CAESARS ENTERTAINMENT Corp
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2015
or

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________
Commission File No. 1-10410

CAESARS ENTERTAINMENT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	62-1411755
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Caesars Palace Drive, Las Vegas, Nevada	89109
(Address of principal executive offices)	(Zip Code)

(702) 407-6000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2015
Common stock, $0.01 par value	144,908,313

CAESARS ENTERTAINMENT CORPORATION
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PART I—FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)
(In millions, except par value)

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents ($1,042 and $944 attributable to our VIE)	$ 1,609	$ 2,806
Restricted cash ($4 and $15 attributable to our VIE)	56	76
Receivables, net ($138 and $97 attributable to our VIE)	208	518
Due from affiliates ($39 and $0 attributable to our VIE)	39	—
Deferred income taxes ($5 and $5 attributable to our VIE)	149	5
Prepayments and other current assets ($51 and $27 attributable to our VIE)	144	225
Inventory ($4 and $3 attributable to our VIE)	14	43
Total current assets	2,219	3,673
Property and equipment, net ($2,623 and $2,570 attributable to our VIE)	7,630	13,456
Goodwill ($294 and $291 attributable to our VIE)	1,696	2,366
Intangible assets other than goodwill ($260 and $289 attributable to our VIE)	565	3,150
Restricted cash ($10 and $25 attributable to our VIE)	66	109
Deferred income taxes ($22 and $13 attributable to our VIE)	22	14
Deferred charges and other assets ($257 and $46 attributable to our VIE)	454	563
Total assets	$ 12,652	$ 23,331
Liabilities and Stockholders' Equity/(Deficit)		
Current liabilities		
Accounts payable ($143 and $79 attributable to our VIE)	$ 192	$ 349
Due to affiliates ($17 and $0 attributable to our VIE)	17	—
Accrued expenses and other current liabilities ($263 and $242 attributable to our VIE)	612	1,199
Accrued restructuring and support expenses	1,000	—
Interest payable ($53 and $37 attributable to our VIE)	200	736
Deferred income taxes ($8 and $2 attributable to our VIE)	8	217
Current portion of long-term debt ($70 and $20 attributable to our VIE)	189	15,779
Total current liabilities	2,218	18,280
Long-term debt ($2,273 and $2,292 attributable to our VIE)	6,788	7,230
Deferred income taxes ($7 and $8 attributable to our VIE)	1,208	2,079
Deferred credits and other liabilities ($124 and $124 attributable to our VIE)	179	484
Total liabilities	10,393	28,073
Commitments and contingencies (Note 11)		
Stockholders' equity/(deficit)		
Caesars stockholders' equity/(deficit)	1,052	(4,997)
Noncontrolling interests	1,207	255
Total stockholders' equity/(deficit)	2,259	(4,742)
Total liabilities and stockholders' equity/(deficit)	$ 12,652	$ 23,331

