits,</p> <p>6 please?</p> <p>7 MR. NANCE: Sure. Commissioners, the</p> <p>8 premarked exhibits are as follows. The</p> <p>9 Petitioners submitted one exhibit premarked as</p> <p>10 P-1.</p> <p>11 P-1, Boardwalk Regency, LLC, and Bally</p> <p>12 Park Place, LLC, NJ CCC Presentation dated July</p> <p>13 11, 2017, which are charts, 12 pages.</p> <p>14 The Division of Gaming Enforcement</p> <p>15 submitted three exhibits premarked as D-1 to</p> <p>16 D-3.</p> <p>17 D-1 is a letter report dated June 23rd,</p> <p>18 2017, to Matthew Levinson, Chairman, CCC, from</p> <p>19 Joanne Berman, Deputy Attorney General for the</p> <p>20 DGE, regarding Petition of CEOC, LLC, Boardwalk</p> <p>21 Regency, LLC, and Bally's Park Place, LLC, for</p> <p>22 approval of a Management Agreement pursuant to</p> <p>23 NJSA 5:12-82c, regarding Petition No. 1301701.</p> <p>24 D-2 is a letter report dated June 23rd,</p> <p>25 2017, to Matthew Levinson, Chairman, CCC, from</p>	<p>1 ITEM NO. 10/11</p> <p>2 MR. O'GARA: No. They're -- we</p> <p>3 requested it.</p> <p>4 CHAIR LEVINSON: Yup.</p> <p>5 MR. O'GARA: It's just some forecasted</p> <p>6 numbers. It's in the longer of the three.</p> <p>7 CHAIR LEVINSON: Understood.</p> <p>8 Division, any objection?</p> <p>9 MS. BERMAN: No objection.</p> <p>10 CHAIR LEVINSON: Okay. Commissioners,</p> <p>11 any questions on the exhibits or the redaction?</p> <p>12 (No response.)</p> <p>13 CHAIR LEVINSON: I move that -- I will</p> <p>14 make a motion that we grant the Petitioners'</p> <p>15 sealing requests and the Exhibits P-1, D-1,</p> <p>16 D-2, and D-3 as redacted be admitted into</p> <p>17 evidence.</p> <p>18 Do I have a second?</p> <p>19 VICE CHAIR HARRINGTON: Second.</p> <p>20 CHAIR LEVINSON: All those in favor?</p> <p>21 (Ayes.)</p> <p>22 CHAIR LEVINSON: Opposed?</p> <p>23 (No response.)</p> <p>24 CHAIR LEVINSON: Motion carries.</p> <p>25 Mr. O'Gara, do you have any other</p>
31	33
<p>1 ITEM NO. 10/11</p> <p>2 Joanne Berman, Deputy Attorney General, DGE,</p> <p>3 regarding Petition of CEOC, LLC, Boardwalk</p> <p>4 Regency, LLC, and, and Bally Park Place, LLC,</p> <p>5 for issuance of a casino license to nonCPLV</p> <p>6 Manager, LLC, Petition 1301701.</p> <p>7 D-3 is a report to the Casino Control</p> <p>8 Commission on the Petition of Caesars</p> <p>9 Entertainment Corporation, et al., for: One,</p> <p>10 an approval of the reorganization of Caesars</p> <p>11 Entertainment Operating Company, Inc., and</p> <p>12 related relief; two, approval the merger of</p> <p>13 Caesars Acquisition Company with and into</p> <p>14 Caesars Entertainment Corporation; and, three,</p> <p>15 issuance of casino licenses to Boardwalk</p> <p>16 Regency, LLC, and Bally's Park Place, LLC, on</p> <p>17 the same terms and conditions as their</p> <p>18 predecessor entities and other relief,</p> <p>19 regarding Petition No. 1431702.</p> <p>20 CHAIR LEVINSON: Thank you.</p> <p>21 I also understand there are sealing</p> <p>22 requests in respect to D-3?</p> <p>23 MR. O'GARA: Yes.</p> <p>24 CHAIR LEVINSON: Mr. O'Gara, any</p> <p>25 objections?</p>	<p>1 ITEM NO. 10/11</p> <p>2 remarks?</p> <p>3 MR. O'GARA: Yeah. Just -- I'm</p> <p>4 apparently the most ill-informed. I don't know</p> <p>5 what order we're going to do them in. I</p> <p>6 thought we were going to do the Management</p> <p>7 Agreement first, which is --</p> <p>8 MS. BERMAN: Yeah, we are.</p> <p>9 MR. O'GARA: Okay. Just so I know, you</p> <p>10 know. Management Agreement.</p> <p>11 CHAIR LEVINSON: Okay.</p> <p>12 MR. O'GARA: In reality, Chairman and</p> <p>13 Commissioners, this is the third of a series of</p> <p>14 phases of approvals we've asked you to do. The</p> <p>15 first was with respect to the categorization of</p> <p>16 the REIT as a CSIE and approval of the lease</p> <p>17 that would be the lease between what are now</p> <p>18 the OPCOs, whose names you now know, and</p> <p>19 PROPCOs, whose name you now know, which are the</p> <p>20 REIT.</p> <p>21 We then move through and went through</p> <p>22 the temporary qualifications of the directors.</p> <p>23 And what we have now are the two Petitions</p> <p>24 which we seek the approvals which will allow us</p> <p>25 to consummate each of the steps for both the</p>

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34	<p>1 ITEM NO. 10/11</p> <p>2 merger of CEC and CAC and the reorganization of</p> <p>3 CEOC. The reorganization of CEOC being</p> <p>4 conditioned on that merger.</p> <p>5 The first matter I'll address is the</p> <p>6 Management Agreement we seek to approve and the</p> <p>7 MLSA. When we've been here before we've talked</p> <p>8 about the lease, the MLSA, which is the</p> <p>9 Management Support Lease Agreement. The MLSA</p> <p>10 as the Division describes it, Miss Berman</p> <p>11 correctly, has all the indicia of a Management</p> <p>12 Agreement, as we described it, under our</p> <p>13 statute. There's an entity, nonCPLV Manager,</p> <p>14 which will have the management responsibility</p> <p>15 for the New Jersey casinos, as well as the</p> <p>16 other CEOC casinos that are part of the REIT.</p> <p>17 It is a wholly-owned subsidiary of CEC.</p> <p>18 It has two officers who are already qualified,</p> <p>19 Mr. Hession, Mr. Frissora, who is the CEO. It</p> <p>20 will and in conjunction with it, the services</p> <p>21 agreement by which the centralized and</p> <p>22 virtually all the services are provided to the</p> <p>23 licensees presently through CES will be amended</p> <p>24 so the services can be provided at the</p> <p>25 direction of CEC as well as CEOC so that</p>	36	<p>1 ITEM NO. 10/11</p> <p>2 Atlantic City on the CERP side.</p> <p>3 So we would ask that you issue it a</p> <p>4 license and grant approval to the MLSA as a</p> <p>5 Management Agreement.</p> <p>6 CHAIR LEVINSON: Thank you.</p> <p>7 Division, your opening remarks, please?</p> <p>8 MS. BERMAN: Yeah. As Mr. O'Gara</p> <p>9 stated, pursuant to the plan, there's going to</p> <p>10 be a management and lease support agreement.</p> <p>11 It's going to govern Caesars management of</p> <p>12 operations at casino properties which will be</p> <p>13 part of the real estate investment trust</p> <p>14 structure, including those at Caesars Atlantic</p> <p>15 City and Bally's Atlantic City.</p> <p>16 Following discussions of the plan and</p> <p>17 related transactions with the Division, the</p> <p>18 manager, whose formal name is nonCPLV Manager,</p> <p>19 LLC, submitted an application for casino</p> <p>20 license, as a result of the substantial control</p> <p>21 and responsibility it's going to have for the</p> <p>22 day-to-day operations of the successor</p> <p>23 licensees, Boardwalk Regency, LLC, and Park</p> <p>24 Place, LLC. Those operations include gaming,</p> <p>25 food and beverage, entertainment, retail,</p>
35	<p>1 ITEM NO. 10/11</p> <p>2 everything in terms of operationally flows the</p> <p>3 same way.</p> <p>4 The MLSA is an overarching agreement,</p> <p>5 which if you were to read it and if you read</p> <p>6 the plan, is an agreement, which is kind of a</p> <p>7 linchpin to everything. It's the agreement in</p> <p>8 which all the parties who had to come together</p> <p>9 for CEOC to have its plan approved and then</p> <p>10 confirmed joined, and their joinder was based</p> <p>11 on everything else happening.</p> <p>12 In addition to providing this, and very</p> <p>13 importantly from the creditor's eye, who became</p> <p>14 owners of the REIT on the one side, is the</p> <p>15 vehicle through which CEOC guaranties the lease</p> <p>16 payments by CEOC under this lease.</p> <p>17 And as it met all those indicia, we</p> <p>18 sought a license, a casino license. We ask</p> <p>19 that you issue it. As I said, it has only two</p> <p>20 qualifiers. It does not have independent</p> <p>21 financials. It does not have independent</p> <p>22 anything. It is an entity. It's most similar</p> <p>23 thing that appears over here is CERP Manager,</p> <p>24 which is the vehicle through which the same</p> <p>25 management services are provided to Harrah's</p>	37	<p>1 ITEM NO. 10/11</p> <p>2 parking, and hotel operations, as well as the</p> <p>3 hiring, supervision and termination of</p> <p>4 employees.</p> <p>5 Petitioners have requested your approval</p> <p>6 of the Management and Lease Support Agreement</p> <p>7 as required by the Casino Control Act and a</p> <p>8 casino license for the managing entity. The</p> <p>9 Division has reviewed and analyzed the</p> <p>10 Management and Lease Support Agreement, as</p> <p>11 detailed in our report dated June 23rd and</p> <p>12 marked as Exhibit D-1, and believes it meets</p> <p>13 the statutory requirements for approval which</p> <p>14 are found in Section 82c of the Casino Control</p> <p>15 Act.</p> <p>16 All three parties entering into the</p> <p>17 actual management arrangement in New Jersey,</p> <p>18 which are the manager and the two successor</p> <p>19 licensees, are current applicants for casino</p> <p>20 licenses. And the Division is recommending</p> <p>21 that the Commission issue these licenses today.</p> <p>22 The Division believes the requirement</p> <p>23 that the manager own at least ten percent of</p> <p>24 the equity securities of a casino licensee is</p> <p>25 met through the entity structure presented</p>

38	<p>1 ITEM NO. 10/11</p> <p>2 because both the manager and the parent holding</p> <p>3 company of the successor licensees will be</p> <p>4 wholly owned by Caesars Entertainment</p> <p>5 Corporation, which is a qualified holding</p> <p>6 company.</p> <p>7 The agreement provides for the complete</p> <p>8 management of casino space for unrestricted</p> <p>9 power to direct gaming operations and for a</p> <p>10 durational term that will ensure reasonable</p> <p>11 continuity and stability in the management of</p> <p>12 gaming operations at the successor licensees.</p> <p>13 Finally, the essential parties to the</p> <p>14 Management Agreement with respect to the New</p> <p>15 Jersey casino operations have executed a</p> <p>16 supplemental agreement acknowledging that they</p> <p>17 are jointly and severally liable for all</p> <p>18 violations of the Act.</p> <p>19 The Division has also conducted a</p> <p>20 investigation of nonCPLV manager, which is</p> <p>21 detailed in a separate report prepared by the</p> <p>22 Division marked as Exhibit D-2, also dated June</p> <p>23 23rd. We believe the Manager is qualified</p> <p>24 under Section 84 and meets the requirements for</p> <p>25 a casino license pursuant to Section 82d of the</p>	40	<p>1 ITEM NO. 10/11</p> <p>2 statutory interests of the requirement have</p> <p>3 been met. And based on the specific</p> <p>4 circumstances presented in this case and</p> <p>5 limited to these circumstances, the Division</p> <p>6 recommends that the Commission so find.</p> <p>7 Moreover, the Manager will maintain</p> <p>8 offices at the successor licenses in Atlantic</p> <p>9 City. It will maintain an electronic ledger</p> <p>10 reflecting Caesars Entertainment Corporation's</p> <p>11 100 percent ownership interest in it, and it</p> <p>12 will open a bank account at Wells Fargo in New</p> <p>13 Jersey.</p> <p>14 Finally, the managing entity will have</p> <p>15 two officers and directors, both whom have been</p> <p>16 qualified by the Commission and remain</p> <p>17 qualified in connection with their current</p> <p>18 positions. Mark Frissora is one. He's Caesars</p> <p>19 Entertainment Corporation's President and Chief</p> <p>20 Executive Officer. And Eric Hession, who is</p> <p>21 here to testify today, as Caesars Entertainment</p> <p>22 Corporation's Executive Vice President and</p> <p>23 Chief Financial Officer.</p> <p>24 Manager's Certificate of Formation</p> <p>25 contains the requisite provisions that its</p>
39	<p>1 ITEM NO. 10/11</p> <p>2 Act.</p> <p>3 Noting that one of the pertinent</p> <p>4 requirements is that the applicant be</p> <p>5 incorporated in New Jersey, the Manager was</p> <p>6 formed in Delaware, but it was formed pursuant</p> <p>7 to a consensual plan negotiated by numerous</p> <p>8 parties in many jurisdictions over the course</p> <p>9 of two years.</p> <p>10 Manager provides certain services but is</p> <p>11 not the actual operating casino licensee. It</p> <p>12 was created to manage casino properties in</p> <p>13 various jurisdictions throughout the United</p> <p>14 States, as Mr. O'Gara explained, including New</p> <p>15 Jersey.</p> <p>16 Importantly, Manager's Certificate of</p> <p>17 Formation does provide that it shall be deemed</p> <p>18 to include and incorporate all provisions of</p> <p>19 the Act. In addition, Manager is registered to</p> <p>20 do business in New Jersey, which requires</p> <p>21 Manager's compliance with the corporate laws of</p> <p>22 New Jersey. Manager has, as a result,</p> <p>23 subjected itself to the jurisdiction of the</p> <p>24 Commission and the Division.</p> <p>25 The Division therefore believes the</p>	41	<p>1 ITEM NO. 10/11</p> <p>2 purpose is to conduct casino gaming and also</p> <p>3 includes provisions for prior approval of the</p> <p>4 Commission regarding transfer of member</p> <p>5 interests as well as describing repurchase</p> <p>6 rights in the event the Commission disapproves</p> <p>7 a transfer.</p> <p>8 For these reasons, and as set forth more</p> <p>9 fully in our June 23rd reports, the Division</p> <p>10 recommends that the Commission issue a casino</p> <p>11 license to nonCPLV Manager and approve the</p> <p>12 management and REIT support agreement subject</p> <p>13 to certain conditions as set forth in our</p> <p>14 report which the Commission has captured in its</p> <p>15 Draft Resolution in this matter.</p> <p>16 We have reviewed the Draft Resolution</p> <p>17 and have no objection to it.</p> <p>18 Thank you.</p> <p>19 CHAIR LEVINSON: Thank you.</p> <p>20 Mr. O'Gara, would you like to call your</p> <p>21 first witness?</p> <p>22 MS. FAUNTLEROY: So the -- so the vote</p> <p>23 on both will occur at the conclusion.</p> <p>24 MR. O'GARA: No problem. I'm good to</p> <p>25 go.</p>

<p style="text-align: right;">42</p> <p>1 TIMOTHY DONOVAN 2 CHAIR LEVINSON: Do it all together. 3 MR. O'GARA: No problem. Good to go. 4 Tim Donovan. 5 CHAIR LEVINSON: Daryl, as Mr. Donovan 6 comes up, please swear him in. 7 T I M O T H Y D O N O V A N , having been first duly 8 sworn, testified as follows: 9 MR. NANCE: Please state your name for 10 the record. 11 THE WITNESS: Timothy Donovan, Executive 12 Vice President, General Counsel and Chief 13 Regulatory Compliance Officer for Caesars 14 Entertainment. 15 MR. NANCE: Thank you. 16 CHAIR LEVINSON: Mr. O'Gara? 17 DIRECT EXAMINATION BY MR. O'GARA: 18 Q. And how long have you worked at Caesars, 19 Mr. Donovan? 20 A. A little over eight years. 21 Q. And you were the General Counsel at the 22 time that Caesars Entertainment Operating Company 23 filed its voluntary petition in bankruptcy? 24 A. Yes, I was. 25 Q. And how long ago was that?</p>	<p style="text-align: right;">44</p> <p>1 TIMOTHY DONOVAN 2 thereafter, we engaged in negotiations of various 3 degrees to get to a final plan of confirmation that 4 was achieved earlier this year in January. 5 In the -- in those two-year period -- in 6 that two-year period there also was an examiner's 7 report that was done by an independent examiner that 8 came in to review various allegations concerning 9 various transactions, a multitude of transactions, 10 that preceded and led up to the January 15, 2015, 11 bankruptcy. 12 That report was issued some nine months, 13 I believe, later and went through the various 14 transactions. And the examiner expressed, you know, 15 his opinion and his team's opinion on the -- those 16 transactions and whether or not those transactions 17 could be or were a basis for claims that were filed 18 against CEC and CAC and others in connection with the 19 transactions leading up to the bankruptcy. 20 Q. Was there also litigation outside the 21 bankruptcy against CEC by certain creditors of CEOC 22 and CEC? 23 A. Yes. There were a number of lawsuits 24 filed in the state of New York and also in the state 25 of Delaware, again, basically challenging the -- the--</p>
<p style="text-align: right;">43</p> <p>1 TIMOTHY DONOVAN 2 A. We filed in January 15 of 2015. The 3 voluntary filing in the state of Illinois at the 4 Chicago Bankruptcy Court. 5 Q. And we're here now because, after 6 winding its way through these proceedings, there's a 7 confirmed plan that's been approved by the creditors, 8 and CEOC is really for emergence; is that correct? 9 A. Yes. That's correct. The plan was 10 confirmed almost two years to the day from when we 11 filed in 2015. 12 Q. For the benefit of the Commissioners, 13 can you give some description of the bankruptcy 14 process? Was it -- this was not a consensual 15 bankruptcy; is that correct? 16 A. No. It was -- no, it was not. We 17 filed, as I mentioned, on January 15th. There was a 18 involuntary filing that occurred on January 12th in 19 the state of Delaware and the bankruptcy court there. 20 In fact, one of the first bones of contention, if you 21 will, in the bankruptcy proceedings is as -- which 22 court was going to have jurisdiction over the Chapter 23 11 proceedings. That ultimately resulted in the 24 Chicago court being the venue and having the 25 jurisdiction over the case. And for two years</p>	<p style="text-align: right;">45</p> <p>1 TIMOTHY DONOVAN 2 these transactions that led up to the bankruptcy. 3 Q. And while this was going on, did you 4 continue discussions with all of the various classes 5 of creditors of CEOC and CEC? 6 A. Correct. We did. It was -- they 7 were -- I think everybody -- while there were 8 discussions going on, I think everybody, both sides 9 were waiting in earnest to see what the results of the 10 examiner's report would be. Varying degrees of -- 11 obviously the examiner's report was a point of 12 leverage. And depending on which way the examiner 13 came down in terms of his analysis of the 14 transactions. And so negotiations, while they were 15 going on, were a bit stalled until the examiner's 16 report came out and people would determine who had the 17 better line of argument with respect to the pending 18 litigation. Which, of course, was the leverage on the 19 negotiations. 20 Q. And, ultimately, with each group of 21 creditors, you would work out an agreement that would 22 be memorialized in a restructuring support agreement; 23 is that correct? 24 A. That's correct. 25 Q. And what was the first group of</p>

