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Case No. 10393-

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

UMB BANK, solely in its capacity as Indenture Trustee under that certain indenture, dated as of February 14, 2012, governing Caesars Entertainment Operating Company, Inc.'s 8.5% Senior Secured Notes due 2020,	)	
Plaintiff,	)	
v.	)	C.A. No. ____________
CAESARS ENTERTAINMENT CORPORATION, CAESARS ENTERTAINMENT OPERATING COMPANY, INC., CAESARS ENTERTAINMENT RESORT PROPERTIES, LLC, CAESARS ACQUISITION COMPANY, CAESARS GROWTH PARTNERS, LLC, CAESARS ENTERPRISE SERVICES, LLC, GARY LOVEMAN, JEFFREY BENJAMIN, DAVID BONDERMAN, DONALD COLVIN, KELVIN DAVIS, FRED J. KLEISNER, ERIC PRESS, MARC ROWAN, DAVID SAMBUR, LYNN C. SWANN, CHRISTOPHER J. WILLIAMS, JEFFREY HOUSENBOLD, MICHAEL COHEN, ERIC HESSION, RONEN STAUBER, AND STEVEN WINOGRAD,	)	
Defendants,	)	
and	)	
CAESARS ENTERTAINMENT OPERATING COMPANY, INC.,	)	
Nominal Defendant.	)	

<u>VERIFIED COMPLAINT</u>

UMB Bank, in its capacity as Indenture Trustee under that certain indenture, dated as of February 14, 2012, governing Caesars Entertainment Operating Company, Inc.'s 8.5% Senior Secured Notes due 2020 ("Plaintiff"), for and on behalf of itself and (on certain claims) derivatively for the benefit of Nominal Defendant Caesars Entertainment Operating Company, Inc., by its attorneys, for its Complaint against Defendants ("Defendants"), alleges based on the information disclosed by Defendants and information as to which Plaintiff has personal knowledge and otherwise upon information and belief, as follows:

I.
NATURE OF THE ACTION

1. This is a case of unimaginably brazen corporate looting and abuse perpetrated by irreparably conflicted management. As chronicled below, in little more than six months, Defendant owners, fiduciaries, and affiliates of a hopelessly insolvent Delaware corporation, Caesars Entertainment Operating Company, Inc. ("CEOC"), have stripped CEOC of eight of its most valuable hotel, casino, and entertainment properties—including a six-property stronghold in the heart of the Las Vegas Strip—on terms that were patently unreasonable in order to enrich themselves at the expense of CEOC's creditors. Because of these actions, a hollowed out CEOC today retains only a portion of a single property on the Strip, which Defendants have recently threatened to take as well. Defendants also siphoned CEOC's other valuable assets, including its customers and industry

leading "Total Rewards" customer loyalty program, its lucrative online gaming platform, and even its cash. Through this epic and fraudulent scheme of asset stripping, and the purported release—effected through a sham equity investment—of the guarantee of CEOC's debts by its parent, Defendant Caesars Entertainment Corporation ("CEC"), Defendants have thoroughly ransacked CEOC in a sweeping and now transparent plan to take CEOC's prime assets for themselves and leave its liabilities and creditors behind.

2. To date, Defendants have effectuated a series of shameless giveaways and other transactions that have robbed CEOC of more than ***$4 billion*** in value and counting, leaving CEOC's longstanding creditors with no hope of being repaid. Between just October 2013 and May 2014, Defendants caused CEOC to surrender on unconscionable terms—and without any rational business purpose—the following operating assets that were worth, collectively, at least ***$3.6 billion*** more than CEOC received for them:

- Eight prime hotel and casino properties, including CEOC's six-property stronghold in the heart of the lucrative Las Vegas Strip, and its two most attractive regional properties in Baltimore and New Orleans;
- 50% of the management fee stream for these properties—fees that CEOC was forced to give up while it remained responsible for 100% of the management costs;
- Valuable intellectual property including the Total Rewards® customer loyalty program ("Total Rewards"), which historically funneled customers from CEOC's regional properties to its prime Las Vegas properties, but which now funnels business away from CEOC's holdings and to those same

properties that have been transferred by and/or to Defendants for grossly inadequate consideration; and

- CEOC's lucrative online gaming business (Caesars Interactive Entertainment ("CIE")),which continues to benefit from the rapid anticipated growth in online gaming (growth for which CEOC continues to foot the bill for lobbying expenses needed to support legislation to legalize and expand online gaming, despite having transferred all of its online gaming interests to CEC, which retransferred them to Caesars Growth Partners, LLC ("CGP")).

3. Put another way, as Defendants assiduously worked to transfer assets conservatively worth over $7 billion away from CEOC, without any legitimate commercial justification, for far less than reasonably equivalent value, and for the principal purpose of attempting to put those assets beyond the reach of CEOC's creditors, they simultaneously looted nearly 60 cents or more of every dollar in value they took.

4. In addition to the unconscionable forced surrender of these valuable assets, Defendants pirated over ***half a billion dollars*** of additional value including, *inter alia*, by:

- Forcing CEOC to pay down the entirety of the $616 million outstanding under an intercompany "credit arrangement" with CEC where the loan was unsecured, carried a *de minimis* interest rate, and would not mature until November 14, 2017;

- Compelling CEOC to use the proceeds of a new $1.75 billion first lien loan (the "New B7 Term Loan") to purchase from CGP, at more than 100 cents on the dollar, CEOC-issued notes that CGP purchased from CEC less than a year ago at double-digit discounts to par value;

- Effecting the payment of hundreds of millions of dollars in "so-called" management fees to CEC's two private equity owners (the "Sponsors"[1]);

- Causing CEOC to shutter the valuable Showboat casino in Atlantic City, which was producing positive EBITDA (as it has every single year since its founding in 1987) but threatened to compete with other, non-CEOC owned properties controlled by Defendants; and

- Earlier this month requiring CEOC to prepay additional unsecured notes, over a quarter of which are held by CEC or its non-CEOC affiliates, more than three years prior to maturity and at substantial premiums to par.

5. This extraordinary tally of over $4 billion of value does not even include the release of CEC's guarantee of CEOC's debt—a release that itself would be potentially valued at as much as ***$4 billion*** or more—that Defendants purport to have secured through the orchestration of a sham equity investment. These and the other transactions described herein together comprise Defendants' ongoing scheme to loot CEOC's most valuable and promising assets and leave it as an effectively judgment-proof shell unable to make good on its obligations to its creditors.

6. Defendants like to dress up their outright looting as "deleveraging" CEOC's balance sheet—but even a cursory review of Defendants' actions reveals that the forced sale of valuable assets from a hopelessly insolvent CEOC to its affiliates for a fraction of what they are worth destroys CEOC's future. Far from

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[1] The two private equity sponsors are Apollo Global Management, LLC ("Apollo") and TPG Global, LLC ("TPG"). This definition also includes certain undisclosed co-investors who contributed a portion of the equity purchase price of CEC in the leveraged buy-out ("LBO").

offering CEOC a viable path forward, these machinations are a bridge to ***nowhere*** for both CEOC and its creditors. As recently described by gaming industry consultant Alan Woinski: "They went private and then they were able to screw around with their debt long enough and did what we call 'extend and pretend'— they extended out the maturities and just put new debt on top of old debt, and the pretend part is pretending that someday they'd be able to pay it off."[2]

7. CEOC's slavish obedience to the self-serving whims of its parent, CEC, and the Sponsors is indefensible. Every day Defendants maintain control over CEOC is another opportunity to strip out the last remaining value from CEOC's decaying carcass while simultaneously running the clock on the preference and fraudulent transfer look-back periods in advance of CEOC's inevitable collapse into bankruptcy.[3] The fox has not only been put in charge of

[2] Jon Lentz, *Divide and Conquer: Could Caesars' Debt Count it Out in New York?*, City & State (Sept. 15, 2014), *available at* http://www.cityandstateny.com/2/83/gambling/divide-and-conquer-could-caesars-debt-count-it-out-in-new-york.html#.VDlP_PldX_k ("City & State, Divide and Conquer").

[3] *See* Henny Sender, *Game of poker over Caesars Entertainment heads to the courts*, Financial Times (Aug. 12, 2014) ("Asset transfers from the operating company, [CEOC], have left that part of the business leveraged almost 20 times, according to Kim Noland, an analyst with research boutique Gimme Credit. 'The situation is so compromised that severely negative cash flow will ultimately require a restructuring that implicates all debt levels including the first lien debt,' she said."), *available at* http://www.ft.com/intl/cms/s/0/61296e58-1f1d-11e4-9689-00144feabdc0.html#axzz3FTrqoZua ("Financial Times, Game of Poker"); Moody's Investors Service, *Caesars Entertainment Asset Sales are Weakening the Hand of Creditors*, at 1 (May 2, 2014) ("An eventual restructuring at Caesars is

the hen house; it has barricaded the door and has even paid itself a salary.[4] Absent action from this Court, Defendants will continue to strip CEOC's assets until its other stakeholders are left with nothing.

8. Directors of an insolvent Delaware corporation are not permitted to plunder the corporation in this way for their own benefit. Defendants' unchecked exploitation of CEOC must stop. By this Complaint, Plaintiff respectfully asks this Court, *inter alia*, to appoint a receiver to put an end to Defendants' unabashed pillaging and to order the return of previously-transferred valuable assets to CEOC for the benefit of all of its stakeholders.

* * *

9. CEOC's current financial difficulties date back to the original gamble that the Sponsors took in 2008, when they relied on excessive leverage to buy the company at the apex of a period of steady and lucrative growth in the gaming industry. The Sponsors acquired the public shares of Harrah's Entertainment Inc. through the LBO in which the company assumed and issued approximately $25 billion in debt. This debt accounted for more than 80% of the purchase price,

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inevitable, considering its weak liquidity and very high leverage."); Kimberly Noland, *Creep*, Gimme Credit, at 1 (Mar. 14, 2014) ("While recent moves may delay the debt restructuring a bit (benefiting near term maturities), the over $20 billion of debt at the opco is unsustainable and leverage through the first lien debt is over 8x.").

[4] Upon information and belief, since the LBO, the Sponsors have caused CEOC to pay them directly or indirectly at least $168 million in annual monitoring and other fees.

meaning the Sponsors invested only a modest sliver of their own equity, choosing instead to weigh down the business with an enormous debt load in order to maximize their own potential returns. While eyeing the explosive upside potential facilitated by the leverage they employed, the Sponsors assumed the corresponding risk that the sliver of equity value they contributed could be readily destroyed in the event of a downturn.

10. The Sponsors renamed the parent company Caesars Entertainment Corp. (CEC), with the vast majority of the debt residing at CEOC. This debt was backed by an irrevocable and unconditional guarantee by CEC (the "CEC Guarantee").

11. Following the LBO, growth in the gaming industry gave way to an unprecedented downturn. Faced with declining revenues, CEOC's owners—highly sophisticated financial engineers—recognized that it was no longer possible to salvage CEOC. Rather than accept the reality that the Sponsors' equity investment had become worthless, Defendants threw out the rules and devised a scheme to cheat creditors of their rightful recoveries while enriching other businesses owned in whole or principally by CEC and the Sponsors. In utter disregard of their fiduciary duty to act as responsible stewards of an insolvent corporation, Defendants and the Sponsors concluded that the way to maximize the return on their investment was to steal CEOC's valuable assets for themselves by

transferring them to two solvent, significantly less levered affiliate entities owned principally by the Sponsors (CGP and Caesars Entertainment Resort Properties ("CERP")), and leave CEOC's creditors to scavenge on the remains.

12. Defendants disingenuously describe this process as "deleveraging" CEOC, making statements such as: "We have indicated that the company requires deleveraging and that a restructuring is appropriate."[5] To the contrary, CEOC's leverage has dramatically increased under Defendants' "stewardship" (in large part as a direct *result* of the insider transactions orchestrated by Defendants), and its already hopeless state of insolvency dramatically deepened.

13. The numbers speak for themselves: In 2009, CEOC had debt of $17.4 billion guaranteed by CEC and EBITDA of $1.6 billion. Today, CEOC has been stripped of its most profitable assets, left with $18.4 billion in debt, less than $1 billion in projected annual EBITDA,[6] and (Defendants purport) no CEC Guarantee. Nor has CEOC received anywhere near fair value in connection with its so called "deleveraging."

14. Defendants' plundering has not let up. In late May of this year, Defendants caused CEOC to issue the New B7 Term Loan— $1.75 billion of new

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[5] Financial Times, Game of Poker (quoting CEC's chief executive officer, president, and board chairman, Defendant Gary Loveman).

[6] *See* JP Morgan, *Caesars Entertainment Corp. (CEOC)*, at Table 4: Caesars CEOC—Estimated Cash Flow and Liquidity (Nov. 10, 2014); Goldman Sachs, *Caesars Entertainment Operating Company*, at Exhibit 2: Caesars Ent Operating Co. (CEOC) Financial Model (Oct. 17, 2014).

first lien debt—an issuance made in violation of the agreements that govern CEOC's debt. This issuance was structured to require CEOC to use a quarter of the proceeds to purchase $427 million of unmatured, unsecured CEOC notes from an affiliate, CGP, for more than 100 cents on the dollar, a premium so substantial that it implies a *negative yield* (the "Senior Notes Tender Offer"). What makes this transaction even more extraordinary is the fact that these same notes were purchased by CGP less than a year prior at less than 82 cents on the dollar.[7] This transaction had no conceivable or rational economic basis other than to transfer value illegally from CEOC to CGP. In yet a further act of hypocrisy, CEOC's most recent financial filings reveal that at precisely the same time that Defendants professed to be finding ways to "delever" a cash-starved CEOC and continued to deprive CEOC of myriad corporate opportunities purportedly due to insufficient liquidity, they caused CEOC unnecessarily to use $260 million of its cash to prepay all remaining amounts owed on a $1 billion intercompany "credit arrangement" with CEC—an unsecured loan with a *de minimis* interest rate that was not due until November 2017.

[7] CGP purchased the 5.625% Notes from CEC in October 2013 at a reported initial price of 86.52 cents on the dollar, prior to Defendants' imposition of additional discounts. The notes were further discounted to account for a liquidity discount and transaction fees and expenses. A ratable allocation of the discounts implies an effective purchase price to CGP of only 81.55 cents on the dollar.

15. As if this weren't enough, simultaneous with the above described transactions, Defendants manufactured a sham equity investment they self-servingly claim caused CEC to be released from the CEC Guarantee. This machinated release, if effective, would deliver the *coup de grâce* to CEOC's creditors, leaving them with nothing but CEOC's empty shell as collateral for their billions of dollars in debt.

16. Notwithstanding CEOC's purported need for liquidity,[8] Defendants recently decided to force CEOC to repurchase unsecured notes at a premium above par. At least a quarter of these notes ("PIK Toggle Notes"), which were not due to mature until 2018, are held by CEC or its non-CEOC affiliates. As with Defendants' other misconduct, there is absolutely no economic justification for this self-serving transaction other than to line the pockets of CEC and the Sponsors.

17. At every step of this carefully orchestrated scheme, CEOC's board could never have once doubted CEOC's deep insolvency. CEOC's own SEC filings disclosed that its negative net worth by the end of the third quarter of 2014 exceeded $7.5 billion—an astounding, nearly seven-fold increase in negative net worth since the end of 2011. Indeed, Defendants have explicitly admitted in CEOC's SEC filings that they "do not currently expect that [CEOC's] cash flows

[8] *See, e.g.*, CEOC, Quarterly Report (Form 10-Q) at 10 (Nov. 14, 2014) (noting that CEOC "will require additional sources of liquidity to fund [its] operations and obligations beginning during the fourth quarter of 2015.").

from operations will be sufficient to repay [CEOC's] indebtedness" and "absent a refinancing, amendment, private restructuring or a reorganization under Chapter 11 of the Bankruptcy Code, based on [CEOC's] current operating forecasts and [CEOC's] underlying assumptions, [CEOC] will require additional sources of liquidity to fund [its] operations and obligations beginning during the fourth quarter of 2015."[9] Defendants similarly concede that "[t]hese factors raise substantial doubt as to CEOC's ability to continue as a going concern beyond the fourth quarter of 2015."[10] Despite the gravity of the situation, Defendants continue to maraud at will and have threatened to take actions designed to further damage CEOC and deepen its already massive and hopeless insolvency.

18. Defendants' disabling conflicts pervasively influence every aspect of CEOC's business and operations, irreparably harming CEOC and its creditor

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[9] CEOC, Quarterly Report (Form 10-Q) at 10 (Nov. 14, 2014). *See also*, *e.g.*, CEC, Annual Report (Form 10-K) at 46 (Mar. 17, 2014) ("We do not expect that cash flow from operations will be sufficient to repay CEOC's indebtedness in the long-term and we will have to ultimately seek a restructuring, amendment or refinancing of our debt, or if necessary, pursue additional debt or equity offerings."); CEC, Annual Report (Form 10-K) at 12 (Mar. 15, 2013) ("We may be unable to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.") (emphasis omitted); CEC, Annual Report (Form 10-K) at 12 (Mar. 15, 2012) (same).

[10] CEOC, Quarterly Report (Form 10-Q) at 10 (Nov. 14, 2014). Caesars similarly conceded in September that notwithstanding its debt restructuring, "the way [is] clear for CEOC to continue to operate and service its debt [***only***] through 2014, 2015 and ***potentially*** into 2016." *CEOC, et al. v. Appaloosa Inv. Ltd. P'ship, I, et al.*, Index No. 652392/2014, NYSCEF Doc. No. 54 at ¶ 92 (N.Y. Sup. Ct. N.Y. Cnty. Sept. 15, 2014) (emphasis added) ("CEOC Am. Compl.").

stakeholders daily. As just one example, Defendants routinely subsidize other CEC properties at CEOC's expense. Most recently, Defendants caused CEOC to shutter the Showboat casino in Atlantic City even while that casino was producing significant EBITDA and positive cash flow. Upon information and belief, the voluntary closure of an EBITDA and cash flow-positive property, aside from being devoid of any economic rationale, is virtually (if not totally) unprecedented in the history of the industry. The only conceivable basis for this closure was to remove a competitor to CEC's other Atlantic City properties, the largest of which, Harrah's Atlantic City, is owned by CERP, not CEOC. Indeed, Fitch has predicted a $20 million bump in EBITDA to Harrah's Atlantic City in 2015 "from business recaptured from Showboat."[11]

19. Even now, Defendants threaten to transfer CEOC's last remaining Las Vegas property—the five older towers of Caesars Palace that CEOC still owns. Apparently nothing is sacred in Defendants' relentless, wanton sacking of CEOC.

20. The sole reason CEOC has been permitted to operate in flagrant disregard of the most fundamental and basic duties of corporate governance is that it has no independent management. In fact, until just a few months ago, CEOC's entire board consisted of only two hopelessly conflicted directors: CEC's board

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[11] Fitch Ratings, *Fitch Downgrades Chester Downs Senior Notes to "CCC+/RR3" & IDR to "CCC"; Affirms CERP* (Sept. 17, 2014), *available at* https://www.fitchratings.com/creditdesk/press_releases/detail.cfm?pr_id=874454 ("Fitch Ratings, Fitch Downgrades Chester Downs Senior Notes").

chairman and chief executive officer (Defendant Gary Loveman) and CEC's deputy general counsel (Defendant Michael Cohen).[12] Far from placing CEOC's interests ahead of their own, these two CEOC directors have demonstrated time and time again that not only are their interests directly ***adverse*** to those of CEOC, but they are willing to ruthlessly pursue those adverse interests at CEOC's expense.

21. Remarkably, not one of the described transactions was approved or even considered by a single independent CEOC board member, of which, deliberately, there were none. Even today, after the Sponsors packed CEOC's board with a new cadre of directors, CEOC still does not have a single genuinely independent director. Given the intentionally conflicted and entirely captive nature of CEOC's board, it comes as no surprise that there is no evidence that CEOC received any legitimate independent financial advice in connection with the transactions. Nor is it surprising that the transactions were neither fair nor in CEOC's best interest, and that they had no legitimate or sensible commercial rationale.

22. The sinister nature of Defendants' self-serving attempt to run out the clock on CEOC's creditors has not been lost even on general market observers. As

[12] Upon information and belief, Defendant Hession appears to have been a director between May 8, 2014, when Cohen resigned, and June 27, 2014, when the new CEOC Directors were installed. The term "CEOC Directors" shall refer to whichever individuals were directors of CEOC, and shall include Defendants Loveman, Cohen, Hession, Bonderman, Davis, Rowan, Sambur, Stauber, and Winograd, as applicable to the particular allegations herein.

RBC stated on May 6, 2014, following CEOC's extension of certain debt maturities to 2016, "this could be a sufficient time to create a long-enough 'look-back' period to negate fraudulent conveyance claims."[13] Goldman Sachs similarly recognized on August 5, 2014 that CEC "has an incentive to avoid filing due to potential concerns that the recent asset sales from CEOC to CGP might be deemed a preferential payment."[14]

23. Market observers also uniformly recognize that CEOC and its hopelessly conflicted owners, directors, and officers have repeatedly proven that they cannot be trusted to protect CEOC's interests or those of its creditors. Indeed, in response to CEC's August 12, 2014 announcement that it had reached an agreement with certain holders of CEOC's 6.50% Senior Notes due 2016 and 5.75% Senior Notes due 2017—an agreement that purports to reduce CEOC's indebtedness by approximately $548.4 million[15]—Moody's immediately

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[13] RBC Capital Markets, *Caesars Entertainment Operating Company (CEOC) Announces Debt Financing Plan*, at 3 (May 6, 2014).

[14] Goldman Sachs, *CZR trustee files lawsuit, company counters with one of its own*, at 1 (Aug. 5, 2014); *see also* CreditSights, *Caesars 2Q14: "We Will Let You Know"*, at 7 (Aug. 12, 2014) ("Ultimately, three years from now, we have difficulty seeing how CEOC avoids bankruptcy.") ("CreditSights, We Will Let You Know") ("For all of the look-back clocks in regards to recent transactions, the primary underlying consideration is whether the company was insolvent when the transaction occurred. The speed and complication with which the company closed the 'March 2014' transaction suggests that the company has at least one eye on the issue." (emphasis omitted)).

[15] Pursuant to the agreement, the holders will "sell to CEC and CEOC an aggregate principal amount of approximately $89.4 million of the 2016 Notes and

announced that it regards the agreement as "credit negative."[16] CreditSights, a widely read independent debt research publication, noted that, given Defendants' Machiavellian course of dealing, the "highly structured" nature of this transaction "strong[ly] suggests" that there is a "non-obvious objective for the company."[17] And a Macquarie gaming analyst summed things up well when describing the transaction: "The shell game picks up speed."[18]

24. Perhaps unduly emboldened by the restraint shown by the Plaintiff and other creditors in vindicating their rights as well as those of the Nominal Defendant in the face of these repeated shenanigans, the press has noted that management has recently taken to public taunting of creditors. As described by CreditSights: "Of note, management taunted creditors on the conference call (*e.g.* '. . . it remains to be seen what the proper location is for Caesars Palace . . .',

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an aggregate principal amount of approximately $66.0 million of the 2017 Notes"; CEC and CEOC will each pay a ratable amount of $77.7 million in cash; CEOC will pay to the holders accrued and unpaid interest, also in cash; and CEC will contribute no less than $393 million of principal amount of the notes to CEOC for cancellation. CEOC, Current Report (Form 8-K) at 2 (Aug. 12, 2014).

[16] Moody's Investors Service, *Moody's says Caesars agreement to reduce its debt load and solidify previously announced termination of parent guaranty is credit negative* (Aug. 14, 2014).

[17] CreditSights, We Will Let You Know, at 1.

[18] Macquarie Research, *Caesars Entertainment—Las Vegas RevPAR +8% but rest of holding company brought down results*, at 1 (Aug. 11, 2014) ("**The shell game picks up speed**. From an equity perspective, in our view it is becoming almost impossible to assign an intrinsic valuation to CZR without knowing what's going on behind the curtain with all three individual entities, particularly on the debt side: [CEOC], [CGP], and [CERP]." (emphasis in original)).

'. . . we have satisfied all maturities as they have come due. So if we change our mind, we will let you know.')."[19] Defendants' conduct shamelessly mocks the very fiduciary duties they are obligated to observe. It is now very clear that, absent relief, their depredations will continue unchecked.

25. So long as Defendants are permitted to control CEOC and keep it, tenuously, on nothing more than life support, they will continue to prey on whatever is left of CEOC's remains, while desperately scheming to keep its creditors at bay. The pillaging must stop. The facts, described in greater detail herein, overwhelmingly support the return to CEOC of the transfers, and the appointment of an insolvency receiver pursuant to Delaware law.[20] It is time for a court of equity to step in and appoint an independent, neutral, and unconflicted receiver with plenary authority to oversee the management of CEOC's assets and operations for the benefit of all of its stakeholders.

II.
JURISDICTION

26. This Court has subject matter jurisdiction over this matter pursuant to 8 *Del. C.* § 291 and 10 *Del. C.* § 341.

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[19] CreditSights, We Will Let You Know, at 4.

[20] Pursuant to Delaware Code, Title 8, Chapter 1, Subchapter XI ("Insolvency, Receivers and Trustees"), § 291.

III.
THE PARTIES

A. Plaintiff

27. Plaintiff UMB Bank, National Association, acting solely in its capacity as indenture trustee, is the successor indenture trustee (the "Indenture Trustee") under that certain indenture, dated as of February 14, 2012, governing CEOC's 8.5% Senior Secured Notes due 2020 (the "8.5% Notes") (as amended and supplemented, the "8.5% Indenture"). The Indenture Trustee maintains its principal offices in Missouri.

28. The 8.5% Indenture governs one of the four series of notes that comprise approximately $6.3 billion of CEOC's recourse first lien bond debt (the "First Lien Bond Debt"). The First Lien Bond Debt is guaranteed by CEC, and is secured by, among other things, (i) a pledge by CEC of its capital stock in CEOC, and (ii) substantially all of the assets and capital stock held by CEOC and certain of CEOC's material subsidiaries (the "Pledgor Subsidiaries"). Each of the four series of notes is governed by four separate indentures (collectively the "First Lien Indentures").[21] CEOC also has $5.4 billion of first lien bank debt (the "First Lien

[21] The First Lien Indentures consist of (i) that certain indenture dated as of June 10, 2009 with respect to CEOC's 11.25% Senior Secured Notes due 2017; (ii) the 8.5% Indenture; (iii) that certain indenture dated as of August 22, 2012 with respect to CEOC's 9% Senior Secured Notes due 2020; and (iv) that certain indenture dated as of February 15, 2013 with respect to the 9% Senior Secured Notes due 2020.

Bank Debt", which together with the First Lien Bond Debt, is the "First Lien Debt").[22]

B. Defendants

(a) The Entity Defendants

29. **Caesars Entertainment Corporation** ("CEC") is a Delaware corporation controlled by the Sponsors and their affiliates. Specifically, the Sponsors and their affiliates own approximately 60.7% of the equity in CEC[23] and control its board of directors. *See* CEC, Annual Report (Form 10-K) at 26 (Mar. 17, 2014) ("We are controlled by the Sponsors, whose interests may not be aligned with ours . . . . [T]he Sponsors have the power to elect all of our directors.") (emphasis omitted)). Prior to CEC's 2012 initial public offering of $16.3 million in common stock, the Sponsors owned 100% of CEC's equity. CEC maintains its corporate headquarters in Las Vegas, Nevada, and shares those headquarters with entity Defendants CEOC, CGP, CERP, CE Services, and CAC (defined below). CEC guaranteed CEOC's obligations (including those under the 8.5% Indenture) through

[22] In addition to the First Lien Debt, CEOC has approximately (i) $5.3 billion of second lien bond debt that was also guaranteed by CEC and secured by junior liens on certain of the assets of the Pledgor Subsidiaries; (ii) $1.0 billion of unsecured debt (of which approximately $495 million is guaranteed by certain CEOC subsidiaries, including Pledgor Subsidiaries); (iii) $101 million of other debt financing; and (iv) $330 million of debt at unrestricted subsidiaries. (CEOC's debt and capital structure are detailed in Exhibits 1 and 2.)

[23] CAC, Quarterly Report (Form 10-Q) at 90 (Nov. 14, 2014).

the CEC Guarantee, which CEC now purports to have released through orchestrated, non-arms' length transactions in May 2014.

30. **Caesars Entertainment Operating Company, Inc.** ("CEOC") is a Sponsor-controlled Delaware corporation and a subsidiary of CEC. Specifically, CEC owns 89% of the equity in CEOC while an additional 5% is owned by unnamed investors and 6% is reportedly owned by directors, officers, and/or employees of CEC or its subsidiaries/affiliates per a Performance Incentive Plan (defined *infra* at note 156). CEOC is the primary obligor on the notes issued pursuant to the 8.5% Indenture. As described below, CEOC is a nominal Defendant on certain claims and a Defendant on other claims.

31. **Caesars Entertainment Resort Properties, LLC** ("CERP") is a Sponsor-controlled Delaware limited liability company and a wholly-owned subsidiary of CEC. On October 11, 2013, CEC and the Sponsors formed CERP from CEC's existing commercial mortgage-backed securities financing structure assets, which included six existing Nevada and Atlantic City properties.[24] Upon the formation of CERP, CEC immediately caused CEOC to transfer its interests in two Las Vegas properties, Octavius and the Linq (described below), to CERP.

32. **Caesars Growth Partners, LLC** ("CGP") is a Sponsor-controlled entity that CEC and the Sponsors formed on October 21, 2013 as a limited liability

[24] These properties are Harrah's Laughlin, Harrah's Atlantic City, Harrah's Las Vegas, The Flamingo Las Vegas, Paris Las Vegas, and Rio Las Vegas.

company under Delaware law. CGP was conceived as a joint venture between CAC (which, as set forth below, is majority-owned and controlled by the Sponsors through their 66.3% ownership stake) and CEC (which, as set forth above, is also majority-owned and controlled by the Sponsors through their 60.7% ownership stake). CEC owns 57.5% of CGP's economic interests, while CAC owns the remaining 42.5% of CGP's economic interests and 100% of its voting interests. The Sponsors therefore also control CGP with a total (direct or indirect) 63.1% ownership interest.[25] Within months of CGP's formation, Defendants caused CEOC to transfer to CGP four prime Las Vegas properties (Bally's Las Vegas, Planet Hollywood, The Cromwell, and The Quad) and two of CEOC's most promising regional properties (Harrah's New Orleans and The Horseshoe Baltimore). As Mitchell Garber, president and chief executive officer of CAC and chief executive officer of CIE, explained during a May 7, 2014 earnings call, CGP was "established to focus on developing and acquiring high growth operating assets with strong value creation potential." Garber failed, however, to add that

[25] The Sponsors own 66.3% of CAC, which in turn owns 42.5% of CGP, and thus the Sponsors own 28.2% of CGP through CAC. The Sponsors also own an approximately 60.7% stake in CEC, which in turn owns the remaining 57.5% stake in CGP, and thus the Sponsors own an additional 34.9% of CGP through CEC. The Sponsors therefore hold a 63.1% economic stake in CGP. Because CAC holds 100% of the voting interests in CGP, the Sponsors also have a controlling voting stake in CGP.

CGP had acquired every one of its "high growth operating assets"[26] directly or indirectly from CEOC, and for far less than their fair value.

33. **Caesars Enterprise Services, LLC** ("CE Services") is a Sponsor-controlled Delaware limited liability company. On April 4, 2014, the Sponsors and CEC formed CE Services as a joint venture entity to which CEOC was compelled to transfer control over Total Rewards, as well as 50% of the management fee stream from each property taken from CEOC. CEOC owns 69%, CERP owns 20.2%, and CGP owns 10.8% of CE Services. CEOC, CERP, and CGP control CE Services via a Steering Committee, with each entity holding one vote.

34. **Caesars Acquisition Company** ("CAC") is a Sponsor-controlled entity that was formed by CEC and the Sponsors in February 2013 as a Delaware subsidiary of CEC that would sit outside the then extant corporate structure. The Sponsors control 66.3% of CAC, with the balance held by other investors, including public stockholders that obtained their interests pursuant to a November 19, 2013 offering. As described above, CAC controls CGP, the entity to which Defendants caused CEOC to transfer many of its most valuable assets out of the

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[26] CAC Press Release, *Caesars Acquisition Company Reports First Quarter 2014 Results*, at 2 (May 7, 2014) ("'[CGP] delivered impressive results for the first quarter,' said Mitch Garber, chief executive officer of [CAC]. 'Broad based strength across both segments of the business resulted in strong year over year growth in revenue and Adjusted EBITDA. The recent closing of the asset purchase adds three attractive and complementary properties to CGP's existing portfolio, reinforcing the strategy of acquiring and developing high growth operating assets with strong value creation potential.'").

reach of CEOC creditors for far less than their fair value in order to benefit CEC and the Sponsors.

35. CEC, CEOC, CERP, CAC, CGP, CE Services, and their subsidiaries share administrative services, offices, and finances, and they have common management, including numerous overlapping directors and officers. Defendants and the Sponsors have made vain attempts to hide behind this web of companies in an effort to conceal and inoculate their conduct from subsequent attacks by creditors or a bankruptcy trustee. Nevertheless, they have at all relevant times exercised complete domination and control over the management and directors of each of CEC, CEOC, CERP, CAC, CGP, CE Services, and their various subsidiaries.

36. CAC admitted as much in its July 10, 2013 Form S-1 Registration Statement, stating that the Sponsors were "in a position to exert a significant influence over both of CAC and [Caesars] and the direction of their business and operations."[27] At a July 10, 2013 presentation to the Nevada State Gaming Control Board ("NGCB") discussing the formation of CAC and CGP, CEC's deputy general counsel (Michael Cohen) made clear the Sponsors controlled CEC, CEOC, CAC, and CGP:

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[27] CAC, Registration Statement (Form S-1) at 69 (July 10, 2013) ("CAC S-1").

> [W]e are moving around subsidiaries within our corporate structure . . . . [T]here will be a new public company, but the key to this transaction is the people that control Caesars Entertainment today, which is an entity called Hamlet Holdings with the five individuals that were earlier mentioned from TPG and Apollo, will continue to control this public company and these assets. So in the end you are looking to the exact same people that currently control Caesars.[28]

A slide accompanying the presentation showed CAC would "be controlled by members of TPG and Apollo, who control [CEC] today" and lauded the "maintenance of common control."[29]

37. At a July 25, 2013 appearance before the Nevada Gaming Commission ("NGC"), Cohen made nearly the same representations regarding the Sponsors' control over the entities: "[I]t's a simple transaction because the same people that control [CEC] will control [CAC]."[30] And this statement was echoed again at a Louisiana Gaming Control Board ("LGCB") meeting on April 24, 2014, when Cohen stated that the "proposed structure will continue to rely upon and benefit from the maintenance of the common control structure . . . between our sponsors."[31] The Defendants and the Sponsors see nothing wrong with the conflict-laden corporate structure—indeed, they brag about it.

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[28] NGCB Hearing Transcript, at 23:2-11 (July 10, 2013).

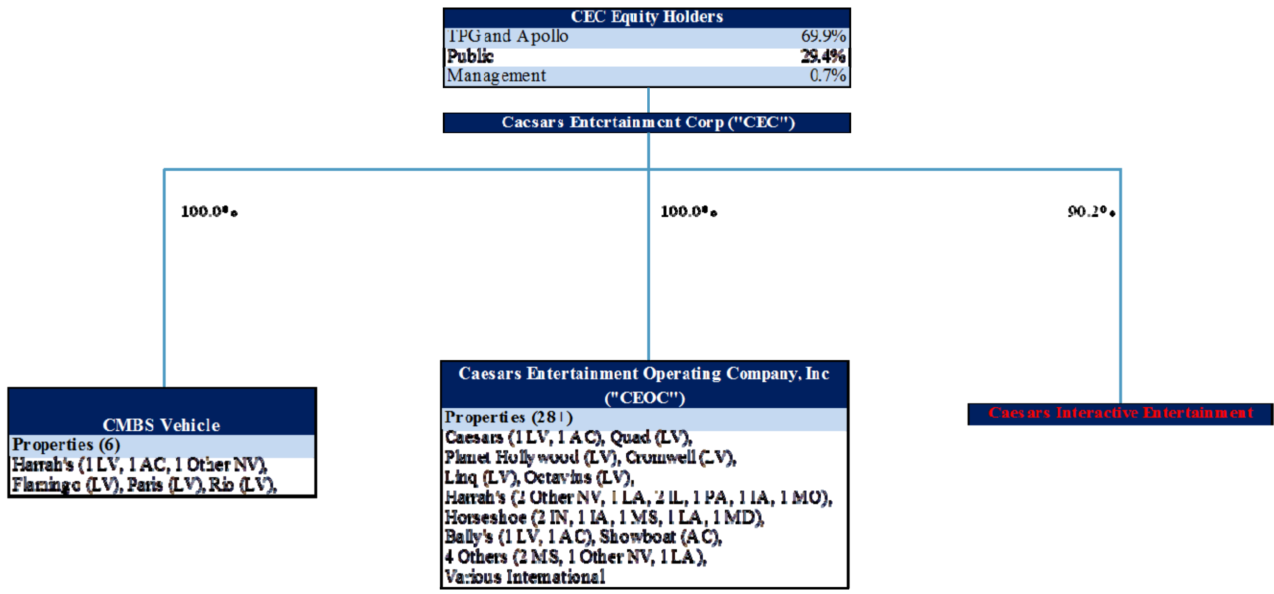
[29] CGP, *Presentation to the NGCB*, at 2, 6 (July 10, 2013).