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS) (UNAUDITED)
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Casino	$535	$1,389	$1,738	$4,028
Food and beverage	211	395	639	1,144
Rooms	220	301	663	915
Interactive entertainment	192	162	555	431
Management fees	—	16	2	45
Other	117	183	351	486
Reimbursed management costs	—	61	10	190
Less: casino promotional allowances	(134)	(295)	(423)	(854)
Net revenues	1,141	2,212	3,535	6,385
Operating expenses				
Direct expenses				
Casino	279	834	913	2,413
Food and beverage	102	183	303	516
Rooms	59	82	171	242
Platform fees	54	46	154	122
Property, general, administrative, and other	336	562	982	1,565
Reimbursable management costs	—	61	10	190
Depreciation and amortization	98	165	296	471
Impairment of goodwill	—	289	—	289
Impairment of tangible and other intangible assets	—	210	—	260
Corporate expense	40	74	131	192
Other operating costs (1)	34	34	106	175
Total operating expenses	1,002	2,540	3,066	6,435
Income/(loss) from operations	139	(328)	469	(50)
Interest expense	(147)	(708)	(531)	(1,954)
Deconsolidation and restructuring of CEOC and other	(935)	(66)	6,162	(94)
Income/(loss) from continuing operations, before income taxes	(943)	(1,102)	6,100	(2,098)
Income tax benefit/(provision)	187	170	(1)	480
Income/(loss) from continuing operations, net of income taxes	(756)	(932)	6,099	(1,618)
Discontinued operations				
Loss from discontinued operations	—	(46)	(7)	(189)
Income tax benefit/(provision)	—	(2)	—	11
Loss from discontinued operations, net of income taxes	—	(48)	(7)	(178)
Net income/(loss)	(756)	(980)	6,092	(1,796)
Net (income)/loss attributable to noncontrolling interests	(35)	72	(94)	35
Net income/(loss) attributable to Caesars	$(791)	$(908)	$5,998	$(1,761)
Earnings/(loss) per share - basic and diluted:				
	$(5.44)	$(5.96)	$41.46	$(11.16)

Basic earnings/(loss) per share from continuing operations				
Basic loss per share from discontinued operations	—	(0.33)	(0.04)	(1.25)
Basic earnings/(loss) per share	$(5.44)	$(6.29)	$41.42	$(12.41)
Diluted earnings/(loss) per share from continuing operations	$(5.44)	$(5.96)	$40.92	$(11.16)
Diluted loss per share from discontinued operations	—	(0.33)	(0.04)	(1.25)
Diluted earnings/(loss) per share	$(5.44)	$(6.29)	$40.88	$(12.41)
Weighted-average common shares outstanding - basic	145	144	145	142
Weighted-average common shares outstanding - diluted	145	144	147	142
Comprehensive income/(loss):				
Other comprehensive loss, net of income taxes	$—	$(1)	$—	$(4)
Comprehensive income/(loss)	(756)	(981)	6,092	(1,800)
Comprehensive (income)/loss attributable to noncontrolling interests	(35)	72	(94)	35
Comprehensive income/(loss) attributable to Caesars	$(791)	$(909)	$5,998	$(1,765)

(1) Other operating costs primarily consists of write-downs, reserves and project opening costs, net of recoveries, and acquisition and integration costs.

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
(UNAUDITED)
(In millions)

	Caesars Stockholders' Equity/(Deficit)							
	Common Stock	Treasury Stock	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Caesars Stockholders' Equity/(Deficit)	Noncontrolling Interests	Total Equity/(Deficit)
Balance as of December 31, 2013	$1	$(16)	$7,231	$(10,321)	$(17)	$(3,122)	$1,218	$(1,904)
Net loss	—	—	—	(1,761)	—	(1,761)	(35)	(1,796)
Share-based compensation	—	(3)	31	—	—	28	—	28
Common stock issuances	1	—	136	—	—	137	—	137
Other comprehensive loss, net of tax	—	—	—	—	(4)	(4)	—	(4)
Allocation of minority interest resulting from sales and conveyances of subsidiary stock	—	—	754	—	4	758	(744)	14
Bond distribution to noncontrolling interest owners	—	—	—	—	—	—	(160)	(160)
Contribution to noncontrolling interest from retirement of debt	—	—	(45)	—	—	(45)	45	—
Other	—	—	(3)	—	—	(3)	(26)	(29)
Balance as of September 30, 2014	$2	$(19)	$8,104	$(12,082)	$(17)	$(4,012)	$298	$(3,714)
Balance as of December 31, 2014	$1	$(19)	$8,140	$(13,104)	$(15)	$(4,997)	$255	$(4,742)
Net income	—	—	—	5,998	—	5,998	94	6,092
Elimination of CEOC noncontrolling interest and deconsolidation [(1)]	—	—	—	—	16	16	854	870
Share-based compensation	—	(2)	41	—	—	39	—	39
Decrease in noncontrolling interests, net of distributions and contributions	—	—	—	—	—	—	(13)	(13)
Other	—	—	(4)	—	—	(4)	17	13
Balance as of September 30, 2015	$1	$(21)	$8,177	$(7,106)	$1	$1,052	$1,207	$2,259

(1) See Note 4.

