CAESARS ENTERTAINMENT OPERATING COMPANY, INC.

FORM 8-K
(Current report filing)

Filed 01/30/15 for the Period Ending 01/29/15

Address	ONE CAESARS PALACE DRIVE LAS VEGAS, NV 89109
Telephone	702-407-6269
CIK	0000858395
SIC Code	7011 - Hotels and Motels
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

January 30, 2015 (January 29, 2015)
Date of Report (Date of earliest event reported)

Caesars Entertainment Operating Company, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-10413	75-1941623
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification Number)

One Caesars Palace Drive
Las Vegas, Nevada 89109
(Address of principal executive offices) (Zip Code)

(702) 407-6000
(Registrant's telephone number, including area code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01 Regulation FD Disclosure.

On January 30, 2015, Caesars Entertainment Corporation (" CEC ") and Caesars Entertainment Operating Company, Inc., a majority owned subsidiary of CEC (" CEOC "), announced that while they have been engaged in confidential discussions with certain beneficial holders (the " Bank Lenders ") of first lien debt (the " Bank Debt ") incurred by CEOC pursuant to that certain Third Amended and Restated Credit Agreement (the " Credit Agreement "), dated as of July 25, 2014, by and among CEC, CEOC, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch, as administrative agent, they have not at this time been able to reach an agreement with the Bank Lenders regarding the Restructuring (as defined in the Third Amended and Restated Restructuring Support and Forbearance Agreement among CEC, CEOC and certain holders of claims in respect of CEOC's 11.25% senior secured notes due 2017, CEOC's 8.5% senior secured notes due 2020 and CEOC's 9% senior secured notes due 2020 (the " RSA ")). In connection with the discussions, CEC and CEOC provided certain confidential information to the Bank Lenders pursuant to non-disclosure agreements (" NDAs ") between CEC, CEOC and the Bank Lenders. The Bank Lenders' NDAs with CEC and CEOC have now expired pursuant to their terms. CEOC is making the disclosures herein in accordance with the terms of the Bank Lenders' NDAs. All capitalized terms used, but not defined herein, shall have the meanings ascribed to such terms in the RSA.

On January 29, 2015, a meeting occurred among CEC, CEOC and the Bank Lenders, together with each of their respective legal and financial advisors. CEC and CEOC provided the information included in Exhibit 99.1 hereto (the " Discussion Materials ") to the Bank Lenders and their advisors which, in addition to conveying CEC's and CEOC's views, also described some, but not all, of the terms contained in a proposal previously provided by the Bank Lenders to CEC and CEOC. Specifically, the Bank Lenders had included a larger convertible note than that described in the Discussion Materials. During the January 29, 2015 meeting, it was clarified that OpCo would use cash from operations to first pay interest due on the New First Lien OpCo Debt and New Second Lien OpCo Debt and then to pay the obligations due under the Leases, including, without limitation, on account of rent and capital expenditures. In addition to the Discussion Materials, in the meeting with the Bank Lenders, CEC proposed, in response to issues raised by the Bank Lenders and in order to try to reach a consensual agreement with the Bank Lenders (1) to amend the existing guarantee with respect to the amounts outstanding under the Credit Agreement (the " CEC Credit Agreement Guarantee ") to guarantee (a) the New First Lien OpCo Debt and New Second Lien OpCo Debt to be received by the Bank Lenders in the Restructuring and (b) the CPLV Mezzanine Debt, if any, to be received by the Bank Lenders and (2) an additional payment of $39 million by CEC (inclusive of any additional monthly adequate protection payments for a total payment of $300 million over twelve months) to the Bank Lenders to settle any possible claims under the CEC Credit Agreement Guarantee. In response, the Bank Lenders proposed that (x) the guarantee described in (1) above be a payment guarantee secured by all assets of the parent guarantor, (y) the Bank Lenders receive their full non-default contractual rate of interest (as opposed to their earlier request for default rate of interest) for the full post-petition period from CEC (less the monthly adequate protection payments at a rate equal to 1.5% per annum to be made to the Bank Lenders pursuant to the terms of CEOC's cash collateral order) with an upfront payment by CEC for forbearance from the exercise of certain rights and remedies equal to the amount of interest due for one quarter, and (z) CEC make an additional payment of $294 million to the Bank Lenders at Exit to the extent that CEOC was otherwise unable to syndicate the New First Lien PropCo Debt in the market. The Bank Lenders' proposals were not acceptable.

