

COMMONWEALTH OF PENNSYLVANIA

GAMING CONTROL BOARD

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HEARING

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BEFORE: DAVID BARASCH, CHAIR  
Dante Santoni, Jr., William H. Ryan, Jr.,  
Anthony C. Moscato, Richard G. Jewell, Sean  
Logan, Members, Fred Strathmeyer,  
representing Russell Redding, Secretary of  
Agriculture; Jennifer Langan, representing  
Joseph Torsella, State Treasurer; Robert P.  
Coyne, representing Daniel Hassell, Acting  
Secretary of Revenue

HEARING: Wednesday, June 7, 2017  
10:01 a.m.

LOCATION: PA Gaming Bureau of Appeals  
303 Walnut Street  
Strawberry Square Complex  
Harrisburg, PA 17101

Reporter: Rhonda K. Thorpe

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## A P P E A R A N C E S

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By Chairman

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## P R O C E E D I N G S

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CHAIRMAN: Today we have a hearing

pertaining to Chester Downs and Marina, LLC and

Harrah's Chester Downs Management Corporation. It's a

Joint Petition for approval of a change of ownership

and certain affiliates and certain other relief.

Essentially what has triggered the need for this

Petition is the reorganization of Caesars - of the

Caesar organization following the filing of a

bankruptcy action two years ago.

While Harrah's Philadelphia and the

real estate upon which it sits are not part of this

bankruptcy, since two upstream companies with an

interest in our property are involved, we will see

some changes in this proceeding as needed.

So, with - so, with that by way of

background, Harrah's, let me start with introductions.

Please state and spell your name, anybody who is going

to be speaking today, for the court reporter. And I

would also ask when we finish that for all the

non-attorney witnesses to please stand and be sworn.

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TIM DONOVAN,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND

1 HAVING FIRST BEEN DULY SWORN, TESTIFIED AND SAID AS  
2 FOLLOWS:

3 ---

4 CHAIRMAN: Could each of you identify  
5 yourselves for the court reporter, please?

6 ATTORNEY DOWNEY: Thank you, Mr.  
7 Chairman.

8 Bill Downey with Fox Rothschild on  
9 behalf of Chester Downs and Marina, LLC, and Harrah's  
10 Chester Downs Management Company, LLC. To my left is  
11 Tim Donovan, Executive Vice President and General  
12 Counsel and Chief Regional and Compliance Officer for  
13 Caesars Entertainment. To Tim's left is Chris  
14 Albrecht. Chris is the GM and Senior Vice President  
15 at the Chester Down - at the Harrah's Philadelphia  
16 property and to Chris's left is Lynne Hughes. Lynn is  
17 a Chief Regional Counsel.

18 CHAIRMAN: Okay. Thank you very much.  
19 You may begin.

20 ATTORNEY DOWNEY: Thank you, Mr.  
21 Chairman.

22 Mr. Chairman, we're going to start  
23 today's proceedings with a pretty brief PowerPoint  
24 presentation to describe to you how we got here, what  
25 changes you'll see and you referred to them as

1 occurring upstream with upstream affiliates and we'll  
2 close out with any questions. With that, I'm going to  
3 ask Tim Donovan to start our presentation.

4 CHAIRMAN: Thank you very much.

5 MR. DONOVAN: Good morning, Mr.  
6 Chairman, Members, Commissioners and Ex-Officio  
7 designees.

8 It's - I'd like to start out first by  
9 offering condolences on behalf of the entire Caesars'  
10 family on the passing of Ahmeenah Young and offer that  
11 to not only her family but also to this Board. So, I  
12 want to begin and recognize that.

13 The - it's - good morning. It's indeed a  
14 pleasure to be here, which hopefully marks, you know,  
15 the beginning of the end of a saga that's been going  
16 on for more than two and half years. And that saga,  
17 you know, starting with the January 15th of 2015  
18 filing of Caesars and Caesars' wholly owned subsidiary  
19 CEOC and primarily operating subsidiary with Chapter  
20 11 proceeding in the U.S. Bankruptcy Court in Chicago.

21 Just a brief updating on where we are.  
22 On January 17th of this year we did have a plan that  
23 was confirmed by the bank and as I mentioned, that  
24 took just a little over two years. It's been a long  
25 time coming and it was, you know, a hard time getting

1 to that plan confirmation on January 17th. I'll talk  
2 a little bit about the - what the plan involves and  
3 when we - what will happen on emergence, which we  
4 anticipate will happen later this year sometime here  
5 in the third quarter, probably in the latter half of  
6 the third quarter.