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In millions)

	Nine Months Ended September 30, 2015	2014
Cash flows provided by/(used in) operating activities	$250	$(422)
Cash flows used in investing activities		
Acquisitions of property and equipment, net of change in related payables	(285)	(817)
Deconsolidation of CEOC cash	(958)	—
Change in restricted cash	25	320
Proceeds from sale of assets	—	32
Proceeds from the sale and maturity of investments	25	17
Payments to acquire investments	(30)	(23)
Other	(3)	(2)
Cash flows used in investing activities	(1,226)	(473)
Cash flows provided by/(used in) financing activities		
Proceeds from long-term debt	271	4,175
Debt issuance and extension costs and fees	—	(225)
Repayments of long-term debt	(391)	(2,689)
Payment of contingent consideration	(32)	—
Repurchase of management shares	(54)	—
Issuance of common stock, net of fees	—	138
Distributions to noncontrolling interest owners	(26)	(36)
Other	18	4
Cash flows provided by/(used in) financing activities	(214)	1,367
Cash flows used in discontinued operations		
Cash flows used in operating activities	(7)	(59)
Cash flows used in investing activities	—	(2)
Cash used in discontinued operations	(7)	(61)
Net increase/(decrease) in cash and cash equivalents	(1,197)	411
Cash and cash equivalents, beginning of period	2,806	2,771
Cash and cash equivalents, end of period	$1,609	$3,182
Supplemental Cash Flow Information:		
Cash paid for interest	$480	$1,552
Cash paid for income taxes	55	40
Non-cash investing and financing activities: Change in accrued capital expenditures	(20)	(1)

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

In this filing, the name “CEC” refers to the parent holding company, Caesars Entertainment Corporation, exclusive of its consolidated subsidiaries and variable interest entities, unless otherwise stated or the context otherwise requires. The words “Company,” “Caesars,” “Caesars Entertainment,” “we,” “our,” and “us” refer to Caesars Entertainment Corporation, inclusive of its consolidated subsidiaries and variable interest entities, unless otherwise stated or the context otherwise requires.

This Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 10-K”).

Note 1 - Organization

Organization

CEC is primarily a holding company with no independent operations of its own. It owns Caesars Entertainment Resort Properties, LLC (“CERP”) and an interest in Caesars Growth Partners, LLC (“CGP”). As of September 30, 2015, CERP and CGP owned a total of 12 casino properties in the United States, eight of which are in Las Vegas. These eight casino properties represented 53% and 52% of consolidated net revenues for the three and nine months ended September 30, 2015, respectively.

CEC also holds a majority interest in Caesars Entertainment Operating Company, Inc. (“CEOC”). As described in Note 4, the results of CEOC and its subsidiaries are no longer consolidated with Caesars subsequent to CEOC’s voluntarily filing for reorganization under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) on January 15, 2015.

Caesars Enterprise Services, LLC

In 2014, CERP, CEOC and Caesars Growth Properties Holdings, LLC (“CGPH” and, collectively, the “Members”) formed Caesars Enterprise Services, LLC (“CES”), a services joint venture. CES provides certain corporate and administrative services for the Members’ casino properties, including substantially all of the 28 casino properties owned by CEOC, and ten casinos owned by unrelated third parties (including four Indian tribes). CES manages certain assets for the casinos to which it provides services and the other assets it owns, licenses or controls, and employs certain of the corresponding employees. Under the terms of the joint venture and the Omnibus License and Enterprise Services Agreement, we believe that CEC and its operating subsidiaries will continue to have access to the services historically provided to us by CEOC and its employees, its trademarks, and its programs despite the CEOC bankruptcy filing. Expenses incurred by CES are allocated to the casino properties directly or to the Members according to their allocation percentages, subject to annual review. Therefore, CES is a "pass-through" entity that serves as an agent on behalf of the Members at a cost-basis, and is contractually required to fully allocate its costs. CES is designed to have no operating cash flows of its own, and any net income or loss is generally immaterial and is typically subject to allocation to the Members in the subsequent period.

