

DECISION OF THE MARYLAND LOTTERY COMMISSION

Application for Video Lottery Operation License

Applicant: CBAC Gaming, LLC

**Qualification Hearing before the Maryland Lottery Commission
June 21, 2012**

On June 21, 2012, the Maryland Lottery Commission (Lottery Commission) held a public hearing to determine whether the Applicant is qualified for a Video Lottery Terminal (VLT) operation license (operation license) under Subtitle 9-1A of the State Government Article (SG) of the Annotated Code of Maryland (the VLT Law). The Licensing Division staff of the Maryland State Lottery Agency (MSLA) notified representatives of CBAC Gaming, LLC (CBAC Gaming) of this hearing. CBAC Gaming was represented at the hearing by Sue Carletta, Vice President and Deputy Chief Regulatory and Compliance Officer of Caesars, who did not testify. The record before the Commission included the background investigation report prepared by Spectrum Gaming Group, LLC (Spectrum), a background investigation firm authorized by the Commission to conduct investigations for the MSLA that was contracted to conduct VLT licensing investigations under the supervision of MSLA staff. Spectrum employees Steven Ingis and Sandy Greenberg were present and available to testify. Rob Ruben, Esq., Counsel for CBAC, was also present. The Manager of VLT Licensing for MSLA, Phil Metz, presented the findings of Spectrum's report and testified on behalf of the MSLA.

Findings of Fact

1. The Video Lottery Facility Location Commission (Location Commission) solicited proposals from qualified applicants seeking to be awarded an operation license in Baltimore City, Maryland. The deadline for receipt of proposals was September 23, 2011.
2. On September 23, 2011, CBAC Gaming submitted to the Location Commission a proposal for the Baltimore City operation license, which included VLT Form 1001, Video Lottery Operation License Application; the application was forwarded to the Lottery Commission.
3. The Lottery Commission is required by law to decide whether an applicant for an operation license is qualified under SG §§ 9-1A-07(c) and 9-1A-08(d) and to report that decision to the Video Lottery Facility Location Commission (Location Commission). SG § 9-1A-36(m).

4. Spectrum conducted the background investigation under the supervision of MSLA's VLT Licensing Unit. SG § 9-1A-20. A thorough background investigation was conducted as required under SG Title 9, Subtitle 1A (the VLT Law) and Title 14, Subtitle .01 of the Code of Maryland Regulations (COMAR). Corporate records and documents were analyzed, and the business operations, practices and transactions of CBAC Gaming and associated entities were scrutinized from an integrity and financial stability standpoint. The investigation followed well-defined and approved investigative protocols in assembling the factual information incorporated in this report, and focused on: the Applicant's financial stability, integrity, and responsibility; the integrity of its financial backers and of other individuals and entities with a controlling interest in the Applicant; the Applicant's good character, honesty and integrity, including any criminal history; and whether the Applicant has sufficient business ability and experience.
5. CBAC Gaming is owned by CR Baltimore Holdings, LLC ("CR Baltimore"), 88.6 percent; CVPR Gaming Holdings, LLC (CVPR Gaming Holdings"), 4 percent; Stron-MD Limited Partnership, ("Stron-MD") 4.8 percent; and PRT Two, LLC ("PRT"), 2.6 percent.
6. CR Baltimore is owned by Rock Gaming Mothership, LLC ("Rock Gaming Mothership"), 41.49 percent, and Caesars Baltimore Investment Company, LLC ("Caesars Baltimore Investment"), 58.51 percent. Rock Gaming Mothership is a wholly owned subsidiary of DG Mothership, LLC ("DG Mothership"). All of these entities filed appropriate applications. DG Mothership is wholly owned by Daniel Gilbert, who filed an application.
7. Caesars Baltimore Investment is a wholly owned subsidiary of Caesars Baltimore Acquisition Company, LLC ("Caesars Baltimore Acquisition"). The latter entity is a wholly owned subsidiary of Caesars Entertainment Operating Company, LLC ("Caesars Operating"), which in turn is a wholly owned subsidiary of Caesars Entertainment Corporation ("Caesars"). Caesars is owned by affiliates of Apollo Global Management, LLC ("Apollo") and TPG Capital, LP ("TPG"): Apollo Hamlet Holdings, LLC; Apollo Hamlet Holdings B, LLC; TPG Hamlet holdings, LLC; TPG Hamlet Holdings B, LLC; Co-Invest Hamlet Holding Series, LLC; and Co-Invest Hamlet Holdings B, LLC, collectively at the time of the application 89.3 percent; Paulson & Co., Inc. ("Paulson") 9.9 percent, and members of Caesars Management, 0.80 percent. The Apollo and TPG affiliates gave an irrevocable voting proxy to Hamlet Holdings, LLC ("Hamlet") for all of their shares, and as a result, these six entities were not required to file in

Maryland. Following an initial public offering, Hamlet holds 70.1 percent of the voting common stock and public investors hold 19.2 percent as of February 8, 2012. Hamlet filed an application. Paulson filed for a waiver as an institutional investor. Apollo and TPG were not required by the Commission to file applications.

