

**IN THE UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:

CAESARS ENTERTAINMENT OPERATING
COMPANY, INC. *et al.*,

Debtors.

Chapter 11

Case No. 15-01145 (ABG)

(Jointly Administered)

CAESARS ENTERTAINMENT OPERATING
COMPANY, INC., *et al.*,

Plaintiff,

v.

BOKF, N.A., WILMINGTON SAVINGS FUND
SOCIETY, FSB, MEEHANCOMBS GLOBAL
CREDIT OPPORTUNITIES MASTER FUND, LP,
RELATIVE VALUE-LONG/SHORT DEBT
PORTFOLIO, A SERIES OF UNDERLYING
FUNDS TRUST, SB 4 CF LLC, CFIP ULTRA
MASTER FUND, LTD., TRILOGY PORTFOLIO
COMPANY, LLC, AND FREDERICK BARTON
DANNER,

Defendants.

Chapter 11

Adversary Case No. 15-00149

**DEFENDANTS MEEHANCOMBS GLOBAL CREDIT OPPORTUNITIES
MASTER FUND, LP, RELATIVE VALUE-LONG/SHORT DEBT
PORTFOLIO, A SERIES OF UNDERLYING FUNDS TRUST, SB 4 CF
LLC, CFIP ULTRA MASTER FUND, LTD. AND TRILOGY PORTFOLIO
COMPANY, LLC'S ANSWER AND SEPARATE AFFIRMATIVE DEFENSES
TO COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF**

Defendants MeehanCombs Global Credit Opportunities Master Fund, LP, Relative
Value-Long/Short Debt Portfolio, a Series of Underlying Funds Trust, SB 4 CF LLC, CFIP Ultra

Master Fund, Ltd. and Trilogy Portfolio Company, LLC (“Unsecured Notes Defendants”), by and through their undersigned counsel, by way of Answer and Separate Affirmative Defenses to the Complaint for Declaratory and Injunctive Relief (the “Complaint”) filed by the debtors and debtors-in-possession (collectively, the “Debtors”) in the above-captioned jointly administered chapter 11 cases, respectfully state as follows:

SUMMARY OF ACTION

1. This is an adversary proceeding seeking declaratory and injunctive relief to stay or enjoin the continued prosecution of four lawsuits that the Debtors’ creditors have brought against the Debtors and certain of their non-debtor affiliates. The four lawsuits (the “Actions”) bring claims against certain of the Debtors’ non-debtor corporate affiliates, including Caesars Entertainment Corporation (“CEC”); Caesars Acquisition Company (“CACQ”); Caesars Entertainment Resort Properties, LLC (“CERP”); Caesars Growth Partners, LLC (“CGP”); and Caesars Enterprise Services, LLC (“CES”), as well as certain current and former directors of the Debtors and their affiliates (collectively, the “Non-Debtor Affiliates”).

ANSWER: With respect to the first sentence of paragraph 1 of the Complaint, the Unsecured Notes Defendants admit that the Debtors have filed an adversary proceeding but deny that they are entitled to the declaratory and injunctive relief sought therein. The pleadings in *MeehanCombs Global Credit Opportunities Master Fund, LP, et al. v. Caesars Entertainment Corp., et al.*, No. 1:14-cv-07091 (SAS) (S.D.N.Y.) (the “SDNY Litigation”); *Frederick Barton Danner, et al. v. Caesars Entertainment Corp., et al.*, No. 1:14-cv-7973 (SAS) (S.D.N.Y.) (the “Danner Action”); *BOKF, N.A. v. Caesars Entertainment Corp.*, No. 1:15-cv-1561 (SAS) (S.D.N.Y.) (the “BOKF Action”); *Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corp., et al.*, No. 10004 VCG (Del. Ct. of Chancery) (the “Wilmington Savings Action”) (collectively, the SDNY Litigation, Danner Action, the BOKF Action and Wilmington Savings Action will be referred to as the “Parent Lawsuits”) are writings that speak for themselves. To the extent that the allegations contained in paragraph 1 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought

in such writings, those allegations are denied. Specifically, the Unsecured Notes Defendants deny that the SDNY Litigation brings claims against non-debtor affiliates CACQ, CERP, CGP, and CES. The Unsecured Notes Defendants further deny that the SDNY Litigation asserts claims against current and former directors of the Debtors and their affiliates.

2. The Actions bring derivative claims for fraudulent transfer against CEC, for breach of fiduciary duty and corporate waste by CEOC's directors, and for breach of fiduciary duty and aiding and abetting breach of fiduciary duty by CEC's directors, and they seek to enforce CEC's guarantee of certain notes issued by CEOC. All of these claims concern the very same assets transfers and capital markets transactions that will be litigated in the bankruptcy cases. Indeed, as this Court recognized earlier this week, these transactions "appear[] [to be] a central issue in this [bankruptcy] case" and "will now be the subject of investigations [in the bankruptcy case] by not one but two official committees, as well as by an examiner who even [CEOC] agrees should be appointed." Mem. Op. entered March 9, 2015, (Dkt. No. 633), at 8.

