

CAESARS ENTERTAINMENT Corp

Form 10-Q

May 02, 2019

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Instruments - Credit Losses - ASU 2016-13 (amended through April 2019): Amended guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. Amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this ASU. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Fair Value Measurement - ASU 2018-13: Amended guidance modifies fair value measurement disclosure requirements including (i) removing certain disclosure requirements such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (ii) modifying certain disclosure requirements, and (iii) adding certain disclosure requirements such as changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Intangibles - Goodwill and Other - Internal-Use Software - ASU 2018-15: Amended guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Collaborative Arrangements - ASU 2018-18: Amended guidance makes targeted improvements to GAAP for collaborative arrangements including: (i) clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account, (ii) adding unit-of-account guidance in ASC 808 to align with the guidance in ASC 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of ASC 606, and (iii) requiring that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under ASC 606 is precluded if the collaborative arrangement participant is not a customer. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied retrospectively to the date of initial application of ASC 606. An entity may elect to apply the amendments in this ASU retrospectively either to all contracts or only to contracts that are not completed at the date of initial application of ASC 606. An entity should disclose its election. An entity may elect to apply the practical expedient for contract modifications that is permitted for entities using the modified retrospective transition method in ASC 606.

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We are currently assessing the effect the adoption of this standard will have on our financial statements.60000004000000137000000169000000 0000858339 2019-01-01 2019-03-31 0000858339
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2019

or

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

(State or other jurisdiction of incorporation or organization)

62-1411755

(I.R.S. Employer Identification No.)

One Caesars Palace Drive, Las Vegas, Nevada

(Address of principal executive offices)

89109

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 April 30, 2019**

Common stock, \$0.01 par value 672,710,410

**CAESARS ENTERTAINMENT CORPORATION
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PART I—FINANCIAL INFORMATION**Item 1. Unaudited Financial Statements****CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)**

<i>(In millions)</i>	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents (\$14 and \$14 attributable to our VIEs)	\$ 1,395	\$ 1,491
Restricted cash	119	115
Receivables, net	449	457
Due from affiliates, net	5	6
Prepayments and other current assets (\$4 and \$6 attributable to our VIEs)	184	155
Inventories	39	41
Total current assets	2,191	2,265
Property and equipment, net (\$169 and \$137 attributable to our VIEs)	15,922	16,045
Goodwill	4,044	4,044
Intangible assets other than goodwill	2,961	2,977
Restricted cash	52	51
Deferred income taxes	10	10
Deferred charges and other assets (\$32 and \$35 attributable to our VIEs)	856	383
Total assets	\$ 26,036	\$ 25,775
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (\$69 and \$41 attributable to our VIEs)	\$ 411	\$ 399
Accrued expenses and other current liabilities (\$2 and \$1 attributable to our VIEs)	1,169	1,217
Interest payable	137	56
Contract liabilities	161	144
Current portion of financing obligations	21	20
Current portion of long-term debt	64	164
Total current liabilities	1,963	2,000
Financing obligations	9,990	10,057
Long-term debt	8,789	8,801
Deferred income taxes	692	730
Deferred credits and other liabilities (\$8 and \$5 attributable to our VIEs)	1,480	849
Total liabilities	22,914	22,437
Commitments and contingencies (Note 8)		
Stockholders' equity		
Caesars stockholders' equity	3,039	3,250
Noncontrolling interests	83	88
Total stockholders' equity	3,122	3,338
Total liabilities and stockholders' equity	\$ 26,036	\$ 25,775

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

	Three Months Ended March 31,	
<u>(In millions, except per share data)</u>	2019	2018
Revenues		
Casino	\$ 1,083	\$ 983
Food and beverage	398	383
Rooms	386	367
Other revenue	181	172
Management fees	15	15
Reimbursed management costs	52	52
Net revenues	2,115	1,972
Operating expenses		
Direct		
Casino	618	562
Food and beverage	269	264
Rooms	117	114
Property, general, administrative, and other	460	427
Reimbursable management costs	52	52
Depreciation and amortization	247	280
Corporate expense	83	82
Other operating costs	29	66
Total operating expenses	1,875	1,847
Income from operations	240	125
Interest expense	(349)	(330)
Other income/(loss)	(138)	184
Loss before income taxes	(247)	(21)
Income tax benefit/(provision)	29	(13)
Net loss	(218)	(34)
Net loss attributable to noncontrolling interests	1	—
Net loss attributable to Caesars	\$(217)	\$(34)
Loss per share - basic and diluted		
Basic and diluted loss per share	\$(0.32)	\$(0.05)
Weighted-average common shares outstanding	670	697
Comprehensive loss		
Foreign currency translation adjustments	\$—	\$3
Change in fair market value of interest rate swaps, net of tax	(17)	4
Other	2	1
Other comprehensive income/(loss), net of income taxes	(15)	8
Comprehensive loss	(233)	(26)

