

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF ILLINOIS  
EASTERN DIVISION**

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In re:	) Chapter 11
	)
	) Case No. 15-01145 (ABG)
CAESARS ENTERTAINMENT	) (Jointly Administered)
OPERATING COMPANY, INC., <u>et al.</u> , <sup>1</sup>	)
	) Hon. A. Benjamin Goldgar
Debtors.	)
	) <b>Hearing Date: March 4, 2015</b>
	) <b>Hearing Time: 1:30 p.m.</b>

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**LIMITED OBJECTION OF 10.75% NOTES TRUSTEE TO  
THE DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS  
(I) AUTHORIZING THE DEBTORS TO (A) CONTINUE USING THEIR CASH  
MANAGEMENT SYSTEM, (B) MAINTAIN THEIR EXISTING BANK ACCOUNTS  
AND BUSINESS FORMS, AND (C) CONTINUE INTERCOMPANY  
TRANSACTIONS, AND (II) GRANTING RELATED RELIEF**

Wilmington Trust, National Association, as Successor Indenture Trustee (the "10.75% Notes Trustee") for the 10.75% Senior Unsecured Notes (the "10.75% Notes") issued by Caesars Entertainment Operating Company, Inc. ("CEOC," and, together with the other chapter 11 debtors, the "Debtors," and, together with their non-Debtor affiliates, the "Caesars Entities"), and guaranteed by certain wholly-owned domestic subsidiaries of CEOC, under that certain indenture dated February 1, 2008, by and through its undersigned counsel, hereby files this limited objection (the "Limited Objection") to the *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue Using Their Cash Management System, (B) Maintain Their Existing Bank Accounts and Business Forms, and (C) Continue Intercompany*

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<sup>1</sup> The last four digits of Caesars Entertainment Operating Company, Inc.'s tax identification number are 1623. Due to the large number of Debtors in these chapter 11 cases, for which the Debtors have requested joint administration, a complete list of the Debtors and the last four digits of their federal tax identification numbers is not provided herein. A complete list of such information may be obtained on the website of the Debtors' proposed claims and noticing agent at <https://cases.primeclerk.com/CEOC>.

*Transactions, and (II) Granting Related Relief* [Dkt. No. 8] (the “Cash Management Motion”).<sup>2</sup>

In support of the Limited Objection, the 10.75% Notes Trustee respectfully represents as follows:

### **LIMITED OBJECTION**

1. The 10.75% Notes Trustee is the successor indenture trustee for the 10.75% Notes and is the co-chair of the Official Committee of Unsecured Creditors (the “Unsecured Committee”). The 10.75% Notes Trustee hereby joins in the Unsecured Committee’s reservation with respect to the Cash Management Motion. The 10.75% Notes Trustee submits this Limited Objection with respect to issues of particular importance to the subsidiaries of CEOC that are guarantors of CEOC’s obligations with respect to the 10.75% Notes (the “Subsidiary Guarantors”).

2. The 10.75% Notes are guaranteed by at least 135 Subsidiary Guarantors and claims under those notes comprise the only class of funded debt with direct prepetition general unsecured claims against those estates. The 10.75% Notes Trustee appreciates that, by the Cash Management Motion, the 172 Debtors other than CEOC (the “Subsidiary Debtors”) disclaim any intent to modify substantive economic rights and seek only to facilitate the continued operation of their businesses in chapter 11. For this reason, the 10.75% Notes Trustee does not contest the fundamental relief requested in the Cash Management Motion. Nonetheless the 10.75% Notes Trustee does object to the Cash Management Motion absent certain modifications to the

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<sup>2</sup> All capitalized terms used but not defined in this Limited Objection shall have the meanings ascribed to them in the *Debtors’ Motion For Entry of Interim and Final Orders (I) Authorizing Use of Cash Collateral, (II) Granting Adequate Protection, (III) Modifying the Automatic Stay to Permit Implementation, (IV) Scheduling a Final Hearing, and (V) Granting Related Relief* [Dkt. No. 22] (the “Cash Collateral Motion”), the *Memorandum in Support of Chapter 11 Petitions* [Dkt. No. 4], and the *Declaration of Randall S. Eisenberg, Chief Restructuring Officer of Caesars Entertainment Operating Company, Inc., In Support of First Day Pleadings* [Dkt. No. 6] (the “Eisenberg Declaration”), as applicable.

proposed order which are necessary to preserve the substantive rights of the Subsidiary Guarantors and their creditors.

3. As discussed in greater detail in the 10.75% Notes Trustee's objection to the Debtors' Cash Collateral Motion,<sup>3</sup> the Subsidiary Guarantors held significant amounts of unencumbered cash at the Petition Date and are expected to generate substantially more postpetition. By the Cash Management Motion, the Subsidiary Guarantors seek authority to make weekly transfers of all such cash from their accounts to CEOC concentration accounts.<sup>4</sup> In exchange for these transfers, the Cash Management Motion contemplates that the transferor Subsidiary Guarantors will obtain an administrative expense claim against the transferee Debtor. Under that structure, material amounts of unencumbered cash available to pay unsecured prepetition claims may be transferred to other Debtors solely in exchange for administrative expense claims.