Caesars Interactive Entertainment, Inc. (“CIE”)

We also consolidated the results of CIE, a majority owned subsidiary of CGP that operates an online games business providing social games on Facebook and other social media websites and mobile application platforms; certain real money games in Nevada and New Jersey; and “play for fun” offerings in other jurisdictions. CIE also owns the World Series of Poker (“WSOP”) tournaments and brand and licenses trademarks for a variety of products and businesses related to this brand.

Reportable Segments

We view each casino property and CIE as operating segments and currently aggregate all such casino properties and CIE into three reportable segments based on management’s view of these casino properties, which aligns with their ownership and underlying credit structures: CERP, Caesars Growth Partners Casino Properties and Developments (“CGP Casinos”), and CIE. CGP Casinos is comprised of all subsidiaries of CGP excluding CIE. CEOC remained a reportable segment until its deconsolidation effective January 15, 2015.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

Going Concern

Overview

The circumstances described in “CEC Liquidity” and “Litigation” below raise substantial doubt as to CEC’s ability to continue as a going concern. The accompanying consolidated condensed financial statements have been prepared assuming that Caesars will continue as a going concern and do not include any adjustments that might result from the outcome of any uncertainties related to our going concern assessment. The following provides our analysis and the factors that were considered in reaching this conclusion.

Financial Condition as of December 31, 2014

Over the three-year period ended December 31, 2014, we incurred cumulative net losses totaling $7.2 billion, primarily due to $7.0 billion of interest expense resulting from our highly-leveraged capital structure. As of December 31, 2014, we had a total accumulated deficit of $13.1 billion and long term debt totaled $23.0 billion, including current portion of $15.8 billion. Our cumulative cash flows from operating activities were negative $772 million over the three-year period, primarily due to total cash paid for interest of $5.7 billion.

The substantial majority of the preceding negative financial factors occurred in our largest operating subsidiary, CEOC, which incurred cumulative net losses totaling $7.1 billion resulting from interest expense of $6.2 billion over the three-year period ended December 31, 2014. As of December 31, 2014, CEOC had a total accumulated deficit of $11.4 billion, and long term debt totaled $15.9 billion, including current portion of $15.8 billion. CEOC had experienced negative cash flows from operating activities over the three-year period, primarily due to cash paid for interest.

CEOC Reorganization

All of the foregoing factors raised substantial doubt about CEOC’s ability to continue as a going concern as of December 31, 2014, and contributed to the decision for CEOC and certain of its United States subsidiaries (the “Debtors”) to voluntarily file for reorganization under Chapter 11 of the Bankruptcy Code on January 15, 2015, in the United States Bankruptcy Court for Northern District of Illinois in Chicago (the “Bankruptcy Court”) (see Note 4).

Commitments Under the First Lien RSAs. As previously disclosed in Current Reports on Form 8-K, CEC and the Debtors are party to the (a) Fourth Amended and Restated Restructuring Support and Forbearance Agreement dated July 31, 2015, with certain holders of claims in respect of claims under CEOC’s first lien notes (the “First Lien Bond RSA”) (see also Note 19) and (b) Restructuring Support and Forbearance Agreement dated August 21, 2015, with certain holders of claims in respect of claims under CEOC’s first lien credit agreement (the “First Lien Bank RSA” and, together with the First Lien Bond RSA, the “First Lien RSAs”).