[30] NGC Hearing Transcript, at 15:18-20 (July 25, 2013).

[31] LGCB Board of Directors' Meeting Transcript, at 23:15-19 (Apr. 24, 2014) ("April 2014 LGCB Tr.").

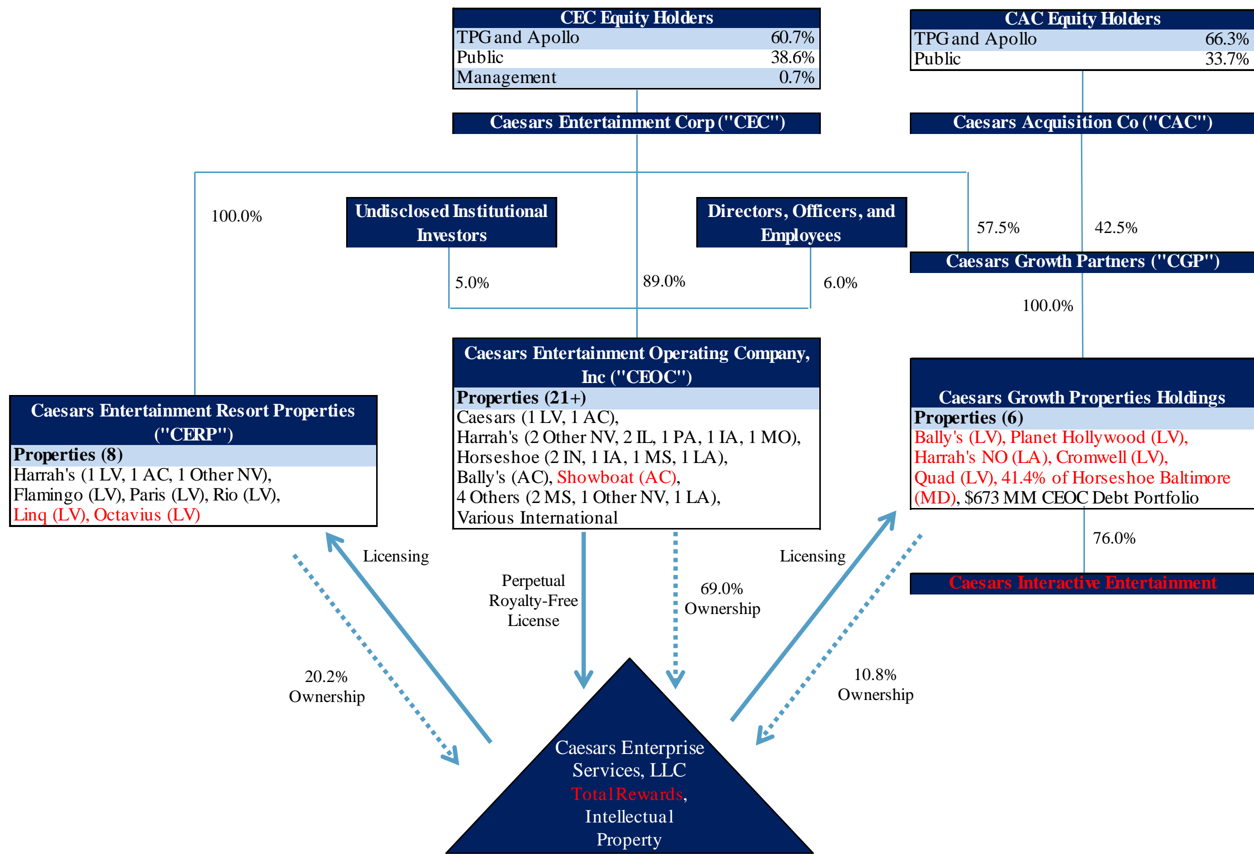
38. Figures A(1) and A(2) are organizational charts reflecting the ownership of relevant entities and their holdings before and after the transactions described herein:

Figure A(1): December 2012 Organizational Chart Before Asset Stripping[32]



[32] Entities or properties in red were stripped from CEOC by Defendants. Please see Exhibit 5 for an enlarged version of Figure A(1).

Figure A(2): Current Organizational Chart Reflecting Asset Stripping To Date[33]



(b) The Individual Defendants

39. **Gary Loveman** ("Loveman") is chief executive officer and president of CEC, and chairman of CEC's board of directors (the "CEC Board").[34] Loveman was also one of only two directors at CEOC at all relevant times up to June 27, 2014, when CEC elected six new directors to CEOC in a transparent effort to

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[33] Entities or properties in red were stripped from CEOC by Defendants. Please see Exhibit 6 for an enlarged version of Figure A(2).

[34] The term "CEC Board" shall refer to whichever individuals were directors of CEC, and shall include Defendants Loveman, Bonderman, Davis, Rowan, Sambur, Benjamin, Press, Kleisner, Swann, Williams, and Housenbold, as applicable to the particular allegations herein.

pretend that CEOC now has responsible, independent management. Loveman also served as chief executive officer of CEOC until July 2014, when he was replaced by another CEOC officer, John Payne, who had most recently served as CEC's President of Central Markets & Partnership Development. Loveman has benefited or will benefit personally from some or all of the transactions described herein.

40. **Michael Cohen** ("Cohen") is the deputy general counsel and corporate secretary of CEC, a senior vice president, general counsel, and corporate secretary of CAC, and a senior vice president, general counsel, and corporate secretary of CIE. Cohen was also the other of only two directors at CEOC, along with Loveman, at all relevant times until May 8, 2014, when Cohen resigned. Cohen has benefited or will benefit personally from some or all of the transactions described herein.

41. **Eric Hession** ("Hession"), upon information and belief, was a director of CEOC between May 8, 2014, when Michael Cohen resigned, and June 27, 2014, when CEC installed six new directors. (During that period, Hession and Loveman were the only two CEOC directors.) Hession is currently senior vice president of finance and treasurer of CEC, and treasurer of CAC. Pending regulatory approval, on January 1, 2015 Hession is to replace Defendant Donald Colvin as CEC's chief financial officer. Hession has benefited or will benefit personally from some or all of the transactions described herein.

42. **David Bonderman** ("Bonderman") is a director of CEC and a partner at Sponsor TPG. Bonderman is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Bonderman has benefited or will benefit personally from some or all of the transactions described herein.

43. **Kelvin Davis** ("Davis") is a director of CEC and a partner at Sponsor TPG. Davis is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Davis has benefited or will benefit personally from some or all of the transactions described herein.

44. **Marc Rowan** ("Rowan") is a director of CEC and a partner at Sponsor Apollo. Rowan is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Rowan has benefited or will benefit personally from some or all of the transactions described herein.

45. **David Sambur** ("Sambur") is a director of CEC and a partner at Sponsor Apollo. Sambur is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Sambur has benefited or will benefit personally from some or all of the transactions described herein.[35]

46. **Ronen Stauber** ("Stauber") is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Unlike Bonderman, Davis,

[35] CEC's recent Schedule 14A Definitive Proxy Statement, filed with the SEC on April 15, 2014, confirms that CEC does not consider Loveman, Benjamin, Bonderman, Davis, Press, Rowan, or Sambur to be independent directors of CEC. *See* CEC, Definitive Proxy Statement (Schedule 14A) at 7 (Apr. 15, 2014).

Rowan, and Sambur, Stauber is purportedly an "independent" director of CEOC. In fact, as set forth below, Stauber has a long-standing affiliation with Sponsor Apollo and is not independent.

47. **Steven Winograd** ("Winograd") is one of the six new CEOC directors the Sponsors caused to be elected on June 27, 2014. Like Stauber, Winograd is purportedly an "independent" director of CEOC. In fact, as set forth below, Winograd, like Stauber, has a long-standing affiliation with Sponsor Apollo and is not independent.

48. **Donald Colvin** ("Colvin") is the chief financial officer of CEC and until July 2014 also served as CEOC's chief financial officer. It has been announced that Colvin will be relieved of his CFO duties at CEC on December 31, 2014, but will continue to provide transitional services to Caesars entities for 18 months.[36] Colvin has benefited or will benefit personally from some or all of the transactions described herein.

49. At all relevant times, the interests of the CEOC Directors and Colvin—including the new CEOC Directors appointed on June 27, 2014—were, as they are presently, directly *adverse* to those of CEOC and its stakeholders, including the creditors on whose behalf Plaintiff is acting. Loveman, Cohen, and Colvin (and during his brief stint as a CEOC Director, Hession) were—and are—

[36] *See* CEC, Current Report (Form 8-K) (Nov. 12, 2014).

employed by CEC and dependent upon CEC and the Sponsors for their livelihoods. Similarly, since June 27, 2014, a majority of the CEOC board (Bonderman, Davis, Rowan, and Sambur) have been both CEC directors and either partners at, or employees of, one of the Sponsors.

50. **Jeffrey Benjamin** ("Benjamin") is a director of CEC and a senior advisor to Sponsor Apollo. Benjamin has benefited or will benefit personally from some or all of the transactions described herein.

51. **Eric Press** ("Press") is a director of CEC and a partner at Sponsor Apollo. Press has benefited or will benefit personally from some or all of the transactions described herein.

52. **Fred Kleisner** ("Kleisner") is a director of CEC and a director of Apollo Residential Mortgage. Kleisner has benefited or will benefit personally from some or all of the transactions described herein.

53. **Lynn Swann** ("Swann") is a director of CEC. Swann has benefited or will benefit personally from some or all of the transactions described herein.

54. **Christopher Williams** ("Williams") is a director of CEC. Williams has benefited or will benefit personally from some or all of the transactions described herein.

55. **Jeffrey Housenbold** ("Housenbold") was a director of CEC until March 28, 2014. Housenbold has benefited or will benefit personally from some or all of the transactions described herein.

56. Each of the CEC director Defendants caused CEC to capitalize CGP and CERP for the express purpose of effecting the looting of CEOC set forth in detail herein.

C. Relevant Non-Parties

57. Apollo is a limited liability company organized in 1990 under Delaware law. Apollo is an investment manager headquartered in New York with offices around the globe. Apollo manages more than $165 billion of assets in its private equity, credit, and real estate businesses. Apollo was one of the Sponsors of the LBO.

58. TPG is a limited liability company organized in 1992 under Delaware law. TPG is a global private investment firm headquartered in Fort Worth, Texas and San Francisco, California. TPG has over $65 billion of assets under management. TPG was also one of the Sponsors of the LBO.

IV. BACKGROUND

A. The Sponsors Acquire Caesars Just Prior To The Downturn

59. On January 28, 2008, affiliates of the Sponsors acquired Harrah's Entertainment Inc. ("Harrah's"), which at that time traded on the NYSE, in an

LBO that took Harrah's private. The transaction was valued at approximately $30.7 billion. To finance the LBO, the Sponsors solicited banks, private equity funds, and other financial institutions to loan money to, or purchase notes issued by, Harrah's newly created and wholly owned subsidiary, Harrah's Operating Company ("HOC"), which was subsequently renamed Caesars Entertainment Operating Company (CEOC). At the time of the LBO, HOC (now CEOC) housed 43 out of Harrah's 50 total hotel/casino properties and generated 75% of total revenues.[37]

60. All in all, $20.5 billion of secured and unsecured bank and bond debt was issued in connection with the LBO and layered on top of $4.6 billion of unsecured debt that was assumed from the pre-LBO entity. Immediately following the LBO, $17.4 billion of this debt resided at HOC. The Sponsors themselves invested equity that accounted for less than 20% of the total purchase price.[38] In

[37] *See* Harrah's Entertainment, Inc., Annual Report (Form 10-K) at 14-16 (Feb. 29, 2008); Harrah's Entertainment, Inc., Current Report (Form 8-K) at 20 (Feb. 27, 2008). By contrast, CEOC is now home to 38 of CEC's 50 total hotel/casino properties and generates 63% of total CEC revenues as of Q3 2014. *See* CEC, Quarterly Report (Form 10-Q) at 4, 40 (Nov. 14, 2014); CEC, Annual Report (Form 10-K) at 35 (Mar. 17, 2014); CEOC, Quarterly Report (Form 10-Q) at 4 (Nov. 14, 2014); CEC, Current Report (Form 8-K) at 8 (Apr. 15, 2014).

[38] Upon information and belief, since the LBO, the Sponsors have received nearly $370 million in fees, including a $200 million transaction fee at the time of the LBO in addition to total annual monitoring fees of $168 million (monitoring fees of approximately $30 million per annum). In addition, the Sponsors have the right to act as—and earn fees as—CEC's financial advisors or investment bankers for acquisitions, dispositions, and financings. Absent discovery, Plaintiff does not

November 2010, Harrah's changed its name to Caesars Entertainment Corp. (CEC) and HOC became CEOC.

61. Almost immediately following the LBO, the gaming industry suffered an unforeseen and severe downturn precipitated by the U.S. financial crisis, which affected the gaming industry far more than expected by industry-watchers and participants due both to the greater than anticipated elasticity of consumer spending on gaming as well as the addition of substantial new competition in both the Las Vegas and regional gaming markets. Defendants and the Sponsors recognized that weak industry conditions, coupled with CEOC's aging properties, would prevent them from even *servicing* CEOC's extensive post-LBO debt, much less reducing or retiring that debt. To address these twin difficulties, Defendants and the Sponsors caused CEOC to take on additional debt and to refinance and exchange much of its pre-LBO debt. As a result of the LBO and its refinancing, CEOC itself now has approximately $18.4 billion of debt.

62. Anticipating a rebound in the gaming market, Defendants and the Sponsors employed a portion of CEOC's funds, including proceeds from its debt, to renovate certain of CEOC's key hotels and casinos on the Las Vegas Strip: The Quad, The Cromwell, and Bally's Las Vegas. Caesars also used CEOC funds to develop two new properties with key strategic value on the Strip: The Octavius

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know whether the Sponsors received fees in connection with any of the transfers discussed in this Complaint.

Tower of Caesars Palace ("Octavius"), and the Linq retail and entertainment property (the "Linq"). As Defendant Loveman stated in 2012, these projects sought to take advantage of "some meaningful economic growth, which, I believe, is a 2014 or '15 phenomenon, then I think you can see very substantial improvements in the revenue and in the profitability of the business."[39]

63. But by late 2012 and, upon information and belief, considerably earlier, Defendants recognized, as did market observers, that the Sponsors could not *both* salvage their underwater equity investment *and* satisfy CEOC's obligations to its creditors, and that CEOC's insolvency was hopeless. In other words, the long-term expected returns on CEOC's existing properties and those that it was renovating and developing would at most be sufficient only to pay back CEOC's creditors, but not to yield any return to the equity holders (including CEC and ultimately the Sponsors). As RBC Capital Markets correctly observed in a July 16, 2012 report, the LBO "layered [CEOC] with what would turn out to be an unsustainable amount of debt," noting that "[t]he recession resulted in declining revenues and weak performance at [CEOC's] properties and left the company facing the possibility of bankruptcy, given its heavy debt burden."[40]

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[39] CEC Shareholder / Analyst Call (Oct. 3, 2012).

[40] RBC Capital Markets, *Caesars Entertainment Corp. (NASDAQ: CZR)—Initiating Coverage with an Underperform Rating and a $6 Price Target*, at 1 (July 16, 2012) ("RBC, CEC Initiating Coverage").

64. As detailed below, upon reaching that realization and settling upon a path of iniquity, Defendants chose to relentlessly advance their interests without concern for legal limitations and in utter disregard of their obligations to CEOC and its creditor stakeholders.[41]

B. The CEOC Directors' And Officers' Hopeless Conflict Of Interest

65. Although the breadth and audacity of the course of conduct, which stripped CEOC of billions of dollars in value (detailed below), is shocking, that CEOC's hopelessly conflicted yet fully empowered directors and officers have been able to orchestrate and effect that result with ease in less than a year is not.

66. At all relevant times prior to June 27, 2014, CEOC's board included just two directors: Loveman, who was also CEO of CEC, and Cohen, who was an officer of CEC, CAC, and CIE.[42] Moreover, Loveman was CEO of *both* CEC and CEOC, while Colvin was CFO of *both* CEC and CEOC. Through these conflicted CEC officers (Loveman, Cohen, and Colvin), CEC and the Sponsors dominated

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[41] The Wall Street Journal summarized it well: "Should [Defendants'] restructuring strategy for the casino company succeed, it would upend the normal order in restructurings in which creditors must be paid in full for shareholders to keep control of a company." Matt Wirz and Emily Glazer, *Apollo Uses Wedge Maneuver to Save Caesars*, Wall Street Journal (May 29, 2014), *available at* http://online.wsj.com/articles/apollo-uses-wedge-maneuver-to-save-caesars-1401311292.

[42] While, upon information and belief, Defendant Hession appears to have been a director between May 8, 2014, when Cohen resigned, and June 27, 2014, when the new CEOC Directors were installed, Hession was also an officer of CEC, and as hopelessly conflicted as Loveman and Cohen.

CEOC, improperly treating it as a mere alter ego of CEC that could, at any time, take whatever action benefited CEC and the Sponsors, no matter how damaging to CEOC's and its stakeholders' interests.

67. The CEOC Directors' and Colvin's conflict and breaches of fiduciary duties to CEOC are not merely the product of blind loyalty to CEC and the Sponsors; they are a direct outgrowth and product of their compensation structure and personal financial incentives. As a matter of fact, Defendant Loveman, one of only two CEOC Directors at all relevant times up to June 27, 2014, is compensated with and has been a substantial owner of CEC stock[43]—stock that, due to the insolvency of CEOC, has and will increase in value directly as a result of the looting of assets from CEOC and into other CEC entities.

68. To make matters ever worse, on April 13, 2014, just before the May 2014 transfers of The Cromwell, The Quad, Bally's Las Vegas, Harrah's New Orleans, and Total Rewards, CEC instituted an equity plan (the "CAC Equity Plan") that compensated certain CEC directors, officers, employees, and others (including, upon information and belief, the CEOC Directors and Colvin) with publicly-traded shares of CAC. CAC, as the 42.4% parent of CGP at the time, in

[43] In 2013, Defendant Loveman received over a quarter of his compensation in stock and option awards. *See* CEC, Definitive Proxy Statement (Schedule 14A) at 40 (Apr. 15, 2014). Furthermore, Loveman owns approximately 1.9 million shares of CEC stock (at current market prices, valued at over $21 million). *See id.*, at 64.

turn benefited directly from the stripping and transfer of CEOC's valuable assets to CGP. Defendants and the Sponsors have thus expressly incentivized the CEC and CEOC Directors and Colvin to cooperate with and support the improper diversion of assets away from their employer companies through insider transactions.

69. Further, CEC, and anyone whose compensation or financial interests depended on its profitability, including Loveman, Cohen, and Colvin, also benefited directly from the stripping and transfer of CEOC's assets to CGP and CERP by virtue of CEC's position both as a 57.5% owner of CGP as well as a 100% owner of CERP. Given these irreconcilable conflicts, none of the officer and director Defendants concerned themselves with the entire fairness to CEOC of the extraordinarily lopsided transactions described below, and they will not be able to meet the heavy burden of establishing the entire fairness to CEOC of the referenced transactions.[44]

70. As a matter of fact, nothing in the publicly available documents indicates that the CEC or CEOC Directors and officers gave adequate consideration to the interests of CEOC's creditors, let alone assured that the myriad looting transactions were fair to those creditors. Any capital needed for

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[44] *See Weinberger v. UOP, Inc.*, 457 A.2d 701, 710 (Del. 1983) ("The requirement of fairness is unflinching in its demand that where one stands on both sides of a transaction, he has the burden of establishing its entire fairness, sufficient to pass the test of careful scrutiny by the courts. There is no dilution of this obligation where one holds dual or multiple directorships, as in a parent-subsidiary context." (internal citations omitted)).

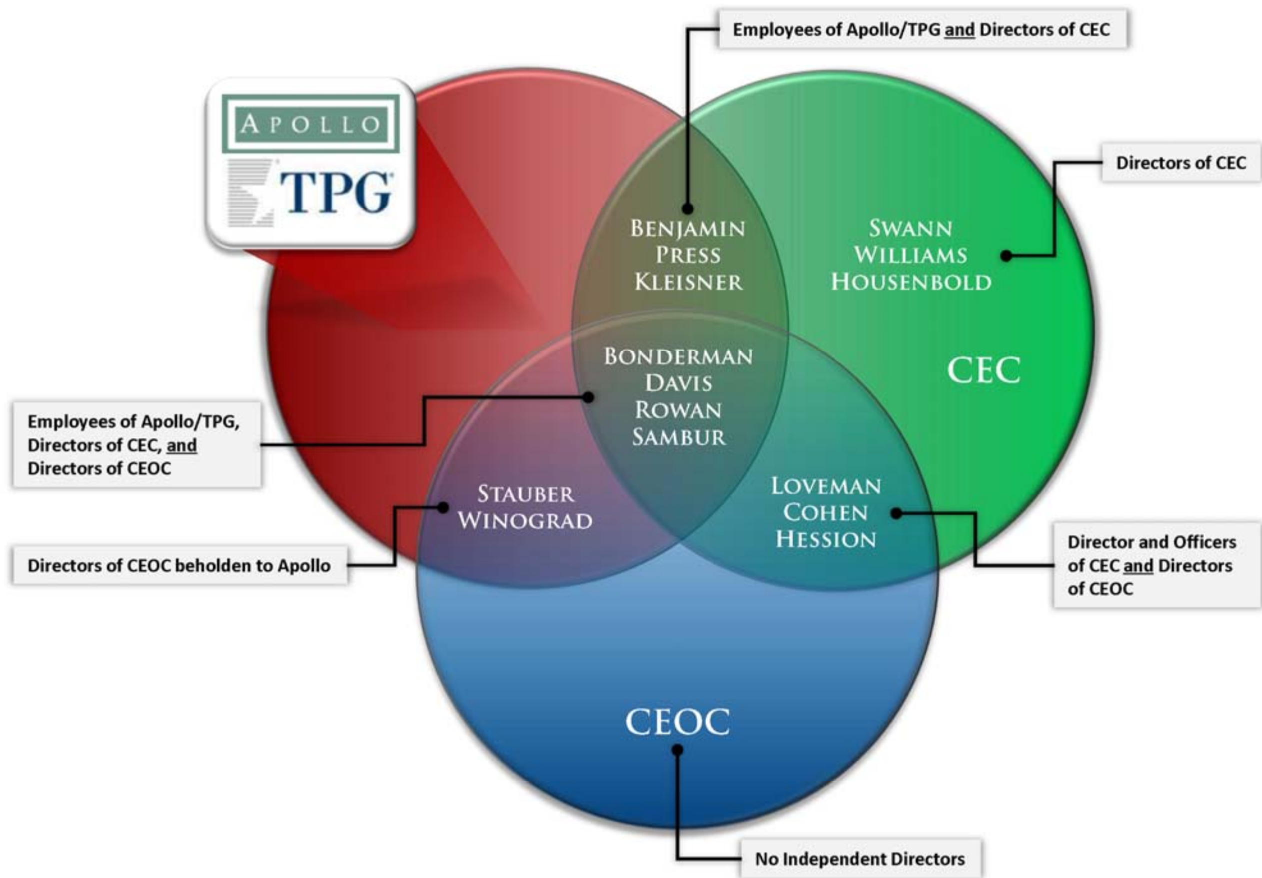
improvements to the subject properties could have been raised in the public or private debt markets (including from existing creditors), particularly as project financing, as CEOC did for the construction of Octavius and Linq. However, Defendants made no effort to test those markets. In fact, various of CEOC's statements make clear that the purpose of these transactions was not to facilitate the financing of capital improvements, but rather to move valuable assets away from CEOC and its creditors and to CEC and the Sponsors. There was no good faith effort—or any effort at all—to market and sell the assets to third-parties or to explore other financing options.

71. Defendants are well aware of CEOC's severe insolvency and know that any improvement in the financial condition of CEOC will only benefit CEOC's creditors. It is therefore no surprise that, given the compensation structure described above and the Sponsors' ownership interests in CERP and CGP, Defendants continue to siphon value from CEOC to these other, solvent entities from whose financial performance they stand to benefit. Nor is it a surprise that to further distance themselves from CEOC, Defendants concocted a sham equity investment to purportedly trigger a release of the CEC Guarantee that had kept CEC "on the hook" for CEOC's obligations to its creditors.

72. As Figure B below shows, each of the CEOC Directors is not only conflicted, but also beholden to CEC and the Sponsors' interests and adverse to

CEOC's interests. Specifically, each and every director listed in Figure B is beholden to Apollo, TPG, CEC, or a combination thereof. None, tellingly, has any principal loyalty to CEOC.

Figure B: Director Conflicts



V.
THE PILLAGING OF CEOC

73. Within less than a year, Defendants and the Sponsors have devoured and deprived CEOC of billions in valuable and promising real, tangible, and intellectual property through a series of rapid-fire insider transactions. The pilfered operating assets include:

- Six marquee Las Vegas properties that formed an exceptionally valuable stronghold at the very center of the Las Vegas Strip: Planet Hollywood, The Quad, Linq, The Cromwell, Bally's Las Vegas, and the Octavius Tower at Caesars Palace;
- Two of CEOC's most promising properties outside of Las Vegas: The Horseshoe Baltimore and Harrah's New Orleans;
- 50% of the management fee stream for these properties (while nevertheless causing CEOC to remain responsible for 100% of the management costs);
- CIE, one of the world's preeminent casino-themed online gaming providers and a source of immense current and potential value; and
- The Total Rewards customer loyalty program.

74. Defendants also depleted CEOC's value and liquidity by:

- Unnecessarily utilizing CEOC's limited cash to repay—more than three years ahead of schedule—a low-cost unsecured intercompany loan from an affiliate;
- Forcing CEOC to pay off unsecured notes owned by affiliates of the Sponsors more than a year before maturity at prices so far above par the price paid exceeded the present *and* future value of all future interest payments due thereon;
- Manufacturing a sham equity investment to strip CEOC's creditors of the CEC Guarantee; and

- Shuttering a performing CEOC-owned regional casino that was generating positive EBITDA and cash flow but competing with an asset held by CERP.

75. As a result, a gutted CEOC now controls only a portion of one property in Las Vegas—the five oldest of the six towers of Caesars Palace—on one side of the Las Vegas Strip. By contrast, prior to the looting that began in October 2013, CEOC dominated a half-mile stretch of the Strip, spanning both sides—an area Caesars has described as "ideal," "prime," and the "heart" and "50-yard line" of the Vegas Strip.[45] Nevertheless, as agents of the Sponsors and CEC, and in utter disregard for their duties to CEOC, the conflicted CEOC Directors and Colvin all but gave away this half-mile stretch of the most valuable gaming property in the world.

76. In addition to the extraordinary synergies and collective value that these six Las Vegas Strip properties together possess, the value of every one of these prime CEOC properties was vastly enhanced by CEOC's rewards program, branded as "Total Rewards." CEOC's now-stripped Las Vegas properties serve as the "hubs" in the Caesars' "hub" and "spoke" business model, controlled by CEOC's Total Rewards customer loyalty program. Upon information and belief,

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[45] *See, e.g.*, CEC, Current Report (Form 8-K) Ex. 99.1 at 28 (Mar. 26, 2014); CAC S-1, at 4; CEC, Current Report (Form 8-K) Ex. 99.1 at 17, 22 (Sept. 19, 2013); CEC Q1 2013 Earnings Call (May 1, 2013), *available at* http://seekingalpha.com/article/1392251-caesars-entertainment-management-discusses-q1-2013-results-earnings-call-transcript.

the business model has been effective because Total Rewards is recognized as the gaming industry's gold standard customer rewards program with eight million "active" and loyal Caesars members (and approximately 45 million total members). Through Total Rewards, customers that frequent CEOC's regional "spoke" properties are directed to the prime "hub" properties now predominantly held outside of CEOC. Total Rewards customers are guided to the "hub" properties through the use of "credits" for gaming, dining, or shopping offered at the "spoke" properties, which entice customers to visit the prime "hub" properties. Total Rewards thus increases the revenues of the prime Las Vegas "hub" properties no longer owned by CEOC, benefiting the Sponsors' affiliates to which these properties have been transferred. On the flip side, CEOC will now be prejudiced because its diminished control over Total Rewards will also simultaneously make it harder for CEOC to direct customers to its remaining regional "spoke" properties.

77. Since the "hub" and "spoke" model is baked into the DNA of every property in the Caesars empire, CEOC's loss of the prime "hub" properties to which Total Rewards funnels customers not only deprives CEOC of enormous direct revenue, but also relegates CEOC to the bit role of managing the underperforming "spoke" regional properties whose primary, strategic purpose is to channel customers to the prime "hub" properties—which are now almost exclusively owned by CERP and CGP. For none of these transfers, despite

CEOC's deep insolvency, did CEC and the Sponsors adequately compensate CEOC or its true stakeholders. Repeatedly taking all of the spoils for themselves, again and again, Defendants demonstrated their willingness to render CEOC an economically non-viable and debt-ridden carcass. Indeed, in a number of instances, Defendants caused CEOC to surrender a valuable asset without receiving any consideration at all. As Alan Woinski, the president of Gaming USA Corp., which reports on developments in the gaming industry, explained:

> They're trying to get out from under and are basically saying, "All right, we're going to leave all of our crappy properties in [CEOC], and they're not going to generate enough cash flow—we're going to bankrupt them and emerge without all your debt."[46]

78. Hoping for a clean getaway, Defendants have sought to insulate these inequitable transactions from attack in two ways. First, they have sought to hide the patently unfair nature of these transactions in an unnecessary web of meaningless corporate structure. Second, they have pursued seriatim debt refinancings designed merely to push CEOC's debt maturities and Defendants' day of reckoning out just long enough to run out the clock on creditors' preference and fraudulent transfer look-back periods. This "extend and pretend" gambit, as one observer termed it, "extend[s] out the maturities and just put[s] new debt on top of old debt, and [pretends] that someday they'd be able to pay it off."[47]

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[46] City & State, Divide and Conquer.
[47] *See id.* (quoting Alan Woinski).

79. Moreover, Defendants have intentionally abused the corporate form to effect the highly inequitable transfers of properties and value described in detail below, in an effort to circumvent the requirements of the 8.5% Indenture. The corporate separateness of the entity Defendants and their subsidiaries is illusory and should be set aside, and the plain substance recognized, if necessary to remedy the wrongs catalogued herein.

80. As demonstrated by Figure C, the market prices of CEC and CAC around the time of the announcement of each transaction clearly reflect the egregious looting that resulted from the respective transaction, with CEC and CAC's market capitalizations increasing substantially while the aggregate market value of CEOC's debt declined precipitously in the aftermath of each announcement.

Figure C: Impact of Looting on Market Prices

Increase/(Decrease): T-10 through T+5 Days from Announcement			
($ in millions)	**CEC Market Cap**	**CAC Market Cap**	**CEOC Debt Market Value**
Planet Hollywood & Horseshoe Baltimore (4/23/13)	+$160	N/A	-$475
Linq/Octavius/High Roller (9/17/13)	+$200	N/A	-$62
March 2014 Asset Sales (3/3/14)	+$378	+$410	-$685

81. Furthermore, the increase in CAC's market capitalization immediately after its trading debut is added proof that the market interpreted the October 2013 transactions as a massive transfer of wealth away from CEOC. The November 2013 rights offering enabled the Sponsors themselves, as well as other investors, to

initially purchase shares of CAC. The offering was executed at a purchase price of $8.64 per share—a price set by the Sponsors—and raised $1.2 billion. But within 30 days of trading, CAC's stock traded at $11.96—up nearly 40%—reflecting CGP's highly favorable acquisition of assets from CEOC on the cheap, which served to enhance CAC's market value at the expense of CEOC and its creditors. The immediate and meteoric rise in the price of CAC's stock post-issue was a direct result of the fact that Defendants had deliberately mispriced and undervalued the assets being contributed to CGP, including by CEOC.

82. There also was a brief run-up in CEC's stock price just before the rights offering.[48] The reason for this—as reported by an October 2013 New Albion Partner's analyst report—was that in order to cash in on the "tremendous opportunity" to own CIE, the new "promising crown jewel" of CGP, an investor first needed to own CEC stock.[49] This same report had no trouble concluding the obvious: The purpose of the October 2013 CGP transactions was to "firewall [Caesars'] valuable assets in order to prevent [the Sponsors] being left with worthless equity in the event of a bankruptcy."[50]

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[48] CEC stock increased by approximately 13% in the 60 days before the rights offering expired on October 17.

[49] New Albion Partners, *Assessing the Opportunity in CZR*, at 1 (Oct. 3, 2013).

[50] *Id.*

A. The October 2013 Property Stripping

83. In October 2013, Defendants caused CEOC to transfer a group of valuable properties—Planet Hollywood Resort Las Vegas, Octavius, Linq, and The Horseshoe Baltimore—from CEOC to other CEC subsidiaries for staggeringly inadequate consideration. Several components of these transactions diverted value from CEOC to CGP, and the remainder diverted value from CEOC to CERP. While Defendants certainly engineered inappropriate transactions prior to October 2013, the October 2013 property seizures marked a major turning point in Defendants' efforts to loot CEOC. Prior to October 2013, Defendants' one-off appropriations of value from CEOC—such as the seizure of CEOC's valuable trademarks in 2010,[51] the transfer of CIE, as described below, and repayments of the CEC intercompany loan—appeared to be serious but perhaps isolated violations. Beginning with the October 2013 seizures, however, Defendants uncorked an aggressive, systematic, and rapidly unfolding campaign to take all of CEOC's most valuable assets for themselves, without any regard for CEOC's ability to repay its creditors.

84. Given the lack of corporate governance or process, the lack of a fair market valuation, and the inadequacy of the consideration received, as detailed

[51] In August 2010, CEOC was compelled to transfer trademarks with a book value of $45.3 million to subsidiaries of CEC. Upon information and belief, CEOC received little or no consideration for the transfer of these assets.

below, it is hardly surprising that the "Risk Factors" section of the CAC S-1 appropriately acknowledged that (i) in a CEC or CEOC bankruptcy, a court might conclude that the then-proposed October 2013 CGP transactions were a "disguised financing rather than a true sale"; (ii) a bankruptcy court could substantively consolidate CGP with CEC and its subsidiaries (including CEOC), allowing its assets to satisfy the claims of CEOC creditors; (iii) a CEC or CEOC bankruptcy could result in an independent investigation of the October 2013 CGP transactions; and, prophetically; and (iv) CEOC's creditors might sue CGP to recover the assets comprising the October 2013 CGP transactions under state or federal fraudulent transfer statutes.[52] The same risks also certainly existed for the October 2013 transfers to CERP and all subsequent asset transfers.

(a) Planet Hollywood Resort Las Vegas

85. In October 2013, Defendants caused CEOC to transfer Planet Hollywood and 50% of the associated management fee stream to CGP. Planet Hollywood is a blue-chip property with an internationally recognized brand name consisting of a 2,500-room hotel and a 100,000-square-foot casino floor on 35 acres at the heart of the Las Vegas Strip. As CEC recently described this newly appropriated property: "Planet Hollywood is one of our premium product offerings, benefitting from its prime location . . . on the east side of the Las Vegas

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[52] CAC S-1, at 44-45.

Strip as part of a contiguous strip of casinos owned and operated by Caesars Entertainment or its subsidiaries."[53] Loveman called the 2010 acquisition of Planet Hollywood "one of the best deals the company has ever done."[54] And the CAC S-1 proclaimed that Planet Hollywood was expected to "attract a significant customer base and continue to capture growth in market share."[55]

86. The reported consideration for CEOC's equity stake in Planet Hollywood was $210 million. But Planet Hollywood held on its balance sheet $146 million of excess cash that was also transferred to CGP along with the property, a balance which must be netted against the $210 million to show the effective cash consideration to CEOC. Notably, that cash transfer to CGP was not disclosed when the transaction was announced and was only revealed months later in a subsequent CAC 8-K filing dated March 26, 2014.[56] Accordingly, the effective purchase price for Planet Hollywood's equity was a mere $64 million.

87. The transaction for the Planet Hollywood property also included the transfer of a $513 million Planet Hollywood term loan, implying a total enterprise value of $577 million. Given Planet Hollywood's 2013 EBITDA of $90 million,

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[53] CEC, Current Report (Form 8-K) Ex. 99.1 at 8 (Apr. 10, 2014).

[54] CEC Q3 2011 Earnings Call (Nov 8, 2011).

[55] CAC S-1, at 144.