ANSWER: The pleadings in the Parent Lawsuits are writings that speak for themselves. To the extent that the allegations contained in the first sentence of paragraph 2 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied. Specifically, the Unsecured Notes Defendants deny that the SDNY Litigation brings derivative claims for fraudulent transfer against CEC, for breach of fiduciary duty and corporate waste by CEOC's directors, or for breach of fiduciary duty and aiding and abetting breach of fiduciary duty by CEC's directors. The allegations contained in the second sentence of paragraph 2 of the Complaint are denied. The Unsecured Notes Defendants neither admit nor deny the allegations contained in the third sentence of paragraph 2 of the Complaint because the record of the Debtors' bankruptcy proceedings speaks for itself. To the extent that the allegations contained in the third sentence of paragraph 2 of the Complaint differ from, are inconsistent with, or improperly characterize the record of the Debtors' bankruptcy proceedings, those allegations are denied.

3. Continuation of the Actions outside of the bankruptcy cases threatens to harm the Debtors' estate and imperil their ability to reorganize. Many claims in the Actions are property

of the Debtors' estate, and the remaining claims could deprive the Debtors' of securing substantial contributions from CEC, whether through settlement or litigation, that are necessary to the Debtors' reorganization. The plaintiffs-creditors bring derivative claims on behalf of CEOC, including claims for fraudulent transfer, breach of fiduciary duty, aiding and abetting breach of fiduciary duty and corporate waste—all of which are estate property. They also assert claims that CEC is obligated under parent guarantees of second lien and unsecured notes issued by CEOC—and those claims are all based on the same transactions as the estate claims, against the same defendants, pursuing the same pool of money.

ANSWER: The pleadings in the Parent Lawsuits are writings that speak for themselves. To the extent that the allegations contained in paragraph 3 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied. Specifically, with respect to the first sentence of paragraph 3 of the Complaint, the Unsecured Notes Defendants deny that continuation of the SDNY Litigation outside of the bankruptcy cases threatens to harm the Debtors' estate and imperil their ability to reorganize. With respect to the second sentence of paragraph 3 of the Complaint, the Unsecured Notes Defendants deny that any claims in the SDNY Litigation are property of the Debtors' estate, or that the remaining claims could deprive the Debtors of securing substantial contributions from CEC, whether through settlement or litigation, that are necessary to the Debtors' reorganization. With respect to the third sentence of paragraph 3 of the Complaint, the Unsecured Notes Defendants deny that they have brought any derivative claims on behalf of CEOC, including claims for fraudulent transfer, breach of fiduciary duty, aiding and abetting breach of fiduciary duty and corporate waste. The remaining allegations in paragraph 3 of the Complaint are denied.

4. Continuation of the Actions outside of the bankruptcy cases also threatens to imperil the Debtors' ability to reorganize. The resolution of the plaintiffs' claims will have a direct and meaningful impact on the Debtors' ability to reorganize. If CEC's guarantees are reinstated, it would be nearly impossible for CEC to provide any substantial contribution to a reorganization, including the \$1.5 billion that it has agreed to contribute under the RSA. The arithmetic is straightforward. The CEC parent guarantees backstopped all of CEOC's second lien and senior unsecured notes, totaling approximately \$5.2 billion and \$530 million, respectively,

on the petition date. (Dkt. No. 4 at 4.) As of September 30, 2014, CEC (exclusive of its interest in CEOC) had total current assets of approximately \$2.1 billion, and its current market capitalization is approximately \$1.4 billion. In short, it is unlikely that CEC would be able to satisfy a guarantee of CEOC's second lien and senior unsecured notes and to make a substantial contribution to the Debtors' reorganization. Any consideration that CEC pays on account of the Disputed Transactions (as defined below) should be paid to the estate for distribution to all its creditors—not to particular creditors as a result of disparate lawsuits. Indeed, without a substantial contribution by CEC to drive creditors' recoveries in these cases, the Debtors' reorganization will be imperiled.

ANSWER: The pleadings in the Parent Lawsuits are writings that speak for themselves. To the extent that the allegations contained in paragraph 4 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied. Specifically, the Unsecured Notes Defendants deny that continuation of the SDNY Litigation outside of the bankruptcy cases threatens to imperil the Debtors' ability to reorganize. The Unsecured Notes Defendants further deny that the resolution of the Unsecured Notes Defendants' claims will have a direct and meaningful impact on the Debtors' ability to reorganize. The remaining allegations in paragraph 4 of the Complaint are denied.

5. The Actions will harm the Debtors and their estates in still other ways. If the Actions continue, they will deplete an insurance policy and coverage that the Debtors share with their Non-Debtor Affiliates. The Non-Debtor Affiliates will draw down that insurance, which covers the Actions, to pay for their defense costs and any settlements or judgments, depleting the insurance proceeds that are an asset of the estate. Further, if the Actions proceed, the Debtors will face indemnification claims because CEOC is obligated to indemnify its current and former directors, officers and employees for expenses and losses incurred in the Actions, including for defense costs and any settlements or judgments. Finally, if the Actions continue against the Non-Debtor Affiliates, the Debtors will face burdensome discovery and the individuals critical to any restructuring will be distracted from their bankruptcy-related obligations.

ANSWER: The allegations in paragraph 5 of the Complaint are denied.

6. The Actions are now stayed as to the Debtors pursuant to the automatic stay. 11 U.S.C. § 362. The Debtors bring this adversary proceeding pursuant to Fed. R. Bankr. P. 7001 seeking declaratory and injunctive relief to stay or enjoin the Actions as to the Non-Debtor Affiliates pursuant to sections 362 and 105 of the Bankruptcy Code.