The Effective Date of the CEOC’s plan of reorganization (the “Restructuring”) (the material terms of which are contained in the First Lien RSAs as they may be modified by their terms) is the date upon which all required conditions of the Restructuring have been satisfied or waived and on which the CEOC reorganization and related transactions will become effective.

CEOC filed a plan of reorganization on October 7, 2015, with the Bankruptcy Court (the “Plan”) that reflects the terms of the First Lien RSAs. Under the Plan, CEC has agreed to pay the following amounts and take other actions:

- $406 million for forbearance fees in connection with the Restructuring, general corporate purposes and to fund sources and uses (“Fixed Payments”);
- $75 million to CEOC if there is insufficient liquidity as of the Effective Date;
- $25 million per month for the period from February 1, 2016 through the Effective Date for the benefit of the First Lien Noteholders (“Additional Consideration”);
- Up to $63 million in upfront payments to certain First Lien Bank Lenders (“Upfront Payments”);
- Purchase from the Settling First Lien Bank Lenders 100% of their respective First Lien Bank Obligations that survive the Effective Date (“Bank Guaranty Settlement”);

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

- Purchase up to all of OpCo equity for $700 million pursuant to the put rights, where holders of over 85% of the First Lien Notes have already indicated their intent to put their OpCo equity to CEC once received (“OpCo” refers to the proposed entity resulting from the Restructuring that will operate the CEOC Properties under a lease with PropCo. CEOC Properties refers to those properties owned by CEOC as of the Petition Date. See Note 4.);
- Purchase up to 14.8% of PropCo equity for $269 million pursuant to the put rights (“PropCo” refers to the proposed entity resulting from the Restructuring that will own the CEOC Properties as of the Effective Date.);
- Give PropCo a right of first refusal on all new domestic non-Las Vegas opportunities, with CEC or OpCo leasing such properties;
- Give PropCo a call right to purchase Harrah’s Atlantic City and Harrah’s Laughlin;
- Guarantee OpCo’s monetary obligations to PropCo under the leases; and
- Enter into a guaranty of collection of the OpCo debt received by the First Lien Bank Lenders and First Lien Noteholders.

The Restructuring is subject to approval by the Bankruptcy Court and the receipt of required gaming regulatory approvals. Because more than a majority of the first lienholders have approved the First Lien RSAs, we believe it is probable that the contingent obligations will be paid and, therefore, we have accrued the items below in Deconsolidation and Restructuring of CEOC and Other in the consolidated condensed statements of operations:

Description (in millions)	Amount
Fixed payments [(1)]	$406
Additional consideration [(2)]	138
Upfront payments [(3)]	63
Bank guaranty settlement	359
Total accrued restructuring and support expenses	$966

(1) $85 million was paid in fourth quarter of 2015
(2) For the purposes of determining this amount, the Effective Date is estimated to be in the third quarter of 2016; however this date is outside of our control and is highly subject to change.
(3) $57 million was paid in fourth quarter of 2015

Additional Potential Commitments. In addition to terms described above relative to the First Lien RSAs, under the terms of the Plan, CEC will pay the following if certain classes of CEOC’s unsecured creditors vote in favor of the Plan and if the Plan is approved by the Court:

- Up to $450 million in principal amount of 5% convertible notes to be issued by CEC;
- Up to 9.8% of PropCo equity purchased pursuant to the PropCo put rights and/or cash in an amount equal to the shortfall from 9.8% of PropCo equity (at Plan value) if the PropCo put rights are not fully exercised;
- The consideration CAC would have received under the Plan on account of CEOC’s unsecured notes held by CAC; and
- Give PropCo a call right to purchase Harrah’s New Orleans.

