



*State of New Jersey*

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*Governor*

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November 14, 2014

Honorable Matthew B. Levinson  
Chairman  
Casino Control Commission  
Arcade Building  
Tennessee Avenue and the Boardwalk  
Atlantic City, NJ 08401

Re: Resubmission Regarding the Casino Licenses of Harrah's Atlantic City Operating Company, LLC (Harrah's), Showboat Atlantic City Operating Company, LLC (Showboat), Bally's Park Place, Inc. (Bally's) and Boardwalk Regency Corporation (BRC) Pursuant to *N.J.S.A. 5:12-87.1*

Dear Chairman Levinson:

The casino licenses of Harrah's Atlantic City Operating Company, LLC d/b/a Harrah's Resort Atlantic City (Harrah's), Showboat Atlantic City Operating Company, LLC d/b/a Showboat Casino Hotel (Showboat), Bally's Park Place, Inc. d/b/a Bally's Atlantic City (Bally's) and Boardwalk Regency Corporation d/b/a Caesars Atlantic City (BRC) (collectively the Caesars Licensees) were last renewed on June 18, 2008 and became effective July 1, 2008. Pursuant to Section 87.1 of the Casino Control Act (Act), *N.J.S.A. 5:12-1 et seq.*, casino licensees must now file for resubmission every five years rather than submit for casino license renewal. *N.J.S.A. 5:12-87.1* mandates the submission of such information



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as the Division of Gaming Enforcement (Division) may require to demonstrate to the satisfaction of the Director that a licensee continues to meet the requirements of Sections 84 and 85 of the Act, including financial stability. See *N.J.S.A. 5:12-87.1* and *N.J.A.C. 13:69C-11.1*.

Showboat filed a Petition, PRN 2131401, on August 1, 2014 seeking declaratory rulings related to the termination of casino operations and the surrender of its Operation Certificate and Casino License. The Director of the Division issued an Order PRN 2131401 dated August 18, 2014 which provided that Showboat's gaming operations would terminate on August 31, 2014 at 4:00 p.m. Pursuant to that Order, Showboat ceased all gaming operations. On November 6, 2014, the Director entered an Order PRN 2131401C which provided for the surrender of Showboat's casino license on November 7, 2014.

During 2013 and continuing as necessary in response to Division requests, the Caesars Licensees and their holding and intermediary entities submitted all required Business Entity Disclosure Forms and Personal History Disclosure Forms, in addition to all information required by *N.J.A.C. 13:69C-11.1c* and other materials. The Division conducted a thorough and comprehensive investigation of the Caesars Licensees, their holding and intermediary companies, entity qualifiers and individual qualifiers, as well as security holder and financial source matters; it also conducted a financial stability analysis as reflected in this report. Based on all of the filings and information submitted and the review conducted, the Division has now completed its resubmission investigation. As stated, the Caesars Licensees and their holding and intermediary companies and all individual qualifiers have been investigated, and no derogatory information has been revealed which would affect the continued casino licenses of Harrah's, Bally's, and BRC, except as set forth below in the financial stability portion of this report.

As a result of changes in certain regulatory responsibilities of the Division pursuant to the 2011 amendments to the Act, the Division issued Orders 00003, 00004, 00005, and 00006 on February 24, 2011 regarding the natural person qualifiers of the Caesars Licensees. Following entry of Orders 00003 through 00006, there have been changes to the lists of individual qualifiers of the Caesars Licensees, due to position vacancies, resignations, new hires or other role or affiliation changes. Therefore, the Division is issuing updated Orders 001143 (Harrah's), 001142 (BRC) and 001141 (Bally's) with qualifier lists to reflect the current natural person qualifiers.

## I ACTION IN LIEU OF COMPLAINT

The Division brought an Action In Lieu Of Complaint dated March 7, 2013 against Caesars Entertainment Corporation (CEC or Caesars), the holding company of the Casino Licensees, on the grounds that disciplinary action can be taken against a casino licensee for any activity which tends to reflect discredit upon the State of New Jersey or the gaming

industry. *N.J.A.C. 13:69C-1.3(a)*. The "failure to exercise discretion and sound judgment to prevent incidents which might reflect on the reputation of the State of New Jersey and act as a detriment to the industry" may be determined to be an unsuitable manner of operation, meriting discipline. *Id.* at 1.3(a)1. As set forth therein, certain conduct of Caesars in connection with a player resulted in the Division filing the Action In Lieu Of Complaint and accepting the offer of CEC to pay a civil monetary penalty pursuant to *N.J.S.A. 5:12-123, 129 and 130*, in the amount of \$225,000 payable under the Act in accordance with *N.J.S.A. 5:12-145a*. CEC agreed to pay that amount in recognition of the seriousness of the failure to exercise sound judgment and its unsuitable manner of operation, all of which had the potential to discredit the casino industry. Accordingly, no issue is extant in that matter and no further action is required.