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<p style="text-align: right;">46</p> <p>1 TIMOTHY DONOVAN 2 creditors? Do you recall? They entered into the RSA 3 way back when in 2016? 4 A. I think the first group was the -- it 5 was either the banks -- I think it was the banks. 6 Q. That's the correct answer. 7 A. Thank you. 8 (Laughter.) 9 Q. And thereafter, you -- you and -- 10 A. Good coaching. 11 Q. Yeah. Somebody at Kirkland told me. 12 Thereafter, these negotiations went on 13 following, and ultimately each of the various 14 constituencies entered into a restructuring support 15 agreement which became the basis for the Third Amended 16 and Restated Plan of Reorganization; correct? 17 A. Correct. 18 Q. And thereafter, what has happened and 19 what we're seeking approval today is largely dictated, 20 how Caesars -- CEOC was reorganized by the very 21 language of that plan; is that correct? 22 A. That's correct. 23 Q. There's an MLSA because the plan calls 24 for a MLSA? 25 A. Correct.</p>	<p style="text-align: right;">48</p> <p>1 TIMOTHY DONOVAN 2 its three operating units, CERP, CGP, and CEOC? 3 A. They will -- they will once again become 4 wholly owned subsidiaries of CEC. I refer to it as 5 putting Humpty Dumpty back together again. 6 Q. So the transactions which led to the 7 creation of CAC and the minority interest in CEOC, all 8 of those will be as if never happened and will be back 9 with -- 10 A. Yes. 11 Q. -- the wholly -- 12 A. The subsidiaries will still exist, but 13 they will be wholly owned by CEC. So CERP, CGP and -- 14 and what's the third one? CEOC. 15 VICE CHAIR HARRINGTON: CEOC. 16 Q. CEOC. 17 A. The most important one. 18 Q. And -- 19 CHAIR LEVINSON: I don't feel so bad 20 that I don't remember them. 21 (Laughter.) 22 THE WITNESS: Yeah. 23 MR. O'GARA: We have it written down. 24 VICE CHAIR HARRINGTON: That's why we 25 have a chart.</p>
<p style="text-align: right;">47</p> <p>1 TIMOTHY DONOVAN 2 Q. There's a REIT because the plan calls 3 for a REIT? 4 A. Correct. 5 Q. And -- and likewise, each of the steps 6 were dictated. 7 Are there particular conditions -- COC 8 was in bankruptcy and had to reorganize. Was there a 9 particular condition involving Caesars Entertainment 10 and Caesars Acquisition that has to occur for that 11 plan to become effective? 12 A. Yeah. One of the key components to the 13 plan of reorganization is the merger of CAC back in 14 CEC, and CEC would be the surviving corporation. 15 I've -- so all of the transactions -- most -- CAC was 16 created as a result of transactions that were the 17 subject of, and in many cases some of these lawsuits I 18 mentioned previously. So in order to do the plan of 19 reorganization as called for under the plan, the terms 20 of the plan of reorganization, the merger of CAC back 21 into and with CEC is a condition precedent to 22 emerging. 23 Q. And with respect to that merger, when it 24 is accomplished, structurally what will be the 25 relationship between Caesars Entertainment and each of</p>	<p style="text-align: right;">49</p> <p>1 TIMOTHY DONOVAN 2 Q. And, Mr. Donovan, in conjunction with 3 that, will CEC be issuing -- first of all, it had to 4 amend its Certificate of Incorporation in order for 5 this merger to occur to issue more stock; correct? 6 A. Correct. 7 Q. And is that because of the consideration 8 involved? Essentially -- 9 A. Yes. 10 Q. -- if you have CAC stock -- if you have 11 CAC stock, what are you getting? 12 A. You're getting CEC stock. And you're 13 getting always preferable converted notes. 14 Q. Okay. And -- 15 A. So that's the amendments that are being 16 made to the Certificate of -- well, actually, in 17 Delaware it's the charter. You know, for CEC to 18 increase -- to give the ability to issue the 19 convertible notes and also to give more shares and 20 make the transaction available, shares needed to be 21 issued in connection with the merger and the other 22 consideration so the issuance of stock in connection 23 with the reorganization. 24 Q. And CEC is contributing certain stock 25 and money towards the CEOC plan of reorganization;</p>

<p style="text-align: right;">50</p> <p>1 TIMOTHY DONOVAN 2 correct? 3 A. Correct. 4 Q. And as all that occurs, will that result 5 in any significant change of ownership of Caesars from 6 where it is today with respect to its sponsors or its 7 owners? 8 A. Yeah. Yeah. Pretty significantly. And 9 I think we have, as depicted probably the best -- 10 excuse me. Probably the best page to go to would be 11 Page 4 on the -- on the exhibit that we provided. 12 So this depicts the CEC/CAC merger and 13 just -- well, the share ownerships aren't on there. 14 I'll provide them. What will happen as a result of 15 that merger, approximately 22 percent will be 16 reflected as the TPG, Apollo, and their coinvests in 17 total. Their interest in the post-merger CEC. So a 18 substantial dilution. Apollo and TPG and the 19 co-invests actually surrender as part of this plan of 20 reorganization, their existing shares in CEC. And 21 that 22 percent really represents the stock they're 22 getting as a result of the their holdings in CAC and 23 as a result of the merger of CAC into CEC. We -- 24 CEC's legacy stockholders, employees, and a couple of 25 the significant holders currently will at the end of</p>	<p style="text-align: right;">52</p> <p>1 TIMOTHY DONOVAN 2 We received, you know, an IRS letter ruling saying 3 that will qualify -- a private letter ruling that they 4 will qualify as real estate investment trust. And the 5 actual properties will be transferred beneath the 6 holding company to a PROPCO underneath the wholly 7 owned subsidiary of the publicly traded REIT. 8 Q. And those transactions appear on Pages 9 6, 7, and 8 of these slides, by which we'll distribute 10 the property and ultimately consideration to the 11 various creditors as described. 12 A. Yes. 13 Q. Now, is there a facility, Mr. Donovan, 14 by which certain of the securities that are being 15 handed to certain creditors, including CEC stock, will 16 not remain outstanding? Is there a buyback provision 17 or a mandatory buyback with respect to certain CEC 18 stock? 19 A. There is a buyback. Yes. 20 Q. And how much of the CEC stock which is 21 being distributed will be purchased pursuant to the 22 buyback? Do you know? 23 A. I used to recall that number. 24 Q. Would a billion dollars or -- 25 A. A billion dollars. That sounds right to</p>
<p style="text-align: right;">51</p> <p>1 TIMOTHY DONOVAN 2 the day, have approximately eight percent of CEC. 3 CAC stockholders other than TPG and 4 Apollo will have between 12 to 13 percent of the 5 interests in CEC. And then ten percent will go to the 6 first lien bondholders. And approximately 38 percent 7 to the second lien bondholders. 8 Q. And, Mr. Donovan, in addition to that as 9 part of the plan? 10 A. I didn't have a Governor Perry moment on 11 those -- those percentages. 12 (Laughter.) 13 Q. Will CEOC cause itself to divest itself 14 of certain assets in conjunction with the 15 implementation of the plan? 16 A. Well, a key component of the plan of 17 reorganization, and indeed one that creates more value 18 and therefore gave more currency in order to receive 19 agreement to the plan and receive confirmation of the 20 plan, was transferring the real estate assets, so the 21 brick and mortar, the dirt, in approximately 25 22 existing properties owned by the debtor in CEOC. And 23 so those will be transferred to a new company that 24 will be -- well, the parent holding company will be -- 25 is named VICI. It is a real estate investment trust.</p>	<p style="text-align: right;">53</p> <p>1 TIMOTHY DONOVAN 2 me. 3 (Laughter.) 4 Q. Now, when the separation has been 5 completed, what we will have is, as you've described, 6 the three operating units of Caesars, two of which own 7 their own real estate in Atlantic City in straight 8 lines. And then CEOC, which owns all the operating 9 companies a hundred percent, and it will have its real 10 estate owned by the REIT. Is that as indicated on 11 Chart 10 over here? 12 A. (Reviewing.) Yes. 13 Q. And then with respect to the properties 14 and how they are organized under the REIT, that's on 15 Chart 11; correct? 16 A. Correct. 17 Q. Now, will there be any change to the 18 governance of how Caesars Entertainment Corporation as 19 a result of the merger and the plan? 20 A. Yes. CEC's board will be reconstituted 21 effective on the date of emergence. The existing 22 board with the exception of two of its existing board 23 members -- three of its existing board members -- will 24 resign, and the new board will consist of 11 board 25 members. One would be the CEO, Mark Frissora. Then</p>

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2 there will be eight independent -- and that's
3 independence as defined under the plan of
4 reorganization -- appointed by various of the
5 combination of the creditors and also by CAC special
6 committee and CEC special committee. Some of those
7 won't be independent. And there will be a total of
8 11. And all of those at this juncture have been
9 appointed and named and, you know, the board is
10 starting to -- the new board, prospective board, is
11 starting to come together and be formulated and ready
12 to go upon emergence.
13 Q. Now, we have proceedings. We had ten of
14 these people who have applied in New Jersey. There's
15 an 11th person who was --
16 A. Just one name.
17 Q. One small group of creditors, who is it
18 correct to say did not immediately name a director; is
19 that correct?
20 A. That's correct. The banks and the
21 subsidiary guaranteed note holders together had
22 appointment right with respect to one of the 11 board
23 members. That gentleman was just named earlier -- I
24 guess it was last week. So we will be -- we've
25 already started at least internally the process of

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1 TIMOTHY DONOVAN
2 getting him -- applications ready, et cetera, for that
3 individual. But, yes. He was not named until just
4 very recently. Last week.
5 Q. And he'll be the 11th person, so --
6 A. He'll be the 11th.
7 Q. We won't have any ties; right?
8 A. That's right. I should also --
9 Q. Was there a procedure if he wasn't
10 named, Mr. Donovan?
11 A. There was a procedure.
12 Q. Were you looking forward to describing
13 that procedure?
14 A. I was not looking forward. Being a --
15 being a corporate lawyer and not a bankruptcy lawyer,
16 I was struggling with how a corporation lawyer would
17 describe the bankruptcy lawyer's process for handling
18 that. But they had a process in place that an
19 interim -- an existing board member of CEC would stay
20 on an interim basis until the last individual was
21 named.
22 Q. But we've avoided all that.
23 A. Praise the Lord.
24 (Laughter.)
25 Q. Now, with respect to the REIT structure,

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2 this Commission has already approved the lease. This
3 Commission has already determined the licensure status
4 of the REIT. So there's no misunderstanding, does the
5 REIT have any control over the operations of Caesars
6 Entertainment Operating Company or Caesars?
7 A. No. You know, real estate investment
8 trusts -- in order to qualify as a real estate
9 investment trust -- has to be basically a passive
10 investor and is not to have, you know, operations in
11 and of itself. There is some room for real estate
12 investment trusts to have a portion of their income
13 come from operations. They are utilizing that to
14 operate certain of the golf courses that go into the
15 REIT. But with respect to the -- all the gaming
16 properties, there's all operations are within the
17 confines of the jurisdiction of OPCO.
18 Q. And just so -- in order to spin off the
19 real estate into the REIT, even though REITs can't be
20 active -- engage in active business, they had to have
21 an operating business or the spinoff wouldn't have
22 worked; right?
23 A. Correct.
24 Q. So you have to have one, but then you
25 can't have any others.

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2 A. Correct.
3 Q. This is the tax code.
4 A. Yeah. They put those assets into what's
5 called a taxable REIT subsidiary.
6 Q. And why were they important? Is that
7 what assured the tax-free nature of the spinoff?
8 A. Correct.
9 Q. What would be -- the CEOC presently has
10 a board and functions. Will CEOC's governance change
11 now?
12 A. Yes, it will. CEOC will have a new
13 board that will consist of Mark Frissora, CEC's
14 existing CEO, and Eric Hession, CEC's CFO. And then
15 an independent board member who has not been selected
16 yet. We've narrowed it down hopefully. And the
17 individuals we've narrowed it down to are already
18 qualified. And because they were, you know, qualified
19 in connection with CEOC's operations, you know, a
20 couple years ago. But we have not named that
21 individual yet.
22 Q. And --
23 A. And there will be a board observer.
24 Q. And that board observer is someone from
25 the REIT who just comes, watches what goes on.

<p style="text-align: right;">58</p> <p>1 TIMOTHY DONOVAN 2 A. Yeah. No vote -- no voting rights 3 whatsoever. Just someone to attend the -- the board 4 meetings of CEOC to -- to observe and be able to 5 report back to, you know, those who have an interest 6 in what's going on at the -- at the OPCO level. All 7 due to, you know, a desire to have more visibility and 8 transparency into what the OPCO is doing than there 9 was before, perhaps, from a stockholder's standpoint. 10 Q. In order to understand, the assets of 11 this REIT consists entirely of the real estate -- 12 A. Correct. 13 Q. -- operational procedures; correct? 14 A. Correct. And I believe that board 15 observer will be John Payne, who New Jersey is 16 familiar with. John Payne -- 17 Q. What's John do now? 18 A. John is the CEO of CEOC. The debtor in 19 the bankruptcy. And John will become, as I understand 20 it, the COO of the new publicly traded REIT. 21 Q. With respect to the operations here in 22 Atlantic City, the formation of the REIT, the 23 ownership of that, does anything about how this works 24 and its relationship to Caesars Entertainment change? 25 A. No. Not at all. And I think, you know,</p>	<p style="text-align: right;">60</p> <p>1 TIMOTHY DONOVAN 2 questions. 3 CHAIR LEVINSON: Division? 4 MS. BERMAN: Thank you. 5 CROSS-EXAMINATION BY MS. BERMAN: 6 Q. Good morning, Mr. Donovan. 7 A. Good morning. 8 Q. Is the fair to say there were several 9 issues and financial pressures that led to the 10 bankruptcy filing? 11 A. Yes. Very, very true. 12 Q. Was one of those issues the increase in 13 CEC's long-term debt from approximately 12.4 billion 14 to around 25.1 billion in 2008? 15 A. It certainly was, except at the time 16 that the leverage buyout took place, which preceded my 17 involvement with the company, now all parties, 18 including the lenders and others issuing fairness 19 opinions and such, thought that that was an 20 appropriate level of debt that could be serviced based 21 on the historical operations of the -- of the 22 enterprise. 23 Q. But based on those numbers going from 24 12.4 billion to 25.1 in debt, what did that mean with 25 respect to how much interest expense Caesars went</p>
<p style="text-align: right;">59</p> <p>1 TIMOTHY DONOVAN 2 all -- we saw this going all the way back to more than 3 two years ago when we actually filed for bankruptcy. 4 We saw nothing change at the operational level. The 5 same management was there before the bankruptcy was 6 there, after the bankruptcy. You know, pretty -- 7 amazingly, I believe -- you know, there had been very 8 little, if any, impact on the operations. And that 9 phenomenon will continue post-emergence. So 10 seemingly, you know, no changes. Customers haven't 11 noticed it. Certainly people in the operations 12 haven't noticed it. The bankruptcy itself was, while 13 something that folks like myself and Sue Carletta, my 14 Deputy Chief Compliance Officer, and Eric Hession, the 15 CFO, and his team, and, of course, the tax folks that 16 report up to Eric -- there was a lot of work done at 17 that level in terms of the bankruptcy. But beneath 18 that level, really very few people at the company were 19 really involved or impacted at all by the bankruptcy. 20 Q. Well, they were impacted by the 21 constraints of it post-financially -- 22 A. Yes. 23 Q. -- but in an operational sense, no. 24 A. No. 25 MR. O'GARA: I don't have any other</p>	<p style="text-align: right;">61</p> <p>1 TIMOTHY DONOVAN 2 from? 3 A. Interest -- interest went up 4 substantially. I can't give you the exact -- exact 5 amount. The -- I think again, everyone thought that 6 was serviceable. People back in the transaction, all 7 those who issued opinions, et cetera. I think the 8 primary thing that happened was -- was the combination 9 of that increased leverage, the combination of the 10 additional interest expenses that were triggered by 11 that additional leverage, coupled with, you know, the 12 Great Recession, the occurrence of the Great 13 Recession, which caused a downturn in operations for a 14 substantial period of time and which ultimately led to 15 the filing of the bankruptcy. 16 Q. Right. Do you remember what happened to 17 earnings from around 2007 to 2014? 18 A. They went down pretty substantial. You 19 know, Eric, who will be up here, he can probably -- 20 I'm sure Eric will be able to tell you exactly. But 21 there was a substantial in our earnings before 22 interest and taxes and amortization, which was 23 intended to used, the EBITDA intended to be used to 24 service the debt that was put on as a result of the 25 leverage buyout.</p>

<p style="text-align: right;">62</p> <p>1 TIMOTHY DONOVAN 2 Q. Okay. But I think as you've said, it's 3 fair to say that Caesars was not able to pay its 4 annual debt service obligations with its earning. It 5 was projected initially that it was going to be able 6 to. The recession hit. They go down, and then -- 7 A. Yes. 8 Q. -- bankruptcy occurred essentially 9 because they couldn't make that. 10 A. Yes. And during that period, the -- for 11 folks, you know, that follow the markets, during 12 that -- we were the last -- that transaction was one 13 of the last transactions to get done in that bond 14 market and because of the Recession. So the issue 15 started right off the bat which led to, of course, I 16 think something like 52 different refinancings to try 17 to get more time, thinking that ultimately, you know, 18 the economy would come back, operations would come 19 back, and we'd be able to work ourselves out of the 20 problem. Ironically, you know, the first year after 21 we filed bankruptcy, things did come back. And 22 operationally we've been performing very, very well 23 since the filing of the bankruptcy in 2015. 24 Q. So you mention these financial 25 transactions. And I guess you did all those financial</p>	<p style="text-align: right;">64</p> <p>1 TIMOTHY DONOVAN 2 getting you know, a hundred cents on the dollar, the 3 lower prioritized debt was not. So there was -- there 4 was not only negotiations going on between ourselves. 5 When I say "ourselves," it was really CEOC and 6 primarily as a debtor of CEC, but there were 7 negotiations ongoing between the various tranches of 8 debt given their prioritization relative to each 9 other. 10 Q. Thank you. 11 And you mentioned the existence of 12 litigation in New York and Delaware. Do you remember 13 the two main issues that were involved in those cases? 14 A. Yes. In Delaware -- well, primarily -- 15 Q. Uh-hum. 16 A. -- in Delaware, one of the -- the main 17 issue was over whether or not there were breaches of 18 fiduciary -- for fraudulent conveyance. Fraudulent 19 conveyance in the sense of hinder or delay. And with 20 respect to the transfers of assets to CAC and the 21 transactions leading up to the bankruptcy. 22 And the primary case in New York related 23 to something called the Trust Indenture Act which has 24 been around since the Depression and not often used. 25 But whether the transactions represented an</p>
<p style="text-align: right;">63</p> <p>1 TIMOTHY DONOVAN 2 transactions, but did CEC's consolidated interest 3 expense still stay well in excess of its earnings? 4 A. Yes. 5 Q. Okay. 6 A. Yes. 7 Q. And I think you mentioned that you, CEC 8 and the debtors, tried to work out a consensual 9 bankruptcy plan by negotiating with creditors -- 10 A. Yes. 11 Q. -- prior to the filing the bankruptcy? 12 A. We did. 13 Q. Do you know why those efforts were 14 unsuccessful? 15 A. It was -- well, it was -- I'm not -- I'm 16 not a bankruptcy lawyer, but I think I'm safe in 17 saying that this was probably one of the more complex 18 bankruptcies in US history. And so a lot of different 19 parties with a lot of different competing interests. 20 There were people that held debt that also, I think, 21 you know, in some cases held equity. And so there 22 were -- and the creditors weren't all on the same 23 page, given their relative stacking in the priority. 24 So while some creditors, you know, first liens and the 25 banks, were pretty much, you know, guaranteed of</p>	<p style="text-align: right;">65</p> <p>1 TIMOTHY DONOVAN 2 out-of-court restructuring that violated the Trust 3 Indenture Act. We were -- that case was filed based 4 on a case that had been previously decided in the 5 Southern District of New York, District Court, a case 6 called Marblegate, which then, of course, went on 7 appeal. A similar case to Marblegate was filed 8 against us. And the -- the proceedings were stayed at 9 various points. So we never -- there were motions 10 practice going on. But ultimately, you know, on the 11 date of confirmation, as I recall, on the morning of 12 the date of confirmation, the Marblegate decision on 13 appeal was ruled in a way that would have been 14 favorable to our position on the -- on the question of 15 the Trust Indenture Act. 16 And that was so important from just a 17 legal substantive standpoint. Because if -- if -- if 18 the Marblegate case had stayed pursuant to the 19 decision rendered in the Southern District of New 20 York, that would have ultimately meant that CEC was 21 indeed, you know, a guarantor or was going to be -- 22 have to make good on its guaranteed for all of \$18 23 billion in debt. The way that the Marblegate case, 24 which ultimately decided, which again, was not our 25 case but again was similar in nature, you know, was a</p>

