Caesars Entertainment Corp

Lone holdout creditor objects to Caesars deal with Goldman

Hedge fund Trilogy wants similar terms to those given to quartet of 'favored noteholders'

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2 HOURS AGO by: **Sujeet Indap** in New York

A small hedge fund holding less than $10m of Caesars Entertainment bonds is pressing claims of wrongdoing by the private equity owners of the US casino group despite other creditor groups agreeing an $18bn debt restructuring (http://next.ft.com/content/00d899a4-84c7-11e6-a29c-6e7d9515ad15).

Trilogy Capital Management, holding $9.4m of unsecured notes, on Monday appealed against a Chicago bankruptcy court's ruling on October 5 that blocked Trilogy from seeking damages resulting from a terminated bond guarantee. That termination was part of an alleged sweetheart bond exchange involving Goldman Sachs and three hedge funds.

Trilogy said its exclusion from the 2014 exchange, which only involved 51 per cent of that class of bonds, violated the Trust Indenture Act of 1939, a Depression-era law that governs out-of-court, pre-bankruptcy debt restructurings.

The reach of that law is now hotly contested. A US appeals court ruling involving the 2012 reorganisation of Education Management Corporation (http://next.ft.com/content/388cb272-58d0-11e6-9f70-badea1b336d4) is expected shortly. That decision is expected to clarify if companies must have unanimous consent among bondholders before payment terms can be revised.

After contentious negotiations with another group of creditors, holders of second lien bonds, Caesars' (https://www.ft.com/topics/organisations/Caesars_Entertainment_Corp) private equity owners Apollo Global and TPG agreed in September to contribute $1bn of their Caesars stock to boost the second lien payout. The restructuring, which included agreements with majorities of each Caesars creditor class, contains a measure preventing litigation against the Caesars parent company.

Bankruptcy judge Benjamin Goldgar agreed to the litigation measure, saying in court two weeks ago that the restructuring agreement was now "eminently confirmable". He is to formally rule on the restructuring at a January confirmation trial. Trilogy's appeal is scheduled for December.

Caesars recently offered to settle with Trilogy, offering 66 cents for each dollar of its claims as well as $5m in legal fees which together represented more than 100 per cent of its claim.

Related article

Caesars agrees debt restructuring deal (http://next.ft.com/content/00d899a4-84c7-11e6-a29c-6e7d9515ad15)

Caesars had already settled with other dissident hedge funds in the same class as Trilogy. The restructuring plan calls for this class to get 66 cents. However, by not agreeing to a settlement, Trilogy's legal fee reimbursement is at risk.

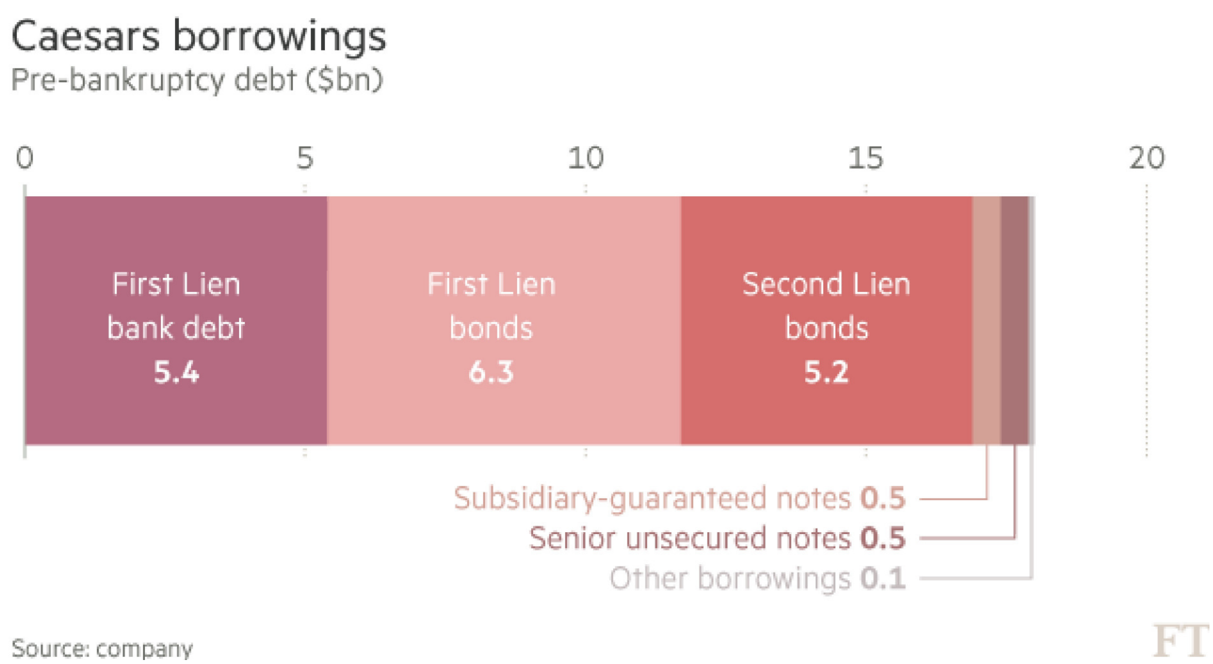
Trilogy wants 90 cents plus expenses connected to its litigation against the

TPG and Apollo surrender $1bn stake in casino group

Caesars parent. Trilogy asserts that Caesars violated the Trust Indenture Act when, in August 2014, the company bought out the unsecured notes held by Goldman and hedge funds Aurelius, BlueCrest and Angelo Gordon for 89 cents on the dollar, a sharp premium to its then trading price.

That quartet, who Trilogy refers to as the "favored noteholders", comprised 51 per cent of the class. In return for participating, this slim majority agreed to amend the bond's legal terms to terminate the parent's guarantee on all the debt in the class.

"The bottom line is Goldman Sachs and the other Favored Noteholders will receive approximately 89 cents on the dollar for their notes (assuming the Debtors' proposed plan is confirmed) plus interest and attorneys' fees, while Trilogy and other disenfranchised noteholders will receive 66 cents on the dollar for the very same investment. Trilogy simply wants its day in court to demonstrate that this transaction was improper," according to a legal filing from the hedge fund.



Since Caesars filed for bankruptcy, the company and the private equity groups have attempted to negotiate a restructuring slashing $10bn of debt in the hope of avoiding court battles over its pre-bankruptcy actions. The company had engaged in dozens of asset sales and financial transactions that multiple creditors believe protected the equity investment of Apollo and TPG to the detriment of loan and bondholders.

An independent report in March concluded that the asset deals could give rise to $5bn worth of damages reaching up to senior Apollo and TPG executives. Separately, allegations of improper financing deals that terminated guarantees of Caesars debt have potential liability of more than 11bn. Judge Goldgar, until the Caesars parent and the private equity firms boosted their overall contribution to the restructuring to nearly $6bn in September, had been willing to let multiple lawsuits proceed.

However, his comments from the bench show little sympathy for Trilogy and he is hesitant to threaten a compromise that has near unanimous support from Caesars stakeholders.

“Now is not the time to risk a turnover,” using a sports metaphor to explain why the injunction would be implemented. He added that most creditors would “salivate” at the settlement terms Trilogy had been offered and “if it’s smart” it would take that deal.

Trilogy maintains that should it win its lawsuit, it would cost Caesars the face value of its $9.4m debt, not $11.4bn, because the other lawsuits depend on a different interpretation of the Trust Indenture Act.
