



*State of New Jersey*

Chris Christie  
*Governor*

Office of the Attorney General  
Department of Law and Public Safety  
Division of Gaming Enforcement  
P.O. Box 047  
Trenton, NJ 08625-0047

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Kim Guadagno  
*Lt. Governor*

David Rebuck  
*Director*

March 7, 2013

Timothy R. Donovan  
Executive Vice President and General Counsel  
Caesars Entertainment Corporation  
One Caesars Palace Drive  
Las Vegas, NV 89109-8969

RE: Action In Lieu Of Complaint

Dear Mr. Donovan:

The Division of Gaming Enforcement (Division) brings this Action In Lieu Of Complaint against Caesars Entertainment Corporation (CEC or Caesars) involving certain related operational entities 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.

In May 2009, CEC, formerly known as Harrah's Entertainment, Inc., engaged a third party investigative firm (the firm) to investigate allegations made by a certain patron of its Las Vegas casinos (the Player) in connection with a grand jury proceeding regarding the Player's failure to pay approximately \$14.7 million in markers owed to Caesars. It was there alleged that Caesars allowed the Player to gamble in certain of its Las Vegas casinos when Caesars knew he was incapacitated by alcohol and drugs and therefore he should not be held responsible for approximately \$14.7 million in markers the Player executed between September and December 2007.



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On or about October 1, 2010, the firm submitted a written report (OCTOBER REPORT) to Caesars, setting forth its investigative findings and concluding that the Player was largely in control of his faculties when he executed markers at Caesars' casinos in 2006 and 2007. As described in the OCTOBER REPORT, in 2006 the Player began gambling regularly at Caesars properties in Las Vegas, particularly the Rio Casino Hotel (Rio), Las Vegas, Nevada, his play escalated over time and by 2007 most of his play occurred at Caesars Palace (CP), Las Vegas, Nevada, ending in mid-December 2007.

The OCTOBER REPORT recites that the unpaid markers to Caesars became the subject of a Nevada grand jury indictment charging the Player with theft and passing bad checks, at the Rio and CP in 2007. After his indictment and during the course of the firm's investigation, an attorney for the Player filed a complaint with the Nevada Gaming Control Board (NGCB) on November 18, 2009 and a civil complaint against Caesars on November 19, 2009 alleging fifteen separate claims for relief. The civil claims were based on allegations similar to those raised in the complaint filed with the NGCB. The allegations included that with the full knowledge of senior management, Caesars personnel continuously served excessive amounts of alcohol to the Player when he was intoxicated, knowing that he had a severe drinking problem; repeatedly gave him prescription pain killers (without a doctor's diagnosis or prescription) that combined with alcohol rendered him intoxicated and unfit to gamble, and other similar allegations.

The OCTOBER REPORT indicates that in July 2010, on the eve of the start of the criminal trial, the Player executed a settlement agreement with Caesars in which he agreed to dismiss his civil complaint and submit Caesars' claim for payment of the unpaid markers to private binding arbitration. Upon execution of the settlement agreement, the District Attorney dismissed the indictment against the Player. Ultimately, the settlement agreement was amended and the Player agreed to pay \$100,000 in complete settlement of the markers owed.

Our concern is with other details revealed in the OCTOBER REPORT. Based on the Player's significant level of play at Rio and other Caesars' properties, Caesars provided the Player with many benefits, including a Palazzo suite at Rio, around-the-clock security, limousine service, and reserved tables and slots for his exclusive play. His casino host at the time arranged for the Player to live at the largest, most elegant suite at CP. CP assigned several bellmen to run errands for the Player and to attend to his needs. CP provided security officers to accompany the Player wherever he went in the casino hotel and when he traveled to other casinos and elsewhere in the Las Vegas area. The security officers also spent time with the Player in his suite.