## II GANSEVOORT LICENSE AGREEMENT

The Division conducted a review relevant to CEC's recently-terminated license agreement with Gansevoort Hotel Group LLC (Gansevoort). Gansevoort is a hotel brand with a flagship lifestyle boutique hotel property in the Meatpacking District of Manhattan. Gansevoort also owns Gansevoort Park Hotel in the Flatiron District of New York, Gansevoort South in Miami, and Gansevoort Turks + Caicos in the Caribbean. On March 6, 2013, a CEC subsidiary entered a license agreement whereby Gansevoort granted CEC the right to use the "Gansevoort" name in connection with hotel and other non-gaming operations at CEC's property, Bill's Gamblin' Hall and Saloon in Las Vegas, now known as The Cromwell Las Vegas, which CEC was then planning to renovate.

The three principals of Gansevoort are William and Michael Achenbaum (father and son) and Arik Kislin. Arik Kislin has been the subject of considerable media and law enforcement scrutiny over the past several years for alleged ties to Russian organized crime. His uncle, Sam Kislin, is a reputed member of a New York-based Russian organized crime group led by Vyacheslav Ivankov. Some news sources have reported that Sam Kislin's trading firm, Trans Commodities, once shared an office in New York with Arik Kislin's company, Blonde Management. Arik Kislin allegedly co-sponsored a U.S. visa for the now-deceased Anton Malevsky, reportedly a professional assassin for the Russian mafia. Michael Chernoy, a former associate of Arik Kislin, allegedly used physical force, bribery, and extortion to gain control of the Russian metals industry after the Cold War. Plaintiffs in two lawsuits filed in the United States have alleged that Arik Kislin played a role in the Russian metals conspiracy by laundering money and paying bribes; plaintiffs in a German case alleged Arik Kislin was authorized to give financial instructions to Trenton Business Corporation, a Liechtenstein-based company which functions as a "war chest" for Russian organized crime, and similar allegations have been made in a case filed in England. At the conclusion of the compliance review by CEC, it was aware of the foregoing information.

In 2007, Kislin hired a team of independent investigators, led by Ronald Goldstock, to investigate his background after a series of negative media stories began to affect his business. The Goldstock investigators found no connection between Sam Kislin and Ivankov. They also found Arik Kislin never had a business relationship with his uncle. Arik Kislin acknowledged to Goldstock investigators that he did work as a personal aide to Michael Chernoy in the early 1990s and that Michael Chernoy was his uncle's former business associate. In fact, Chernoy was the chief source of funds for Kislin's ventures until 2006. Goldstock investigators were unable to confirm whether Trans Commodities ever shared an office with Blonde Management. Kislin told Goldstock investigators that he did not know Anton Malevsky but Kislin acknowledged that he was later questioned about the visa by the FBI. The Goldstock team found the U.S. lawsuits were dismissed for *forum non conveniens*. They also found the German court ultimately did not make any finding as to Kislin's involvement in Trenton Business Corporation. The British case settled out of court.

The CEC Compliance Department conducted a due diligence investigation into the backgrounds of Gansevoort's principals. In addition to reviewing the Goldstock Report, the CEC Compliance Department also searched media sources for information about Kislin. Based on the results, the CEC Compliance Department decided to retain Cachet International to investigate Kislin. Cachet International is an independent investigative service with a special expertise in Russia and the former Soviet Republics. Cachet provided CEC with three reports on Kislin's activities in Russia, the Ukraine, and the United States. Unlike the Goldstock team, the Cachet investigators found Arik Kislin "was heavily involved in the business activities of his uncle Semyon (Sam) Kislin and his brothers."

The CEC Compliance Department summarized its findings in a thorough Summary of Items for consideration by the Compliance Committee. On November 30, 2012, the Compliance Committee approved the agreement subject to several conditions including conditions which: provided Gansevoort with no management involvement, allowed Gansevoort to share only in non-gaming revenue, and provided CEC with the ability to terminate the agreement if a suitability issue arose and could not be cured. Any change in the scope or nature of the relationship also would require review by the Compliance Committee.<sup>1</sup>

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<sup>1</sup> More specifically, the CEC Compliance Committee: (1) limited the relationship to the use of the Gansevoort name and hotel theme, with no management or operational involvement by Gansevoort; (2) limited Gansevoort's share of revenue to non-gaming revenue with no aspect of the gaming operation to be involved; (3) concluded that allegations about one of Gansevoort's principals, as reported in the media, could not be substantiated; (4) obtained advice from New Jersey and Nevada counsel; (5) resolved that Caesars would continue to monitor the relationship, and if any unsuitability issues arose, the agreement would contain provisions to cure or terminate if not cured; (6) required Company management to be advised of potential negative media; and (7)

On January 15, 2013, CEC submitted an application for qualification by the Massachusetts Gaming Commission (MGC). CEC first became aware of MGC concerns with Gansevoort because of questions asked during interviews with Compliance Committee members in the Spring of 2013. In late September, after further discussions with regulators, CEC sent Gansevoort a letter asking it to terminate all relationships with Kislin. When Gansevoort failed to cure, CEC terminated the agreement on October 10, 2013. Although CEC severed all arrangements with Gansevoort, the MGC's position was that CEC's prior relationship with Arik Kislin was of such concern that it negatively affected CEC's suitability.<sup>2</sup>

After reviewing the license agreement and due diligence materials, the Division has concluded CEC's license agreement with Gansevoort was a non-gaming agreement which was entered after an appropriate due diligence investigation with warranted requirements. While in the Division's view the Gansevoort transaction should have been approached differently in light of the results of the Cachet investigations, CEC acted in a reasonable manner in first carefully considering the matter, imposing necessary requirements on the arrangement, seeking to cure, and then terminating the agreement. In light thereof, the Division does not contest that CEC has continued to demonstrate its good character, honesty and integrity.