[56] CAC, Current Report (Form 8-K) Ex. 99.1 at Sources & Uses Table, n.3 (Mar. 26, 2014) (disclosing existence of a cash balance at Planet Hollywood, as of March 3, 2014, of $157 million). A subsequent filing, however, revealed that this cash balance was $146 million as of December 31, 2013. *See* CEC, Current Report (Form 8-K) at Sources & Uses Table, n.3 (Apr. 10, 2014).

the total implied enterprise value amounts to a multiple of just 6.4 times ("6.4x") its 2013 EBITDA. The low valuation multiple is even more egregious considering that this multiple would be lower still if—as is standard—Planet Hollywood was valued off of 2014 projected EBITDA.[57]

88. Las Vegas Strip properties are, and have been, in high demand by well-capitalized, diversified public and private gaming companies. Demand for these assets exceeds available supply—therefore, when these properties trade, valuation multiples tend to be well into the double-digits. And even with this high demand, Defendants still did not attempt to market Planet Hollywood to third parties. When compared to the actual applicable average multiples for Las Vegas properties at the time, the underpayment to CEOC for Planet Hollywood becomes staggeringly clear. A review of relevant analyst research puts fair value for a property such as Planet Hollywood at an EBITDA multiple range of at least approximately 11x–12x around the time of the transaction,[58] implying a value range of $990 million to $1.1 billion and an equity value range of $477 million to $567 million.

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[57] 2014 EBITDA expected to be significantly higher than 2013 EBITDA given the implementation of resort fees, the impact of renovations, and the reopening of the Axis Theater—a 7,000-seat amphitheater and nightclub featuring major headliners and one of the largest video and projection installations in the world.

[58] This range is based on review of analyst research, including analyst reports issued by JP Morgan, Barclays, Goldman Sachs, Deutsche Bank, Credit Suisse, and Macquarie concerning CEC.

89. The shortfall in consideration to CEOC for the transfer of the Planet Hollywood equity was therefore conservatively at least between approximately $413 and $503 million, and likely more. Even at the mid-point of this conservative range, the actual sales price represents an astonishing 88% shortfall to the implied fair value of Planet Hollywood's equity.[59] Furthermore, Blackstone recently acquired the Cosmopolitan, a single property also located in the heart of the Vegas Strip directly across the street from Planet Hollywood, at a substantially higher multiple of nearly 15x EBITDA.[60]

90. Illustrating the extraordinary lengths to which Defendants and the Sponsors have gone to siphon all possible value and opportunities from CEOC, CEOC was also compelled to give up 50% of the valuable management fee stream for Planet Hollywood in connection with this transaction while retaining responsibility for 100% of the management costs—an arrangement that has been repeatedly replicated as Defendants loot CEOC.

91. CEOC received only $70 million of cash for this 50% share of the Planet Hollywood management fee stream, which equated to approximately $9

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[59] These and other figures relating to the shortfall in consideration are based upon publicly available information. Plaintiff reserves the right to revise its calculations after it obtains additional information, including discovery from Defendants.

[60] The Cosmopolitan was acquired at an implied EBITDA multiple of 14.8x last twelve months ("LTM") EBITDA. At this multiple, illustratively, the shortfall in value to CEOC from the Planet Hollywood asset transfer would be even greater still—$755 million or more.

million per annum[61] and would typically warrant an increased valuation multiple. The consideration paid for this valuable stream of management fees thus implied a multiple of only 7.9x EBITDA. Applying a market multiple of 12.0x–13.0x[62] results in an implied valuation of the Planet Hollywood management fee stream conveyed by CEOC of between $107 million and $116 million—resulting in an additional valuation shortfall to CEOC of at least $37 million to $46 million. When combining these figures with the shortfall in valuation received by CEOC for the Planet Hollywood property itself, the total shortfall in value to CEOC in connection with the Planet Hollywood transaction was at least between $450 million and $549 million. See Figure D below.

Figure D

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
October 2013	Planet Hollywood	$1.1BN	$633MM	$134MM	**$499MM**	**79%**

92. Tellingly, although CEC asserts that the Planet Hollywood transfer was approved by a subcommittee of independent directors and supported by a fairness opinion, the assertion obscures the relevant facts: The fairness opinion

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[61] CEC, Current Report (Form 8-K) Ex. 99.1 (Apr. 10, 2014).

[62] *See* Credit Suisse, *Caesars Acquisition Company (CACQ)—Let it Grow; Initiating Coverage at Outperform and $13 TP*, at 3, 22 (Dec. 16, 2013) ("Credit Suisse, Let it Grow"); Barclays, *Caesars Entertainment: Updating Valuation for CAC*, at 6 (Oct. 29, 2013); Deutsche Bank Markets Research, *Caesars Entertainment: Takeaways from 3Q13*, at 7 (Oct. 30, 2013).

was provided to CEC, the indirect counterparty, and it was not approved by any independent CEOC directors because there were none. With only hopelessly conflicted fiduciaries at CEOC, no one was properly incentivized to question or challenge the fairness opinion, let alone negotiate on behalf of CEOC to ensure that the transaction was reasonable. Given the irreconcilable conflicts, it does not even matter whether the fairness opinion purported to opine on the fairness of the transaction to CEOC, as Defendants claim,[63] or whether its scope was limited to the transaction's obvious fairness to CEC.

93. Nor have Defendants disclosed the substance or specific source of any of the fairness opinions they purport to have commissioned in connection with this or any of their other stripping transactions. Indeed, the opinions issued by at least two of the four financial opinion providers that Defendants have identified as potentially providing "financial advisory services" in connection with the stripping transactions[64]—Valuation Research Group and Duff & Phelps, LLC—have blemished records. As but one example, the examiner in *In re Tribune Company* (Kenneth Klee) concluded in his detailed report that the solvency opinion issued by Valuation Research Group in that case was "implausible" and "highly suspect" and that its procurement was marred by dishonesty and lack of candor.

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[63] *See* CEOC Am. Compl. ¶ 75.

[64] Defs.' Br. in Support of Mot. to Dismiss or Stay the Verified Compl., at 29, *Wilmington Sav. Fund Soc', FSB v. Caesars Entm't Corp.*, Case No. 10004 (Del. Ch. Sept. 23, 2014).

94. Duff & Phelps' history of providing transaction opinions to Sponsor Apollo is similarly checkered. For example, in *Hexion Specialty Chemicals, Inc. v. Huntsman Corp.*, which is but one of a number of cases in which Duff & Phelps' valuation opinions have been rejected by the Delaware Chancery Court, this Court rejected Duff & Phelps' "unreliable" insolvency opinion.[65] Specifically, the Court concluded that that Duff & Phelps understood that their opinion—advancing a value that was $4 billion less than that reached by Apollo's other go-to opinion vendor, Valuation Research Group—would be used in litigation, that Duff & Phelps did not communicate with company management for fear that it might receive inconvenient information concerning the company's financial condition that would not advance Sponsor Apollo's interests, and that Duff & Phelps based their opinion on "skewed numbers provided by Apollo."[66]

(b) Octavius And Linq

95. At the same time Planet Hollywood was sheared off from CEOC for a small fraction of its true worth, Defendants stripped CEOC of Octavius and Linq on similarly unfair terms. Octavius is the most exclusive, modern, and valuable of the six hotel towers that comprise Caesars Palace Las Vegas. (The five remaining older towers make up the only Las Vegas property that CEOC still owns.)

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[65] 965 A.2d 715, 727 (Del. Ch. 2008).
[66] *Id.* at 726-27.

Constructed for a reported $860 million[67] and offering 662 luxury rooms, 60 suites, and six luxury villas, Octavius opened in January 2012 to compete for the high-end of the Las Vegas lodging market against such hotels as the Bellagio and Wynn. A July 2012 RBC report described Octavius as attracting a "more valuable Caesars guest" and predicted that it would command a higher average daily rate than the remaining older Caesars Palace towers.[68]

96. Linq is an open-air retail, dining, and entertainment corridor on the Las Vegas Strip that opened in mid-2014. Linq features the "High Roller," the world's tallest observation wheel, which has received "rave reviews from media outlets around the world."[69] Linq "links" CERP property Flamingo Hotel & Casino with The Quad (another property formerly owned by CEOC and now owned by CGP—details of that transfer are included below). Strategically, Linq was positioned to allow CEOC to dominate the heart of the Las Vegas Strip's east side, because CEOC at that time owned Planet Hollywood, Bally's Las Vegas, The Cromwell, and The Quad. At a December 2013 presentation, Jacqueline Beato, then CEC's Vice President of Finance, lauded Linq as Caesars' "key non-gaming development taking place in Las Vegas right now." She further stated that Linq is

[67] CEC, Annual Report (Form 10-K) at 33 (Mar. 15 2012).

[68] RBC, CEC Initiating Coverage, at 6, 9.

[69] CEC Q1 2014 Earnings Call (May 7, 2014), *available at* http://seekingalpha.com/article/2200603-caesars-entertainments-czr-ceo-gary-loveman-on-q1-2014-results-earnings-call-transcript (quoting Gary Loveman).

"in the center of our . . . strategy in the Las Vegas Strip."[70] A July 2012 RBC report described Linq as a valuable property from which Caesars "hope[d] to monetize the extensive foot traffic that passes along that end of the Strip by targeting the mid-range customer segment," and as a property that could be both "accretive on a standalone basis, as well as help the surrounding Caesars properties."[71]

97. In a clumsy attempt to insulate an obviously inequitable transaction from attack and to hinder CEOC's creditors, CEC executed these transfers through a series of unnecessary intermediate steps. First, CEC formed a new intermediate holding company. Second, CEC transferred to that company the ownership of the ultimate entities that owned and/or controlled Octavius and Linq. Third, CEC acquired the intermediate holding company. Finally, CEC contributed the intermediate holding company to Rio Properties, LLC, a subsidiary of CEC which then became a subsidiary of CERP.

98. The hoops through which Defendants jumped and the machinations in which Defendants engaged in taking Octavius and Linq from CEOC do little to obscure the fundamental economic reality: Octavius and Linq were stripped from CEOC for inadequate consideration while CEOC was indisputably and deeply

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[70] S&P Capital IQ Transcript of CEC Company Conference Presentation, at 2-3 (Dec. 4, 2013).

[71] RBC, CEC Initiating Coverage, at 9.

insolvent. Specifically, the consideration CEOC agreed to receive for its equity stake in Octavius and Linq was a combined $134 million ($81 million in cash and CEC's transfer to CEOC of $69 million in face amount of CEOC notes for cancellation, the latter amount valued by CEC at a purported market value of $53 million). Including CEC's assumption of $450 million of debt, the total enterprise value implied by the transaction consideration was a meager $584 million. Based on a CEC Form 8-K filed September 24, 2013, Octavius and Linq were estimated to generate a combined total of $103 million to $138 million of EBITDA. Applying a midpoint of $121 million against the purchase price of $584 million yields an implied EBITDA multiple of 4.8x—spectacularly low for a newly built or renovated property in a prime location on the Las Vegas Strip. See Figure E below.

Figure E

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
October 2013	Linq / Octavius	$1.4BN	$942MM	$134MM	**$808MM**	**86%**

99. As with the Planet Hollywood transfer, applying the appropriate multiple to reach fair market value reveals the staggering amount of value that was siphoned from CEOC. The prevailing EBITDA multiple for newly developed properties in prime locations on the Las Vegas Strip at the time of the transaction was at least approximately 11x–12x—more than double the multiple implied by

the transaction.[72] Applying this multiple range to CEC's mid-point run-rate EBITDA estimate of $121 million implies a total valuation of $1.3 billion to $1.5 billion and an equity valuation of $881 million to $1 billion—resulting conservatively in a shortfall in consideration to CEOC of at least $747 million to $868 million.

100. Indeed, the amount of value received by CEOC in connection with these transactions is all the more outrageous when compared to the amount CEOC spent to construct Octavius and Linq. CEOC spent approximately $860 million to construct Octavius alone, and it had already spent $309.6 million on Linq by June 30, 2013—a number that was undoubtedly larger by the time of the October 2013 transfers. The consideration CEOC agreed to receive for Octavius and Linq was therefore less than half of the approximately $1.2 billion that CEOC either had spent recently or *was still in the process of spending* to complete construction of these assets.

101. Upon information and belief, the original terms of this transfer were even more one-sided: CEOC was initially prepared to give up Octavius and Linq solely for CEC's assumption of $450 million in *non-recourse* project-level bank

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[72] This range is based on Wall Street research for Las Vegas assets and Merlin Entertainments PLC (operator of the London Eye, a similar property to the High Roller). Furthermore, Blackstone recently acquired the Cosmopolitan, a single property also located in the heart of the Vegas Strip, at a multiple of 14.8x LTM EBITDA.

debt. Since the non-recourse nature of the project debt meant that CEC was not assuming or exposed to any risk of loss, nor was any value or consideration being affirmatively provided to CEOC by CEC, those terms lack any possible commercial rationale. The effective price of the transaction originally proposed by CEOC and Defendants was *zero*. CEOC was handing CEC a "free option," only in this case one that was already significantly in the money. Upon information and belief, it was only because Defendants recognized that the transaction had to have some veneer, no matter how thin, of purported reasonableness that CEC grudgingly provided the drastically inadequate consideration described above. This revealing episode—in which CEOC astoundingly was prepared to transfer properties with considerable value and upside in exchange for essentially nothing—demonstrates once again the total disregard the CEOC Directors and Colvin have for CEOC's interests, and their apparent desire to pursue Defendants' enrichment at all cost. Further evidence of Defendants' callous disregard for CEOC's interest lies in the fact that the CEOC Directors and Colvin did not make even the weakest of efforts to market these assets to a third party.

102. CEOC also purportedly obtained a fairness opinion from an unnamed source for this transaction. CEC's October 15, 2013 Form 8-K asserts that "[CEOC] obtained an opinion of an independent financial advisor that, based upon and subject to the assumptions and other matters set forth in such opinion, it

received reasonably equivalent value" for transferring Octavius and Linq. *Id.* at Item 8.01. But CEC fails to disclose at what point relative to the transfer the opinion was actually issued (though, upon information and belief, it was no earlier than the *closing* of the transfer). Thus, the opinion appears potentially to have been commissioned after-the-fact to disguise the nakedly unfair nature of the transaction. And even if this opinion had been presented to the CEOC Directors prior to the closing of the transfer, there were no independent CEOC Directors to whom the opinion could have been presented, and no other truly independent, objective advisor who would have been available to determine that the transaction was fair to CEOC before it closed. Apart from this dubious opinion, Plaintiff is not aware that *CEOC* received a fairness opinion for any of the other transfers or transactions described in the Complaint.

103. In addition to the obvious value transfer to CEC from the looting of Linq and Octavius, there were further benefits to CEC—and therefore the Sponsors—through the transfer of these assets to CERP. At the time of the transfer, CERP's predecessor entity was highly levered and struggling financially. Due to CEC's guarantee of certain CERP obligations, CEC was thus exposed. To shore up the entity and preserve their investment in CERP, the Sponsors orchestrated a refinancing of CERP's debt that involved the transfer of Linq and Octavius to CERP and the release of CEC's guarantee over certain CERP obligations. This

transaction was another win-win for CEC and the Sponsors: Transferring the properties to an entity with equity value enabled them to benefit from the properties' substantial potential upside, while removing the CERP guarantee's significant potential downside.

(c) The Horseshoe Baltimore

104. CEOC's 41.4% joint venture interest in The Horseshoe Baltimore, which opened in August 2014, was also stripped from CEOC in October 2013, along with 50% of CEOC's management fee stream.[73] The Horseshoe Baltimore contains 110,000 square feet of casino floor space, seven restaurants, a 10,000-square-foot meeting facility, and is "ideally located in downtown Baltimore between Camden Yards and Ravens Stadium."[74] The CAC S-1 proudly stated that The Horseshoe Baltimore represented "a unique opportunity for [CGP] to enter a new gaming market with attractive growth prospects."[75]

105. As in the case of the Las Vegas properties discussed above, CEOC did not receive anywhere near equivalent value for transferring The Horseshoe Baltimore to CGP, as CEOC received only $60 million for its valuable 41.4%

[73] CEOC's initial stake in The Horseshoe Baltimore was 51.9%. This analysis assumes CGP acquired CEOC's 41.4% of The Horseshoe Baltimore. It appears, however, that CGP received the full 51.9% stake and sold 10.5% under a pre-existing arrangement to CVPR Gaming Holdings for $12.8 million. It is unclear whether CEOC has received consideration for the ownership interest that was transferred from CEOC to CGP but subsequently sold.

[74] CAC Q1 2014 Earnings Call (May 7, 2014).

[75] CAC S-1, at 144.

equity stake. Including the assumption of $137 million in debt,[76] the total enterprise value implied by the transaction consideration allocable to CEOC's 41.4% interest in the casino was only $475 million for 100% of The Horseshoe Baltimore,[77] which implies an EBITDA multiple valuation of just 5.3x, based on estimated run-rate EBITDA of $90 million.[78] By contrast, Barclays at the time of the transfer applied a multiple of 8.0x, Deutsche Bank applied 8.5x, and Credit Suisse and Imperial Capital determined that appropriate multiples for the property were up to 9.0x.[79] Applying research analysts' multiples of at least approximately 8.0x–9.0x to estimated EBITDA of $90 million results in a total fair value of The Horseshoe Baltimore of at least $720 million to $810 million, implying that CEOC's 41.4% equity stake was actually worth between $161 to $199 million.

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[76] The $137 million amounts to CEOC's 41.4% portion of the total $330 million project debt. There is insufficient information available to verify whether CEOC actually received or retained the $80 million in consideration. Furthermore, only $225 million of the $330 million was drawn. The valuation herein conservatively assumes that the remaining $330 million of project debt was drawn to complete construction; if it were not, the valuation shortfall would be even *greater*.

[77] Based on a CAC Prospectus dated October 21, 2013, CGP was also going to "assume all of Caesars Entertainment's uncalled capital commitments" and thus "may have to contribute up to an additional $22.3 million of capital contributions under the terms of Maryland Joint Venture's operating agreement." *Id.* at 6. It is unclear whether this contingent $22.3 million capital contribution was ever required or is likely to be required.

[78] This range is based on review of analyst research, including analyst reports issued by RBC, Deutsche Bank, Credit Suisse, Barclays, and Imperial, and excludes management fees.

[79] These estimates reflect forward/run-rate EBITDA estimates.

But CEOC received only $60 million for its equity stake, resulting in an approximate shortfall in value of at least $101 million to $139 million.

106. The Horseshoe Baltimore transaction also inexplicably required CEOC to surrender 50% of the management fee stream from The Horseshoe Baltimore while retaining 100% of the management responsibility—an exchange that makes no more economic or business sense in Baltimore than it did in Las Vegas and whose only true purpose was to maximize the quantum of cash flows Defendants extracted from CEOC. CEOC received a mere $20 million for these management fees, which were estimated to generate approximately $4.5 million per year.[80] The consideration for these valuable management fees was thus an astonishingly low 4.4x EBITDA. Research analysts generally apply much higher multiples to management fees—specifically, for Caesars, research analysts have applied multiples on management fees of 12.0x–13.0x.[81] This multiple range implies a valuation of CEOC's 50% stake in The Horseshoe Baltimore management fees of between $54 million and $59 million—resulting in an additional valuation shortfall to CEOC of at least $34 million to $39 million. When combining these figures with the shortfall in valuation received by CEOC for its 41.4% stake in The Horseshoe Baltimore, the total shortfall in value to

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[80] Deutsche Bank Market Research, *Caesars Entertainment: Takeaways from 3Q13*, at Figure 7: CGP Equity Value (Oct. 30, 2013).

[81] *See supra* note 62.

CEOC in connection with The Horseshoe Baltimore transaction was at least between $135 million and $177 million. See Figure F below.

Figure F

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
October 2013	Horseshoe Baltimore	$373MM	$236MM	$80MM	**$156MM**	**66%**

107. As with the Planet Hollywood transfer, CEC asserts that The Horseshoe Baltimore transfer was approved by a subcommittee of independent directors and supported by a fairness opinion. In reality, there were no independent CEOC directors at the time of the transfer and the fairness opinion was provided to CEC, the indirect counterparty and ultimate beneficiary. Once again, no fairness opinion was provided to CEOC. And further, as with the other one-sided, insider transactions, Defendants did not attempt to market The Horseshoe Baltimore to any third parties.

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108. Had Defendants and the Sponsors engaged only in the stripping of the above-described Las Vegas properties and The Horseshoe Baltimore, resulting in a shortfall in consideration to CEOC of between $1.3 billion and $1.6 billion, this misconduct alone would qualify as a gross breach of Defendants' fiduciary duties and warrant a strong judicial remedy to protect CEOC and its creditors—this is particularly so given CEOC's openly-disclosed insolvency in 2013. However,

Defendants and the Sponsors were not content in October 2013 to stop after their plundering of these physical assets.

B. The October 2013 Stripping Of CEOC's Valuable Online And World Series Of Poker Assets

109. At the same time Defendants were looting CEOC of its physical properties in October 2013, they also completed their stripping of CEOC's online gaming business housed in CIE, a process that had begun in 2011.

110. The immense value, both current and potential, of CIE is indisputable. Formed in May 2009, CIE is one of the world's preeminent casino-themed online gaming providers. Through its online, mobile, and social gaming products, CIE generates rapidly growing revenues from the sale of virtual currencies within casino-themed games globally on popular and profitable platforms such as Facebook. CIE also holds the lucrative World Series of Poker ("WSOP") trademarks and associated rights, which it acquired from CEOC for a mere $15 million in 2009. In 2011, CIE repurchased from CEOC, for $20.5 million, the exclusive right to host all WSOP tournaments going forward.[82] Notably, the 2012

[82] CAC, Annual Report (Form 10-K) at 127 (Mar. 28, 2014). Although CEOC's amended complaint, filed in the Supreme Court of the State of New York against certain institutional first and second lien note holders, asserts that fairness opinions were rendered for the 2009 and 2011 WSOP transactions, it concedes that only the financial advisor to the *CEC Board*, and not the *CEOC Board*, opined that the transactions were fair to CEOC. *See* CEOC Am. Compl. ¶ 65 ("The transaction was approved by CEC's board and the board's financial advisor rendered a fairness opinion concluding that the transaction was fair from a

Las Vegas Flagship WSOP Tournament had more than 74,000 entrants, and WSOP benefits from an ESPN contract through 2017 and from several sponsorship and licensing agreements, including with Microsoft for a new Xbox Live game. In addition to WSOP, CIE also owns Slotomania, an online slot machine gambling simulation.

111. Moreover, three U.S. jurisdictions (Nevada, New Jersey, and Delaware) currently allow real money online casino gaming, and analysts have repeatedly suggested that significant incremental value exists for CIE based on the possibility that other states and/or the federal government will legalize real money online casino gaming in the future. Indeed, CIE has already captured nearly a third of the online gaming market and is poised to capture more[83] as online gaming is legalized on the state and/or federal levels.

112. Reflective of CIE's incredible growth trajectory, between 2011 and 2013, CIE's revenues grew at an astronomical compounded annual rate of 118%,

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financial point of view to CEOC and on terms no less favorable to CEOC than would be obtained in a comparable arm's length transaction with a person that was not an affiliate."); ¶ 66 ("The transaction was approved by CEC's board and the board's financial advisor rendered a fairness opinion concluding, inter alia, that the principal economic terms of the transaction were fair from a financial point of view to CEOC and the transaction was on terms that were no less favorable to CEOC and its subsidiaries than would be obtained in a comparable arm's-length transaction with a person that was not an affiliate.").

[83] *See* CAC Q1 2014 Earnings Call (May 7, 2014).

and during the first nine months of 2014, CIE experienced continued total revenue growth at a stratospheric rate of approximately 95%.[84]

113. It is not surprising, therefore, that CEOC had promoted CIE as critical to its future. As Mitchell Garber, at the time president, CEO, and a director of CIE, explained in May 2010, "the future of gaming is going to run through the Internet in one way or another" and "brick-and-mortar casinos that don't adapt to the Internet will die." And a 2010 Harrah's Entertainment Investor Presentation noted that online gaming would be a "key driver of future value creation" and that Internet-based opportunities could "change the game."[85]

114. Wall Street analysts have also lauded the immense value in CIE. A July 2012 RBC Report characterized CIE as a "savior," at the "forefront of the online gaming segment," and a potential "market leader in this segment"—a business that was expected to "increase dramatically."[86] A February 2013 Goldman Sachs analyst report predicted that CIE "could ultimately control approximately 25%–33% of the US online poker market given the breadth of its Total Rewards database and strength of its World Series of Poker brand, which

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[84] This figure reflects the year-on-year growth rate. *See* CAC, Quarterly Report (Form 10-Q) at 9, 17(Nov. 14, 2014); *see also* CAC, Annual Report (Form 10-K) at 84, 95 (Mar. 28, 2014).

[85] Harrah's Entertainment, Inc. 2010 Investor Presentation, at 20, 23 (2010).

[86] RBC, Initiating Coverage, at 18, 26.

translates to $113–$150 million of EBITDA contribution to CIE."[87] A December 16, 2013 Credit Suisse report forecast that CIE's EBITDA would grow by approximately 40% in 2014.[88]

115. In October 2013, Defendants completed the stripping of CEOC's interest in CIE, which, it now appears, began in 2011, by transferring to CGP all of CEC's common stock in CIE. Until at least 2011, CIE was owned by CEOC and was one of its prized assets. Although, upon information and belief, Defendants intentionally obscured the mechanisms for pilfering CIE from CEOC,[89] CEC appears to have caused CEOC in or around March 2011 to transfer ownership to CEC of the common stock of the intermediate subsidiary that owned CIE.[90] This brazen movement of a valuable growth asset back in 2011, it turned out, portended continued bad behavior. CEC then transferred the CIE stake to CGP in October 2013, further removing it from the reach of CEOC and its creditors.

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[87] Goldman Sachs, *Company Update—Caesars Entertainment Corporation*, at 8 (Feb. 13, 2013).

[88] Credit Suisse, Let it Grow, at 4.

[89] Disclosures concerning CIE's ownership are incomplete, but CEC's SEC filings as late as March 2011 suggest an undisclosed transfer through which CIE—which was, upon information and belief, a subsidiary of CEOC—emerged as a subsidiary of a different entity, while a CEOC subsidiary retained 62.5% of the preferred shares of CIE's direct parent. CEC purports, through an undisclosed mechanism, to have obtained 96.4% of the common equity, and 37.5% of the preferred shares in that direct parent. There is no indication in any public source that CEOC received any consideration for its majority interests in CIE.

[90] While CEOC appears to have retained a portion of the preferred stock, there has been no public disclosure as to what became of CEOC's preferred equity interest in CIE.

116. CGP and CAC publicly celebrated the massive growth potential of this looted asset. The CAC S-1 touted CIE's growth potential: "CIE's revenue and profitability have grown rapidly and significantly. . . . [W]e anticipate that CIE's revenue growth and EBITDA will accelerate due to its ability to utilize its live service game and development teams . . . and the design of CIE's existing games, which generally require little modification across platforms."[91] The disclosure further stated that CEC "recognized the importance of positioning itself for the convergence of interactive games, regulated online real money gaming and the 'brick-and-mortar' casino-entertainment industry, while at the same time taking advantage of the synergies between them."[92]

117. Regardless of whatever ham-fisted machinations Defendants orchestrated in an effort to shield the value of this blue-chip asset from creditors and its transfer from challenge, there is no indication in any public source that CEOC received *any* consideration for CIE, despite the substantial existing value and immense potential value of online gaming. CEOC's foregone interest in CIE is estimated to be worth at least $635 million, based on the $32.3 million valuation of a 4.9% stake in CIE[93] in connection with a purchase of that interest by Rock

[91] CAC S-1, at 144.

[92] *Id.* at 2.

[93] As of March 2012, CEC owned 96.4% of CIE through a subsidiary. *See* CEC, Annual Report (Form 10-K) Ex. 21 (Mar. 14, 2012).

Gaming in March 2012 and June 2012, exclusive of any control premium owed to CEOC (which would significantly increase the valuation).[94] See Figure G below.

Figure G

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
2011	Caesars Interactive Entertainment	$635MM	$635MM	Likely none	**$635MM**	**100%**

118. Despite having stripped this valuable asset from CEOC, Defendants continue to force CEOC to slavishly support CIE. For instance, pursuant to a September 29, 2011 agreement, CEC caused CEOC to grant to CIE an exclusive license to use CEOC's trademarks for online gaming, including "Caesars" and "Caesars Palace," in more than 50 countries and territories. Thus, CEOC is prevented from competing with CIE or realizing revenues from additional sources for the use of its valuable trademarks.

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[94] Courts in Delaware frequently apply 30% control premium to transactions. *See, e.g.*, *Prescott Grp. Small Cap, L.P. v. Coleman Co.*, 2004 WL 2059515, at *23 (Del. Ch. Sept. 8, 2004) (noting Delaware courts often apply 30% control premium); *Doft & Co. v. Travelocity.com Inc.*, 2004 WL 1152338, at *11 (Del. Ch. May 20, 2004, revised May 21, 2004) ("Relying on recent precedents, the court will adjust the $25.20 per share value by adding a 30% control premium."); *Borruso v. Commc'ns Telesys. Int'l*, 753 A.2d 451, 459 (Del. Ch. 1999) (applying 30% control premium); *Bomarko, Inc. v. Int'l Telecharge, Inc.*, 794 A.2d 1161, 1186 n.11 (Del. Ch. 1999, revised Nov. 16, 1999) ("That amount is then increased by the 30% control premium to approximately $126.07 million and reduced by the $11 million working capital deficit."), *aff'd* 766 A.2d 437 (Del. 2000); *see also Harris v. Rapid-Am. Corp.*, 1992 WL 69614, at *4 (Del. Ch. Apr. 6, 1992) (applying control premium of over 40%).

119. Amazingly, Defendants and the Sponsors have also unashamedly caused CEOC and its agents to spend more than $9 million over the past three years lobbying the government in support of real-money online gaming. In other words, CEOC has been forced to expend, for no consideration, its supposedly limited liquidity to promote the very online gaming business Defendants took from it and in which it has no significant continuing economic interest. This blatant thievery—causing CEOC to fund $9 million in lobbying for CGP from which it can receive at most a *de minimis* economic benefit—is little different in substance than if CEOC turned the $9 million directly over to CGP.

120. Further, CEOC receives only a tiny fraction of the revenues to which it is entitled for permitting CIE to operate in New Jersey. Typically, an Internet gaming provider seeking to operate in New Jersey licenses its software to an existing land-based facility that is licensed through the state, and the land-based operator retains the majority of the online operator's net revenues (upon information and belief, often in excess of 85%–90% of net online revenues). Thus, customarily, an online entity will receive only 10%–15% or less of net online revenues, with the balance being retained by the relevant land-based operator. Upon information and belief, here by contrast CIE—the online entity—retains *97%* of the revenues while paying only a *de minimis* 3% share of revenues to CEOC for

the use of CEOC's land-based casinos.[95] (The transfer of CEOC's interest in CIE to CEC, the retransfer of CIE to CGP, the lobbying expenses, and the exclusive affiliation with, and trademark licensing to, CIE are the "CIE Transfers.")[96]

* * *

121. Defendants did not cease their efforts to extract all meaningful value from CEOC in 2013. To the contrary, Defendants were just getting started. As described below, their actions in 2014 demonstrated beyond a shadow of a doubt their intention to take—and to keep taking—everything of value from CEOC that they could possibly get away with.

C. The May 2014 Property Stripping

122. In February 2014, during CEC's 2013 fourth quarter earnings call, Defendant Loveman hinted ominously that more asset-stripping was in the works:

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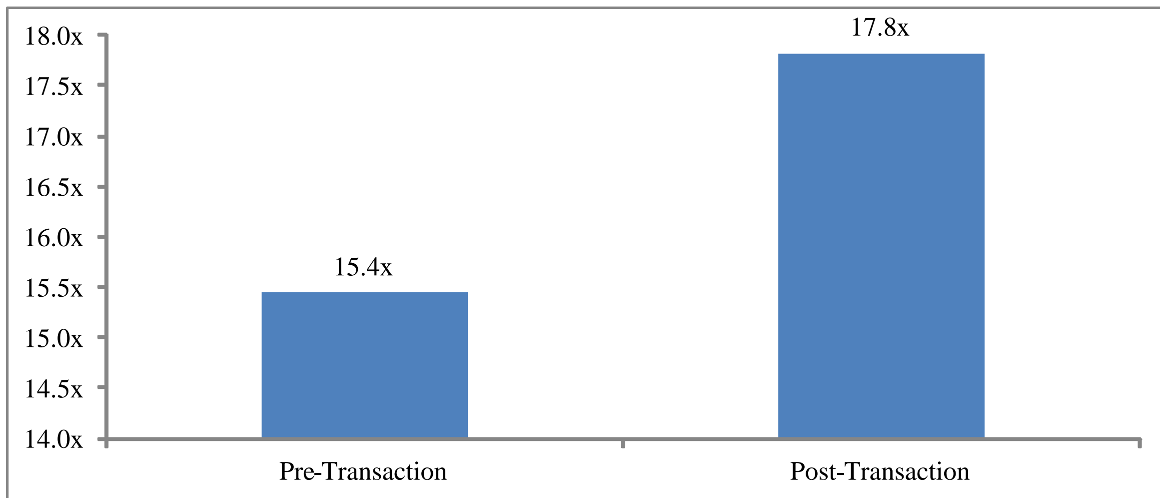
[95] Under New Jersey law, all three of CEOC's remaining, licensed Atlantic City properties are permitted to affiliate with an Internet Gaming Provider ("IGP"), and to realize revenues from each of those affiliations. However, CEOC has committed exclusively to CIE, thereby depriving it of substantial sources of revenue from other internet providers.

[96] Upon information and belief, CEOC also made a substantial investment in developing the intellectual property that CIE now owns or licenses between CIE's 2009 formation and 2011.

> [W]e feel that [CEC] is composed of three entities, two of which are financially healthy, CERP and CGP, and one [CEOC] is over-levered and consuming cash at a rate that we are not comfortable with. So we are going to take steps, including with asset sales to address CEOC and its overleveraged circumstances. How we do that remains to be determined.[97]

As Loveman already knew, but did not disclose, Defendants and the Sponsors intended to strip additional valuable properties from CEOC. Contrary to Loveman's comment above, Defendants effected these additional asset sales in May 2014 not to reduce CEOC's leverage, but to benefit Defendants and the Sponsors at the expense of CEOC and its creditors. In fact, in the process of deliberately stripping the assets described below, Defendants would further *increase* CEOC's leverage, as shown in Figure H.

Figure H: Leverage Ratio Before and After the May 2014 Transactions



[97] CEC Q4 2013 Earnings Call (Mar. 11, 2014), *available at* http://seekingalpha.com/article/2082603-caesars-entertainments-ceo-discusses-q4-2013-results-earnings-call-transcript.

(a) The Cromwell, The Quad, And Bally's Las Vegas

123. On May 5, 2014, within days of the completion of hundreds of millions of dollars in renovations funded by CEOC, Defendants caused CEOC to transfer to CGP CEOC's remaining properties on the east side of the Las Vegas Strip—The Cromwell, The Quad, and Bally's Las Vegas—along with a 50% interest in their ongoing management fees.

124. The Cromwell, a "boutique hotel" that includes 188 rooms, four restaurants and bars, a 65,000-square-foot indoor/outdoor pool club/nightclub, and a 53,000-square-foot casino floor, re-opened in May 2014 after a $235 million renovation that was funded entirely by CEOC. CEC estimates that The Cromwell generates between $40 million to $50 million of annual EBITDAM.[98]

125. The Quad, which has been renamed The Linq Hotel and Casino, is a 2,550-room hotel with a 95,300-square-foot casino floor. The Quad completed its initial $90 million renovation in 2012, and is expected to complete a further $223 million renovation during the first half of 2015, broadening its appeal to the increasing number of under-40 guests and gamers who visit Las Vegas. CEC projects that The Quad's EBITDAM will increase by a range of $31 million to $47 million.[99] Conservatively applying an 11x–12x multiple range to the mid-point

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[98] Represents run-rate Adjusted EBITDA as estimated by CEC. EBITDAM is earnings before interest, taxes, depreciation, amortization, and management fees.

[99] CEC, Current Report (Form 8-K) Ex. 99.1 (Apr. 10, 2014).

estimated EBITDAM increase of $39 million results in "value creation" of nearly $500 million compared to only $223 spent on renovations—a massive increase in value that will now accrue to CGP, not CEOC.

126. Bally's Las Vegas has 2,814 rooms, over 12 restaurants and bars, 167,521 square feet of meeting space, and a 66,200-square-foot casino floor. In December 2013, the property completed renovations of its 756-room "Jubilee Tower," which alone is expected to generate additional EBITDA of $5.6 million.

127. Tellingly, Defendants excluded from the above asset transfer a laundry facility where CEC launders linens and other items used at its Las Vegas properties (the "Laundry Facility"). Upon information and belief, the facility was left behind because, immediately prior to the transfer, Defendants became concerned about possible environmental liabilities associated with the Laundry Facility. Therefore, they added an amendment to the transaction agreement ensuring that CGP would take possession (and assume responsibility) for the Laundry Facility only when CGP was satisfied that the facility would not burden it with material environmental liabilities. Even worse, if CGP determines that no material environment liabilities exist, and thus that the Laundry Facility has value, it will be transferred for *no additional consideration* to CGP.[100] Finally, to add insult to injury, the deal permits CGP to continue using the Laundry Facility free of

[100] CEC has not disclosed whether the Laundry Facility has been transferred to CGP.

charge—whether it ultimately takes possession of the facility or not. This transaction exemplifies Defendants' obsessive determination to transfer to themselves and to the Sponsors' affiliates everything of value and leave only detritus behind.