Any financial projections or forecasts included in the Discussion Materials (the " projections ") were not prepared with a view toward public disclosure or compliance with the published guidelines of the Securities and Exchange Commission or the guidelines established by the American Institute of Certified Public Accountants regarding projections or forecasts. The projections do not purport to present CEC and CEOC's financial condition in accordance with accounting principles generally accepted in the United States. CEC and CEOC's independent accountants have not examined, compiled or otherwise applied procedures to the projections and, accordingly, do not express an opinion or any other form of assurance with respect to the projections. The inclusion of the projections herein should not be regarded as an indication that CEC, CEOC or their affiliates or representatives consider the projections to be a reliable prediction of future events, and the projections should not be relied upon as such. Neither CEC, CEOC nor any of their affiliates or representatives has made or makes any representation to any person regarding the ultimate outcome of CEOC's restructuring compared to the projections, and none of them undertakes any obligation to publicly update the projections to reflect circumstances existing after the date when the projections were made or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying the projections are shown to be in error.

The information set forth in this Item 7.01 of this Current Report on Form 8-K is being furnished pursuant to Item 7.01 of Form 8-K and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference into any of CEOC's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and regardless of any general incorporation language in such filings, except to the extent expressly set forth by specific reference in such a filing. The filing of this Item 7.01 of this Current Report on Form 8-K shall not be deemed an admission as to the materiality of any information herein that is required to be disclosed solely by reason of Regulation FD.

Cautionary Note Regarding Forward-Looking Statements

Certain statements and information included in the Discussion Materials may constitute "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements contain words such as "may," "will," "project," "might," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," "continue," "pursue," or the negative or other variations thereof or comparable terminology. In particular, they include statements relating to future actions, new projects, strategies, future performance, the outcomes of contingencies, a potential restructuring of CEOC's debt and future financial results of CEC and CEOC. These forward-looking statements are based on current expectations and projections about future events. Readers are cautioned that forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that cannot be predicted or quantified, and, consequently, the actual performance of CEC and CEOC may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, factors described from time to time in CEC and CEOC's reports filed with the Securities and Exchange Commission (including the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained therein).

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits. The following exhibit is being furnished herewith:

Exhibit No.	Description
99.1	Discussion Materials provided in connection with discussions with Bank Lenders.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CAESARS ENTERTAINMENT OPERATING COMPANY, INC.

Date: January 30, 2015

By: /s/ SCOTT E. WIEGAND
Name: Scott E. Wiegand
Title: Senior Vice President, Deputy General Counsel and Corporate Secretary

EXHIBIT INDEX

Exhibit No.	Description
99.1	Discussion Materials provided in connection with discussions with Bank Lenders.