### III EMPLOYMENT OF MITCHELL GARBER

As the Casino Control Commission (Commission) is well aware, on or about November 20, 2013, after the Division filed its reports regarding the application of Caesars Interactive Entertainment New Jersey, LLC (CIENJ) for a casino license, a hearing took place which concerned, in significant part, the hiring of Mr. Garber by Caesars Interactive Entertainment, Inc. (CIE), a holding company of CIENJ. After Mr. Garber testified and other evidence was presented, the Division recommended his licensure/qualification. The Commission agreed, and CIENJ received its casino license and Mr. Garber was found qualified. CIENJ is a casino licensee that conducts Internet gaming operations in New Jersey.

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required any change in the relationship to be reviewed by the CEC Compliance Committee. The CEC Compliance Committee, composed of all independent outside members, some of whom had extensive prior gaming regulatory and/or law enforcement backgrounds, chose to allow the company to enter the License Agreement after a thorough discussion regarding the allegations against Kislin.

<sup>2</sup> The MGC also was concerned with the matters set forth in Sections I and III of this report, and it noted the financial status of the CEC entities as fully discussed in Section VII of this report.

#### IV CAESARS ENTERPRISE SERVICES

By letter petition dated July 21, 2014, as amended by letter dated July 23, 2014, Caesars Entertainment Operating Company, Inc. (CEOC), Caesars Entertainment Resort Properties, LLC (CERP), and Caesars Growth Partners, LLC (CGP) (petitioners) sought a ruling from the Commission finding Caesars Enterprise Services, LLC (CES) plenary qualified as an entity qualifier of Caesars Atlantic City casino licensees Showboat, Bally's, BRC, Harrah's and CIENJ. As set forth in the letter petition, CEOC is a qualified holding company of Showboat, Bally's and BRC; CERP is a qualified holding company of Harrah's, and CGP is a qualified holding company of CIENJ. The Division filed its response to the petition on September 2, 2014. When the matter was pending before the Commission, counsel for Caesars requested that the Commission schedule a special meeting so that the matter could be heard on or before September 26, 2014. The matter was heard by the Commission on September 26 and CES was found to be qualified.

#### V DEED RESTRICTIONS

On October 24, 2013, Bally's sold the Claridge Tower in Atlantic City to TJM Atlantic City, LLC. The sale included a restrictive covenant prohibiting an owner from establishing a casino on the land or using the facility in connection with an Internet gaming permit. The covenant runs with the land in perpetuity. Caesars imposed a similar restrictive covenant on a former casino hotel property shortly after it acquired the Atlantic Club Hotel Casino (Atlantic Club) from RIH Acquisitions on February 3, 2014. This covenant will run with the land for fifteen years. To date, no such restrictive covenant has been imposed with respect to Showboat. At this stage, Caesars, however, has agreed to a Division requirement to provide prior notice to the Division of any future deed restrictions, restrictive covenants or similar property use limitations. Currently, Caesars is actively involved in a sales process as to the Showboat property, and it considered all interested parties. The outcome of the sale process cannot be known at this point, but pursuant to another reporting requirement, Caesars updates the Division weekly as to the status of its Showboat sale efforts. The Division will continue to monitor these matters and take whatever steps are warranted.

#### VI SIGNIFICANT LITIGATION

On August 4, 2014, Wilmington Savings Fund Society, FSB (Trustee) solely in its capacity as successor indenture trustee for CEOC's outstanding second-priority senior secured notes (Notes), on behalf of itself and, it alleges, derivatively on behalf of CEOC, filed a lawsuit (Second Lien Lawsuit) in the Court of Chancery in the State of Delaware against CEC and CEOC, CGP, Caesars Acquisition Company, CERP, CES, Eric Hession, Gary Loveman, Jeffrey D. Benjamin, David Bonderman, Kelvin L. Davis, Marc C. Rowan, David B. Sambur, and Eric Press. The lawsuit alleges claims for breach of contract,

intentional and constructive fraudulent transfer, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, and corporate waste.

On August 5, 2014, CEC, along with CEOC, filed a lawsuit in the Supreme Court of the State of New York, County of New York, against certain institutional first and second lien note holders. The complaint states that such institutional first and second lien note holders have acted against the best interests of CEOC and other creditors, including for the purpose of inflating the value of their credit default swap positions or improving other unique securities positions. The complaint asserts claims for tortious interference with prospective economic advantage, declaratory judgment and breach of contract and seeks, among other things, (1) money damages; (2) a declaration that no default or event of default has occurred or is occurring and CEC and CEOC have not breached their fiduciary duties or engaged in fraudulent transfers or other violation of law; and (3) a preliminary and permanent injunction prohibiting the defendants from taking further actions to damage CEC or CEOC.

