Lottery and Gaming Control Commission

1800 Washington Boulevard, Suite 330, Baltimore, MD 21230

PROPOSED MERGER AGREEMENT

between

Caesars Acquisition Company
("CAC")

and

Caesars Entertainment Corporation
("CEC")

COMMISSION REPORT

EXECUTIVE SUMMARY

Introduction

On February 24, 2017, the Maryland Lottery and Gaming Control Agency (MLGCA) received official notification of the proposed Merger between Caesars Acquisition Company ("CAC") and Caesars Entertainment Corporation ("CEC"). 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

Before the Commission is a transaction (the "Transaction") proposed by Caesars Acquisition Company (NASDAQ:CACQ) ("CAC") that would effectuate the merger of CAC with and into Caesars Entertainment Corporation (NASDAQ:CZR) ("CEC") with CEC surviving. Pursuant to the Amended and Restated Agreement and Plan of Merger, dated as of July 9, 2016, as amended by the First Amendment to the Amended and Restated Agreement and Plan of Merger, dated as of February 20, 2017 (together, the "Merger Agreement"), Shareholders of CAC will receive 1.65 shares of CEC stock as merger consideration for each share of CAC stock. Currently, CAC indirectly owns 42.4% of Caesars Growth Partners, LLC ("CGP") with CEC owning the remaining 57.6% through intermediaries. CGP indirectly owns 58.51% of CR Baltimore Holdings, LLC, which indirectly owns 69.9% of CBAC Borrower, LLC, which, in turn, holds the Video Lottery Operation License for Horseshoe Baltimore Casino. Thus, if the Transaction is consummated, CEC will own 100% of CGP.

The Transaction is part of a much larger series of transactions through which Caesars Entertainment Operating Company ("CEOC") will restructure and emerge from bankruptcy (the "Restructuring"). The Restructuring will result in the Caesars enterprise having approximately $16 billion less debt, $1.5 billion less in annual interest payments, and approximately $800 million in positive cash flow from an enterprise perspective. The majority of the enterprise-wide debt is currently at the CEOC entity level. The Restructuring is the subject of a Plan of Reorganization that was approved by a majority of CEOC's creditors and confirmed by the U.S. Bankruptcy Court for the Northern District of Illinois (the "Bankruptcy Court") on January 17, 2017.

While as part of the Restructuring CEOC will be separated into an operating entity with operating subsidiaries and a REIT that will own the vast majority of

CEOC's real estate; Horseshoe Baltimore will not be part of the REIT. Accordingly, any discussion of the REIT is for informational purposes, and only the merger of CAC with and into CEC pursuant to the Merger Agreement is before the Commission for required approval. Consummation of the Transaction and the broader Restructuring remain subject to various regulatory approvals, certain financing arrangements, shareholder approval of the Merger Agreement, and customary closing conditions.

Background Information

On July 31, 2012, the Video Lottery Facility Location Commission awarded a Video Lottery Operation License to CBAC Gaming, LLC, incorporating by reference this Commission's June 21, 2012 Decision Statement finding the Principal Entities and Principal Qualifiers qualified to hold such license.

On June 25, 2013, the Location Commission issued an addendum to the earlier Decision Statement, which, among other things, transferred the award of the Video Lottery Operation License to CBAC Borrower, LLC in connection with financing arrangements for the casino. CBAC Borrower, LLC was then a newly formed, indirect wholly owned subsidiary of CBAC Gaming, LLC.

On September 19, 2013, this Commission approved an earlier restructuring transaction through which CEC created CAC as a separate publicly traded corporation, which acquired for cash all of the CEC subsidiaries' equity interest in Horseshoe Baltimore. The earlier transaction was intended to bring additional liquidity to CEC's operations and to maximize the return on some of its relatively unencumbered assets and high growth new technologies. At all times since the opening of Horseshoe Baltimore, both before and after the CAC transaction, the property has been managed by Caesars Baltimore Management Company, LLC, an indirect subsidiary of CEOC.