128. The total reported consideration for The Cromwell, The Quad, and Bally's Las Vegas (minus the Laundry Facility) was approximately $1.6 billion, consisting of $1.2 billion in cash, $185 million in assumed debt, and $223 million in capital expenditures for the renovation of The Quad.[101] This was, as with the other transfers, woefully inadequate. See Figure I below.

Figure I

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
May 2014	Cromwell, Quad and Bally's	$1.8BN	$1.6BN	$1.4BN	**$213MM**	**13%**

129. Moreover, the consideration paid failed to reflect the explosive growth potential of these properties, which are either in the midst of renovations, are located near other properties undergoing extensive renovations, or have just completed renovations and have not yet ramped up operations. Indeed, CEC

[101] As there were various pre- and post-closing adjustments, Plaintiff does not know the exact final purchase price.

conceded that the "renovation" of these properties would "have a significant positive impact on our results of operations."[102]

130. CEC has projected that the three properties would generate approximately $133 million to $175 million in EBITDA.[103] Applying an 11x–12x multiple range—which is consistent with market multiples at the time—to $154 million of EBITDA implies a valuation range of $1.7 billion to $1.8 billion. This leaves a shortfall in value to CEOC of at least $135 million to $290 million. The recent sale of the Cosmopolitan Las Vegas—a single property also located in the heart of the Vegas Strip—for $1.7 billion, or at an implied 14.8x EBITDA[104] multiple, underscores the conservative nature of this range.[105]

131. The conservative range of $1.7 billion to $1.8 billion calculated for these prime Las Vegas properties does not even begin to account for the premium applicable to such an irreplaceable basket of properties located near each other and in the heart of the Las Vegas Strip, nor their extraordinary value when combined with the three Las Vegas properties—Planet Hollywood Las Vegas, Octavius, and

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[102] CEC, Current Report (Form 8-K) Ex. 99.1 (Apr. 10, 2014).

[103] Caesars disclosed 2013 adjusted EBITDA for The Quad, Bally's Las Vegas, Planet Hollywood, and Harrah's New Orleans of $287 million to $320 million. *Id.* Excluding Planet Hollywood and Harrah's New Orleans and adding Run-Rate EBITDA for The Cromwell results in approximately $133 million to $175 million EBITDA. *See id.*

[104] LTM EBITDA.

[105] At this 14.8x EBITDA multiple, illustratively, the shortfall to CEOC would be even greater still—$722 million or more.

The Linq—CEOC was forced to give up in 2013. If Defendants' intention was to maximize value, these six properties would have been marketed together and subjected to a market test. Caesars controls over 150 acres on the east side of the Las Vegas Strip, which is double the size of MGM Resorts International's 76-acre City Center Las Vegas, and would have attracted prospective buyers from all over the world. As a Caesars representative stated at a March 2014 presentation: "[T]hese properties are on the 50 yard line of the Las Vegas Strip, and it really is the center of gravity when you think about the Vegas Strip . . . ."[106] Nor does the valuation account for the critical role these marquee "hub" properties play as the most profitable and desirable anchor destination properties in the Total Rewards "hub and spoke" strategy.

132. Not only was the purported consideration of $1.6 billion grossly inadequate (failing to compensate CEOC, amongst other things, for the value of the renovations it had recently completed), but CEOC neither did nor will receive that full amount to begin with both because: (i) CEOC is being forced to transfer funds to CGP to cover certain costs associated with reopening The Cromwell, and (ii) CEOC agreed to indemnify CGP for up to 15% of possible cost overruns over $223 million at The Quad, as well as unquantified liabilities under certain multiemployer benefit plans. Furthermore, the purported consideration fails to

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[106] Transcript of NGCB Special Meeting, at 45:5-7 (Mar. 20, 2014) ("March 2014 NGCB Tr.").

account for a $15.4 million intercompany note payable to CEC which funded a portion of The Cromwell's renovations. According to CEOC's Q1 10-Q filing, "[t]his note was settled on March 31, 2014, in conjunction with the [CEOC] – [CGP] Property Transaction."[107] Upon information and belief, CEOC paid to settle this $15.4 million debt prior to transferring The Cromwell to CGP.

133. Finally, although CEOC was also compelled to give up 50% of the management fee stream for this basket of Las Vegas properties (estimated to be worth approximately $15 million per year), it remains responsible for 100% of the management costs—the same arrangement that was imposed on CEOC regarding the properties that were taken from it in October 2013.

134. In a March 20, 2014 appearance before the NGCB, Cohen—at that time one of only two CEOC Directors—implicitly conceded that the purpose of the then-proposed 2014 Las Vegas property transfers was to remove these assets from the reach of creditors, calling the transfers "tax and debt structuring" that was "driven" by the Sponsors.[108] At that same presentation, Cohen's colleague Defendant Eric Hession (who has also served as a CEOC Director) explained the need to remove the assets from CEOC due to its "challenged . . . profitability perspective."[109]

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[107] CEOC, Current Report (Form 8-K) at 17 (May 30, 2014).
[108] *See* March 2014 NGCB Tr., at 15:9-22.
[109] *Id.* at 21:11-14.

135. When asked whether the proposed transactions were approved by "independent" board members, Cohen answered that they were. He identified CEC Directors Kleisner and Swann, and stated that both were "non-TPG and Apollo."[110] Kleisner, however, is a director of Apollo Residential Mortgage and is not disinterested as pertaining to these affiliate transactions. And of course, even more notably, neither Kleisner nor Swann are directors of CEOC or any of its subsidiaries (the entities actually transferring the assets). Indeed, at this time CEOC did not have—and has never had—independent directors.

136. Finally, once again, there was absolutely no effort made to market these valuable, high-growth assets to a single third party investor.

(b) Harrah's New Orleans

137. Harrah's New Orleans consists of a 450-room hotel and a 125,000-square-foot casino, and as the only land-based casino in the New Orleans gaming market, commands approximately 53% of that market (based on 2013 gaming gross wins). As CAC chief financial officer Craig Abrahams proclaimed to the LGCB on April 24, 2014: "[T]his is a marquis [sic] asset."[111] Cohen further extolled the value of this property during the same presentation, stating: "[T]he New Orleans property is very important to the Caesars Entertainment Corporation,

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[110] *Id.* at 14:10-12.

[111] April 2014 LGCB Tr., at 53:17-18; *see also* CEC 4Q 2010 Earnings Call Transcript (Feb. 25, 2011) ("The one that I am most heartened about is New Orleans.").

specifically to [CEOC], and it's a very valuable asset. . . . [I]t's a very high-end asset, very important to our portfolio for the Harrah's brand, and one of the reasons that it was chosen . . . for this transaction . . . ."[112]

138. However, in keeping with the now-familiar pattern, CEOC did not receive fair value for this "marquee" asset when it was transferred to CGP in May 2014. The sale price of $660 million implied an EBITDA multiple of just 6.9x based on research analysts' mid-point EBITDA estimates of approximately $95 million. In sharp contrast, Barclays at the time applied a multiple of 8.0x while Imperial Capital determined the appropriate multiple for the property was as high as 10.0x. Based on mid-point EBITDA estimates of approximately $95 million and research analysts' multiples of 8.0–10.0x, CEOC's stake in Harrah's New Orleans was worth an estimated $760 to $950 million, meaning that the shortfall in the consideration paid to CEOC was at least between $100 million and $290 million. See Figure J below.

Figure J

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
May 2014	Harrah's New Orleans	$855MM	$855MM	$660MM	**$195MM**	**23%**

139. CEC and the Sponsors have admitted that, as with all the other transferred properties, they did not even attempt to market Harrah's New Orleans

[112] April 2014 LGCB Tr., at 32:24-33:9.

to third parties. As Cohen, speaking as general counsel for CAC, conceded in response to a question from the LGCB at the April 24, 2014 presentation:

> Q: "[A]s far as you knew, corporate Caesars had no intention whatsoever of going outside the corporate structure to a third entity, a third party to sell this property; that's correct?"
>
> A: "[N]o one would pay a full and fair price for that property, and because of its strategic importance, yes, that's exactly correct."[113]

140. Furthermore, when asked at this same meeting whether the transfer of Harrah's New Orleans would impair CEOC's bondholders or lienholders, Hession largely evaded the question and stated sheepishly: "We believe that this is the best transaction for CEOC at this time."[114] (The property transfers detailed in Sections V.A and V.C are the "CEOC Property Transfers".)

* * *

141. Even without beginning to account for the hefty premium a buyer would pay to consolidate control on the east side of the heart of the Vegas Strip, and even assuming CEOC received all the purported consideration (some of which, as detailed above, is likely illusory), the total shortfall in consideration for these "irreplaceable" Las Vegas properties, The Horseshoe Baltimore, Harrah's New Orleans, and CIE was between $2.2 billion and $2.8 billion. If Defendants had engaged in only that misconduct, thereby plunging CEOC yet deeper into hopeless

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[113] *Id.* at 33:16-34:3.
[114] *Id.* at 50:10-19.

insolvency, it would qualify as an appalling breach of Defendants' fiduciary duties. But undeterred, as explained below, Defendants and the Sponsors went further still.

D. The May 2014 Stripping Of Total Rewards

142. Not content to strip CEOC of all but one of its most valuable and attractive physical and online assets, Defendants decided to seize CEOC's extraordinarily valuable interest in Total Rewards and, as a result, have commandeered and now control CEOC's customer relationships.[115]

143. As described above, Total Rewards is an extraordinarily valuable customer rewards and loyalty program with millions of "active" members and nearly 45 million total members. CEC has repeatedly boasted that Total Rewards "drives performance" of its properties—up to 27% more revenue than its competitors—and that it considers loyalty rewards one of the keys to its success.[116] As CEC's vice president of finance stated in December 2013: "Our company's

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[115] The transactions described in this Section D have been finalized by Defendants and are awaiting only regulatory approval before they go into effect.

[116] Phillip Britt, *Big Data Means Big Benefits for Entertainment: Caesars Exec*, Loyalty 360 (Feb. 20, 2013), *available at* http://loyalty360.org/resources/article/big-data-means-big-benefits-for-entertainment-caesers-exec1; Caesars Entertainment Bank of America 2013 Leverage Finance Conference Presentation, at 7, 9, 27 (Dec. 4, 2013), *available at* http://files.shareholder.com/downloads/ABEA-5FED0N/ 0x0x711341/ee08b723-556b-495f-9a3d-4c596d0dda2e/BofA%20HY%20Deck%202013%2012%2003%2013%20930pm%20pt.pdf; Harrah's Baltimore Video Lottery Facility Location Commission Presentation, at 15 (Nov. 14, 2011), *available at* http://cdn.mdlottery.com.s3.amazonaws.com/Slots/Lottery%20Commission%20Oral%20Presentation%20v13.pdf; CEC, Current Report (Form 8-K) (Sept. 19, 2013).

real competitive advantage, we believe, is that we customize our product offering to our customers . . . including destination markets, regional markets and online. And all this is wrapped together with our industry-leading loyalty program, Total Rewards."[117]

144. Total Rewards is also the lynchpin of CEC's "hub-and-spoke" strategy. As described above, the Las Vegas properties, now principally held by CERP and CGP, form the "hub" of CEC's operations, while CEOC's underperforming, less profitable or, in some cases, entirely unprofitable regional properties form the "spokes."[118] The Total Rewards program allows Defendants to direct customers from the "spoke" properties to the "hub" properties, and to thereby benefit CEC, CERP, and CGP.

145. CEC set the stage for stripping Total Rewards from CEOC in October 2013, when CEOC, CGP, and CAC entered into a "Management Services Agreement," the purported purpose of which was to "allow[] [CAC], [CGP] and their subsidiaries to leverage Caesars' infrastructure."[119] In reality, the Management Services Agreement surrendered to CGP, CAC, and their subsidiaries a license to use various intellectual property and proprietary information owned by

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[117] S&P Capital IQ Transcript of CEC Company Conference Presentation, at 2 (Dec. 4, 2013).

[118] *See, e.g.*, CreditSights, We Will Let You Know, at 3 ("Las Vegas is performing well, particularly at Strip properties, but other markets are suffering from weaker demand and a high level of competition.").

[119] CEC, Current Report (Form 8-K) at Item 1.01 (Oct. 22, 2013).

CEOC (including, upon information and belief, Total Rewards), while obligating CEOC to perform numerous services on behalf of those affiliated entities, all on preposterous, wildly off-market terms and for virtually no consideration.

146. The various rights and benefits that CEOC granted to subsidiaries of CGP and CAC under the Management Services Agreement include, among others, rights to use Caesars' trademarks and logos and full access to CEOC's proprietary marketing and promotional information (*e.g.*, Total Rewards). In addition, CEOC is obligated to perform numerous services on behalf of the CGP and CAC entities, including virtually all corporate functions (*e.g.*, accounting, legal, cash management, public relations, etc.) and certain business advisory services.

147. In exchange for the myriad property rights and services transferred under the Management Services Agreement, CEOC is entitled only to a fee based upon an allocation of out-of-pocket costs and the actual time spent by CEOC personnel in providing certain services to each recipient, plus a 10% profit margin, *minus* any discounts, rebates, or incentives CEOC received in connection with providing the services.[120] Notably, however, the fee payable to CEOC is due only on account of certain categories of corporate services specified in the Management Services Agreement; the fee does not extend to CEOC's transfer of valuable

[120] This service fee paid to CEOC must be blessed by CAC (and therefore the Sponsors). As such, this fee could—at Defendants' whim—be *de minimis* or zero depending on how the Defendants decide to allocate costs.

intellectual property and proprietary information (including, upon information and belief, Total Rewards). As a result, CEOC appears to have transferred those valuable rights to CAC and CGP *for free*.[121]

148. Defendants have denied CEOC any right to terminate the Management Services Agreement absent a default by the other parties. By contrast, pursuant to a strikingly one-sided provision, those other parties may terminate the Management Services Agreement unilaterally on 180 days' notice and thus deprive CEOC's remaining properties of the synergies created by Total Rewards with respect to the properties CEOC was forced to surrender to CERP and CGP.

149. As expected from Defendants, there is an additional insult packaged with the injury: Upon any termination, CEOC is required to provide "transition assistance" that is "necessary to transfer the applicable Services" to the other parties.

150. In May 2014, Defendants formed a new joint venture entity, Caesars Enterprise Services, LLC ("CE Services"), to receive from CEOC the transfer of control over Total Rewards. Defendants have compelled CEOC to grant to CE

[121] Moreover, CEOC generally has no right to increase or to change the allocation of the fee payable under the Management Services Agreement, absent consent of CAC and CGP. Exhibits to the Management Services Agreement were to include an agreed-upon schedule of allocated costs and expenses, which would serve as a foundation for future fee amounts and allocations. Those exhibits were not included with the version of the Management Services Agreement that was filed publicly, and Plaintiff is unable to determine what amounts, if any, CAC and CGP actually paid to CEOC in exchange for its services.

Services a perpetual, non-exclusive,[122] irrevocable, world-wide, royalty-free license in Total Rewards, in all related IP, and in all other IP owned or used by CEOC and the CEOC subsidiaries that own the CEOC properties.[123] (The licensing of Total Rewards and associated intellectual property ("IP") is the "CE Services Transfers.").[124]

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[122] In practice, this "non-exclusive" license likely does not provide CEOC freedom to license its IP to other parties. CEOC's transfer of the oversight and management of this IP, including Total Rewards, to other CEC affiliates could prevent CEOC from realizing value from the IP, and might reduce or eliminate CEOC's ability to use its own IP in the future. The true extent of the restrictions imposed on CEOC are unknown because the licenses themselves have not been disclosed. Nonetheless, Section 16.4 of the CE Services License Agreement (*see infra* note 123) restricts CEOC from assigning or sublicensing the applicable licenses to a third party without approval from CGP and CERP. Carve-outs are limited only to any "CEOC Property Owner," and do not permit transfers to "a competitor of CEOC engaged in the gaming business"—thus excluding the most obvious purchasers.

[123] Specifically, CEOC entered into an Omnibus License and Enterprise Services Agreement with CERP and CGP Holdings (the "CE Services License Agreement") governing those entities' contributions of rights and assets to CE Services. An incomplete copy of the Omnibus Agreement was attached to CEC's May 21, 2014 Form 8-K filing. *See* CEC, Current Report (Form 8-K) at Ex. 2.1 (May 21, 2014). CEOC also entered into an "Amended and Restated Limited Liability Company Agreement of Caesars Enterprise Services, LLC" (the "Amended CE Services LLC Agreement," and together with the CE Services License Agreement, the "CE Services Agreements"). *See id.*

[124] As part of this transfer, the following were removed from CEOC: Caesars' Total Rewards program, the WINet (Winner's Information Network database), and the Total Rewards Marketplace. Total Rewards also includes PRISM, a real-time consumer marketing technology, which CEC explained in August 2011 as "further development of the differentiation capabilities of Total Rewards."

151. As would be expected, Wall Street analysts responded very negatively to the announcement of the CE Services Transfers, which Deutsche Bank considered a "considerable Negative for [CEOC], as it grants [CERP and CGP] the irrevocable right to use Total Rewards and other IP for no consideration to [CEOC]."[125] Goldman Sachs echoed these concerns, stating that CEOC's granting of a royalty-free license of Total Rewards "would be a material negative."[126]

152. The harm to CEOC from this unjustifiable transaction is likely to be multiplied over time. CEOC's irrevocable, perpetual, royalty-free licensing of Total Rewards will allow Defendants and the Sponsors to direct customers to the properties no longer held by CEOC, including those located on the Las Vegas Strip, powerfully enriching CGP and CERP while injuring CEOC's remaining business by making it harder for CEOC to direct customers to its own properties.

153. The CE Services Transfers also provide a mechanism through which CEOC will now be denied 50% of the management fees on each property taken from it. Prior to the CEOC Property Transfers, CEOC, through its wholly-owned subsidiaries, held the exclusive right to the management fees generated by the properties transferred in the CEOC Property Transfers (as well as the right to receive management fees from undisclosed other hotel/casino properties). As set

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[125] Deutsche Bank Markets Research, *Z-MAN's Gaming Almanac 2014—Slim Pickings*, at 109 (Apr. 23, 2014).

[126] Goldman Sachs, *CZR 1st liens down to IL; CZR 10.75s and CERP 2nd liens up to OP*, at 11 (Mar. 6, 2014) (emphasis removed).

forth above, as a result of the CEOC Property Transfers, only 50% of those management fees are now paid to CEOC through CE Services, while the other 50% are paid to CGP and CERP through CE Services.

154. Upon information and belief, CE Services was created solely to insulate the CE Services Transfers from future attack by a bankruptcy trustee or CEOC's creditors in the foreseeable (indeed, inevitable) event of CEOC's future bankruptcy. As CAC's general counsel put it before the LGCB on April 24, 2014, the creation of CE Services arose from CAC's fear that "parties might take away the Total Rewards Program from [CAC], and these CEOC lenders, who—we don't know what their intentions are."[127] Similarly, during a March 27, 2014 call with potential lenders to CGP, CAC described CE Services as "bankruptcy remote," and explained that the purpose of CE Services was to remove CE Services' assets from any bankruptcy filing by CEOC. CreditSights recently echoed these sentiments and was even more direct, stating: "[CE Services] was structured so as to shield value from CEOC creditors."[128]

155. The almost incredible structure of CE Services itself, as set out in the governing and related agreements ("CE Services Agreements") was likewise concocted to provide maximum value to CERP and CGP, and to ensure that CEOC loses all control of Total Rewards and other related intellectual property. Although

[127] April 2014 LGCB Tr., at 114.24-115:4.
[128] CreditSights, We Will Let You Know, at 7.

CEOC nominally owns 69% of the entity and shoulders responsibility for 70% of the allocated costs, CERP, CGP, and CEOC each have a single, equal vote on CE Services' Steering Committee, and a simple majority of the Steering Committee is required to authorize CE Services' actions (except as specifically reserved for unanimous vote).[129] The beauty of this inequitable structure from the Sponsors' point of view is that it completely inverts the costs and benefits associated with Total Rewards. Like Cinderella's stepsisters, CERP and CGP are poised to reap unwarranted gains from CEOC's disproportionate sacrifice.

156. CEC has acknowledged that CERP and CGP, the two main entities formed and controlled by the Sponsors to effect the stripping of CEOC's assets, control CE Services because they constitute a majority of the voting power of CE Services, as they hold two of the three votes on the Steering Committee. As CEC explained, "any member of [CE Services] may block certain actions by [CE Services] that are in [CEOC's] interest," and "[i]n the event that [CEOC's] interests do not align with those of [CGP] or [CERP], the interest of [CGP] or

[129] Among the decisions requiring unanimous consent are: Extraordinary capital expenditures; liquidation, dissolution, or bankruptcy filing of CE Services; any pledge of the assets of CE Services; any use of Enterprise Services in a manner inconsistent with the CE Services Agreements; any admission of new members to the CE Services, LLC; any issuance of equity or incurrence of material indebtedness; material modifications or increases to the operating budget; revisions to the allocation methodology for expenses; and sale of customer data.

[CERP] may be met before [CEOC's]."[130] CEOC is also prohibited from assigning or selling its 69% interest to third parties,[131] and any distributions on account of that interest in the event CE Services is liquidated are subordinate to repayment of the initial contributions to be made by CERP (of $42.5 million) and CGP (of $22.5 million), with remaining proceeds, if any, distributed pro rata. Hence CEOC's 69% interest is effectively worthless.

157. The only thing CEOC's supermajority 69% interest does offer CEOC is responsibility for 70.0% of the allocated costs (or about $70 million on an annual basis), in the absence of control. By contrast, CERP bears just 24.6% and CGP merely 5.4% of such costs, having shifted the balance to CEOC, yet they control the entity. As if that weren't enough self-dealing for Defendants, the CE Services Agreements also cap future allocations of expenses to CERP and CGP at 30% and 16%, respectively. This additional, inexplicable provision amounts to yet another vehicle for future value diversion from CEOC to Sponsor affiliates in the event that Defendants' and the Sponsors' value transfer scheme is permitted to continue and more assets and value are siphoned.

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[130] CEC, Current Report (Form 8-K) at Risk Factors (May 6, 2014).

[131] In particular, Section 3.4 of the Amended CE Services Operating Agreement provides that the 69.0% interest cannot be transferred, sold, encumbered, or otherwise disposed of, except to "Permitted Transferees," which include only wholly-owned subsidiaries and any parent entity that owns or controls CEOC.

158. With CEOC's bankruptcy inevitable, Defendants contrived the CE Services Agreements to ensure benefits to their affiliates CGP and CERP—notwithstanding corresponding catastrophic consequences for CEOC—in such an event. Bankruptcy is considered a default with respect to CEOC's obligations under those agreements, and the consequences thereof include the loss of all governance rights and, in some cases, of all rights to receive the Enterprise Services, as defined in the agreements. In addition to CEOC's filing for bankruptcy, defaults provided under the CE Services Agreements also include the failure to make certain payments and any breach of covenant under the License Agreement, any of which would strip CEOC of all of its voting and governance rights under the CE Services Agreements. Thus, in the inevitable event of CEOC's future bankruptcy (an event that will be controlled and timed by CEC and the Sponsors to maximize the benefit to those entities), the CE Services Agreements ensure CGP and CERP's ability to extract fully all rights to the property held by CE Services, because CEOC will then have no right to challenge the decisions made by CGP and CERP in managing the property.

159. Moreover, as further proof that the parties clearly drafted the License Agreement with CEOC's bankruptcy in mind, as a trigger for additional future value transfer, Section 16.5 of the agreement goes to great lengths in purporting to designate the licenses granted by CEOC for the benefit of CGP and CERP as

property that cannot be denied to those entities by a bankruptcy trustee. If enforceable, CGP and CERP will have effectively denied CEOC's creditors a valuable source of recovery in the event that the entities' common owners cause CEOC to file for bankruptcy.

160. Furthermore, as discussed, CEOC is also required to assign to CE Services—again, for no consideration—CEOC's portfolio of property management agreements, providing yet one more future choke point on CEOC's revenues.

161. In summary, the major components of value loss at CEOC attributable to the Total Rewards loyalty program (and not already captured elsewhere in the appropriate valuation of the assets transferred) include:

- Loss of complete access to and control over the benefits of the loyalty program;
- Loss of revenues from the property management agreements contractually assigned away to CE Services;
- Loss of CEOC enterprise value from potentially losing control over its own critical business functions outsourced to CE Services (now majority-controlled by CERP and CGP); and
- Forfeiture of the incremental benefit that properties historically owned by CERP (specifically, those not the subject of transfers) stand to gain from leveraging the loyalty program without compensation to CEOC.

162. It is conservatively estimated that the value to CEOC of the excess earnings attributable to the Total Rewards loyalty program at both CEOC and non

CEOC-owned properties (net of the casino and operation "rent" and economic charges needed to generate the additional earnings) is in excess of $1 billion.

163. Unsurprisingly, CEOC will receive no consideration for this gigantic giveaway—much less the minimum $1 billion in value lost as a result of the grossly one-sided CE Services Transfers. See Figure K below.

Figure K

Date of Transfer	Asset Transferred	Conservative Estimated Enterprise Value	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
May 2014	Total Rewards	$1.0BN	$1.0BN	None	**$1.0BN**	**100%**

164. Loveman has blithely tried to downplay this shocking inequity associated with this transaction by shamelessly asserting that Total Rewards is "just a license[]."[132] However, he also tellingly acknowledged there was no legitimate business purpose for the creation of CE Services, as it would create no "meaningful synergies" and was a "financially uneventful exercise."[133] As Loveman knows, the true, sole justification for the CE Services Transfers is to ensure that Total Rewards and the IP will continue to benefit only those properties held by CGP and CERP, irrespective of CEOC's fate, and to diminish the degree

[132] CEC Q4 2013 Earnings Call (Mar. 11, 2014), *available at* http://seekingalpha.com/article/2082603-caesars-entertainments-ceo-discusses-q4-2013-results-earnings-call-transcript.

[133] *Id.*

of commercial leverage held by CEOC with respect to CEC's other affiliates (and to the detriment of CEOC and its constituents, including its creditors).

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165. With the loss of Total Rewards for no consideration, the shortfall to CEOC from Defendants' and the Sponsors' scheme jumps by another $1 billion or more to at least ***$3.6 billion***. Although each deprivation on its own constitutes a staggering breach of fiduciary duty, the combined loss to CEOC and its creditors is massive in scope and suggests nothing less than total, flagrant abandonment of the CEOC Directors' and officers' duties and obligations. But Defendants and the Sponsors were still not done looting CEOC.

E. The Sponsors' Services Agreement

166. In another example of Defendants' treatment of CEOC as a mere instrumentality of CEC and the Sponsors, upon information and belief, CEOC has for years been forced to pay millions of dollars for the benefit of the Sponsors under an agreement to which CEOC is not even a party. On January 28, 2008, the Sponsors entered into a "Services Agreement" with CEC's predecessor in interest (the "SSA"). The SSA has a minimum term of 10 years and requires CEC to pay the Sponsors, among other amounts: (i) a transaction fee of $200 million, (ii) an annual "monitoring fee" of at least $30 million, (iii) additional fees in connection with certain financial transactions, and (iv) various costs and expenses (collectively,

the "Sponsor Fees").[134] In exchange for the payment of these massive fees, the Sponsors purportedly agreed to provide certain "services" to CEC. However, the SSA makes clear that, in fact, the Sponsors are not obligated to provide any services to CEC or CEOC, and purports to release the Sponsors from nearly every claim that CEC might have against the Sponsors under the SSA. Not surprisingly, CEC and the Sponsors were represented by the same counsel in connection with this one-sided arrangement.

167. CEOC is not a party to the SSA and obtains no value under the SSA. Nevertheless, published Wall Street research indicates that CEOC has been paying $30 million each year of the Sponsor Fees owing by CEC under the SSA.[135] This stripping of CEOC's limited cash to pay CEC's own obligations and to enrich the Sponsors under the SSA is unconscionable.

F. CEOC's Issuance Of Additional Debt In Breach Of The 8.5% Indenture And Funding Of Harmful Tender Offers

168. In a desperate and continuing effort to stave off the inevitable day of reckoning, all the while scavenging value for the benefit of Defendants and the

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[134] Notably, the Sponsor Fees are payable to the Sponsors in direct proportion to the Sponsors' respective equity holdings, as those holdings may change from time to time. The Sponsor Fees are, therefore, nothing more than payments on account of equity.

[135] *See* JP Morgan, *Caesars Entertainment Corp. 3Q13 Earnings—Uneventful, Table Hold Fuels Vegas Results*, at Cash Flow Estimates (Oct. 29, 2013). Upon information and belief, $158 million has been paid to the Sponsors in the form of monitoring fees since the LBO.

Sponsors, CEOC announced on May 6, 2014 that it was seeking to raise $1.75 billion of New B7 Term Loan under its existing Credit Agreement with an anticipated maturity of March 1, 2017.[136] Under these circumstances, the incurrence of this indebtedness had no legitimate commercial rationale. The New B7 Term Loan had two principal purposes. The first was to try to buy Defendants more time to continue to further their diabolical scheme by purchasing certain of CEOC's debt maturing in 2015.[137] The second was to enrich the Sponsors at the expense of CEOC's other creditors.

169. The New B7 Term Loan and the use of its proceeds for self-dealing damaged CEOC in a number of ways. First, the New B7 Term Loan has a 9.75% annual interest rate, which is much higher than the average interest rate of approximately 7.0% on the debt it refinanced,[138] resulting in an indefensible increase of approximately $40 million in CEOC's annual interest expense. Furthermore, the majority of the proceeds of this new first lien debt were used to

[136] The New B7 Term Loan is subject to a springing maturity date of December 1, 2016 if more than $500 million of CEOC's Term B5 and Term B6 Loans remain outstanding on that date.

[137] The New B7 Term Loan refinanced $824 million of existing Term Loans, $215 million of 10.00% 2nd Lien Notes due 2015, and $792 million of 5.625% Unsecured Notes due 2015.

[138] The interest rate of Term Loans B1–B3 is 5.25%; of Term Loan B4 is 9.5%; of Term Loan B5 is approximately 5.45%; of Term Loan B6 is approximately 6.45%; of the Second Priority Senior Secured Notes is 10.00%; and of the three Unsecured Senior Notes is 5.625%. *See* CEOC, Quarterly Report (Form 10-Q) at 21 (Aug. 14, 2014). The weighted average interest rate of the foregoing is 7.09%.

pre-pay less expensive junior debt, including nearly half a billion dollars of debt held by a CEC affiliate (which accounted for the majority of the relevant debt issue), at levels well above par far prior to maturity. This use of CEOC's last remaining secured debt capacity to obtain funds to siphon further value to the Sponsors effectively foreclosed permanently any opportunity CEOC might have had to address its drastically overleveraged capital structure outside of an insolvency proceeding. Indeed, this transaction and further encumbrance impaired and complicated CEOC's ability to access financing even in the context of an insolvency proceeding. Further, while CGP had committed to using the proceeds from the purchase of the 5.625% Notes to purchase a portion of the New B7 Term Loans being issued by CEOC, in its August 1, 2014 Form 8-K, CAC announced that, ultimately, CGP did not invest a single dollar in the New B-7 Term Loan.

170. While CEC proclaimed in its May 6, 2014 press release that, as a result of the New B7 Term Loan, "CEOC will have no significant debt maturities until 2016," all that the issuance of the New B7 Term Loan achieved was a further pushing-out of CEOC's inevitable collapse in accordance with Defendants' goal of running the clock on the various preference and fraudulent transfer look-back periods.

171. Beyond the injury these self-dealing tender offers inflicted on CEOC and its creditors, by incurring the New B7 Term Loan in such an amount, CEOC

willfully and flagrantly breached the covenant in the 8.5% Indenture that prohibits CEOC from incurring first lien indebtedness that exceeds $11 billion. *See* 8.5% Indenture, § 4.12 (restricting the incurrence of Liens, with the exception of Liens securing First Priority Lien Obligations to an aggregate principal amount that does not exceed $11 billion under the Credit Agreement, as described in Section 4.03(b)(i)). Thus, CEOC was not contractually permitted to issue the New B7 Term Loan to begin with.

172. Furthermore, when Defendants do not entirely disregard CEOC's debt covenants, they play illegal games to evade their application. As but one example, CEOC has continually added back increasingly large "cost savings" to its EBITDA figure to avoid exceeding the leverage covenant threshold under its First Lien Bank Debt. Upon information and belief, the company has frequently failed to achieve the purported cost savings opportunities. In the first quarter of 2014, were it not for an inexplicable increase in projected but as-yet-unrealized cost savings of an astonishing $87 million,[139] CEOC would have breached the leverage covenant threshold. In this same quarter, CEOC similarly benefited from a large improvement in bad debt expense that was initially realized in the third quarter of

[139] Calculated by comparing LTM yet-to-be realized cost savings as of Q1 2014 ($161.4 million) to LTM yet-to-be realized cost savings as of Q4 2013 ($74.8 million). *Compare* CEC Press Release, *Caesars Entertainment Reports Financial Results for the First Quarter 2014* (May. 7, 2014), *with* CEC Press Release, *Caesars Entertainment Reports Financial Results for the Fourth Quarter 2013* (Mar. 11, 2014).

2013, and which was later reversed in the third quarter of 2014.[140] This temporary improvement in bad debt expense was solely the product of the Company's voluntary decision to change its accounting practices with respect to the write-off of bad debt, for no apparent reason other than to manipulate reported financial results for purposes of purported covenant compliance.[141] Conveniently, this reversal—and the tacit admission that EBITDA had been artificially inflated for the past twelve months—was only made following the New B7 Term Loan transaction, which provided significantly more leeway under CEOC's First Lien Bank Debt covenant.[142]

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[140] *Compare* CEC Press Release, *Caesars Entertainment Reports Financial Results for the Third Quarter 2013* (Oct. 29, 2013) ("Property operating expenses in the region declined $20.2 million in the third quarter 2013 compared with the prior year quarter largely attributable to a significant improvement in bad debt expense"), *with* CEC Press Release, *Caesars Entertainment Reports Financial Results for the Third Quarter 2014* (Nov. 10, 2014) ("Third quarter Adjusted EBITDA for Caesars Entertainment Corporation was $442.5 million and was negatively impacted year-over-year by . . . approximately $23 million in bad debt expense").

[141] *See* CEC 3Q 2014 Earnings Call (Nov. 10, 2014), *available at* http://seekingalpha.com/article/2667565-caesars-entertainments-czr-ceo-gary-loveman-on-q3-2014-results-earnings-call-transcript?part=single (Defendant Loveman stated, *inter alia*, that Caesars "changed [their] bad debt accounting procedures such that the amount of bad debt accrual that [they] have to take this year was substantial higher than what was the case last year largely due to methodological reasons.").

[142] The leverage covenant increased from 4.50x EBITDA to 7.25x EBITDA. *Compare* Second Amended and Restated Credit Agreement at Section 6.10 (Mar. 1, 2012), *with* Third Amended and Restated Credit Agreement at Section 6.10 (July 25, 2014).

173. S&P, Moody's, and Fitch have, unsurprisingly, all rated the New B-7 Term Loan the equivalent of CCC or lower. S&P noted in a May 9, 2014 report that "recovery prospects for first-lien creditors are at the very low end of the 50% to 70% range. Any subsequent meaningful first-lien debt issuance that [CEOC] does not use to fully repay existing [First Lien Debt] would likely result in a revision of CEOC's first-lien recovery ratings."[143] Moody's noted on May 12, 2014 that the New B-7 Term Loan might help short-term liquidity, "but not creditors."[144] And, on May 29, 2014, Moody's further downgraded CEOC's First Lien Debt credit rating to Caa2 from Caa1.

(a) CEOC's Purchase Of Notes From CGP At A Negative Yield

174. In conjunction with the announcement of the New B7 Term Loan, CEOC stated it would launch cash tender offers for its 5.625% Senior Notes due in 2015 ("5.625% Notes") and its 10.00% Second-Priority Senior Secured Notes due in 2015 ("10.00% Notes"), whereby it offered to purchase approximately $746.4 million in aggregate principal amount (representing approximately 94.3%) of the 5.625% Notes for a purchase price of $1,048.75 per $1,000 principal amount, and approximately $108.7 million in aggregate principal amount (representing approximately 50.6%) of the 10.00% Notes for a purchase price of $1,022.50 per

[143] Standard & Poor's Rating Services, *Caesars Entertainment $1.75B Term B-7 Loan Rated 'CCC-' (Recovery Rating: 3)*, at 1 (May 9, 2014).

[144] Moody's, *Caesars' New Term Loan Helps Near-Term Liquidity, but Not Creditors*, at 1 (May 12, 2014).