Payment to CEOC. In addition, and separate from the transactions and agreements described above, if there is not a comprehensive out of court restructuring of CEOC's debt securities or a prepackaged or prearranged in-court restructuring with requisite voting support from each of the first and second lien secured creditor classes by February 15, 2016, CEC will be obligated upon demand to make an additional payment to CEOC of $35 million. During the first quarter of 2015, we accrued this liability in Accrued Restructuring and Support Expenses on the consolidated condensed balance sheet.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

Caesars' Financial Condition

During the nine months ended September 30, 2015, we recognized net income of $6.0 billion, which includes a $7.1 billion gain recognized upon the deconsolidation of CEOC, and generated operating cash flows of $250 million, which includes $220 million of negative operating cash flow attributable to CEOC prior its deconsolidation. As of September 30, 2015, subsequent to the deconsolidation of CEOC, we had a total accumulated deficit of $7.1 billion and long term debt totaled $7.0 billion, including current portion of $189 million.

CEC Liquidity

CEC is primarily a holding company with no independent operations, employees, or material debt issuances of its own. Its primary assets at September 30, 2015, consist of $349 million in cash and cash equivalents and its ownership interests in CEOC, CERP and CGP. The restrictions included in certain debt arrangements entered into by CERP and CGP (and/or their respective subsidiaries) generally do not allow for CERP, CGP, or their subsidiaries to provide dividends to CEC. In addition, CEC does not receive any financial benefit from CEOC during CEOC's bankruptcy, as all earnings and cash flows are retained by CEOC for the benefit of its creditors.

CEC has no requirement to fund the operations of CERP, CGP, or their subsidiaries. Accordingly, CEC cash outflows are primarily used for corporate development opportunities and other corporate-level activity. CEC is generally limited to raising additional capital through borrowings or equity transactions because it has no operations of its own and the restrictions on its subsidiaries under lending arrangements generally prevent the distribution of cash from the subsidiaries to CEC, except for certain restricted payments that CERP and CGPH are authorized to make in accordance with their lending arrangements.

While we do have sufficient liquidity at present to meet existing obligations and continue operations, we made material commitments under the Restructuring described above that have been accrued as of September 30, 2015. The completion of the previously announced merger of Caesars and CAC is expected to aid CEC in meeting these commitments; however, based on our current forecasts, we estimate that CEC will require additional sources of funding to meet its commitments because CEC has no operations of its own or through its subsidiaries that contribute to its liquidity. We are evaluating additional sources of liquidity that will ensure that CEC can meet its commitments under the Restructuring, but have not yet secured additional funding. Furthermore, if the merger with CAC is not completed for any reason, CEC would still be liable for these contributions.

Guarantee of Collection

In 2014, CEOC amended its senior secured credit facilities (the "Bank Amendment") resulting in, among other things, a modification of CEC's guarantee under the senior secured credit facilities such that CEC's guarantee was limited to a guarantee of collection ("CEC Collection Guarantee") with respect to obligations owed to the lenders who consented to the Bank Amendment. The CEC Collection Guarantee requires the creditors to exhaust all rights and remedies at law and in equity that the creditors or their agents may have against CEOC or any of its subsidiaries and its and their respective property to collect, or obtain payment of, the guaranteed amounts. As part of the Bank Guaranty Settlement disclosed above, the CEOC creditors have agreed to eliminate the CEC Collection Guarantee, and we recorded $359 million as an estimate of the liability based on the terms of the agreement.

Litigation

In addition to financial commitments described above, we have the following outstanding uncertainties for which we have not accrued any amounts, all of which are described in Note 5:

- Litigation commenced by Wilmington Savings Fund Society, FSB on August 4, 2014 (the "Delaware Second Lien Lawsuit");
- Litigation commenced by parties on September 3, 2014 and October 2, 2014 (the "Senior Unsecured Lawsuits");
- Litigation commenced by UMB Bank on November 25, 2014 (the "Delaware First Lien Lawsuit");
- Demands for payment made by Wilmington Savings Fund Society, FSB on February 13, 2015 (the "February 13 Notice");
- Demands for payment made by BOKF, N.A., on February 18, 2015 (see "February 18 Notice");

- Litigation commenced by BOKF, N.A. on March 3, 2015 (the “New York Second Lien Lawsuit”);
- Litigation commenced by UMB Bank on June 15, 2015 (the “New York First Lien Lawsuit”);

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

- Litigation commenced by Wilmington Trust, National Association on October 20, 2015 (the "New York Senior Notes Lawsuit"); and
- Litigation commenced by Trustees of the National Retirement Fund in January 2015 ("NRF Litigation").

