



State of New Jersey

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September 2, 2014

Matthew B. Levinson, Chairman and CEO
Casino Control Commission
Arcade Building
Tennessee Avenue and the Boardwalk
Atlantic City, New Jersey 08401

Re: Letter in Lieu of Petition of Caesars Entertainment Operating Company, Inc., Caesars Entertainment Resort Properties, LLC, and Caesars Growth Partners, LLC for a Finding by the Casino Control Commission of Plenary Qualification for Caesars Enterprise Services, LLC (PRN 2031401)

Dear Chairman Levinson:

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) seek a ruling from the Casino Control Commission (Commission) finding Caesars Enterprise Services, LLC (CES) plenary qualified as an entity qualifier of certain Atlantic City casino licensees to wit: Showboat Atlantic City Operating Company, LLC (Showboat); Bally's Park Place, Inc. (Bally's); Boardwalk Regency Corporation (BRC); Harrah's Atlantic City Operating Company, LLC (Harrah's); and Caesars Interactive Entertainment New Jersey, LLC (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 of Gaming Enforcement (Division) has conducted the requisite investigation of CES, and it submits this report to the Commission.



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Based upon CES' position in the corporate structure and the functions that it is to perform, the Director has determined that CES should be designated as an entity qualifier pursuant to N.J.S.A. 5:12-85.1 based upon its relationship with CEOC, CERP and CGP and their relative positions in the corporate structure. CES will perform various property services, and the Total Rewards program will be transferred to it as an asset for continued operation. As described in the Business Entity Disclosure (BED) Form, the purpose of CES is threefold: (1) to manage certain assets owned, licensed or controlled by its Members (as defined below) to benefit the Members and affiliates of Caesars Entertainment Corporation (CEC), including Showboat, Bally's, BRC, Harrah's, and CIENJ, to achieve preservation of brand value and maximize economies of scale; (2) to provide services to CEC affiliates under property management agreements; and (3) to engage in any other lawful business activities permitted under law that is related or incidental to and necessary, convenient or advisable for those purposes addressed in (1) and (2). Among the services to be provided pursuant to (2) above are the services of such employees of CES as may perform tasks and duties previously performed by employees of CEOC for the benefit of other CEC affiliates. The BED details that pursuant to the Omnibus Agreement, as described herein, CEOC and specific other CEC affiliates, including CERP and an entity related to CGP, will grant CES a non-exclusive, world-wide royalty-free license in and to all intellectual property owned or used by CEOC and such other CEC affiliates, including, among other things, any and all intellectual property related to the Total Rewards program.

CES is a Delaware limited liability company, formed on April 4, 2014. CES' Amended and Restated Limited Liability Company Agreement (OA) dated May 20, 2014 provides for three Members which are CEOC holding a 69% interest, CERP holding a 20.2% interest and CGP holding a 10.8% interest. The OA also details that the management, operation and power of CES shall be vested exclusively in a Steering Committee (SC), which has the power by itself, and is authorized and empowered on behalf and in the name of CES, to carry out any and all objects and purposes of CES and to perform all acts and enter into and perform all contracts that it may, in its discretion, deem necessary or advisable in accordance with and subject to the OA. The OA sets forth that the initial SC will be composed of individuals or members appointed by CEOC, CERP and CGP. They are identified as John Payne - CEOC; Eric Hession - CERP; and Mitchell Garber - CGP. CES has no officers. CES filed a BED Form with the Division.

The amended petition requests that CGP be substituted as a petitioner replacing its indirect wholly owned subsidiary, Caesars Growth Properties Holdings, LLC (Holdings) as a joint petitioner along with CEOC and CERP. The amended petition also describes that CGP is the 100% owner of Holdings through its subsidiary, Caesars Growth Properties Parent, LLC (Parent) and that CGP is a qualified holding company of casino licensee CIENJ. Thus, there are two intermediary companies, i.e., Holdings and Parent, which exist between CGP and CES. In that the Director has designated CES an entity qualifier, CGP can be substituted as an appropriate petitioner. As a result of the corporate structure and as a requirement to the qualification of CES, both Holdings and Parent, however, will need

to be qualified as well. The officers of Parent and Holdings are Mitchell Garber, President and Chief Executive Officer; Craig Abrahams, Chief Financial Officer; and Michael Cohen, Secretary, all of whom have been previously qualified. Holdings and Parent were both formed as Delaware limited liability companies on or about February 21, 2014.