$1,000 principal amount, in both cases in addition to accrued and unpaid interest through the closing date.[145]

175. In another naked act of self-dealing, Defendants forced CEOC to repurchase at a large premium $427 million, or 54%, of the 5.625% Notes described above from a subsidiary of CGP. Less than a year ago, those same 5.625% Notes, which Defendants caused CEOC to repurchase at a substantial premium to par, were valued by Defendants at double-digit discounts to par when CEC transferred them to CGP.[146] In addition to this deprivation of value, CEC also deprived CEOC of the corporate opportunity to acquire the 5.625% Notes at the substantial discount enjoyed by CGP, which was a corporate opportunity on which CEOC clearly could have capitalized. Indeed, Defendants bestowed upon CGP a tremendous profit on its investment in the 5.625% Notes, earning an internal rate of return of approximately 52%, even while the value of every other significant

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[145] CEC, Current Report (Form 8-K) at Item 7.01 (May 6, 2014). The total purchase price of the 5.625% Notes was $1,057.81 per $1,000 principal amount, including a reported purchase price of $1,048.75 plus accrued and unpaid interest of $9.0625.

[146] *See* CAC, Current Report (Form 8-K) (Oct. 24, 2013). The 5.625% Notes were purchased by CGP from CEC in October 2013 based on the 90 trading day average price of the notes as of October 21, 2013—86.52 cents on the dollar, prior to the imposition by Defendants of additional discounts. The notes were further discounted to account for a liquidity discount and transaction fees and expenses of approximately $57 million. A ratable allocation of the discounts implied an effective purchase price to CGP of only 81.55 cents on the dollar. In just nine months, CGP unjustly profited at least $100 million from this purchase, as the $427 million of 5.625% Notes effectively purchased by CGP for 81.55 cents on the dollar were subsequently purchased by CEOC at 105.78 cents on the dollar.

portion of CEOC's remaining capital structure declined substantially, as indicated in Figure L:

Figure L: Change in Debt Market Prices[147]

	CGP Acquisition 10/21/2013	Tender Offer 7/29/2014	Increase / (Decrease)
5.625% Unsecured Notes	81.55%	104.88%	23.33%
First Lien Debt	94.90%	90.18%	(4.72%)
Second Lien Debt	49.81%	38.64%	(11.17%)
Other Unsecured Debt	75.14%	67.10%	(8.05%)
Weighted Average	79.18%	72.34%	(6.85%)

176. Furthermore, the premium at which CEOC was compelled to purchase the 5.625% Notes was so substantial it implies a *negative* yield to maturity—*i.e.*, even the aggregate *future*, undiscounted value of all payments owed on the notes at all points in the future is less than the price at which CEOC was forced to buy them in the present. There is no conceivable legitimate economic rationale for such a transaction apart from the naked looting of CEOC to benefit CGP and the other Defendants. Nor was this the first time the Sponsors orchestrated a transaction involving CEOC's unsecured bonds at an improper valuation to benefit themselves.[148] Given that the 5.625% Notes indenture explicitly allowed for the

[147] Weighted average calculated based on face amount of debt outstanding. Does not include accrued and unpaid interest.

[148] The 5.625% Notes were among the $1.1 billion face value of CEOC unsecured notes CGP purchased from CEC in October 2013. The fair value of these notes were discounted by $75 million: a discount of $18 million based on

notes to be taken out at a "makewhole" premium of only $1,050.70 per $1,000 face amount[149]—significantly less than the actual purchase price—at the time of the tender offer, even assuming *arguendo* that redeeming the notes made sense, there is no justification for CEOC's payment of amounts over and above the lower price at which it had the undisputed contractual right to simply redeem the notes.

177. Adding insult to injury, the transaction costs associated with the notes purchase and New B7 Term Loan—totaling approximately $40 million[150]—consumed CEOC's precious liquidity, dissipating its resources available to cover now-greater interest expenses.

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their average trading price over the 90 days ending October 21, 2013 and an additional $57 million discount.

[149] *See* 5.625% Senior Notes Indenture § 3.1 (May 27, 2005) ("The Notes will be redeemable, as a whole or in part, at the option of the Company, at any time or from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of the Notes to be redeemed and (b) the sum of the present values of the Remaining Scheduled Payments on such Notes discounted to the Redemption Date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a rate equal to the sum of the applicable Treasury Rate plus 30 basis points.").

[150] The 5.625% Notes were among the $1.1 billion face value of CEOC unsecured notes purchased by CGP from CEC in October 2013. These notes were valued (prior to the application of further discounts imposed by Defendants) based on the 90 trading day average price of the notes as of October 21, 2013, a methodology which created an initial $18 million discount to their true market value at the time of the transfer. Furthermore, CEC allowed CGP to acquire these notes at an *additional* $57 million discount to this price, resulting in a total discount to fair value of $75 million.

G. Defendants Execute A Sham Equity Investment Designed To Eliminate CEC's Guarantee Of $14.2 Billion Of CEOC's Debt For No Consideration

178. Recognizing that their scheme would be pointless if CEC remained liable for CEOC's debt, due to the CEC Guarantee and the increasingly crushing debt load created by Defendants' and the Sponsors' looting of CEOC's assets, Defendants orchestrated a sham equity investment that they (erroneously) contend eliminated the CEC Guarantee.

(a) Defendants Purport To Release The CEC Guarantee Through A Sham Equity Investment

179. On May 6, 2014, CEC contended in a Form 8-K filed with the SEC that "[CEC's] guarantee of CEOC's outstanding secured and unsecured notes was automatically released" on May 5, 2014 through the sale of 68.1 shares of CEOC's common stock for a total of $6.15 million (the equity investment and release together, the "First CEC Guarantee Release Transfer").[151] The sale price implied that CEOC's total equity was worth $123 million, when in fact the equity was clearly worth zero given CEOC's *$19 billion* debt load. This $123 million equity value would laughably represent only 0.7% of the combined value of CEOC's debt and equity.

[151] CEC, Current Report (Form 8-K) at Item 1.02 (May 6, 2014).

180. It has been publicly reported that the purchasers of CEOC's equity included the lenders of the New B7 Term Loan.[152] The principal or only value to be gained by the "equity" purchasers in this sham equity investment derived from the potential indirect benefit of releasing the CEC Guarantee as to $14.2 billion in CEOC's debt, while keeping the CEC Guarantee in place as to the New B7 Term Loan. If the (undisclosed) purchasers of the new "equity" interest in CEOC did consist of lenders of the New B7 Term Loan, as reported, and if they were able to successfully cause the release of the CEC Guarantee, they would get the benefit of the full CEC Guarantee without having to share with CEOC's bondholders. Successfully helping to extricate CEC from a gigantic contingent liability with a near-certainty of crystallizing upon the inevitable collapse of CEOC would significantly increase the value of the CEC Guarantee to these new lenders.

181. Despite their scheming machinations, Defendants have still, however, failed to successfully release the guarantee under the provisions of the First Lien Indentures (including the 8.5% Indenture). Specifically, Section 12.01(a) of the First Lien Indentures provides that CEC:

> jointly and severably [sic], irrevocably and unconditionally guarantees . . . as a primary obligor and not merely as a surety, to each holder and

[152] Debtwire reported recently that purchasers of CEOC equity may include Blackstone, GSO, and BlackRock (though BlackRock denied involvement). Debtwire, *Caesars Entertainment opco transactions could wed, then divorce, first and second lien interests—Update* (May 9, 2014). Upon information and belief, Blackstone, GSO, and BlackRock are lenders of the New B7 Term Loan.

> to the Trustee and its successors and assigns (i) the full and punctual payment when due, whether at Stated Maturity, by acceleration, by redemption or otherwise, of all obligations of [CEOC] under this Indenture (including obligations to the Trustee) and the Notes, whether for payment of principal of, premium, if any, or interest on in respect of the Notes and all other monetary obligations of the Issuer under this Indenture and the Notes and (ii) the full and punctual performance within applicable grace periods of all other obligations of the Issuer whether for fees, expenses, indemnification or otherwise under this Indenture and the Notes (all the foregoing being hereinafter collectively called the "Guaranteed Obligations").

182. Section 12.01(g) provides without qualification that "**Each Guarantor agrees that its Note Guarantee shall remain in full force and effect until payment in full of all the Guaranteed Obligations**." (Emphasis added).

Section 12.01(f) further provides:

> **Except as expressly set forth in Sections** 8.01(b), **12.02** and 12.06, **the obligations of each Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason**, including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations or otherwise.

(Emphasis added).

183. Section 12.02(c) in turn provides, in part, that the CEC Guarantee:

> shall terminate and be of no further force or effect and the Parent Guarantor shall be deemed to be released from all obligations under this Article XII upon:
>
> > (i) the Issuer ceasing to be a Wholly Owned Subsidiary of Caesars Entertainment;

> (ii) the Issuer's transfer of all or substantially all of its assets to, or merger with, an entity that is not a Wholly Owned Subsidiary of Caesars Entertainment in accordance with Section 5.01 and such transferee entity assumes the Issuer's obligations under this Indenture; **and**
>
> (iii) the Issuer's exercise of its legal defeasance option or covenant defeasance option under Article VIII or if the Issuer's obligations under this Indenture are discharged in accordance with the terms of this Indenture.

(Emphasis added).

184. By using the word "and," Section 12.02(c) unambiguously requires that ***all three*** of the foregoing conditions—*i.e.*, (i), (ii), and (iii)—be satisfied prior to the release of the CEC Guarantee. Conditions (ii) and (iii) were not satisfied, and CEC has never claimed otherwise, instead asserting misplaced reliance solely on its ability to meet condition (i). CEC has not satisfied condition (ii) because CEOC has not transferred all or substantially all of its assets to, nor has CEOC merged with, an entity that assumed CEOC's obligations under the First Lien Indentures. CEC has also failed to satisfy condition (iii) because CEOC has never purported to exercise any defeasance options. These facts are incontrovertible and undisputed.

185. Thus, no later than May 16, 2014 (ten days after CEC's Form 8-K asserting that the CEC Guarantee had been released), CEC's disavowal of the CEC Guarantee matured into an Event of Default under the 8.5% Indenture and the other First Lien Indentures, since "[a]n Event of Default occurs with respect to

Notes if . . . the Parent Guarantor denies or disaffirms its obligations under this Indenture or its Parent Guarantee and such Default continues for 10 days."[153]

(b) Contrary To Their Fiduciary Duties, The CEOC Directors Assisted In The Purported Release Of The CEC Guarantee Of CEOC's Own Debt

186. CEOC, through its conflicted directors, also assisted in the purported cancellation of the CEC Guarantee of *its own debt*. On June 27, 2014, CEOC asserted in a Form 8-K that it had "*elected* to effect the automatic release of CEC's guarantee of," among other debt, its "outstanding senior secured notes," which include the 8.5% Notes.[154] Neither the 8-K nor any information of which Plaintiff is aware suggests that CEOC received any consideration for electing to effect this release, nor had any prospect or agreement that another assurance would replace the CEC Guarantee.

187. Section 12.02(c) of the First Lien Indentures (including the 8.5% Indenture) provides in part that CEOC can elect—but is not required—to release

[153] *Id.* § 6.01(h) (internal punctuation and emphasis omitted).

[154] CEOC, Current Report (Form 8-K) (June 27, 2014) (emphasis added); *see also id.* ("CEOC has provided notice to the trustees of its outstanding senior secured notes, second-priority senior secured notes, 10.75% senior notes due 2016 and 10.75% / 11.5% senior toggle notes due 2018 that CEOC elected to effect the automatic release of CEC's guarantee of each such series of notes for the additional reason that the guarantee of other notes specified in the applicable indentures had been released.").

the CEC Guarantee of the obligations under the First Lien Indentures once CEC's guarantee of other "Existing Notes"[155] has been discharged:

> the Parent Guarantee will be automatically released upon the election of the Issuer and Notice to the Trustee if the guarantee by [CEC] of the Credit Agreement, the Existing Notes or any Indebtedness which resulted in the obligation to guarantee the Notes has been released or discharged.

On June 27, 2014, CEC reported that it had given 6% of the equity in CEOC to officers, directors, and other employees of CEOC, and that so doing purportedly caused CEC's guarantee of the Existing Notes to be discharged.[156] Once CEC

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[155] The 8.5% Indenture defines "Existing Notes" as CEOC's "5.375% Senior Notes due 2013, 5.625% Senior Notes due 2015, 6.500% Senior Notes due 2016, 5.75% Senior Notes due 2017, 10.75% Senior Notes due 2016 and 10.75%/11.50% Senior Toggle Notes due 2018."

[156] On June 27, 2014, CEC stated in a Form 8-K that it had sold additional CEOC equity through a "Performance Incentive Plan" for directors, officers, and employees. CEC, Current Report (Form 8-K) at Item 8.01 (Jun. 27, 2014). Specifically, CEC asserted that on May 30, 2014:

> the members of the Human Resources Committee (the 'Committee') of the CEC Board authorized the CEOC Board to adopt the 2014 Performance Incentive Plan (the "CEOC PIP"), and, also on such date, the CEOC Board adopted the CEOC PIP. . . . On May 30, 2014, CEOC granted a number of fully vested, nonforfeitable shares of CEOC Common Stock to various individuals (including directors and officers of CEOC and various employees).

Id. Upon information and belief, approximately 6% of the equity in CEOC purportedly was transferred pursuant to the CEOC PIP. Also upon information and belief, CEC and CEOC contend that the purported transfer of that 6% of CEOC's equity under the CEOC PIP likewise released CEC's guarantee of the "Existing Notes," as referenced in Section 12.02(c) of the First Lien Indentures. (The purported transfer of CEOC equity in connection with the CEOC PIP, and

purported to release its guarantee over the Existing Notes, CEOC "elected"—presumably at CEC's instruction—to release the CEC Guarantee of *its own debt* issued under the First Lien Indentures. The election to release the CEC Guarantee was a breach of fiduciary duty by the CEOC Directors, who had an obvious duty not to surrender something *extremely valuable* for nothing. Illustratively, under one metric (the par amount of the debt from which the CEC Guarantee was purportedly stripped less the market value of the debt) the value of this release to CEC in May 2014 was in excess of $4 billion. (The First CEC Guarantee Release Transfer and Second CEC Guarantee Release Transfer (defined *supra* at note 156) are the "CEC Guarantee Release Transfers").

188. Indeed, even the perception of the possible release of the guarantee of more than $14.2 billion[157] of CEOC's debt is a catastrophic blow to CEOC's viability and the prospects of repayment to CEOC's creditors. Among other harms, the purported release further limited CEOC's access to capital markets and

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purported release of the CEC Guarantee in connection therewith, are the "Second CEC Guarantee Release Transfer".) CEOC received no consideration from CEC for these transfers, even though they were executed for the sole purpose of relieving CEC of its guarantee obligations.

[157] The CEOC obligations subject to the CEC Guarantee include the 11.25% Senior Secured Notes due 2016, the 8.5% Senior Secured Notes due 2020, the 9.0% Senior Secured Notes due 2020, the 12.75% Second-Priority Senior Secured Notes due 2018, the 10.0% Second-Priority Senior Secured Notes due 2018, the 10.0% Second-Priority Senior Secured Notes due 2015, the 10.75% Senior Notes due 2016, the 10.75%/11.5% Senior PIK Toggle Notes due 2018, the 5.625% Senior Notes due 2015, the 6.5% Senior Notes due 2016, the 5.75% Senior Notes due 2017, and the Floating Rate Contingent Convertible Senior Notes due 2024.

increased its cost of capital. Since May 2014, the market-implied probability of CEOC's default within three years has increased from approximately 80% to virtual certainty—over 95%.[158] If effective, the purported release also would have the effect of reducing CEOC's flexibility and available currency in reaching accommodations with its creditors (at a time when the Sponsors have overburdened CEOC with debt), increasing the risk that CEOC will be exposed to bankruptcy, litigation, or other judicial proceedings, and increasing the likelihood that CEOC's creditors will not be repaid. But from Defendants' perspective, it advanced their agenda of divorcing CEOC's assets from CEOC's liabilities. Almost all of the most valuable or promising assets now belong to Defendant entities, while CEOC's liabilities rest squarely (and, Defendants purport, only) at CEOC's doorstep.

189. That, astonishingly, the CEOC Directors nonetheless *supported* and sought to *facilitate* this purported release for *no apparent consideration* is contrary not only to their fiduciary duties to CEOC, but also to any common business sense, and demonstrates once again the CEOC Directors' unswerving loyalty to CEC and the Sponsors—and their now intractable antipathy toward CEOC and its creditors.

* * *

[158] These probabilities are derived from Bloomberg and based upon trading prices for credit default swaps taken out on CEOC.

190. In sum, since October 2013, Defendants and the Sponsors have systematically plundered and looted CEOC in furtherance of a historic scheme, the brazenness and scope of which is unprecedented. In little more than six months, CEOC went from dominating a key piece of the Las Vegas Strip and holding two highly-valuable regional properties to having only the most tenuous of toeholds in Las Vegas in the form of the remaining older towers of Caesars Palace and barely clinging to the underperforming "spoke" properties in poorly performing regional markets whose principal value and function is to collect and direct customers to marquee "hub" properties now predominantly owned by CGP and CERP. Adding insult to injury, CEOC has also been forced to surrender 50% of the management fees of those properties (while retaining responsibility for 100% of the management expenses), lose the unique and lucrative advantages of Caesars' online gaming business, and abandon its extraordinarily valuable control over Total Rewards and other intellectual property. Furthermore, CEOC has been forced to vastly overpay to retire existing debt with the sole purpose of putting off its inevitable collapse just long enough to undermine the ability of CEOC and its creditors to undo the flagrant injuries Defendants and the Sponsors have savagely inflicted on CEOC and its creditor stakeholders.

Figure M: Defendants' Looting of CEOC's Valuable Operating Assets

Date of Transfer	Asset Transferred	Conservative Estimated Equity Value	Equity Value Attributed	Equity Valuation Shortfall – $	Equity Valuation Shortfall – %
August 2010	Trademarks	$45MM	None	$45MM	100%
2011 – 2013	Caesars Interactive Entertainment *Online gaming business*	$635MM	Likely none	$635MM	100%
October 2013	Linq / Octavius *Two Las Vegas properties*	$942MM	$134MM	$808MM	86%
October 2013	Planet Hollywood	$633MM	$134MM	$499MM	79%
October 2013	Horseshoe Baltimore	$236MM	$80MM	$156MM	66%
May 2014	Cromwell, Quad and Bally's *Three Las Vegas properties*	$1.6BN	$1.4BN	$213MM	13%
May 2014	Harrah's New Orleans	$855MM	$660MM	$195MM	23%
May 2014	Total Rewards	$1.0BN	None	$1.0BN	100%
TOTAL		**$5.9BN**	**$2.4BN**	**$3.6BN**	**60%**

191. As Loveman bluntly put it during the May 7, 2014 1Q Earnings call, "[t]he full complement of financial and operational actions taken to date have led to the creation of substantial value in two stable structures, [CGP] and [CERP]."[159] But as Loveman knowingly left out, virtually all of the value at CGP and CERP was forcibly transplanted from CEOC in flagrant violation of CEOC's rights and those of its creditors.

[159] CEC Q1 2014 Earnings Call (May 7, 2014), *available at* http://seekingalpha.com/article/2200603-caesars-entertainments-czr-ceo-gary-loveman-on-q1-2014-results-earnings-call-transcript.

VI.
DEFENDANTS' SELF-DEALING AND VALUE-DEPLETING TRANSACTIONS ARE ONGOING

192. Not content, and despite CEOC's yawning insolvency, Defendants continue to dream up new ways to punish CEOC's creditors. As one market observer correctly put it, these recent and extraordinary transactions are now "cutting more into the flesh of the first liens"[160] and thus now impairing even CEOC's most senior and secured creditors.

A. CEOC's Unnecessary Early Repayment Of A Low Interest, Intercompany Loan With CEC

193. In a naked grab at the remaining scraps of value at CEOC, Defendants recently disclosed that they have caused CEOC to pay down the entirety of the $616 million outstanding under a $1 billion intercompany "credit arrangement" with CEC (the "CEOC Repayments").[161] While the CEOC Repayments culminated in a recently disclosed payment of $260.4 million payment in the second quarter of 2014, they began during the fourth quarter of 2012, around the time Defendants realized CEOC's insolvency was hopeless and shortly before Defendants' scheme went into overdrive, coinciding with the initial planning of the October 2013 transfers.[162] Because the intercompany loan was unsecured, carried

[160] CreditSights, We Will Let You Know, at 1.

[161] *See* CEC, Quarterly Report (Form 10-Q) (Aug. 11, 2014).

[162] Specifically, CEOC repaid $100 million in Q4 2012, $31 million in Q1 2013, $200 million in Q2 2013, and $25 million in Q1 2014.

a *de minimis* interest rate that was a small fraction of the interest rate on debt raised during the same quarter,[163] and would not mature until November 14, 2017, and because repayment drained CEOC's critical liquidity and effected a massive transfer of value to CEC, there was simply no legitimate reason for Defendants to cause CEOC to repay it at this time.[164] To the contrary, Defendants were duty-bound to preserve valuable corporate assets such as this well below market financing.

194. Remarkably, the announcement of the final CEOC Repayment occurred *on the same day* that management insisted to shareholders on CEC's quarterly earnings call that recent CEOC transactions had been conducted to

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[163] During the second quarter of 2014, Defendants caused CEOC to raise the New B7 Term Loan at an interest rate of 9.75%, approximately 6% higher than the rate on the intercompany credit facility.

[164] As comparable tenor 3-year credit default swaps traded at approximately 4,000 bps (40%) running as of June 30, 2014, the more than *13-fold* spread differential of approximately 37% to the interest rate on the loan (Libor plus 3%) resulted in the Sponsors' transfer of close to *$100 million* of value from CEOC to CEC for *no consideration*. Similarly, in the second quarter of 2013, CEOC prepaid $200 million of this intercreditor loan, at no discount, despite that comparable tenor 4-year credit default swaps at that time were trading at approximately 2,100 bps (21%) running. (Source: Bloomberg). This *seven-fold* spread differential of nearly 18% resulted in the Sponsors' transfer of approximately $36 million of value from CEOC to CEC, for which CEOC also received no consideration. Similar analysis has been conducted for all CEOC Repayments, resulting in a conservative estimate of approximately $140 million in total lost value to CEOC for the benefit of CEC from the CEOC Repayments.

provide “maturity runway” to facilitate CEOC’s supposed deleveraging.[165] On this same earnings call, management also lamented CEOC’s capital structure issues: “CEOC, which remains heavily levered, is the focus of our ongoing work to improve its capital structure.”[166] Defendants also had the hubris to force CEOC to use its valuable cash to repay the final portion of the intercompany facility at precisely the same time that they told the public that the purpose of their various property transfers was to ***improve CEOC’s cash position***. Specifically, Defendant Eric Hession told the LGCB that CEOC had to sell Harrah’s New Orleans so CEOC would have the liquidity to make critical investments in its properties: “It has negative cash flow, and this transaction will enable the company to improve the liquidity position.”[167] Defendants echoed these liquidity needs when lobbying for approval of the New B7 Term Loan at the Illinois Gaming Board meeting: “Our obligation to you and the citizens of Illinois and all of our other constituencies is to try to improve the circumstances of CEOC by undertaking financing transactions that provide greater liquidity, that provide greater maturity

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[165] CEC Q2 2014 Earnings Call (Aug. 11, 2014), *available at* http://seekingalpha.com/article/2412495-caesars-entertainments-czr-ceo-gary-loveman-on-q2-2014-results-earnings-call-transcript?part=single.

[166] *Id.*

[167] April 2014 LGCB Tr., at 31:19-22.

runway, enable us to continue to invest in these properties . . . ."[168] ***This revealing, self-serving transaction was not only illegal—it refutes the fundamental rationale repeatedly advanced by Defendants to justify their numerous other illegal transactions***.

B. CEOC's Unnecessary Early Repayment Of Additional Unsecured Debt Held By Affiliates.

195. In November 2014, following CEOC's many declarations regarding its insolvency and dearth of liquidity, Defendants caused CEOC to repurchase approximately $16.5 million outstanding unsecured PIK Toggle Notes, effective December 3, 2014 (the "PIK Notes Insider Preference"). These PIK Toggle Notes, which do not mature until 2018, are subject to the CEC Guaranty. Unsurprisingly at this point, the PIK Notes Insider Preference will further enrich and siphon value to CEC and the Sponsors, as CEC or its non-CEOC affiliates received at least $4 million of these PIK Toggle Notes in 2013 in connection with the formation of CGP, notes that it has continued to own.[169]

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[168] Recording of Illinois Gaming Board Meeting, at 13:10-13:28 (July 24, 2014), *available at* http://www.igb.illinois.gov/FilesBoardMeeting/20140724RiverboatAudio.mp3.

[169] *See* CAC, Annual Report (10-K) at 12 (Mar. 28, 2014) ("In connection with the Transactions [that formed CGP], the aggregate fair market value of the subscription rights issued by Caesars Entertainment in the amount of approximately $21.1 million was restored to Caesars Entertainment *through a return of all 10.75% paid-in kind senior notes* and certain 5.75% senior notes *previously issued by CEOC from CGP LLC to CEC.*" (emphasis added)).

196. Furthermore, Defendants appear to have surreptitiously endeavored to keep this ridiculous transaction from the scrutiny of the company's creditors and the general public, as there was neither an 8-K filing nor a formal press release announcing the PIK Notes Insider Preference. The market and public have remained generally unaware of this shockingly self-serving transaction, as, even several weeks following the announcement of the repurchase, the PIK Toggle Notes were quoted at an indicated price of less than 17 cents on the dollar, despite a call price of 103.58 cents on the dollar.[170]

197. It is not surprising that Defendants would downplay the details of this transaction, as there is no legitimate economic rationale for CEOC's repurchase of these notes over three years before maturity, particularly at a time when CEOC is disposing of valuable assets for the alleged purpose of raising cash that is purportedly desperately needed. The sole purpose of this transaction is the further enrichment of CEC and the Sponsors at the expense of CEOC and its creditors.

198. The PIK Notes Insider Preference is all the more appalling when taken in context of debt trading prices. In the 30-days through November 20, 2014, the PIK Toggle Notes traded at an average price of 16.94. The PIK Toggle Notes are now to be called at 103.58 cents on the dollar on December 3, 2014, an increase of nearly 800%. Assuming that CEC and other of its and the Sponsors'

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[170] Sourced from Bloomberg and valued as of November 20, 2014.

affiliates own only CEC's reported 26% share of the PIK Toggle Notes, this represents a windfall of an additional $3.7 million. Defendants and the Sponsors are utterly without shame and, the record demonstrates, will do all they possibly can to further enrich themselves and illicitly line their own pockets at the expense of CEOC and its creditors.

Figure N: CEC Windfall on PIK Toggle Notes Call

CEC Gain on the Senior PIK Toggle Notes Call	
30-day Average Trading Price of Senior PIK Toggle Notes (cents/dollar)	16.94
Call Price (cents/dollar)	103.58
Difference (cents/dollar)	86.65
Amount Owned by CEC ($MM)	$4.3
Implied Gain to CEC ($MM)	$3.7

C. Defendants Are Actively Undermining CEOC's Ability To Compete With Other Gaming Entities

199. In the few gaming markets where CEOC and CERP and/or CGP own properties that compete with one another, Defendants continue to make strategic decisions designed to undermine CEOC's properties to the benefit of CERP's and CGP's properties. These decisions have had both the objective and the result of tilting the competitive balance away from CEOC and toward assets owned by affiliates of the Sponsors.

200. For example, on June 27, 2014—the same day CEC packed the CEOC board of directors with four additional CEC directors—CEC announced it would close CEOC's Atlantic City Showboat hotel and casino and utilize Total Rewards

to steer Showboat customers to "other" Caesars Atlantic City properties. As Loveman explained, "we believe this is a necessary step to help stabilize our business in Atlantic City and support the viability of our *remaining operations in the vicinity*."[171] It is well known in the industry that it is not difficult to redirect customers from one property to another through the use of marketing and loyalty programs such as Total Rewards. Thus, an August 6, 2014 Bank of America Merrill Lynch report echoed Loveman, noting that after closing Showboat "we believe CZR would likely shift a large portion (~75%) of revenues to its remaining properties [in Atlantic City] via its Total Rewards program."[172]

201. Loveman omitted to note that CEC's largest Atlantic City property, Harrah's Atlantic City, is owned by CERP and generates 41% of the company's Atlantic City revenue.[173] CERP is therefore the inevitable (and intended principal)

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[171] CEC Press Release, *CEC, Caesars Entertainment Announces Closure of Showboat Atlantic City* (Jun. 27, 2014) (emphasis added).

[172] *Caesars Entertainment (CZR) Sees Relief Rally as Company and Bondholders Trade Lawsuits; Atlantic City at a Crossroads*, StreetInsider.com (Aug. 6, 2014), *available at* www.streetinsider.com/Analyst+Comments/Caesars+Entertainment+(CZR)+Sees+Relief+Rally+as+Company+and+Bondholders+Trade+Lawsuits%3B+Atlantic+City+at+a+Crossroads/9726620.html (quoting Bank of America/Merrill Lynch report); *see also* JP Morgan, *Shutting Down Showboat, Taking a Historical Look at CZR in AC*, at 1(June 27 2014) ("We expect that CZR's Total Rewards Program should help drive Showboat customers to the other CZR properties.").

[173] *Compare* Harrah's Resort Atlantic City, Quarterly Report For the Quarter Ended December 31, 2013 submitted to the Division of Gaming Enforcement of the State of New Jersey, *with* Bally's Atlantic City, Quarterly Report For the Quarter Ended December 31, 2013 submitted to the Division of Gaming

beneficiary of Showboat's closing. On September 17, 2014, Fitch even noted that its 2015 forecast for Harrah's Atlantic City "includes $20 million of EBITDA accruing to Harrah's AC from business recaptured from Showboat."[174] As New Jersey gaming regulators observed in a November 14, 2014 report to the Casino Control Commission, "Caesars Licensees [including Showboat] still generate revenues that exceed their operating expenses. . . . Nevertheless, CEC decided to close Showboat in an attempt to improve the profitability of the other Caesars Licensees."[175]

202. Neither CEC nor CERP is paying CEOC any consideration for sacrificing a property that has generated positive EBITDA every year since the property's opening in 1987. To the contrary, as of September 30, 2014, CEOC was saddled with $15.8 million in exit costs and $4.8 million in severance costs associated with Showboat's closure.[176]

Enforcement of the State of New Jersey; Boardwalk Regency Corporation, Quarterly Report For the Quarter Ended December 31, 2013 submitted to the Division of Gaming Enforcement of the State of New Jersey.

[174] *See* Fitch Ratings, Fitch Downgrades Chester Downs Senior Notes. Valuing this $20 million of EBITDA transferred from CEOC to CERP at a conservative 7.0x EBITDA multiple results in value destruction of $140 million to CEOC to benefit CERP and the Sponsors.

[175] Letter from New Jersey Office of Attorney General, Department of Law and Public Safety, Division of Gaming Authority to Hon. Matthew B. Levinson, Chairman of Casino Control Commission, at 9 (Nov. 14, 2014).

[176] CEOC, Quarterly Report (Form 10-Q) at 15 (November 14, 2014).

203. By intentionally not marketing the Showboat casino before it was shuttered, Defendants ensured that it would be uneconomic for a potential buyer to reopen the property as a casino, thus ensuring no future competition for CERP. Caesars, moreover, has a history of requiring deed restrictions which preclude acquirers from operating a disposed property as a casino (to CEOC's detriment, since, as a seller, it would receive far more for a casino property), and the Showboat sale was no exception.[177] On November 12, 2014, several months after Defendants first announced the closure of the Showboat, Caesars and Stockton College announced they had signed a letter of intent for Stockton to purchase the Showboat property.[178] Stockton College reportedly intends to use the property as a new campus which it acquired in "a spectacular deal"[179]—not surprisingly, Defendants have not chosen to disclose the proceeds from this transaction, nor have they disclosed to whom the proceeds were paid.

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[177] Associated Press, *Whelan: Caesars meddling in Atlantic Club future* (Feb. 15, 2014), *available at* http://www.nj.com/atlantic/index.ssf/2014/02/whelan_caesars_meddling_in_atlantic_club_future.html.

[178] CEC and Stockton College Press Release, *Stockton College Signs Letter of Intent to Purchase Showboat Atlantic City from Caesars Entertainment* (Nov. 12, 2014), *available at* http://intraweb.stockton.edu/eyos/extaffairs/content/docs/pressrel/StocktonShowboatAC2014PressRelease.pdf.

[179] *Stockton College to acquire Showboat Atlantic City*, NBC 40 (Nov. 12, 2014), *available at* http://www.nbc40.net/story/27366615/stockton-college-to-acquire-showboat-atlantic-city.

204. Given its positive performance and economic value, the unnecessary closure of Showboat was shocking. As one Showboat employee explained, attributing the closure to "corporate greed": "We're all feeling a little betrayed . . . . We worked really hard to try to keep it operating, and we're still profitable. We still don't understand why we were the one targeted to close, and nobody has given us an answer on that."[180]

205. CEC is also withholding funds from CEOC properties that might permit them to remain competitive in favor of CERP and CGP properties. For example, CERP's Atlantic City Harrah's Marina property is scheduled to open a $134 million "state-of-the-art" convention center[181]—the largest meeting and conference center in the Northeast.[182] This $134 million exceeds by 30% the *total* amount CEC has permitted CEOC to invest in all three of its competing Atlantic City properties collectively over the last five years and is further evidence of the

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[180] Wayne Parry, *Showboat closes after 27 years in Atlantic City*, Bloomberg Businessweek (Aug. 31, 2014), *available at* http://www.businessweek.com/ap/2014-08-31/showboat-closing-after-27-years-in-atlantic-city.

[181] Ray Schweibert, *CRDA Board Backs Harrah's Regional Conference Center*, Atlantic City Weekly (Nov. 21, 2012), *available at* http://www.atlanticcityweekly.com/news-and-views/features/CRDA-Board-Backs-Harrahs-Conference-Center--180392801.html.

[182] *See* Suzette Parmley, *Top Teams: Caesars gets ready for new Harrah's convention center in A.C.*, Philadelphia Inquirer (Oct. 24, 2014), *available at* http://articles.philly.com/2014-10-24/news/55364290_1_atlantic-city-casino-reinvestment-development-authority-showboat.

Sponsors' apparent plan to funnel the value of CEOC's customer relationships and businesses to properties owned by their other CEOC affiliates.[183]

206. CEC and the Sponsors also continue to use CEOC to protect the competitive position of CERP and CGP at no benefit to CEOC. On December 21, 2013, for example, Defendants caused CEOC to acquire the non-gaming assets of the Atlantic Club casino and hotel for $15 million in a bankruptcy auction. In connection with the purchase, CEC announced that "Caesars does not intend to resume gaming or hotel operations at the facility."[184] Defendants subsequently forced CEOC to sell the non-gaming property to TJM Properties, Inc. ("TJM Properties") for approximately $13.5 million—*i.e.*, CEOC was forced to absorb a $1.5 million loss to prevent competitors from entering the Atlantic City market, where Caesars' largest and most profitable Atlantic City property is the CERP-owned Harrah's Atlantic City. This transaction also prevented competitors from using the Atlantic Club's gaming license to compete with CGP-owned CIE in New Jersey's burgeoning online gaming market. If CEC wished to protect CERP and CGP's interests in preventing competition in Atlantic City, then CERP or CGP, not CEOC, should have footed most or all of the bill.

[183] This is derived from Atlantic City Showboat, Inc, Bally's Park Place, Inc., and Boardwalk Regency Corporation's filings with New Jersey gaming regulators for the years 2013, 2011, and 2009.

[184] CEC Press Release, *Caesars Entertainment Agrees to Acquire Non-Gaming Assets of Atlantic Club in Bankruptcy Auction* (Dec. 21, 2013).

207. Defendants' and the Sponsors' actions in New Jersey have even drawn the ire of the two New Jersey State Assemblymen from the District that includes Atlantic City. They have co-sponsored two bills, introduced on September 11, 2014, clearly directed at Defendants' recent actions.[185] Bill 3575 proposes to "[p]rohibit any casino licensee or any former casino licensee that sells a property formerly used by that licensee or former licensee as a casino hotel facility, from agreeing with the buyer to impose deed restrictions affecting the property that in any way limit or prevent the use of the property for casino gaming"[186]—an unmistakable response to CEOC's acquisition of the Atlantic Club and the subsequent sale to TJM Properties in order to block competition. Similarly, Bill 3577 proposes to require that

> a casino licensee or owner seeking to close or sell a casino hotel facility . . . conduct an independent appraisal of the facility using a formula devised by the division, and inform the licensee or owner that failure to accept a bona fide offer to purchase the facility at fair market value made by a willing buyer who certifies in writing to the division that casino gambling will be conducted on the premises shall subject the licensee or owner to the repayment of any grant received from any State entity.[187]

This Bill was an obvious response to the illicit shuttering of Showboat.

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[185] *See* Fantini's Gaming Report, *AC Pols Wary of CZR, Introduce Bills* (Sept. 22, 2014) ("Caesars debt restructuring efforts have come under fire from New Jersey Assemblyman Chris Brown, who along with Assemblyman Vince Mazzeo, has introduced bills addressing concerns in Atlantic City following CZR's closure of Showboat.").

[186] A3575, Gen. Assemb., 216th Leg. (N.J. 2014).

[187] A3577, Gen. Assemb., 216th Leg. (N.J. 2014).

