

Edgar Filing: CAESARS ENTERTAINMENT Corp - Form 10-Q

CAESARS ENTERTAINMENT Corp
Form 10-Q
November 07, 2016
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 September 30, 2016

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 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 No

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 No

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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.

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Class	Outstanding at November 1, 2016
Common stock, \$0.01 par value	146,962,562

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)	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents (\$1,233 and \$948 attributable to our VIEs)	\$ 1,669	\$ 1,227
Restricted cash (\$3,355 and \$3 attributable to our VIEs)	3,414	58
Receivables, net (\$69 and \$63 attributable to our VIEs)	140	134
Due from affiliates (\$46 and \$33 attributable to our VIEs)	46	34
Prepayments and other current assets (\$58 and \$46 attributable to our VIEs)	114	121
Inventories (\$6 and \$7 attributable to our VIEs)	16	21
Assets held for sale (\$0 and \$364 attributable to our VIEs)	—	364
Total current assets	5,399	1,959
Property and equipment, net (\$2,534 and \$2,607 attributable to our VIEs)	7,456	7,584
Goodwill (\$206 and \$206 attributable to our VIEs)	1,608	1,608
Intangible assets other than goodwill (\$194 and \$206 attributable to our VIEs)	449	498
Restricted cash (\$5 and \$9 attributable to our VIEs)	5	109
Deferred charges and other assets (\$245 and \$253 attributable to our VIEs)	434	448
Total assets	\$ 15,351	\$ 12,206
Liabilities and Stockholders' Equity/(Deficit)		
Current liabilities		
Accounts payable (\$96 and \$124 attributable to our VIEs)	\$ 158	\$ 161
Due to affiliates (\$307 and \$15 attributable to our VIEs)	309	16
Accrued expenses and other current liabilities (\$404 and \$232 attributable to our VIEs)	811	550
Accrued restructuring and support expenses	6,209	905
Interest payable (\$52 and \$37 attributable to our VIEs)	195	131
Current portion of long-term debt (\$22 and \$70 attributable to our VIEs)	51	187
Liabilities held for sale (\$0 and \$66 attributable to our VIEs)	—	66
Total current liabilities	7,733	2,016
Long-term debt (\$2,258 and \$2,267 attributable to our VIEs)	6,755	6,777
Deferred income taxes (\$0 and \$13 attributable to our VIEs)	1,749	1,000
Deferred credits and other liabilities (\$30 and \$125 attributable to our VIEs)	85	180
Total liabilities	16,322	9,973
Commitments and contingencies (Note 8)		
Stockholders' equity/(deficit)		
Caesars stockholders' equity/(deficit)	(2,639) 987
Noncontrolling interests	1,668	1,246
Total stockholders' equity/(deficit)	(971) 2,233
Total liabilities and stockholders' equity/(deficit)	\$ 15,351	\$ 12,206

See accompanying Notes to Consolidated Condensed Financial Statements.

CAESARS ENTERTAINMENT CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In millions, except per share data)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Revenues				
Casino	\$542	\$542	\$1,633	\$1,759
Food and beverage	202	211	612	639
Rooms	237	220	701	663
Other revenue	136	118	385	370
Less: casino promotional allowances	(131)	(134)	(403)	(423)
Net revenues	986	957	2,928	3,008
Operating expenses				
Direct				
Casino	276	279	840	913
Food and beverage	99	102	292	303
Rooms	67	59	189	171
Property, general, administrative, and other	402	268	928	805
Depreciation and amortization	111	91	325	274
Corporate expense	40	40	122	131
Other operating costs	35	34	77	106
Total operating expenses	1,030	873	2,773	2,703
Income/(loss) from operations	(44)	84	155	305
Interest expense	(147)	(147)	(448)	(530)
Deconsolidation and restructuring of CEOC and other	(3,070)	(935)	(5,333)	6,162
Income/(loss) from continuing operations before income taxes	(3,261)	(998)	(5,626)	5,937
Income tax benefit/(provision)	(27)	206	(37)	49
Income/(loss) from continuing operations, net of income taxes	(3,288)	(792)	(5,663)	5,986
Discontinued operations, net of income taxes	3,293	36	3,351	106
Net income/(loss)	5	(756)	(2,312)	6,092
Net income attributable to noncontrolling interests	(648)	(35)	(716)	(94)
Net income/(loss) attributable to Caesars	\$(643)	\$(791)	\$(3,028)	\$5,998
Earnings/(loss) per share - basic and diluted				
Basic earnings/(loss) per share from continuing operations	\$(26.80)	\$(5.70)	\$(43.70)	\$40.67
Basic earnings per share from discontinued operations	22.42	0.26	22.96	0.75
Basic earnings/(loss) per share	\$(4.38)	\$(5.44)	\$(20.74)	\$41.42
Diluted earnings/(loss) per share from continuing operations	\$(26.80)	\$(5.70)	\$(43.70)	\$40.14
Diluted earnings per share from discontinued operations	22.42	0.26	22.96	0.74
Diluted earnings/(loss) per share	\$(4.38)	\$(5.44)	\$(20.74)	\$40.88
Weighted-average common shares outstanding - basic	147	145	146	145
Weighted-average common shares outstanding - diluted	147	145	146	147