CP assigned two casino hosts to attend to the Player's needs around the clock. CP provided free food, alcohol, and travel to the Player. CP's President, told CP personnel to "give [the Player] whatever he wants." Additionally, CP only assigned personnel to work with the Player whom he found acceptable. If the Player did not like a dealer, cocktail

waitress, or security officer, CP would reassign them to tasks or areas where the Player would not encounter them.

Throughout 2007, CP steadily increased the Player's credit limit and the amount of discount on his losses. By September 2007, the Player had a credit limit of at least \$13 million. During this period, the Player repeatedly raised issues with management as to the discount applied to his losses and the amount of "reward points" he was accumulating. The Player met with management at that time to discuss these issues, and in an effort to placate the Player, Caesars agreed to pay him \$1 million and increase his discount to 30%. The OCTOBER REPORT further details that the Player gambled at CP until on or about December 21, 2007. When Caesars received a January 24, 2008 letter from the Player's attorney asserting that he had a gambling addiction, it became clear that the Player had no intention of paying his markers, and they took prompt action to collect what they could. According to the January 24, 2008 letter, the Player had paid in excess of \$85 million to various Caesars' properties for gaming losses sustained by him.

The firm issued another report dated December 14, 2010 (DECEMBER REPORT) which references the fact that, in reviewing the OCTOBER REPORT and its investigative findings, Caesars' General Counsel and the CEC Compliance Committee (Committee) recognized that much of what Caesars' senior management did to accommodate the Player was necessary and appropriate. In light of some of the investigative findings, they questioned, however, whether senior management, in attempting to please the Player, was sufficiently sensitive to its compliance and regulatory obligations. The Committee was troubled by certain evidence in the firm's investigative findings suggesting that senior management did not clearly or forcefully tell Caesars' employees or the Player that no matter how important a player he might be, neither he nor the employees were allowed to violate the law, gaming regulations, or Caesars' policies.

As further described in the DECEMBER REPORT

Specifically, the Committee was concerned that senior management did not respond appropriately to allegations that [the Player] (1) possessed and used illegal drugs on [CEC's] property; (2) engaged in inappropriate sexual conduct in the presence of [CEC's] employees and made inappropriate sexual advances towards [CEC's] employees; and (3) gave substantial tips and gifts to [CEC's] employees, and charitable contributions in the name of [CEC's] senior managers under circumstances that could raise conflict of interest concerns. . . . Finally, the Committee was concerned whether senior management, in its desire to keep [the Player] happy and have him continue playing at [CEC's] properties, gave [CEC's] employees the impression that they should not complain about [the Player] no matter what he did.

One area of concern in the DECEMBER REPORT was sub-captioned Anti-Harassment and it was noted that the company's policy provided in part that "the Company is committed to providing a work environment that is free from all forms of harassment, intimidation, or retaliation for opposing such conduct." Caesars' Entertainment Employee Handbook (Handbook) at 3.15. It was also noted that the prohibition extended to "[h]arassment based on sex (with or without sexual conduct), race . . . [and] age. . . as well as retaliation for opposing such conduct." *Id.* The policy applied "to everyone in the workplace, including officers, managers, supervisors, co-workers, *non-employee visitors*, and vendors." *Id.* (emphasis added). The policy was defined to further include conduct "engaged in by customers" that "substantially interferes with an employee's work performance or creates an intimidating, hostile, or offensive work environment." Handbook, at 3.16. In part, the DECEMBER REPORT additionally provides that "[n]on-employees will be counseled that all improper conduct must cease immediately and that such conduct, or further conduct of a similar nature, will result in removal from the property." Handbook, at 3.17.

Thereafter, the DECEMBER REPORT provides an analysis as follows: in responding to the reports by CEC employees concerning the Player's sexual conduct in their presence and sexual advances toward them, it is clear that CEC senior management did not comply with this policy. The then General Manager of the Rio acknowledged having been informed of a particular employee's concerns but the General Manager did not notify or involve Human Resources or inform the Player that he could not continue to engage in such conduct in the presence of Caesars' employees. CP senior executives consulted with CEC counsel who advised that two courses of actions had to be undertaken: tell the Player to cease and desist from such conduct and tell the employees that they did not have to work with the Player if they were uncomfortable. CP executives only followed one course of action – that employees knew they didn't have to work with the Player – but they never confronted the Player.