208. The Sponsors have also begun to pursue, through CGP, a $880 million casino project in Woodbury, New York.[188] If developed, CEOC will, upon information and belief, receive no compensation (as expected, given Defendants' pattern of behavior) and CGP will be able to capitalize on its royalty-free license to Total Rewards, as any additional property added to Caesars' portfolio can benefit from the information, goodwill, and know-how contained within Total Rewards. Thus, the gratuitous transfer of value to CGP is likely to be the gift that keeps on giving.

D. CEC And The Sponsors Continuously Threaten To Strip Away CEOC's Last Las Vegas Property—The Five Remaining Towers Of Caesars Palace

209. Amazingly, even now CEC continues to threaten to dispose of CEOC's last Las Vegas asset, the remaining five towers of Caesars Palace. As JP Morgan explained in an August 4, 2014 research report: "The recent announcements regarding the B-7 allocations and independent management

[188] *See* Glenn Blain, *N.Y. officials face tough choice in awarding upstate casino licenses*, N.Y. DAILY NEWS (Sept. 14, 2014), *available at* www.nydailynews.com/news/politics/n-y-officials-face-tough-choice-awarding-casino-licenses-article-1.1938861; *see also* Charles V. Bagli, *Caesars Making Bid for Casino in Upstate New York*, N.Y. Times (Apr. 22, 2014), *available at* www.nytimes.com/2014/04/23/nyregion/caesars-making-bid-for-casino-in-upstate-new-york.html.

appointments at CEOC made us more concerned that a sale of Caesars Palace to CGP could come at some point in the not-too-distant future."[189]

210. Ominously, Loveman has pointedly refused to indicate that Caesars is finished stripping CEOC of assets—even its last remaining prime asset in Las Vegas. As a Goldman Sachs analyst noted during the May 7, 2014 1Q earnings call:

> I've got a lot of questions today from bond holders regarding future transactions because you guys have certainly been busy. . . . and I think secured lenders are just trying to think about Caesars Palace, and could that be sold to an affiliated entity[,] and I was wondering if you cared to put to bed any concerns about that potentially being sold to CGP or CERP in the future?[190]

211. Rather than taking the opportunity presented by the Goldman analyst's question to "put to bed any [such] concerns," Loveman characteristically responded that he was "not going to be able to do that."[191] And on the August 11, 2014 second-quarter earnings call, Loveman went further and actually "taunted creditors,"[192] as noted by the press, threatening that "it remains to be seen what the

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[189] JP Morgan, *Caesars Entertainment Corp. (CEC)—Waiting on Next Steps: Some Scenarios*, at 2 (Aug. 4, 2014).

[190] CEC Q1 2014 Earnings Call (May 7, 2014), available at http://seekingalpha.com/article/2200603-caesars-entertainments-czr-ceo-gary-loveman-on-q1-2014-results-earnings-call-transcript.

[191] *Id.*

[192] CreditSights, We Will Let You Know, at 4.

proper [entity] location is for Caesars Palace."[193] Another market observer noted recently in a published report that "[a]s bondholder negotiations continue, sources said Caesars Entertainment is intimating it could engineer a sale of prized Las Vegas property Caesars Palace from CEOC to a healthier unit and using that threat to pressure bondholders to agree to a restructuring plan."[194] Similarly, in late July of this year, CEC stated before the Illinois Gaming Board that *additional* transactions are contemplated to "help" CEOC's capital structure.[195] If the past is prologue, the "helpful" transactions will have the effect of illicitly draining yet more value from CEOC for the benefit of Defendants and the Sponsors.

212. These recent and ongoing events make clear that, without intervention by this Court, nothing will stop Defendants and the Sponsors from completing their shameless plunder of CEOC.

VII.
THROUGHOUT DEFENDANTS' PLUNDERING OF CEOC, CEOC HAS BEEN HOPELESSLY AND INCREASINGLY INSOLVENT

213. Throughout every one of these transactions and transfers, and dating back to at least late 2012, CEOC has been insolvent under all relevant metrics,

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[193] *Id.* (quoting CEC Q2 2014 Earnings Call (Aug. 11, 2014), *available at* http://seekingalpha.com/article/2412495-caesars-entertainments-czr-ceo-gary-loveman-on-q2-2014-results-earnings-call-transcript).

[194] Lisa Allen, *Caesars to retire legacy bonds*, The Deal Pipeline (Aug. 21, 2014).

[195] Debtwire, *Caesars gains approval from gaming board for USD 1.75bn loan deal* (July 24, 2014).

including the balance-sheet and cash-flow tests. In both its 2012 and 2013 10-Ks, CEC stated: "If we are unable to service our debt obligations generally, and if we are unable to refinance our debt obligations that mature in 2015 or thereafter, we cannot assure you that our company will continue in its current state or that your investment in our company will retain any value."[196] Similarly, in a Form 8-K filed on April 15, 2014, CEC conceded: "We do not expect that cash flow from operations will be sufficient to repay [CEOC's] indebtedness in the long-term . . . ."[197] Since these statements, the situation has continued to worsen. Most recently on November 14, 2014, CEOC stated that "we do not currently expect that our cash flows from operations will be sufficient to repay our indebtedness and will ultimately need to pursue additional debt or equity offerings or seek a refinancing, amendment, private restructuring or a reorganization under Chapter 11 of the Bankruptcy Code . . . . [W]e estimate, based on our current operating forecasts and the underlying assumptions, that we would require additional sources of liquidity to fund [CEOC's] operations and obligations beginning during the fourth quarter of 2015. These factors raise substantial doubt as to our ability to continue as a going concern beyond the fourth quarter of 2015."[198] Similarly, in a Form 10-Q filed on November 14, 2014, CEC admitted that "CEOC's history of

[196] CEC, Annual Report (Form 10-K) at 11 (Mar. 17, 2014); CEC, Annual Report (Form 10-K) at 12 (Mar. 1, 2013).
[197] CEC, Current Report (Form 8-K) Ex. 99.1 at 23 (Apr. 15, 2014).
[198] CEOC, Quarterly Report (Form 10-Q) at 74 (Nov. 14, 2014).

losses and substantial indebtedness have resulted in doubts as to CEOC's ability to continue as a going concern."[199]

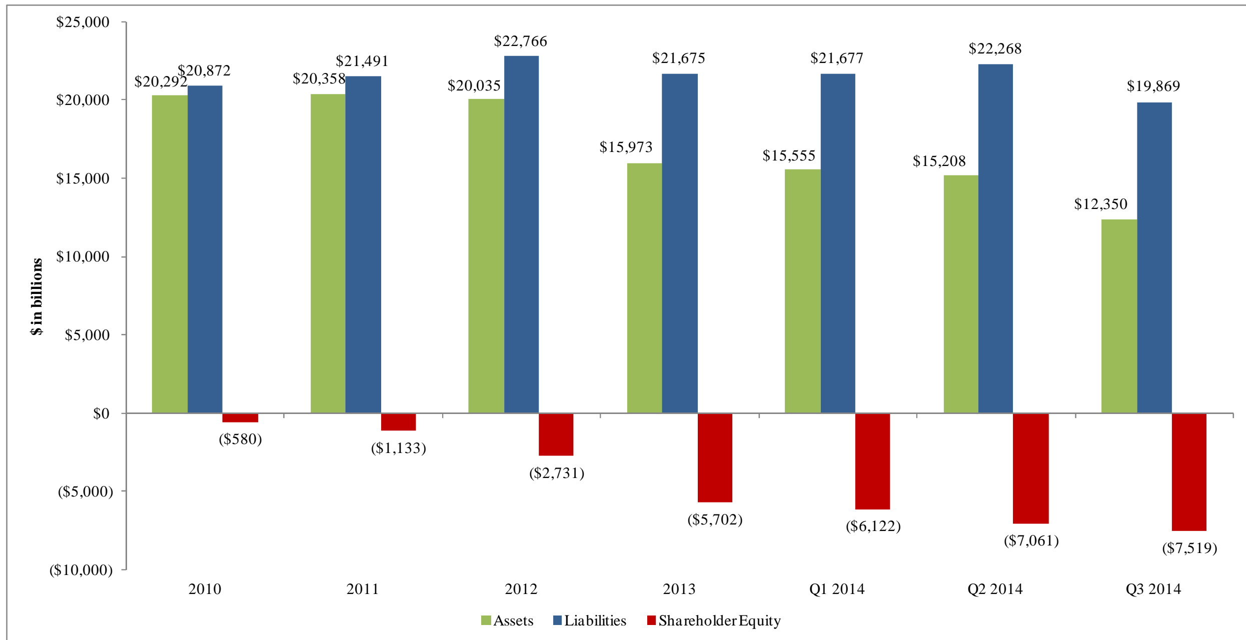
214. CEOC's insolvency has only grown increasingly hopeless as each of the above described deleterious transfers and transactions—which bolstered the financial condition of CEC, the Sponsors, and their affiliates while progressively and relentlessly stripping present (and foreclosing future) value from CEOC—has been effected.

A. CEOC Is Hopelessly Insolvent Under The Balance-Sheet Test

215. CEOC itself has reported in public filings that its net loss from operations almost tripled from $496 million to $1.435 billion between December 31, 2012 and December 31, 2013.[200] As Figure O demonstrates, the amount by which the book value of CEOC's liabilities exceeds its assets has been increasing at an alarming rate since 2011, and its ***negative*** equity value increased almost *seven-fold* in the less than three years from year-end 2011 to September 30, 2014, and has almost *tripled* since year-end 2012:

[199] CEC, Quarterly Report (Form 10-Q) at 66 (Nov. 14, 2014).
[200] CEC, Current Report (Form 8-K) at 5 (Apr. 15, 2014).

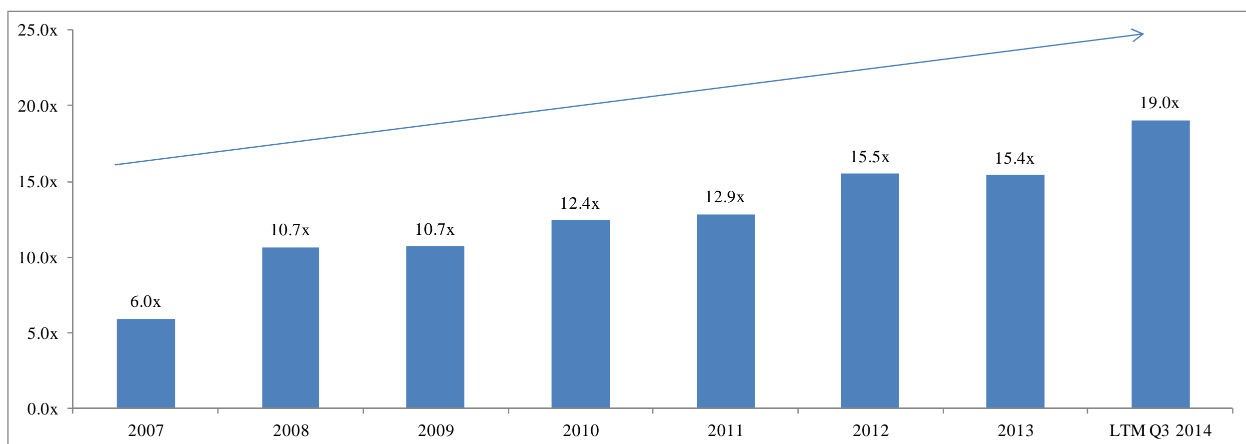
Figure O: CEOC—Book Value of Assets vs. Liabilities



216. Similarly, CEOC's worsening financial condition is evidenced by its rapidly increasing net debt/EBITDA leverage ratio. This is an increase that stands in stark contrast to CEC's non-CEOC entities, whose net debt/EBITDA leverage ratio has improved over the same period as CEC shifts value away from CEOC to other CEC entities. As of year-end 2008, CEOC's effective leverage ratio was 10.7x net debt/EBITDA, and the other Caesars entities' consolidated net debt/EBITDA ratio was 9.0x. As of year-end 2013, CEOC's net debt/EBITDA had hit 15.4x, and had climbed to 19.0x by September 30, 2014. In marked contrast, the net debt/EBITDA of Caesars' remaining (non-CEOC) entities has *improved* from 9.0x as of year-end 2008 to 6.0x as of September 30, 2014 (and even without the additional $1.1 billion new equity contribution into CGP and the

impact of the discounted debt refinancing at CERP's predecessor entity, would be only 7.4x), not even accounting for the projected future positive impact from improvement in EBITDA as CGP and CERP's new developments come online. In other words, while Defendants assiduously stripped CEOC of its assets and value, they worked to strengthen CEC, CGP, and CERP at CEOC's expense. Figure P shows the ratio of CEOC's net debt to EBITDA between 2007 and LTM Q3 2014.

Figure P: CEOC—Net Debt/EBITDA[201/202]



217. The value ascribed by the market to CEOC's debt reflects the same undeniable conclusion concerning CEOC's massive insolvency. At market values, as reflected in Figure Q, the value of the $18.4 billion face amount of CEOC's debt is merely $10.8 billion. This $7.6 billion shortfall, which confirms CEOC's

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[201] Net debt is calculated as face value of debt less cash. EBITDA represents Pro-Forma Adjusted EBITDA as reported in CZR's earnings releases, further adjusted to exclude "cost savings yet-to-be-realized."

[202] LTM Q3 2014 EBITDA represents LTM Adjusted EBITDA—Pro Forma—CEOC Adjusted for property sales. *See* CEC Press Release, *Caesars Entertainment Reports Financial Results for the Third Quarter 2014* (Nov. 10, 2014).

insolvency, is in fact misleading and conservative. *First*, it reflects value to CEOC that relates solely to CEC's new guarantee of CEOC's First Lien Bank Debt obligations (as distinct from the CEC Guarantee purportedly released). This is a separate CEC obligation that cannot appropriately be considered in valuing CEOC's assets or assessing its solvency. *Second*, the market value of CEOC's debt reflects an expectation that assets that have been looted from CEOC—and thus are not currently available to creditors—will be returned to CEOC as judicial remedies are obtained for Defendants' flagrantly illegal conduct, which has already been well-publicized.

Figure Q: CEOC Debt Trading Levels[203]

($ in millions)	Face Value	Trading Price (cents/ dollar)	Market Value	Debt Discount
First Lien Bank Debt	$5,359	89.6	$4,801	($557)
Chester Downs Debt	$330	90.8	$299	($31)
First Lien Bond Debt	$6,345	75.3	$4,779	($1,566)
Second Lien Bond Debt	$5,256	14.5	$763	($4,493)
Unsecured	$1,025	13.8	$142	($883)
Other	$101	13.8	$14	($87)
Total	**$18,415**		**$10,798**	**($7,617)**

218. The valuation implied by the trading levels of CEOC's debt is overstated because it values the First Lien Bank Debt, which currently trades at an average price of approximately 90 cents, at a 15 cent premium relative to the first lien bond debt which, while being *pari passu*, trades at a substantially lower

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[203] Figures as of November 14, 2014.

average price of approximately 75 cents. The only explanation for this 15 cent premium—which accounts for at least $765 million of the market value of CEOC's First Lien Bank Debt—is CEC's remaining guarantee of the First Lien Bank Debt.[204] Conducting the same relative price analysis on a yield basis suggests a similarly large value attributable to CEC's remaining guarantee of the First Lien Bank Debt.[205] CEOC's First Lien Bank Debt trades at an average yield-to-worst[206] of approximately 13% compared to the yield-to-worst implied by trading levels of the First Lien Bond Debt of approximately 19%.[207] Assuming the First Lien Bank Debt were to trade at a yield-to-worst of 19%, comparable to the First Lien Bond Debt, its market value would decrease by approximately $523 million. Averaging the values implied by the price and yield differential methodologies suggests an illustrative and approximate potential value of the remaining CEC guarantee of approximately $644 million. Backing out this value from the $10.8 billion market value of CEOC's indebtedness results in a market-implied valuation of CEOC of $10.2 billion. This figure is $8.2 billion (or 45%) less than the amount of CEOC's outstanding debt, and underscores that CEOC's insolvency is even more severe than it initially appears.

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[204] This methodology is based on the assumption that debt prices are derived from recovery expectations.

[205] This analysis, based on yields, reflects normalized market valuation.

[206] "Yield-to-worst" is the lowest potential yield that can be received on debt without the issuer actually defaulting.

[207] These numbers reflect weighted averages.

219. In addition, while depressed, the trading levels of CEOC's debt set forth in Figure Q continue to reflect and embed the market's expectation that CEOC will recapture value Defendants have stripped from it, including reinstatement of the CEC Guarantee and the return of assets through litigation.[208] This value, like the value in CEC's remaining guarantee of the First Lien Bank Debt, cannot be considered in valuing CEOC's assets or assessing its solvency. Thus, due to the market expectation that value will be recovered by CEOC and/or its creditors from CEC and its affiliates via litigation, the true market-implied valuation of CEOC is *even less* than the $10.2 billion described above.

220. The potential for CEOC to receive compensation for its assets is not only reflected in the trading prices of CEOC's debt, but potentially also in those of CEC and CAC securities. As observed by JP Morgan: "In the event a judge

[208] Indeed, since March 2014, various letters challenging the described inequitable transfers have been delivered to Defendants. In addition, in August 2014 a lawsuit was commenced by certain second lien creditors of CEOC seeking to unwind these transactions and reinstate the release of the CEC Guarantee. *See* Verified Compl., *Wilmington Sav. Fund Soc'y, FSB v. Caesars Entm't Corp.*, Case No. 10004 (Del. Ch. Aug. 4, 2014); *see also MeehanCombs Global Credit Opportunities Master Fund, LP v. Caesars Entm't Corp.*, Case No. 14-cv-07091 (S.D.N.Y. Sept. 03, 2014) (holders of approximately $21 million of CEOC Senior Notes due 2016 and 2017 filed suit against CEC and CEOC, claiming broadly that an August 12, 2014 Note Purchase and Support Agreement between CEC and CEOC (on the one hand) and certain other holders of the CEOC Senior Notes (on the other hand) impaired their own rights under the Senior Notes). On October 2, 2014, other holders of CEOC Senior Notes due 2016 purporting to represent a class of all holders of these Notes from August 11, 2014 to the present, filed a substantially similar suit in the same court, against the same defendants, relating to the same transactions.

decided to rule that the assets were not sold at an appropriate price, we believe the base case scenario is that a judge would force a remedy of additional compensation for CEOC."[209] That creditor litigation "could have a material adverse effect on our business, financial condition, results of operations, and prospects and on the ability of lenders and noteholders to recover on claims under our indebtedness"[210] is a material risk that CEC has itself recognized in its public disclosures. Thus the market has potentially significantly discounted the value of CEC and CAC. CEC has more than $500 million in cash and owns 100% of CERP's assets and 57.5% of CGP's assets. Based on market multiples and cash flow estimates, those assets are potentially worth more than CEC's current market capitalization. Similarly, CAC's current market capitalization is potentially below the fair value of its 42.5% stake in CGP. If it were not for the well-recognized risk that CGP, CERP, and CEC will have to return the assets taken from CEOC, the market capitalizations of CEC and CAC would potentially be higher than they currently are.

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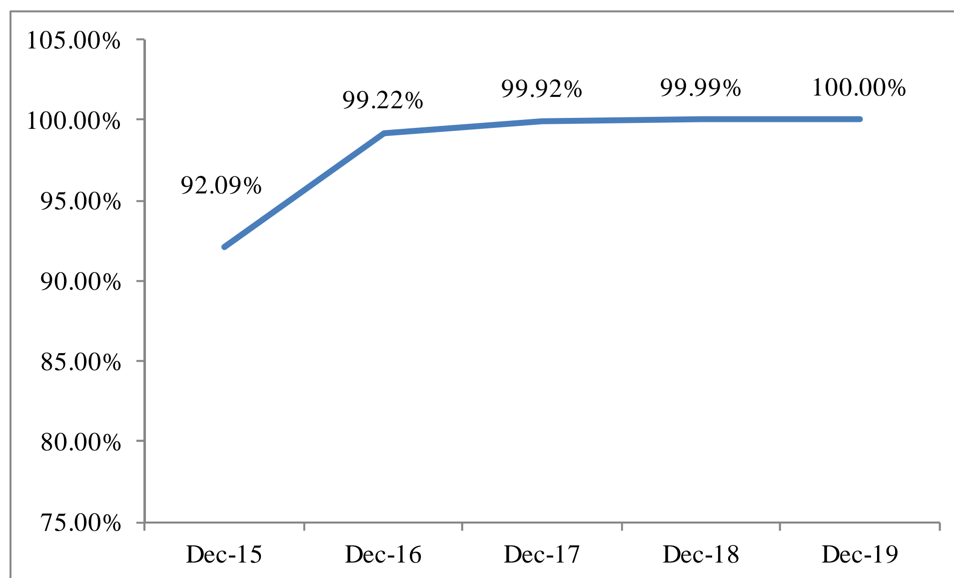
[209] JP Morgan, *CERP & CGPH Ignoring the Headlines—Just the Facts*, at 2 (Sep. 8, 2014). For additional Wall Street research discussion related to CEC's contingent liabilities, see the Imperial Capital report entitled *Caesars Entertainment Corp.—Caesars Acquisition Company—2Q14 Update—CEOC Continues to Address its Debt*, dated August 27, 2014, as well as the Barclays report entitled *CZR Launches CEOC Refinancing*, dated May 6, 2014.

[210] CEC, Quarterly Report (Form 10-Q) at 66 (Nov. 14, 2014); CEC, Quarterly Report (Form 10-Q) at 59 (Aug. 11, 2014); CEC, Quarterly Report (Form 10-Q) at 54 (May 9, 2014); CAC S-1, at 45; CAC, Annual Report (Form 10-K) at 18 (Mar. 28, 2014).

221. The credit default swap market similarly reflects CEOC's insolvency. CEOC's probability of default within two years (as measured by Bloomberg, based upon trading prices for credit default swaps referencing CEOC) is virtually certain, as illustrated in Figure R below.

Figure R: CEOC Probability of Default



B. CEOC Is Hopelessly Insolvent Under The Cash-Flow Test

222. CEOC is also hopelessly insolvent on a cash-flow basis. CEOC generated net cash flow from operations (excluding required maintenance capital expenditures) of negative $371 million in 2012 and negative $943 million in 2013, and continues to burn through cash at an unprecedented rate. So far in 2014, CEOC's negative cash flow from operating activities is running at an annualized rate of almost $732 million per year, and this figure excludes several hundred million dollars of additional required maintenance capital expenditures each year.

Moreover, CEOC's cash burn in the third quarter of 2014 was alarming and significantly larger than expected. CEOC ended the third quarter with $1,480 million of cash on its balance sheet.[211] In comparison, JP Morgan in its third quarter 2014 earnings preview estimated this cash balance would be $1,731 million, or $251 million greater than the actual cash balance.[212] JP Morgan also recently reported that it projects "CEOC liquidity evaporates by the 3Q15" and that its liquidity deficit in 2015 will equal a staggering $504 million.[213] Similarly, CreditSights recently stated that they expect "a [CEOC] cash default at some point in 2H 2015."[214]

223. As of March 31, 2008, CEOC's EBITDA/interest coverage ratio[215] was approximately 0.9x, and its EBITDA-CapEx/interest coverage ratio was approximately 0.5x. As of September 30, 2014, the date of CEOC's most recent publicly available financials, CEOC's EBITDA/interest coverage ratio had plummeted to only 0.4x, and its EBITDA-CapEx/interest coverage ratio had fallen

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[211] CEOC, Quarterly Report (Form 10-Q) at 47 (Nov. 14, 2014).

[212] JP Morgan, *CEOC/CERP/CGPH 3Q14 Earnings Preview: Waiting On Next Steps*, at 2 (Nov. 3, 2014).

[213] JP Morgan, *Caesars Entertainment Corp (CEOC) 3Q14 Earnings Summary*, at 5 (Nov. 10, 2014).

[214] CreditSights, *Caesars Entertainment 3Q14: When?*, at 1 (Nov. 11, 2014).

[215] EBITDA and capital expenditures represent LTM data as of March 31, 2009, the first quarter following the LBO. Interest represents annualized interest expense for the period between January 28, 2008 and March 31, 2008.

to barely 0.3x. Those are alarming metrics that further evidence that CEOC is woefully undercapitalized and unable to meet its obligations.

224. The CEOC Property Transfers have also worsened CEOC's dire financial condition by diminishing its already limited ability to service its now impossibly massive debt. As stated by CreditSights analyst Chris Snow: "In a practical sense, [CEOC is] insolvent. They're paying out way more in interest expense than they're generating in [EBITDA]."[216] During the past several years, CEOC has generated insufficient EBITDA to service its debt, and the deficit is growing.[217] Figure S illustrates the widening gap between CEOC's EBITDA and its interest expense and capital expenditures since 2010:

Figure S: CEOC Cash Flow Deficiency

($ in millions)	CEOC EBITDA[218]	Interest Expense	Capital Expenditures	Deficiency
2010	1,420.6	1,782.0	135.4	(496.8)
2011	1,437.3	2,030.9	238.2	(831.8)
2012	1,257.9	2,001.8	425.1	(1,169.0)
2013	1,178.3	2,145.4	450.8	(1,417.7)

[216] *See* Lisa Allen, *Caesars to retire legacy bonds*, The Deal Pipeline (Aug. 21, 2014) (quoting Chris Snow).

[217] *See* Imperial Capital, *Caesars Entertainment Corp.—Caesars Acquisition Company—Mixed 4Q13 Results are Overshadowed by the Company's Actions Leading Up to Addressing OpCo's Total Debt*, at 15 (Mar. 13, 2014) (estimating CEOC would generate free cash flow of negative $1.3 billion in 2014).

[218] EBITDA represents Pro-Forma Adjusted EBITDA as reported in CZR's earnings releases, further adjusted to exclude "cost savings yet-to-be-realized."

225. These deficiencies do not take into account the true required cash outlays to maintain CEOC's vast portfolio of gaming properties, as the company has been massively under-investing in its properties due to its crushing insolvency, coupled with Defendants' interest in extending the period before CEOC's inevitable bankruptcy filing in an attempt to insulate themselves from avoidance actions. The deficiencies are thus understated as a result of Defendants' pursuit of the scheme described herein, in lieu of attempting to maximize CEOC's business and asset value. As demonstrated below in Figure T, CEOC's assets have been deprived of as much as $400 million or more in maintenance capital expenditures since 2009—some or all of this capital expenditure requirement will likely have to be made up at some point in the future.

Figure T: CEC and CEOC Capital Expenditures[219]

Caesars Capital Expenditures Under-Spend ($ in millions)	2009	2010	2011	2012	2013
Caesars					
Maintenance Capex	$150	$161	$160	$227	$323
Net Revenues	$8,616	$8,547	$8,567	$8,580	$8,560
% Net Revenues	1.7%	1.9%	1.9%	2.6%	3.8%
Average % of Revenues (ex-Caesars)	3.5%	3.6%	4.0%	3.9%	4.5%
2009-2013 Comparable Companies Average	3.9%	3.9%	3.9%	3.9%	3.9%
CEC Under-/(Over)-Spend	2.2%	2.0%	2.0%	1.3%	0.1%
Capex Under-/(Over)-Investment	$186	$173	$174	$108	$10

Total Capex Under-/(Over)-Investment	$651
Estimated CEOC	$410

C. The Inverse Correlation Of CEOC's *Insolvency* To The *Value* Of CEC And CAC

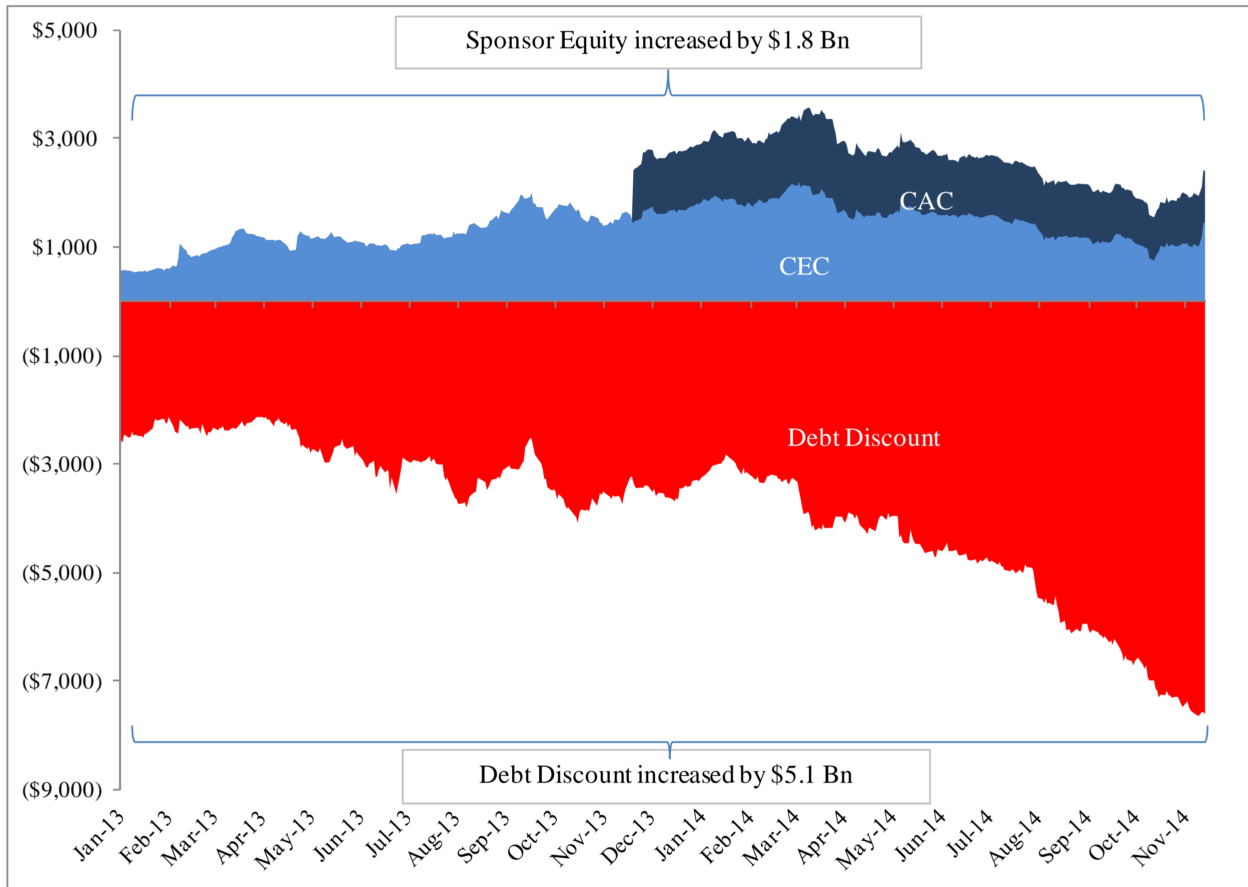
226. The CEOC Property Transfers had simultaneous and opposite effects of depressing the trading price of CEOC's debt while increasing the equity value of the transfer recipients—further demonstrating CEOC's insolvency and the inadequacy of the consideration to CEOC for the transfers. The fact that CEOC's debt trades well below its face value reflects the market's expectation that CEOC will be unable to repay its debt in full and is insolvent. Specifically, Figure U shows that the aggregate market value deficit of CEOC's debt relative to the face value of such debt increased by $5.1 billion between December 31, 2012 and

[219] CEOC Under-/(Over)-Investment calculated by allocating capital expenditures to CEOC on a percentage of revenue basis.

November 14, 2014. While the value of CEOC's debt plummeted, the market capitalizations of CEC and CAC increased by $2.9 billion. This disparity implies that the market attributes $5.1 billion less value to the assets in CEOC's portfolio, and $2.9 billion more in value to the assets available to Defendants—including a $1.8 billion increase in the value of the Sponsors' stake in CEC and CAC.

227. These facts, together with the fact that nearly all of CEC and CAC's assets have been taken directly from CEOC by Defendants, reinforce the reality that a staggering amount of value has been illicitly transferred from CEOC to its affiliates through the sale of assets for less than reasonably equivalent value.

Figure U: Change in Aggregate Market Value of CEOC Debt vs. Sponsor Equity Increase



228. This massive value transfer is vividly exemplified when looking at the five trading days that followed the March 3, 2014 announcement that The Cromwell, The Quad, Bally's Las Vegas, and Harrah's New Orleans would all be stripped by Defendants from CEOC. During this time, CAC's publicly-traded stock price soared from $13.63 to $16.00—an increase of 17.4% and a market capitalization increase of over $300 million, implying that the value of CGP

increased by approximately $750 million.[220] Needless to say, the stock prices of comparable gaming companies did not experience a similar dramatic spike. This price increase reflected the market's belief that CGP received substantially more value from CEOC than it had agreed to pay for CEOC's assets.

229. Consistent with their reactions to all of Defendants' and the Sponsors' recent plundering, Moody's, S&P, and Fitch all reacted negatively to the transaction, with Moody's promptly downgrading CEOC's rating to Caa3 and its first lien debt from Caa3 to Ca. Moody's explained that the recent transactions substantially increased CEOC's chance of defaulting in the near-term, and would cause CEOC's bondholders substantial losses in value:

> The downgrade of CEOC's Corporate Family rating to Caa3 . . . reflects Moody's concern that the loss of EBITDA from the proposed sale of four casinos to Caesars Growth Partners Holdings ("CGPH") will cause CEOC's already high leverage to increase as well as reduce bondholders' recovery prospects. Despite the approximate $1.8 billion of cash that will be received by CEOC and may be used to repay a small amount of debt and fund operating losses for a period of time, in Moody's opinion, *the proposed sale significantly heightens CEOC's probability of default* along with the probability that the company will pursue a distressed exchange or a bankruptcy filing. CGPH is a wholly owned indirect subsidiary of [CGP]. CGP is owned and controlled by [CAC], which is owned by CEC and affiliates of private equity firms Apollo and TGP.
>
> The proposed sale comes on the heels of the sale of Planet Hollywood, sale of its interest in a casino development in Baltimore,

[220] CAC owns 42.5% of CGP. Thus, an increase of over $300 million in the value of this 42.5% stake in CGP implies that the overall valuation of CGP increased by over $700 million.

> and the sale of Octavius Tower and Project Linq in Las Vegas, NV in late 2013. Moody's estimates that on a pro-forma basis, *the proposed sale of the four casinos along with the previous sale of Planet Hollywood will reduce CEOC's annual EBITDA* (which included Planet Hollywood for three quarters) *in the range of $250 - $300 million, representing about 21% of CEOC's 2013 adjusted EBITDA.* As a result, debt/EBITDA will rise above the estimated 16x at year-end 2013. Additionally, assuming an 8x multiple for valuation purposes, *Moody's estimates bondholders will lose value in the range of $2.0 billion to $2.4 billion.*[221]

230. Around the same time, Deutsche Bank estimated that CEOC now had total leverage of an astonishing 16.9x, writing that "this transaction is clearly negative from a leverage perspective on CEOC due to the loss of EBITDA from the sale of the three assets."[222] Goldman Sachs also responded negatively to the transactions, downgrading certain of the CEOC first lien bonds "owing to the decline in mix of Las Vegas assets, the expected increase of first lien leverage, the uncertainty about how the sale proceeds will be used and risk associated with a potential transfer of the intellectual property from [CEOC] to a new JV."[223] They also noted their belief "investor concerns are increasing at the top part of the capital structure" and that "the announced sale of three Las Vegas properties and

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[221] Moody's Investors Service, *Moody's takes rating action on several entities in the Caesars family* (Mar. 28, 2014) (emphasis added), *available at* https://www.moodys.com/research/Moodys-takes-rating-actions-on-several-entities-in-the-Caesars--PR_295963.

[222] Deutsche Bank Markets Research, *Management Plays Another Hand; Investors Wary; Downgrading to a Hold*, at 6 (Mar. 12, 2014).

[223] Goldman Sachs, *CZR 1st liens down to IL; CZR 10.75s and CERP 2nd liens up to OP*, at 2 (Mar. 6, 2014).

the proposed formation of a new 'Services JV' is more aggressive than we anticipated[,] which has and, in our view, will continue to put pressure on the top part of the [CEOC] capital structure."[224]

231. On April 8, 2014, S&P also downgraded the recovery rate on CEOC's first lien debt to a "3," reflecting a decrease in recovery from between 70% to 90% to between 50% to 70%, and dropped its issuer rating to CCC-. Fitch similarly stated its belief that "the announced transactions are a negative for CEOC creditors because they further deteriorate certain debtholders' recovery prospects in an event of default and exacerbate an already weak free cash flow profile at CEOC."[225]

232. The view that CEOC is severely insolvent is held universally by Wall Street analysts. For example, Kimberly Noland of Gimme Credit has written of CEOC that "[t]he situation is so compromised that severely negative cash flow will ultimately require a restructuring that implicates all debt levels including the first lien debt."[226] CreditSights echoed this view in an August earnings note: "Ultimately, three years from now, we have difficulty seeing how CEOC avoids

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[224] *Id.* at 2, 5.

[225] *Fitch: Caesars CGP Related Transactions Positive for Equity Holders and CERP; Negative for CEOC*, Business Wire (Mar. 3, 2014) (discussing Fitch Ratings release), *available at* http://www.businesswire.com/news/home/20140303006579/en/Fitch-Caesars-CGP-Related-Transactions-Positive-Equity#.VDmb8PldX_m.