See accompanying Notes to Consolidated Condensed Financial Statements.

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

(In millions)	Caesars Stockholders' Equity/(Deficit)							Total Equity/(Deficit)
	Common Stock	Treasury Stock	Additional Paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Caesars Stockholders' Equity/(Deficit)	Noncontrolling Interests	
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
Share-based compensation	—	(2)	41	—	—	39	—	39
Elimination of CEOC noncontrolling interest and deconsolidation ⁽¹⁾	—	—	—	—	16	16	854	870
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
Balance as of December 31, 2015	\$ 1	\$ (21)	\$ 8,191	\$(7,185)	\$ 1	\$ 987	\$ 1,246	\$ 2,233
Net income/(loss)	—	—	—	(3,028)	—	(3,028)	716	(2,312)
Share-based compensation	—	(7)	32	—	—	25	—	25
CIE stock transactions, net ⁽²⁾	—	—	(622)	—	—	(622)	(3)	(625)
Change in noncontrolling interest, net of distributions and contributions	—	—	—	—	—	—	(287)	(287)
Other	—	—	(1)	—	—	(1)	(4)	(5)
Balance as of September 30, 2016	\$ 1	\$ (28)	\$ 7,600	\$(10,213)	\$ 1	\$ (2,639)	\$ 1,668	\$ (971)

⁽¹⁾ The effect of the deconsolidation of CEOC. See Note 1.

⁽²⁾ Primarily related to the repurchase of shares held by minority interest holders as part of CIE's sale of its SMG Business (see Note 14).

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Nine Months Ended September 30,	
(In millions)	2016	2015
Cash flows provided by operating activities	\$454	\$163
Cash flows from investing activities		
Acquisitions of property and equipment, net of change in related payables	(147)	(280)
Deconsolidation of CEOC cash	—	(958)
Increase in restricted cash	(4,429)	(29)
Decrease in restricted cash	1,177	55
Return of investment from discontinued operations	132	94
Contributions to discontinued operations	(144)	(29)
Proceeds from the sale and maturity of investments	38	25
Payments to acquire investments	(15)	(28)
Other	(3)	(3)
Cash flows used in investing activities	(3,391)	(1,153)
Cash flows from financing activities		
Proceeds from long-term debt and revolving credit facilities	80	271
Repayments of long-term debt and revolving credit facilities	(255)	(391)
Repurchase of CIE shares	(609)	(54)
Distribution of CIE sale proceeds	(487)	—
Distributions to noncontrolling interest owners	(21)	(26)
Other	7	17
Cash flows used in financing activities	(1,285)	(183)
Cash flows from discontinued operations		
Cash flows from operating activities	157	80
Cash flows from investing activities	4,384	(8)
Cash flows from financing activities	12	(96)
Cash flows from discontinued operations	4,553	(24)
Change in cash classified as held for sale	111	18
Net increase/(decrease) in cash and cash equivalents	442	(1,179)
Cash and cash equivalents, beginning of period	1,227	2,702
Cash and cash equivalents, end of period	\$1,669	\$1,523
Supplemental Cash Flow Information:		
Cash paid for interest	\$363	\$480
Cash paid for income taxes	65	55
Non-cash investing and financing activities:		
Change in accrued capital expenditures	1	(20)

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, 2015 (“2015 10-K”).