ANSWER: The allegations in the first sentence of paragraph 6 of the Complaint constitute legal conclusions to which no response is required. To the extent an answer is deemed required, the Unsecured Notes Defendants deny the allegations contained therein. With respect to the second sentence of paragraph 6 of the Complaint, the Unsecured Notes Defendants admit that the Debtors have filed an adversary proceeding but deny that they are entitled to the declaratory and injunctive relief sought therein.

PARTIES

7. Plaintiff CEOC is a Delaware corporation with its principal executive office located at One Caesars Palace Dr. Las Vegas, Nevada 89109.

ANSWER: Admitted.

8. Defendants Wilmington Savings Fund Society, FSB, Meehancombs Global Credit Opportunities Master Fund, LP, Relative Value-Long/Short Debt Portfolio, A Series of Underlying Funds Trust, SB 4 CF LLC, CFIP Ultra Master Fund, Ltd., Trilogy Portfolio Company, LLC, Frederick Barton Danner, and BOKF, N.A. are plaintiffs in the Actions.

ANSWER: Admitted.

JURISDICTION

9. This Court has jurisdiction pursuant to 28 U.S.C. § 157 and 28 U.S.C. § 1334.

ANSWER: The allegations in paragraph 9 of the Complaint are denied.

10. This adversary proceeding constitutes a core proceeding within the meaning of one or more subsections of 28 U.S.C. § 157(b).

ANSWER: The allegations in paragraph 10 of the Complaint are denied. Further, the Unsecured Notes Defendants do not consent to the entry of final orders or judgments by this Court if it is determined that this Court, absent consent of the parties, cannot enter final orders or judgments consistent with Article III of the United States Constitution.

11. Venue is proper in this district pursuant to 28 U.S.C. § 1409 on account of CEOC's bankruptcy case under chapter 11 of title 11 of the United States Code.

ANSWER: The allegations in paragraph 11 of the Complaint are denied.

RELIEF REQUESTED

12. By this Complaint, the Debtors seek a declaratory judgment pursuant to sections 105 and 362 of the Bankruptcy Code to extend the automatic stay under Section 362(a)(1) and 362(a)(3) to the Actions, or in the alternative, to stay or enjoin the continuation of the Actions pursuant to section 105 of the Bankruptcy Code during the pendency of the Debtors' chapter 11 cases.

ANSWER: The Unsecured Notes Defendants admit that the Debtors have filed the Complaint seeking a declaratory judgment pursuant to sections 105 and 362 of the Bankruptcy Code to extend the automatic stay under Section 362(a)(1) and 362(a)(3) to the Parent Lawsuits, or in the alternative, to stay or enjoin the continuation of the Parent Lawsuits pursuant to section 105 of the Bankruptcy Code during the pendency of the Debtors' chapter 11 cases. The Unsecured Notes Defendants deny that the Debtors are entitled to the declaratory and injunctive relief they seek from this Court.

FACTUAL BACKGROUND

13. CEOC, together with its Debtor and non-Debtor subsidiaries, provides casino entertainment services and owns, operates, or manages 38 gaming and resort properties in 14 states and five countries, operating primarily under the Caesars®, Harrahs®, and Horseshoe® brand names. The Debtors represent the largest, majority owned operating subsidiary of CEC, a publicly traded company that is the world's most diversified casino-entertainment provider. CEC, through its ownership and economic interests in CEOC, CERP, and Caesars Growth Partners, LLC, owns, operates, or manages 50 gaming and resort properties in 14 states and 5 countries, covering 3 million square feet of gaming space, 42,000 hotel rooms, 45 million customer loyalty program participants, and 68,000 employees.

ANSWER: The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 13 of the Complaint, and on that basis the allegations in paragraph 13 of the Complaint are denied.

I. THE DISPUTED TRANSACTIONS

14. Over the past several years, CEC initiated a series of asset transfers and capital markets transactions to restructure and manage CEOC's debt and provide CEOC with liquidity. The primary subject transactions include the following (collectively, the "Disputed Transactions").

- The "CIE Transactions": In May 2009, the Debtors transferred their interest in the World Series of Poker ("WSOP") intellectual property to non-Debtor affiliate Caesars Interactive Entertainment ("CIE") in exchange for certain preferred shares in CIE, which were valued at \$15 million. CEOC retained the right to use the WSOP trademark and intellectual property in certain contexts pursuant to a perpetual, royalty-free license. In September 2011, the Debtors transferred their rights to host WSOP tournaments to CIE for \$20.5 million in cash.
- The "CERP Transaction": In fall 2013, CEC refinanced the debt associated with the six CMBS properties, which was set to mature in early 2015. In October 2013, the Debtors transferred their interests in the Octavius Tower and Project Linq, a retail, dining, and entertainment development, to CERP for \$80.7 million in cash, the retirement of \$52.9 million of CEOC notes, and the maintenance of certain indirect benefits.
- The "Growth Transaction": In fall 2013, as a part of a series of transactions resulting in the formation of CGP, the Debtors transferred their interests in (i) the Planet Hollywood Resort & Casino in Las Vegas, (ii) the Horseshoe Baltimore project, and (iii) 50% of the management fees associated with these properties to CGP for \$360 million in cash.
- The "Four Properties Transaction": In spring 2014, the Debtors transferred their interests in (i) four casino properties (The Quad, Bally's Las Vegas, The Cromwell, and Harrah's New Orleans) and (ii) 50% of the management fees associated with these properties to CGP for approximately \$1.8 billion of cash and CGP's assumption of a \$185 million credit facility used to renovate The Cromwell.
- The "Shared Services Joint Venture": In spring 2014, as part of the Four Properties Transaction, CEOC entered into a shared services joint venture, CES, with CEC, CEOC, and Caesars Growth Properties Holdings, LLC. The joint venture partners executed an enterprise services and license agreement under which CEOC contributed to CES a worldwide license to certain intellectual property, including Total Rewards®, and received a 69% ownership stake plus 33% voting rights in CES.
- The "B-7 Refinancing": In May and June 2014, CEOC refinanced short-term maturities with \$1.75 billion of new term loans, and amended its First Lien Credit Agreement to extend maturities and provide covenant relief. As part of the B-7 Refinancing, CEC sold five percent of its stock in CEOC to unaffiliated investors, which triggered a release of CEC's guarantee of certain CEOC debt.
- The "Senior Unsecured Notes Transaction": In August 2014, CEOC and CEC purchased

