



Lottery and Gaming Control Commission

1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

PROPOSED MERGER AGREEMENT

Between

**Eldorado Resorts, Inc.
(Colt Merger Sub, Inc.)**

And

Caesars Entertainment Corporation

“Commission Presentation”

Executive Summary

A. Introduction

On June 24, 2019, the Maryland Lottery and Gaming Control Agency (“MLGCA”) received official notification of an Agreement and Plan of Merger between Eldorado Resorts, Inc. (“ERI” or “the Company”), Colt Merger Sub, Inc., a wholly owned direct subsidiary of ERI and Caesars Entertainment Corporation (“Caesars”). The Gaming Law (State Gov’t (SG) § 9-1A-01, *et seq.*) requires that the Maryland Lottery and Gaming Control Commission (“Commission”) determine whether a transfer of a licensee’s interests meets, and is consistent with, the requirements of the Gaming Law. SG § 9-1A-19.

Proposed Merger with Caesars Entertainment Corporation

On June 24, 2019, Eldorado Resorts, Inc., Colt Merger Sub, Inc., a wholly owned direct subsidiary of ERI, and Caesars Entertainment Corporation entered into an Agreement and Plan of Merger (“Agreement” or “Merger”). The Agreement provides for Colt Merger Sub, Inc. to merge with and into Caesars Entertainment Corporation, with Caesars continuing as the surviving company and becoming a direct wholly owned subsidiary of ERI. As part of the Merger, ERI will change its name to Caesars Entertainment, Inc. The Merger will create the largest gaming operator in the United States with 60 gaming properties located in 16 states, offering approximately 71,000 slot machines, 4,000 table games and 51,000 hotel rooms. Colt Merger Sub, Inc. submitted a Principal Entity Disclosure Form to the Maryland Lottery and Gaming Control Agency. Principals associated with Eldorado Resorts, Inc. also submitted the required applications.

ERI will acquire Caesars for a total consideration of \$17.3 billion consisting of \$7.2 billion in cash, seventy-seven (77) million shares of Eldorado common stock and the assumption of Caesars’ outstanding debt. The Company will acquire all of the outstanding shares of Caesars stock in exchange of \$8.40 in cash and 0.0899 shares of Eldorado common stock for each share of Caesars common stock. Eldorado shareholders will then own approximately 51% of the pro forma shares outstanding. Eldorado’s current Chairman of the Board (Gary Carano), Chief

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Executive Officer (Thomas Reeg), Chief Operating Officer (Anthony Carano), Chief Financial Officer (Bret Yunker) and Chief Legal Officer (Edmund Quatmann) will lead the merged companies. An eleven-member Board of Directors will be comprised of six directors from ERI's current board and five members from Caesars' current board.

Merger Financing

The Merger will be financed primarily through a combination of sales of existing properties, modifications to existing lease agreements and new debt in an aggregate principal amount of \$6.5 billion.

The Company has entered into a Credit Agreement with various lenders to obtain a Term B Loan in the amount of \$1.4 billion and Revolving Facility Loans and Letters of Credit in amounts not to exceed \$1.0 billion.

Background

Eldorado Resorts, Inc. was incorporated in Nevada in September 2013. The Company traces its roots to the Eldorado Hotel and Casino, opened in Reno, Nevada, in May 1973 by Donald L. Carano and Raymond J. Poncia, Jr. In the early 1990s, the Company was restructured into an entity known as Eldorado Resorts, LLC. As the Company has grown and pursued growth opportunities, it again restructured in April 2008 when Eldorado Holdco, LLC, was formed to serve as a holding company over Eldorado Resorts, LLC. When ERI was formed in September 2013, it became the parent company of Eldorado Holdco.

Through a series of acquisitions and mergers, the Company has grown into a geographically diversified gaming and hospitality company with 26 casinos and racetrack facilities located in twelve states. These facilities offer approximately 28,000 slot machines and video lottery terminals, 750 table games and 12,500 hotel guest rooms. Fourteen (14) state regulatory gaming authorities and three tribal gaming commissions and agencies currently license the Company. Maryland is the only U.S. gaming jurisdiction where Eldorado Resorts, Inc. has not yet been vetted, and in which it or Caesars has regulated gaming facilities. Eldorado

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Resorts, Inc. has filed a Principal Entity Disclosure Form and the associated Principal applications with the Maryland Lottery and Gaming Control Agency.