7                   So, on the effective date of the plan,  
8 Caesars Entertainment and CEOC will be substantially  
9 de-levered and that's the key take away from the plan.  
10 So, as the slide indicates \$16 billion less debt, so,  
11 a substantial de-leveraging event. \$1.5 billion less  
12 annual interest payments which will be - help  
13 considerably with the financial health of the Caesars  
14 Enterprise and generating as opposed to the last  
15 seven, eight years, a negative cash flow will be  
16 generating \$900 million approximately of annual  
17 positive cash flow from Enterprise perspective.

18                   You know, thus, you know, again,  
19 really three big events happening here. The first  
20 event would be the CEC and CEOC's final conditions  
21 being significantly improved from what it's been for  
22 the past - well, since the leverage buyout back in  
23 2007. Putting humpty dumpty back together again by  
24 merging CAC back and into CEC and then CEOC  
25 transferring its properties to a newly formed real

1 estate investment trust. The stockholders of which,  
2 at least initially, will be the first lien  
3 bondholders.

4                   What does that mean in terms of the  
5 Apollo interests and the Board of Directors? Apollo  
6 and TPG's interests will be significantly deluded as a  
7 result of these transactions and the - there will be  
8 new Boards at the CEC level and then at the CEOC level  
9 which I'll talk about in a few minutes.

10                   And let me add, if there's any  
11 questions along the way, please stop me. I'm trying  
12 to be brief and give a high overview but I'm happy to  
13 answer any questions.

14                   Going to the third slide, just take a  
15 little closer look at what the new debt structure will  
16 look like compared with the prior debt structure. So,  
17 if you read this page from left to right, you can see  
18 beginning on the left hand side the Enterprise level  
19 debt at - on January 28, right after the leverage  
20 buyout, and what it looks like all the way to the  
21 right in terms of the debt at emergence and then on  
22 the far right, the difference between the January  
23 levels and the emergence level.

24                   So, again, \$16 billion less debt on  
25 the Enterprise level at Caesars. \$1.3 billion less

1 annual interest. There's some interest in other  
2 payments that make that number a little bit larger on  
3 an Enterprise level and then approximately \$8 plus,  
4 the difference between this \$8 billion positive cash  
5 flow and the \$900 million that I mentioned previously  
6 is related to some SERP properties and the refinancing  
7 of those SERP properties which are not part of this  
8 bankruptcy emergence.

9                   CEOC will have a new term loan of  
10 approximately \$1.2 million and then of course the  
11 Chester financing of approximately \$330 million or the  
12 Harrah's Philadelphia financing will stay in place.  
13 So, again, the key take away moving to the bottom of  
14 the slide, less debt, less interest, less leverage,  
15 more cash flow. Our cost of capital will be reduced  
16 substantially. We anticipate a reduction in the  
17 interest rate from what we have historically of  
18 roughly 10.4 percent down to about 3.4 to 4.4  
19 reduction. So, bringing the capital structure much  
20 more in line with a market type of capital structure  
21 and approaching a much higher credit rating than we've  
22 had historically generating more operating cash flow.

23                   I think Bill's going to take us  
24 through these?

25                   ATTORNEY DOWNEY: Sure. Thanks, Tim.

1                   Mr. Chairman, members of the Board,  
2 the next five slides get into the weeds a little bit  
3 so I'm going through them pretty quickly. But I think  
4 it's important, we want to demonstrate sort of where  
5 the - where the action is occurring and ultimately the  
6 fact that it doesn't have an impact on us in the  
7 Chester - the Chester facility.

8                   The first step here that Tim mentioned  
9 earlier is a merger of CAC, Caesars Acquisition, back  
10 into Caesars Entertainment Company. Tim refers to  
11 that as putting humpty dumpty back together again.  
12 That merger occurs and starts the sort of trigger for  
13 the rest of the structuring transactions. In exchange  
14 for their shares in Caesars Acquisition, holders will  
15 receive Caesars Entertainment equity.

16                   At that point, CEC is going to  
17 contribute cash, convertible notes - cash and  
18 convertible notes down to CEOC - to CEOC. The net  
19 effect of that transaction is going to be effectively  
20 dilute out of the shareholdings about 11 percent of  
21 the holders of CEOC. It is the non-CEC owned  
22 shareholder that gets taken out by this step.  
23 Remember, the CEC convertible notes. They'll come  
24 back in a moment but effectively what will happen by  
25 virtue of that transaction is that the dilution will

1 take out the non-CEC shareholders.