approximately \$155 million in 6.50% Senior Notes due 2016 (“2016 Notes”) and 5.75% Senior Notes due 2017 (“2017 Notes” and, together with the 2016 Notes, the “Senior Unsecured Notes”) from non-affiliated holders, CEC contributed \$426.6 million of Senior Unsecured Notes to CEOC for cancellation, and CEOC amended its Senior Unsecured Notes Indentures to confirm the release of CEC’s guarantee of certain CEOC debt had occurred in connection with the B-7 Refinancing. Through this transaction, CEOC reduced its outstanding indebtedness by approximately \$582 million.

ANSWER: The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 14 of the Complaint, and on that basis the allegations in paragraph 14 of the Complaint are denied.

15. These Disputed Transactions are central to these chapter 11 proceedings. As the Court noted earlier this week, these transactions “appear[] [to be] a central issue in this case” that will be the subject of multiple investigations in this bankruptcy. Mem. Op. dated March 9, 2015, (Dkt. No. 633), at 8.

ANSWER: The allegations contained in the first sentence of paragraph 15 of the Complaint are denied. The Unsecured Notes Defendants neither admit nor deny the allegations contained in the second sentence of paragraph 15 of the Complaint because the record of the Debtors’ bankruptcy proceedings speaks for itself. To the extent that the allegations contained in the third sentence of paragraph 15 of the Complaint differ from, are inconsistent with, or improperly characterize the record of the Debtors’ bankruptcy proceedings, those allegations are denied.

II. THE ACTIONS

16. The Disputed Transactions are also the subject of four different lawsuits pending in Delaware Chancery Court and the Southern District of New York. These four lawsuits (the Actions) were brought by various trustees and holders of second lien and unsecured notes issued by CEOC, against CEOC, CEC, and certain of their affiliates and directors. In general, the Actions claim that the Disputed Transactions were unlawful, that they were fraudulent transfers, that they breached certain covenants under the applicable note indentures, and that their approval by the company’s directors were violations of their fiduciary duties. The four lawsuits are as follows:

ANSWER: The pleadings in the Parent Lawsuits are writings that speak for themselves. To the extent that the allegations contained in paragraph 16 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied. Specifically, the Unsecured Notes Defendants deny that they are asserting any claims in the SDNY Litigation against any party other than CEC. The Unsecured Notes Defendants further deny that the SDNY litigation includes claims that the Disputed Transaction were fraudulent transfers or that their approval by the company's directors were violations of their fiduciary duties.

17. The Wilmington Savings Action: On August 4, 2014, the indenture trustee for certain Second Lien Notes commenced an action against CEOC and certain non-debtor affiliates, including CEC, CGP, CACQ, CERP, CES, as well as certain CEC and CEOC directors. The lawsuit, captioned *Wilmington Savings Fund Society, FSB v. Caesars Entertainment Corporation*, C.A. No. 10004 VCG, is pending in the Court of Chancery of the State of Delaware. The trustee, Wilmington Savings, expressly alleges that it is bringing derivative claims in the name of CEOC, including claims for breach of fiduciary duty and waste of corporate assets by CEOC's directors, breach of fiduciary duty and aiding and abetting breach of fiduciary duty by CEC's directors, and actual and constructive fraudulent transfers. See Compl. 711 167-199. The trustee also brings claims for breach of the 2009 Indenture and declaratory relief with respect to CEC's guarantee under a certain Second Lien Notes indenture. The claims in the lawsuit all arise out of and relate to the CIE, CERP, Growth, Four Properties, and B-7 Refinancing Transactions, as well as the Shared Services Joint Venture.

ANSWER: The Unsecured Notes Defendants neither admit nor deny the allegations contained in paragraph 17 of the Complaint because the pleadings in the Wilmington Savings Action are writings that speak for themselves. To the extent that the allegations contained in paragraph 17 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied.

18. The BOKF Action: On March 3, 2015, the successor indenture trustee for certain other Second Lien Notes commenced an action against CEC. That lawsuit, captioned *BOKF, N.A. v. Caesars Entertainment Corporation*, Civil Action No. 15-156, is currently pending in the United States District Court for the Southern District of New York. The plaintiff seeks to enforce CEC's guarantee of certain Second Lien Notes and brings claims for alleged breaches of contract, violations of the Trust Indenture Act, intentional interference with contractual relations, and

breaches of the duty of good faith and fair dealing. The trustee's claims are based on the B-7 Refinancing and the Senior Unsecured Notes Transaction, and it argues that the release of the guarantee is not enforceable because the other Disputed Transactions were "an improper and unlawful restructuring."