Ownership of Applicant

Eldorado Resorts, Inc. is a publicly traded company on the NASDAQ under the symbol “ERI.” In its Proxy Statement (Schedule 14A) filed with the U.S. Securities and Exchange Commission on April 26, 2019, the Company disclosed that as of April 8, 2019, it had approximately 77.5 million shares of common stock outstanding. The following individuals and entities held beneficial ownership of more than 5% of the Company’s common stock as of April 8, 2019:

- Recreational Enterprises, Inc. – 11,129,867 shares (14.37%)
- FMR, LLC - 10,440,015 shares (13.48%)
- BlackRock, Inc. – 7,447,282 shares (9.62%)
- The Vanguard Group, LLC – 5,439,819 shares (7.03%)

Recreational Enterprises, Inc. is beneficially owned by the Donald L. Carano Trust (49.5%), Gary L. Carano (10.1%), Gene R. Carano (10.1%), Gregg R. Carano (10.1%), Cindy L. Carano (10.1%), and Glenn T. Carano (10.1%). By virtue of ownership interest in Recreational Enterprises, Inc., the Donald L. Carano Trust currently indirectly owns 7.11% of Eldorado Resorts, Inc. However, post-merger with Caesars Entertainment Corporation, it is expected that the Trust’s beneficial ownership of the combined companies will be less than 5% and will not be required to be qualified. FMR, LLC, BlackRock, Inc., and the Vanguard Group, LLC, are each institutional investors that have previously been granted institutional investor waivers by the Maryland Lottery and Gaming Control Agency.

Discussion of Financial Performance

We performed a detailed analysis of Eldorado Resorts, Inc.’s operating performance and financial condition for the periods ending December 31, 2014 through December 31, 2018, and we offer the following comments:

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B. Findings

The MLGCA conducted a complete and thorough background investigation as authorized under the Gaming Law by analyzing corporate records and documents, scrutinizing the business operations, practices and transactions of Eldorado Resorts, Inc., and the other qualifying entities, and conducting interviews of key personnel, focusing on required qualification criteria involving integrity and financial stability. MLGCA adhered to well-defined and approved investigative protocols in assembling the factual information incorporated in this report. The results of the investigation for the specific qualification criteria enunciated in SG §§ 9-1A-07(c)(7) and 9-1A-08(d) are summarized as follows:

1) Financial stability, integrity and responsibility, SG § 9-1A-07(c)(7)(i).

Eldorado Resorts, Inc. satisfies the standards for financial stability, integrity and responsibility.

2) Integrity of financial backers, investors, mortgagees, bondholders, and other holders of indebtedness, SG § 9-1A-07(c)(7)(ii).

Eldorado Resorts, Inc. has obtained funding commitments from several financial backers sufficient to adequately fund the merger transaction. Based on our review, there are no material issues involving the known financial backers of the Applicant.

3) Good character, honesty and integrity, SG § 9-1A-07(c)(7)(iii).

MLGCA found a single area of concern related to this qualification criteria: The SEC investigation of Thomas Reeg, James Hawkins¹, Gary Carano and Anthony Carano, and the potential impact of any future SEC action on these individuals and on ERI. Otherwise, no issues surfaced concerning the overall suitability of the Applicant, the individual qualifiers or principal entities.

¹ ERI and Mr. Hawkins have informed MLGCA Staff that on or before the date of the pending ERI-Caesars transaction closes, Mr. Hawkins will step down from Eldorado's Board and separate his relationship with Eldorado. Therefore, Staff accepted a letter from Mr. Hawkins dated February 19, 2020 requesting that his application for a Maryland Video Lottery Employee license be withdrawn.

United States Securities and Exchange Commission (SEC) Investigation

On July 15, 2019, Eldorado Resorts, Inc. (“ERI”) and Colt Merger Sub, Inc. filed Principal Entity Disclosure Forms with the Maryland Lottery and Gaming Control Agency (“MLGCA”) as part of its proposed Merger with Caesars Entertainment Corporation. In addition, on August 21, 2019, Principal employee applications associated with ERI were filed with the MLGCA. Embedded within ERI’s Principal Entity application and the individual Principal applications for Thomas Reeg, Gary Carano, Anthony Carano and James Hawkins were disclosures revealing that each of the Principal applicants had received a subpoena from the U.S. Securities and Exchange Commission. On May 1, 2019, the SEC issued separate subpoenas (In the Matter of IRadimed Corporation, TISO, P-02169) to Thomas Reeg, Gary Carano, Anthony Carano, and James Hawkins. The subpoenas were issued in relation to an investigation that the SEC initiated regarding IRadimed, a medical supply company based in Florida. James Hawkins was previously a Director of IRadimed and is currently a member of the board of Eldorado. Additional SEC subpoenas related to the IRadimed investigation have been issued to: Caesars on January 10, 2020; Reeg, A. Carano, and G. Carano on February 14, 2020; and Eldorado Resorts on February 21, 2020.