On October 15, 2014, CEOC received a Notice of Default (Notice) from holders purporting to own at least 30% in principal amount of CEOC's outstanding Notes issued under an Indenture, dated December 24, 2008, by and among CEOC, CEC and Trustee. CEOC is party to a Collateral Agreement dated as of December 24, 2008 (Second Lien Collateral Agreement) by and among CEOC, the subsidiary parties thereto and the Second Lien Collateral Agent which is also Wilmington Savings Fund Society, FSB. The noteholders' claims in the Notice are substantially similar to claims previously made in June 2014 and early October 2014 by the noteholders and the Trustee of CEOC's second-priority senior secured notes issued under an Indenture, dated April 15, 2009, by and among CEOC, CEC and the Trustee. Among other things, this Notice alleges violations related to the May 2014 sale of four properties and the interpretation of language contained in the indenture respecting the release of CEC's guarantee. There are additional allegations relating to other CEOC transactions. CEOC's position is that no default or event of default has occurred under the Indenture and that the claims in the Notice are meritless.

## VII FINANCIAL STABILITY ANALYSIS

### A. SCOPE OF FINANCIAL REVIEW

In conjunction with the five-year resubmission, the Division undertook a financial stability review of the four Caesars Licensees (BRC, Harrah's, Bally's, and Showboat), their intermediary holding companies, and CEC. While Showboat is no longer an operating casino, the Division included that property in its review since it was open during the review period. Additionally, this report includes an update on CGP,<sup>3</sup> which is a holding company for CIENJ.

As the Commission is aware, the financial stability of CEC and/or its subsidiaries has been formally assessed numerous times since the June 2008 casino license renewal proceedings. Specifically, the Division has reviewed 16 material debt transactions that required New Jersey regulatory approval between late-2008 and October 2014.<sup>4</sup> In addition, in November 2013, the Division submitted a report to the Commission (CIENJ Report) regarding the initial casino license application of CIENJ, which included a full financial review of CGP. In light of the foregoing, the Division's resubmission review focuses on the overall impact of the financial transactions undertaken by CEC since 2008 and management's approach to addressing financial issues.

### B. CAESARS LICENSEES

Similar to other Atlantic City properties, the Caesars Licensees began experiencing a significant decline in operating results in 2007 due primarily to intense regional competition and the severe economic recession. Over the past seven years, the Caesars Licensees' combined gross operating profit (GOP)<sup>5</sup> declined by \$449 million (65%), from \$688.2 million for 2006 to \$239.2 million for 2013, as illustrated below:

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<sup>3</sup> As a result of CEC's 58% economic interest, CGP's financial results are consolidated into CEC's financial statements. Nevertheless, CGP is a separate company that has its own operations and capital structure. Moreover, CEC does not have direct access to CGP's financial resources.

<sup>4</sup> Eight of the material debt transactions undertaken by CEC and its subsidiaries between 2008 and 2010 were approved by the Commission under its regulations. The Division, after responsibility transferred to it in early 2011, has approved eight material debt transactions under its regulations. A copy of each letter report and/or Director Order can be found at <http://www.nj.gov/oaq/ge/rulingspendingactions.html>.

<sup>5</sup> GOP reflects net revenue minus operating costs and expenses as reported on the Division's Statement of Income.



**Table 1**  
Caesars Licensees  
Gross Operating Profit  
For the Years Ended December 31, 2006 and 2013  
(\$ in millions)

	<u>2006</u>	<u>2013</u>	<u>Decrease</u>
Harrah's	\$179.6	\$102.2	(\$77.4)
BRC	177.8	69.5	(108.3)
Bally's	199.1	33.5	(165.6)
Showboat	<u>131.7</u>	<u>34.0</u>	<u>(97.7)</u>
Combined GOP	\$688.2	\$239.2	(\$449.0)

Despite the downward GOP trend, the Caesars Licensees still generate revenues that exceed their operating expenses (i.e., positive GOP), and thus, do not need to rely on their intermediary parent companies or CEC to support their financial needs. In addition, the Caesars Licensees do not maintain any material debt obligations to a third party lender other than capital leases.<sup>6</sup> In that each property's GOP base is sufficient to address its individual cash needs and other obligations, the Caesars Licensees continue to meet the financial stability requirements of the Act contained in N.J.S.A. 5:12-84a. Nevertheless, CEC decided to close Showboat in an attempt to improve the profitability of the other Caesars Licensees.

### C. CGP UPDATE

Two major financial events occurred subsequent to the issuance of the CIENJ Report that warrant highlighting: (1) the final results of the stock rights offering (Rights Offering) and (2) the recent sale of four properties from CEC to CGP. Those events are discussed below, as well as a financial update regarding CGP.