Amounts attributable to noncontrolling interests:

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Foreign currency translation adjustments	2	(2)
Comprehensive (income)/loss attributable to noncontrolling interests	3	(2)
Comprehensive loss attributable to Caesars		\$(230) \$(28)

See accompanying Notes to Consolidated Condensed Financial Statements.

4

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

<i>(In millions)</i>	Caesars Stockholders' Equity							Total Stockholders' Equity
	Common Stock	Treasury Stock	Additional Paid-in- Capital	Accumulated Deficit	Other Comprehensive Income/(Loss)	Caesars Stockholders' Equity	Noncontrolling Interests	
Balance as of December 31, 2017	\$7	\$(152)	\$ 14,040	\$(10,675)	\$ 6	\$ 3,226	\$ 71	\$ 3,297
Net loss	—	—	—	(34)	—	(34)	—	(34)
Stock-based compensation	—	(12)	22	—	—	10	—	10
Other comprehensive income, net of tax	—	—	—	—	9	9	—	9
Change in noncontrolling interest, net of distributions and contributions	—	—	—	—	—	—	21	21
Other	—	(1)	—	—	—	(1)	—	(1)
Balance as of March 31, 2018	\$7	\$(165)	\$ 14,062	\$(10,709)	\$ 15	\$ 3,210	\$ 92	\$ 3,302
Balance as of December 31, 2018	\$7	\$(485)	\$ 14,124	\$(10,372)	\$(24)	\$ 3,250	\$ 88	\$ 3,338
Net loss	—	—	—	(217)	—	(217)	(1)	(218)
Stock-based compensation	—	(5)	21	—	—	16	—	16
Other comprehensive loss, net of tax	—	—	—	—	(13)	(13)	(2)	(15)
Change in noncontrolling interest, net of distributions and contributions	—	—	—	—	—	—	(2)	(2)
Other	—	3	—	—	—	3	—	3
Balance as of March 31, 2019	\$7	\$(487)	\$ 14,145	\$(10,589)	\$(37)	\$ 3,039	\$ 83	\$ 3,122

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Three Months Ended March 31,	
<i>(In millions)</i>	2019	2018
Cash flows provided by operating activities	\$255	\$22
Cash flows from investing activities		
Acquisitions of property and equipment, net of change in related payables	(218)	(85)
Proceeds from the sale and maturity of investments	5	16
Payments to acquire investments	(7)	(14)
Other	2	—
Cash flows used in investing activities	(218)	(83)
Cash flows from financing activities		
Debt issuance costs and fees	—	(1)
Repayments of long-term debt and revolving credit facilities	(116)	(16)
Proceeds from the issuance of common stock	—	3
Taxes paid related to net share settlement of equity awards	(5)	(12)
Financing obligation payments	(5)	(2)
Contributions from noncontrolling interest owners	—	20
Distributions to noncontrolling interest owners	(2)	—
Other	—	2
Cash flows used in financing activities	(128)	(6)
Net decrease in cash, cash equivalents, and restricted cash	(91)	(67)
Cash, cash equivalents, and restricted cash, beginning of period	1,657	2,709
Cash, cash equivalents, and restricted cash, end of period	\$1,566	\$2,642
Supplemental Cash Flow Information:		
Cash paid for interest	\$231	\$247
Cash received/(paid) for income taxes	2	(2)
Non-cash investing and financing activities:		
Change in accrued capital expenditures	(7)	(2)

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, 2018 (“2018 Annual Report”). Capitalized terms used but not defined in this Form 10-Q have the same meanings as in the 2018 Annual Report.

We also refer to (i) our Consolidated Condensed Financial Statements as our “Financial Statements,” (ii) our Consolidated Condensed Balance Sheets as our “Balance Sheets,” (iii) our Consolidated Condensed Statements of Operations and Comprehensive Loss as our “Statements of Operations,” and (iv) our Consolidated Condensed Statements of Cash Flows as our “Statements of Cash Flows.”