<p style="text-align: right;">66</p> <p>1 TIMOTHY DONOVAN 2 favorable decision. But we had already reached, you 3 know, an agreement on the plan of reorganization. 4 And, as I mentioned, that decision came down the 5 morning of, when the confirmation hearing. 6 Q. So the plan that's in place now settles 7 all those claims. 8 A. Every single one of them. 9 Q. Okay. And we talked about an examiner. 10 We talked about an examiner -- 11 A. Yes. 12 Q. -- who was appointed. 13 In that report, did the examiner 14 determined that any of those creditors' claims had 15 merit? 16 A. Yes. There were various degrees of 17 merit. And also an assignment by the examiner of what 18 he thought the cases were worth in terms of damages. 19 Q. Do you remember what the range of 20 reasonable damages was? 21 A. It was -- it was, I think, three to five 22 billion? 23 Q. If I said 3.6 to 5.1, does that -- 24 A. That sounds right. 25 Q. Okay. And what was Caesars' reaction</p>	<p style="text-align: right;">68</p> <p>1 TIMOTHY DONOVAN 2 transactions there were consummated prior to the 3 bankruptcy. 4 Q. So how did the report affect 5 negotiations regarding the plan? 6 A. It shifted leverage quite, you know, 7 substantially to the creditors in terms of the ongoing 8 negotiations of just how much money would be -- money 9 in the form of cash, not only cash, but also stock -- 10 into the reorganization plan that would go to the 11 creditors. 12 Q. And specifically do you recall how that 13 affected the interests held by Apollo and TPG? 14 A. As a result of -- I assume it's a result 15 of the examiner's report and again the shift in 16 leverage, which I think it's safe to say that 17 occurred. Apollo and TPG ultimately agreed as part of 18 their contribution to -- to relinquish all shares that 19 they held in CEC, leaving them only with the shares of 20 stock held in CAC that would, on upon the merger, 21 convert into CEC stock. 22 Q. Thank you. 23 And just to confirm, in the Third 24 Amended Plan, which is the approved plan? 25 (There was a cell phone interruption.)</p>
<p style="text-align: right;">67</p> <p>1 TIMOTHY DONOVAN 2 when you saw the examiner's report? 3 A. Well, you know, Caesars' reaction. I 4 think we were -- we were -- there were many issues we 5 had with the examiner's conclusions. There was -- we 6 disagreed with many of those conclusions. We thought 7 that that was a really wide -- you know, 3.6 to 5.1 8 billion, that's a big -- a pretty big delta. And so 9 we were, you know -- we had -- we had, you know, 10 differing opinions as to the valuations of that. We 11 had differing opinions as to the question of 12 insolvency, and we had differing opinions as to the 13 question of breach of fiduciary duty. And we also had 14 differing opinions, as I mentioned, with the value. 15 I would note that the examiner went out 16 of his way to make clear that while he believed that 17 there was a fraudulent conveyance involved, I think he 18 started out his report saying there was no evidence of 19 any fraud in the civil or criminal sense. And that 20 with respect to fraudulent conveyance claims, he 21 pointed out everywhere that the fraudulent conveyance 22 convention, if you will, is hinder or delay or defraud 23 creditors. And he always pointed out that it was 24 not -- there was no intent to defraud. It was just 25 hinder and delay by virtue of these various</p>	<p style="text-align: right;">69</p> <p>1 TIMOTHY DONOVAN 2 Q. -- all of the allegations addressed in 3 the examiner's report have been settled, and all the 4 claims made in the litigation has been released; 5 correct? 6 A. It will be -- 7 Q. It will be? 8 A. -- upon emergence. 9 Q. Okay. Now, you spoke about a condition 10 precedent which is the merger of CAC into CEC. Do you 11 anticipate meeting all of the conditions precedent and 12 being able to move forward? Or are there some that 13 you think are going to need a waiver for? 14 A. No. We will meet all of the conditions 15 precedent. On the merger itself, you know, that's a 16 process that involves the Securities and Exchange 17 Commission, so we had filed and had declared effective 18 a few weeks back a -- what's called a form S-4 regis-- 19 a proxy statement and registration statement. Joint 20 because it's CAC and CEC. We've -- as I mentioned, 21 that was declared effective some weeks back by the 22 SEC. We have printed and mailed proxies. The 23 stockholder meeting from both on the CAC side and the 24 CEC side has been scheduled for July 25th. And the 25 approval of that merger, which requires a majority</p>

<p style="text-align: right;">70</p> <p>1 TIMOTHY DONOVAN 2 under Delaware law -- majority of the stockholders -- 3 is guaranteed, you know, approval by virtue of the 4 fact that the people that hold over a majority of 5 stock have signed voting agreements previously so 6 Apollo, TPG, and the coinvest funds to vote in favor 7 of the merger. So it's a fait accompli at this point. 8 And it was that, having that stockholder approval, 9 frankly, it was a condition precedent to getting on 10 the agenda to have approval of the transaction by the 11 State of Nevada. 12 Q. So far we've only been talking about 13 Bally's and Caesars in New Jersey. But with respect 14 to Harrah's, the real estate assets are not going to 15 be sold to the REIT yet. 16 A. Correct. 17 Q. And there's something out there, a call 18 right agreement? 19 A. Yes. 20 Q. And can you explain how that would work 21 with respect to Harrah's Atlantic City? 22 A. Well, there is a call right on the part 23 of the -- the REIT to call three properties. 24 Particularly, you know, the one interest here is the 25 Harrah's property here in Atlantic City.</p>	<p style="text-align: right;">72</p> <p>1 TIMOTHY DONOVAN 2 are -- we'll be able to comply with. 3 Q. Okay. Thank you. That was my final 4 question. 5 A. Okay. 6 Q. Thank you very much. 7 A. Thank you. 8 CHAIR LEVINSON: Mr. O'Gara? Anything? 9 MR. O'GARA: One thing. 10 REDIRECT EXAMINATION BY MR. O'GARA: 11 Q. Just so they don't think we were, like, 12 entirely missed anything. The right of first offer 13 has it in, like, four pages about the fact we have to 14 get regulatory approvals before anybody can exercise 15 it; right? 16 A. Yes. 17 Q. We didn't miss it; right? 18 A. Nope. 19 Q. Okay. 20 CHAIR LEVINSON: Thank you. 21 Commissioners, any questions for the 22 witness? 23 COMMISSIONER COOPER: I'm good. Thank 24 you. 25 CHAIR LEVINSON: So I just want to make</p>
<p style="text-align: right;">71</p> <p>1 TIMOTHY DONOVAN 2 Q. Uh-hum. 3 A. There -- I think, in all likelihood, 4 that call right will be exercised, but if it is, it 5 will be subject to coming back and getting approval 6 from that transfer from the regulatory body. 7 Q. And do you know how long the REIT has to 8 purchase Harrah's under that agreement? 9 A. I believe it's five years. Yeah. Thank 10 you. 11 Q. And you mentioned that we had proposed 12 some conditions. And one of those conditions requires 13 Harrah's Atlantic City and its holding intermediary 14 companies to obtain prior New Jersey approval to sell 15 or in any way transfer or dispose any of its real 16 estate assets to VICI REIT. I think you have already 17 indicated that you are willing to comply with that 18 condition. 19 A. Absolutely. 20 Q. Is that right? 21 A. Yeah. 22 Q. And have you seen the other -- are you 23 aware of the other conditions that the Division 24 recommended in its report? 25 A. I have. Yes. And I think all of them</p>	<p style="text-align: right;">73</p> <p>1 TIMOTHY DONOVAN 2 sure I heard this correctly. Any litigation 3 pertaining to this bankruptcy has been 4 resolved? 5 THE WITNESS: It's all subject to a 6 release that will go into effect upon 7 emergence. 8 CHAIR LEVINSON: So once the 9 emergence -- we don't believe -- you don't 10 believe there's anything of issue. 11 THE WITNESS: No. No. 12 CHAIR LEVINSON: Okay. In terms of -- 13 THE WITNESS: And pending that -- sorry. 14 It's all been stayed. 15 CHAIR LEVINSON: Understood. 16 The distribution of capital expenditures 17 among the properties. How much does VICI have 18 over the actual operators themselves on what 19 they can do capitol-wise into the properties? 20 And our concern here is the Atlantic City 21 properties. 22 THE WITNESS: There are minimum capital 23 requirements. So in that respect, it's a good 24 thing, you know, for all of the properties that 25 go into the REIT. Because before we didn't</p>

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<p style="text-align: right;">74</p> <p>1 TIMOTHY DONOVAN 2 have a minimum, you know, requirement from 3 anybody in terms of the capital expenditures. 4 But I think Eric Hession, who is going to come 5 up -- yeah. He's going to speak to a lot of 6 those questions, types of questions. 7 CHAIR LEVINSON: Thank you. 8 Sharon? 9 VICE CHAIR HARRINGTON: Most of mine 10 would like to, you know, the amount of money 11 that's devoted to both the capital expenditures 12 but also the management of the two properties. 13 So if that's Eric's line -- 14 THE WITNESS: Yeah. 15 MR. O'GARA: I just -- there's -- so you 16 understand, the management fee involved -- 17 there's no management fee involved. 18 CHAIR LEVINSON: Say that -- I didn't 19 hear what you said. What did you say? 20 MR. O'GARA: This Management Agreement 21 with nonCPLV Manager? 22 CHAIR LEVINSON: Right. 23 MR. O'GARA: Zero. It has two 24 employees. And I think CEC is covering their 25 salary. So there's not going to be -- I mean,</p>	<p style="text-align: right;">76</p> <p>1 TIMOTHY DONOVAN 2 VICE CHAIR HARRINGTON: Right. 3 MR. O'GARA: There's -- the REIT does 4 not pay the -- you know, the expenses. The 5 triple net lease means it's like you own it, 6 but you're paying us because you don't own it. 7 You take care of the taxes and the insurance. 8 VICE CHAIR HARRINGTON: Uh-hum. 9 MR. O'GARA: And all that kind of thing. 10 So that's theirs. So they would expenses of 11 the CEOC and of the licensees. But as to the 12 actual -- you know, having a nonCPLV Manager, 13 that's a zero cost item because it doesn't have 14 any fee. It doesn't get paid anything for 15 doing it. 16 VICE CHAIR HARRINGTON: Okay. 17 CHAIR LEVINSON: Any further questions 18 for the first witness? 19 (No response.) 20 CHAIR LEVINSON: Mr. Donovan? 21 Hearing none, you're excused. Thank 22 you. 23 THE WITNESS: Thank you. And I'd like 24 to thank -- you know, it's good to be here. 25 I'm glad to be here. And, hopefully, this is</p>
<p style="text-align: right;">75</p> <p>1 TIMOTHY DONOVAN 2 as to Cap Ex and how it works in budget. But 3 as the Management Agreement itself, unlike a 4 lot of other management agreements where you 5 have four percent of that or three percent, 6 there's no fee. None. It's identical to CERP 7 Manager which is at Harrah's, which charges no 8 fee. And CES, which provides the services, 9 does it at cost. It's not -- 10 VICE CHAIR HARRINGTON: Okay. But there 11 is a cost at cost. So I mean, in the report it 12 says that the successor licensees will not own 13 any real estate or own any mortgage debt. 14 MR. O'GARA: Correct. 15 VICE CHAIR HARRINGTON: And yet there 16 are amounts assigned to both Caesars and 17 Bally's. And then one of my questions is, 18 how -- who will take the real estate taxes? Or 19 are they embedded in that amount? What about 20 the utilities? What about the -- 21 MR. O'GARA: Commissioner, when we 22 address the lease, it's triple net. Meaning 23 that OPCO is responsible for the taxes and 24 everything. So the real estate taxes are an 25 obligation of the operating companies.</p>	<p style="text-align: right;">77</p> <p>1 TIMOTHY DONOVAN 2 resolved in a good resolve. But I wanted to 3 thank, you know, the staff and for their hard 4 work. It's really been -- been very supportive 5 and they've been very cooperative and been very 6 professional, so it's a lot of work. 7 Thank you. 8 CHAIR LEVINSON: Thank you. 9 Mr. O'Gara, would you like to make any 10 statements before you call the first witness -- 11 or the second witness? 12 MR. O'GARA: No. Just it's Eric 13 Hession, who is the CFO and, hopefully, he'll 14 address -- we tried to do with Mr. Donovan, who 15 is a lawyer like I am, not throw into Eric's 16 territory which gets into those wonderful 17 concepts like debts service, allocation, and 18 all that. And so Eric will address all that. 19 CHAIR LEVINSON: Okay. 20 VICE CHAIR HARRINGTON: I appreciate 21 that. 22 MR. O'GARA: He was part of these 23 negotiations clearly, and he's the person who 24 will execute it going forward. But what I 25 wanted to make clear is that when you look at</p>

<p style="text-align: right;">78</p> <p>1 ERIC HESSION 2 these costs, and it's sometimes confusing that 3 we did it in parts, that the lease has triple 4 net. So we have all the taxes and everything. 5 But when you talk about a manager getting a 6 license, most often you see it's somebody who 7 managing it because they get a percentage of 8 what they're doing. 9 VICE CHAIR HARRINGTON: I understand. 10 MR. O'GARA: This is something that was 11 dictated by an MLSA. You can tell by it's 12 massive staff of two. It should be fairly 13 efficient. And so it will have no -- and CES, 14 as you know from its qualification, is just a 15 pass-through entity. It charges what it 16 spends. 17 CHAIR LEVINSON: Understood. 18 MR. O'GARA: Okay? 19 CHAIR LEVINSON: Would you like call 20 your second witness? 21 MR. O'GARA: Sure. Eric. 22 CHAIR LEVINSON: Mr. Hession, please be 23 sworn in by Daryl once you get up there. 24 ERIC HESSION, having been first duly sworn, 25 testified as follows:</p>	<p style="text-align: right;">80</p> <p>1 ERIC HESSION 2 A. Yeah. It was a very, you know, busy 3 time in terms of finance areas. Tim mentioned a lot 4 of the data and a lot of tax information that had to 5 be provided so that the negotiations could continue 6 were provided by the accounting department, by the 7 financial planning department, and by our tax 8 organization. In terms of the date-to-day 9 negotiations with the various creditor groups, we were 10 not directly involved in that. That was handled 11 through the owners of the company as well as the 12 lawyers and the various financial advisors that they 13 had hired. 14 Q. But the numbers that were involved 15 ultimately were ones that you were involved in 16 providing on behalf of Caesars, and as to evaluating 17 various scenarios, you evaluated as to -- on behalf of 18 Caesars as to their debt; correct? 19 A. Yeah. Absolutely. And we provided 20 those on behalf of all the negotiations so we provided 21 consistent data, consistent information for all the 22 various sources so they would be able to decide the 23 various valuations and get comfortable with how the 24 negotiations persisted. 25 Q. Is it fair to say you're familiar with</p>
<p style="text-align: right;">79</p> <p>1 ERIC HESSION 2 MR. NANCE: Please state your name for 3 the record. 4 THE WITNESS: It's Eric Hession, 5 H-e-s-s-i-o-n. 6 MR. NANCE: Thank you. 7 DIRECT EXAMINATION BY MR. O'GARA: 8 Q. Eric, are you the Chief Financial 9 Officer of Caesars Entertainment? 10 A. I am. 11 Q. And how long have you held that 12 position? 13 A. I've held that position for a little 14 over two and-a-half years. 15 Q. And prior to that, were you a financial 16 officer of Caesars? 17 A. Yes. I've been with the company almost 18 15 years total in a variety of roles, six or seven 19 years in operations, doing a variety of functions of 20 property level and a regional level. And then the 21 behalf of my career with the company has been at the 22 corporate level in finance and various functions. 23 Q. Were you actively engaged in the various 24 negotiations and the experience that CEC and CEOC went 25 through during the Chapter 11 reorganization?</p>	<p style="text-align: right;">81</p> <p>1 ERIC HESSION 2 the Third Amended Plan of Reorganization? 3 A. Yes. Very. 4 Q. And also the financial terms of the 5 Merger Agreement? 6 A. Yes. 7 Q. What's the principal effect -- and I 8 forgot to ask Mr. Donovan. But assuming all this is 9 approved, when is it anticipated this is actually 10 going to occur, that this is going to become 11 effective? That this plan will actually take effect. 12 A. We -- at this point, based on the 13 variety of approvals that are needed, and as Mr. 14 Donovan referenced earlier, the consummation of the 15 merger, we would anticipate this happening at the end 16 of September, possibly in the first few days of 17 October, depending on the scheduling from an 18 accounting perspective. But that's the best estimate 19 that we have at this point. 20 Q. So it would be the end of the third 21 quarter. 22 A. The end of the third quarter. Correct. 23 Q. What will be the principal effect? And 24 I'm going to ask you on the Caesars Enterprise. And 25 when I say "Enterprise," I mean Caesars Entertainment,</p>

<p style="text-align: right;">82</p> <p>1 ERIC HESSION 2 all of its subsidiaries and affiliates, the entire 3 entity. What will be the principal financial effect 4 on this company on consummation of these transactions, 5 the merger, and the effectiveness of the bankruptcy? 6 A. Yeah. So the principal effect is that 7 it will be a dramatic change in just the overall 8 capital structure of the company. As Mr. Donovan 9 commented in response to some of the questions about 10 the leverage buyout that occurred in 2008, almost 11 immediately from that point on our company was 12 stressed with one of three major items. One, cash. 13 Making sure that we had enough cash. Two, leverage. 14 Making sure that we had sufficient -- that we kept our 15 leverage down. And then three, duration. Meaning the 16 debt, we wanted to make sure it was pushed out so we 17 had enough time to react. And so for a period of 18 about seven years, that was a constant overhang on the 19 company. Particularly from the cash standpoint, 20 having negative cash flows required additional debt 21 raises, assets sales, and a variety of other 22 mechanisms to enable us to -- as we waited for the 23 eventual recovery in the industry. 24 Q. Coming out of this restructuring, our 25 capital structure leverage will be reduced</p>	<p style="text-align: right;">84</p> <p>1 ERIC HESSION 2 of the deck or Power Point, whatever terms you wish to 3 refer to. There's a chart called "Old Versus New Debt 4 Structure," and it tries to summarize certain things. 5 And in it it has elements of the debt in the various 6 units of Caesars and also annual cash interest expense 7 and lease payments. Taking the Caesars consolidated, 8 the entire enterprise of Caesars, prior to this -- the 9 effective date of this restructuring, at the high 10 point, what was the amount of long-term debt? 11 A. Yeah. It was approximately \$25 billion. 12 That was both at the time of the leverage buyout and 13 then also right before the ultimate filing of 14 bankruptcy. The \$25 billion was a consistent number. 15 It did vary throughout that period, but both at the 16 time of the leverage buyout and right before the 17 bankruptcy, it was around \$25 billion. 18 Q. When you say "vary," it didn't vary down 19 to, like, nothing? 20 A. No. It might have varied down to 22. 21 Q. And upon emergence, what will be the 22 long-term debt obligations of the enterprise? 23 A. It will be just under \$10 billion. So 24 they'll be a reduction of around \$15 billion of true 25 debt. The one thing I would call out is that, as Mr.</p>
<p style="text-align: right;">83</p> <p>1 ERIC HESSION 2 dramatically. It will be at 6 times or 5.3 times, 3 depending on how you count the convertible note, at 4 the parent, which is right in line if not on the lower 5 end of our industry peers. From a cash flow 6 perspective, we'll be generating a significant amount 7 of cash flow each year that can then be used for 8 redeployment back in the businesses or other business 9 opportunities that we haven't been able to pursue for 10 a number of years. And then from a cash balance 11 perspective, we'll also merge with a sizable amount of 12 cash on the balance sheet. So immediately coming out 13 of the restructuring, we're not in a position were 14 we're going to be lacking cash. 15 Q. So overall, we'll have gone from a 16 company that for a period of, I would say six or seven 17 years, was really scrambling to ensure that we didn't 18 have any of those three things trip us up to a company 19 that's in a much more stable position with a very 20 manageable capital structure that's also able to 21 withstand downturns and hiccups in the economy, unlike 22 the capital structure that was put in place at the 23 time of the LVO, which we ultimately knew was too 24 highly levered. 25 Q. I will invite your attention to Page 3</p>	<p style="text-align: right;">85</p> <p>1 ERIC HESSION 2 Donovan walked through, there is the lease payment to 3 the REIT. An industry standard way of valuing that 4 because technically it's not debt but an obligation 5 that the company would have. It's used to about an 6 eight times multiple. So that would take our debt 7 reduction to around \$10 billion if you tried to put 8 everything on an apples-to-apples basis. 9 Q. So you will, for certain accounting 10 purposes, although it's rent and it's a lease expense, 11 you'll show on your balance sheet this amount as 12 long-term debt? 13 A. It will be shown on the balance sheet as 14 a long-term liability. 15 Q. Liability but not debt. 16 A. It will likely not be categorized as 17 debt. However, for the purposes of financial 18 analysis, and when you're thinking about the strength 19 and ultimate leverage in the company, I think it's 20 appropriate to consider it as some sort of liability 21 that you'd then add to that debt. 22 Q. This is -- this is -- so perhaps in a 23 framework for everybody -- this is what -- this 24 accounting treatment is what resulted in Penn National 25 restating their financial statements two years after</p>

