

From: Nicholas Ribis <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
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Caesars Bondholders Ready Lawsuit, Citing Examiner's Report

Proposed legal claims could be worth more than \$12 billion, court papers say

By JACQUELINE PALANK

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Pointing to billions of dollars' worth of potential legal claims Caesars Entertainment Corp.'s bankrupt operating unit allegedly won't pursue, a group of bondholders wants to take matters into their own hands.

The bondholder group on Friday filed papers asking a Chicago bankruptcy judge for the right to sue Caesars Entertainment and its private-equity backers, Apollo Global Management and TPG, over their alleged looting of the operating unit's most valuable assets before its bankruptcy.

The proposed legal claims that the bondholders want to bring against Caesars Entertainment, its backers and other defendants could be worth between \$8.1 billion and \$12.6 billion, court papers say, which could more than double the \$5.1 billion in potential legal claims identified by a bankruptcy-court-appointed examiner in a probe into a controversial series of deals involving the Caesars unit.

"The debtors, who remain under the control of many of the same individuals who have been identified by the examiner as wrongdoers and potential defendants, have taken no action to pursue claims against any of those entities," said the official committee of second-lien bondholders, which represents a group owed more than \$5 billion.

"In these circumstances, the debtors cannot be faithful stewards" of these claims, the

bondholders added.

The Caesars unit's bankruptcy lawyers didn't respond to a request for comment Monday. Representatives of Caesars Entertainment, Apollo and TPG declined to comment.

In March, a bankruptcy court-appointed investigator concluded that a series of asset transfers and financing deals in the months leading up to Caesars Entertainment Operating Co.'s January 2015 chapter 11 filing were done for the benefit of the parent and its owners at the expense of its CEOC unit and the unit's creditors.

Caesars Entertainment, Apollo and TPG generally disputed the investigator's conclusions and defended their conduct as appropriate and necessary to shore up the troubled operating unit. The parent company isn't in bankruptcy.

But the controversial deals have blocked CEOC from securing broad creditor support for a plan to restructure a debt load of some \$18 billion. Junior creditors, including the bondholders now seeking to sue, have objected to CEOC's granting of liability releases to those involved in the deals.

CEOC tapped a retired federal judge to broker mediation with its warring creditors in a bid to move forward with its restructuring, including a settlement of potential lawsuits, although the bondholders' request to pursue the litigation themselves doesn't bode well for those efforts. The claims the bondholders want to pursue, outlined in a proposed lawsuit that tops 200 pages, include breach of fiduciary duty and aiding and abetting breach of fiduciary duty. The suit also would seek to recover the "valuable assets" the bondholders say were "wrongly taken" from CEOC. It would further ask two law firms to return the fees they collected from their work for CEOC.

Paul, Weiss, Rifkind, Wharton & Garrison represented CEOC in the asset transfers, when it also represented the Caesars parents or affiliates and counted Apollo as a client. The court-appointed investigator said although the law firm "should have recognized" the conflict of interest in representing two companies on opposite sides of a deal, no evidence indicates that

its lawyers intentionally sought to hurt CEOC or its creditors.

The bondholders, however, say Paul Weiss should return the “tens of millions of dollars” in fees it received in light of the “profound” nature of its conflict of interest. They also are seeking the return of more than \$1 million in fees collected by another CEOC law firm, Friedman Kaplan Seiler & Adelman, for the “obvious conflict” in its work representing both Caesars and CEOC in a lawsuit in which CEOC asked a court to declare that Caesars wasn’t liable for the asset transfers.

A Friedman Kaplan representative didn’t respond to requests for comments, while a Paul Weiss spokeswoman said the firm “at all times worked in good faith and in full compliance with its professional responsibilities to advance the interests of the Caesars companies.”

Because the bondholders are seeking to step into CEOC’s shoes to pursue the litigation on its behalf, they first must win the green light from a judge. Judge A. Benjamin Goldgar of the U.S. Bankruptcy Court in Chicago is expected to hold a June 22 hearing on the request.