Note 1 - Description of Business

Organization

CEC is primarily a holding company with no independent operations of its own. Caesars Entertainment operates the business primarily through its wholly owned subsidiaries CEOC, LLC (“CEOC LLC”) and Caesars Resort Collection, LLC (“CRC”). Caesars Entertainment operates a total of 53 properties in 14 U.S. states and five countries outside of the U.S., including 49 casino properties. Nine casinos are in Las Vegas, which represented 45% of net revenues for the three months ended March 31, 2019.

We lease certain real property assets from VICI Properties Inc. and/or its subsidiaries (“VICI”).

Note 2 - Basis of Presentation and Principles of Consolidation

Basis of Presentation and Use of Estimates

The accompanying unaudited consolidated condensed financial statements of Caesars have been prepared under the rules and regulations of the Securities and Exchange Commission (the “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 2019 fiscal year. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities. Management believes the accounting estimates are appropriate and reasonably determined. Actual amounts could differ from those estimates.

Reportable Segments

We view each property as an operating segment and aggregate all such properties into three regionally-focused reportable segments: (i) Las Vegas, (ii) Other U.S., and (iii) All Other, which is consistent with how we manage the business. See Note 15.

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

Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the Balance Sheets that sum to amounts reported on the Statements of Cash Flows.

<u><i>(In millions)</i></u>	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 1,395	\$ 1,491
Restricted cash, current	119	115
Restricted cash, non-current	52	51
Total cash, cash equivalents, and restricted cash	\$ 1,566	\$ 1,657

Consolidation of Subsidiaries and Variable Interest Entities

Our consolidated financial statements include the accounts of Caesars Entertainment and its subsidiaries after elimination of all intercompany accounts and transactions.

We consolidate 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 (i) affiliates that are more than 50% owned are consolidated; (ii) 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 (iii) investments in affiliates of 20% or less are generally accounted for using the cost method.

We review our investments for VIE consideration if a reconsideration event occurs to determine if the investment continues to qualify as a VIE. If we determine an investment no longer qualifies as a VIE, a gain or loss may be recognized upon deconsolidation.

Consolidation of Korea Joint Venture

CEC has a joint venture to acquire, develop, own, and operate a casino resort project in Incheon, South Korea (the “Korea JV”). We determined that the Korea JV is a VIE and CEC is the primary beneficiary, and therefore, we consolidate the Korea JV into our financial statements.

Note 3 - Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (the “FASB”) issued the following authoritative guidance amending the FASB Accounting Standards Codification (“ASC”).

In 2019, we adopted Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, and all related amendments (see Note 7).

The following ASUs were not effective as of March 31, 2019:

Previously Disclosed

Collaborative Arrangements - ASU 2018-18: Amended guidance makes targeted improvements to GAAP for collaborative arrangements including: (i) clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account, (ii) adding unit-of-account guidance in ASC 808 to align with the guidance in ASC 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of ASC 606, and (iii) requiring that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under ASC 606 is precluded if the collaborative arrangement participant is not a customer. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied retrospectively to the date of initial application of ASC 606. An entity may elect to apply the amendments in

this ASU retrospectively either to all contracts or only to contracts that are not completed at the date of initial application of ASC 606. An entity should disclose its election. An entity may elect to apply the practical expedient for contract modifications that is permitted for entities using the modified retrospective transition method in ASC 606. We are currently assessing the effect the adoption of this standard will have on our financial statements.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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Intangibles - Goodwill and Other - Internal-Use Software - ASU 2018-15: Amended guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The accounting for the service element of a hosting arrangement that is a service contract is not affected. The amendments in this update are effective for public entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Fair Value Measurement - ASU 2018-13: Amended guidance modifies fair value measurement disclosure requirements including (i) removing certain disclosure requirements such as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (ii) modifying certain disclosure requirements, and (iii) adding certain disclosure requirements such as changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Financial Instruments - Credit Losses - ASU 2016-13 (amended through April 2019): Amended guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Amendments affect entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. Amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of this ASU. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Note 4 ~~Property~~ and Equipment

<u><i>(In millions)</i></u>	March 31, 2019	December 31, 2018
Land	\$ 4,774	\$ 4,871
Buildings, riverboats, and leasehold and land improvements	12,253	12,243
Furniture, fixtures, and equipment	1,621	1,563
Construction in progress	537	406
Total property and equipment	19,185	19,083
Less: accumulated depreciation	(3,263)	(3,038)
Total property and equipment, net	\$ 15,922	\$ 16,045

Our property and equipment is subject to various operating leases for which we are the lessor. We lease our property and equipment related to our hotel rooms, convention space and retail space through various short-term and long-term operating leases. See Note 7 for further discussion of our leases.