Response To Banks

January 2015

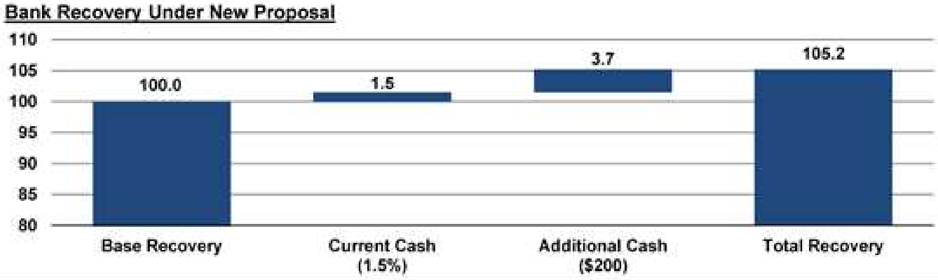
Issues Overview

Privileged & Confidential

Subject to FRE 408 – For Settlement Purposes Only

Issue	Bank Position	Response	Explanation
Post-petition interest	- Want full interest	- Willing to increase to 1.5%+$200mm, inclusive of cash sweep	- This bridges 81% of the bank's ask through confirmation date (270 days) ($260 vs $323mm cash) - $75mm paid upfront by CEC for forbearance
CEC Convert **Strike** **Maturity** **Rate**	- $290mm to banks - $12.50 - 7 Years - 5% cash or PIK	- Addressed above	- We view this as an economic ask, not a credit ask - Bank prior proposal indicates that cost to CEC is greater than credit given by bank lenders - CEC willing to replace with additional cash economics (see above) - CEC has already agreed to contribute $1.5bn cash + additional $200 for $1.7bn total
Lease terms	- Fixed for 15 year initial term	- Discuss	- We would like to discuss your concerns around the PropCo securities you will receive - Bank's PropCo 1L is levered 5.0x and financed 29% LTV - 1L bonds, which are financing junior debt and equity, bear the risk of volatility in PropCo and were thus the focus of our negotiations - Changes to this feature are very costly to CEC - We would prefer to understand in granularity the bank's concerns and try to solve them in a more efficient manner for all
Interest rates	- OpCo 1L up 100 bps - PropCo 1L up 100 bps	- No change	- We cannot put the benefit of the deal with 1L bonds in jeopardy - The deal with 1L bonds provides great value to the banks - Any increase in rates will: 1) Require the bonds approval 2) Dillute the value of the equity the bonds are receiving 3) Indirectly reduce the attractiveness of the deal to the non-1Ls, which we understand is a concern of your group - This change cannot be made

Bank Recovery Under New Proposal



Deal Misconceptions By Banks

Bank's Position	Comment
RSA is bound to fail anyway	• Current restructuring template provides substantial value to bank debt – Absent RSA and CEC contributions to this deal structure, treatment for banks would likely be worse. Degradation in treatment would undoubtedly trump whatever upside of continued fighting would bring given current offer • RSA wouldn't fail with bank support – With bank support, transaction will have substantial momentum and likelihood of success
Milestones are too aggressive (or not aggressive enough?)	• For the interest argument, we've heard the milestones are not aggressive enough • For the 'RSA is bound to fail anyway' argument we've heard they are too aggressive
We want a deal with the seconds	• So do CEOC and CEC • Hard to not deal with this sequentially • We have been having discussions and we believe we can address their issues
We are covered because we have a guarantee	• Present versus future value • Determination of size of guarantee liability • Form of consideration

We submit that bank lenders would receive a higher recovery via a consensual deal than a long, drawn out non-consensual deal

$200mm Additional Payment Bridges Most of the Bank's Request

	Disclosure Statement (150 days)	Confirmation (270 days)	
Total Bank debt face value	$5,405	$5,405	
Current bank interest	$182	$323	
Current A/P proposal (1.5%)	$34	$61	
Proposed additional payment from CEC	$200	$200	($75 million paid upfront by CEC for forbearance)
Total offer	$234	$261	
Offer as % of bank ask	128.5%	80.7%	

An additional $200mm payment bridges most of the bank ask, and banks would be <u>no worse off</u> than status quo as the additional payment is conditioned on a confirmed plan.

CEC Cash Contribution

CEC minimum cash contribution[1]	**$1,375**
Plus: additional potential cash contribution *(if not enough cash at emergence)*	**$75**
Current CEC cash contribution	**$1,450**
Plus: additional cash to banks	**$200**
Revised CEC contribution	**$1,650**