<p style="text-align: right;">86</p> <p>1 ERIC HESSION 2 they went to the REIT because they had not done it; 3 right? 4 A. That's correct. I'm not as familiar 5 with their particular circumstances, but my 6 understanding was that they did not put a liability on 7 their balance sheet initially and simply booked the 8 expense. We've come to the conclusion that a 9 liability is appropriate to be placed on the balance 10 sheet, and then that will be amortized over time as 11 those payments are made. 12 Q. But it's the rent liability. 13 A. That's right. 14 Q. It's not further debt. And it's 15 pursuant to the terms of lease. 16 In terms of cash interest -- and let me 17 ask you again. Not all of these savings are directly 18 a result of the restructuring. You were able to 19 refinance certain preexisting debt; is that correct? 20 Because of the plan that's going to be implemented? 21 A. Yeah. Absolutely. That's correct. 22 We've, in the last three to four months, due to a 23 number of factors. One, the performance of the 24 company over the last two years has been very strong. 25 I'd be happy to get into that more if you're</p>	<p style="text-align: right;">88</p> <p>1 ERIC HESSION 2 operating perspective, don't impact the properties, 3 but what they do is they allow us to have sufficient 4 and more cash flow available to then redeploy into the 5 businesses. 6 Q. And is -- when we look at Page 3 on the 7 chart that is indicated there, is that reflective of 8 the reduction in annual cash interest expense and 9 rental expense from the cash interest expense of the 10 enterprise prior to the reorganization? 11 A. Yes. What we've shown here is purely 12 the effect of the reorganization on the interest 13 expense and lease payments. If you notice in the 14 post-restructuring column, we had included the lease 15 payments and interests. So the net reduction of \$800 16 million is an apples-to-apples comparison. The two 17 figures that I just referenced, the roughly \$200 18 million of additional interest rate savings would be 19 beyond that \$800 million here. So when added 20 together, all that should be in excess of a billion 21 dollars a year. 22 Q. That's not being paid in interest. 23 A. That's correct. 24 Q. Now, under the -- what we call the -- 25 first of all, this REIT has two leases, one for</p>
<p style="text-align: right;">87</p> <p>1 ERIC HESSION 2 interested. The strength in the debt markets right 3 now, and particularly in gaming, and then the fact 4 that the restructuring is agreed upon and we're moving 5 towards the ultimate emergence, we've been able to go 6 into the market and reprice certain securities that 7 were put in place pre-restructuring. Those securities 8 were term loans at CGPH, CERP, and most recently last 9 week, our Baltimore property. And the combined 10 interest saving for those three facilities per year is 11 about \$110 million. So you can see how that is there 12 is a significant inflated, let's say, interest expense 13 associated with the risk from the company two years 14 ago. And then rather the performance and the 15 anticipated risk going forward is much lower. 16 There's more beyond that. We still have 17 some bonds that can be refinanced. Those are more 18 complicated to do because they involve the offering 19 memorandum and our plan is to refinance those bonds as 20 shortly after emergence as possible. We'd anticipate 21 another hundred to \$125 million in interest savings 22 from refinancing those bonds. But we are unable 23 practically to do that until emergence. So that will 24 be a top priority as well. 25 Both of those transactions, from an</p>	<p style="text-align: right;">89</p> <p>1 ERIC HESSION 2 Caesars Palace and one for the rest of CEOC; is that 3 correct? 4 A. That is correct. 5 Q. And the two Atlantic City properties are 6 subject to something called the nonCPLV lease? 7 A. That's correct. 8 Q. And it's a unitary lease. What does -- 9 what does that mean to you, Eric? What is a unitary 10 lease? 11 A. Well, from a practical perspective, the 12 lease payment starts out at a certain amount. It's 13 increased based on the rules of the various lease. In 14 this case, it stays constant for a number of years, 15 which is a benefit to the operations, before it rises 16 based on CPI and some other calculations. But 17 ultimately what it means is that the parent, CEOC, 18 makes those payments just like a parent would make an 19 interest payment on debt out of the parent's checking 20 account. And the way that cash gets to there is that 21 each property generates their cash. They deploy their 22 capital. And periodically we take the cash that 23 accumulates, put it up to the parent, and that's used 24 to fund any of those corporate initiatives that occur, 25 such as debt payments, such as funding for our</p>

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1 ERIC HESSION
2 centralized services companies, such as paying capital
3 at a centralized level as well as making certain other
4 procurement disbursements.
5 Q. Does the lease obligate any individual
6 property to a specific amount of the lease?
7 A. No. In fact, no single property, other
8 than Caesars Palace because they have their own
9 special situation, is obligated to any specific
10 amount. It's an amount of total lease that the CEOC
11 entity is obligated to pay. But each property is not
12 obligated in any amount to make any payments.
13 Q. Are you allocating any portion of this
14 lease to any of these properties in Atlantic City?
15 A. No. They'll be -- there will be some
16 accounting treatment where assets will be pushed down
17 and liabilities will be pushed down. But from a cash
18 flow perspective, as I mentioned, no particular
19 property is obligated to make any specific payments.
20 It's the entity as a whole that is obligated to make
21 those payments on behalf of all the property.
22 Q. And if you were to allocate it, you
23 understand that this Commission and this Division
24 would like to know and see that allocation?
25 A. Yeah. Absolutely.

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1 ERIC HESSION
2 Q. Now, you have -- there is a document
3 which the world has seen which apparently in Illinois
4 they asked about, an allocation for you to do it, and
5 you showed them how you would allocate it, if you
6 would. How did you do that, Eric?
7 A. Well, so we took the combined EBITDA of
8 all of the properties and divided it by each
9 properties respective EBITDA so we basically allocated
10 it by EBITDA. That's not -- we don't believe -- we're
11 still going through the accounting treatment. We
12 don't believe that that's how ultimately gap is going
13 to allocate it, because it's just purely a reflection
14 of the EBITDA. It was an approximate split, and it
15 was -- but ultimately again, like I said, if a single
16 property, for example, didn't have any cash because
17 they either deployed all of their funds back into
18 capital or they had a poor earnings year, that
19 property would not continue to be obligated to make
20 those payments. It would just have to come from
21 another source.
22 Q. So that is not an allocation, and that
23 not been implemented or done; right?
24 A. No. No.
25 Q. And even if you were to have to do this,

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1 ERIC HESSION
2 that you don't think would work under cap, anyway;
3 right?
4 A. No. Not to get too technical, but
5 because we are ultimate -- "we" being the OPCO, -- is
6 effectively leasing the assets for a period of time
7 that is essentially their effective useful life, this
8 is what's going to be treated as what's called the
9 failed sale approach. And the way a failed sale
10 approach works from an accounting treatment is that
11 the assets are held on both sets of books, so they
12 held on the OPCO and on the PROPCO books from a gap
13 perspective. The value of those assets is determined
14 based on the highest and best use, which is actually
15 the PROPCO side. And, therefore, the PROPCO values
16 them. We then reflect them on our books, and we book
17 a liability equal to that which is then amortized over
18 the period of the loan.
19 Short way of, you know, skipping to the
20 conclusion is that that is a different treatment than
21 the effective cash treatment, which is really what we
22 manage to from a returns perspective, from a balance
23 sheet perspective, and how we think about the
24 performance of the business. It's really a very
25 unusual gap accounting treatment that, because of the

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1 ERIC HESSION
2 way that the restructuring is working, we end up in
3 this situation.
4 Q. No one seeks to go there, you're telling
5 me.
6 A. No. And, in fact, it's -- we've have a
7 hard time coming up with precedent for it. The reason
8 is that this is a -- as Tim mentioned earlier, you
9 have a merger and then the merger is effectively
10 buying the OPCO by making the contributions that he
11 referenced earlier. Therefore, you have a purchase.
12 And you also have a purchase at the same exact time as
13 you're forming a REIT. And, therefore, you have to
14 use purchase price methodology as opposed to the
15 traditional REIT methodology because the purchase is
16 occurring at exactly the same time. And that creates
17 a different type of accounting treatment. So it's
18 extremely rare. In fact, and I'm not sure if the
19 accountants had seen another instance where you would
20 form a REIT and do a purchase of the OPCO in exactly
21 the same time. Typically, they are spin REITs which
22 you saw with both Penn and Pinnacle.
23 Q. Now, you've seen the report from the
24 Division of Gaming Enforcement, and you know that on
25 Pages 48 through 55, for anyone who missed it, it

<p style="text-align: right;">94</p> <p>1 ERIC HESSION 2 discussions capital expenditures in Atlantic City. 3 Number one, Eric, there was a chart in 4 the Division's report which indicated the cap ex 5 levels in Atlantic City over the last several years, 6 and do you believe those are generally accurate as 7 reflected there? 8 A. Yes. 9 Q. Now, were there some additional ones 10 which you could point out that not that they are 11 particularly material, but and why they were not 12 captured by the Division? That were -- 13 A. Yeah. Oh, for the projections and -- 14 Q. From the going backward and forward. 15 A. Yeah. Sure. 16 Q. Yeah. 17 A. So as I -- there are a couple of items. 18 As I mentioned, we have a centralized function that 19 maintains a lot of the services that are provided to 20 all of the casinos. So if you were a stand-alone 21 casino operator, you'd be required, for example -- and 22 I'll just use this because I'm very familiar with 23 it -- to have a general ledger. And that general 24 ledger, if you were a stand-alone property, would be a 25 capital item you have to maintain on your books or</p>	<p style="text-align: right;">96</p> <p>1 ERIC HESSION 2 related. So it would be boilers, chillers, lift 3 trucks, those types of things are -- because we don't 4 know what's going to break at the beginning of the 5 year, we provide a fund of money that we estimate for 6 the entire company. And as the properties need that 7 capital, they then deploy it on a weekly basis. 8 That tends to run for the properties at 9 Caesars, it's slightly over a million dollars a year. 10 And then at Bally's, it's -- in 2016 it was 11 a-million-seven, but it's generally also about a 12 million dollars. So those numbers aren't included in 13 that \$5 million fund, either. 14 Q. But looking backwards, it's fair to say 15 that the company's capital expenditures for CEOC was 16 somewhat constrained by this whole bankruptcy process? 17 A. Yeah. They were. They were. I would 18 say even more constrained prebankruptcy because we had 19 significant liquidity challenges. And then even 20 during bankruptcy, we had negotiated effectively with 21 the credits for a maximum of amount of capital that we 22 could expend. That amount for the entire CEOC entity 23 was \$225 million. We're currently spending to that 24 limit right now. One of the discussions that we've 25 been having internally is when we come out of</p>
<p style="text-align: right;">95</p> <p>1 ERIC HESSION 2 replace as you move forward. 3 In our case, we're putting in a 4 centralized cloud-based general ledger. And that 5 capital is reflected as our corporate entity, CES. 6 And so our properties are not burdened by that 7 capital. However, they'll benefit from the deployment 8 of that capital. The amount of capital that we spend 9 at the centralized level ranges. It's been as high as 10 a hundred million dollars. Most recently, it's been 11 more in the 40 to \$60 million range. And that's kind 12 of how we're projecting going forward. If you were to 13 allocate that proportionately to the Atlantic City 14 properties, you'd get another, say, \$5 million a year 15 roughly for the CEC and Bally's combined. In 16 addition, the items that weren't included in the \$5 17 million estimate going -- 18 Q. The \$5 million that appears in certain 19 budgets? 20 A. Yeah. 21 Q. What is that? Is that a placeholder? 22 A. Yes. It's absolutely a placeholder. 23 And it excludes the CES capital. And it also excludes 24 what we generally call a small item capital. So 25 anything -- anything under \$250,000 that's maintenance</p>	<p style="text-align: right;">97</p> <p>1 ERIC HESSION 2 bankruptcy is, as I mentioned at the end of the third 3 quarter, we would like to increase that amount for the 4 last three months of the year and go beyond the 225. 5 But right now we're limited by that pre-agreed cap. 6 Q. And that cap would -- the creditors have 7 an interest having a cap on it because they want to 8 have capital available for them for the reorganization 9 to get it as yield; right? 10 A. That's why it was originally put in 11 place. Now that we have the restructuring support 12 agreements, we're all in alignment, but it's one of 13 those things that if we wanted to go past that amount, 14 we'd have to go back to the courts. 15 Q. So assuming that we were to get out on 16 October the 1st, that's a stakeholder. What's the 17 process by which the decisions are made for capital 18 expenditures for, you know, 2018 and 2019? How does 19 that work now in the new company? All right? 20 A. Yeah. It's a great question. So what 21 we'll do as a management team is put together the 22 capital plan for the entire enterprise. We review the 23 projects that we've identified from a corporate 24 perspective, but we also go out to every property and 25 ask their management teams and their general managers</p>

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<p style="text-align: right;">98</p> <p>1 ERIC HESSION 2 to submit projects that they think are in a variety of 3 categories. For example, maintenance is obviously a 4 big category. Those we review for the critical nature 5 of the maintenance and from a guest satisfaction, 6 employee satisfaction perspective, and safety, of 7 course. And then we look at growth projects and say, 8 you know, what are projects that we can invest in at 9 the variety of properties that we have that will then 10 grow our business and expand one of those categories? 11 We take those all together, look at the impact on a 12 variety of different things, and then ultimately 13 prioritize across all the different properties. 14 One of the benefits that we're going to 15 have going forward, as I mentioned, we'll have 16 additional liquidity and a better capital structure 17 and less leverage. But how to translate into decision 18 making is with respect to the hurdle rate. And the 19 hurdle rate is a -- basically a percentage. It's a 20 return that we calculate that's required for us to get 21 on an investment, a capital dollar so that we can 22 generate a return that's higher than our cost of that 23 dollar. 24 And our hurdle rate has been consid -- 25 consistently falling as we've been refinancing the</p>	<p style="text-align: right;">100</p> <p>1 ERIC HESSION 2 upgrades and what you spent on rooms and elsewhere, 3 have you seen returns in New Jersey which are 4 indicative to you that the capital expenditures in 5 that area could be wise? 6 A. Yes. The Convention Center is doing 7 quite well. It's driving a lot of incremental 8 visitation. We need to improve our yield on those 9 rooms, but the demand is certainly there. The one 10 thing we identified early on was that the need of the 11 convention customers to have an upgraded room in the 12 tower where the conventions are held. And as a 13 result, we just completed room renovation of 14 approximately 500 rooms over at Harrah's. If you 15 recall, I think when we communicated the vision for 16 the project, we didn't include those rooms at the 17 time. We had assumed that the addition -- the quality 18 of the rooms that we had would be sufficient. And so 19 that's an example of how we recognized after the facts 20 that we needed to invest further in the property. We 21 wouldn't have achieved the full vision of the 22 Convention Center without doing those rooms, and so we 23 went ahead and did the rooms. The response has been 24 very positive. It's a little too early to evaluate 25 whether we need more refreshed room at Harrah's or</p>
<p style="text-align: right;">99</p> <p>1 ERIC HESSION 2 debt that I referenced. So lower interest rates cause 3 your hurdle rate to fall. The restructured capital 4 structure with the equity that we have will have a 5 lower hurdle rate. And so, actually, this past month 6 we've gone out and had the operators, as we're 7 starting to plan for the fourth quarter -- because 8 we'll have effectively this new capital structure in 9 the fourth quarter. We'll be using a much lower 10 hurdle rate. So the reason that that's important is 11 the projects that we've previously determined to not 12 be efficient because they didn't satisfy a particular 13 return will be easier to qualify for that, and thus 14 should result in increased amount of capital should 15 those projects still be out there and supported by the 16 operators. 17 Q. Now, you've had projects -- aside from 18 the CEOC casinos, you've had significant capital 19 expenditures and projects at Harrah's Atlantic City 20 over the last couple of years; correct? 21 A. Yes. Correct. We've spent just around 22 \$200 million on the Convention Center, upgrading our 23 hotel product and upgrading the food and beverage as 24 well as some common spaces. 25 Q. And with respect to some of those</p>	<p style="text-align: right;">101</p> <p>1 ERIC HESSION 2 not, but certainly if that's the case and the return 3 is there, then we could allocate additional capital. 4 We've also done a small number of rooms 5 at Bally's and a few more at Caesars or roughly 450 6 rooms at Caesars, and those are performing very well, 7 also. In particular what we're seeing in this market, 8 which I think is very encouraging, is higher cash 9 revenues at the hotel. And the reason why I think 10 that's particularly encouraging is because it shows 11 that there is a group of customers that are willing to 12 come to the market, pay for their own way, meaning we 13 don't have to give them the free rooms, the free food 14 and all that, and they're actually going to come and 15 buy food and beverage from us. Buy entertainment and 16 buy the hotel rooms. And that's really a sign of a 17 very strengthening market, in my opinion. 18 And so when you look at where our 19 company is deploying our capital, and if you follow 20 along in our earnings calls and what we're 21 communicating to investors, we're actively deploying a 22 lot of capital into these types of activities. We're 23 upgrading our food and beverage. As you saw over in 24 Harrah's Atlantic City but really across the company, 25 spending a lot of money on that. The hotel product,</p>