Depreciation Expense and
Capitalized Interest

	Three Months Ended March 31,	
<u>(In millions)</u>	2019	2018
Depreciation expense	\$229	\$264
Capitalized interest	5	2

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

Note 5 - Goodwill and Other Intangible Assets

Changes in Carrying Value of Goodwill and Other Intangible Assets

<i>(In millions)</i>	Amortizing Intangible Assets	Non-Amortizing Intangible Assets Goodwill	Other
Balance as of December 31, 2018	\$ 342	\$ 4,044	\$ 2,635
Amortization	(18)	—	—
Other	—	—	2
Balance as of March 31, 2019	\$ 324	\$ 4,044	\$ 2,637

Gross Carrying Value and Accumulated Amortization of Intangible Assets Other Than Goodwill

<i>(Dollars in millions)</i>	March 31, 2019				December 31, 2018			
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Amortizing intangible assets								
Trade names and trademarks	1.8	\$ 14	\$ (4)	\$ 10	\$ 14	\$ (3)	\$ 11	
Customer relationships	4.2	1,071	(772)	299	1,071	(756)	315	
Contract rights	5.8	3	(2)	1	3	(2)	1	
Gaming rights and other	5.3	43	(29)	14	43	(28)	15	
		\$ 1,131	\$ (807)	324	\$ 1,131	\$ (789)	342	
Non-amortizing intangible assets								
Trademarks				790			790	
Gaming rights				1,594			1,592	
Caesars Rewards				253			253	
				2,637			2,635	
Total intangible assets other than goodwill				\$ 2,961			\$ 2,977	

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

Note 6 Fair Value Measurements

Items Measured at Fair Value on a Recurring Basis

The following table shows the fair value of our financial assets and financial liabilities that are required to be measured at fair value as of the date shown:

Estimated Fair Value

<u>(In millions)</u>	Balance	Level 1	Level 2	Level 3
March 31, 2019				
Assets				
Government bonds	\$ 16	\$ —	\$ 16	\$ —
Derivative instruments - interest rate swaps	1	—	1	—
Total assets at fair value	\$ 17	\$ —	\$ 17	\$ —
Liabilities				
Derivative instruments - interest rate swaps	\$ 38	\$ —	\$ 38	\$ —
Derivative instruments - CEC Convertible Notes	486	—	486	—
Disputed claims liability	44	—	44	—
Total liabilities at fair value	\$ 568	\$ —	\$ 568	\$ —
December 31, 2018				
Assets				
Government bonds	\$ 15	\$ —	\$ 15	\$ —
Derivative instruments - interest rate swaps	6	—	6	—
Total assets at fair value	\$ 21	\$ —	\$ 21	\$ —
Liabilities				
Derivative instruments - interest rate swaps	\$ 22	\$ —	\$ 22	\$ —
Derivative instruments - CEC Convertible Notes	324	—	324	—
Disputed claims liability	45	—	45	—
Total liabilities at fair value	\$ 391	\$ —	\$ 391	\$ —

Government Bonds

Investments primarily consist of debt securities held by our captive insurance entities that are traded in active markets, have readily determined market values, and have maturity dates of greater than three months from the date of purchase. These investments primarily represent collateral for several escrow and trust agreements with third-party beneficiaries and are recorded in Deferred charges and other assets while a portion is included in Prepayments and other current assets in our Balance Sheets.

Derivative Instruments

We do not purchase or hold any derivative financial instruments for trading purposes.