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

Note 1 - Description of Business

Organization

CEC is primarily a holding company with no independent operations of its own. CEC owns 100% of Caesars Entertainment Resort Properties, LLC (“CERP”) and an interest in Caesars Growth Partners, LLC (“CGP”). We also consolidate the results of Caesars Interactive Entertainment, LLC (formerly Caesars Interactive Entertainment, Inc.) (“CIE”), a wholly owned subsidiary of CGP that operates an online games business and owns the World Series of Poker (“WSOP”) tournaments and brand. CIE sold its social and mobile games business (the “SMG Business”) on September 23, 2016, as discussed below. As of September 30, 2016, 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 65% of consolidated net revenues for both the three and nine months ended September 30, 2016.

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

Caesars Enterprise Services, LLC

Caesars Enterprise Services, LLC (“CES”) is a services joint venture formed by CERP, CEOC, and Caesars Growth Properties Holdings, LLC (“CGPH”) (collectively, the “Members”). CES provides certain corporate and administrative services for the Members’ casino properties and related entities, including substantially all of the 28 casino properties owned by CEOC, and 7 casinos owned by unrelated third parties (including four Indian tribal casinos). 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, CEC and its operating subsidiaries 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.

Reportable Segments

We view each casino property as an operating segment and currently aggregate all such casino properties into two reportable segments based on management’s view, which aligns with their ownership and underlying credit structures: CERP and CGP.

Through June 30, 2016, we aggregated the operating segments within CGP into two separate reportable segments: Caesars Growth Partners Casino Properties and Developments (“CGP Casinos”) and CIE. On September 23, 2016, CIE sold the SMG Business for cash consideration of \$4.4 billion (the “CIE Proceeds”), subject to customary purchase price adjustments, and retained only its WSOP and regulated online real money gaming businesses. The SMG Business represented the majority of CIE’s operations and was classified as discontinued operations for the three and nine

months ended September 30, 2016. Historical results of the SMG Business have been recast as discontinued operations for the three and nine months ended September 30, 2015, and the related assets and liabilities have been recast as held for sale as of December 31, 2015 (See Note 14). After excluding the SMG Business from CIE's continuing operations, the remaining CIE business is not material, and we no longer consider CIE to be a separate reportable segment from CGP Casinos. Therefore, CGP Casinos and CIE have been combined for all periods presented to form the CGP segment. Additionally, CEOC remained a reportable segment until its deconsolidation effective January 15, 2015.

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

Announced Merger with Caesars Acquisition Company

In 2014, CEC and Caesars Acquisition Company (“CAC”) entered into a merger agreement, which was amended and restated on July 9, 2016 (the “Merger Agreement”). Pursuant to the Merger Agreement, among other things, CAC will merge with and into CEC, with CEC as the surviving company (the “Merger”). Subject to the terms and conditions of the Merger Agreement, upon consummation of the Merger, each share of CAC common stock issued and outstanding immediately prior to the effective date of the Merger will be converted into, and become exchangeable for, shares of CEC common stock in a ratio to ensure that holders of CAC common stock receive shares equal to 27.5% of the outstanding CEC common stock on a fully diluted basis (prior to the conversion of the CEC Convertible Notes being issued as part of the Restructuring, as defined below) (the “Exchange Ratio”). The Exchange Ratio may be subject to change, and CEC or CAC may terminate the Merger Agreement under certain circumstances.

We expect the Merger to be accounted for as a transaction among entities under common control, which will result in CAC being consolidated into Caesars at book value as an equity transaction.