<p style="text-align: right;">102</p> <p>1 ERIC HESSION 2 as we're seeing in this market and in Las Vegas. With 3 customers willing to pay for a good quality product 4 and a good experience. That's something that we 5 invest into. And then from an entertainment 6 perspective, that's also something that we feel 7 customers are willing to pay for. And so investing in 8 those make a lot of sense to us right now. And so 9 that's why, when we think about this market, we've 10 deployed a lot of capital into these nongaming aspects 11 to try to drive that customer base into the market. 12 And it creates a much more viable environment, such 13 that when those customers are here, they also gamble, 14 but they help support the property during those kind 15 of midweek periods when the gambling demand is not 16 necessarily here. 17 Q. And do you have requests for projects 18 you're evaluating involved rooms and other amenities 19 for substantial size for Bally's and Caesars? 20 A. Yeah. We do. We're in the process of 21 putting our capital plan together for the year, and 22 we're trying to do a multiple-year strategy because 23 we'll have a stable capital structure. We want to be 24 able to sequence our big capital deployments so we 25 don't have too many rooms off the market or that don't</p>	<p style="text-align: right;">104</p> <p>1 ERIC HESSION 2 next few years. But there's certainly flexibility if 3 the projects are there that we can absolutely spend 4 more than 225. We have the cash on the balance sheet, 5 and we're generating enough cash to support 6 incremental investment. At this point, without seeing 7 the full portfolio of projects, we can't say how much 8 that will be, but that option was available for us, 9 where it was not over the last couple of years. 10 Q. And you would anticipate that those -- 11 that that placeholder doesn't appear to what they'll 12 actually be? 13 A. No. That's just a placeholder that we 14 put in. We -- you know, it's one of the things, quite 15 frankly, that is on my list now that we'll have a much 16 longer horizon in terms of capital plan to put a 17 multi-year capital plan together. So that when we get 18 their request, what does a particular property's 19 capital look like for the next three years? It can be 20 much better informed. Right now we plan year to year, 21 and it's not an optimal long-term way. This year we 22 plan to have a full three-year capital plan that will 23 phase in certain projects. And I think it will be 24 much better formed than the kind of just plugs that we 25 use right now, quite frankly.</p>
<p style="text-align: right;">103</p> <p>1 ERIC HESSION 2 deploy much capital in a lumpy way. 3 Particularly, there are some suites at 4 Caesars Palace here in Atlantic City that are on the 5 list in terms of ability to upgrade that we think we 6 can get some good returns. And then the Bally's rooms 7 have performed quite well that I referenced, a few 8 hundred of those. And I think the property certainly 9 desires to do a large block of Bally's rooms like we 10 did over at Harrah's Atlantic City. And that's been 11 submitted as part of their request for either 2018 or 12 '19. 13 Q. And as you look at those, those will now 14 go through, and they have to go through and ultimately 15 be part of the plan approved by a board. So you can't 16 commit to doing anything today; right? 17 A. That's correct. I can't commit to doing 18 anything today. The one thing that we will have going 19 forward is that we will have the ability to deploy 20 capital in excess of \$225 million cap that we've been 21 under for the last couple years. So as I mentioned, 22 certainly in the fourth quarter, we plan to go ask our 23 board to go, increase beyond that amount. We've shown 24 in our plan in the S-4 and the materials that we've 25 provided that we would hit the 225 right on for the</p>	<p style="text-align: right;">105</p> <p>1 ERIC HESSION 2 Q. All right. You understand that if 3 approved there's a condition that that plan would 4 submitted to the Commission and the Division. Do you 5 have any approximate with that? 6 A. No. Absolutely not. 7 MR. O'GARA: I don't any other 8 questions. 9 CHAIR LEVINSON: Thank you. 10 Division? 11 MS. RICHARDSON: Thank you. 12 CROSS-EXAMINATION BY MS. RICHARDSON: 13 Q. Good morning, Mr. Hession. 14 A. Good afternoon. 15 Q. You mentioned this in the general sense, 16 but you familiar with the debt transaction that CEC 17 undertook and along with the subsidiaries between 2008 18 and 2014? 19 A. Yes. Some more than others, but, yes. 20 Q. And what were the primary purposes of 21 those transactions? 22 A. The primary purposes were threefold, I 23 would say. Each has their own, you know, particular 24 characteristic and driver. But one would be to ensure 25 that we had sufficient liquidity. By that, it's</p>

<p style="text-align: right;">106</p> <p>1 ERIC HESSION 2 basically having enough cash so that we don't run out 3 of -- run out of money. 4 Second is to ensure that we didn't trip 5 any covenants. Certain debt instruments have 6 requirements in terms of leverage or various spending 7 requirements, and we wanted to make sure that we could 8 satisfy all those. 9 Third was duration or maturity. The 10 last thing we wanted to do would be to end up in a 11 position where you have debt that's coming due where 12 you are unable to refinance or pay it off. What 13 happens then is that you have to reflect it as a 14 current liability on your balance sheet. And, 15 therefore, that would trigger acceleration on all the 16 debt, and you'd have problems of making sure that we 17 had sufficient duration, was one of the criteria. 18 And then fourth, to the extent possible, 19 given that a lot of our debt traded at a discount, if 20 we were able to retire that debt at the market prices, 21 it would accelerate our ability to de-lever and use 22 each dollar cash more efficiently. 23 Q. And some of the transactions in the 24 latter part of that seven-year period required the 25 issuance of new debt at higher interest rates than the</p>	<p style="text-align: right;">108</p> <p>1 ERIC HESSION 2 Q. Mr. Donovan touched on this a bit, but 3 would you also agree that these debt transactions 4 provided CEC with additional time, but it did not 5 address the magnitude of the debt service requirements 6 relative to the consolidated CEC EBITDA base? 7 A. Yes. That's also very correct. At the 8 time of the leverage buyout, we were making about \$2.8 9 billion worth of EBITDA cash flow. At the time 2014, 10 we were just under 1.5 billion. So we had a decrease 11 of just shy of 50 -- 50 percent. And our belief was 12 that the casino industry would recover much like other 13 discretionary income sources. You know, autos 14 recovered reasonably quickly. Real estate recovered. 15 The hotel markets recovered. And our casino industry, 16 unfortunately, lagged by probably two to three years 17 behind what other industries were. And we saw that 18 recovery occur in 2016. And, quite frankly, it 19 occurred about six months too late I think. 20 Otherwise, I think we might have had a different 21 situation. It's tough to speculate. But we certainly 22 had an outstanding 2016 -- or sorry -- '15 relative to 23 '14. 24 Q. And those standing issues throughout the 25 period, was that one of the primary reasons that CEOC</p>
<p style="text-align: right;">107</p> <p>1 ERIC HESSION 2 debt that was redeemed; is that correct? 3 A. Yes. That's absolutely correct. 4 Earlier, there's a discussion with Mr. Donovan about 5 the debt at the leverage buyout and immediate -- 6 pre-leverage buyout and post. But to your point, and 7 where you're going is that even that post amount of 8 debt had reasonably good interest rates. However, 9 over the years, as the company's stress increased and 10 the markets recognized it, the refinancing of that 11 debt came at increasingly high interest rates. 12 Q. And that resulted in an increase in 13 CEC's consolidated interest expense over the period; 14 is that correct? 15 A. Yes. Absolutely. 16 Q. Do you recall the amount of that 17 increase? 18 A. I -- I don't. It was -- it was 19 substantial increase, and I know it ended at around 20 2.5 billion per year of interest. But I apologize. I 21 don't know what it started at the time of the leverage 22 buyout. 23 Q. I think it was approximately two 24 billion. 25 A. Two billion? Okay.</p>	<p style="text-align: right;">109</p> <p>1 ERIC HESSION 2 assets were sold to CGP in 2014? 3 A. Yes. There were -- CEOC had a number of 4 assets that required significant capital to be able to 5 fulfill the potential of those project -- properties. 6 A great example is the Imperial Palace right on the 7 Strip. It was not in excellent condition, you could 8 say. And the optimum use of that would have been to 9 completely renovate it and put significant capital in. 10 CEOC didn't have the resources from a liquidity or a 11 debt perspective to do that. So from a CGP 12 perspective, they were able to invest, spend about 13 \$260 million, and the property is doing exceptionally 14 well. That's an example of one of those properties 15 that was better optimized by being in the other 16 capital structure. 17 Q. And what was sold in that asset sale 18 then? 19 A. Let's see. That would have been the 20 Cromwell. The Imperial Palace, or it was called The 21 Linq at the time. And Bally's. I think those are the 22 three. 23 Q. And also was Harrah's New Orleans one of 24 them? 25 A. Oh, yeah. And Harrah's New Orleans.</p>

<p style="text-align: right;">110</p> <p>1 ERIC HESSION 2 Yes. Thank you. 3 Q. And what proceeds were received from 4 that sale? 5 A. Boy. I don't recall the exact dollar 6 amount, but there is a sizable amount of cash that was 7 received by CEOC for those assets. 8 Q. And that was used for -- how was that 9 used by CEOC? 10 A. It was for general purposes. But it 11 effectively went to interest and reinvestment in the 12 businesses. It was -- it was consumed because the 13 CEOC entity was generating that negative cash, and so 14 it was used for those purposes. 15 Q. Do you recall that the Division 16 concluded in a May 2014 report on a CEOC refinancing 17 that the sale of assets would not be a reasonable or 18 sustainable strategy going forward to deal with its 19 debt? 20 A. I don't -- I don't recall the 21 conclusion, but it's certainly an accurate statement. 22 Q. What efforts did CEOC undertake after 23 that 2014 asset sale to address its debt issues? 24 A. So as we talked about, you know, we 25 continued to try to figure out ways to keep our</p>	<p style="text-align: right;">112</p> <p>1 ERIC HESSION 2 report. However, the timing of the report, the action 3 that occurred after the report, the outcome of the 4 ultimate restructuring with respect to how it was very 5 close to the high end of that value referenced in the 6 report would seem to indicate that the report was used 7 by the parties to help come to a -- kind of an 8 agreement in terms of value so that the ultimate 9 restructuring support agreements could be signed. 10 Q. It's been mentioned that one component 11 of the confirmed plan is the merger of CAC with and 12 into CEC. What's the financial impact of that merger? 13 A. So the direct financial impact should be 14 a modest reduction in expense. So we'll have the 15 elimination of some dualistic cost, some audit fees, 16 some complexities associated with our accounting. The 17 practical nature will be simply that we'll have a much 18 easier capital structure with which to communicate to 19 investors and to understand and just have a single 20 listed -- listed company. 21 Q. And CEC also obtains the benefit of 22 obtaining CAC cash from that transaction; correct? 23 A. Yeah. Absolutely. I'm sorry. I was 24 answering it more from a -- you know, a financial -- 25 direct financial perspective. But, yeah. As part of</p>
<p style="text-align: right;">111</p> <p>1 ERIC HESSION 2 horizon going so that the recovery could ultimately 3 happen and the business could perform. And, you know, 4 to your point, selling assets to generate cash wasn't 5 the sustainable solution, but it did provide 6 additional runway. The sustainable outcome would have 7 been the performance the business returning to the way 8 it was and kind of how it is now. But, unfortunately, 9 that didn't happen. As Mr. Donovan referenced 10 earlier, one of the objectives was to try to negotiate 11 with the creditors a solution. And that would have 12 been another way to address the problem. 13 Unfortunately, that didn't -- didn't work. 14 Q. And as you're saying then, despite 15 certain efforts that remained, ultimately bankruptcy 16 was filed, as we're all aware, in January of 2015? 17 A. That's right. 18 Q. What role did the examiner's report have 19 in the negotiations resulting in the final plan? Mr. 20 Donovan discussed the report a bit. What's your view 21 on that? 22 A. Yeah. I agree with his conclusion. You 23 know, all the various parties were negotiating on 24 their own behalf. So it's difficult for us to 25 speculate exactly how each interpreted and used that</p>	<p style="text-align: right;">113</p> <p>1 ERIC HESSION 2 the restructuring, the merger of the two entities 3 allows all of the cash that's in all of the 4 subsidiaries, both CEC and CGP, to be used for their 5 structuring. There's a sizable amount of cash at the 6 CGP level due to the sale of our interactive 7 entertainment business, and so that along with just 8 the cash that was on the balance sheet when that 9 entity was formed, will be used as part of the 10 consideration that goes to the lenders in addition to 11 the shares that are being given out by -- by CEC. 12 Q. And as part of the shares of CAC stock 13 is being exchanged for CEC stock; is that right? 14 A. That's correct. 15 Q. And as part of the restructuring, CEC 16 will also be issuing convertible notes; is that 17 correct? 18 A. Yes. That's correct. 19 Q. And what's generally the purpose of 20 issuing those notes? 21 A. Well, again, the -- how that was arrived 22 was through a -- through this series of negotiations. 23 The benefit of a convertible note is that it's simply 24 a different security that has characteristics of both 25 debt and equity. And so the parties, as they were</p>

114	<p>1 ERIC HESSION</p> <p>2 negotiating, determined that there would either be a</p> <p>3 subset of investors that wanted a convertible note or</p> <p>4 that the belief that the performance of the company</p> <p>5 would create additional value by issuing that</p> <p>6 convertible note. In my opinion, it's the latter, and</p> <p>7 that convertible note has sizable value. It's struck</p> <p>8 at a price that's below where the current stock price</p> <p>9 is trading, and it carries a five-percent coupon. So</p> <p>10 I think it's going to trade very well. And it's part</p> <p>11 of the value that the second lien lenders ascribe to</p> <p>12 the restructuring since they'll be receiving all of</p> <p>13 that convertible note.</p> <p>14 Q. What will the cash liquidity of CEC and</p> <p>15 its subsidiaries be after the plan effective date?</p> <p>16 A. It's projected to be very strong. We'll</p> <p>17 have around \$2 billion worth of cash in -- from a</p> <p>18 consolidated perspective. We require roughly \$500</p> <p>19 million to run the business when you add up all of our</p> <p>20 cage cashes and all the payment cycles associated with</p> <p>21 our AP and payroll. There's probably another 500</p> <p>22 million that we will be -- as we simplify our capital</p> <p>23 structure will be released but won't be available to</p> <p>24 us on day one due to certain restrictions with some of</p> <p>25 the covenants in our subsidiary's debt, which will</p>	116	<p>1 ERIC HESSION</p> <p>2 restructuring, our cash flow generation will be a</p> <p>3 positive. So the ultimate outcome of this from a</p> <p>4 company perspective is that we'll be in much better</p> <p>5 shape than beforehand. And really what's happened out</p> <p>6 of this restructuring and two-year negotiation is just</p> <p>7 the equity and all the value has been split up between</p> <p>8 the different parties, but it doesn't really impact</p> <p>9 the operations other than making it much stronger from</p> <p>10 a going-forward perspective.</p> <p>11 Q. And along with what you said there, do</p> <p>12 the forecasts overall indicate an increased</p> <p>13 improvement in liquidity for CEC and its subsidiaries</p> <p>14 then?</p> <p>15 A. Yes. We've provided in the S-4, which</p> <p>16 is the public merger documents, and we've provided</p> <p>17 some additional detail to the -- to the team here,</p> <p>18 which I think are relatively conservative. They</p> <p>19 assume, you know, general growth in the economy but</p> <p>20 nothing exceptional. Fairly good cost management on</p> <p>21 our part. But, again, not like we've seen over the</p> <p>22 last few years. So I think it's there's an upside to</p> <p>23 those. And the reason we provided those was we didn't</p> <p>24 want to come out and disappoint or come out and have</p> <p>25 issues like we did in 2008 during the last leverage</p>
115	<p>1 ERIC HESSION</p> <p>2 then leave about a billion dollars in cash that will</p> <p>3 be able to use. And so as I mentioned earlier, that</p> <p>4 cash, in addition to the fact that we'll be generating</p> <p>5 sizable cash as we move forward, puts the company in</p> <p>6 an entirely different position than we've been in and</p> <p>7 one that's in a very strong position going forward.</p> <p>8 Q. Do you believe that the higher</p> <p>9 distributions required under the confirmed plan will</p> <p>10 negatively impact the financial position of CEC in any</p> <p>11 way?</p> <p>12 A. The distributions --</p> <p>13 Q. To creditors?</p> <p>14 A. Oh, to creditors? No. In fact -- in</p> <p>15 fact, the opposite. The ultimate plan that we're</p> <p>16 ending up with gave away a lot of equity to the</p> <p>17 creditors. That has no impact on operations. All</p> <p>18 that does is shift value from one party to another.</p> <p>19 The amount of cash that's being left on the balance</p> <p>20 sheet as a result of the ultimate negotiation is much</p> <p>21 size -- much higher than what you'd see in a lot of</p> <p>22 restructurings. A lot of restructurings have a</p> <p>23 situation where all the cash is taken out at the time</p> <p>24 of the emergence so this is slightly different. And</p> <p>25 so -- and certainly compared to 2014 and prior to the</p>	117	<p>1 ERIC HESSION</p> <p>2 buyout. So we're coming out with much more</p> <p>3 conservative projects and much lower leverage and a</p> <p>4 lot of cash on the balance sheet. So it's a much more</p> <p>5 stable situation.</p> <p>6 Q. And that projected liquidity would be</p> <p>7 after funding cash needs and including capital</p> <p>8 improvements then?</p> <p>9 A. Absolutely. Yes.</p> <p>10 Q. And you noted earlier that there -- it's</p> <p>11 indicated on the exhibit on the chart at Page 3 that</p> <p>12 there's a dramatic reduction in the CEOC debt through</p> <p>13 the plan. It was approximately 16 billion reduction.</p> <p>14 That leaves CEOC with 1.6 billion in long-term debt</p> <p>15 balance going forward; is that right?</p> <p>16 A. Yes.</p> <p>17 Q. And the annual interest expense and</p> <p>18 lease payments will be about 863 million lower than</p> <p>19 their prebankruptcy interest expenses; is that right?</p> <p>20 A. That's correct.</p> <p>21 Q. Part of the 1.6 billion CEOC new debt</p> <p>22 balance is a term loan; is that right?</p> <p>23 A. Yes, it is.</p> <p>24 Q. What's the amount of that loan?</p> <p>25 A. It's \$1.235 billion. And it was -- went</p>

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<p style="text-align: right;">118</p> <p>1 ERIC HESSION 2 out -- because that's part of the criteria for 3 emergence, we had to raise this money publicly. We 4 went out in the public markets. And we have received 5 commitments from various funds and institutions. That 6 money hasn't been drawn down yet, but there's never 7 been an instance where that's been broken. So the 8 money is there on the date of emergence. We'll pull 9 that money down. It was done at an excellent rate, so 10 it's LIBOR plus 250. Two and a half percent, which 11 is -- for example, we had some debt that was LIBOR 12 plus 800 and so forth that we were dealing with 13 pre-restructuring. So a sizable reduction in interest 14 expense and in magnitude. 15 Q. And CEOC will also have available a \$200 16 million revolving credit facility; is that right? 17 A. That's correct. 18 Q. Do you anticipate any borrowings on that 19 facility during the forecast period in the next two 20 years? 21 A. No. We put that facility in place for 22 flexibility. But we're generating positive cash flow 23 at CEOC, and we anticipate emerging with sizable cash 24 balance. And the facility will not be drawn on 25 emergence, so we don't anticipate pulling that down at</p>	<p style="text-align: right;">120</p> <p>1 ERIC HESSION 2 that there will not be an allocation initially, but 3 you are aware that there's been a modified condition 4 proposed that there would be prior notice and approval 5 required before implementing any allocation in the 6 future. 7 A. Yes. Yes. 8 Q. And CEC and CEOC are prepared to comply 9 with that condition? 10 A. Yes. Absolutely. 11 Q. The Master Lease contained certain 12 minimums regarding capital expenditures; is that 13 correct? 14 A. Yes, that is. 15 Q. And those are annual requirements? 16 A. There are a number of requirements. 17 There is an annual requirement. There's also a 18 three-year minimum rolling requirement, as well as a 19 few other requirements. But the two that I think are 20 going to be the limiting ones, even though we'll 21 spend, in my view, well excess of those are the annual 22 as well as the three-year requirement. 23 Q. And what are those amounts under the 24 Master Lease? 25 A. I believe the annual is a hundred</p>
<p style="text-align: right;">119</p> <p>1 ERIC HESSION 2 this point. 3 Q. And as to the leasing arrangement under 4 the REIT structure, you mention that the annual rent 5 is 465 million due from CEOC for the nonCPLV 6 properties; is that right? 7 A. That's correct. 8 Q. And no portion of that rent will be 9 reported on the financial statements of the Atlantic 10 City licensees, Caesars and Bally's? 11 A. No. Not of the -- not of the rent. As 12 I've mentioned, there had been the failed sale 13 accounting treatment could be -- somewhere some 14 reflection on the balance sheets. That hasn't been 15 determined yet. But there shouldn't be a direct lease 16 payment reflected since it's being made at the parent 17 level. 18 Q. Just following up on that discussion 19 from earlier, you're aware that the Division modified 20 it's proposed condition which initially required 21 submission of the methodology and the proposed 22 allocation of the lease payments. 23 A. Yes. 24 Q. And Mr. O'Gara asked sort of a variation 25 of this, but just to confirm, you're representing here</p>	<p style="text-align: right;">121</p> <p>1 ERIC HESSION 2 million and the three-year is 390 million? Or 380 3 million? 4 Q. I believe it's 495. 5 A. 495. Okay. 6 Q. Without addressing the specific numbers, 7 CEOC -- to expand on what you just said -- CEOC has 8 actually forecasted capital expenditure projects over 9 the next three years which total in excess of the 10 minimums. Would that be fair to say? 11 A. Yes. And -- and the figures that we've 12 represented in S-4 and all of our communications have 13 been at that \$225 million level, which would easily 14 satisfy all of the minimum requirements. It would be 15 in excess of that. 16 Q. And under the triple net structure of 17 the lease that was referenced earlier, the capital 18 expenditure amounts required our obligation of CEOC; 19 is that right? 20 A. Yes. 21 Q. And CEOC is also responsible for 22 maintenance and repair expenses? 23 A. Yes. Correct. 24 Q. What input do the REIT landlord entities 25 have in the cap ex spending process?</p>