8. Stron-MD's limited partner is 2299001 Ontario, Inc. and its general partner is 2299000 Ontario Inc., both of which are wholly owned by the Belinda Stronach Family Trust. All of these entities, and Belinda Stronach individually, filed disclosure forms.
9. CVPR Gaming Holdings' Class B shares are held by CVP Gaming, LLC ("CVP Gaming"); Rodgers Legacy II, LLC ("Rodgers Legacy"); and Anthony W. Deering. The Class A shares are held by CVPR Consulting, LLC ("CVPR Consulting"), which is controlled by the three entities holding Class B shares. All of these entities and Deering filed applications.
10. PRT is owned by Maria Beckett, Cecil Flamer, James Scott and Eddie Brown, all of whom filed applications.
11. In addition to these entities, numerous individuals filed personal history disclosure forms and were subject to a thorough background investigation. They are listed beginning on page 8 of this Executive Summary.
12. CBAC Gaming and its immediate parent companies are all relatively new companies, which were created to facilitate this license application. As such, there is no meaningful history for these entities, and the level of investigation reflects that practical reality. By contrast, Caesars, the ultimate parent company of the majority owner CR Baltimore, is an experienced gaming facility owner and operator in numerous jurisdictions throughout the United States and elsewhere. Therefore, Spectrum's license investigation necessarily focused primarily on the qualifications of Caesars.
13. In the course of the investigation, Spectrum requested the production of voluminous records and documents from the Applicant and its parent companies. Such requests for relevant information were necessary in order to conduct the requisite, thorough background review. In all respects, the Applicant and its parent companies were cooperative and compliant, dutifully providing updated information upon request as the investigation progressed. Spectrum's examination of the companies' books and records revealed no irregularities or improprieties that could potentially impact adversely upon this license application.

14. As an applicant for licensure as a Video Lottery Operator, CBAC Gaming has the affirmative obligation to demonstrate its qualifications by clear and convincing evidence pursuant to the VLT Law. An applicant for a Video Lottery Operation License is also required to establish the qualifications of all of the individuals and entities identified as qualifiers under the standards enunciated in the VLT Law and regulations. The applications of 38 individuals were originally filed. One of those individuals resigned from Caesars, and Caesars submitted the required withdrawal documentation to the Commission on May 31. Therefore, 37 individual applications are being presented to the Commission. In addition, there are several companies that were required by the Commission to submit to the qualification process as a result of their ownership interests in CBAC Gaming.
15. Spectrum conducted a thorough background investigation as required under § 9-1A-07(c) (7) of the VLT Law. Spectrum analyzed corporate records and documents and scrutinized the business operations, practices and transactions of Caesars and the other qualifying entities from an integrity and financial stability standpoint. Spectrum 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 licensing criteria enunciated in the VLT Law are summarized as follows:

a. SG § 9-1A-07(c)(7)(i) - Financial Stability, Integrity and Responsibility.

CBAC Gaming satisfies the standards for financial stability, integrity and responsibility. The financial soundness of the company is derived from the financial status of Caesars and Daniel Gilbert, the primary financial resources for this casino project. Spectrum finds that the Applicant has the financial resources to adequately fund the contemplated casino project in Maryland. CBAC Gaming has the ability to pay all required license fees and costs and to make any necessary capital expenditures in the operation of the casino facility. Spectrum also concludes that all of the individual qualifiers satisfy the financial criteria to be found qualified in connection with the license application.

The investigation determined that Caesars has at the present time demonstrable financial stability, integrity and responsibility. However, as detailed in Spectrum's report, the company has a very high debt burden, which should be monitored closely by the Commission. Accordingly, it is recommended that the Commission conduct an annual review of Caesars' financial stability to ensure the continued viability of this casino project.

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

The money to be utilized to ensure the successful operation of the Applicant will be primarily derived from Caesars and Daniel Gilbert, which have partnered for the formation of CR Baltimore, the principal owner of the Applicant. As already noted, CR Baltimore clearly has sufficient financial resources to adequately fund CBAC Gaming. The other entity owners of the Applicant also have sufficient financial resources. Based on our review, there are no material issues involving the integrity of the financial backers of the Applicant.

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

Spectrum found that CBAC Gaming and its parent companies possess the requisite good character, honesty and integrity. Significantly, apart from the matters involving Daniel Gilbert, the sole owner of DG Mothership (addressed below), no issues surfaced concerning the overall suitability of these entities or the individual qualifiers. Caesars enjoys a stellar reputation for business integrity among the gaming and business communities. There are no material issues pertaining to Caesars' record of regulatory compliance, its dealings with vendors and business partners, or litigation matters.