ANSWER: The Unsecured Notes Defendants neither admit nor deny the allegations contained in paragraph 18 of the Complaint because the pleadings in the BOKF Action are writings that speak for themselves. To the extent that the allegations contained in paragraph 18 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied.

19. The MeehanCombs and Danner Actions: In two other lawsuits, captioned *Meehancombs Global Credit Opportunities Master Fund, LP v. Caesars Entertainment Corp.* and *Caesars Entertainment Operating Co., Inc.*, Case No. 14 cv 07091-SAS, and *Danner v. Caesars Entertainment Corp. and Caesars Entertainment Operating Co., Inc.*, Case No. 14 cv 07093-SAS, certain beneficial holders of the Senior Unsecured Notes bring claims against CEOC and CEC. Those lawsuits are pending in the United States District Court for the Southern District of New York. Both lawsuits bring claims for alleged violations of the Trust Indenture Act, breaches of contract, and breaches of the duty of good faith and fair dealing, all based on the Senior Unsecured Notes Transaction.

ANSWER: The Unsecured Notes Defendants neither admit nor deny the allegations contained in paragraph 19 of the Complaint because the pleadings in the SDNY Litigation and the Danner Action are writings that speak for themselves. To the extent that the allegations contained in paragraph 19 of the Complaint differ from, are inconsistent with, or improperly characterize the allegations made or the relief sought in such pleadings, those allegations are denied.

III. CEC'S CONTRIBUTION TO THE ESTATE

20. Since mid-2014, CEOC and its debtor affiliates have been engaged in extensive, arm's-length negotiations with certain creditors and CEC to attempt to achieve a framework for a consensual restructuring. On December 19, 2014, the Debtors, their Caesars affiliates, and certain creditors agreed on a comprehensive restructuring that would substantially reduce the Debtors' debt, reorganize their business into a REIT structure to maximize value and creditor recoveries, and secure significant financial and other support from the Debtors' non-debtor affiliates that is critical to a successful restructuring. This compromise, which is set forth in a

Restructuring Support Agreement (“RSA”), has the support of more than 80% of the Debtors’ approximately \$6.3 billion first lien noteholder class and provides a par recovery to the \$5.3 billion in first lien bank claims. See RSA, (Dkt. No. 4-1).

ANSWER: The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 20 of the Complaint, and on that basis the allegations in paragraph 20 of the Complaint are denied.

21. Pursuant to the RSA, CEC has agreed to make contributions to the Debtors with a value of at least \$1.5 billion to resolve claims related to the Disputed Transactions detailed above. The contributions from CEC, whether pursuant to the current RSA or any alternative plan for the Debtors, are critical to the Debtors’ restructuring efforts and necessary to enhance recoveries for all stakeholders. The claims and allegations made in the Actions are key to the Debtors’ ability to secure meaningful contributions for the benefit of all its stakeholders.

ANSWER: The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 21 of the Complaint, and on that basis the allegations in paragraph 21 of the Complaint are denied.

22. The Actions threaten CEC’s ability to make this contribution to the estate—or any substantial contribution at all. If the plaintiffs were successful in reinstating CEC’s guarantee of the \$5.24 billion in Second Lien Notes and \$530 million in Senior Unsecured Notes outstanding as of the petition date, CEC will likely not have the funds to make the contribution contemplated by the RSA—or, indeed, any substantial contributions to the estate. As CEC’s pro forma balance sheet (deconsolidating CEOC) as of September 30, 2014 makes clear, CEC has only \$2.089 billion in total current assets and \$3.566 billion in total stockholders’ equity, and as of year-end 2014, its losses from operations totaled \$823 million.

ANSWER: The Unsecured Notes Defendants deny that the SDNY Litigation threatens CEC’s ability to make a contribution to the estate. The Unsecured Notes Defendants further deny that if the Unsecured Notes Defendants are successful in reinstating CEC’s guarantee of the Senior Unsecured Notes outstanding as of the petition date, CEC will likely not have the funds to make the contribution contemplated by the RSA—or, indeed, any substantial contributions to the estate. The Unsecured Notes Defendants lack knowledge or information sufficient to form a

belief as to the truth of the remaining allegations contained in paragraph 22 of the Complaint, and on that basis the remaining allegations in paragraph 22 of the Complaint are denied.

IV. THE SHARED INSURANCE POLICY

23. CEOC and CEC share a common Management Liability Insurance Policy (the "Policy"). The primary policy has a limit of liability of \$15,000,000. It also has a retention of \$1,250,000 which has been exhausted. The Policy provides coverage for claims made against directors, executives and employees of CEOC and CEC, as well as for certain claims made against CEOC and CEC. AIG, the claims administrator for the Policy, has accepted coverage and consented to defense counsel for the Actions. Debtor CEOC and non-debtor CEC are both entitled to use the proceeds to satisfy defense costs, settlements, and judgments for claims covered by the Policy. The shared insurance proceeds are paid on a first-billed, first-paid basis after the retention is exhausted. Thus payments on behalf of the Non-Debtor Affiliates will deplete the proceeds available to CEOC.