4. Unless modified, this aspect of the requested relief presents two potential problems with respect to the Subsidiary Guarantors. First, the administrative priority expense claims of the Subsidiary Guarantors would, by definition, be junior to secured and superpriority administrative expense claims at the transferee Debtor. The Debtors have made no showing, however, with respect to the ability of any Debtor to satisfy administrative expense claims, particularly at CEOC which has approximately \$17 billion in prepetition secured claims. The

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<sup>3</sup> See *Objection Of 10.75% Notes Trustee To The Debtors' Motion For Entry Of Interim And Final Orders (I) Authorizing Use Of Cash Collateral, (II) Granting Adequate Protection, (III) Modifying The Automatic Stay To Permit Implementation, (IV) Scheduling A Final Hearing, And (V) Granting Related Relief*, filed contemporaneously herewith.

<sup>4</sup> Based upon representations in the Cash Management Motion, the 10.75% Notes Trustee understands that cash held in the Debtors' Casino Cages is not moved from the Casino Cages in the Debtors' ordinary course operations or as part of the Cash Management Systems. Cash Management Mot. ¶ 14; Exhibit 1 to Proposed Final Order (excluding "Casino cage cash" from the flow of funds). The Debtors have admitted that this cash is unencumbered. See Eisenberg Decl. ¶ 81. To the extent that any actions are taken by any party in interest to encumber such cash, the 10.75% Notes Trustee reserves all of its rights.

possibility that CEOC may be or become administratively insolvent is particularly troubling to unsecured creditors of the Subsidiary Guarantors, given that any cash swept to CEOC may ultimately reside in pledged concentration accounts and be deemed cash collateral of the Prepetition Secured Creditors. Under such circumstances, any administrative priority expense claim obtained by a Subsidiary Guarantor might fail to protect sufficiently its substantive economic interests.

5. Second, whether or not administrative expense claims are “money good” at any particular estate, the Prepetition Secured Creditors could ultimately seek to exercise rights and remedies against cash which, but for the sweeps, would reside in unpledged accounts at the Subsidiary Debtors. In effect, the cash sweeps would increase secured recoveries of CEOC’s creditors at the expense of unsecured recoveries at the Subsidiary Debtors.

6. In order to remedy these two potential substantive effects of the cash management procedures, any order granting the Cash Management Motion should be modified as follows: First, the Court should order that any postpetition intercompany claims arising from cash transfers shall have superpriority administrative expense status under sections 507(b) and 364(c)(1) of the Bankruptcy Code<sup>5</sup> that is senior to any potential superpriority administrative expense claim that may be asserted by any prepetition creditor. Second, the Court should include the following language to prevent value shifts to CEOC’s creditors:

Nothing in this Order shall be construed to create or perfect in favor of any person or entity any interest in cash of a Debtor that did not exist as of the Petition Date. Notwithstanding anything to

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<sup>5</sup> Bankruptcy courts have routinely granted superpriority administrative expense status to authorized postpetition intercompany claims. See, e.g., In re Edison Mission Energy, Case No. 12-49219 (Bankr. N.D. Ill. May 15, 2013) [Dkt. No. 768]; In re Genco Shipping & Trading Ltd., Case No. 14-11108 (Bankr. S.D.N.Y. July 3, 2014) [Dkt. No. 326]; In re MPM Silicones, LLC, Case No. 14-22503 (Bankr. S.D.N.Y. May 16, 2014) [Dkt. No. 222]; In re Cengage Learning, Inc., Case No. 13-44106 (Bankr. E.D.N.Y. Aug. 20, 2013) [Dkt. No. 304]; In re MF Global Holdings Ltd., Case No. 11-15059 (MG) (Bankr. S.D.N.Y. Dec. 14, 2011) [Dkt. No. 276].

the contrary in this or any other order of the Court, including the Cash Collateral Order, the Prepetition Secured Creditors shall not enforce their rights or remedies under the Cash Collateral Order, the prepetition documents or applicable law in respect of any cash of any Debtor absent agreement among all affected parties in interest, or a determination by the Court, as to the extent cash constitutes the Prepetition Secured Creditors' cash collateral.

**RESERVATION OF RIGHTS**

7. The 10.75% Notes Trustee expressly reserves its rights to raise additional objections at any hearing on the Cash Management Motion, or to supplement and amend this Limited Objection as may be appropriate upon the completion of discovery.

**CONCLUSION**

WHEREFORE, the 10.75% Notes Trustee respectfully requests entry of an order consistent with this Limited Objection.

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