<p style="text-align: right;">122</p> <p>1 ERIC HESSION 2 A. Essentially minimal. They have -- they 3 have some requirements if we modify the structure of 4 the building in a significant way, but that's only in 5 certain large, major renovations. They have, you 6 know, just a review, kind of approval rights. But in 7 terms of the allocation and actual deployment of that 8 capital and what we decide to buy, they don't have 9 any -- any influence over that. 10 Q. Do they have approval rights over 11 certain projects over a particular dollar value 12 amount? 13 A. They have -- they have -- 14 CHAIR LEVINSON: I'm sorry. The "they," 15 VICI you're talking about? 16 MS. RICHARDSON: Yeah. The REIT. 17 CHAIR LEVINSON: Thank you. 18 A. They have certain rights under certain 19 circumstances to, for example -- I believe if a 20 project is over \$50 million, they have a right to 21 potentially finance that project. They have also 22 certain rights, as I mentioned, with respect to the 23 structures, that if we modify the structures or change 24 it in any significant way that they have kind of a 25 review rights over those projects. But beyond that, I</p>	<p style="text-align: right;">124</p> <p>1 ERIC HESSION 2 now. After the 2008 acquisition, what was the impact 3 on Caesars and Bally's as to capital expenditures? 4 A. Well, initially in the first few years, 5 I suspect -- and again, this is harping back a bit. I 6 suspect it wasn't much of an impact. The company 7 still had sufficient liquidity, and we were spending a 8 sizable amount of capital. In the years leading up to 9 the ultimate filing, capital was much tighter and 10 reduced significantly. And so, you know, not to 11 reference any specific property, but in aggregate, our 12 capital was certainly pulled back from all of the 13 properties at CEOC. And it was being -- it was -- we 14 were forced to allocate that capital between 15 properties at a much lower level. And so Bally's and 16 Caesars likely received lower capital investment 17 during that period of time. 18 Q. And in those type of issues, did they 19 impact Harrah's as a CERP property during that time? 20 A. To some degree, yes. But not as much as 21 CEOC. CERP did have interest rate and leverage issues 22 as well. That was resolved in -- I think it was 2013 23 time frame when that entity was refinanced. And that 24 enabled us to then be able to deploy the significant 25 amount of capital that we did into CERP. And into</p>
<p style="text-align: right;">123</p> <p>1 ERIC HESSION 2 don't think they have any rights. 3 Q. Harrah's Atlantic City was discussed 4 briefly earlier. They are currently owned by CERP; is 5 that right? 6 A. Yes. Correct. 7 Q. And they were not part of the CEOC 8 bankruptcy then? 9 A. That's correct. 10 Q. But there's also -- there is a draft 11 call right agreement which provides for the exercise 12 of an option for the REIT to purchase Harrah's real 13 estate assets at some future date. 14 A. Yes. That's correct. 15 Q. Are you also aware that the Division has 16 recommended a condition that Harrah's and its holding 17 and intermediary companies must obtain regulatory 18 approval to sell or in any way transfer or dispose of 19 its real estate assets of Harrah's to the REIT? 20 A. Yes. 21 Q. And Mr. Donovan has represented this 22 already, but do you also confirm that the Caesars 23 entities will comply with that condition? 24 A. Yes. For sure. 25 Q. Focusing on Caesars and Bally's right</p>	<p style="text-align: right;">125</p> <p>1 ERIC HESSION 2 Harrah's, rather, with the Convention Center. 3 Q. So over the years since the 2008 4 acquisition, cap ex at Caesars and Bally's have been 5 about 46 percent less than the average annual amounts 6 spent by nonCEC properties in Atlantic City. Does 7 that sound right? 8 A. It sounds right. Yeah. 9 Q. Do you believe that those limited 10 capital expenditures at Caesars and Bally's have had a 11 correlating impact on net revenues during that same 12 period? 13 A. It's hard to say. I would say there's 14 probably some correlation, but I'm not sure that I 15 would say it's all directly, you know -- you know, 16 it's correlated one for one. If you look at where 17 we've had success deploying capital in some markets, 18 we've spent capital and had no returns. In other 19 markets, we've spent limited capital and had great 20 returns. So we try to do our best in determining 21 where those returns will be and what drives the 22 customer's response. And generally -- generally, you 23 know, we think we do a good job deploying that 24 capital. But it's not necessarily one for one. 25 For example, there was a belief a while</p>

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<p style="text-align: right;">126</p> <p>1 ERIC HESSION 2 ago in our company that you needed to continually 3 refresh your slot floor every five years. We've 4 really seen that that had almost no impact on play. 5 Now what we're seeing actually, is that the new games 6 and the new cabinets do drive incremental play. And 7 this is in the last year or so. And as a result, 8 investing in slots is becoming more appealing to us. 9 That's just an example of how, you know, you could 10 deploy capital and not get returns directly from that. 11 But in general, there's -- I would say 12 there is a -- a correlation between nonmaintenance 13 related capital and revenues. 14 Q. And during that period, Caesars and 15 Bally's both have experienced significant net revenue 16 decline since 2008. Would you agree with that? 17 A. Yes. 18 Q. Showboat Atlantic City closed in 2014; 19 is that correct? 20 A. Yeah. '13 or '14. I'll take your word 21 it was '14. Yeah. 22 Q. Okay. Wasn't it anticipated before the 23 closure that the other CEOC properties would benefit 24 by the Showboat customers migrating to them? 25 A. Yeah. We felt that because of the Total</p>	<p style="text-align: right;">128</p> <p>1 ERIC HESSION 2 the three marina properties have -- and, again, I'm 3 speaking a little bit without all the data in front of 4 me. But I believe over the last three years, anyway, 5 have out performed the market in general and that 6 those three properties, due to their assets, due to 7 their location, due to a variety of factors, have done 8 better than average. And so the prop -- having 9 Harrah's -- having Caesars and Bally's be on the 10 Boardwalk has obviously then caused them to be in the 11 group that has trailed. 12 Additionally, I think having the Trump 13 property next door close, a lot of those customers 14 used to lodge there and come over, has been a negative 15 for both Caesars and Bally's. 16 And then finally, with respect to 17 Bally's in particular, it's a very -- it was a very 18 heavy bus business and relatively low end -- lower end 19 slot business. And that in particular has been hurt 20 in this market by the competition surrounding it. 21 That's been a, not just the last three-year item, but 22 it's a been a seven- or eight-year item as you are all 23 aware. But certainly in the last three years, that's 24 impacted Bally's. 25 From a profitability perspective,</p>
<p style="text-align: right;">127</p> <p>1 ERIC HESSION 2 Rewards program, because of the relationship with the 3 hosts and the ability to market to them that they 4 would benefit disproportionately. There's no question 5 that we wouldn't retain all of those customers just 6 because we don't have a hundred percent of a customer 7 spend today when we come to the market. 8 Q. Did that ultimately happen? 9 A. Yeah. I don't have the figures in front 10 of me. I think from what I've seen that our retention 11 of those customers was lower than what we had 12 originally anticipated. But I did think we retained 13 quite a bit at the three properties. 14 Q. And again over that period from about 15 2013 through '16, Caesars and Bally's again had 16 experienced more substantial decline than others in 17 the Atlantic City market? 18 A. From a revenue standpoint. 19 Q. Yes. Uh-hum. 20 A. Yes. I believe that's correct. 21 Q. What do you think are factors in the 22 underperformance of Caesars and Bally's relative to 23 their competitors? 24 A. Well, I think there are a number of 25 different things. I think that the marina properties,</p>	<p style="text-align: right;">129</p> <p>1 ERIC HESSION 2 Bally's also is a very old and compartmentalized 3 property, and so it's inefficient in just staffing the 4 casino, the back of the house, et cetera. So it 5 carries with it a number of additional costs that 6 other properties, more modern properties, don't carry 7 with them. 8 Q. And with the emergence from bankruptcy, 9 is it fair to characterize what you have said, that 10 CEOC will have the means to increase cap ex spending 11 at Caesars and Bally's? 12 A. Yes. That's fair to say. We had 13 previously the ability to invest some funds. We were 14 limited to the \$225 million a year. Going forward, 15 our cost to capital will be lower. We will have the 16 ability to spend more than 225 million if -- if the 17 projects allow for that and the returns are there. 18 And certainly, as I mentioned, some of the returns 19 that we've seen on renovating the rooms that we have 20 done, although in limited quantity at Bally's and 21 Caesars, have provided fairly solid returns. 22 Q. And you've gone over the placeholder 23 amounts that have been indicated in the forecast 24 provided to the Division, which are essentially five 25 million cap ex spending for each of the properties</p>

<p style="text-align: right;">130</p> <p>1 ERIC HESSION 2 over the next -- next year. That five million 3 forecast is essentially half of both of those 4 properties' historical annual cap ex averages; is that 5 correct? 6 A. Yeah. Roughly. 7 Q. And understanding that they are 8 placeholders, and you have explained that to is 9 certain extend today, why would should low placeholder 10 amounts be selected given that CEOC is going to emerge 11 and, as you say, have a better ability to spend in the 12 future? 13 A. Yeah. So a couple reasons. One, as I 14 mentioned, when we have provided our projections and 15 what we've included in all of our documents, we have 16 kept that capital spending constant. So we haven't 17 taken advantage of any of the ability to spend more 18 capital beyond that 225. The reason why the five was 19 plugged in as a placeholder is that if you add in the 20 CES and you add in the maintenance level capital, you 21 do get to around that eight-to-ten range. So from 22 that standpoint, it's generally consistent with 23 historical spend levels in aggregate. And, you know, 24 again, it's one of the things that we need to work on 25 from a planning perspective to have a multi-year</p>	<p style="text-align: right;">132</p> <p>1 ERIC HESSION 2 do with any -- with any budget. And I have a list of 3 both Bally's and Caesars. There's -- from Bally's, 4 the team would like to pursue a lot of room 5 renovations. That's certainly an area that's clearly 6 coming through. A few food and beverage items and 7 then some maintenance items. On Caesars, the room 8 product is in better shape, and as a result, the focus 9 there is more on the higher end suite product as well 10 as some infrastructure work, like a roof and the 11 parking garage, updating that. So it's a variety of 12 different -- different projects. But I would say from 13 the Bally's standpoint, the focus from the team is to 14 try to do additional rooms. 15 Q. And, again, understanding that the \$5 16 million amounts are considered placeholders at this 17 stage, was there any indication in the forecast 18 information provided to the Division during its 19 investigation that indicated that the possible capital 20 expenditures over the next two years at Caesars and 21 Bally's would be well in excess of those placeholder 22 amounts? 23 A. I don't believe so. 24 Q. And you went through the procedures for 25 compiling the proposed cap ex section budgets for the</p>
<p style="text-align: right;">131</p> <p>1 ERIC HESSION 2 capital plan, but we generally don't plan out multiple 3 years. And so when we're asked at a property level, 4 we generally refer back to kind of historical levels 5 and extrapolate it going forward. 6 Q. And you've indicated that now is the 7 time when the cap ex budgets were for 2018, 2019 are 8 being prepared, and you went through the procedures of 9 how projects are submitted for review and then 10 ultimately going to be submitted to the board for 11 approval. Do you have any general estimate of 12 proposed bundle of projects that would be set forth 13 for Caesars and Bally's? 14 A. So we're in the stage of the process now 15 where the properties have submitted to us a 16 preliminary list of those capital items. So I do 17 have -- I do have that list. The list, if you were to 18 add it up companywide, would be many times more than 19 the amount that we have to spend. I think, you know, 20 it's safe to say that from a general manager and an 21 operator perspective, we certainly want people to be 22 very aggressive in terms of identifying opportunities 23 and be aggressive in terms of trying to improve their 24 properties to the best probable situation that they 25 can be. And then we have to prioritize, just like you</p>	<p style="text-align: right;">133</p> <p>1 ERIC HESSION 2 next few years. Could you go over what the actual 3 approval process would be with the capital committee 4 and the new board? 5 A. Yeah. Unfortunately, I don't think I'm 6 in a position to do that because the new board will 7 have to set their rules. I think what we as a team 8 will try to do as management would be to guide them as 9 to what's been effective in the past. And the way 10 we've done that in the past is that we have had 11 internal meetings with respect to the management and 12 the senior operators, prioritized those different 13 projects, and then broken them into different buckets. 14 So, for example, we'll have an amount of money that 15 we're spending on maintenance each year. We'll have 16 an amount of money that we're spending on hotel rooms 17 each year. An amount of money, we call it innovation, 18 so it's trying to really advancing the businesses in a 19 variety of different ways so we have capital funds 20 available for that. And then we'll list out the key 21 specific projects, maybe anything that's over a few 22 million dollars, and actually provide an itemize list 23 to the board and say these are the type of specific 24 projects that we would like to pursue. We then have 25 the ability, because things change throughout the</p>

<p style="text-align: right;">134</p> <p>1 ERIC HESSION 2 year, to react and change that plan with some 3 restraints by the board. And that will be something 4 we will have to work with them to determine what level 5 of comfort they'll allow us to change our capital plan 6 without having to ask them for additional authority. 7 But there's generally flexibility because, again, 8 setting a plan 12 months out, things change. And 9 sometimes we need to redeploy assets in certain -- 10 certain ways that we hadn't anticipated at the 11 beginning of the year. But that's generally the 12 process. 13 And then every month, we go through the 14 requests from all of the different properties. Some 15 them are in the plan, it's fairly easy because we've 16 already reviewed it. If there are new projects that 17 come along, then we review them each month and get 18 those approved. If it's under 250,000, it's just a 19 weekly approval process that's generally perfunctory. 20 Q. So at this stage, there are no 21 assurances concerning what projects may be approved or 22 undertaken particularly in Atlantic City? 23 A. No. There really -- with the exception 24 of some hotel projects that are starting early in next 25 year, where we need to buy a long lead time, FF&E</p>	<p style="text-align: right;">136</p> <p>1 ERIC HESSION 2 forward. Some of the -- most of this would be 3 nongaming, so it would be just a way to interact. But 4 it will create an exciting environment for people to 5 come to the casino and visit us more. That's all 6 being funded centrally. And then each property, 7 because it will be technology, will be able to roll it 8 out quite easily. So we're excited about that. 9 Now, we have a team that's focused on 10 machine learning and big data right now. That's also, 11 in my mind, very exciting. The challenge is, it's 12 very expensive because you have to employ very 13 high-priced talent. And it also involves a lot of 14 expenses associated with collecting and analyzing data 15 and building algorithms that can help run your 16 business better. Those are being developed centrally. 17 And then when they are determined to be effective, 18 they get rolled out. So we have some right now going 19 on the hotel pricing algorithms that are being used 20 here in Atlantic City. 21 One of the biggest marketing initiatives 22 we have is basically a venture that we formed with 23 salesforce.com about we're going to be entirely 24 revamping our offers systems in a marketing engine. 25 It's a multi-year project. Again, very, very</p>
<p style="text-align: right;">135</p> <p>1 ERIC HESSION 2 items, there really aren't any assurances for any 3 projects. 4 Q. And you noted -- you testified to Mr. 5 O'Gara's questions that there were certain CES 6 benefits that would accrue to the Atlantic City 7 licensees and also other licensees. You mentioned the 8 cloud-based general ledger. Is there any other 9 projects that you would account for that benefitted 10 the local licensees here? 11 A. Yeah. Absolutely. Some of the most 12 exciting things that we have going on, I think, are 13 really in the IT field. So we are developing what 14 we're calling the Casino of the Future. It's really a 15 technology platform that we are trying to develop that 16 will allow customers to be fully integrated with us 17 through their handheld devices, through the gaming, 18 through a variety of different activities as they walk 19 into the property. We think it's a great way to 20 address the change that's going on in terms of the way 21 people interact and the expectations that they have 22 when they come to the casino. We don't have a lot to 23 announce at this point, but it's something that we've 24 been working on, and it's something that we believe, 25 you know, the industry has to continue to push</p>	<p style="text-align: right;">137</p> <p>1 ERIC HESSION 2 expensive. They've partnered with us. We announced 3 it about a month and a half ago. That's going to be a 4 tool that will enable the host to be much more 5 effective, enable our marketing team to be able to 6 push out realtime offers through our Total Rewards 7 app, and be able to really engage the customer much 8 more quickly as opposed to having to send out long 9 lead time mail campaigns. And that's something that, 10 again, we think is very exciting. We'll get the 11 benefits of that towards the back part of next year. 12 But the investments being made today. And all of 13 these are items that have a component of both capital 14 and expense. And all that capital is done at the 15 corporate level, but it will benefit every property in 16 the network. 17 Q. Do you have an estimate of overall costs 18 of those improvements across the board in IT and also 19 the administrative for CEOC? 20 A. Yeah. As I've mentioned in the past, 21 sometimes they've been around a hundred million 22 because we're heavy to the cloud and the cloud has a 23 lot of expense just because that's how it's booked 24 from an accounting perspective. We think that that 25 will be between 40 and \$60 million a year. That's</p>

<p style="text-align: right;">138</p> <p>1 ERIC HESSION 2 just the capital component. The expense component, my 3 guess would be probably another 30 to 40 million. 4 Q. And those various initiatives that you 5 discussed either in development or already implemented 6 on the IT side, would you consider those revenue 7 enhancing projects. 8 A. Yeah. Nearly all of them are designed 9 to do a better job, either serving our customer which 10 then leads to better customer response and improved 11 spend within our properties. You know, better ability 12 for our employees to service those customers or better 13 marketing approaches so that we're more effective or 14 better ways to deal with those customers. 15 There are a few that are on the expense 16 side. For example, one of our big initiatives is to 17 get people on our Total Rewards application. We had a 18 million downloads in the first quarter of this year. 19 And what that does is it allows us to replace direct 20 mail. And so direct mail is slow and expensive. And 21 to be able to push things out on the app, I think it's 22 really the future. And so that's an expensive 23 initiative. 24 You know, one of the initiatives that we 25 started -- we piloted it in Las Vegas and then we've</p>	<p style="text-align: right;">140</p> <p>1 ERIC HESSION 2 properties when those factors are evaluated when 3 looking at projects? 4 A. So we'll -- we're generally -- we 5 generally have two hurdle rates. One hurdle rate will 6 be for Las Vegas. And one will be for the rest of our 7 properties. The reason that Las Vegas has a different 8 hurdle rate is that investors value a dollar of EBITDA 9 made in Las Vegas as a different multiple than they do 10 any other regional operator, or Atlantic City for that 11 matter. So from that perspective, there's a little 12 bit of a difference. Beyond that, we generally try to 13 use a -- you know, a formula approach where we work 14 with the operators to identify the returns associated 15 with each of the projects and do a discounted cash 16 flow present value analysis to see if it hits that 17 hurdle rate. There are definitely, you know, 18 qualitative factors that come into play. But, in 19 general, if a project at one property returns more on 20 a per-dollar capital invested than another property, 21 then that higher value project gets pursued. 22 Q. And would you say that Caesars and 23 Bally's have not been considered to satisfy those 24 factors as well? Or do you feel that it's more not 25 necessarily that evaluation but rather the bankruptcy</p>
<p style="text-align: right;">139</p> <p>1 ERIC HESSION 2 rolled it out here recently, and I just actually used 3 this this morning when I checked out of the hotel is 4 that the automatic kiosk, check in, check out. So 5 that's a project that we -- initially it was, you 6 know, one of the areas where we were -- our customers 7 were most critical of our service. And we went 8 through a number of versions. It's complicated to do 9 in the hotel environment that we have in Las Vegas. 10 We got that running, and now we're rolling it out 11 across the entire company. Right now we get a little 12 over 30 percent of our check-ins in Las Vegas are done 13 via the kiosk, which really helps customer service and 14 it helps the lines. I noticed -- and I was at Caesars 15 this morning, and we had these kiosks up with the host 16 trying to get that moving. So that's an example again 17 of a centralized project that was funded, piloted, and 18 now is being rolled out companywide. 19 Q. And you discussed that there is various 20 factors which are considered in the approval process 21 for capital expenditures. The one you talked about 22 the most was the hurdle rate, the potential return on 23 investment for costs that are expended? Where would 24 you say, looking at Caesars and Bally's, where those 25 Atlantic City licenses stand in relation to other</p>	<p style="text-align: right;">141</p> <p>1 ERIC HESSION 2 situation that has constrained that analysis? What 3 would you say? 4 A. I would say it's a combination of the 5 two. The fact that our company has been very limited 6 in capital has made it a challenge. The other is 7 that, you know, as I mentioned until recently, it was 8 very difficult to get a positive return on the 9 Boardwalk properties because of the declines that 10 we've seen in the market and the demand and coming 11 from the customers. The returns, however, from, for 12 example, the Wild Wild West renovation have been very 13 well received, and the returns from some of the new 14 room projects that we've put in have been well 15 received. So I think from that standpoint, you'll see 16 a change in the ability to propose projects that 17 satisfy those returns. 18 Q. And are there other areas that CEOC must 19 address in addition to capital expenditures in order 20 to improve performance at Caesars and Bally's? 21 A. Well, it's a tough question. I -- you 22 know, I would say we are always trying to come up with 23 new ways to drive customers to the property, to create 24 an exciting environment, create a good work 25 environment for the employees because all that goes</p>

