

The Deal Pipeline®

Caesars maintains control of its Chapter 11 case

By Kelsey Butler

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Caesars Entertainment Operating Co. Inc. has held on to control of its case, just as its parent company has been sued for its prepetition behavior.

Judge A. Benjamin Goldgar of the U.S. Bankruptcy Court for the Northern District of Illinois in Chicago on Oct. 21 signed an order extending CEOC's exclusivity period through March 15. The gaming giant can also exclusively solicit acceptances to its plan through May 15.

The news is a bright spot in a bad month for parent Caesars Entertainment Corp. (CZR).

On Tuesday, Wilmington Trust NA, indenture trustee for \$479 million in 10.75% notes due 2016 sued Caesars Entertainment in the U.S. District Court for the Southern District of New York in Manhattan. Wilmington Trust wants the parent to pay \$51.45 million in outstanding interest owed on the notes that remains unpaid.

In the lawsuit, the bank also contends that Caesars Entertainment violated the Trust Indenture Act of 1939 by voiding a guarantee of the operating unit's obligations before CEOC's bankruptcy filing.

In August, Caesars Entertainment had attempted to rescind its guarantee on some of CEOC's prepetition debt without consulting the debtholders. A group of these creditors sued Caesars Entertainment and CEOC in the Manhattan district court, alleging the action violated the Trust Indenture Act.

Judge Shira A. Scheindlin on Jan. 15 ruled the parent's stripping of its guarantee was "an impermissible out-of-court debt restructuring achieved through collective action."

Scheindlin wrote that the parent's actions "impaired plaintiffs' right to payment under the notes." Caesars has maintained that it disagrees with the ruling.

Richard J. Davis on March 25 was appointed as examiner in the CEOC case to look into alleged insider transactions that CEOC engaged in before its bankruptcy filing.

Meanwhile on Oct. 6, Judge Robert W. Gettleman of the U.S. District Court for the Northern District of Illinois in Chicago upheld an earlier decision that allows lawsuits against Caesars to proceed.

Goldgar on July 22 declined to halt lawsuits against Caesars. The parent placed CEOC into Chapter 11 on Jan. 15, but by keeping itself out of Chapter 11 has protected the investments of its shareholders, including private equity firms Apollo Global Management LLC (APO) and TPG Capital LP.

CEOC has hoped to implement a restructuring during its Chapter 11 case that would give junior creditors pennies on the dollar.

CEOC on March 6 filed an adversary complaint in the bankruptcy court against Wilmington Savings Fund Society FSB, MeehanCombs Global Credit Opportunities Master Fund LP and other creditors to keep them from pursuing claims against its parent in New York and Delaware courts. The creditors had taken issue with certain prepetition transactions of Caesars Entertainment.

Caesars Entertainment has called the claims without merit, and appealed Goldgar's initial decision.

In its voluntary Jan. 15 petition, CEOC reported \$12.35 billion in assets and \$19.87 billion in liabilities.

A Delaware judge previously dealt certain junior creditors a blow by opting to keep Caesars' bankruptcy in Chicago, the debtor's choice of venue. Judge Kevin Gross of the U.S. Bankruptcy Court for the District of Delaware in Wilmington on Jan. 28 ordered the involuntary case commenced by creditors there to be transferred to Chicago, where CEOC had filed its own Chapter 11 petition on Jan. 15.

The filing came days after second-lien bondholders led by affiliates of Appaloosa Management LP (owed \$13.11 million), Oaktree Capital Management LP (\$18.24 million) and Tennenbaum Capital Partners LLC (\$9.73 million) had sought a stay of any parallel bankruptcy proceeding. The creditors on Jan. 12 commenced an involuntary Chapter 11 case for CEOC in Wilmington.

A Kirkland & Ellis LLP team led by Paul Basta and James H.M. Sprayregen is debtor counsel. Domenic E. Pacitti and Morton Branzburg of Klehr Harrison Harvey Branzburg LLP also represent the casino operator. Basta and Sprayregen could not immediately be reached for comment.

Randall S. Eisenberg of AlixPartners LLP has been tapped to serve as chief restructuring officer of CEOC.

Caesars Entertainment's financial adviser is Blackstone Group LP (BX). Alan W. Kornberg and Jeffrey D. Saferstein of Paul, Weiss, Rifkind, Wharton & Garrison LLP are providing legal counsel.

Seth H. Lieberman and Patrick Sibley at Pryor Cashman LLP and J. Christopher Shore, Harrison L. Denman, Jason Zachary Goldstein, Thomas E. Lauria and Jason Zakie at White & Case LLP are advising Wilmington in the district court lawsuit.

Rothschild and Kristopher M. Hansen, Frank A. Merola, Kenneth Pasquale and Erez Gilad of Stroock & Stroock & Lavan LLP are advising first-lien bank lenders.

A Jones Day team including Bruce Bennett, James O. Johnston, Sidney P. Levinson, Joshua M. Mester and Monika S. Wiener and a Young Conaway Stargatt & Taylor LLP team in Wilmington headed by Robert S. Brady, Edmon L. Morton and Robert F. Poppiti Jr. represent an official committee of second-lien bondholders.

Jeff J. Marwil, Paul V. Possinger, Mark K. Thomas, Philip Abelson, Geoffrey T. Raicht, Judy G.Z. Liu, Vincent Indelicato and Martin J. Bienenstock of Proskauer Rose LLP represent the official committee of unsecured creditors. Earl of Sandwich (Atlantic City) LLC, Hilton Worldwide Inc. (HLT), International Game Technology (IGT), Law Debenture Trust Co. of New York, MeehanCombs Global Credit Opportunities Master Fund, PepsiCo Inc. (PEP), the United Here National Retirement Fund, US Foods Inc. and Wilmington Trust NA sit on the committee.