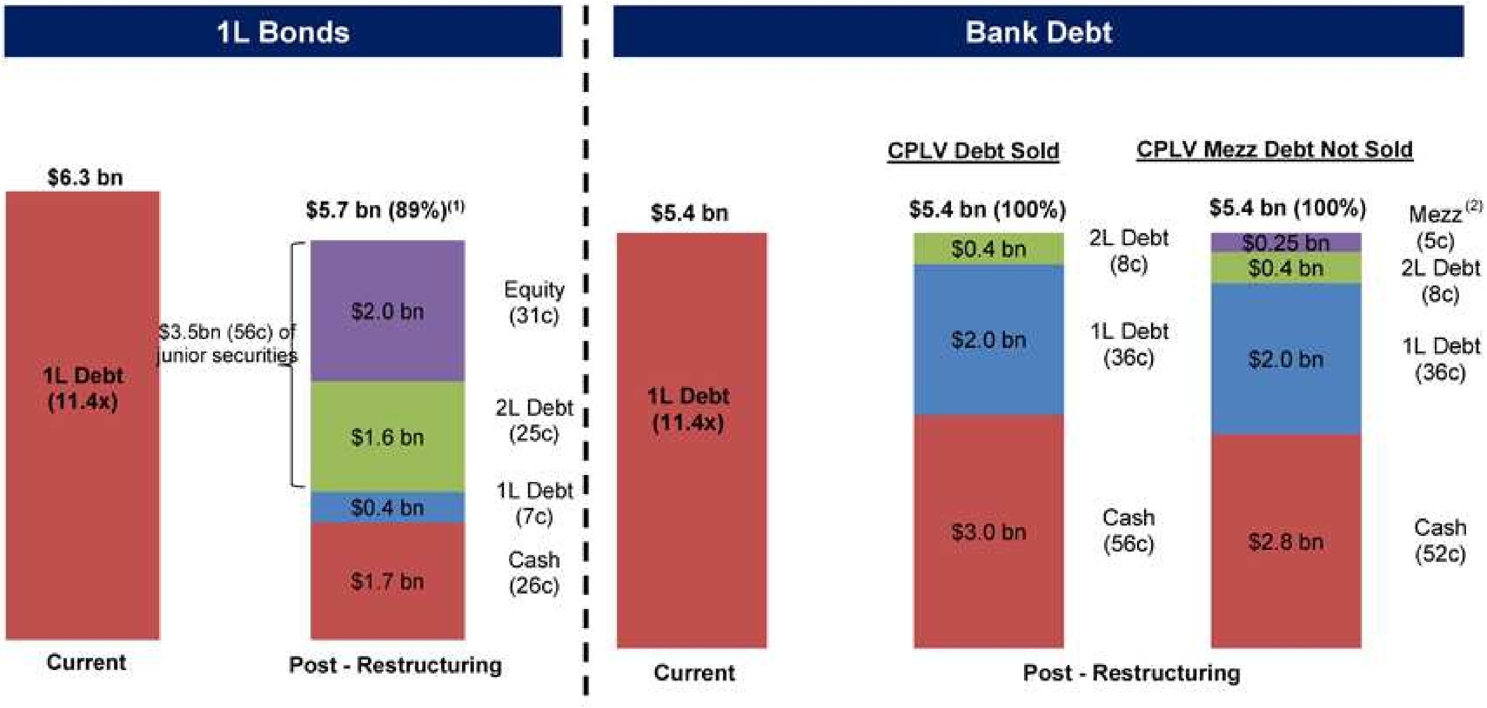
(1) Includes CEC cash to CEOC balance sheet as well as CEC cash to buy equity from/provide liquidity to creditors

This deal substantially improves bank credit quality

- Bank and bonds (pari passu) are currently levered 11.4x
- Proposed transaction de-levers banks to 4.5x OpCo, 5.0x PropCo 1L, and 6.3x Total. This is done through:
  - $1.5bn cash from CEC to support restructuring
  - Tranching of bank and bond obligations in new capital structure
  - CEC guarantee of lease to backstop value and credit quality
- In total, banks receive $705mm of cash and $4.7bn of new debt
  - Of the $4.7bn of debt, $2.3bn is expected to be sold to market
  - Results in 56% cash and 44% debt recovery (best case) / 35% cash and 65% debt (worst case)

Bank Recovery vs 1L Bond Recovery

Privileged & Confidential
Subject to FRE 408 – For Settlement Purposes Only



In addition to a better overall recovery, bank lenders are getting significantly more cash and senior securities than 1L bondholders.

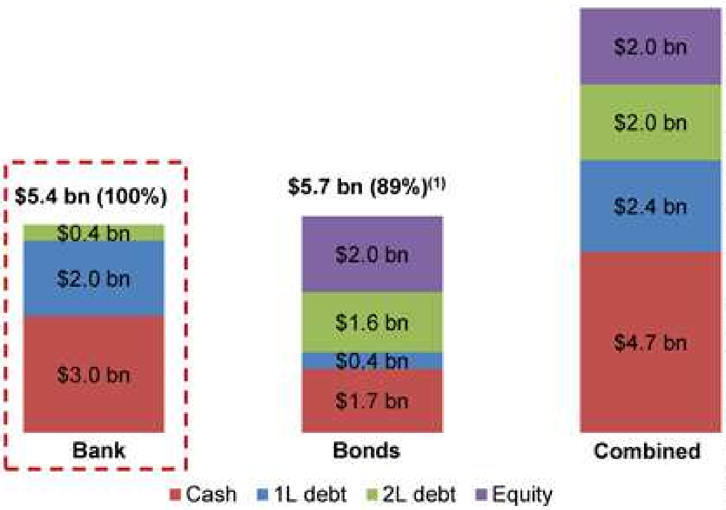
(1) Excludes $206mm forbearance fee or ~3% recovery
(2) Bank can move up to $100mm to any other debt security