Summary

The circumstances described in "CEC Liquidity" above raise substantial doubt as to CEC's ability to continue as a going concern beyond the Effective Date while continuing to meet its commitments under the Restructuring. Additionally, in each of the litigation matters, claims have been made or could be made against CEC that, if resolved against us, raise substantial doubt about CEC's ability to continue as a going concern. Under the terms of the Plan that was filed with the Bankruptcy Court, all of the above litigation should be resolved. However, in the event of a material adverse ruling on one or all of the litigation matters set forth above, it is likely that a reorganization under Chapter 11 of the Bankruptcy Code would be necessary.

Note 2 — Basis of Presentation and Consolidation

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Caesars have been prepared under the rules and regulations of the Securities and Exchange Commission ("SEC") applicable for interim periods, and therefore, do not include all information and footnotes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States ("GAAP"). The results for the interim periods reflect all adjustments (consisting primarily of normal recurring adjustments) that management considers necessary for a fair presentation of financial position, results of operations, and cash flows. The results of operations for our interim periods are not necessarily indicative of the results of operations that may be achieved for the entire 2015 fiscal year.
All amounts presented in these consolidated condensed financial statements and notes thereto exclude the operating results and cash flows of CEOC subsequent to January 15, 2015, and the assets, liabilities, and equity of CEOC as of September 30, 2015.

Consolidation of Subsidiaries and Variable Interest Entities

We consolidate into our financial statements the accounts of all subsidiaries in which we have a controlling financial interest and variable interest entities ("VIEs") for which we or one of our consolidated subsidiaries is the primary beneficiary. Control generally equates to ownership percentage, whereby (1) affiliates that are more than 50% owned are consolidated; (2) investments in affiliates of 50% or less but greater than 20% are generally accounted for using the equity method where we have determined that we have significant influence over the entities; and (3) investments in affiliates of 20% or less are generally accounted for using the cost method.
We consolidate a VIE when we have both the power to direct the activities that most significantly impact the results of the VIE and the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. For VIEs that are under common control with affiliates, in lieu of an assessment of the power to direct the activities that most significantly impact the results of the VIE, we may be required to assess a number of other factors to determine the consolidating entity, including the following: (i) the closeness of the association that the VIE has with the businesses of the affiliated entities, (ii) the entity from which the VIE obtained its assets; (iii) the nature of ongoing management and other agreements; and (iv) the obligation to absorb losses and the right to receive residual returns that could potentially be significant to the VIE. Along with the VIEs that are consolidated in accordance with the above guidelines, we also hold variable interests in other VIEs that are not consolidated because we are not the primary beneficiary. We continually monitor both consolidated and unconsolidated VIEs to determine if any events have occurred that could cause the primary beneficiary to change. A change in determination could have a material impact on our financial statements.
Despite a majority financial interest, we may only possess non-substantive voting rights that do not confer upon us the ability to control key activities of the entity, such as determining operating budgets, payment of obligations, management of assets, and/or other activities necessary for the ordinary course of business. We continually monitor both consolidated and unconsolidated VIEs to determine if any events have occurred that could cause the primary

beneficiary to change.