CES will manage the Enterprise Assets (as defined below) and the other assets it owns, licenses or controls and will employ the corresponding employees and other employees who provide services to its Members (CEOC, CERP and CGP), their affiliates and their respective properties and systems to achieve preservation of brand value, maximize economies of scale and provide services to such properties under each property's corresponding property management agreement. An Omnibus License and Enterprise Services Agreement, dated as of May 20, 2014, by and among CES, CEOC, CERP, and Holdings (Omnibus Agreement) granted licenses to the Enterprise Assets in connection with the formation of CES and initial contributions by the other Members include cash contributions by CERP and Holdings of \$42.5 million and \$22.5 million, respectively. Under the Omnibus Agreement, CEOC, Caesars License Company, LLC, Caesars World, Inc. and subsidiaries of CEOC that are the owners of the CEOC properties grant CES a non-exclusive, irrevocable, world-wide, royalty-free license in and to all intellectual property owned or used by such licensors, including all intellectual property: (1) currently used, or contemplated to be used, in connection with the properties owned by CEOC, CERP, Holdings and their respective affiliates, including any and all intellectual property related to the Total Rewards program, and (2) necessary for the provision of services contemplated by the Omnibus Agreement and by the applicable management agreement for any such property (collectively, the Enterprise Assets).

CES will use cash contributions for capital expenditures relating to the maintenance, operation and upkeep of the Enterprise Assets, as well as the acquisition of any additional assets or services in connection with the provision of the implementation of the Omnibus Agreement. Each Member and CEC will reimburse CES for its share of any allocated expenses attributable to such Member consistent with existing arrangements. Property-level expenses initially allocable to specific properties will continue to be allocated to such properties. Corporate costs that have historically been initially unallocated will be allocated to CEOC, CERP and Holdings with regard to their respective properties serviced by CES according to their allocation percentages. Baseline capital expenditures per year will initially be up to \$100,000,000, to be allocated to each Member with respect to their respective properties serviced by CES.

Following the receipt of any management fees by CES in connection with the provision of services under any applicable property management agreement that would otherwise be payable to a Property Manager, CES will distribute 100% of such management fees to CEOC or the applicable Property Manager. CEOC will have a consent right over CES' or any Member's acquisition of any new property or development of a new property that would involve the use of an Enterprise Asset. Upon any sale, lease

or other monetization of the customer lists and/or associated data contained within the Total Rewards program outside of the ordinary course of business or a liquidation or dissolution of CES (a Liquidation), all remaining working capital, if any, up to the amount of their respective initial contributions will be returned to each of CERP and Holdings as a dollar-for-dollar priority distribution (without preferred return) before any distributions to all Members based on their ownership interests with any remaining amount pro rata among its Members in accordance with their ownership percentage. Furthermore, upon a Liquidation by mutual written agreement of all Members, the Omnibus Agreement will terminate and the underlying licensors and ultimate licensees will enter into new direct licenses that provide essentially the same rights as existed pursuant to the Omnibus Agreement immediately prior to such Liquidation. To the extent CES owns any intellectual property upon such Liquidation, the Members will mutually agree upon the ownership of such intellectual property.

The OA provides in section 7.7 entitled Voting, that notwithstanding the then-applicable Company Percentage Interests, each Member, and each SC member, shall be entitled to one vote on any matter for which the vote of the Members or the SC, respectively, is sought or obtained. Matters generally can be acted upon by the SC by written consent or vote of a majority of the members of the SC present at a meeting at which a quorum is present. Certain actions, however, require the unanimous written consent or vote of all members of the SC, such as: (1) extraordinary capital expenditures, (2) any Liquidation, (3) any merger, consolidation or sale of all or substantially all of the assets of the CES, (4) any pledge of the assets, (5) any material amendment to the agreements, (6) any admission of Additional Members, (7) any issuance of equity or incurrence of material indebtedness, and (8) any bankruptcy filing or general assignment for the benefit of creditors.

CES is recently formed and has not yet filed any tax returns. CES has a principal business address at One Caesars Palace Drive, Las Vegas, Nevada. It recently filed with the New Jersey Department of the Treasury, Division of Revenue a Registration of Foreign Limited Liability Company, which authorizes it to conduct business in New Jersey. A similar Registration also has been filed on behalf of CGP. At the request of the Division, CES has advised that Holdings and Parent will provide such registrations prior to the Commission's determination of this matter.