CEC Convertible Notes - Derivative Liability

On October 6, 2017, CEC issued \$1.1 billion aggregate principal amount of 5.00% convertible senior notes maturing in 2024 (the “CEC Convertible Notes”) pursuant to the Indenture, dated as of October 6, 2017.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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The CEC Convertible Notes are convertible at the option of holders into a number of shares of CEC common stock that is equal to approximately 0.139 shares of CEC common stock per \$1.00 principal amount of CEC Convertible Notes, which is equal to an initial conversion price of \$7.19 per share. If all the shares were issued on October 6, 2017, they would have represented approximately 17.9% of the shares of CEC common stock outstanding on a fully diluted basis. The holders of the CEC Convertible Notes can convert them at any time after issuance. CEC can convert the CEC Convertible Notes beginning in October 2020 if the last reported sale price of CEC common stock equals or exceeds 140% of the conversion price for the CEC Convertible Notes in effect on each of at least 20 trading days during any 30 consecutive trading day period. As of March 31, 2019, an immaterial amount of the CEC Convertible Notes were converted into shares of CEC common stock. An aggregate of 156 million shares of CEC common stock are issuable upon conversion of the CEC Convertible Notes, of which 151 million shares are net of amounts held by CEC. As of March 31, 2019, the remaining life of the CEC Convertible Notes is 5.5 years.

Management analyzed the conversion features for derivative accounting consideration under ASC Topic 815, *Derivatives and Hedging*, (“ASC 815”) and determined that the CEC Convertible Notes contain bifurcated derivative features and qualify for derivative accounting. In accordance with ASC 815, CEC has bifurcated the conversion features of the CEC Convertible Notes and recorded a derivative liability. The CEC Convertible Notes derivative features are not designated as hedging instruments. The derivative features of the CEC Convertible Notes are carried on CEC’s Balance Sheet at fair value in Deferred credits and other liabilities. The derivative liability is marked-to-market each measurement period and the changes in fair value of a loss of \$162 million and income of \$160 million, respectively, were recorded as components of Other income/(loss) for the three months ended March 31, 2019 and 2018 in the Statements of Operations. The derivative liability associated with the CEC Convertible Notes will remain in effect until such time as the underlying convertible notes are exercised or terminated and the resulting derivative liability will be transitioned from a liability to equity as of such date.

Valuation Methodology

The CEC Convertible Notes have a face value of \$1.1 billion, a term of 7 years, and a coupon rate of 5%. As of March 31, 2019 and December 31, 2018, we estimated the fair value of the CEC Convertible Notes using a market-based approach that incorporated the value of both the straight debt and conversion features of the notes. The valuation model incorporated actively traded prices of the CEC Convertible Notes as of the reporting date, the value of CEC’s equity into which these notes could convert, and assumptions regarding the incremental cost of borrowing for CEC. Since the key assumption used in the valuation model is the actively traded price of CEC Convertible Notes but the incremental cost of borrowing is an unobservable input, the fair value for the conversion features of the CEC Convertible Notes was classified as Level 2.

Key Assumptions as of March 31, 2019 and December 31, 2018:

▲ Actively traded price of CEC Convertible Notes - \$143.01 and \$122.38, respectively

¶ Incremental cost of borrowing - 6.0% and 7.0%, respectively

Interest Rate Swap Derivatives

We use interest rate swaps to manage the mix of our debt between fixed and variable rate instruments. As of March 31, 2019, we have entered into a total of ten interest rate swap agreements for notional amounts totaling \$3.0 billion to fix the interest rate on variable rate debt. The interest rate swaps are designated as cash flow hedging instruments.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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The major terms of the interest rate swap agreements as of March 31, 2019 are as follows:

Effective Date	Notional Amount (In millions)	Fixed Rate Paid	Variable Rate Received as of March 31, 2019	Maturity Date
12/31/2018	250	2.274%	2.493%	12/31/2022
12/31/2018	200	2.828%	2.493%	12/31/2022
12/31/2018	600	2.739%	2.493%	12/31/2022
1/1/2019	250	2.153%	2.493%	12/31/2020
1/1/2019	250	2.196%	2.493%	12/31/2021
1/1/2019	400	2.788%	2.493%	12/31/2021
1/1/2019	200	2.828%	2.493%	12/31/2022
1/2/2019	250	2.172%	2.493%	12/31/2020
1/2/2019	200	2.731%	2.493%	12/31/2020
1/2/2019	400	2.707%	2.493%	12/31/2021

Valuation Methodology

The estimated fair values of our interest rate swap derivative instruments are derived from market prices obtained from dealer quotes for similar, but not identical, assets or liabilities. Such quotes represent the estimated amounts we would receive or pay to terminate the contracts. The interest rate swap derivative instruments are included in either Deferred charges and other assets or Deferred credits and other liabilities on our Balance Sheets. Our derivatives are recorded at their fair values, adjusted for the credit rating of the counterparty if the derivative is an asset, or adjusted for the credit rating of the Company if the derivative is a liability. None of our derivative instruments are offset and all were classified as Level 2.