Two issues surfaced pertaining to the qualifications of Daniel Gilbert, which are addressed in great detail in Spectrum's full investigative report. To summarize:

- (i) A 2009 unsecured loan of \$60,000 Gilbert personally made to convicted felon (and former Detroit mayor) Kwame Kilpatrick, disbursed when Kilpatrick was released from jail after serving his sentence. There is a repayment schedule, but the loan has not been repaid. The unusual circumstances of this transaction and Gilbert's apparent total lack of due diligence demonstrated in making and administering the loan, required a complete examination of the transaction to ascertain if it should have any material impact on licensure. Spectrum performed a thorough inquiry into this matter, and concluded that, although the loan reflected poor judgment

by Gilbert, the \$60,000 provided to Kilpatrick was intended by Gilbert as a loan, and was not the result of any illegal extortion or bribery scheme; and

- (ii) Gilbert's public statements regarding his involvement in illegal sports betting while a college student at Michigan State University in 1981. The resulting 1981 gambling charges in Michigan, more than 30 years ago, were dismissed pursuant to a youthful offender diversionary program without any admission of guilt or plea of no contest, and did not result in a conviction. There have been no additional gambling-related charges. These circumstances do not automatically disqualify Gilbert from licensure under VLT Law or the Code of Maryland Regulations (COMAR).

After considering all available information obtained during the investigation, Spectrum concluded that nothing in its information about Gilbert rose to a level that should preclude licensure or bear negatively on his character, honesty, integrity or his ability to meet any other qualification requirements under the VLT Law. Therefore, despite the fact that the investigation revealed the two circumstances described above, Spectrum concluded, and MSLA staff concurs, that they do not materially impact Gilbert's suitability for licensure.

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

CBAC Gaming does not have any demonstrable business experience. However, the ultimate operator of the casino enterprise, through a management agreement with the Applicant, will be Caesars Baltimore Management Company, LLC, an indirect wholly-owned subsidiary of Caesars, which certainly has extensive and positive experience in the management and ownership of casino gaming facilities.

e. SG §9-1A-07(c)(7)(v) - Labor Peace Agreement.

The Applicant has not yet executed any labor peace agreements with the unions. However, in the license application, CBAC Gaming included an affidavit indicating that it would readily comply with this license requirement.

f. SG §9-1A-08(d) - Disqualifiers.

The Applicant is not disqualified from being issued a Video Lottery Operation license based on any of the criteria listed in § 9-1A-08(d) of the VLT Law. The Applicant meets the qualification requirements of the VLT Law for a Video Lottery Facility Operation License.

Applicant and Principal Entities

16. CBAC Gaming was created specifically to be the applicant entity. It has four entity owners: CR Baltimore; CVPR Gaming Holdings; Stron-MD; and PRT.
17. CR Baltimore is owned by Rock Gaming Mothership and Caesars Baltimore Investment. Rock Gaming Mothership is a wholly owned subsidiary of DG Mothership. Caesars Baltimore Investment is a wholly owned subsidiary of Caesars Baltimore Acquisition. The latter entity is a wholly owned subsidiary of Caesars Operating, which in turn is a wholly owned subsidiary of Caesars. Finally, Caesars is owned by affiliates of Apollo Global Management, LLC ("Apollo") and TPG Capital, LP ("TPG"). These affiliated entities granted an irrevocable voting proxy to Hamlet Holdings, LLC for all of their shares of Caesars' common stock.
18. CVPR Gaming Holdings is owned by CVP Gaming; Rodgers Legacy; CVPR Consulting; and Anthony W. Deering.
19. Stron-MD's limited partner is 2299001 Ontario, Inc. and its general partner is 2299000 Ontario, Inc., both of which are wholly owned by the Belinda Stronach Family Trust.
20. It is the opinion of MSLA Staff that the Applicant is qualified under the VLT Law for a Video Lottery Operation License. The principal entities also meet the qualification requirements.

Principal Qualifiers

21. Below are the natural person qualifiers (principals) that are associated with the Applicant and their principal entities. Spectrum conducted an extensive due diligence investigation, as more fully described in the investigative report, on each principal and found no disqualifying criteria listed in § 9-1A-08(d) of the VLT Law. In addition, they have all satisfied the criteria, as applicable, under § 9-1A-07 of the VLT Law.