2                   In these four bullets, I have  
3 consolidated about three and a half inches of slides  
4 that are going to - that are going to describe to you  
5 how the REIT is going to be formed and ultimately  
6 flooded with assets. The short - very short version  
7 of this story is that CEOC will form a REIT that will  
8 sit under CEOC. That REIT will be the landing place  
9 for all of the real estate related to those properties  
10 that are going to participate in the REIT structure.

11                   CEOC and its subsidiaries will  
12 continue to hold the operating assets and the  
13 licenses. Those - the shares of the - of the REIT  
14 will then be conveyed out to the 1L creditors as Tim  
15 has alluded to earlier. The CEOC entities and the  
16 REIT entities will then enter into long term leases to  
17 establish the baseline structure.

18                   So, in addition to receiving the  
19 ownership of the REIT, the creditors will also receive  
20 from CEOC a basket of other assets including cash, CEC  
21 preferred stock and the CEC convertible notes that we  
22 described a couple of slides ago.

23                   Finally, CEOC, which is a Delaware  
24 corporation, will merge into a wholly owned LLC - a  
25 CEC wholly owned LLC in order to convert its structure

1 from a corporation to a limited liability company. In  
2 connection with that process, the holders of CEOC  
3 preferred stock will receive CEC common stock and then  
4 certain holders of CEC common stock in accordance with  
5 the terms of the plan will have the opportunity to  
6 cash out at that point.

7 With that, I'd like to turn it back to  
8 Tim to discuss changes to the Board of Directors.

9 MR. DONOVAN: As I mentioned earlier,  
10 this plan results in a new board structure both CEOC  
11 and CEC. In this page it just reflects at a high  
12 level the compensation that will occur as a result on  
13 those board levels. So, on the effective date, CEC  
14 will have 11 members, 11 Board members. One of them  
15 will be the current CEO of CEC, so, a non-independent  
16 Board member. There will be eight Board members that  
17 will be independent as defined under the NASDAQ rules  
18 and they are appointed by various - of the committees  
19 of the creditors in connection with the bankruptcy.  
20 And then two of the members will be non-independent  
21 and that has - non-independent in a sense not only  
22 from a NASDAQ rule standpoint but also non-independent  
23 from Apollo and TPG. Those two designates, one's  
24 coming from Apollo, the other one's coming from TPG  
25 and they have been identified. The seven of the eight

1 independent members have been identified and of course  
2 the CEO Board position had been identified.

3                   So, we have 9 - 10 of the 11 have  
4 already been identified. They've been disclosed and  
5 their S4 Registration Statement that we have on file  
6 with the SEC for purposes of the merger between CAC  
7 and SEC and nine of the ten are already licensed or  
8 have applications pending in the various jurisdictions  
9 where that is required.

10                   On the effective date, the Board of  
11 Directors of CEOC will consist of three members, one  
12 of whom will be independent as defined again under the  
13 NASDAQ rules. And after the effective date, the Board  
14 of Directors after they're appointed, they become  
15 members of the Board in a forming - a formal  
16 functioning Board on emergence. From that point  
17 forward, whether they remain, Board members will  
18 really be a function of normal corporate governance  
19 and will be elected in accordance with their class  
20 structure going forward by the stockholders of CEOC.

21                   So, just looking finally at the final  
22 structure as it relates to Harrah's Philadelphia, I  
23 think the take away here is nothing really changes at  
24 the property level. It stays where it is in the  
25 current structure. It is not part of the REIT. CEOC

1 will be wholly owned by CEC and CEC and CEOC as I  
2 mentioned will have new Board of Directors.

3                   So, it's a - it's a non-event if I can  
4 say that and without minimalizing it, but it is truly  
5 a non-event and at the Harrah's Philadelphia property  
6 level, no impact whatsoever. And frankly, that's been  
7 true throughout all of our properties in terms of  
8 operations. There really has never been an impact as  
9 a result of the bankruptcy filing, has been an impact  
10 on operations and it's really been seamless.

11                   In fact, even in - even in the context  
12 of, you know, our employees with the exception of  
13 people such as myself and some of the accounting folks  
14 being actively and personally involved and having to  
15 do all this in addition to our day jobs, the people  
16 running the operations have really been, by in large,  
17 unphased by this whole process, which is good news.  
18 And indeed, you know, our operations on Enterprise  
19 level have continued to improve since the filing and  
20 things are looking, you know, looking up for Caesars  
21 as a - at Enterprise level.