#### 1. Rights Offering

As more fully discussed in the CIENJ Report, CEC distributed subscription rights to its stockholders on a pro rata basis to acquire an ownership interest in CGP. Since the ultimate

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<sup>6</sup> As of December 31, 2013, Bally's and BRC maintained intercompany debt of \$583.5 million and \$518.3 million, respectively, which is owed to a subsidiary of CEC. Bally's intercompany notes mature in 2019 and 2021, while BRC's intercompany note matures in 2020.

result of the Rights Offering was unknown at the time the CIENJ Report was issued, the financial review was based on a range of possible outcomes between a "Minimum Scenario" that would generate \$500 million in gross proceeds and a "Maximum Scenario" that would generate \$1.182 billion in proceeds. In actuality, the Rights Offering generated \$1.173 billion in gross proceeds, which is consistent with the Maximum Scenario discussed in the CIENJ Report and provides significant financial flexibility for CGP to pursue growth opportunities.

## 2. Acquisition of CEC Properties

In May 2014, CEC sold the following four properties and related assets (Asset Sale) to CGP for \$2 billion (before assumed debt):

- The Cromwell on the Las Vegas Strip, (formerly known as Bill's Gambling' Hall & Saloon);
- The Quad Resort & Casino on the Las Vegas Strip;
- Bally's Las Vegas; and
- Harrah's New Orleans.

To fund the bulk of the purchase price, a subsidiary of CGP obtained a \$1.175 billion senior secured term facility and incurred \$675 million in second lien debt. In addition, the four properties have access to a \$150 million senior secured revolving credit facility. Notably, the four properties continue to be managed by CEC.

## 3. Financial Update

Based on updated forecasts submitted on July 29, 2014 (Resubmission Forecasts), CGP's EBITDA<sup>7</sup> is expected to be more than sufficient to support its debt service requirements and other cash needs. In this regard, CGP projects \$401 million in EBITDA for 2014, while interest payments are estimated at \$111 million for the year. CGP's cash balance is estimated to be \$840 million at year-end 2014 and \$1.025 billion at year-end 2015, which would be available to support unforeseen cash shortfalls. Additionally, the four recently acquired properties have access to the \$150 million revolving credit facility, which is expected to be fully-available through 2015. Given the magnitude of its financial flexibility, CGP continues to meet the financial stability requirements under the Act.

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<sup>7</sup> EBITDA reflects earnings before interest, taxes, depreciation, and amortization, and it is a common measure of profitability in the casino industry similar to GOP.

D. CEC

On a pro forma basis, CEC reported \$25.6 billion in principal amount of long-term debt as of June 30, 2014,<sup>8</sup> which is owed by three separate entities:

- \$18.4 billion is maintained by CEOC. Debt service for CEOC is funded by 40 owned and managed properties (CEOC Properties), including Bally's, BRC, and Showboat (until closure).
- \$4.7 billion is owed by CERP. Debt service for CERP is funded by six casino properties (including Harrah's), as well as two Las Vegas assets.<sup>9</sup>
- \$2.5 billion is owed by CGP, which is consolidated into CEC's financial statements due to CEC's 58% economic interest in CGP.
- \$40 million of CGP's debt and \$4 million of CEOC's debt is due to CEC, and thus, eliminated in consolidation. Regardless of the accounting treatment, CGP and CEOC are still obligated to fund debt service requirements on this \$44 million in debt.

The following table illustrates the consolidated debt structure of CEC, with a focus on the debt maturity dates:

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<sup>8</sup> The pro forma June 30, 2014 debt balances include (1) a refinancing finalized in July 2014 and (2) the distribution of senior notes held by CGP to affiliates announced in August 2014.

<sup>9</sup> The six CERP Properties are Harrah's AC, Harrah's Laughlin, Harrah's Las Vegas, Flamingo Las Vegas, Rio Casino Hotel in Las Vegas, and Paris Casino Hotel in Las Vegas. The two Las Vegas assets are the LINQ entertainment district on the Las Vegas Strip and the Octavius Tower at Caesars Palace.

**Table 2**  
CEC  
Pro Forma Long-Term Debt  
As of June 30, 2014  
(\$ in millions)

<b>CEOC:</b>	
Bank Debt due 2016 and 2017	\$5,363
First Lien Notes due 2017–2020	6,345
Second Lien Notes due 2018	5,252
Senior Notes/Other Debt due 2016 to 2020 (a)	<u>1,464</u>
Total CEOC Debt	18,424
<b>CERP Debt (majority due in 2020 and 2021)</b>	4,703
<b>CGP Debt (majority due in 2017 to 2022)</b>	2,482
<b>Less: CGP/CEOC Debt due to CEC</b>	<u>(44)</u>
<b>CEC Consolidated Long-Term Debt</b>	<b>\$25,565</b>
(a) includes roughly \$11 million in notes that mature in 2015	