Financial Statement Impact

The effect of derivative instruments designated as hedging instruments on the Balance Sheet for amounts transferred into Accumulated other comprehensive income/(loss) ("AOCI") before tax was a loss of \$21 million and a gain of \$5 million, respectively, during the three months ended March 31, 2019 and 2018. The effect of derivative instruments reclassified from AOCI to Interest expense on the Statements of Operations were immaterial and zero, respectively, for the three months ended March 31, 2019 and 2018. The estimated amount of existing losses that are reported in AOCI at the reporting date that are expected to be reclassified into earnings within the next 12 months is approximately \$6 million.

Accumulated Other Comprehensive Income/(Loss)

The changes in AOCI by component, net of tax, for the three months ended March 31, 2019 and 2018 are shown below.

(In millions)	Unrealized Net Gains/(Losses) on Derivative Instruments	Foreign Currency Translation Adjustments	Other	Total
Balances as of December 31, 2017	\$ —	\$ 9	\$ (3)	\$ 6
Other comprehensive income before reclassifications	4	1	4	9
Total other comprehensive income, net of tax	4	1	4	9
Balances as of March 31, 2018	\$ 4	\$ 10	\$ 1	\$ 15
Balances as of December 31, 2018	\$ (13)	\$ (9)	\$ (2)	\$ (24)
Other comprehensive income/(loss) before reclassifications	(17)	2	2	(13)
Total other comprehensive income/(loss), net of tax	(17)	2	2	(13)

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Balances as of March 31, 2019

\$ (30) \$ (7) \$ — \$(37)

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CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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Disputed Claims Liability

CEC and Caesars Entertainment Operating Company, Inc. (“CEOC”) deposited cash, CEC common stock, and CEC Convertible Notes into an escrow trust to be distributed to satisfy certain remaining unsecured claims (excluding debt claims) as they become allowed (see Note 8). We have estimated the fair value of the remaining liability of those claims. Based on the valuation methodology of the CEC Convertible Notes (see above), the fair value of the Disputed claims liability is classified as Level 2.

For the three months ended March 31, 2019 and 2018, the changes in fair value related to the disputed claims liability was a loss of \$6 million and income of \$10 million, respectively, which were recorded as components of Other income/(loss) in the Statements of Operations.

Note 7 Leases

Adoption of New Lease Accounting Standard

In February 2016, the FASB issued a new standard related to leases, ASU 2016-02, *Leases (Topic 842)* (“ASC 842”). We adopted the standard effective January 1, 2019, using the retrospective approach applied as of the beginning of the period of adoption. The Company elected to utilize the transition guidance within the new standard that permits us to (i) continue to report under legacy lease accounting guidance for comparative periods consistent with previously issued financial statements; and (ii) carryforward our prior conclusions about lease identification, lease classification, and initial direct costs. The most significant effects of adopting the new standard relate to the recognition of right-of-use (“ROU”) assets and liabilities for leases classified as operating leases when the Company is the lessee in the arrangement. Adopting the new standard did not affect our accounting related to leases when the Company is the lessor in the arrangement.

We assess whether an arrangement is or contains a lease at the inception of the agreement. ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term using our incremental borrowing rate, which is consistent with interest rates of similar financing arrangements based on the information available at the commencement date. The ROU assets were also adjusted to include any prepaid lease payments and reduced by any previously accrued lease liabilities. The terms of our leases used to determine the ROU asset and lease liability take into account options to extend when it is reasonably certain that we will exercise those options. Lease expense is recognized on a straight-line basis over the lease term. Additionally, we have elected the short-term lease measurement and recognition exemption and do not establish ROU assets or lease liabilities for operating leases with terms of 12 months or less.

Effect of Adopting New Lease Standard - January 1, 2019 Balance Sheet

<i>(In millions)</i>	Prior to Adoption	Effect of Adoption	Post Adoption
Property and equipment, net ⁽¹⁾	\$ 16,045	\$ (96)	\$ 15,949
Deferred charges and other assets ⁽²⁾⁽³⁾	383	465	848
Accrued expenses and other current liabilities ⁽²⁾	1,217	30	1,247
Financing obligations ⁽¹⁾	10,057	(96)	9,961
Deferred credits and other liabilities ⁽²⁾⁽³⁾	849	435	1,284

⁽¹⁾ Non-operating land assets previously considered as failed sale-leaseback financing obligations were determined to qualify for sale-leaseback accounting under ASC 842 and are now recognized as operating lease liabilities with corresponding ROU assets.