Belinda Stronach, Stron-MD

Arthur Adler, CVP Gaming
Michael Bronfein, CVP Gaming
Craig Colton, CVP Gaming
Stephen Fader, CVP Gaming
Stephen Sibel, CVP Gaming
Anthony T. Rodgers, Rodgers Legacy II
Marjorie Rodgers Cheshire, Rodgers Legacy II
Theo C. Rodgers, Rodgers Legacy II
Anthony Deering, individually
Maria Beckett, PRT Two, LLC
Cecil Flamer, PRT Two, LLC
Eddie Brown, PRT Two, LLC
James Scott, PRT Two, LLC
Michael D. Cohen, Caesars
Timothy Donovan, Caesars
Eric Hession, Caesars
Gary Loveman, Caesars
John Payne, Caesars
Lynn C. Swann, Caesars
Jinlong Wang, Caesars
Diane E. Wilfong, Caesars
Christopher J. Williams, Caesars
Jeffrey Benjamin, Caesars
Leon Black, Hamlet
Joshua Harris, Hamlet
Eric Press, Caesars
Marc Rowan, Hamlet
David Sambur, Caesars
David Bonderman, Hamlet
Jonathan Coslet, Hamlet
James Coulter, Hamlet
Kelvin Davis, Caesars
Karl Peterson, Caesars
Matthew Cullen, DG Mothership
Daniel Gilbert, DG Mothership
Jeffrey Housenbold, Caesars

22. Spectrum's investigation has confirmed that the Applicant has the financial resources to execute its business plan with no derogatory information regarding the Applicant's suitability. No disqualifying factors were found that would preclude the Applicant from being issued a video lottery facility operation license based on the criteria listed in § 9-1A-08(d) of the VLT Law, and the

Applicant has satisfied the requirements listed in § 9-1A-07(c)(7) of the VLT Law.

23. It is the opinion of MSLA Staff that the principals identified above meet the qualification requirements under the VLT Law for a video lottery facility operation license.

Conclusions of Law

1. CBAC Gaming, LLC has established by clear and convincing evidence its qualifications for a video lottery facility operation license under Subtitle 9-1A of the State Government Article.
2. There is clear and convincing evidence that these principal entities and individual principals of CBAC Gaming, LLC are qualified under Subtitle 9-1A:

Principal entities

CR Baltimore
CVPR Gaming Holdings
Stron-MD
PRT
Rock Gaming Mothership
Caesars Baltimore Investment
DG Mothership
Caesars Baltimore Acquisition
Caesars Operating
Caesars
Apollo Global Management, LLC
TPG Capital, LP
CVP Gaming
Rodgers Legacy
CVPR Consulting
Anthony W. Deering
2299001 Ontario, Inc.
2299000 Ontario, Inc.
Belinda Stronach Family Trust

Individual principals

Belinda Stronach, Stron-MD
Arthur Adler, CVP Gaming
Michael Bronfein, CVP Gaming
Craig Colton, CVP Gaming

Stephen Fader, CVP Gaming
Stephen Sibel, CVP Gaming
Anthony T. Rodgers, Rodgers Legacy II
Marjorie Rodgers Cheshire, Rodgers Legacy II
Theo C. Rodgers, Rodgers Legacy II
Anthony Deering, individually
Maria Beckett, PRT Two, LLC
Cecil Flamer, PRT Two, LLC
Eddie Brown, PRT Two, LLC
James Scott, PRT Two, LLC
Michael D. Cohen, Caesars
Timothy Donovan, Caesars
Eric Hession, Caesars
Gary Loveman, Caesars .
John Payne, Caesars
Lynn C. Swann, Caesars
Jinlong Wang, Caesars
Diane E. Wilfong, Caesars
Christopher J. Williams, Caesars
Jeffrey Benjamin, Caesars
Leon Black, Hamlet
Joshua Harris, Hamlet
Eric Press, Caesars
Marc Rowan, Hamlet
David Sambur, Caesars
David Bonderman, Hamlet
Jonathan Coslet, Hamlet
James Coulter, Hamlet
Kelvin Davis, Caesars
Karl Peterson, Caesars
Matthew Cullen, DG Mothership
Daniel Gilbert, DG Mothership

3. CBAC Gaming, LLC and all qualified principal entities and individuals remain under an ongoing obligation to comply with all qualification requirements and to notify the Commission if any of their qualification information changes.
4. The requirement that the Commission notify the video lottery facility Location Commission of this Decision (SG § 9-1A-36(m)(3)) is satisfied by the Commission's delegation to the Chairman of the authority to draft this written Decision Statement and send it to the Applicant and the Chairman of the Video Lottery Facility Location Commission.

Review Rights

A party aggrieved by this final administrative Decision may file a petition for judicial review with the circuit court for the county where any party resides or has a principal place of business within thirty days of the date of this Decision. SG § 10-222; Maryland Rules 7-201 – 7-211.



J. Kirby Fowler, Jr. Chairman
Maryland State Lottery Commission

June 21, 2012

Date