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<p style="text-align: right;">142</p> <p>1 ERIC HESSION 2 together. And so there are definitely areas that we 3 need to improve. That said, you know, we're 4 continually trying to do that. And that's the part of 5 the job of the management, to always work to create 6 those environments. 7 Q. And you've already addressed this in 8 part, but you're aware that the Division has 9 recommended a condition that CEC submit detailed 10 capital expenditures plans and operational improvement 11 plans for the Caesars and Bally's for the next two 12 years, including target dates for those plans for 13 completion? 14 A. Yes. 15 Q. You're aware that those plans are due 90 16 days after the effective date? 17 A. Yes. 18 Q. And CEOC will comply with that 19 condition? 20 A. Yes. 21 Q. You are also aware that the Division has 22 recommended a condition that at the end of the each 23 calendar quarter, CEC shall submit a report to the 24 Division detailing its progress towards meeting goals 25 of the capital expenditure plans and operational</p>	<p style="text-align: right;">144</p> <p>1 ERIC HESSION 2 that approximately \$200 million was spent at 3 Harrah's on renovations, particular room 4 renovations. And you also indicated you've had 5 good -- the results have been good on that 6 investment as well as the Conference Center, 7 which was a separate thing. But my question is 8 this. Recently Hard Rock announced that 9 they're going to be spending close to \$500 10 million to renovate the Taj Mahal. My 11 question -- question is what -- that number, 12 what effect will that have on what you plan to 13 spend on Bally and Caesars and the projects 14 when you hear that, you know, 500 million is 15 being spent? Can you elaborate on what effect 16 it's going to have? 17 THE WITNESS: Yeah. You know, it's 18 definitely a big number, and it's going to 19 create a new entrant into the market. At a 20 capital level of that size, it should be a high 21 quality asset. They should be able to renovate 22 the facility. So it's definitely going to be a 23 sizable competitor, and as a result it produces 24 risk. And what risk does it then causes you 25 to be more critical of various investments.</p>
<p style="text-align: right;">143</p> <p>1 ERIC HESSION 2 improvement plans? 3 A. Yes. 4 Q. And CEC will also comply with that 5 condition? 6 A. Yes. 7 Q. You've reviewed the remaining conditions 8 the Division submitted with its June 23rd report? 9 A. Yes. 10 Q. Do you see any issues with complying 11 with those conditions other -- the other conditions 12 that we haven't mentioned through your testimony 13 today? 14 A. No. No concerns. 15 MS. RICHARDSON: Thank you. I have no 16 other questions. 17 CHAIR LEVINSON: Thank you. 18 Mr. O'Gara? Followup. 19 MR. O'GARA: No. 20 CHAIR LEVINSON: Commissioners, any 21 questions for the witness? 22 COMMISSIONER COOPER: I have -- I have. 23 First, thank you for all your testimony 24 and for being here. 25 A little while ago you had mentioned</p>	<p style="text-align: right;">145</p> <p>1 ERIC HESSION 2 And so when we take about that, we'll have to 3 take that into account. 4 That said, you know, the investments 5 that we're talking about at the properties and 6 the investments that we've made, I'm not sure 7 there would really be much of a change going 8 forward. We'll obviously take competitive 9 dynamics into account. But from a -- from a 10 purely return-based perspective, I wouldn't 11 expect a huge change. As you've heard, and 12 when I've listed off the projects, you know, 13 it's room renovations, doing some of the 14 ceilings doing -- we'll obviously put some slot 15 machines into the properties. These aren't 16 \$200 million conference center on the 17 Boardwalk. You know, they're not those 18 magnitude of numbers that we're talking about. 19 COMMISSIONER COOPER: With regard to 20 Bally and Caesars -- again, Harrah's is not in 21 the equation today. Where do you think 22 Atlantic City and your Atlantic City casinos 23 will be in the next five? Take it a little 24 further, even ten years? What is your 25 forecast?</p>

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<p style="text-align: right;">146</p> <p>1 ERIC HESSION 2 THE WITNESS: Yeah. Again, it's a -- 3 it's a very good question and one that we talk 4 about a lot. I'm sure you do as well as -- on 5 the Commission and with a lot of the staff. 6 You know, our view is that the -- and it's part 7 of the reason that I hired -- or I highlighted 8 the cash spend for the hotel product because, 9 to me, that indicates true demand that's coming 10 to the city as opposed to demand that we have 11 to pull in as the casinos. So to the extent 12 that you can create a much more vibrant 13 environment in a lot of different activities, 14 then I think that's much more sustainable. So 15 from our standpoint, the Convention Center. 16 More convention centers are built in the city, 17 that would be a positive. That drives people. 18 It creates jobs. It creates a much more stable 19 operating environment. So if competitors built 20 convention centers, I think we'd be pleased 21 with that. A lot of times you'd think that 22 would be a negative because of competition, but 23 we think having critical mass here and having 24 the City get a little bit more known in terms 25 of a place to hold a great meeting, we think is</p>	<p style="text-align: right;">148</p> <p>1 ERIC HESSION 2 business. And so anything we do, we need to 3 take that into account and make sure that we 4 are tracking new customers as well as not 5 alienating old customers. Generally, though, 6 when you enhance an asset or you create an 7 additional option or a tool, it's generally 8 appealing to everyone. And so what we've found 9 when we, let's say, build out a new restaurant, 10 new -- that might angle towards a new customer 11 base that we're trying to attract, the old 12 customers and legacy customers that we have 13 love that as well. And so it's really a new 14 asset that both new and old customers can 15 target. 16 From an IT perspective, part of our IT 17 work is really to replace the legacy systems 18 that we have throughout our industry. Our IT 19 systems are very old. They're customized. 20 They're inefficient. They haven't taken 21 advantage of a lot of technology. And so with 22 our new CIO that we have at the company who's 23 really pushing this advancement, we're going to 24 replace the majority of our systems over the 25 next few years. And that will facilitate the</p>
<p style="text-align: right;">147</p> <p>1 ERIC HESSION 2 a positive. From the balance on the Boardwalk 3 perspective, the space is a little bit limited 4 in terms of the ability to do a Convention 5 Center as we did at Harrah's. So what we do is 6 just monitor the environment and decide what 7 the customers want and then try to invest 8 capital and modify our approach to satisfy 9 those customers. 10 COMMISSION COOPER: Okay. 11 THE WITNESS: Thank you. Thank you very 12 much. 13 VICE CHAIR HARRINGTON: You talked about 14 the technology upgrade both, you know, 15 companywide and then for the properties 16 particularly here in -- on the Boardwalk. Is 17 that intended to attract a different market? 18 Is it to appeal to a younger demographic? Or 19 is it, you know, sort of a universal 20 application? 21 THE WITNESS: Yeah. It -- again, it's a 22 great question. As you know, our core customer 23 provides a sizable percentage of our profits, 24 and namely, that's the core slot customer 25 that's relative -- you know, loyal to our</p>	<p style="text-align: right;">149</p> <p>1 ERIC HESSION 2 ability to be much more dynamic. 3 Specifically what I was referring to 4 with the Casino of the Future, that's probably 5 geared a little bit to the younger generation, 6 mainly because they prefer to interact in that 7 way, over the phones, with the apps and so 8 forth. But what we've fund right now, for 9 example, we get about 85 percent of our 10 customers e-mails. So that's spans the entire 11 demographics that we have. And so I think if 12 we create a compelling product that really adds 13 value, I think it will be adopted by -- by 14 everyone. 15 VICE CHAIR HARRINGTON: Okay. Also and 16 this may not be the appropriate question for 17 you. 18 Maybe it was, you know, to you, sir. 19 But you've announced the 11th member or 20 you've identified the 11th member of the board? 21 MR. O'GARA: I don't think Eric knows 22 much about that. 23 VICE CHAIR HARRINGTON: Oh, okay. 24 MR. O'GARA: I think what Mr. Donovan 25 said was that a group that had the right to</p>

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<p style="text-align: right;">150</p> <p>1 ERIC HESSION 2 identify the person -- 3 VICE CHAIR HARRINGTON: Uh-hum. 4 MR. O'GARA: -- has identified that 5 person. And that person is going through the 6 Caesars -- there's an internal process at 7 Caesars besides the licensing process. That 8 person is going through that process. When 9 they make it through that process, they will 10 complete the forms and file at that time. 11 VICE CHAIR HARRINGTON: Okay. So maybe 12 you're the right person. 13 MR. O'GARA: Yeah. I guess. 14 VICE CHAIR HARRINGTON: Do you -- 15 MR. O'GARA: I try. 16 VICE CHAIR HARRINGTON: -- anticipate us 17 considering that person in the August meeting? 18 Maybe September? 19 MR. O'GARA: I -- I think it's -- 20 assuming that the internal process at Caesars 21 involves something like it does here. You fill 22 out a form. The background -- assuming he goes 23 through that, he gets it all in timely, look at 24 he or she -- I have no idea. 25 VICE CHAIR HARRINGTON: Yes. Uh-hum.</p>	<p style="text-align: right;">152</p> <p>1 ERIC HESSION 2 had more and more, they time out. In Indiana, 3 Illinois they've all been done. We'll finish 4 in New Jersey. It's just that last terminal 5 date of that one approval. Everything then can 6 move, and it's -- I think as Eric would tell 7 you, it's all right. Now we've got it. We've 8 satisfied the conditions. The merger is 9 approved. You can start that processes which 10 cause all this to happen, involving funding and 11 everything else. You can't start it until you 12 have it, and they take a certain number of days 13 to do. So the idea is September 30, which in 14 accounting talk, means October 2nd. 15 VICE CHAIR HARRINGTON: Okay. And that 16 just -- this will be my last question. But 17 if -- what is your calendar year? Is it 18 October 1st? January 1st? 19 THE WITNESS: It's January 1st. 20 VICE CHAIR HARRINGTON: Okay. Right. 21 THE WITNESS: Yeah. But just due to the 22 complexities of having to do a hard close and 23 to do all the accounting that's going to happen 24 in this, it's lining up, if we can do it at the 25 end of the quarter, it's going to be ideal for</p>
<p style="text-align: right;">151</p> <p>1 ERIC HESSION 2 That person. 3 MR. O'GARA: Pretty quickly fill out the 4 forms and file here. Hopefully, we can do that 5 in August so that we can have 11. But, again, 6 I think there was only identified to Mr. 7 Donovan in the last few days. It's -- yeah. 8 VICE CHAIR HARRINGTON: Okay. 9 MR. O'GARA: We haven't had a secret 10 because we didn't know we had it yet. 11 VICE CHAIR HARRINGTON: Right. Because 12 then you're -- I know a lot of the forecasting 13 is just placeholders, but we had first thought 14 it was August 31st. Now the end of September, 15 beginning of October? 16 MR. O'GARA: Yeah. That is for the 17 closing of the transactions. Yeah. The hope 18 was -- but, again, some of that is dictated by 19 external affairs, which is, you know, we've 20 gone probably the most complicated process is 21 here because we have all three of them. I 22 mean, the approvals in Maryland were very 23 quick. They didn't have anything to approve. 24 But as you got -- because they didn't have -- 25 the CEOC wasn't directly involved. As you've</p>	<p style="text-align: right;">153</p> <p>1 ERIC HESSION 2 the accounting folks. It doesn't necessarily 3 have to be a year end, but a quarter-end close 4 would be perfect for them. 5 VICE CHAIR HARRINGTON: Okay. Thank 6 you. 7 CHAIR LEVINSON: So I have some 8 questions on the forecastings. If you looked 9 at some of the capital expenditures that the 10 Division put together in their report? I 11 didn't do it, so I don't know where a lot of 12 the numbers come from. Because it seems to be 13 a lot of is -- some of them are the monies, 14 even all the properties are CRDA funding the 15 projects or capital improvements. Not all, but 16 some of the investments that Caesars and 17 Harrah's has done in Atlantic City have been 18 done on nongaming -- nongaming projects funded 19 by CRDA. A lot of that wasn't -- maybe 20 wouldn't have happened if it wasn't for the 21 CRDA. With the changes of CRDA and the money 22 that was available for nongaming projects, do 23 you look at that in your forecasting as 24 something that you know, your -- the company 25 itself is going to have to come up with the</p>

<p style="text-align: right;">154</p> <p>1 ERIC HESSION 2 money for these projects that we all know that 3 need to be done, and it didn't seem they were 4 done unless the CRDA was funding them. And now 5 with the funding not coming into the properties 6 like they were, did you take a look at that 7 with your forecasting, and how are you going to 8 deal with that? 9 THE WITNESS: Yeah. So I'm not as in 10 the details in terms of what projects are CRDA 11 funded and which aren't historically. I know 12 there was a big component of the Convention 13 Center. 14 CHAIR LEVINSON: Right. 15 THE WITNESS: And some of the room 16 renovations. 17 CHAIR LEVINSON: Restaurants. 18 THE WITNESS: And some of the 19 restaurants. But going forward, we didn't 20 include any the CRDA funds. If you take all 21 the placeholders and the CDS capital and add it 22 all up, you get to that 225, which is the 23 amount that the company would anticipate 24 deploying from the cash perspective. So to the 25 extent that that's higher or shifted, it's all</p>	<p style="text-align: right;">156</p> <p>1 ERIC HESSION 2 CHAIR LEVINSON: Because you are seeing 3 a lot of investment of capital, and you 4 discussed the Marina District. We all know 5 with the Marina District versus the Boardwalk 6 District, but you were seeing a lot more 7 investments into the Boardwalk properties 8 throughout the entire Boardwalk. And, you 9 know, the hope is to see that on the two 10 properties that Caesars owns, also. 11 THE WITNESS: That's correct. Yes. 12 CHAIR LEVINSON: In terms of your 13 forecasting, I know that you tend to look at 14 it. I don't -- in the Division's report it 15 seems that there's seven casinos that you are 16 forecasting consideration of the plan expansion 17 of your casino base. Have you taken a look at 18 that with the possible anticipated opening of 19 Hard Rock in your analysis? 20 THE WITNESS: I'm sorry. In terms of 21 expanding our base? 22 CHAIR LEVINSON: So you're basing your 23 forecasts on your EBITDAs and gross revenues. 24 THE WITNESS: Yeah. 25 CHAIR LEVINSON: And, you know, and your</p>
<p style="text-align: right;">155</p> <p>1 ERIC HESSION 2 company-funded money and none CRDA. 3 CHAIR LEVINSON: Because it seems like 4 that money helped with your hurdles, the RIIs 5 with your projects, and without that money is 6 there is a fear here that the capital 7 improvements would not be happening and maybe 8 not in the future? Or do you think the 9 bankruptcy and coming out and having less debt 10 and more money for capital will assist in that? 11 THE WITNESS: I think it's very much the 12 latter. I think that during the previous 13 period when the company had very limited cash 14 resources, and also the Atlantic City market 15 was continuing to contract very rapidly. It 16 created an environment where there was a lot of 17 risk in terms of investment. I think now that 18 we've seen our properties have certainly -- in 19 our view, performed quite well over the last 20 year. The markets for the last couple of years 21 has been relatively stable in terms of the 22 gaming revenues. It creates a much more -- 23 let's say, less risky environment. And then 24 that benefits the investment of capital for 25 sure.</p>	<p style="text-align: right;">157</p> <p>1 ERIC HESSION 2 players, your growth. 3 THE WITNESS: Uh-hum. 4 CHAIR LEVINSON: When I look at some of 5 the analysis, it really only dealt with seven 6 operating casinos at the time. 7 THE WITNESS: That's true. Yeah. We 8 put the analysis together prior to when the 9 Hard Rock had made their announcement. Again, 10 we'll ultimately have to see what the impact of 11 that is. My concern, quite frankly, is that 12 they will grow the market less than is 13 anticipated, and that would create 14 cannibalization. Hopefully, that's not the 15 case. Hopefully, that they have a very strong 16 database of customers that haven't been 17 visiting Atlantic City and that their 18 deployment of capital will create a 19 differentiated product such that customers will 20 want to come to try it out, and they'll grow 21 the market, and I think that would be great for 22 everyone. 23 CHAIR LEVINSON: Agreed. 24 And in terms of the rental and lease of 25 the individual properties themselves, I</p>

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<p style="text-align: right;">158</p> <p>1 ERIC HESSION 2 understand that it's one big pot, and there's 3 really no rental or lease payment that they're 4 going to have on a monthly basis or yearly 5 basis or any other basis, but somewhere down 6 the line, the money is going to have to 7 transfer to some form of rental expense or 8 liability. 9 THE WITNESS: Yes. 10 CHAIR LEVINSON: Because if you're 11 operating the facility, you need to know at 12 least what that expense to going to be to know 13 what kind of general revenue you're going to 14 have and what kind of expenses you want to 15 spend. So before it even comes to us, my 16 understanding is -- or my guess is -- that you 17 know, you will be sitting with the operators so 18 they will at least know what kind of liability 19 that they can assume that are going to be on 20 their books when it comes down to time of year 21 end or what their expenses can be if they want 22 to hit a certain operating number or net profit 23 number. Is that -- that's where I'm -- a lot 24 of my confusion is, with not having that on the 25 books. How they're going to operate.</p>	<p style="text-align: right;">160</p> <p>1 ITEM 10/11 2 we look at our aggregate ability to generate 3 cash and be able to make the lease payments. 4 CHAIR LEVINSON: Because it won't be -- 5 I mean, at the end, it won't be a fixed cost to 6 the actual individual casinos themselves. 7 THE WITNESS: That's right. Just to the 8 company. 9 CHAIR LEVINSON: Correct. 10 Commissioners, any other further 11 questions for the witness, Mr. Hession? 12 VICE CHAIR HARRINGTON: No. Thank you 13 very much. 14 THE WITNESS: Thank you. 15 CHAIR LEVINSON: Thank you very much. 16 Appreciate it. 17 Mr. O'Gara, any further witnesses? 18 MR. O'GARA: No. 19 CHAIR LEVINSON: When Mr. Hession steps 20 down, you can start your closing. 21 MR. O'GARA: Thank you, Chairman. 22 We believe that today we've addressed 23 the questions that were presented by these 24 Petitions. We previously dealt with, I think 25 as we discussed here, you know, all the things</p>
<p style="text-align: right;">159</p> <p>1 ERIC HESSION 2 THE WITNESS: Yeah. So we'll definitely 3 communicate with the operators if there is 4 going to be any impact on their balance sheet 5 or on their P&L with respect to the lease. But 6 from a practical standpoint, when we set the 7 targets for each year in terms of where we 8 expect to see revenue growth and where our 9 EBITDA targets, that will -- the lease payments 10 will not have an impact on that. So that will 11 all be done pre-lease. Assuming, like we were 12 talking about, as if there's no lease from the 13 property level. Because, again, from an 14 aggregate perspective, when we look at it from 15 the company, the only thing that matters is 16 that the company does better and that the 17 company can afford to invest and make that 18 lease payment. At the property specific level 19 we want to that realistic plans. We want to 20 challenge management to do the best they can. 21 But the lease payments, it's a fact. It's a 22 fixed cost. And it's independent of how any 23 particular property does. So it really won't 24 come into play in terms of those decisions 25 except on an aggregate basis. And that's where</p>	<p style="text-align: right;">161</p> <p>1 ITEM 10/11 2 that led up to it. I believe that we've 3 satisfied all the technical conditions for the 4 issuance of the licenses for the technical 5 approvals that we've sought. 6 I think you've heard from both Mr. 7 Donovan and Mr. Hession how the company will be 8 organized. You've seen precisely how the -- on 9 a pro forma basis -- the new company looks 10 financially. You can see the flexibility its 11 gained. And, hopefully, you've gotten some 12 insight from what Mr. Hession and Mr. Donovan 13 said as to how they plan to deploy capital, how 14 it will be deployed here, the factors that 15 going into it. The fact what each of these 16 financials mean. What the placeholders are. 17 And so understanding the kind of, again, I 18 understand the Chairman understanding the 19 complex accounting of how it deals with fixed 20 leases and REITs and matters that we hear like 21 the incredible amount of intercompany debt that 22 is being simply wiped off of these balance 23 sheets are remarkably different. But, 24 hopefully, you've gotten some understanding of 25 that, and we think that we've satisfied that</p>