Consolidation of Caesars Growth Partners

Because the equity holders in CGP receive returns disproportionate to their voting interests and substantially all the activities of CGP are related to Caesars, CGP has been determined to be a VIE. CAC is the sole voting member of CGP. Common control exists between CAC and Caesars through the majority beneficial ownership of both by Hamlet Holdings (as defined in Note 18). The

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assets held by CGP originally came from Caesars and continue to be intrinsically closely associated with Caesars through the nature of the business, as well as ongoing service and management agreements. Additionally, Caesars is expected to receive the majority of the benefits or absorb the majority of the losses from its higher economic participation in CGP. Since Caesars is more closely associated with CGP than CAC, we have determined that Caesars is the primary beneficiary of CGP and is required to consolidate them. Neither CAC nor CGP guarantees any of CEC's debt, and the creditors or beneficial holders of CGP have no recourse to the general credit of CEC.

CGP generated net revenues of $601 million and $486 million for the three months ended September 30, 2015 and 2014, respectively, and $1.7 billion and $1.1 billion for the nine months ended September 30, 2015 and 2014, respectively. Net loss attributable to Caesars related to CGP was $6 million and $32 million for the three months ended September 30, 2015 and September 30, 2014, respectively. There was no material net income attributable to Caesars related to CGP for the nine months ended September 30, 2015 compared with net loss of $119 million for the nine months ended September 30, 2014.

CGP is obligated to issue additional non-voting membership units to CEC in 2016 to the extent that the earnings from CIE's social and mobile games business exceeds a specified threshold amount in 2015. CGP recorded a liability representing the fair value of the additional contingently issuable non-voting membership units of $238 million and $347 million as of September 30, 2015 and December 31, 2014, respectively. Such liability is eliminated in our consolidation of CGP.

Consolidation of Caesars Enterprise Services

A steering committee acts in the role of a board of managers for CES with each Member entitled to appoint one representative to the steering committee. Each Member, through its representative, is entitled to a single vote on the steering committee, accordingly, the voting power of the Members does not equate to their ownership percentages. We have determined that because Caesars consolidates two of the Members (CERP and CGPH), Caesars is deemed to have a controlling financial interest in CES through our ownership of that interest.

As described in Note 4, effective January 15, 2015, CEOC is no longer a consolidated subsidiary. Therefore, CEOC's ownership interest in CES, totaling $16 million, is accounted for as noncontrolling interest.

Consolidation Considerations for Caesars Entertainment Operating Company

As described in Note 4, CEOC's filing for reorganization was a reconsideration event for Caesars Entertainment to reevaluate whether consolidation of CEOC continued to be appropriate. We have concluded that CEOC is a VIE and that we are not the primary beneficiary of CEOC. See Note 18 for additional information on the carrying amounts and classification of assets and liabilities that relate to our variable interest in CEOC.

Note 3 — Liquidity Considerations

We are a highly-leveraged company and had $7.1 billion in face value of debt outstanding as of September 30, 2015. As a result, a significant portion of our liquidity needs are for debt service, including significant interest payments. Our estimated consolidated debt service obligation for the remainder of 2015 is $274 million, consisting of $62 million in principal maturities and $212 million in required interest payments. Our estimated consolidated debt service obligation for 2016 is $710 million, consisting of $141 million in principal maturities and $569 million in required interest payments.

Consolidated cash and cash equivalents, excluding restricted cash, as of September 30, 2015 as shown in the table below, includes amounts held by CERP, CGP, and CES, which are not readily available to CEC. Parent reflects CEC and its various non-operating subsidiaries.

Cash and Available Revolver Capacity

	September 30, 2015			
(In millions)	CERP	CES	CGP	Parent
Cash and cash equivalents	$218	$141	$901	$349
Revolver capacity	270	—	160	—
Revolver capacity drawn or committed to letters of credit	(81)	—	(45)	—

Total	$407	$141	$1,016	$349

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Future Maturities of Long-Term Debt							
(In millions)	2015	2016	2017	2018	2019	Thereafter	Total
CERP	$11	$117	$26	$25	$25	$4,500	$4,704
CGP	51	24	21	26	203	2,086	2,411
Total	$62	$141	$47	$51	$228		