4) Sufficient business ability and experience, SG § 9-1A-07(c)(7)(iv).

The applicant has sufficient business ability and experience.

5) Potential disqualifying factors, SG § 9-1A-08(d).

Staff did not find that the Applicant or its individual Principals are mandatorily disqualified under any of the factors listed in SG § 9-1A-08(d).

Staff therefore believes that ERI meets applicable qualification criteria for a Principal Entity (owner) of Caesars as set forth in the Gaming Law.

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C. Principal Entity

In June 2019, Eldorado Resorts, Inc. established Colt Merger Sub, Inc. as a wholly owned direct subsidiary to facilitate the merger with Caesars Entertainment Corporation. Colt Merger Sub will merge with and into Caesars Entertainment Corporation, with Caesars continuing as the surviving company and becoming a direct wholly owned subsidiary of Eldorado Resorts, Inc. Colt Merger Sub, Inc. is a newly-created principal entity; it satisfies the applicable qualification criteria under SG § 9-1A-07(c)(7), and is not disqualified under SG § 9-1A-08(d).

D. Principal Qualifiers

We identified the below listed natural person qualifiers (“Principals”) who are associated with the Applicant. We conducted an extensive due diligence investigation on each qualifier, to include personal interviews.

1. Gary Louis Carano- Executive Chairman of the Board of Directors
2. Anthony Louis Carano- President and Chief Operating Officer
3. Thomas Robert Reeg – Chief Executive Officer
4. Bret Daniel Yunker - Chief Financial Officer
5. Stephanie Dana Lepori - Chief Adm. Officer and Principal Acct. Officer
6. Jeffrey Patrick Hendricks - Vice President of Regulatory Compliance
7. David Paul Tomick - Board of Directors (Audit Committee)
8. Edmund Lawrence Quatmann- Executive VP / Chief Legal Officer and Secretary
9. Frank Joseph Fahrenkopf - Board of Directors (Compliance Committee)
10. Michael Edward Pegram - Board of Directors (Compliance Committee)

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11. Alvin James Hicks - Board of Directors (Chairman of the Compliance Committee)

12. Gene Robert Carano- Non-Executive Director

13. Bonnie Susan Biumi- Non-Executive Director

Except for the discussions above regarding Principals Gary Carano, Anthony Carano, and Thomas Reeg, no qualification issues were found for the other Principals. Staff concludes that they meet the applicable qualification criteria under SG § 9-1A-07(c), and are not mandatorily excluded under SG § 9-1A-08(d).

E. Conclusions and Opinion

MLGCA Staff's investigation has identified only one area of concern regarding the ability of Eldorado Resorts, Inc. to prove its licensing qualifications by clear and convincing evidence: the SEC subpoenas served on Anthony Carano, Gary Carano, Thomas Reeg, and James Hawkins. However, the individuals and Eldorado have, as part of their license applications, provided the Commission with written assurances as to the actions that they will take if, in the future, the SEC takes certain enforcement action against the individuals.² Staff believes that these written assurances serve to protect the current and future interests of the State of Maryland, allow the Commission to move Eldorado's and the individuals' applications forward without awaiting any definitive SEC action, and ensure Maryland's timely approval of the Eldorado-Caesars transaction.

Thomas Reeg, Anthony Carano and Gary Carano have agreed to notify the Commission if the SEC contacts them in any manner or for any reason. They have agreed that if the SEC bars them, through any administrative or civil action, from service on a board of directors, and Eldorado does not choose to divest itself of its interest in Horseshoe Casino Baltimore, that they would remove themselves from their service as an Eldorado board member or officer, separate themselves from employment with Eldorado, and surrender their Maryland Video Lottery Licenses.

² An applicant may provide assurances to establish qualification criteria. SG § 9-1A-07(c)(7); COMAR 36.03.03.04.B.

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Eldorado Resorts, Inc. has agreed to enforce the individuals' assurances or, alternately, decide to divest itself of its interests in, and ownership and operation of, Horseshoe Casino Baltimore.

MLGCA STAFF RECOMMENDATION

Given the outcome of Staff's background investigations, and with these written assurances specific to the SEC subpoenas, Staff recommends that the Commission find that Eldorado Resorts, Inc. and its Principals, including Thomas R. Reeg, Gary L. Carano and Anthony L. Carano, have proven, by clear and convincing evidence, the applicable qualification and licensing criteria under the Gaming Law. Staff also recommends that the Commission approve the merger of Eldorado Resorts, Inc. and Caesars Entertainment Corporation as consistent with the requirements of the Gaming Law.