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<p>1 ITEM 10/11</p> <p>2 and we ask for your approval so that we can</p> <p>3 finally end what's been a very lengthy</p> <p>4 bankruptcy for this company and merge CAC with</p> <p>5 CEC. Thank you.</p> <p>6 CHAIR LEVINSON: Thank you.</p> <p>7 MS. BERMAN: I previously have addressed</p> <p>8 the casino licensure of nonCPLV Manager and</p> <p>9 approval of the MLSA in my remarks and rely on</p> <p>10 them.</p> <p>11 The Division has conducted an extensive</p> <p>12 investigation, review, and analysis of the</p> <p>13 transactions involved in the plan</p> <p>14 restructuring, including a new entity,</p> <p>15 conversion, and mergers, the merger of CAC with</p> <p>16 and into CEC, changes to the board of directors</p> <p>17 of CEC, the issuance of casino licenses to</p> <p>18 Boardwalk Regency, LLC, and Bally's Park Place,</p> <p>19 LLC, successor licensees for Caesars and</p> <p>20 Bally's Atlantic City, and the financial</p> <p>21 stability of the successor licensees following</p> <p>22 the restructuring.</p> <p>23 We have prepared a report detailing our</p> <p>24 findings, admitted into evidence as D-3 which</p> <p>25 was filed on June 23rd.</p>	<p>1 ITEM 10/11</p> <p>2 the time being, although VICI REIT has the</p> <p>3 right, pursuant to a call right agreement, to</p> <p>4 purchase the underlying assets of Harrah's</p> <p>5 Atlantic City within five years of the</p> <p>6 effective date.</p> <p>7 As part of the review of the</p> <p>8 reorganization, Petitioners have requested that</p> <p>9 the Commission find the following intermediary</p> <p>10 and holding companies of the potential casino</p> <p>11 licensees qualified: CEC, CEOC, LLC, Caesars</p> <p>12 World, LLC, and Caesars New Jersey, LLC.</p> <p>13 CEC and the predecessors in interest of</p> <p>14 the other three entities have already been</p> <p>15 qualified as they're holding intermediary</p> <p>16 companies of casino license Boardwalk Regency</p> <p>17 Corporation. CEC and the predecessor in</p> <p>18 interest in CEC, LLC, were also qualified as</p> <p>19 holding and intermediary companies of casino</p> <p>20 licensee Bally's Park Place, Inc.</p> <p>21 Following the merger of CAC with and</p> <p>22 into CEC, CEC will remain the qualified parent</p> <p>23 holding company of the Atlantic City casino</p> <p>24 licensees. While both the both ownership of</p> <p>25 CEOC itself and will change and the ownership</p>
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<p>1 ITEM 10/11</p> <p>2 As the Commission is aware from the</p> <p>3 submissions, bankruptcy filings, and testimony,</p> <p>4 consummation of the plan will result in a new</p> <p>5 ownership structure for Caesars. As stated,</p> <p>6 part of the plan involves a spinoff of certain</p> <p>7 real property --</p> <p>8 (There was a cell phone interruption.)</p> <p>9 MS. BERMAN: -- known as VICI REIT.</p> <p>10 Consequently, after effectuation of the plan,</p> <p>11 much of the real estate assets of the</p> <p>12 previously owned and operated CEOC properties</p> <p>13 will be owned by VICI REIT. VICI REIT will</p> <p>14 mostly be owned by current creditors and note</p> <p>15 holders of the debtors.</p> <p>16 With respect to New Jersey, this means</p> <p>17 that CEOC will be continue to own and operate</p> <p>18 the successor entities to current casino</p> <p>19 licensees Boardwalk Regency Corporation and</p> <p>20 Bally's Park Place, Inc. With the real estate</p> <p>21 assets for those properties leased from VICI</p> <p>22 REIT pursuant to the Master Lease which the</p> <p>23 Commission approved on May 10th.</p> <p>24 With respect to Harrah's Atlantic City,</p> <p>25 CERP will continue to own and operate it for</p>	<p>1 ITEM 10/11</p> <p>2 of some of its assets will change as it</p> <p>3 transfers them to VICI REIT, there will be no</p> <p>4 change in the operation, control, or operating</p> <p>5 accounts of CEOC, and it merges into CEOC, LLC.</p> <p>6 CEOC will continue as the intermediary</p> <p>7 company of holding company of Caesars and</p> <p>8 Bally's. The other two entities, Caesars</p> <p>9 World, LLC, and Caesars New Jersey, LLC, are</p> <p>10 essentially remaining the same entities as</p> <p>11 their predecessor after conversion to limited</p> <p>12 liability companies and will continue as</p> <p>13 intermediary holding companies of Caesars</p> <p>14 Atlantic City.</p> <p>15 In addition to finding the entities</p> <p>16 qualified, certain individuals affiliated with</p> <p>17 them must be qualified. CEC, as you have</p> <p>18 heard, is expected to have 11 members of its</p> <p>19 new board of directors, 10 of whom have been</p> <p>20 identified as of today. All 10 now have been</p> <p>21 plenary qualified or temporarily qualified by</p> <p>22 the Commission.</p> <p>23 All of the named officers and directors</p> <p>24 of CEOC, LLC, Caesars World, LLC, and Caesars</p> <p>25 New Jersey, LLC, are presently qualified by</p>

166	<p>1 ITEM 10/11</p> <p>2 virtue of their current positions with CEC or</p> <p>3 CEOC.</p> <p>4 The Division has further conducted a</p> <p>5 financial stability review of Caesars Atlantic</p> <p>6 City and Bally's Atlantic City in connection</p> <p>7 with the restructuring transactions. The plan</p> <p>8 eliminates approximately 91 percent of CEOC's</p> <p>9 debt, which is about \$16.8 billion. That will</p> <p>10 result in a reduction in annual interest and</p> <p>11 other payments of approximately 54 percent,</p> <p>12 equaling savings of approximately \$863</p> <p>13 million.</p> <p>14 While the restructuring clearly benefits</p> <p>15 CEC and CEOC, the Division has noted its</p> <p>16 concerns as to how the reorganization may</p> <p>17 affect the Atlantic City licensees, Caesars and</p> <p>18 Bally's.</p> <p>19 For the eight years ending in 2016, the</p> <p>20 total capital expenditures at Caesars and</p> <p>21 Bally's Atlantic City was 46 percent less than</p> <p>22 the average amount invested by the nonCEC</p> <p>23 casino properties currently operating in</p> <p>24 Atlantic City. The relatively low level of</p> <p>25 capital expenditures is, in the Division's</p>	168	<p>1 ITEM 10/11</p> <p>2 will be merged with and into Boardwalk Regency,</p> <p>3 LLC, and Bally's Park Place, LLC. Although the</p> <p>4 names and forms of the entities will change</p> <p>5 from corporations to limited liability</p> <p>6 companies, there are no substantive changes</p> <p>7 contemplated, which would affect casino</p> <p>8 operations or otherwise impact the eligibility</p> <p>9 of either casino licensee. And the successor</p> <p>10 entities will continue to meet the criteria of</p> <p>11 holding casino licenses under Section 82D of</p> <p>12 the Act.</p> <p>13 Similarly as to the individuals</p> <p>14 connected with the successor licensees, all of</p> <p>15 the key qualifiers of the CEC successor</p> <p>16 licensees will stay in place and remain</p> <p>17 qualified. The successor licensees have</p> <p>18 demonstrated the ability to assume operations</p> <p>19 at Caesars and Bally's Atlantic City and to</p> <p>20 assure continuity of casino operations at both</p> <p>21 properties if the Commissioner affirmatively</p> <p>22 determines financial stability.</p> <p>23 In conclusion, the transactions will</p> <p>24 allow CEOC and other debtors to continue</p> <p>25 operating with a lower debt amount and debt</p>
167	<p>1 ITEM 10/11</p> <p>2 view, one reason that the net revenue recovery</p> <p>3 for Caesars and Bally's in Atlantic City for</p> <p>4 2008 has lagged well behind their competitors</p> <p>5 in the Atlantic City market. Data provided to</p> <p>6 the Division projects minimal spending at the</p> <p>7 Atlantic City properties for the remainder of</p> <p>8 this year or next year. The Division,</p> <p>9 therefore, had concerns and questions about</p> <p>10 capital expenditures plans and capital</p> <p>11 improvement plans that were addressed in</p> <p>12 testimony today.</p> <p>13 The Division has conducted the requisite</p> <p>14 investigation and analysis regarding the</p> <p>15 Commission's issuance of casino licenses to</p> <p>16 successor casino licensees Boardwalk Regency,</p> <p>17 LLC, and Bally's Park Place, LLC.</p> <p>18 As you are aware, the current licensees,</p> <p>19 Boardwalk Regency Corporation and Bally's Park</p> <p>20 Place, Inc., were subject to resubmission</p> <p>21 investigations in 2013. In 2014, the Division</p> <p>22 notified the Commission that there were no</p> <p>23 issues on which any hearings was required, and</p> <p>24 the their casino licenses remained in effect.</p> <p>25 Pursuant to the plan, these casino licensees</p>	169	<p>1 ITEM 10/11</p> <p>2 service obligations than the debt and</p> <p>3 obligations which have limited its financial</p> <p>4 flexibility.</p> <p>5 Based on our analysis and the testimony</p> <p>6 presented today, the Division believes that</p> <p>7 operational changes and capital improvements</p> <p>8 are needed in order to improve Caesars' and</p> <p>9 Bally's competitive positions and market shares</p> <p>10 in Atlantic City.</p> <p>11 For this reason, the Division has</p> <p>12 recommended a condition be imposed requiring</p> <p>13 Caesars to submit to the Division detailed</p> <p>14 capital expenditure plans and operational</p> <p>15 improvement plans for Atlantic City licenses,</p> <p>16 with quarterly progress reports provided</p> <p>17 thereafter.</p> <p>18 Overall, based on our analysis and the</p> <p>19 testimony at this hearing, the Division has</p> <p>20 concluded that the restructuring should enable</p> <p>21 the Atlantic City casino licensees to continue</p> <p>22 to meet the financial stability requirements of</p> <p>23 the Act.</p> <p>24 The Division submits that based on our</p> <p>25 reports and the testimony you heard today</p>

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171	<p>1 ITEM 10/11</p> <p>2 Although the Division will begin the</p> <p>3 requisite full resubmission investigations of</p> <p>4 casino licensees Boardwalk Regency, LLC,</p> <p>5 Bally's Park Place, LLC, and Harrah's Atlantic</p> <p>6 City in late 2017, the Division will</p> <p>7 continually and closely monitor the</p> <p>8 transactions and entities discussed today and</p> <p>9 will take whatever action is necessary to</p> <p>10 ensure the continued financial stability of the</p> <p>11 Caesars entities.</p> <p>12 Thank you.</p> <p>13 CHAIR LEVINSON: Thank you.</p> <p>14 Commissioners, no other further</p> <p>15 questions for counsel?</p> <p>16 (No response.)</p> <p>17 CHAIR LEVINSON: I was planning on</p> <p>18 having a recess. I do not need one. I mean,</p> <p>19 unless the other Commissioner or General</p> <p>20 Counsel --</p> <p>21 MS. FAUNTLEROY: Ten minutes, please.</p> <p>22 CHAIR LEVINSON: Ten minutes? I'll see</p> <p>23 everyone back here at 45.</p> <p>24 (A recess was taken from 1:31 to 1:46</p> <p>25 p.m.)</p>	173
	<p>1 ITEM 10/11</p> <p>2 CHAIR LEVINSON: Welcome back.</p> <p>3 Commissioners, any further questions?</p> <p>4 (No response.)</p> <p>5 CHAIR LEVINSON: Caesars Entertainment</p> <p>6 and two of its Atlantic City licenses --</p> <p>7 Caesars and Bally's -- are before us today to</p> <p>8 approve the implementation of a complex</p> <p>9 organization plan which is approved by the US</p> <p>10 Bankruptcy Court on January 17, 2017. As in</p> <p>11 any case involving entities that file for</p> <p>12 Chapter 11, financial stability is a</p> <p>13 significant issue in reviewing reorganizational</p> <p>14 plan. All of the detailed provisions were</p> <p>15 spelled out in filings in the proposed</p> <p>16 resolution before us.</p> <p>17 In short, let me say Caesars proposes to</p> <p>18 transfer the Caesars and Bally's properties in</p> <p>19 Atlantic City and a variety of other Caesars</p> <p>20 properties around the country into a real</p> <p>21 estate investment trust, REIT, called VICI</p> <p>22 Properties, Inc. We heard testimony today that</p> <p>23 the subsidiaries of VICI REIT will own the</p> <p>24 casino hotels and lease them to new Caesars</p> <p>25 subsidiaries.</p>	

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174	<p>1 ITEM 10/11</p> <p>2 afforded wide latitude to manage its affairs</p> <p>3 with the expectation that it would we reducing</p> <p>4 its strangling debt and grow its bottom line,</p> <p>5 but it could not do so without seeking</p> <p>6 protection under Chapter 11 of the US</p> <p>7 Bankruptcy Code. We have heard today that upon</p> <p>8 implementation of the reorganizational plan,</p> <p>9 the Caesars entities will have \$16 billion less</p> <p>10 debt and \$807 million less in annual interest</p> <p>11 and lease payments. That alone significantly</p> <p>12 improves the financial conditions of Caesars</p> <p>13 entities.</p> <p>14 In addition to the lower interest</p> <p>15 expense after it emerges from bankruptcy, the</p> <p>16 company projects moderate growth for its</p> <p>17 Atlantic City casinos over the next few years.</p> <p>18 But capital improvements to the two properties,</p> <p>19 which have been meager for a number of years,</p> <p>20 are budgeted to be less. It is hard to see how</p> <p>21 the business can grow in this competitive</p> <p>22 market with the bare minimum of capital</p> <p>23 investment. I share the Division's concern in</p> <p>24 this area, and I look forward to seeing exactly</p> <p>25 what improvements are planned for the</p>	176	<p>1 ITEM 10/11</p> <p>2 today. Taken together, the testimony and the</p> <p>3 evidence submitted present a picture of a</p> <p>4 company that I am guardedly optimistic is able</p> <p>5 to successfully emerge from bankruptcy and grow</p> <p>6 its Atlantic City gaming operations.</p> <p>7 With that being said, I move to adopt</p> <p>8 the Draft Resolution for Petition No. 1301701</p> <p>9 and grant the relief requested in the Petition,</p> <p>10 subject to and to the extent set forth in the</p> <p>11 findings and rulings and subject to the</p> <p>12 conditions provided in the Resolution.</p> <p>13 Do I have a second for this one?</p> <p>14 VICE CHAIR HARRINGTON: I'll second</p> <p>15 that.</p> <p>16 CHAIR LEVINSON: Any discussion on this?</p> <p>17 (No response.)</p> <p>18 CHAIR LEVINSON: This is a roll call</p> <p>19 vote.</p> <p>20 MS. FAUNTLEROY: Commissioner Cooper?</p> <p>21 COMMISSIONER COOPER: Yes.</p> <p>22 MS. FAUNTLEROY: Vice Chair Harrington?</p> <p>23 VICE CHAIR HARRINGTON: Yes.</p> <p>24 MS. FAUNTLEROY: And Chairman Levinson?</p> <p>25 CHAIR LEVINSON: Yes.</p>
175	<p>1 ITEM 10/11</p> <p>2 properties.</p> <p>3 Although the Harrah's Atlantic City</p> <p>4 property is not a part of the matter before us,</p> <p>5 the company had made significant investments in</p> <p>6 recent years in the Harrah's Conference Center</p> <p>7 and other improvements to keep the property</p> <p>8 attractive and competitive. This is the kind</p> <p>9 of investment that is needed, and we look</p> <p>10 forward to tangible evidence of Caesars'</p> <p>11 ongoing commitment to the Atlantic City market</p> <p>12 at all of its properties.</p> <p>13 In conclusion, I note that the Division</p> <p>14 has conducted an extensive investigation into</p> <p>15 the Petition before us, including a financial</p> <p>16 stability analysis of the licensees under the</p> <p>17 proposed reorganizational plan. The Division</p> <p>18 has recommended a number of conditions be</p> <p>19 imposed in order to ensure Caesars' ongoing</p> <p>20 compliance with its statutory obligations, and</p> <p>21 I would incorporate those into any approval we</p> <p>22 grant today.</p> <p>23 I've extensively reviewed the</p> <p>24 Petitioner's filings, the Division's report,</p> <p>25 and considered the testimony of the witnesses</p>	177	<p>1 ITEM 10/11</p> <p>2 It passes.</p> <p>3 Likewise, I move to adopt the Draft</p> <p>4 Resolution for Petition No. 1431702 subject to</p> <p>5 the terms and conditions specified therein.</p> <p>6 Is there a second on this one?</p> <p>7 COMMISSIONER COOPER: I'll second that.</p> <p>8 CHAIR LEVINSON: Any discussion?</p> <p>9 (No response.)</p> <p>10 CHAIR LEVINSON: This, too, is a roll</p> <p>11 call vote.</p> <p>12 MS. FAUNTLEROY: Commissioner Cooper?</p> <p>13 COMMISSIONER COOPER: Yes.</p> <p>14 MS. FAUNTLEROY: Vice Chair Harrington?</p> <p>15 VICE CHAIR HARRINGTON: Yes.</p> <p>16 MS. FAUNTLEROY: And Chairman Levinson?</p> <p>17 CHAIR LEVINSON: Yes.</p> <p>18 It passes.</p> <p>19 MS. FAUNTLEROY: In accordance with</p> <p>20 Resolution 16-12-07-03, the next closed session</p> <p>21 shall be held on Wednesday, August 9, 2017, at</p> <p>22 9:30 a.m. in the Commission offices.</p> <p>23 CHAIR LEVINSON: Thank you.</p> <p>24 This is the part of the meeting of the</p> <p>25 public participation. Anyone from the public</p>

1
2 wish to be heard?
3 (No response.)
4 CHAIR LEVINSON: Seeing and hearing
5 none, this portion is now closed.
6 I would also like to wish Commissioner
7 Harrington a happy birthday today.
8 VICE CHAIR HARRINGTON: Thank you.
9 CHAIR LEVINSON: She's going --
10 hopefully, there's cake somewhere; right?
11 VICE CHAIR HARRINGTON: I hope not.
12 (Laughter.)
13 CHAIR LEVINSON: Motion to adjourn the
14 meeting.
15 COMMISSIONER COOPER: I'll make that
16 motion.
17 CHAIR LEVINSON: Second?
18 VICE CHAIR HARRINGTON: Second.
19 CHAIR LEVINSON: All those in favor?
20 (Ayes.)
21 CHAIR LEVINSON: Meeting is adjourned.
22 Thank you very much.
23 (Public Meeting No. 17-07-11 was
24 adjourned at 1:52 p.m.)
25

1
2 C E R T I F I C A T E
3 I, DARLENE SILLITOE, a Certified Court
4 Reporter and Notary Public of the State of New Jersey,
5 certify that the foregoing is a true and accurate
6 transcript of the proceedings.
7 I further certify that I am neither
8 attorney, of counsel for, nor related to or employed
9 by any of the parties to the action; further that I am
10 not a relative or employee of any attorney or counsel
11 employed in this case; nor am I financially interested
12 in the action.
13
14
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16
17
18 
19 DARLENE SILLITOE, CCR
20 License No 30XI0102300
21
22 Dated: July 14, 2017
23 My Notary Commission Expires
24 December 9, 2019
25 ID No 50006932



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