Current Proposal vs Pro-rata

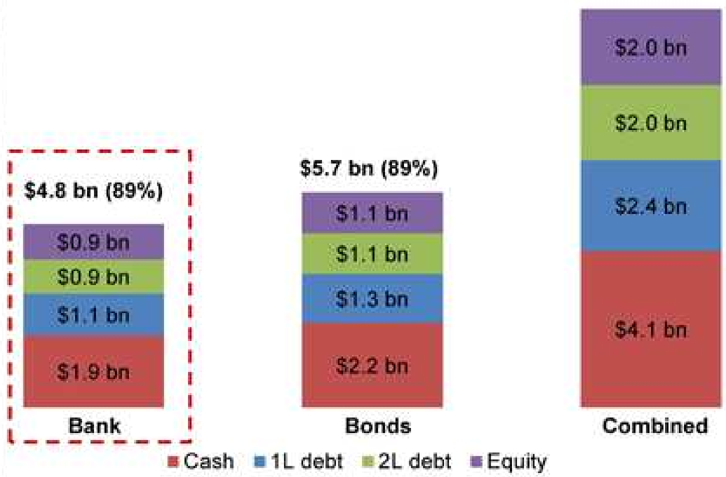
Privileged & Confidential

Subject to FRE 408 – For Settlement Purposes Only

Current Proposal



Same Treatment (Pro-Rata)



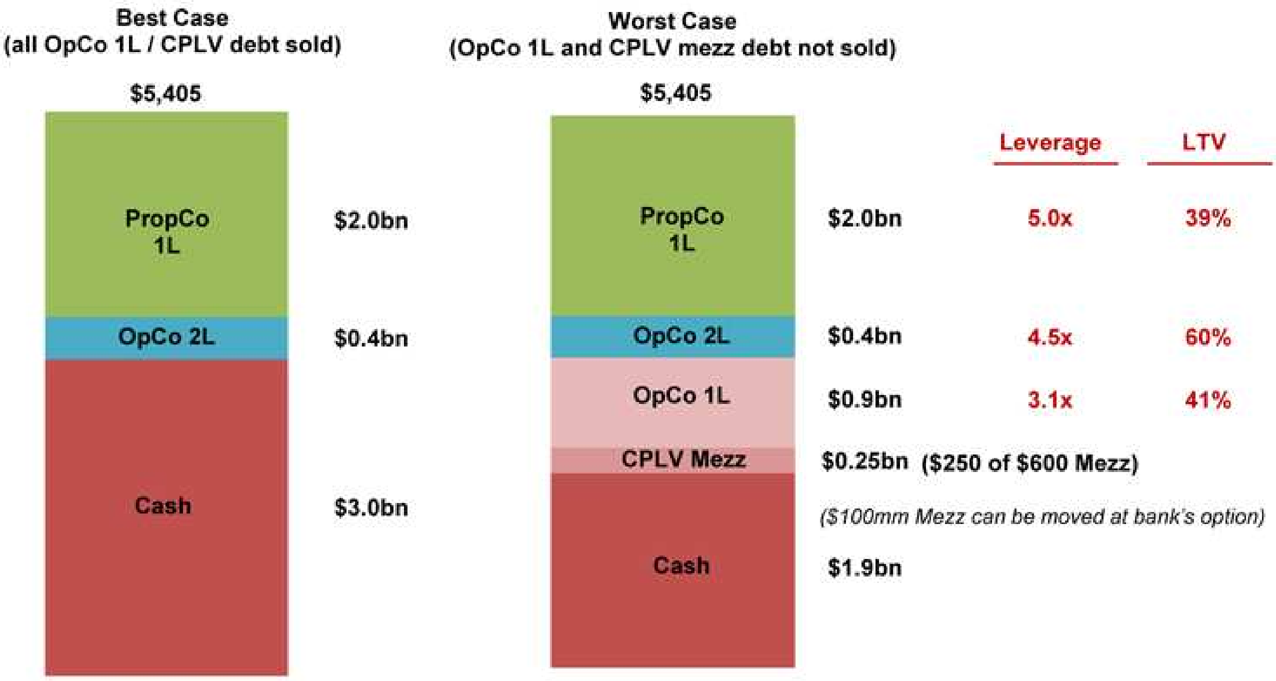
In a non-consensual deal, the bank and 1L bonds would be treated the same.