⁽²⁾ Operating leases previously considered as off-balance sheet obligations are now recognized as operating lease liabilities with corresponding ROU assets.

⁽³⁾ Accruals associated with future obligations for leases not in use have been applied against the carrying amount of the ROU assets.

Lessee Arrangements

Operating Leases

We lease real estate and equipment used in our operations from third parties. As of March 31, 2019, the remaining term of our operating leases ranged from 1 to 73 years with various automatic extensions. In addition to minimum rental commitments, certain of our operating leases provide for contingent rentals based on a percentage of revenues in excess of specified amounts.

CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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The following are additional details related to leases recorded on our Balance Sheet as of March 31, 2019:

<u>(In millions)</u>	Balance Sheet Classification	March 31, 2019
Assets		
Operating lease ROU assets ⁽¹⁾	Deferred charges and other assets	\$ 456
Liabilities		
Current operating lease liabilities ⁽¹⁾	Accrued expenses and other current liabilities	27
Non-current operating lease liabilities ⁽¹⁾	Deferred credits and other liabilities	488

⁽¹⁾ As noted above, we have elected the short-term lease measurement and recognition exemption and do not establish ROU assets or liabilities for operating leases with terms of 12 months or less.

Maturity of Lease Liabilities as of March 31, 2019

<u>(In millions)</u>	Operating Leases
Remaining 2019	\$ 51
2020	66
2021	66
2022	60
2023	57
Thereafter	917
Total	1,217
Less: present value discount (702)	
Lease liability	\$ 515

Lease Costs

<u>(In millions)</u>	Three Months Ended March 31, 2019
Operating lease expense	\$ 17
Short-term lease expense	19
Variable lease expense	1
Total lease costs	\$ 37

Other Information

<u>(In millions)</u>	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 14

Weighted-Average Details

March 31, 2019

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Weighted-average remaining lease term (in years)	22.9	
Weighted-average discount rate	6.91	%

Finance Leases

We have finance leases for certain equipment. As of March 31, 2019, our finance leases had remaining lease terms of up to 4 years, some of which include options to extend the lease terms in one year increments. Our finance lease ROU assets and liabilities were immaterial to our Financial Statements as of March 31, 2019.

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CAESARS ENTERTAINMENT CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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Failed Sale-Leaseback Financing Obligations

We lease certain real property assets from VICI (each a “Lease Agreement,” and, collectively, the “Lease Agreements”): (i) for Caesars Palace Las Vegas, (ii) for a portfolio of properties at various locations throughout the United States, (iii) for Harrah’s Joliet Hotel & Casino and (iv) for Harrah’s Las Vegas. The Lease Agreements provide for annual fixed rent (subject to escalation) of \$773 million during the initial 15-year term, then rent consisting of both base rent and variable percentage rent elements, and have four five-year renewal options, subject to certain restrictions. The Lease Agreements include escalation provisions beginning in year two of the initial term and continuing through the renewal terms. The Lease Agreements also include provisions for contingent rental payments calculated, in part, based on increases or decreases of net revenue of the underlying lease properties, commencing in year eight of the initial term and continuing through the renewal terms.

The Lease Agreements were evaluated as sale-leasebacks of real estate. We determined that these transactions did not qualify for sale-leaseback accounting, and we have accounted for the transaction as a financing.

For these failed sale-leaseback transactions, we continue to reflect the real estate assets on our Balance Sheets in Property and equipment, net as if we were the legal owner, and we continue to recognize depreciation expense over their estimated useful lives. We do not recognize rent expense related to the Lease Agreements, but we have recorded a liability for the failed sale-leaseback obligations and the majority of the periodic lease payments are recognized as interest expense. In the initial periods, the majority of the cash payments are less than the interest expense recognized in the Statements of Operations, which causes the related failed sale-leaseback financing obligations to increase during the initial periods of the lease term.

Annual Estimated Failed Sale-Leaseback Financing Obligation Service Requirements as of March 31, 2019

<i>(In millions)</i>	Remaining 2019	Years Ended December 31,					Total
		2020	2021	2022	2023	Thereafter	
Financing obligations - principal	\$ 14	\$23	\$26	\$28	\$33	\$ 8,400	\$8,524
Financing obligations - interest	576	777					