ANSWER: The Unsecured Notes Defendants deny that the Policy provides for coverage for the claims asserted by the Unsecured Notes Defendants in the SDNY Litigation. The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations contained in paragraph 23 of the Complaint, and on that basis the remaining allegations in paragraph 23 of the Complaint are denied.

V. THE DEBTORS' INDEMNIFICATION OBLIGATIONS

24. Debtor CEOC has indemnification obligations to certain Non-Debtor Affiliates based on its bylaws. CEOC's bylaws provide for the broad indemnification of its current and former directors, officers, and employees. These obligations cover defense and settlement costs associated with claims arising out of an act or omission committed in good faith while acting as an officer, director, or employee.

ANSWER: The Unsecured Notes Defendants deny that CEOC has any indemnification obligations in connection with the claims asserted by the Unsecured Notes Defendants in the SDNY Litigation. The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations contained in paragraph 24 of the Complaint, and on that basis the remaining allegations in paragraph 24 of the Complaint are denied.

VI. THE CONTINUATION OF THE ACTIONS WILL BE DETRIMENTAL TO THE DEBTORS' ESTATE

25. If the Actions continue, and are not stayed or enjoined, the Debtors' estate will be harmed and their reorganization efforts will be jeopardized.

ANSWER: The allegations in paragraph 25 of the Complaint are denied.

26. *First*, the Actions seek to litigate claims that are themselves property of the estate. The Actions bring multiple claims in the name of CEOC, including claims for fraudulent transfer, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, and corporate waste. These claims all arise out of harm done to the estate via the Disputed Transactions, and any recovery obtained from them would be for the benefit of all creditors—not just the individual plaintiff bringing the suit. These claims, therefore, are property of the estate for the estate itself to prosecute. The Actions also bring claims asserting that CEC is obligated under parent guarantees of second lien and unsecured notes issued by CEOC—and those claims are based on the Disputed Transactions, against the same defendants, pursuing the same pool of money.

ANSWER: The allegations in paragraph 26 of the Complaint are denied.

27. *Second*, the Actions threaten the Debtors' reorganization altogether. A substantial source of recovery by the Debtors' stakeholders will be any contribution to the Debtors' estate from CEC—whether pursuant to the existing RSA which calls for CEC to provide contributions with a value of at least \$1.5 billion, pursuant to a different settlement agreement, or pursuant to a litigated resolution. That contribution will be made to resolve claims related to the Disputed Transactions, including claims related to CEC's guarantee of debt issued by CEOC. The Actions, however, seek to reinstate CEC's parent guarantee of CEOC's second lien and senior unsecured notes, totaling approximately \$5.2 billion and \$530 million, respectively, on the petition date—and if those Actions were successful, CEC likely would be unable to make a substantial contribution to the Debtors' estate. As of September 30, 2014, CEC (exclusive of its interest in CEOC) had total current assets of approximately \$2.1 billion, and its current market capitalization is approximately \$1.4 billion. Thus, unless stayed, the Actions pose a substantial threat to the Debtors' restructuring efforts.

ANSWER: The allegations in paragraph 27 of the Complaint are denied.

28. *Third*, if the Actions continue, an asset of the Debtors' estate—namely the shared insurance policy and proceeds that CEOC shares with CEC—will be depleted. Because the insurance proceeds are paid on a first-billed, first-paid basis, allowing the Actions to continue against the Non-Debtor Affiliates will reduce the proceeds available to the Debtors.

ANSWER: The allegations in paragraph 28 of the Complaint are denied.

29. *Fourth*, the Actions will create indemnification obligations for the Debtors. Pursuant to its bylaws, CEOC is obligated to indemnify its current and former directors, officers

or employees for losses, including defense and settlement costs. The Actions bring such claims against CEOC's directors, including claims for breach of fiduciary duty and waste of corporate assets. Those directors therefore will have direct claims against the Debtors' estate for their defense costs and any settlement or judgment.

ANSWER: The allegations in paragraph 29 of the Complaint are denied.

30. *Finally*, if the Actions continue against the Non-Debtor Affiliates, the Debtors will face burdensome discovery and the individuals critical to any restructuring will be distracted from their bankruptcy-related obligations to deal with the Actions. Indeed, plaintiffs in several Actions have already served voluminous discovery requests and made clear that the Debtors and their executives will be subject to that burdensome discovery. CEOC's directors and executives have the overriding responsibility to shepherd the Debtors through their restructuring, and they will necessarily be distracted from this responsibility if they are obligated to devote time responding to discovery demands.

ANSWER: The allegations in paragraph 30 of the Complaint are denied.

FIRST CLAIM FOR RELIEF

(Section 362 Declaratory Judgment)

31. The Debtors repeat and reallege the allegations contained in paragraphs 1-30 of this Complaint as if fully set forth herein.

ANSWER: The Unsecured Notes Defendants repeat and restate each and every answer set forth in paragraphs 1 – 30 as if set forth fully at length herein.

32. The Debtors seek an order staying the continuation of the Actions until the effective date of a restructuring plan in these chapter 11 cases, pursuant to sections 362(a)(1) and 362 (a)(3) of the Bankruptcy Code.