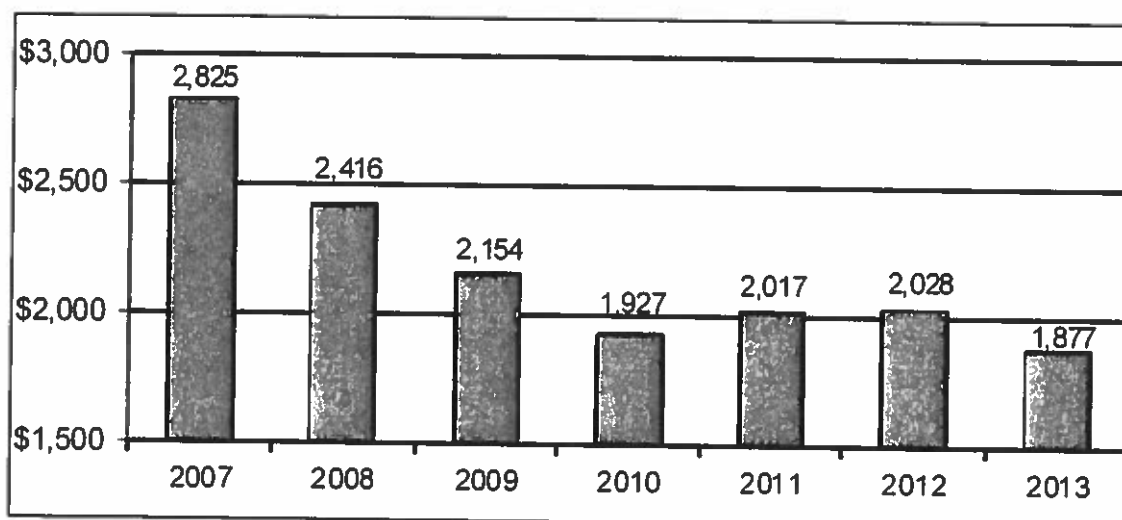
The financial stability of CEC under this debt structure needs to be assessed not only on a consolidated basis, but on an individual basis through CEOC, CERP, and CGP, in that each entity is liable for the debt which it owes. The debt obligations of CGP were discussed in the CIENJ Report and updated previously in this report. Accordingly, the following discussion focuses on CEC on a consolidated basis, as well as CERP and CEOC individually.

1. CEC Consolidated

As a result of an estimated \$12.7 billion in net debt borrowings utilized to fund the 2008 acquisition, CEC's consolidated long-term debt increased from approximately \$12.4 billion to around \$25.1 billion on a pro forma basis at year-end 2007. In addition, a portion of the acquisition debt was issued at interest rates that were higher than the average rate on CEC's existing debt at that time. As a result, the acquisition more than doubled CEC's annual interest expense, from around \$800 million to nearly \$2 billion on a pro forma basis for 2007. Thus, after the acquisition, CEC essentially needed to generate around \$2 billion in EBITDA on a consolidated basis each year just to fund interest obligations.

While CEC generated \$2.8 billion in EBITDA for 2007 and projected growth in future years, the economic recession and the decline in operating results from the Atlantic City and other properties led to significantly reduced EBITDA levels, as illustrated in the following chart:

**Chart 1**  
**CEC**  
**Consolidated Property EBITDA**  
***For the Seven Years Ended December 31, 2013***  
**(in Millions)**



In recent years, CEC's EBITDA base could not support interest payments, as well as scheduled principal repayments, capital expenditures, and other cash needs. Accordingly, beginning in late 2008, CEC and its subsidiaries undertook over 40 financial transactions primarily to address upcoming maturities, comply with the financial covenants on certain loans, satisfy debt service requirements, and maintain adequate liquidity. As previously discussed, 16 of those transactions were material debt transactions that required New Jersey regulatory approval.

While many of the earlier refinancings resulted in a reduction in debt and interest expense, some of the more recent transactions required the issuance of new debt that carried higher interest rates than the debt that was redeemed. Largely as a result of the more recent transactions, CEC's interest expense has actually increased over the past six years, from around \$2 billion on a pro forma basis for 2007 to \$2.25 billion for 2013. Thus, despite undertaking over 40 financial transactions since 2008, CEC has been unable to address the key financial problem, which is the magnitude of its interest payments relative to its annual EBITDA. As more fully discussed below, the primary issue as to the funding of debt service requirements resides at the CEOC level.

2. CERP

On September 13, 2013, the Division approved a material debt transaction whereby CERP obtained \$4.65 billion in new debt obligations (CERP Loans)<sup>10</sup> primarily to repay existing debt that was due to mature in February 2015 (CERP Refinancing). In conjunction with the transaction, CERP obtained a \$269.5 million revolving credit line (CERP Revolver) to provide financial flexibility. The CERP Refinancing closed in October 2013.

As indicated in the Division's September 2013 report regarding the CERP Refinancing, the interest rates on the CERP Loans were higher than the obligations that were replaced. Consequently, CERP is expected to experience an estimated \$141 million increase in interest expense for 2014, from \$210 million under the former debt structure to \$351 million under the new structure.

Under the Resubmission Forecasts, the CERP properties are expected to generate EBITDA of \$539 million for 2014, which is projected to grow to \$677 million for 2015 due in large part to the incremental cash flows from Linq and Octavius Tower. If the projected EBITDA levels are attained, CERP would be able to satisfy its debt service requirements, capital expenditures, and other cash needs through 2015, while having at least \$235 million in availability on the CERP Revolver at year-end 2014 and 2015 to address any unanticipated cash flow shortfalls. Based on our review, CERP continues to meet the financial stability requirements under the Act.