22                   Before I, you know - as I mentioned,  
23 this has been a long journey. It's, you know - and  
24 even as you all know beginning before the actual  
25 bankruptcy filing on January 15th of 2015 and it would

1 - I'd be remiss if I didn't take a few moments to  
2 thank the - Cyrus Pitre and his team on the OEC and  
3 Doug Sherman in the Office of Chief Counsel (OCC).  
4 This has been, you know, a - we have worked hand in  
5 glove with the team. They've done a fantastic job,  
6 have been - couldn't have been more cooperative and  
7 did everything, you know, to help us along this  
8 process and we feel like, you know, we were  
9 transparent with them.

10 I will say I think at the conclusion  
11 of this, we've been having a monthly call and if I can  
12 use this term, I think Cyrus and I have a bromance.  
13 We even developed and unfortunately we're not going to  
14 be talking once a month from a - from a - it'll be  
15 good we're not talking because that represents the  
16 fact that we have - we're in - we're in - going to be  
17 good shape. But it's also I'll miss those monthly  
18 calls believe it or not.

19 So, I want to, again, thank Cyrus, his  
20 team and Doug and those folks for being so cooperative  
21 and so helpful to us in getting through this very  
22 arduous time.

23 ATTORNEY DOWNEY: Mr. Chairman, I have  
24 just one final - one final point. As you're aware, in  
25 our Petition and to pick up on Tim's theme, we are -

1 we are of the position that there is virtually no  
2 substantive change at the property level and in  
3 connection with our Licensee. And on that behalf, I  
4 won't - I won't belabor the point, but on that - on  
5 that basis we have requested that we be given some  
6 consideration for relief from what has been the Board  
7 standard in Application of a Change of Control fee.

8 With that, we'll handle any questions.

9 Thank you.

10 CHAIRMAN: Thank you. Enforcement  
11 Counsel?

12 ATTORNEY STUART: Glenn Stewart for  
13 the Office of Enforcement Counsel (OEC), S-T-U-A-R-T.  
14 We have no questions today and no presentation. We  
15 would just like to say there have been monthly phone  
16 calls with Caesars throughout this entire process.  
17 They have kept us informed. They have been completely  
18 cooperative. They are submitting applications as  
19 necessary as requested by staff so we'd like to thank  
20 them for their cooperation in that respect.

21 We have no issues moving forward. We  
22 do not object to the relief requested in the Petition  
23 but we would ask that the Board implement the  
24 conditions that we put in our Answer and have those  
25 effected on the property.

1                    CHAIRMAN: Are there any questions or  
2 comments from the Board? Tony.

3                    MR. MOSCATO: Thank you, Mr. Chairman.  
4 And please feel free to call Cyrus, initiate the call  
5 so the Commonwealth burdened with the long-distance  
6 charge.

7                    MR. DONOVAN: Duly noted.

8                    MR. MOSCATO: Just two quick questions  
9 and one may be a little bit redundant but I'd still  
10 like to ask it.

11                   First question, does the resolution of  
12 this bankruptcy have any effect on agreements that  
13 Harrah's Philadelphia currently has in place with the  
14 community?

15                   MR. DONOVAN: No, it does not.

16                   MR. MOSCATO: And the second question,  
17 which is I think the redundant one because you already  
18 answered it, as a result of the resolution of the  
19 bankruptcy, should the Board expect to see any changes  
20 in the operation of Harrah's Philadelphia?

21                   MR. DONOVAN: You should see none  
22 whatsoever.

23                   MR. MOSCATO: Very good. Thank you  
24 very much.

25                   MR. DONOVAN: Thank you.

1           CHAIRMAN: You don't have a separate  
2 presentation I would assume?

3           ATTORNEY STUART: No, sir. No.

4           CHAIRMAN: Thank you all.

5           ATTORNEY DOWNEY: I'm sorry, Mr.  
6 Chairman, just as a point of order, we'd like to  
7 submit the PowerPoint into evidence. Thank you.

8           CHAIRMAN: That's fine. Thank you.  
9 Thanks for pointing that out. A vote on this Petition  
10 will be scheduled for later today under the OCC  
11 section of the agenda. Thank you all for coming.

12           MR. DONOVAN: Thank you.

13           ATTORNEY DOWNEY: Thank you, Mr.  
14 Chairman.

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16                   HEARING CONCLUDED

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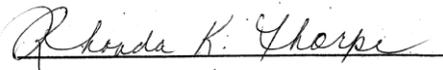
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CERTIFICATE

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I hereby certify that the foregoing proceedings,  
hearing held before Chair Barasch was reported by me  
on 6/7/2017 and that I, Rhonda K. Thorpe, read this  
transcript, and that I attest that this transcript is  
a true and accurate record of the proceeding.

  
**Court Reporter**  
Rhonda K. Thorpe