It is noteworthy that the CAC transaction was intended to be a temporary financing vehicle. After the third anniversary of the formation of CGP, CEC had the right to acquire or "call" all of CAC's interest in CGP, subject to CEC meeting certain measures of financial stability. At that point, the pre-transaction ownership structure would have been restored.

The CEOC Bankruptcy and Confirmation of the Plan of Reorganization

Despite CEC's efforts to have CEOC achieve financial stability, on January 15, 2015, CEOC and certain of CEOC's wholly owned subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the Bankruptcy Court. After approximately 18 months of negotiations, CEOC, its debtor subsidiaries, and CEC reached agreement with holders of approximately $16.5 billion of CEOC's outstanding indebtedness, representing approximately 80% of its creditors. Pursuant to the Plan of Reorganization, CEOC's creditors will receive all of the stock in the REIT, cash, CEC stock, and new CEOC notes in the amount of $1.119 billion convertible into 18.6% of CEC on a fully diluted basis. Various creditors' committees will also have the right to appoint six of the eleven members of the CEC board of directors and approve the appointment of two others. On January 17, 2017, the Bankruptcy Court confirmed the Plan of Reorganization.

Prior to and during the pendency of the proceedings in the Bankruptcy Court, CEC provided the Commission's staff and Audit Committee with periodic updates by conference calls and in-person meetings as well as through voluminous documents. Staff monitored the impact of CEC's financial condition and the pendency of the bankruptcy proceedings on both the financial performance of Horseshoe Baltimore and its compliance with the Commission's regulations and did not observe any negative impact on the operation of the casino. Further, Staff has reviewed thousands of pages of documents, obtained information from CEC and public filings, and analyzed the Transaction as to whether the merger of CAC into CEC would negatively affect the State or the licensee. *See* Ann. Code of Maryland, State Gov't § 9-1A-19.

<u>Effect of the Merger on CEC and the Licensee</u>

The Transaction and the broader Restructuring is intended to have a significant positive impact on CEC and the overall Caesars enterprise. As noted above, gross debt will be reduced by $16 billion; cash interest expense will be reduced by $1.3 billion through a combination of the reduced amount of debt and a reduction in the cost of capital by between 600 and 700 basis points; and the enterprise is anticipated to generate positive cash flow of approximately $800 million. Less debt, less interest, lower leverage, and greater cash flow should result in a significantly improved capital structure and stable entity.

In addition to the significantly improved debt position, because of the Transaction and the Restructuring, the equity of CEC will be more widely held. For example, two private equity funds that controlled nearly 90% of the CEC stock when the Video Lottery Location Commission awarded the license to CBAC Gaming, LLC in 2012 will hold approximately 22% of the CEC stock with the balance spread among multiple CEOC creditors. Generally, more widely held stocks are less volatile and more liquid, which should provide CEC greater access to the public markets if it chooses to raise capital. CEC's president and chief executive officer explained in a press release upon the Bankruptcy Court's confirmation of the Plan of Reorganization that "the new Caesars will be a stronger company with a healthy balance sheet, a plan for growth and investment, operating discipline, and a relentless focus on employee and customer satisfaction."

The Transaction and the Restructuring should have little impact, if any on the licensee. Horseshoe Baltimore will not be part of the REIT, nor will it be directly affected by any of the financing transactions contemplated by CEOC or CEC as part of the Restructuring. CBAC Borrower, LLC has separate financing and is not a guarantor of any obligations of CEC, CEOC, or their affiliates. There will be no change in the direct ownership of CBAC Gaming, LLC. Likewise, the licensee will continue to be managed by Caesars Baltimore Management Company, LLC, which will continue to be indirectly wholly owned by CEOC. In short, the Transaction will result in the ownership structure contemplated by this Commission when it approved the earlier restructuring transaction in 2013.

Findings

Based on our investigation, MLGCA staff has determined that this proposed merger meets and is consistent with the Gaming Law. Therefore, MLGCA staff recommends MLGCC approval of the proposed merger with the following conditions:

1. Notification to the Commission's Staff that all remaining conditions to the effectiveness of the Transaction have been satisfied or waived; and

2. All officers and directors of CEC shall maintain or obtain any licenses required by or waivers permitted by the gaming law and the Commission's regulations.