3. CEOC

As previously discussed, CEOC has undertaken in excess of 40 financial transactions since December 2008 to remain viable under its debt structure. Many of those transactions focused on the long-term debt of CEOC. While CEOC has been able to satisfy debt service obligations and address maturities to date, it remains overleveraged and the risk of a debt default remains high.

Most recently, on May 22, 2014, the Division approved a material debt transaction (CEOC Refinancing) whereby CEOC obtained a \$1.75 billion term loan that was used to repay substantially all of the debt maturing in 2015 and a portion of CEOC's debt that

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<sup>10</sup> The CERP Loans consist of \$2.5 billion in term loans due 2020, \$1 billion in 8% first priority senior secured notes due 2020, and \$1.15 billion in 11% second priority senior secured notes due 2021.

matures in 2016 and 2018.<sup>11</sup> In addition, CEOC obtained amendments to the credit agreement for its term loans (Existing Term Loans) to loosen the senior secured leverage ratio test and limit CEC's guarantee related to the Existing Term Loans, among other things. CEC also sold a minority interest in CEOC so that CEOC was no longer wholly-owned by CEC. According to management, the stock sale resulted in CEC being released from its guarantee obligations on CEOC's bonds.<sup>12</sup>

Despite the benefits of the CEOC Refinancing, we highlighted in our report that CEOC's interest obligations will continue to significantly exceed its EBITDA base after the CEOC Refinancing. The following table illustrates the magnitude of the shortfall between CEOC's EBITDA and cash interest expense for 2013 (actual), as well as 2014 and 2015 under the Resubmission Forecasts:

**Table 3**  
**CEOC**  
**EBITDA and Cash Interest Expense**  
**For The Three Years Ending December 31, 2015**  
**(\$ in millions)**

	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>
	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
EBITDA	\$1,189	\$ 999	\$1,047
Cash Interest Expense	<u>1,790</u>	<u>1,861</u>	<u>1,790</u>
Shortfall	\$ 601	\$ 862	\$ 743

As illustrated above, CEOC's EBITDA of \$1.189 billion for 2013 was \$601 million below that needed to fund its cash interest expense of \$1.79 billion. For 2014 and 2015, CEOC projects EBITDA of \$999 million and \$1.047 billion, respectively, with the decrease compared to 2013 primarily reflecting the Asset Sale to CGP. Based on the cash interest expense forecast, CEOC's projected EBITDA is \$862 million and \$743 million below that needed just to fund cash interest expense for 2014 and 2015, respectively.

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<sup>11</sup> CEOC has approximately \$11 million in notes maturing in 2015.

<sup>12</sup> In that the loan amendments and sale of a minority interest in CEOC did not require approval, the Division neither endorsed those actions nor objected to them.

To address the projected gap between EBITDA and interest expense, as well as fund capital expenditures and other cash needs, CEOC will essentially rely on the proceeds from the Asset Sale. At year-end 2013, CEOC's cash position was \$1.54 billion. Despite \$1.8 billion in net proceeds from the Asset Sale, management projects that CEOC's cash balance will decline to \$1.23 billion at year-end 2014, due primarily to the following:

- \$862 million needed to address the projected gap between EBITDA and interest expense
- \$473 million in net debt repayments
- \$422 million in capital expenditures

While CEOC should maintain adequate liquidity to offset unanticipated shortfalls during 2014, the Resubmission Forecasts indicate that CEOC would exhaust its available liquidity some time in 2015. Specifically, the Resubmission Forecasts project a cash balance of only \$68 million at year-end 2015, whereas the CEOC properties need an estimated \$210 million in cash to support daily operations.

In the Division's view, the Resubmission Forecasts effectively predict that CEOC will not be viable throughout the forecast period without further action to address its debt service requirements or a filing for bankruptcy protection. Even if CEOC can remain viable under its debt structure through 2015, the Division notes that there is around \$1.5 billion in debt maturing in 2016 that will need to be addressed.

#### E. CONCLUSION

To summarize, the Caesars Licensees, CGP, CERP, and CEC (corporate) continue to meet the financial stability requirement of the Act. CEOC, however, continues to face severe financial issues.

As set forth in this report, as well as the May 22, 2014 report and Director's Order regarding the CEOC Refinancing (a copy of which was provided to the Commission Chairman), the Division has highlighted that CEOC's EBITDA declined significantly between 2007 and 2013 and is well below the level required to satisfy debt service requirements, in addition to capital expenditures and other cash needs. Focusing solely on the interest burden, CEOC's EBITDA of \$1.189 billion for 2013 was \$601 million below that needed just to satisfy \$1.79 billion in cash interest expense owed.