[226] Financial Times, Game of Poker.

bankruptcy."[227] And in a recent Moody's report titled "Caesars Entertainment Assets Sales Are Weakening the Hand of Creditors," Moody's opined that "[a]n eventual restructuring at Caesars is inevitable, considering its weak liquidity and very high leverage."[228]

233. A widely held view of CEOC's severe insolvency has prevailed for some time. Upon the April 2013 announcement of the then-pending October 2013 CGP transactions, Goldman published that it had "grown more concerned" about Caesars' credit profile, noting that with "only $360 [million] of proceeds coming back to CEOC," the liquidity profile was not improved.[229] By May 3, 2013, S&P also downgraded Caesars with a "negative" outlook, explaining that "the capital structure is unsustainable in the long term because credit metrics are very weak and the company will continue to burn cash to fund capital expenditures and interest payments."[230] S&P analysts speculated about future CEC and CEOC bankruptcies or debt restructuring, and stated: "Our corporate credit rating reflects our assessment of Caesars' financial risk profile as 'highly leveraged,'" and

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[227] CreditSights, We Will Let You Know, at 7.

[228] Moody's Investors Service, *Caesars Entertainment Asset Sales are Weakening the Hand of Creditors*, at 1 (May 2, 2014).

[229] Goldman Sachs, *Caesars Entertainment Corporation—Provides CGP terms; Stay high in the structure, concerns increasing*, at 1 (Apr. 24, 2013).

[230] Standard & Poor's Ratings Services, *Caesars Entertainment Corp. Downgraded To 'CCC+' On Weaker-Than-Expected Operating Performance; Outlook Negative*, at 2 (May 3, 2013).

characterized Caesars' liquidity profile as "less than adequate."[231] In July 2013, also before the October 2013 transactions closed, Fitch Ratings wrote that the potential for a CEOC default had increased: "The proposed [CGP] transaction is a negative for [CEOC] creditors, as it would diminish [the Sponsors'] incentive to support CEOC among other negative factors . . . ."[232]

234. By September 2013, Moody's wrote that CEOC's "capital structure is not sustainable in its current form given significant leverage and weak liquidity."[233] In the same report, Moody's assigned CEOC a Caa2 rating due to the company's "very high leverage" and "inability to cover cash interest and maintenance capital spending needs."[234]

235. Indeed, the Company itself all but admits that it is insolvent and unable to meet its obligations beyond the very near-term. As CEC and CEOC acknowledged in their recent New York State action, CEOC's recent changes to its capital structure have left it with approximately "$2 billion of cash, no near-term maturities, and minimal risk of covenant default," such that it might be able to

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[231] *Id.* at 3-4.

[232] Fitch Ratings, *Capital Structure Diagrams & Debt Document Summaries for Fifty of the Largest U.S. Leveraged Credits: Caesars Entertainment Corp.*, at 52 (July 11, 2013).

[233] Moody's Investors Service, *Rating Action: Moody's assigns ratings to Caesars Entertainment*'*s proposed restructuring and refinancing* (Sept. 19, 2013), *available at* https://www.moodys.com/research/Moodys-assigns-ratings-to-Caesars-Entertainments-proposed-restructuring-and-refinancing--PR_282510.

[234] *Id.*

"operate and service its debt through 2014, 2015, and ***potentially*** into 2016."[235] As CEOC concedes in its Form 10-Q filed on November 14, 2014, its inability to repay its indebtedness out of its operating cash flows "raise substantial doubt as to our ability to continue as a going concern beyond the fourth quarter of 2015."[236] New Jersey gaming regulators reached the same conclusion in a November 14, 2014 report to the Casino Control Commission: "While CEOC should maintain adequate liquidity to offset unanticipated shortfalls during 2014, the Resubmission Forecasts indicate that CEOC would exhaust its available liquidity some time in 2015."[237] New Jersey gaming regulators proceeded to state that, based on forecasts provided by CEOC, "CEOC's projected EBITDA is $862 million and $743 million below that needed just to fund cash interest expenses for 2014 and 2015, respectively."[238]

236. When confronted with claims regarding constructive fraudulent transfers in connection with appearances before the LGCB, Defendants did not once claim that CEOC was solvent. This is not surprising, as the Company is well-

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[235] CEOC Am. Compl. ¶ 92 (emphasis added).

[236] *Id.* at 74.

[237] Letter from New Jersey Office of Attorney General, Department of Law and Public Safety, Division of Gaming Authority to Hon. Matthew B. Levinson, Chairman of Casino Control Commission, at 16 (Nov. 14, 2014).

[238] *Id.* at 15 (emphasis added).

aware of its irrefutable insolvency.[239] As Tim Donovan, general counsel of CEC, stated to the LGCB on May 19, 2014, embracing CEOC's insolvency: "It's no question that [CEOC has] too much debt, and I think that's obvious."[240]

VIII.
ONLY A COURT-APPOINTED RECEIVER CAN PROTECT CEOC AND ITS STAKEHOLDERS

237. CEOC's management is, by design, irreparably conflicted and incapable of valuing, much less protecting, CEOC's interests or those of its creditor stakeholders. Defendants, through both their words and actions, have repeatedly made clear they will continue rapaciously pillaging CEOC and, left unchecked, will drain every ounce of value from it.

A. CEOC Has No Legitimately Independent Directors

238. The six new directors elected to CEOC on June 27, 2014 do absolutely nothing to change this reality. Bonderman, Davis, Rowan, and Sambur are each CEC directors and formally affiliated with the Sponsors: Bonderman and Davis are partners at TPG, Rowan is a founding partner at Apollo, and Sambur is an Apollo employee.

239. As for the two purportedly "independent" directors, it turns out (at this stage, to no one's surprise) that they are anything but. In fact, both Defendants

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[239] *See* Memorandum from CEOC to Ronnie Jones, Chairman of the LCGB, at 2-3 (Apr. 29, 2014).

[240] Transcript of Board of Directors' Meeting of the LGCB, at 84:20-21 (May 19, 2014).

Winograd and Stauber are inextricably linked to the Sponsors by both history and joint business interests. These significant and long-standing relationships make it exceedingly unlikely that either of them would make any decisions that would contradict or oppose the interests of their close colleagues and long-time business partners.

240. Winograd's deep ties to Apollo and its partners date back decades. More important, his business interests are interwoven with—and dependent on—Apollo's. During the mid-1980s, Winograd was a managing director in Drexel Burnham's merger and acquisition group, a unit headed by Leon Black, who became the founding partner of Apollo. Working alongside Winograd was Defendant Rowan, who also went on to become an Apollo founding partner. For Winograd, this seed of shared history has blossomed into a career of opportunities in reliance upon his Apollo ties and relationships. For example, Winograd was a director of Apollo portfolio company Skyterra Communications from 1998 to 2000. Rowan, his former Drexel colleague and Apollo principal, joined him on the board of that company in 1999. Public documents also attest to the business Winograd generates from Apollo in his capacity as an investment banker. Winograd is listed in SEC filings as the Bear Stearns investment banker who worked on a 1996 asset sale with Apollo portfolio company Multigraphics—where Defendant Benjamin, who is also a senior advisor to Apollo, sat on the board. SEC records also show

that Winograd, in his capacity at Bear Stearns, worked with Vail Resorts, another Apollo portfolio company, on a 2009 registration rights agreement. Rowan sat on Vail's board.

241. The Winograd-Apollo relationship is not past, but present. Winograd is currently a Managing Director at the Bank of Montreal, which has advised Apollo on six separate transactions, including the November 2012 $2.5 billion acquisition of part of McGraw-Hill. Winograd actively touts and promotes his Apollo ties—his LinkedIn profile notes that Apollo has been one of his major client relationships since at least 2000. (Winograd's LinkedIn profile, showing some of his connections to Apollo and trumpeting the Apollo name in several places, is attached hereto as Exhibit 3.) The fact that Winograd is professionally dependent on Apollo, as one of his largest and most important clients, plainly disqualifies him as an "independent" director.

242. Stauber also has longstanding ties to Apollo. His 19-year professional history in the financial sector has closely tracked the financial interests of Apollo. Stauber joined Cendant Corp as vice president of acquisitions in 1997. Cendant Corp. was formed by Leon Black's long-time friend and colleague from Drexel, Henry Silverman. In 1998, Silverman (via Cendant) and Black (via Apollo) formed a joint venture relating to Cendant called NRT LLC, a large residential real estate brokerage. Attesting to the closeness of Silverman and Black was Apollo's

hiring of Silverman after Cendant was essentially broken up, with some of the key parts—such as the real estate group now known as Realogy—being purchased by Apollo.

243. When Stauber left Cendant in 2006, he joined Pegasus Capital, a firm founded by Apollo alumnus Craig Cogut, one Black's colleagues at Drexel. Cogut was a founding partner of Apollo whom, reports say, was involved in distressed investments and restructuring advisory roles between 1990 and 1995. Cogut was also a director with Black and Rowan in Apollo's management vehicle, Lion Advisors. Throughout his career, Stauber has operated in a world in which Apollo's interests have been undeniably intertwined with his own.

B. CEC And CEOC Directors Are Patently Unfit To Run CEOC

244. Upon review of the backgrounds of the CEC and CEOC Directors, it comes as no surprise that they would take advantage of their profoundly conflicted positions to benefit CEC, the Sponsors, and themselves. As will be developed more fully at trial, many of CEC's directors (from which CEOC's Directors are almost exclusively selected), as well as Apollo itself, have a long history of self-serving and improper or otherwise questionable transactions and activities, often at the expense of other constituents including creditors.

245. Beyond this extensive history and long-running pattern of repeated self-dealing, CEC and the CEOC Directors have repeatedly exhibited behavior that

raises questions about their suitability for properly overseeing CEOC and preserving the value of its assets in a highly-regulated environment while abiding by a commitment to transparency. These issues are particularly relevant given the highly secretive and deceptive strategy Defendants employed in moving valuable CEOC assets outside the reach of investors for little to no return.

246. As a result of Caesars' track record and history under the management of the Sponsors (and certain of the other Defendants), at least one state has already found it to be an unsuitable partner to operate a casino. For example, in October 2013 the Massachusetts Gaming Commission *rejected* a Caesars affiliate's application for a casino license due to "***significant regulatory issues pertaining to Caesars' suitability***" relating to (*inter alia*):

- CIE's hiring of a CEO who, among other things, had entered into two non-prosecution agreements with the Department of Justice in prior positions;
- Caesars' partnerships with individuals with potential ties to organized crime; and
- A matter involving a high-roller gambler and related allegations of Caesars' engagement in a variety of illegal and predatory practices with respect to its gaming customers.[241]

247. Following the rejection, a CEC affiliate sued, claiming that the application process for the license was "rigged." However, the U.S. District Court

[241] Investigative Report for the Massachusetts Gaming Commission, at 5-6 (Oct. 18, 2013) (emphasis added), *available at* http://massgaming.com/wp-content/uploads/SSR-Report-REDACTED.pdf.

for the District of Massachusetts dismissed the suit and found that the Massachusetts Gaming Commission had properly rejected the company's application, citing approvingly and with specificity various of the reasons identified by the Commission's Investigation and Enforcement Bureau, thereby preserving the license rejection.[242/243]

248. The issues identified by the State of Massachusetts—just like the numerous transactions involved in Defendants' scheme—are not isolated incidents. Rather, they stem from an utterly broken culture of internal compliance and control that appears to pervade the entire Caesars organization.

249. Further, and as will be developed more fully at trial, the checkered pasts of several individual Defendants strongly suggest that the Sponsors appointed them as directors in reliance on their loyalty or some other considerations, and not

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[242] *See Caesars Mass. Dev. Co. v. Crosby*, 2014 WL 2468689, at *16 (D. Mass. May 30, 2014).

[243] In a similar vein, a Caesars affiliate's license application for The Horseshoe Casino in Ohio ran into problems when state regulators determined that the chosen CFO lied about his CPA application. And an Ohio regulator recently observed that Rock Ohio Caesars' debt disclosures appeared designed to obscure, rather than clarify, information. *See* Dan Monk, *Horseshoe Casino parent to pay $200,000 fine over failure to disclose financing details*, WCPO Cincinnati (Aug. 22, 2014) ("Former Cleveland-area Congressman Martin Hoke criticized Rock Ohio Caesars in May for its disclosures related to the debt load of Caesars Entertainment. 'It's all confusing,' said Hoke, a member of the Casino Control Commission since 2011. 'It's so confusing as to raise reasonable questions in the minds of reasonable people that it's intended to be confusing to create opaqueness rather than clarity.'"), *available at* www.wcpo.com/money/local-business-news/horseshoe-casino-parent-to-pay-200000-fine-over-failure-to-disclose-financing-details.

on their competence or integrity. The Sponsors could be confident that directors of this caliber would be both loyal (out of gratitude for giving them positions from which their track records should have excluded them) and willing to countenance improper conduct. As evidenced by their conflicted and adverse positions, their histories, and the brazen nature of the stripping of *billions of dollars* in CEOC assets, it is clear that Defendants view CEOC as an instrumentality of CEC to be plundered in whatever way serves the interests of Defendants and the Sponsors. Absent intervention, Defendants have no reason to cease their corporate abuse or to establish responsible, independent governance at either CEOC or CEC. The degree to which the Sponsors' irreparable management failure permeates both CEOC and CEC is underscored by the extensive and far-ranging abuse of corporate duties detailed above. Only appointment of a receiver will ensure that the scheme perpetuated by Defendants and the Sponsors is put to an end and unwound.

250. As Loveman recently announced, the CEOC Directors have no intention of ceasing their conflicted, insider transactions, noting they are the "foundation" of an ongoing process that "is anticipated to take some time."[244] But CEOC and its creditors have no more time. When Defendants and the Sponsors

[244] CEC Q1 2014 Earnings Call (May 7, 2014), *available at* http://seekingalpha.com/article/2200603-caesars-entertainments-czr-ceo-gary-loveman-on-q1-2014-results-earnings-call-transcript.

finally decide it is time to stop the music—after they have run the clock on preference and fraudulent transfer look-back periods—it will be too late. Judicial intervention and oversight by a receiver selected and appointed by the Court are required now, before CEOC, and its existing rights and claims and those of its creditors, are reduced to ashes.

IX.
DEMAND IS FUTILE

251. The Plaintiff brings certain claims in this complaint derivatively on behalf of CEOC. CEOC is insolvent and was insolvent at the time of, or was rendered insolvent by, one or more of the CEOC Property Transfers, CIE Transfers, CE Services Transfers, CEOC Repayments, Senior Notes Tender Offer, Sponsor Fees, and CEC Guarantee Release Transfers (collectively, the "Transfers"), and other wrongful acts alleged in this Complaint. As a result, CEOC's creditors have standing to pursue causes of action derivatively on behalf of CEOC. Plaintiff is the Indenture Trustee under the 8.5% Indenture, and Plaintiff brings this action in that capacity for the benefit of the holders of the 8.5% Notes (the "8.5% Noteholders").

252. As set forth above, CEOC currently has seven directors. Five of the seven (Messrs. Loveman, Bonderman, Davis, Rowan, and Sambur) are either interested in the challenged actions or lack independence because they are simultaneously also directors of CEC and (with the exception of Loveman) partners or employees at Sponsors TPG or Apollo. Therefore each CEOC Director

is so beholden to CEC and the Sponsors that they are unable to exercise discretion in this area. The remaining directors (Messrs. Stauber and Winograd) lack independence due to their long standing affiliation with Sponsor Apollo. As a result, the required majority—and indeed all—of the CEOC Directors lack the disinterestedness and independence necessary to consider any demand. Furthermore, as discussed above, several directors benefited directly and personally from the various transactions.

253. In light of the pervasive looting and abuse of CEOC, as evidenced by, among other things, the number of wrongful transactions, the substantial disparity between the value transferred and the value received, and the conflicting loyalties of the CEOC Directors and Colvin at the time of the transactions at issue, there is no reasonable doubt that the challenged transactions were not a valid exercise of business judgment, nor can they possibly satisfy the high standard of entire fairness that applies where, as here, the CEOC Directors and Colvin have stood on all sides of the same transactions.[245]

254. In light of the foregoing, demand is excused.

[245] *See, e.g.*, *supra* ¶¶ 65-72.

X.
CAUSES OF ACTION

AS AND FOR A FIRST CAUSE OF ACTION
(Appointment of a Receiver for CEOC 8 *Del. C.* § 291)

255. The Plaintiff repeats the allegations contained in the prior and following paragraphs as if fully set forth herein.

256. The Plaintiff brings this action solely in its capacity as Indenture Trustee for the 8.5% Noteholders, who are creditors of CEOC.

257. CEOC is insolvent. The sum of CEOC's debts is greater than all of its assets, at a fair valuation or fairly appraised. Moreover, the present fair salable value of CEOC's assets is less than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. There is no reasonable prospect that CEOC's business can be successfully continued in the face of its insolvency.

258. CEOC is unable to pay current obligations in the ordinary course of business. As CEOC itself admitted, it has funds sufficient, at most, to last until the fourth quarter of 2015.[246] Among other things, CEOC is cash-flow negative on an operating basis. CEOC has no reasonable prospect of raising money to meet its obligations in a commercially sensible manner, in light of CEOC's financial

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[246] *See, e.g.*, *supra* ¶¶ 17, 213.

condition, the stripping away of its assets, and its conflicted board of directors and management.

259. Defendants have engaged in, and are continuing to engage in, an unlawful scheme to strip value away from CEOC and its creditors, for the benefit of the Sponsors and all Defendants other than CEOC. CEOC was insolvent and undercapitalized at the time of the Transfers, and it was made more insolvent and undercapitalized as a result of the Transfers. In the alternative, CEOC was rendered insolvent and undercapitalized as a result of the Transfers. As a result, the Transfers have caused damage to, and are causing substantial additional damage to, CEOC and its creditors.

260. The appointment of a receiver is necessary to protect the interests of all CEOC stakeholders, including creditors, in light of, among other things, CEOC's conflicted board of directors and management.

261. In addition to CEOC's mounting financial difficulties, other exigent circumstances require the appointment of a receiver, including (i) CEC's, the CEC Board's, and the Sponsors' dominion and control over CEOC and the CEOC Directors, who have loyalties to CEC and the Sponsors, and interests that are adverse to those of CEOC; (ii) the divergence of CEOC's interests from those of CEC, the CEC Board, and the Sponsors; (iii) CEC's, the CEC Board's, and the Sponsors' repeated actions to strip value away from CEOC and its creditors for the

benefit of CEC, the Sponsors, and other entities controlled by CEC and the Sponsors, (iv) the real and imminent threat that the CEOC Directors, CEC, the CEC Board, Colvin, and the Sponsors will continue their wrongful acts vis-à-vis CEOC and its creditors, and (v) CEOC's complete inability to generate sufficient cash to meet its current and future obligations.

262. The CEOC Directors have had at all relevant times, and continue to have today, disabling conflicts of interest. They have acted and continue to act in the interests of the Sponsors, and against CEOC's interests.

263. CEC, as CEOC's stockholder, almost certainly would receive nothing in a CEOC bankruptcy or otherwise on account of its equity in CEOC. With that knowledge, CEC, the CEC Board, and the Sponsors have pursued a strategy to protect themselves at the expense of CEOC and its creditors, and they have caused the CEOC Directors to facilitate that strategy.

264. Defendants have engaged in intentional conduct to divert valuable assets from CEOC and the reach of its creditors and to CEC, CERP, CAC, CGP, and CE Services. Defendants also have engaged in intentional conduct to further transfer valuable assets away from CEC and to CAC and CGP, including ownership of CIE and of CEOC debt that CEC purchased at substantial discounts—assets that should have been returned or offered to CEOC. In so doing, Defendants have attempted to put these assets farther from the reach of the 8.5%

Noteholders, and other CEOC creditors who also have direct and derivative claims against CEC. All of this conduct has been for the ultimate benefit of the Sponsors, for inadequate consideration, in bad faith, and to the severe detriment of the 8.5% Noteholders.

265. If this conduct continues, the 8.5% Noteholders will be unable to recover what they are owed on account of their claims against CEOC, while Defendants will profit unjustly and/or otherwise benefit.

266. CEOC requires an independent party with the willingness to protect CEOC from the predatory actions of Defendants and the Sponsors, for the benefit of all stakeholders. In the absence of an independent party to act on behalf of all CEOC stakeholders, Defendants and the Sponsors will continue to loot the assets of CEOC and its direct and indirect subsidiaries, and they will continue to operate CEOC for the sole benefit of the Sponsors and other non-CEOC Defendants.

267. The Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, as a representative of creditors of CEOC, is therefore entitled to the appointment of a receiver pursuant to 8 *Del. C.* § 291.

268. The Plaintiff has no adequate remedy at law.

AS AND FOR A SECOND CAUSE OF ACTION
(Plaintiff Against CEOC, CEC, CERP, CAC, CGP, and CE Services for Actual Fraudulent Conveyances and Transfers (CIE Transfers, CEOC Property Transfers, CE Services Transfers, and Sponsor Fees))

269. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

270. The 8.5% Noteholders were creditors of CEOC at all relevant times.

271. The CIE Transfers, CEOC Property Transfers, CE Services Transfers, and Sponsor Fees (the "Core Asset Transfers"), both together and separately, constitute actual fraudulent transfers or actual fraudulent conveyances under the state law(s) applicable to the Core Asset Transfers, including such states' versions of the Uniform Fraudulent Transfer Act (the "UFTA") or the Uniform Fraudulent Conveyance Act (the "UFCA"), as applicable.

272. As described above, the Core Asset Transfers were made by and among CEOC, CEC, CERP, CAC, CGP, and CE Services, at the direction of the Sponsors, CEC, the CEC Board, and the CEOC Directors and Colvin. The Core Asset Transfers had no legitimate business purpose, were made in bad faith, and were made with the actual intent to hinder, delay, or defraud present or future creditors of CEOC, including the 8.5% Noteholders.

273. The Core Asset Transfers were transfers or conveyances of assets of CEOC. In the alternative, certain of the Core Asset Transfers were made by or through sham holding companies that are in fact alter egos of CEOC, which exist

for no purpose other than as vehicles to engage in fraudulent transfers and which, under applicable law, should therefore be collapsed with CEOC such that the transfers are deemed to have been made by CEOC.

274. The Core Asset Transfers benefited CEC, CERP, CAC, CGP, CE Services, and the Sponsors at the expense of CEOC and its creditors.

275. The circumstances surrounding the Core Asset Transfers reflect several badges of fraud, from which actual intent is inferred:

i) The parties to the Core Asset Transfers were insiders of, or under the control of insiders of, CEOC, including insiders CEC and the Sponsors. The parties to the Core Asset Transfers share complicated, close relationships with one another. The boards and executives of the parties additionally share an intricate, close relationship with one another by virtue of, among other things, the Sponsors' control of the boards and executive decision-making, overlapping directors and officers, shared services, and shared offices.

ii) The Core Asset Transfers were consummated between related-parties, and at the direction of the Sponsors, CEC, the CEC Board, and conflicted CEOC Directors and Colvin, and thus must be treated with heightened scrutiny.

iii) The Core Asset Transfers were approved by the CEOC Directors and Colvin without the benefit of independent advisors and fairness opinions (apart from the limited, insufficient exception described herein).

iv) The Sponsors controlled the properties transferred prior to the Core Asset Transfers, and the Sponsors retained control over those properties after the Core Asset Transfers.

v) CEOC and CEC failed to disclose accurately and adequately the value of the Core Asset Transfers, the effect the Core Asset Transfers had and would have on CEOC's solvency, business,

and ability to satisfy creditors' claims, or the extent and nature of the scheme to strip assets away from CEOC and to transfer these assets to other entities controlled by CEC and the Sponsors.

vi) The CE Services Transfers and a number of the CEOC Property Transfers were made at a time when creditors of CEOC had identified defaults by CEOC, raised material questions about CEOC's solvency, and objected to the proposed and consummated transfers as being unlawful and not in the best interests of CEOC or its creditors.

vii) The Core Asset Transfers involved substantially all of CEOC's most attractive or growth assets, including online interactive gaming, newly developed or renovated properties, and CEOC's valuable intellectual property.

viii) The value of the consideration received by CEOC was neither fair nor reasonably equivalent to the value of the assets transferred. With respect to some of the transfers, including the CIE Transfers and the CE Services Transfers, CEOC was denied any consideration whatsoever.

ix) CEOC was insolvent and undercapitalized by no later than late 2012. CEOC thus was insolvent and undercapitalized at the time of most, if not all, of the Core Asset Transfers, or was rendered insolvent and undercapitalized as a result of the transfers.

x) Most of the transfers occurred within two years after CEOC incurred its obligations to the Plaintiff and the 8.5% Noteholders under the 8.5% Indenture.

xi) CEC and CEOC knew of the creditors' claims, as well as CEOC's inability both before and after the transfers to satisfy those claims.

xii) The loss of the assets transferred in connection with the Core Asset Transfers critically impaired CEOC's ability to grow or sustain its businesses, or to provide full recovery to its creditors.

276. Furthermore, insofar as any of CEOC's or its subsidiaries' assets were transferred into unrestricted subsidiaries of CEOC or CEC to facilitate the Core Asset Transfers and evade prohibitions and limitations in the 8.5% Indenture, those transfers (i) should be disregarded as intermediate steps in the transactions, and (ii) are further evidence of the intent to hinder, delay, or defraud creditors.

277. The assets transferred in the CIE Transfers were transferred from CEOC to CEC between March 2011 and March 2012, and then re-transferred from CEC to CGP in or about October 2013. CGP was aware of the fact that CIE's assets previously had been transferred by CEOC to CEC for little or no consideration, and that the CIE Transfers might be avoided or otherwise annulled as, among other things, a fraudulent transfer or fraudulent conveyance. CGP also was aware of the fact that CEOC had retained a preferred equity interest in CIE, for which CEOC appears to have received no consideration in connection with the subsequent transfer of CIE to CGP.

278. By reason of the foregoing, (i) the Core Asset Transfers should be avoided, (ii) the assets transferred in the Core Asset Transfers should be returned to CEOC, (iii) the assets transferred in the Core Asset Transfers should be subject to a constructive trust in favor of CEOC, (iv) Defendants should be enjoined from further fraudulent transfers, fraudulent conveyances, and affiliated party transactions, and (v) such other relief as the circumstances may require should be

granted. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

279. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to avoid the Core Asset Transfers, and to return the assets comprising those transactions to CEOC.

AS AND FOR A THIRD CAUSE OF ACTION
(Plaintiff Against CEOC and CEC for Actual Fraudulent Conveyances and Transfers (CEC Guarantee Release Transfers))

280. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

281. The 8.5% Noteholders were creditors of CEC and CEOC at all relevant times.

282. The CEC Guarantee Release Transfers constitute actual fraudulent transfers or actual fraudulent conveyances under the state law(s) applicable to such transfers, including such states' versions of the UFTA or the UFCA, as applicable.

283. As described above, the CEC Guarantee Release Transfers were made by and among CEC, CEOC, and undisclosed recipients of the CEOC stock at the direction of the Sponsors, CEC, the CEC Board, and the CEOC Directors. These conveyances or transfers were made for no legitimate business purpose, in bad

faith, and with the actual intent to hinder, delay, or defraud either present or future creditors of CEC and CEOC, including the 8.5% Noteholders.

284. The CEC Guarantee Release Transfers were transfers or conveyances of assets of CEC (including the CEOC stock held by CEC) and CEOC (including CEOC's right to consent to the release of the CEC Guarantee).

285. The CEC Guarantee Release Transfers benefited CEC and the Sponsors at the expense of CEOC and its creditors.

286. The circumstances surrounding the CEC Guarantee Release Transfers reflect several badges of fraud, from which actual intent is inferred:

i) The parties to the CEC Guarantee Release Transfers included insiders of, or entities under the control of insiders of, CEOC, including insiders CEC and the Sponsors. The parties to the CEC Guarantee Release Transfers share complicated, close relationships with one another. The boards and executives of the parties additionally share an intricate, close relationship with one another by virtue of, among other things, the Sponsors' control of the boards and executive decision-making, overlapping directors and officers, shared services, and shared offices.

ii) The CEC Guarantee Release Transfers were consummated at the direction of the Sponsors, CEC, the CEC Board, and conflicted CEOC Directors, and thus must be treated with heightened scrutiny.

iii) The CEC Guarantee Release Transfers were approved by the CEOC Directors without the benefit of independent advisors and fairness opinions.

iv) The Sponsors controlled the properties transferred prior to the CEC Guarantee Release Transfers, and at least some of the CEOC stock that was transferred was received by one or more

directors, officers, or other insiders of CEC, or by other parties acting in concert with, and in the interests of, CEC or the Sponsors.

v) CEOC and CEC failed to disclose accurately and adequately the value of the CEC Guarantee Release Transfers, the effect the CEC Guarantee Release Transfers had and would have on CEOC's solvency, businesses, and ability to satisfy creditors' claims, or the extent and nature of the scheme to strip assets away from CEOC and to transfer these assets to other entities controlled by CEC and the Sponsors.

vi) The CEC Guarantee Release Transfers were made at a time when creditors of CEOC had identified defaults by CEOC, raised material questions about CEOC's solvency, and objected to the proposed and consummated transfers as being unlawful and not in the best interests of CEOC or its creditors.

vii) The value of the consideration received by CEOC was neither fair nor reasonably equivalent to the value of the assets transferred. In fact, it appears that CEOC received no consideration whatsoever.

viii) CEOC was insolvent and undercapitalized at the time of the CEC Guarantee Release Transfers.

ix) The CEC Guarantee Release Transfers occurred within 28 months after CEOC incurred its obligations to the Plaintiff and the 8.5% Noteholders under the 8.5% Indenture.

x) CEC and CEOC knew of the creditors' claims, as well as CEOC's inability both before and after the transfers to satisfy those claims.

xi) The loss of the CEC Guarantee critically impaired CEOC's ability to grow or sustain its businesses, or to provide full recovery to its creditors.

287. By reason of the foregoing: (i) CEC Guarantee Release Transfers should be avoided and/or rescinded, (ii) the CEC Guarantee should be reinstated (if

and to the extent it has been terminated), (iii) Defendants should be enjoined from further fraudulent conveyances, fraudulent transfers, transactions outside the ordinary course of business, and affiliated party transactions, and (iv) such other relief as the circumstances may require should be granted. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

288. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather (i) to reinstate the CEC Guarantee, (ii) to avoid the CEC Guarantee Release Transfers, and (iii) to return the assets comprising those transactions to CEC and CEOC.

AS AND FOR A FOURTH CAUSE OF ACTION
(Plaintiff Against CEOC, CEC, and CGP for Actual Fraudulent Conveyances and Transfers Relative to the CEOC Repayments and Senior Notes Tender Offer)

289. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

290. In August 2008, CEC and CEOC entered into a revolving credit facility (the "CEOC Credit Agreement") pursuant to which CEC could make unsecured loans to CEOC in a maximum principal amount not to exceed $200 million (the previously defined "Intercompany Loan"). The maximum principal amount that CEOC could borrow under the CEOC Credit Agreement was increased to $500 million in 2010 and $750 million in 2011.

291. On November 14, 2012, CEOC, as borrower, and CEC, as lender, entered into that certain Amended and Restated Credit Agreement (the "Amended CEOC Credit Agreement"), which amended and restated the CEOC Credit Agreement. Pursuant to the Amended CEOC Credit Agreement, CEC extended the maturity date of the revolving loans from January 29, 2014 to November 14, 2017, and increased the amount available under the CEOC Credit Agreement from $750 million to $1 billion. Upon information and belief, in connection with the execution of the Amended CEOC Credit Agreement, CEOC repaid $100 million of the amount outstanding under the CEOC Credit Agreement (the "CEOC 2012 Repayment"). Upon further information and belief, there was $516.4 million outstanding under the Amended CEOC Credit Agreement as of December 31, 2012.

292. Upon information and belief, CEOC repaid $31 million of the amount outstanding under the CEOC Credit Agreement during the first quarter of 2013, $200 million during the second quarter of 2013, $25 million during the first quarter of 2014,[247] and the remaining $260.4 million during the second quarter of 2014 (together, the "CEOC 2013/14 Repayments" and, together with the CEOC 2012 Repayment and any other repayments of the obligations owing under the Amended CEOC Credit Agreement during 2012 through 2014, the "CEOC Repayments").

[247] An additional $15.4 million was drawn in the fourth quarter of 2013.

293. CGP held approximately $1.1 billion in unsecured note obligations of CEOC prior to July 28, 2014 (the "CEOC Insider-Held Debt") that it acquired at a substantial discount.

294. On or about July 28, 2014, CEOC repurchased approximately $427 million in face amount of the CEOC Insider-Held Debt at a premium over par so substantial as to imply a negative yield to maturity (the previously defined "Senior Notes Tender Offer," and with the CEOC Repayments, the "Insider Preferences").

295. At all relevant times, the 8.5% Noteholders were creditors of CEOC.

296. The Insider Preferences, both together and separately, constitute actual fraudulent transfers or actual fraudulent conveyances under the state law(s) applicable to the Insider Preferences, including such states' versions of the UFTA or the UFCA, as applicable.

297. The Insider Preferences were made at the direction of the Sponsors, CEC, the CEC Board, the CEOC Directors, and Colvin. The Insider Preferences had no legitimate business purpose, were made in bad faith, and were made with the actual intent to hinder, delay, or defraud present or future creditors of CEOC, including the 8.5% Noteholders.

298. The Insider Preferences were transfers or conveyances of assets of CEOC.

299. The Insider Preferences benefited CEC, CAC, CGP, and the Sponsors at the expense of CEOC and its creditors.

300. The circumstances surrounding the Insider Preferences reflect several badges of fraud, from which actual intent is inferred:

i) The parties to the Insider Preferences were insiders of, or under the control of insiders of, CEOC, including insiders CEC and the Sponsors. The parties to the Insider Preferences share complicated, close relationships with one another. The boards and executives of the parties additionally share an intricate, close relationship with one another by virtue of, among other things, the Sponsors' control of the boards and executive decision-making, overlapping directors and officers, shared services, and shared offices.

ii) The Insider Preferences were consummated between related-parties, and at the direction of the Sponsors, CEC, the CEC Board, and conflicted CEOC Directors and Colvin, and thus must be treated with heightened scrutiny.

iii) The Insider Preferences were approved by the CEOC Directors and Colvin without the benefit of independent advisors and fairness opinions.

iv) The Sponsors controlled the assets transferred prior to the Insider Preferences, and the Sponsors retained control over those assets after the Insider Preferences.

v) CEOC and CEC failed to disclose accurately and adequately the value of the Insider Preferences, the effect the Insider Preferences had and would have on CEOC's solvency, business, and ability to satisfy creditors' claims, or the extent and nature of the scheme to strip assets away from CEOC and to transfer these assets to other entities controlled by CEC and the Sponsors.

vi) Many of the Insider Preferences were made at times when creditors of CEOC had identified defaults by CEOC, raised

material questions about CEOC's solvency, and objected to the proposed and consummated transfers as being unlawful and not in the best interests of CEOC or its creditors.

vii) The Insider Preferences siphoned cash away from CEOC and to the pockets of insiders at a time when Defendants were asserting that CEOC needed to raise more cash.

viii) The value of the consideration received by CEOC was neither fair nor reasonably equivalent to the value of the assets transferred. Among other things, CEOC paid a premium over par on account of debt that Defendants acquired at substantial discounts. Moreover, CEOC was required to borrow money to fund the Insider Preferences at interest rates higher than the debt that was repaid.

ix) CEOC was insolvent and undercapitalized at the time of the Insider Preferences, or was rendered insolvent and undercapitalized as a result of the transfers.

x) Most of the transfers occurred within two years after CEOC incurred its obligations to the Plaintiff and the 8.5% Noteholders under the 8.5% Indenture.

xi) CEC and CEOC knew of the creditors' claims, as well as CEOC's inability both before and after the transfers to satisfy those claims.

xii) The loss of the assets transferred in connection with the Insider Preferences critically impaired CEOC's ability to grow or sustain its businesses, or to provide full recovery to its creditors.

301. By reason of the foregoing, (i) the Insider Preferences should be avoided, (ii) the assets transferred in the Insider Preferences should be returned to CEOC, (iii) the assets transferred in the Insider Preferences should be subject to a constructive trust in favor of CEOC, (iv) Defendants should be enjoined from further fraudulent transfers, fraudulent conveyances, and affiliated party

transactions, and (v) such other relief as the circumstances may require should be granted. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

302. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to avoid the Insider Preferences, and to return the assets comprising those transactions to CEOC.

AS AND FOR A FIFTH CAUSE OF ACTION
(Plaintiff Against CEOC, CEC, CERP, CAC, CGP, and CE Services for Constructive Fraudulent Conveyances and Transfers (Core Asset Transfers))

303. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

304. The 8.5% Noteholders were creditors of CEOC at all relevant times.

305. The Core Asset Transfers, both together and separately, constitute constructive fraudulent transfers or constructive fraudulent conveyances under the state law(s) applicable to such transfers, including such states' versions of the UFTA or the UFCA, as applicable.

