

**DECISION OF THE
EXTERNAL REVIEW PANEL OF THE
DETERMINATIONS COMMITTEE
OF THE
INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION, INC.
DC ISSUES: 2014-121901 and 2014-122202**

The External Review Panel of the Determinations Committee of the International Swaps and Derivatives Association, Inc. considered the question (the “Reviewable Question”) presented to it on Thursday, January 22, 2015:

“Has a Failure to Pay Credit Event occurred with respect to Caesars Entertainment Operating Company, Inc.?”

Facts and Assumptions

The Reviewable Question relates to payments due on December 15, 2014, in relation to the 10% Second-Priority Senior Secured Notes due 2015 and 10% Second-Priority Senior Secured Notes due 2018 (together, the “Notes” and sometimes also referred to as the “Obligations”) of Caesars Entertainment Operating Company, Inc. (“CEOC” and sometimes also referred to as the “Reference Entity”).

The Notes were issued under an Indenture, dated as of December 24, 2008 (the “Indenture”). Under the Notes’ terms, beginning after the fifth anniversary of the Notes’ issuance, CEOC was obligated to redeem for cash a portion of the outstanding Notes necessary to prevent them from being treated as “applicable high yield discount obligations” under U.S. tax law, in addition to making the Notes’ semi-annual interest payments. Accordingly, on December 15, 2014, CEOC was obligated to (i) make a mandatory principal redemption of \$17,631,000, plus accrued interest, totaling \$18,513,390, and (ii) pay interest on the Notes equal to \$41,271,000. On December 12, 2014, CEOC deposited \$18,513,390 with the paying agent under the Indenture (the “Paying Agent”) and directed the Paying Agent to apply the deposited funds on December 15 to the principal redemption payment. CEOC did not deposit any other funds with the Paying Agent in connection with its December 15 payment obligations. We have been directed not to consider whether an Event of Default on the Notes existed on or prior to December 15 in relation to payments owed on October 15 or otherwise other than any arising solely from the facts set forth above.

Capitalized terms used in this decision, unless otherwise defined in it, shall have the respective meanings as set forth in the 2003 ISDA Credit Derivatives Definitions and 2014 ISDA Credit Derivatives Definitions.

Determination

In considering the Reviewable Question, the External Review Panel reviewed Publicly Available Information, including briefs and supplemental materials presented to it by the “Yes” and “No” advocates. These materials are also available on ISDA’s website under the “Determinations Committee and Credit Events” link on the home page. The External Review Panel appreciates the assistance provided by both the “Yes” and “No” advocates in presenting their positions and in providing the Publicly Available Information.

On the basis of our review, the arguments made to us by counsel, the responses to the questions that we put to them and our understanding of applicable law, the External Review Panel has concluded unanimously that “No” is the better answer to the Reviewable Question. We do so principally for the following reasons:

1. The Yes advocates’ reliance on Section 4.01 of the Indenture to eliminate an otherwise applicable Grace Period for the interest payments due from the Reference Entity on December 15, 2014, is misplaced. Section 4.01 was not intended to be an “application of proceeds” provision, neither was it intended to define “principal” for purposes of whether an Event of Default (as defined in the Indenture) had occurred.
2. The language in Section 4.01 is general, and the particular sentence in it that gives rise to this dispute is poorly drafted. However, other provisions of the Indenture deal with redemption procedures, grace periods and application of proceeds clearly and in an unqualified way; there is no reference or deference in these to Section 4.01.
3. The Notes and the Indenture also contemplate a measure of issuer discretion in matters relating to payments and redemption prior to an Event of Default; the direction by the Reference Entity in this case, if not expressly contemplated or provided for, is neither expressly prohibited nor precluded by the Indenture’s terms.
4. The situation in the instant case is very different from one that might arise, and the priorities that the Indenture prescribes, after an Event of Default has occurred.
5. Insofar as it may be relevant, we believe that our interpretation of the Indenture comports with both market practice (both as we know it and as reported to us regarding market reaction to the facts in this case) and legal practice relating to the disclosure of material terms of material contracts, and nothing that counsel have shown us, given its proper reading, appears to us to be contradictory or authority for a different view on the facts before us.
6. We have been unable to identify any compelling commercial reason from the point of view of either the Reference Entity or the holders of the Obligations at the time that documentation for the Obligations was agreed that would have justified, let alone compel, the reading that the Yes advocates would ascribe to the Notes and the Indenture. We can, however, contemplate commercial reasons both for the distinction between principal and interest when assessing grace periods in the first instance and for preserving that distinction throughout the term of the Notes even in the absence of scheduled “interest only” payment dates.

The External Review Panel wishes to emphasize that its decision should be limited to DC Issues 2014-121901 and 2014-122202. In light of the applicable deadline in the DC Rules, the External Review Panel is providing this decision today. A more complete analysis consistent with, but providing further reasons in support of, this decision will be forthcoming later this week.

February 9, 2015

Andy Brindle
Jeffrey Golden
Charles Whitehead