The OA governing CES, at paragraph 13.14 entitled Required New Jersey Charter Provisions, sets forth that it is deemed to include all provisions required by the New Jersey Casino Control Act (Act), N.J.S.A. 5:12-1 et seq., and to the extent that anything contained in the OA is inconsistent with the Act, the provisions of the Act shall govern. All provisions of the Act, to the extent required by law to be stated in the OA, are incorporated by reference. In accordance with Section 82d(7) of the Act, the securities of CES are held subject to the condition that, if a holder thereof is found to be disqualified by the Commission pursuant to the Act, the holder must dispose of such securities. At the

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request of the Division, CES has advised that Holdings and Parent will provide such provisions satisfying the requirements of *N.J.S.A. 5:12-82d(7)* prior to the Commission's determination of this matter.

On August 4, 2014, Wilmington Savings Fund Society, FSB, solely in its capacity as successor indenture trustee for the Notes, on behalf of itself and, it alleges, derivatively on behalf of CEOC, filed a lawsuit (the Second Lien Lawsuit) in the Court of Chancery in the State of Delaware against CEC and CEOC, CGP, Caesars Acquisition Company (CAC), 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. The lawsuit seeks: (1) an award of money damages; (2) voiding of certain transfers, the earliest of which dates back to 2010; (3) an injunction directing the recipients of the assets in these transactions to return them to CEOC; (4) a declaration that CEC remains liable under the parent guarantee formerly applicable to the certain notes; (5) imposition of a constructive trust or equitable lien on the transferred assets; and (6) an award to plaintiffs for their attorneys' fees and costs. As alleged in the complaint, CGP insisted upon the creation of CES for the unlawful purpose of removing CEOC's most valuable asset – Total Rewards – from the reach of CEOC's creditors in the event of bankruptcy. The complaint also states that CEOC is (1) transferring four of its most valuable properties to CGP, (2) gifting control of its most valuable asset to CES, and (3) being stripped of half of the value of its best property management contracts. As a result, CGP and CERP will now effectively own most of the "hub" of the Caesars enterprise, leaving behind with CEOC the "spokes" that are located in deteriorating and less profitable (or unprofitable) markets and that exist largely to feed profitable business to CERP and CGP's destination properties.

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.

In that the foregoing cases are the subject of ongoing civil litigation, the Division will monitor developments in those suits. The Division will provide updated information as to the status of the cases in connection with the resubmissions of the Atlantic City casino licensees, and it will report significant events related to the suits as warranted.

On May 20, 2014, CEC, CEOC, CERP, and CGP entered into the CES services joint venture and a related joint-service agreement. As a result, CES is expected to manage certain Enterprise Assets from other Caesars entities and other assets it is expected to own, license or control. Under the agreement, CES is expected to utilize employees who currently provide services to other Caesars' entities (*i.e.* CEOC, CERP and CGP). Corporate expenses that are not allocated to properties will be allocated to CEOC, CERP, and CGP by CES (initially 70.0%, 24.6%, and 5.4%, respectively). Meanwhile, operating expenses will be allocated to each participant with regard to their respective properties serviced by CES in accordance with historical allocation methods.

Based on forecasts submitted to the Division on July 29, 2014, CES is not expected to report revenue and EBITDA,¹ as any costs are paid by the entities receiving the services (*i.e.*, CES will operate on a breakeven basis). Similarly, capital expenditures (\$25 million for 2014 and \$100 million for each of 2015 and 2016, respectively) are expected to be funded by the entities and zero-out on a cash basis. According to the forecasts, CES is expected to receive an initial cash contribution in 2014 of \$65 million. This initial contribution includes cash contributions by CERP and CGP of \$42.5 million and \$22.5 million, respectively, as set forth above. Further, reflective of the pass-through nature of CES, the forecasts indicate that CES is expected to maintain a cash balance of \$65 million at year-end 2014, 2015 and 2016.

The Division anticipates filing its resubmission report pertaining to Showboat, Bally's, BRC, and Harrah's and their holding and intermediary companies in the Fall of 2014. The said report will include a thorough analysis of the financial stability and integrity of the various companies.

Based upon the Division's investigation, the results of which are reported herein, the Division does not interpose an objection to a determination that CES, as well as Holdings and Parent, are qualified as entity qualifiers of Showboat, Bally's, BRC, Harrah's and CIENJ.

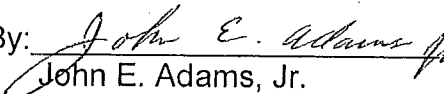
¹EBITDA is earnings before interest, tax, depreciation and amortization and is a measure of the company's performance.

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Thank you for your consideration of this matter.

Respectfully submitted,

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DIRECTOR

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