ANSWER: The Unsecured Notes Defendants admit that the Debtors are seeking an order staying the continuation of the Parent Lawsuits until the effective date of a restructuring plan in these chapter 11 cases, pursuant to sections 362(a)(1) and 362 (a)(3) of the Bankruptcy Code. The Unsecured Notes Defendants deny that the Debtors are entitled to any order staying the continuation of the SDNY Litigation until the effective date of a restructuring plan in these chapter 11 cases.

33. Extension of the stay is warranted because continuation of the Actions against the Non-Debtor Affiliates would permit those plaintiffs to pursue claims that are themselves property of the Debtors' estate.

ANSWER: The allegations in paragraph 33 of the Complaint are denied.

34. Extension of the stay is also warranted because continuation of the Actions against the Non-Debtor Affiliates risks jeopardizing the Debtors' restructuring efforts and any contributions that CEC may provide to the Debtors' estate.

ANSWER: The allegations in paragraph 34 of the Complaint are denied.

35. Extension of the stay is additionally warranted because continuation of the Actions against the Non-Debtor Affiliates could deplete the shared insurance coverage that is an asset of the Debtors' estate.

ANSWER: The allegations in paragraph 35 of the Complaint are denied.

36. Extension of the stay is likewise warranted because continuation of the Actions against the Non-Debtor Affiliates would expose the Debtors to indemnification claims by the Non-Debtor Affiliates, further jeopardizing property of the Debtors' estate.

ANSWER: The allegations in paragraph 36 of the Complaint are denied.

37. Extension of the stay is further warranted because continuation of the Actions against the Non-Debtor Affiliates would expose the Debtors, and individuals key to their restructuring efforts, to burdensome discovery obligations that would distract the individuals from their primary responsibility of shepherding the Debtors' through this reorganization.

ANSWER: The allegations in paragraph 37 of the Complaint are denied.

38. If the Actions are allowed to continue, the Debtors' prospects for confirming their restructuring plan will be impaired, thwarting the Congressional purpose of providing the Debtors with a breathing spell from litigation pressures in their efforts to confirm a plan of reorganization. Accordingly, the automatic stay should extend to the Non-Debtor Affiliates in the Actions.

ANSWER: The allegations in paragraph 38 of the Complaint are denied.

39. Based on the foregoing, the Debtors seek a declaratory judgment extending the stay under sections 362(a)(1) and 362(a)(3) of the Bankruptcy Code to the continuation of the Actions against the Non-Debtor Affiliates.

ANSWER: The allegations in paragraph 39 of the Complaint constitute legal conclusions to which no response is required. To the extent an answer is deemed required, the Unsecured Notes Defendants deny the allegations contained therein.

SECOND CLAIM FOR RELIEF

(Section 105 Injunctive Relief)

40. The Debtors repeat and reallege the allegations contained in paragraphs 1-39 of this Complaint as if fully set forth herein.

ANSWER: The Unsecured Notes Defendants repeat and restate each and every answer set forth in paragraphs 1 – 39 as if set forth fully at length herein.

41. The Debtors seek an injunction enjoining the continued prosecution of the Actions against the Non-Debtor Affiliates under section 105(a) of the Bankruptcy Code until the effective date of a restructuring plan or further order of this Court.

ANSWER: The Unsecured Notes Defendants admit that the Debtors are seeking an injunction enjoining the continued prosecution of the Parent Lawsuits against the Non-Debtor Affiliates under section 105(a) of the Bankruptcy Code. The Unsecured Notes Defendants deny that the Debtors are entitled to any injunction enjoining the continued prosecution of the SDNY Litigation.

42. Section 105(a) of the Bankruptcy Code authorizes the Court to issue “any order, process or judgment that is necessary or appropriate to carry out the provisions of this title.” 11 U.S.C. § 105(a).

ANSWER: The allegations in paragraph 42 of the Complaint constitute legal conclusions to which no response is required. To the extent an answer is deemed required, the Unsecured Notes Defendants deny the allegations contained therein.

43. Relief under section 105 of the Bankruptcy Code is particularly appropriate in a chapter 11 case when necessary to protect a debtor’s ability to effectively confirm a restructuring plan and to preserve the property of the debtor’s estates.

ANSWER: The allegations in paragraph 43 of the Complaint constitute legal conclusions to which no response is required. To the extent an answer is deemed required, the Unsecured Notes Defendants deny the allegations contained therein.

44. For the reasons stated herein, this Court should apply section 105 of the Bankruptcy Code to enjoin the continuation of the Actions against the Non-Debtor Affiliates because the continuation of those cases against the Non-Debtor Affiliates will frustrate and jeopardize the Debtors' efforts to successfully restructure and will interfere with the property of Debtors' chapter 11 estate.

ANSWER: The allegations in paragraph 44 of the Complaint are denied.

45. The likelihood of irreparable harm to the Debtors in the absence of injunctive relief far outweighs any harm to the parties in the Actions. The plaintiffs in the Actions will suffer little if any harm if the Actions are enjoined until the effective date of the Debtors' restructuring plan.

ANSWER: The allegations in paragraph 45 of the Complaint are denied.