CEOC, to remain viable under its debt structure, has undertaken numerous financial transactions since 2008 to extend maturities, comply with a financial ratio, fund operating



cash shortfalls, and obtain liquidity for future cash needs. As previously discussed, many of those transactions involved material debt that required New Jersey regulatory approval, with the May 2014 CEOC Refinancing matters being the most recent petition request approved by the Division related to CEOC. While CEOC has been able to address cash shortfalls primarily through various financial transactions until recently, its financial viability in 2014 and into 2015 is essentially predicated upon the use of liquidity obtained through the Asset Sale.

In the conclusion of the CEOC Refinancing report, the Division stated that the sale of assets to address recurring cash needs such as interest expense is not a sustainable strategy. Accordingly, the Division advised CEC that it needed to develop a comprehensive plan to address the debt structure of CEOC. At a minimum, the Division stressed that any proposed solution needed to more closely align CEOC's cash interest obligations with its EBITDA base. To monitor CEC's progress, the Order for the CEOC Refinancing contained a requirement that CEC submit quarterly reports to the Division updating its plan to address the long-term debt issues at CEOC and progress toward achieving that goal.

In anticipation of discussions with first lien creditors, CEC, on September 12, 2014, announced that CEC and CEOC executed non-disclosure agreements with certain beneficial holders of CEOC's 11.25% senior secured notes due 2017, CEOC's 8.5% senior secured notes due 2020 and CEOC's 9% senior secured notes due 2020 in an effort to restructure CEOC's debt. In a related matter, on October 16, 2014, CEC and CEOC entered into control agreements with the collateral agent to provide the first lien secured creditors with a perfected security interest in cash held in specified corporate depository accounts. On October 17, 2014, CEC and CEOC also announced that they have executed non-disclosure agreements with certain beneficial holders (Bank Lenders) of debt, including senior secured term loans, enabling the commencement of formal discussions with the Bank Lenders. Thus, in accordance with the Division's directive, CEC and CEOC are currently attempting to negotiate a plan to address certain of the debt issues at CEOC.

As of this point, CEC and CEOC are satisfying all obligations relevant to a financial stability determination. In addition, CEC and CEOC generate considerable EBITDA, and absent the significant debt service obligations, there would not be a concern as to CEOC's financial condition going forward. Based on the Resubmission Forecasts, CEOC should maintain adequate liquidity to offset unanticipated shortfalls during the remainder of 2014 and into 2015. Therefore, CEC and CEOC have a limited period of time to devise and implement a plan that moves toward a resolution of the debt issues. In light of the foregoing circumstances and recent actions taken by CEC and CEOC, the Division has determined not to seek a casino license hearing to examine the financial stability of the Caesars Licensees at this time.

The Division recognizes, however, that time is of the essence and that negotiations may not lead to resolution. Under such a scenario, the possibility exists that CEOC or affiliates of CEC may need to file for bankruptcy protection in order to restructure the relevant debt obligations. Of particular note, the Chapter 11 bankruptcy process would enable the Caesars Licensees to continue operating in the normal course, while the debt issues are determined under court supervision. Historically, the Chapter 11 bankruptcy process has been used on various occasions by Atlantic City casino licensees and their holding companies as a vehicle through which those entities can manage their debt obligations in accordance with the financial stability requirements of the Act.

To monitor CEC's and CEOC's financial stability, progress toward a plan to address the debt issues, and the status of sale efforts related to Showboat, the Division has imposed the following additional requirements:

- Until such time as a definitive purchase agreement is executed, CEC shall provide the Division with an update on its efforts to sell Showboat on Monday of each week.
- Within 15 days of the end of each month, CEC and CEOC shall advise the Division regarding their progress toward implementing a plan to address the long-term debt issues at CEC and CEOC, which should include, but not be limited to, cash interest obligations, upcoming debt maturities, and debt principal repayments.
- Within 15 days of the end of each month, CEC and CEOC shall submit a report summarizing the operating results and cash flows of CEC and CEOC for the prior month, along with a financial outlook for the next three months, including, but not limited to, the ability to satisfy upcoming debt service obligations and any other major cash need.

Through these requirements, as well as those imposed in conjunction with previous material debt transaction approvals, the Division will continue to closely monitor the financial situation at CEC and its subsidiaries, particularly CEOC. The Division will update the Commission as events and circumstances warrant and will take further action if necessary.

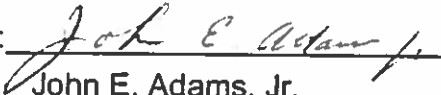
The Caesars Licensees, their holding and intermediary entities and the qualifying entities and individuals associated with them have demonstrated to the satisfaction of the Director that they continue to meet the requirements under *N.J.S.A. 5:12-84* and *-85*, and no issues are raised or will be presented for Commission consideration. See *N.J.S.A. 5:12-87.1*. Pursuant to *N.J.S.A. 5:12-87.1*, the Director has determined that no information sufficient to warrant revocation, suspension, limitation, or conditioning of their casino

licenses exists, and therefore the Director issues this summary resubmission report so advising the Commission, and the casino licenses shall remain in full force and effect.

Thank you for your consideration.

Respectfully submitted,

DAVID REBUCK  
DIRECTOR

By:   
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