The Division's review of the OCTOBER AND DECEMBER REPORTS by the firm, as well as its own investigation including a Division sworn interview of a senior executive, confirms the above analysis. Despite being advised of derogatory information which would certainly fit within the CEC Handbook definition of sexual harassment, the senior executive failed to confront the Player and also failed to advise his superior of advice from a Caesars attorney requiring him to confront the Player.

The OCTOBER AND DECEMBER REPORTS were supplied to CEC, its general counsel and the members of the CEC Compliance Committee. The DECEMBER REPORT revealed that perhaps as many as 15 different individuals including Caesars' employees saw or had reason to suspect that the Player used illegal substances namely, marijuana and/or cocaine. These reports concluded that the Player's allegations regarding CEC's provision of drugs and alcohol were unfounded and that there was no evidence to suggest that the company's responsible gaming policies were violated in any way.

Nevertheless, after considering these materials, CEC determined to discipline three senior executives who failed to live up to the company's expectations with regard to their handling of the Player. One senior executive executed an Agreement to Donate a Portion of his 2007 Bonus to a charity. The amount donated represented approximately 50% of the bonus earned by that senior executive during the period the Player gambled at Caesars' properties. As also described in the Agreement, the CEC investigation included a review of allegations regarding the conduct of the Player and the manner in which CP senior executives and other CEC personnel addressed the Player's inappropriate behavior and arguably illegal activities on CEC premises. It further details that at the end of the investigation, "the Company concluded that [a senior executive] acted in a manner that was inappropriate and that [his] conduct fell short of the conduct [CEC] expects . . . ."

CEC self-reported these matters to the Division. As the company recognized, its managers' conduct was inappropriate and fell short of the conduct that CEC and the Division expects of senior officers whose qualification is integral to the continued qualification of the holding company of casino licensees. At least two other Caesars executives also were required to return to the Company 50% percent of their bonuses earned in 2007.

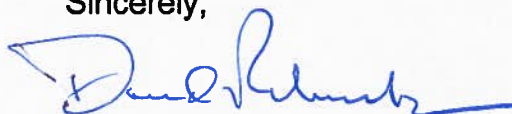
The course of conduct evidenced an endemic problem and that the Compliance Plan or system of compliance in place at the time of these events was not implemented in an effective manner to deal with the situation presented. Moreover, in the immediate aftermath of the events involving the Player, the then Chief Compliance officer and legal department did not undertake an appropriate and meaningful internal investigation into the Player's conduct and management's response to that conduct. It should also be observed, however, that as a result of these events CEC undertook a comprehensive revision of its Ethics and Compliance Program. Of particular note is that the Compliance Committee was reconstituted and now consists of members all of whom are outside and independent of management. Also, the Compliance Committee now reports directly to the Board of Directors of CEC and additional resources have been allocated by the Board to the Compliance Department. The revised compliance program and plan were prepared based on input from a national compliance expert and outside regulatory counsel, and the program and plan subsequently were submitted to the NGCB and the Division. The Division has approved the revised program and it is pending approval of the NGCB.

Nevertheless, the Division deems the incidents described in this action as reflecting or tending to reflect discredit upon the State of New Jersey or the gaming industry, and also being an unsuitable manner of operation, to wit: 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 in violation of *N.J.S.A. 5:12-123, 129 and 130* and *N.J.A.C. 13:69C-1.3(a)1*. Therefore, the Division accepts 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*, and which CEC

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has agreed to pay 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.

Sincerely,

A handwritten signature in blue ink, appearing to read "David Rebuck", with a long horizontal flourish extending to the right.

David Rebuck  
Director

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