46. If the Actions against the Non-Debtor Affiliates are not enjoined, the Debtors will likely suffer harm and their restructuring efforts will be threatened, including:

- (i) The risk that claims which are property of the estate are adjudicated outside the bankruptcy court for the benefit of particular creditors rather than the estate as a whole;
- (ii) The risk that CEC is unable to fund any substantial contribution to the Debtors' estate;
- (iii) The risk that continuation of the Actions will result in a depletion of insurance policies and proceeds that are an asset of the Debtors' estate;
- (iv) The risk that the Debtors will face indemnification claims from the Non-Debtor Affiliates; and
- (v) The risk that the Debtors and their executives will face burdensome discovery that will distract the Debtors' management and employees and will frustrate the Debtors' efforts to restructure.

ANSWER: The allegations in paragraph 46 of the Complaint are denied.

47. The injunctive relief sought by the Debtors is necessary and proper in order to allow the Debtors to restructure, and to provide them with an unobstructed opportunity to get their plan confirmed.

ANSWER: The allegations in paragraph 47 of the Complaint are denied.

48. There is substantial likelihood that the Debtors will be able to restructure successfully if the Actions against the Non-Debtor Affiliates are enjoined. The Debtors, CEC and a substantial amount of First Lien Creditors have reached agreement on the terms of a comprehensive restructuring that is set forth in the RSA. The Debtors and their First Lien Creditors have reached an agreement on the consensual use of cash collateral over the course of these bankruptcy cases.

ANSWER: The allegations in the first sentence of paragraph 48 of the Complaint are denied. The Unsecured Notes Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations contained in paragraph 48 of the Complaint, and on that basis the allegations in paragraph 48 of the Complaint are denied.

49. The injunctive relief requested herein will serve the public interest by promoting compliance with the Congressional purpose of the automatic stay and furthering the Debtors' efforts to restructure successfully.

ANSWER: The allegations in paragraph 49 of the Complaint are denied.

50. Based on the foregoing, the Debtors seek an injunction under section 105 of the Bankruptcy Code to enjoin the continuation of the Actions against the Non-Debtor Affiliates until the effective date of a restructuring plan or further order of this Court.

ANSWER: The allegations in paragraph 50 of the Complaint constitute legal conclusions to which no response is required. To the extent an answer is deemed required, the Unsecured Notes Defendants deny the allegations contained therein.

SEPARATE AFFIRMATIVE DEFENSES

Without admitting any of the allegations in the Complaint, the Unsecured Notes Defendants assert the following affirmative defenses and expressly reserve their rights to supplement these separate affirmative defenses:

FIRST AFFIRMATIVE DEFENSE

This Court lacks subject matter jurisdiction over the Complaint.

SECOND AFFIRMATIVE DEFENSE

This Court does not have the constitutional authority to grant the relief sought in the Complaint.

THIRD AFFIRMATIVE DEFENSE

This Court does not have the statutory authority to grant the relief sought in the Complaint.

FOURTH AFFIRMATIVE DEFENSE

This is a non-core proceeding pursuant to 28 U.S.C. §157(c)(1).

FIFTH AFFIRMATIVE DEFENSE

The Unsecured Notes Defendants do not consent to the entry of final orders or judgment by this Court if it is determined that this Court, absent consent of the parties, cannot enter final orders or judgment consistent with Article III of the United States Constitution.

SIXTH AFFIRMATIVE DEFENSE

Service of process on the Unsecured Notes Defendants was insufficient.

SEVENTH AFFIRMATIVE DEFENSE

Plaintiff has failed to state a claim upon which relief can be granted.

EIGHTH AFFIRMATIVE DEFENSE

The claims asserted by the Unsecured Notes Defendants in the SDNY Litigation are not property of the Debtors' bankruptcy estates.

NINTH AFFIRMATIVE DEFENSE

The continued prosecution of the SDNY Litigation will not defeat or impair this Court's jurisdiction over the Debtors' bankruptcy.

TENTH AFFIRMATIVE DEFENSE

There is no likelihood of a successful reorganization.

ELEVENTH AFFIRMATIVE DEFENSE

The issuance of any injunction staying the SDNY Litigation or in any way enjoining the parties to the SDNY Litigation will harm the public interest.

TWELFTH AFFIRMATIVE DEFENSE

The automatic stay under Section 362(a) of the Bankruptcy Code does not apply to the claims asserted against non-debtor CEC in the SDNY Litigation.

THIRTEENTH AFFIRMATIVE DEFENSE

The Unsecured Notes Defendants reserve the right to amend the Answer to the Complaint and assert additional Affirmative Defenses based on information and documents received during discovery.

DEMAND FOR JURY TRIAL

Pursuant to Rule 9015 of the Federal Rules of Bankruptcy Procedure, the Unsecured Notes Defendants hereby demand a jury trial on all issues so triable.

WHEREFORE, Defendants MeehanCombs Global Credit Opportunities Master Fund, LP, Relative Value-Long/Short Debt Portfolio, a Series of Underlying Funds Trust, SB 4 CF LLC, CFIP Ultra Master Fund, Ltd. and Trilogy Portfolio Company, LLC respectfully request judgment in their favor, dismissing the Complaint with prejudice and granting such other and further relief deemed appropriate, including without limitation the award of attorneys' fees and costs associated with the defense against the Complaint.

Dated: April 10, 2015

MeehanCombs Global Credit Opportunities
Master Fund, LP, Relative Value-Long/Short
Debt Portfolio, a Series of Underlying Funds
Trust, SB 4 CF LLC, CFIP Ultra Master Fund,
Ltd. and Trilogy Portfolio Company, LLC

/s/ Timothy R. Casey

One of Their Attorneys

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