306. The Core Asset Transfers involved the transfer of CEOC's assets to or for the benefit of CEC, CERP, CAC, CGP, CE Services, and the Sponsors. In the alternative, certain of the Core Asset Transfers were made by or through sham holding companies that are in fact alter egos of CEOC, which exist for no purpose

other than as vehicles to engage in fraudulent transfers and which, under applicable law, should therefore be collapsed with CEOC such that the transfers are deemed to have been made by CEOC.

307. CEOC was insolvent and undercapitalized at the time of the Core Asset Transfers after no later than late 2012, or was made more insolvent and undercapitalized by such transfers. In the alternative, CEOC was rendered insolvent and undercapitalized as a result of the Core Asset Transfers after no later than late 2012.

308. At the time of the Core Asset Transfers, CEOC was engaged, or was about to engage, in business or transactions for which it had unreasonably small capital.

309. At the time of the Core Asset Transfers, CEOC intended to, did believe, or reasonably should have believed, that it had or would incur debts beyond its ability to pay as they became due, as confirmed by, among other things, its public statements.

310. As described in detail above, none of the assets conveyed in the Core Asset Transfers were transferred for reasonably equivalent value or fair consideration.

311. Neither can there be fair consideration under the UFCA when CEOC's assets were not conveyed in good faith, since the conveyances were

effectuated by interested insiders and made to or for the benefit of insiders and/or affiliates. Furthermore, during most of the relevant period, CEOC's directors consisted of two conflicted, interested members, who approved (or failed to stop) these conveyances without the benefit of outside counsel or other independent advisors (or, in the case of the Linq/Octavius transfer, with just an opinion received, upon information and belief, only after the CEOC Directors had already approved the transfer), and even today the CEOC Directors remain hopelessly conflicted.

312. Furthermore, insofar as any of CEOC's or its subsidiaries' assets were transferred into unrestricted subsidiaries to facilitate the Core Asset Transfers and evade prohibitions and limitations in the 8.5% Indenture, those transfers should be disregarded as intermediate steps in the transactions.

313. By reason of the foregoing, (i) the Core Asset Transfers should be avoided, (ii) the assets transferred in the Core Asset Transfers should be returned to CEOC, (iii) the assets transferred in the Core Asset Transfers should be subject to a constructive trust in favor of CEOC, (iv) Defendants should be enjoined from further fraudulent transfers, fraudulent conveyances, and affiliated party transactions, and (v) such other relief as the circumstances may require should be granted. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

314. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to avoid the Core Asset Transfers, and to return the assets comprising those transactions to CEOC.

AS AND FOR A SIXTH CAUSE OF ACTION
(Plaintiff Against CEOC and CEC for Constructive Fraudulent Conveyances and Transfers (CEC Guarantee Release Transfers))

315. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

316. The 8.5% Noteholders were creditors of CEOC at all relevant times.

317. The CEC Guarantee Release Transfers involved the transfer of CEOC's assets to or for the benefit of CEC and the Sponsors. Specifically, CEOC consented to the release of, and thus waived its ability to require, the CEC Guarantee (the "CEOC Release").[248]

318. The CEOC Release constituted a constructive fraudulent transfer or constructive fraudulent conveyance under the state law(s) applicable to such transfers, including such states' versions of the UFTA or the UFCA, as applicable.

319. CEOC was insolvent and undercapitalized at the time of the CEOC Release. CEOC was made more insolvent and undercapitalized by the CEOC Release. In the alternative, CEOC was rendered insolvent and undercapitalized as a result of the CEOC Release.

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[248] For the avoidance of doubt, the CEOC Release is included in the definition of CEC Guarantee Release Transfers.

320. At the time of the CEOC Release, CEOC was engaged, or was about to engage, in business or transactions for which it had unreasonably small capital.

321. At the time of the CEOC Release, CEOC intended to, did believe, or reasonably should have believed, that it had or would incur debts beyond its ability to pay as they became due, as confirmed by, among other things, its public statements.

322. As described in detail above, the CEOC Release was not transferred for reasonably equivalent value or fair consideration. Indeed, CEOC received no consideration whatsoever for the CEOC Release.

323. Neither can there be fair consideration under the UFCA when the CEOC Release was not conveyed in good faith, since the conveyance was effectuated by interested insiders and made to or for the benefit insiders and/or affiliates. Furthermore, the CEOC Directors consisted of two conflicted, interested members, who approved (or failed to stop) the conveyance without the benefit of outside counsel or advisors acting on behalf of CEOC.

324. By reason of the foregoing, (i) the CEOC Release should be avoided and/or rescinded, (ii) the CEC Guarantee should be reinstated (to the extent it was terminated), (iii) Defendants should be enjoined from further fraudulent transfers, fraudulent conveyances, and affiliated party transactions, and (iv) such other relief as the circumstances may require should be granted. For the avoidance of doubt,

this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to avoid the CEOC Release. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

AS AND FOR A SEVENTH CAUSE OF ACTION
(Plaintiff Against CEOC, CEC, and CGP for Avoidance and Recovery of Constructive Fraudulent Transfers or Insider Preferences Relative to the CEOC Repayments and Senior Notes Tender Offer)

325. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

326. The Insider Preferences constitute constructive fraudulent transfers, constructive fraudulent conveyances, or insider preferences under the state law(s) applicable to such transfers, including such states' versions of the UFTA or the UFCA, as applicable.

327. At all relevant times, the 8.5% Noteholders were creditors of CEOC.

328. The Insider Preferences were transfers of CEOC's assets.

329. At all relevant times, CEC, as the sole or controlling majority stockholder of CEOC, and CGP, as a subsidiary of CEC and under the control of the Sponsors, were insiders of CEOC.

330. The Insider Preferences were made on account of amounts outstanding under the Amended CEOC Credit Agreement and the CEOC Insider-Held Debt, which were antecedent debts.

331. At all relevant times, CEOC was insolvent, and CEOC was generally unable to pay its debts as they became due.

332. At all relevant times, CEC and CGP, as insiders of CEOC, knew or had reasonable cause to believe that CEOC was insolvent. Among other things, at all relevant times, CEC and CEOC filed consolidated financial statements with the SEC, which financial statements evidenced CEOC's insolvency, and CEOC has stated expressly it does not expect its cash flow will be able to repay its indebtedness in the long term.

333. The Insider Preferences were not made in good faith or for fair consideration.

334. The Insider Preferences were made to and/or for the benefit of CEC and CGP, and to prefer CEC and CGP at the expense of other creditors of CEOC.

335. By reason of the foregoing, (i) the Insider Preferences should be avoided, (ii) the assets transferred in the Insider Preferences should be returned to CEOC, (iii) the assets transferred in the Insider Preferences should be subject to a constructive trust in favor of CEOC, (iv) Defendants should be enjoined from further fraudulent transfers, fraudulent conveyances, and affiliated party transactions, and (v) such other relief as the circumstances may require should be granted. Defendants will not suffer any legally cognizable harm by the imposition

of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

336. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to avoid the Insider Preferences and to return the assets comprising those transactions to CEOC.

AS AND FOR A EIGHTH CAUSE OF ACTION
(Illegal Dividends in Violation of 8 *Del. C.* §§ 170, 173, and 174 Against the CEOC Directors, CEC, CERP, CAC, CGP and CE Services)

337. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

338. The 8.5% Noteholders are creditors of CEOC.

339. The CEOC Directors were directors of CEOC at the time of each of the Core Asset Transfers, CEOC Release, and Insider Preferences.

340. At all relevant times after no later than late 2012, CEOC was insolvent and lacked adequate surplus to pay a dividend in connection with the foregoing transactions.

341. By causing CEOC to enter into the foregoing transactions at times when the CEOC Directors knew that CEOC was insolvent and lacked adequate surplus, the CEOC Directors willfully diverted value from CEOC to CEC, CERP, CAC, CGP, and CE Services, for the benefit of their common equity holder, CEC, and the Sponsors who control it.

342. The transactions, in substance, were unlawful dividends made while CEOC was insolvent.

343. The payment of dividends when CEOC was insolvent and lacked adequate statutory surplus violated applicable law, including 8 *Del. C.* §§ 170 and 173.

344. Pursuant to 8 *Del. C.* § 174, each of the CEOC Directors is jointly and severally liable to CEOC for payment of an illegal dividend.

345. Pursuant to applicable law, each of CEC, CERP, CAC, CGP, and CE Services are jointly and severally liable to CEOC for the knowing receipt of an illegal dividend.

346. CEOC and its creditors have been damaged as a proximate result of the illegal dividends paid by CEOC.

347. By reason of the foregoing, (i) the assets transferred in the Core Asset Transfers, CEOC Release, and Insider Preferences should be returned to CEOC and/or the Core Asset Transfers, CEOC Release, and Insider Preferences rescinded, (ii) the foregoing assets should be subject to a constructive trust in favor of CEOC, (iii) the CEC Guarantee should be reinstated (if and to the extent it has been terminated), and (iv) Defendants should be enjoined from the making or receiving of illegal dividends from CEOC. Defendants will not suffer any legally cognizable

harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm.

348. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders, but rather to return the assets comprising those transactions to CEOC.

AS AND FOR AN NINTH CAUSE OF ACTION
(Plaintiff Against CEC and CEOC
for Declaratory Relief (Breach of Contract, Guarantee Release))

349. Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

350. Section 6.01(h) of the 8.5% Indenture provides that an Event of Default shall occur if "the Note Guarantee of the Parent Guarantor [CEC] . . . ceases to be in full force and effect (except as contemplated by the terms thereof) or the Parent Guarantor denies or disaffirms its obligations under this Indenture or its Parent Guarantee and such Default continues for 10 days."

351. CEC's May 6, 2014 contention that the CEC Guarantee had been released constituted a denial or disaffirmance of CEC's obligations under the 8.5% Indenture and its CEC Guarantee. CEC has not withdrawn its denial and disaffirmance of its obligations under the 8.5% Indenture and its CEC Guarantee, and such default has continued for more than 10 days. Thus, an Event of Default occurred and is continuing under the 8.5% Indenture.

352. CEC and CEOC have breached their implied duty of good faith and fair dealing by engaging in the transfers and transactions described above, which individually and collectively have deprived the 8.5% Noteholders of the right to receive the benefits to which they are entitled under the 8.5% Indenture.

353. The 8.5% Noteholders were damaged by this breach.

354. The Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, seeks a declaration that (i) the CEC Guarantee Release Transfers did not effectuate a release of the CEC Guarantee and any such release is rescinded, (ii) CEC's May 6, 2014 contention that the CEC Guarantee had been released constituted a breach of the 8.5% Indenture, and CEC and CEOC are in default on account thereof, and (iii) CEC remains liable on account of the CEC Guarantee. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

AS AND FOR A TENTH CAUSE OF ACTION
(Plaintiff Against CEOC for Declaratory Relief
(Breach of Contract, Covenant Violations))

355. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

356. CEOC has breached the 8.5% Indenture in at least the following ways:

(a) Sections 6.01 and 6.01(c) of the 8.5% Indenture, arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.06(a) of the 8.5% Indenture (the "May Asset Sale Default") in connection with the transactions (collectively, the "May Transactions")

consummated pursuant to, in contemplation of, or in connection with the Transaction Agreement dated as of March 1, 2014, as amended, by and among CEC, CEOC, Caesars License Company, LLC, Harrah's New Orleans Management Company, Corner Investment Company, LLC, 3535 LV Corp., Parball Corporation, JCC Holding Company II, LLC, CAC, and CGP, including without limitation, because: (i) the consideration received by CEOC and its Restricted Subsidiaries in the May Transactions was not at least equal to the Fair Market Value (as defined in the 8.5% Indenture) of the assets that were transferred, and CEOC could not in good faith have determined otherwise, and (ii) any purported attempt by CEOC to designate the May Transactions as Permitted Investments under the 8.5% Indenture was ineffective because, to the extent that any such assets were transferred to Unrestricted Subsidiaries, such transfers did not constitute "investments";

(b) Sections 6.01 and 6.01(c) of the 8.5% Indenture, arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.07(a) of the 8.5% Indenture (the "May Affiliate Transaction Default") in connection with the May Transactions, including without limitation, because: (i) the May Transactions were on terms that were materially less favorable to CEOC or the relevant Restricted Subsidiaries than those that could have been obtained in a comparable transaction by CEOC or such Restricted Subsidiaries with unrelated Persons, (ii) the CEOC Directors could not in good faith have approved the May Transactions, and (iii) any purported attempt by CEOC to designate the May Transactions as Permitted Investments under the 8.5% Indenture was ineffective because, to the extent that any such assets were transferred to Unrestricted Subsidiaries, such transfers did not constitute "investments";

(c) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.06(a) of the 8.5% Indenture (the "May Asset Sale Series Default") in connection with the May Transactions, including without limitation, because, to the extent that any portion of the May Transactions involved the transfer of assets from CEOC and/or its Restricted Subsidiaries to Unrestricted Subsidiaries, such transfers were part of a series of related transactions that were subject to, and in violation of, Section 4.06(a), for reasons including without limitation that: (i) the consideration received by CEOC and its Restricted Subsidiaries in the May Transactions was not at least equal to the Fair Market Value of the assets that were transferred, and CEOC could not in good faith have determined otherwise, and (ii) any

purported attempt by CEOC to designate the May Transactions as Permitted Investments under the Indenture was ineffective because, to the extent that any such assets were transferred to Unrestricted Subsidiaries, such transfers did not constitute "investments";

(d) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC and certain of its Subsidiary Pledgors (as defined in the 8.5% Indenture) to comply with Section 5.01(b) of the 8.5% Indenture (the "May Successor Obligor Default") in connection with the May Transactions, including without limitation, because: (i) the May Transactions resulted in the disposition of all or substantially all of the properties or assets of such Subsidiary Pledgors, (ii) the obligations of such Subsidiary Pledgors under the Indenture and the Security Documents were not assumed by any Successor Subsidiary Pledgors (as defined in the 8.5% Indenture), and (iii) the May Transactions violated Section 4.06 of the 8.5% Indenture;

(e) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.06(a) of the 8.5% Indenture (the "Services Asset Sale Default") in connection with the transactions (collectively, the "Services Transactions") consummated pursuant to, in contemplation of, or in connection with the Omnibus License and Enterprise Services Agreement, dated as of May 20, 2014, by and among CE Services, CEOC, CERP, CGP, Caesars Licensing Company, LLC, and Caesars World, Inc., including without limitation, because the consideration received by CEOC and its Restricted Subsidiaries in the Services Transactions was not at least equal to the Fair Market Value of the assets that were transferred, and CEOC could not in good faith have determined otherwise;

(f) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.07(a) of the 8.5% Indenture (the "Services Affiliate Transaction Default") in connection with the Services Transactions, including without limitation, because (i) the Services Transactions were on terms that were materially less favorable to CEOC or the relevant Restricted Subsidiaries than those that could have been obtained in a comparable transaction by CEOC or such Restricted Subsidiaries with unrelated Persons, and (ii) the CEOC Directors could not in good faith have approved the Services Transactions;

(g) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 4.07(a) of the 8.5% Indenture (the "CEC Affiliate Transaction Default") in connection with the transactions, inclusive of any and all transfers made in calendar years 2012, 2013, and 2014, (collectively, the "CEC Transactions") consummated pursuant to, in contemplation of, or in connection with (i) the Amended and Restated Credit Agreement, dated as of November 14, 2012, among CEOC, as borrower, and CEC, as lender, and any predecessor or successor agreements, and (ii) the Global Intercompany Note, dated as of January 28, 2008, among CEOC and certain affiliate parties thereto, including without limitation, because (i) the CEC Transactions were on terms that were materially less favorable to CEOC than those that could have been obtained in a comparable transaction by CEOC with unrelated Persons, (ii) the CEOC Directors could not in good faith have approved the CEC Transactions;

(h) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC to comply with Section 4.12 of the 8.5% Indenture (the "Prohibited Lien Default") in connection with the transactions (collectively, the "Incurrence Transactions") consummated pursuant to, in contemplation of, or in connection with the Incremental Facility Amendment and Term B-7 Agreement, dated as of June 11, 2014, among Caesars Operating Escrow LLC, CEC, the Incremental Lenders party thereto, Bank of America, N.A., Credit Suisse AG, Cayman Islands Branch, and upon the assumption of the Term B-7 Loans, CEOC, and the Amendment Agreement, dated as of July 25, 2014, among CEC, CEOC, the Lenders party thereto, Bank of America, N.A., Credit Suisse AG, Cayman Islands Branch, and the other arrangers and bookrunners party thereto, including without limitation, because (i) the Incurrence Transactions resulted in CEOC's incurrence of Liens securing First Priority Lien Obligations, and (ii) those Liens were not Permitted Liens because (a) the Incurrence Transactions resulted in CEOC having incurred Liens securing First Priority Lien Obligations in an aggregate principal amount that exceeded an aggregate principal amount of $11 billion under the Credit Agreement, as described in Section 4.03(b)(i), and (b) the Secured Indebtedness Leverage Ratio exceeded 4.50x at the time of the Incurrence Transactions;

(i) Sections 6.01 and 6.01(c) of the 8.5% Indenture arising from the failure of CEOC to comply with Section 4.04(a) of the 8.5% Indenture (the "Restricted Payment Default") in connection with the transactions

(collectively, the "Restricted Transactions") consummated pursuant to, in contemplation of, or in connection with the Note Purchase and Support Agreement entered into among CEOC, CEC, and certain holders of CEOC's outstanding 6.50% Senior Notes due 2016 and 5.75% Senior Notes due 2017, in connection with a private refinancing transaction, as described in CEC's Form 8-K filed with the SEC on or about August 12, 2014, including without limitation, because (i) the Restricted Transactions resulted in or will result in CEOC's repurchase and acquisition of "Long-Term Retained Notes," as that term is defined in the Indentures, prior to their scheduled maturity, and (ii) the Restricted Transactions are not otherwise permitted under Section 4.04(a) or (b); and

(j) Sections 6.01 and 6.01(j) of the 8.5% Indenture arising from the failure of CEOC and certain of its Restricted Subsidiaries to comply with Section 3.06(a)(i) of the Collateral Agreement (collectively, with the May Asset Sale Default, the May Asset Sale Series Default, the May Affiliate Transaction Default, the May Successor Obligor Default, the Services Asset Sale Default, the Services Affiliate Transaction Default, the CEC Affiliate Transaction Default, the Prohibited Lien Default, and the Restricted Payment Default, the "Defaults"), including without limitation, because such entities exercised their voting and/or other consensual rights and powers in respect of the Pledged Collateral (as defined in the Collateral Agreement) to approve the May Transactions, the Services Transactions, the CEC Transactions, the Incurrence Transactions, and the Restricted Transactions, which materially and adversely affected the rights and remedies of the Collateral Agent, the Trustee, and the holders of the Notes under the Collateral Agreement and the 8.5% Indentures.

357. The Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, provided to CEC and CEOC a Notice of Default with respect to the foregoing Defaults on November 21, 2014. CEC and CEOC had previously agreed that if such Notice of Default was provided on or after September 26, 2014, Defaults alleged in such Notice of Default shall become Events of Default under the 8.5% Indenture, if CEOC does not cure such Defaults within three calendar

days after such Notice of Default is provided, as set forth in their agreement. CEOC has failed to cure any of the Defaults, and thus Defaults have become Events of Default under the 8.5% Indenture.

358. In addition to the foregoing defaults and other breaches of the 8.5% Indenture, CEOC has breached its implied duty of good faith and fair dealing by engaging in the transfers and transactions described above, which individually and collectively have deprived the 8.5% Noteholders of the right to receive the benefits to which they are entitled under the 8.5% Indenture.

359. The 8.5% Noteholders were damaged by each and all of these Defaults and breaches.

360. The Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% noteholders, seeks a declaration that each Default constitutes a breach of the 8.5% Indenture. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

AS AND FOR A ELEVENTH CAUSE OF ACTION
(Plaintiff Against CEC and the CEC Board for Intentional Interference with Contractual Relations)

361. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

362. The 8.5% Indenture constitutes a contractual relationship between the Plaintiff, the 8.5% Noteholders, and CEOC.

363. CEC and the CEC Board were at all relevant times aware of that contractual relationship.

364. CEC and the CEC Board knowingly and deliberately caused CEOC to breach its obligations to the 8.5% Noteholders under the First Lien Indentures. In doing so, CEC and the CEC Board acted with malice and in bad faith, and with the intention of benefitting CEC at the expense of CEOC.

365. The 8.5% Noteholders were damaged by CEC's and the CEC Board's intentional actions to cause CEOC to breach its obligations under the 8.5% Indenture.

366. The Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, seeks (i) a declaration that CEC and the CEC Board intentionally interfered with the 8.5% Noteholders' contractual relations with CEOC, and (ii) an injunction enjoining any further interference by CEC and the CEC Board. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

<u>AS AND FOR AN TWELFTH CAUSE OF ACTION</u>
(Derivative Claim, on behalf of CEOC, Against
CEC, the CEOC Directors, and Colvin for Breach of Fiduciary Duty)

367. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

368. Colvin and the CEOC Directors, including (but not limited to) Cohen, Hession, Loveman, Bonderman, Davis, Rowan, Sambur, Stauber, and Winograd, owed and continue to owe CEOC fiduciary duties of care and loyalty.

369. These fiduciary duties require, at a minimum, that Colvin and the CEOC Directors protect the interests of CEOC, preserve CEOC's assets, and prevent CAC, CGP, CE Services, CERP, the Sponsors, CEC, and the CEC Board and officers from diverting assets from CEOC for the benefit of the Sponsors and the other entities they control, and to the detriment of CEOC, particularly at a time when CEOC is insolvent.

370. Colvin and the CEOC Directors are insiders beholden to the Sponsors and stand to benefit, directly and indirectly, from these transfers. With the exception of Defendants Stauber and Winograd, each of them, as described above, is an officer or director of CEC, and many of them have high-ranking positions at the Sponsors. Defendants Stauber and Winograd are conflicted because of their longstanding relationships with and/or professional dependence on Sponsor Apollo.

371. Colvin and the CEOC Directors, acting both individually and collectively, failed to exercise due care, and act in good faith, and breached their respective duties of care and loyalty by, among other things:

i) Approving the CIE Transfers, for no apparent consideration;

ii) Approving CGP's acquisition of CEOC's interests in Planet Hollywood Las Vegas, CEOC's interest in a joint venture for the planned The Horseshoe Baltimore (then under development), and 50% of CEOC's related management fees for less than fair value or reasonable consideration;

iii) Approving CERP's acquisition of CEOC's interests in the Linq and the Octavius Tower for less than fair value or reasonable consideration;

iv) Approving CGP's acquisition of three Las Vegas casinos: (i) Bally's Las Vegas, (ii) The Quad, and (iii) The Cromwell, and certain management fees and licenses, from CEOC for less than fair value or reasonable consideration;

v) Approving CGP's acquisition of Harrah's New Orleans, and certain associated management fees and licenses, from CEOC for less than fair value or reasonable consideration;

vi) Approving CEOC's agreement to use its best efforts to provide a perpetual, irrevocable, royalty-free license to CE Services of CEOC's valuable Total Rewards Program, other valuable IP, and management rights, for less than fair value or reasonable consideration;

vii) Permitting and approving the CEC Guarantee Release Transfers, for the benefit of CEC and the Sponsors, and in exchange for no consideration for CEOC; the release of the CEC Guarantee has harmed CEOC and its creditors by, among other things, limiting CEOC's access to capital markets, increasing the cost of capital for CEOC, reducing CEOC's flexibility in reaching consensual accommodations with its creditors, increasing the risk that CEOC will be exposed to

bankruptcy, litigation, or other judicial proceedings, and increasing the likelihood that CEOC's creditors will not be repaid;

viii) Approving the other Core Asset Transfers;

ix) Approving the CEOC Repayments and Senior Notes Tender Offer;

x) Approving each of the foregoing transfers without obtaining independent legal or financial advice on behalf of CEOC (apart from the limited, insufficient exception described herein); and

xi) Approving each of the foregoing transfers without marketing any of the assets to third parties or otherwise attempting to establish a fair market price for those assets.

372. Each of the foregoing transactions was made to or for the benefit of CEC, CAC, CGP, CERP, CE Services, the Sponsors, and/or affiliates of the foregoing, and none of these transactions meets the standard of entire fairness.

373. The CEOC Directors knew they were beholden to the Sponsors, that their interests were not aligned with CEOC's, and that no independent directors or special committee of CEOC would examine the transactions. Despite this, the CEOC Directors failed to explore other financing alternatives, failed to obtain independent valuations and other analyses of the transactions (apart from the limited, insufficient exception described herein), failed to market the assets to third parties, and failed to take other steps to assure the fairness of the transactions to CEOC.

374. CEC, by virtue of, among other things, its voting power over and its designees on the board of CEOC (its subsidiary), is a controlling stockholder of CEOC. As a controlling stockholder, CEC is a fiduciary of CEOC and may not use its power to benefit itself at the expense of CEOC and its creditors while CEOC is insolvent.

375. By participating in the actions described above, CEC has breached its fiduciary duties to CEOC.

376. CEOC has been harmed by the wrongful actions of CEC and the CEOC Directors.

377. By reason of the foregoing, the Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, seeks (i) monetary damages payable to CEOC, (ii) a constructive trust on all assets improperly transferred from CEOC to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors, (iii) a declaration that any release of the CEC Guarantee is rescinded or otherwise of no effect, and (iv) an injunction enjoining further transfers of assets from CEOC to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

378. The 8.5% Noteholders have no adequate remedy at law.

AS AND FOR A THIRTEENTH CAUSE OF ACTION
(Derivative Claim, on behalf of CEOC, Against CEC, CAC, CGP, CERP, CE Services, and the CEC Board for Aiding and Abetting Breach of Fiduciary Duty)

379. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

380. CEC, the CEOC Directors, and Colvin breached fiduciary duties to CEOC by entering into and/or acquiescing to the Core Asset Transfers, CEC Guarantee Release Transfers, and Insider Preferences, as described above. Defendants CAC, CGP, CERP, CE Services, and the CEC Board aided and abetted CEC's breaches, and Defendants CEC, CAC, CGP, CERP, CE Services, and the CEC Board aided and abetted the CEOC Directors' and Colvin's breaches.

381. CEC, CAC, CGP, CERP, CE Services, and the CEC Board (together, the "Aiders and Abettors") knowingly participated in the breaches of fiduciary duty by directing, encouraging, approving, entering into, and consummating the Core Asset Transfers, CEC Guarantee Release Transfers, and Insider Preferences.

382. The Aiders and Abettors knew that these transactions would (or will) leave CEOC insolvent, undercapitalized, or otherwise deepen its existing insolvency. They also knew that the CEOC Directors and Colvin had breached their fiduciary duties when they approved these transactions, because (i) none of these transactions was fair or reasonable to CEOC or in CEOC's best interests,

(ii) CEOC did not receive fair consideration or reasonably equivalent value for the transactions, (iii) the transactions were not for the benefit of CEOC, but rather for the benefit of the Sponsors, CEC, and other affiliated entities, and (iv) CEOC was insolvent or undercapitalized (or, alternatively, the transactions caused CEOC to become insolvent or undercapitalized). Further, the Aiders and Abettors knew that the breaches would result in damage to the 8.5% Noteholders—in fact, they engineered the transactions with the express intent of placing assets outside of CEOC and beyond its creditors' reach (including not only the reach of direct claims against CEOC, but also in many cases claims that CEOC's creditors might have directly or derivatively against CEC).

383. By virtue of the conduct described above, the Aiders and Abettors knowingly and intentionally encouraged, caused, participated, substantially assisted, directed, and/or aided and abetted the breaches of fiduciary duty, while knowing and/or intending that those breaches harm CEOC and its creditors (while benefitting the Sponsors).

384. CEOC has been harmed by the wrongful actions of the Aiders and Abettors.

385. By reason of the foregoing, the Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, seeks (i) monetary damages payable to CEOC, (ii) a constructive trust on all assets improperly transferred from CEOC

to or for the benefit of CEC, CAC, CGP, CERP, CE Services, or the Sponsors, and (iii) an injunction enjoining further transfers of assets from CEOC to or for the benefit of CEC, CAC, CGP, CERP, CE Services, or the Sponsors. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

386. The 8.5% Noteholders have no adequate remedy at law.

AS AND FOR A FOURTEENTH CAUSE OF ACTION
(Derivative Claim, on behalf of CEOC, Against the CEOC Directors, Colvin, CEC, CAC, CGP, CERP, CE Services, and the CEC Board for Usurpation of Corporate Opportunities)

387. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

388. CEOC is in the business of providing gaming-related entertainment, including developing, owning, operating, and managing dozens of casinos and related hotel, resort, retail, and entertainment facilities and businesses. Prior to the CIE Transfers, CEOC also was in the business of developing, owning, operating, and managing online gaming-related entertainment and other electronic and/or internet-based entertainment.

389. The development, ownership, operation, and managing of gaming-related entertainment is, and at all relevant times was, within the line of CEOC's business.

390. CEOC had an interest and expectancy in continuing to develop, own, operate, and manage gaming-related entertainment. By virtue of its market share, diverse geographic operations, knowledge, experience, employee and customer relations, gaming licenses, recognized brand names, customer information, Total Rewards Programs, other intellectual property, and other tangible and intangible assets, CEOC was well situated to continue to improve and expand its business, preserve and increase market share, and ensure a stable, long-term source of revenue.

391. CEOC had the financial ability to exploit these corporate opportunities. For example, CEOC was able to obtain financing for the development of the Quad and the extensive renovations of The Cromwell, without stripping away the equity value of these projects from CEOC and its creditors. Once these developments and renovations were completed or near completion, however, Defendants caused these assets to be transferred to CGP. In other instances, such as with CIE, Defendants caused core assets to be stripped from CEOC before they could be fully developed. Through financing, joint ventures, or other capital-raising measures, or not diverting funds to CEC through the voluntary prepayment of the low interest intercompany loans, CEOC could have retained control over, and an economic interest in, these valuable corporate opportunities.

392. Additionally, CGP acquired from CEC approximately $1.1 billion of bonds, purportedly paying approximately $779 million, and thus acquiring the 5.625% Notes at a substantial discount.[249] The opportunity to acquire the 5.625% Notes at a substantial discount was a corporate opportunity of CEOC. CEOC obviously could have taken advantage of that opportunity, as approximately nine months later it purchased from CGP the 5.625% Notes at a premium in the Senior Note Tender Offer.

393. Rather than preserving and exploiting these opportunities for the benefit of CEOC and its creditors, the CEOC Directors, Colvin, CEC, CAC, CGP, CERP, CE Services, and the CEC Board caused these opportunities to be stripped from CEOC and transferred to CEC, CAC, CGP, CERP, and CE Services. Not only did CEOC lose the value of these opportunities, but also in many cases CEOC's remaining assets are being forced to compete against the assets that were stripped from CEOC.

394. The CEOC Directors, Colvin, CEC, CAC, CGP, CERP, CE Services, and the CEC Board have acted and are acting in their own interests, rather than in the interests of CEOC. By diverting corporate opportunities away from CEOC to

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[249] The 5.625% Notes were purchased by CGP from CEC in October 2013. The price was based on the 90 trading day average price of notes as of October 21, 2013—86.52 cents on the dollar—further discounted to account for liquidity discount and transaction fees and expenses. A ratable allocation of the discount results in a purchase price to CGP of only 81.55 cents on the dollar.

other entities under common ownership, they are acting contrary to their fiduciary duties to CEOC.

395. CEOC has been harmed by the wrongful actions of the CEOC Directors, Colvin, CEC, CAC, CGP, CERP, CE Services, and the CEC Board.

396. By reason of the foregoing, the Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, seeks (i) monetary damages payable to CEOC, (ii) a constructive trust on all assets improperly transferred from CEOC to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors, and (iii) an injunction enjoining further transfers of assets from CEOC to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors. Defendants will not suffer any legally cognizable harm by the imposition of an injunction as requested herein, which is necessary to protect the 8.5% Noteholders from irreparable harm. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

397. The 8.5% Noteholders have no adequate remedy at law.

AS AND FOR A FIFTEENTH CAUSE OF ACTION
(Derivative Claim Against CEC, CGP, CAC, CERP, and CE Services for Unjust Enrichment)

398. The Plaintiff repeats the allegations of each of the prior and following paragraphs as if fully set forth herein.

399. Through the fraudulent conveyances and other improper transactions described above, CEC, CGP, CAC, CERP, and CE Services are in possession of property belonging to CEOC.

400. Defendants acquired this property through false promises, false statements, duress, and undue influences, as described at length above, and undue influences on CEC's and CEOC's board of directors.

401. CEC, CGP, CAC, CERP, and CE Services owed fiduciary duties to CEOC and its creditors by virtue of these promises, statements, and other conduct, as well as by virtue of CEOC's insolvency. All of the entities within the Caesars enterprise also shared a relationship of trust and confidence with one another.

402. The Sponsors, CEC, CGP, CAC, CERP, and CE Services benefitted (or will benefit) unjustly from the Core Asset Transfers, CEC Guarantee Release Transfers, and Insider Preferences described above—including by the transfer of valuable assets to those entities or their subsidiaries.

403. The foregoing transactions resulted or will result in the transfer of substantial value from CEOC to CEC, CERP, CAC, CGP, and CE Services, and of additional value from CEC to CERP, CAC, and CGP, and CE Services.

404. The Sponsors, CERP, CAC, CGP, and CE Services benefitted unjustly from the transfers. CEC also benefitted unjustly, although the benefits to

CEC were reduced by subsequent retransfers to CERP, CAC, CGP, and CE Services.

405. It is inequitable and unjust for the Sponsors, CEC, CERP, CAC, CGP, and CE Services to receive, be enriched by, and retain without payment of fair value, the benefits of such transfers from CEC and CEOC. The transfers are to the detriment of, and at the expense of, the creditors of CEC and CEOC, including the 8.5% Noteholders.

406. Equity and good conscience require that CERP, CAC, CGP, and CE Services disgorge the monies and/or other assets improperly obtained (or that they obtain in the future) from CEC and CEOC, and that CEC disgorge to CEOC the monies and/or other assets improperly obtained (or that it obtains in the future) from CEOC. For the avoidance of doubt, this Cause of Action does not seek monetary damages for the 8.5% Noteholders.

407. The 8.5% Noteholders have no adequate remedy at law.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, solely in its capacity as Indenture Trustee for the 8.5% Noteholders, respectfully requests that this Court grant the following relief:

1. Appointment of a Receiver of and for CEOC pursuant to 8 *Del. C.* § 291.

2. Avoidance and/or rescission of the (i) Core Asset Transfers, (ii) CEC Guarantee Release Transfers, (iii) Insider Preferences, and (iv) CEOC Release.

3. The return to CEOC of all assets transferred in the (i) Core Asset Transfers, (ii) Insider Preferences, and (iii) CEOC Release.

4. Imposition of a constructive trust for the benefit of CEOC over the assets transferred in the (i) Core Asset Transfers, (ii) CEOC Release, and (iii) Insider Preferences, and over all other assets improperly transferred from CEOC to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors.

5. Declaratory judgment that (i) the CEC Guarantee Release Transfers did not effectuate a release of the CEC Guarantee, and any such release is rescinded; (ii) CEC's May 6, 2014 contention that the CEC Guarantee had been released constituted a breach of the 8.5% Indenture, and CEC and CEOC are in default on account thereof; (iii) CEC remains liable on account of the CEC

Guarantee; (iv) the CEC Guarantee Release Transfers and each Default described in the Tenth Cause of Action constitutes a Default under the 8.5% Indenture; and (v) CEC and the CEC Board intentionally interfered with the Plaintiff's and the 8.5% Noteholders' contractual relations with CEOC.

6. Reinstatement of the CEC Guarantee (if and to the extent it has been terminated).

7. An injunction preventing Defendants from (i) further fraudulent transfers, fraudulent conveyances, and affiliated party transactions involving the assets of CEOC or its subsidiaries; (ii) receiving illegal dividends from CEOC or its subsidiaries; and (iii) conducting further transactions outside the ordinary course of business or transfers of assets from CEOC or its subsidiaries to or for the benefit of CEC, CERP, CGP, CAC, CE Services, or the Sponsors; as well an injunction against further interference by CEC and the CEC Board with the 8.5% Noteholders' contractual relations with CEOC.

8. Declaratory judgment that CEOC is insolvent.

9. Declaratory judgment that, due to CEOC's insolvency and Defendants' misconduct, Defendants must now manage CEOC principally for the benefit of all of its constituents, including its creditors.

10. Declaratory judgment that CEOC was insolvent at all times relevant to Plaintiff's claims and that during such times Defendants should have been

managing CEOC principally for the benefit of all of its constituents, including its creditors.

11. That Defendants compensate CEOC for losses and damages sustained as a result of the wrongs alleged herein.

12. Disgorgement by CEC, CERP, CAC, CGP, and CE Services of monies and/or other assets improperly obtained (or that they obtain in the future) from CEOC.

13. An award to Plaintiff of the costs of this action, including, without limitation, attorneys' fees and the fees and expenses of experts.

14. Such other and further relief as the Court may deem just and proper.

15. For the avoidance of doubt, no Causes of Action alleged herein seek, or should be construed to seek, monetary damages to be paid to Plaintiff or to the holders of debt represented by Plaintiff.

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