Difference to Banks

	$	% Recovery
Cash	($1,152)	($21.3%)
1L Debt	($861)	($15.9%)
2L Debt	$501	9.3%
Equity	$917	17.0%
Total	($595)	($11.0%)

(1) Excludes $206mm forbearance fee

Bank Recovery Detail



Banks will receive at least $1.9bn (35%) and as much as $3.0bn (56%) in cash recovery. Additionally, the new debt securities banks receive will have a substantially lower leverage than the current 11.4x.

Bank Recovery: Illustrative Debt Price Sensitivities

Privileged & Confidential

Subject to FRE 408 – For Settlement Purposes Only

Sensivities: Change in Bank Recovery (%)

	PropCo 1L Debt Price					
	100	**99**	**98**	**97**	**96**	**95**
% Change in Rec.	-	(0.4%)	(0.7%)	(1.1%)	(1.5%)	(1.8%)
Implied Leverage	*5.0x*	*5.0x*	*4.9x*	*4.9x*	*4.8x*	*4.8x*

	OpCo 2L Debt Price										
	100	**99**	**98**	**97**	**96**	**95**	**94**	**93**	**92**	**91**	**90**
% Change in Rec.	-	(0.1%)	(0.2%)	(0.2%)	(0.3%)	(0.4%)	(0.5%)	(0.5%)	(0.6%)	(0.7%)	(0.8%)
Implied Leverage	*4.5x*	*4.4x*	*4.4x*	*4.4x*	*4.4x*	*4.4x*	*4.4x*	*4.4x*	*4.3x*	*4.3x*	*4.3x*

	CPLV Mezz Price										
	100	**99**	**98**	**97**	**96**	**95**	**94**	**93**	**92**	**91**	**90**
% Change in Rec.	-	(0.0%)	(0.1%)	(0.1%)	(0.2%)	(0.2%)	(0.3%)	(0.3%)	(0.4%)	(0.4%)	(0.5%)

The trading price of the new debt has little impact on overall recoveries given the large cash recovery bank lenders are receiving

Lease Structure Should Not Be A Concern To Banks

- Volatility risk at PropCo matters more for equity than debt
  - PropCo 1L debt balance represents 29% PropCo LTV at plan value
  - As a result, we believed it was appropriate that the lease terms were negotiated with the holders of the PropCo equity, and any benefits would accrue to the debt
- Although we recognize that the lease guarantee and terms are important points to the overall deal, we believe the importance of these points to the bank debt should be minimal
  - Completely fixed lease amount for 3 years and ~80% fixed through year 5
  - Minor annual resets thereafter
- Given that changes to the lease have significant costs to OpCo and we believe that they do not materially impact the economics of the bank debt recovery, <u>we have instead focused on delivering additional economics through an additional payment</u>

PF Capital Structure	OpCo					PropCo				
	Bank	Bonds	Market	Total	*Leverage*	Bank	Bonds	Market	Total	*Leverage*
First lien debt	–	–	1,188	1,188	*3.1x*	1,961	431	–	2,392	*5.0x*
Second lien debt	406	141	–	547	*4.5x*	–	1,425	–	1,425	*8.0x*
CPLV debt	–	–	–	–	-	–	–	2,350	2,350	*14.7x*
Chester & Other	–	–	–	439	*5.6x*	–	–	–	–	-
Total	406	141	1,188	2,174	*5.6x*	1,961	1,856	2,350	6,167	*9.7x*
Preferred	–	–	–	–		–	300	–	300	
Equity	–	700	–	700		–	1,771	–	1,771	
Implied TEV	406	841	1,188	2,874		1,961	3,927	2,350	8,237	

Transaction dynamics with non-1L

- We are strongly supportive of improved deal dynamics with the non-1L bondholders

- We have had conversations with holders throughout this process and remain hopeful a consensual deal is possible

- More importantly, we believe a deal with the bank debt will have the greatest impact on facilitating a deal with the non-1Ls