

BANKRUPTCY

Caesars Bankruptcy Mediator Abruptly Resigns

In letter, Joseph J. Farnan Jr. mentions disagreement with bankruptcy judge's recent criticism



The mediator overseeing the legal disputes among Caesars Entertainment Operating Corp., its lenders and bondholders has resigned. *PHOTO: ZUMA PRESS*

By **LILLIAN RIZZO**

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In a surprising twist to Caesars Entertainment Operating Corp.'s bankruptcy odyssey, the mediator overseeing the legal disputes between the casino company and bondholders has resigned.

"I have truly enjoyed working with the various constituencies involved with the effort of reorganizing the companies," former federal judge Joseph J. Farnan Jr. wrote in a letter filed on Friday. "However, recent events have convinced me that I am unable to continue the mediation process."

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Mr. Farnan and a spokesman for Caesars declined to comment on the matter.

Mr. Farnan in the letter added that his resignation isn't meant "to fault or criticize" anyone involved in the case.

But he drew attention to what he called an "atypical view" of the mediation process in the Caesars case, and his apparent

disappointment that a bankruptcy judge found issue with a recent progress report that the judge said didn't include enough details about the discussions and proposals exchanged during mediation.

"I believe the Court either misspoke or doesn't understand how such disclosures would be viewed by participants and the markets," Mr. Farnan wrote. U.S. Bankruptcy Judge A. Benjamin Goldgar is overseeing the chapter 11 case.

Mr. Farnan, who was once a federal judge in Delaware, has been called upon to mediate some of the nastiest bankruptcy battles in recent years, including the dust-up with Major League Baseball that landed the Los Angeles Dodgers in chapter 11. He also is trying to broker peace now in a fight over \$7.3 billion raised in the bankruptcy of Nortel Networks Corp., an effort that could pay off with a settlement that would end years of court battles.

His resignation comes as a surprise to those in the legal community.

"Farnan is known to be an evenhanded person," said Temple University law professor Jonathan C. Lipson. "I never heard of a mediator resigning due to statements or conduct by the judge in the case."

Benjamin S. Seigel, a lawyer and federal court mediator in California, echoed Mr. Lipson, noting it was unusual to see a mediator "up and quit." However, he said if it came down to revealing anything from the mediation discussions, he'd understand the move.

"One of the basic tenets of mediation is confidentiality," Mr. Seigel said. "It's like Vegas—what you say here stays here."

Mr. Farnan was brought in to help the Caesars unit bring its creditors on board with a plan to restructure some \$18 billion in debt. The goal of the discussions has been to settle legal claims related to accusations that parent company Caesars Entertainment Corp. and its private-equity owners stripped the bankrupt operating unit of its most valuable assets. Caesars and its private-equity owners Apollo Global Management and TPG have denied such allegations.

While Judge Goldgar, of the U.S. Bankruptcy Court in Chicago, has been overseeing the bankruptcy process he isn't involved in the mediation. He has said that while the mediation has allowed others to take over the legal disputes, but if an agreement isn't met he would decide and "someone will be unhappy."

Judge Goldgar's clerk said the judge declined to comment.

The committee that represents the Caesars Entertainment Operating Corp.'s junior bondholders has said its legal claims could be worth as much as \$12.6 billion. The bondholders have opposed Caesars's offer to settle the claims for far less.

A TPG spokesman declined to comment on the resignation of Mr. Farnan, and an Apollo spokesman didn't immediately respond.

The mediation process has been far from simple for Caesars and its lenders and bondholders. While Caesars had been able to secure support with senior lenders and bondholders to cut its \$18 billion debt load by about \$10 billion, it requested a mediator when its junior creditors wouldn't get on board.

This latest turn of events comes after Judge Goldgar said last month that he wouldn't renew the lawsuit shield protecting Caesars Entertainment Operating Corp. from litigation that could have it pay more than \$11 billion in guarantees on its debt.

The operating unit has since appealed the decision, and litigation could now begin at the earliest in October in New York and Delaware. Originally, litigation was slated to begin in late August in New York and early September in Delaware.

However, a person involved in the negotiations, said that "direct discussions among the relevant parties" began about an hour after Judge Goldgar's ruling, and the talks are still ongoing. The person added the groups in negotiations have been steering the discussion, and the mediator hasn't been very involved.

—*Jacqueline Palank contributed to this article.*

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