Going Concern

Overview

As a result of the following circumstances, we have substantial doubt about CEC’s ability to continue as a going concern:

we have limited unrestricted cash available to meet the financial commitments of CEC, primarily resulting from significant expenditures made to (1) defend against the litigation matters disclosed below and (2) support a plan of reorganization for CEOC (the “Restructuring”);

- we have made material future commitments to support the Restructuring described below; and
- we are a defendant in litigation relating to certain CEOC transactions dating back to 2010 and other legal matters (see Note 3) that could result in one or more adverse rulings against us.

CEC does not currently have sufficient cash to meet its financial commitments to support the Restructuring that are due when CEOC ultimately emerges from bankruptcy or to satisfy the potential obligations that would arise in the event of an adverse ruling on one or all of the litigation matters disclosed below. The completion of the Merger is expected to allow CEC to fulfill its financial commitments in support of the Restructuring. However, if the Merger is not completed for any reason, CEC would still be liable for many of these obligations. In addition, although under the terms of the Restructuring, all related litigation is expected to be resolved, the outstanding litigation matters are only stayed pending confirmation of the Restructuring and CEOC’s emergence from bankruptcy.

The cash forecast at CEC currently contemplates liquidity to be sufficient through December 31, 2016. In addition, CEC entered into the CIE Proceeds and Reservation Rights Agreement (as amended on October 7, 2016) with CIE, CEOC and CAC (the “CIE Proceeds Agreement”), which allows for up to \$235 million of the proceeds from the SMG Business sale to be distributed to CEC in order to pay certain fees in support of the Restructuring (“CEC Expense Amounts”). After taking into account the cash available to pay the CEC Expense Amounts, CEC expects to have sufficient cash to meet its ongoing obligations as they come due. However, there are restrictions governing when and how the cash designated for CEC Expense Amounts can be used, pursuant to the terms of the Second Lien RSA (defined below) (see Note 2). CEC also expects to gain access to the remaining proceeds from the sale of the SMG Business upon completion of the Merger, which will be used to fund its other commitments in support of the Restructuring.

If CEC is unable to access additional sources of cash when needed, in the event of a material adverse ruling on one or all of the litigation matters disclosed below, or if CEOC does not emerge from bankruptcy on a timely basis on terms and under circumstances satisfactory to CEC, it is likely that CEC would seek reorganization under Chapter 11 of the

Bankruptcy Code.

We believe that CERP and CGP's cash and cash equivalents, their cash flows from operations, and/or financing available under their separate revolving credit facilities will be sufficient to meet their normal operating requirements, to fund planned capital expenditures, and to fund debt service during the next 12 months and the foreseeable future.

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

CEOC Reorganization

On October 20, 2016, the Debtors filed an amended plan of reorganization (the “Third Amended Plan”) with the United States Bankruptcy Court for the Northern District of Illinois in Chicago (the “Bankruptcy Court”) that replaces and provides for different terms than the Initial Plan filed in October 2015 and the second amended plan filed on June 28, 2016. CEC, CAC, the Debtors and CEOC’s major creditor groups have agreed to support the Third Amended Plan. The confirmation hearing for the Third Amended Plan has been scheduled for January 2017.

In connection with the Third Amended Plan, the following agreements with respect to the CEOC reorganization were either entered into or amended, as needed (collectively, the “RSAs”):

- (a) Sixth Amended and Restated Restructuring Support and Forbearance Agreement, dated October 4, 2016, with certain parties holding claims under CEOC’s first lien notes (the “First Lien Bond RSA”);
- (b) Second Amended Restructuring Support and Forbearance Agreement, dated October 4, 2016, with certain parties holding claims under CEOC’s first lien credit agreement (the “First Lien Bank RSA”);
- (c) Restructuring Support, Forbearance and Settlement Agreement, dated October 4, 2016, with certain parties holding claims under CEOC’s second lien note agreements (the “Second Lien RSA”);
- (d) Amendment No. 1 to First Amended and Restated Restructuring Support and Forbearance Agreement, dated October 4, 2016, with certain parties holding claims under CEOC’s subsidiary guaranteed notes (the “SGN RSA”);
- (e) First Amended and Restated Restructuring Support, Settlement, and Contribution Agreement, dated July 9, 2016, with CEOC (the “CEC RSA”);
- (f) Amended and Restated Restructuring Support Agreement, dated July 9, 2016, with CAC and CEOC (the “CAC RSA”); and
- (g) Restructuring Support and Settlement Agreement, dated June 22, 2016, with the unsecured claimholders’ committee in the Chapter 11 cases (the “UCC RSA”).

The “Effective Date” of the Restructuring (the material terms of which are contained in the RSAs and the Third Amended Plan) 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 become effective.

As a result of entering into the Third Amended Plan and the RSAs, we believe it is probable that certain obligations described in the Third Amended Plan and the RSAs will ultimately be settled, and therefore, we have accrued the items described in the table below that are estimable in accrued restructuring and support expenses on the Balance Sheets. During the third quarter of 2016, we updated our accruals based on the terms of the Third Amended Plan and the RSAs and recorded an additional \$3.0 billion in deconsolidation and restructuring of CEOC and other in the statement of operations, which increased our total expense to \$5.3 billion for the nine months ended September 30, 2016.

We estimated the total consideration we expect to provide in support of the Restructuring, which includes a combination of cash, CEC common stock, and CEC convertible notes. Accrued restructuring and support expenses does not include the consideration that will be issued as part of the acquisition of OpCo (as defined below), which will be recorded when the transaction is consummated.

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

Accrued Restructuring and Support Expenses

(In millions)	Accrued as of	
	September 30, 2016	December 31, 2015
Forbearance fees and other payments to creditors	\$ 977	\$ 484
Bank Guaranty Settlement	734	386
Issuance of CEC common shares	2,741	—
Issuance of CEC convertible notes	1,500	—
Payment of creditor expenses, settlement charges, and other fees	222	—
Payment to CEOC	35	35
Total accrued	\$ 6,209	\$ 905

Forbearance Fees and Other Payments to Creditors. CEC has agreed to pay certain fees in exchange for CEOC's major creditors agreeing to forebear from exercising their rights and remedies under certain of CEOC's credit agreements and to stay all pending litigation. The amounts disclosed above are reported net of \$148 million that was paid during the fourth quarter of 2015. Subsequent to September 30, 2016, CEC paid an additional \$6 million.

Bank Guaranty Settlement. 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. Pursuant to the Third Amended Plan, the CEOC creditors have agreed to eliminate the CEC Collection Guarantee, and we recorded \$734 million as an estimate of the liability based on the terms of the Bank Guaranty Settlement agreement.

Issuance of CEC Common Shares. CEC will issue CEC common shares for the settlement of claims and potential claims and is obligated to repurchase at least \$1.0 billion worth of the issued shares at a fixed price. As of September 30, 2016, our accrual includes the \$1.0 billion repurchase obligation plus the estimated fair value of \$1.7 billion for the net shares that we expect to issue after satisfying the repurchase obligation, which is subject to remeasurement on a quarterly basis. Additionally, we have accrued a liability of \$29 million for the fair value associated with the creditors' right to require CEC to repurchase up to \$200 million worth of the newly-issued CEC common shares.

CEC's majority shareholders, the Sponsors (as defined in Note 16), have agreed to provide their CEC common shares as consideration in support of the Restructuring and for the settlement of claims and potential claims. Therefore, our accrual also includes the fair value of the shares held by the Sponsors. We will reduce the estimate of our obligation upon receipt of the shares from the Sponsors, with an offsetting amount recorded to equity, which is expected to occur on the Effective Date. See Note 7 for additional information on fair value measurements and how this value was determined.

Issuance of CEC Convertible Notes. CEC will issue \$1.1 billion in face value of convertible notes to the CEOC creditors for the settlement of claims and potential claims, and our accrual represents the estimated fair value of the notes to be issued.

Payment of Creditor Expenses, Settlement Charges, and Other Fees. Pursuant to the Third Amended Plan, CEC has agreed to pay certain professional fees incurred by CEOC's creditors and has agreed to pay other ancillary fees and settlement amounts.

Payment to CEOC. In addition, and separate from the transactions and agreements described above, because there was 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, a debt agreement entered into by CEOC in 2014 contemplates an additional payment to CEOC of \$35 million from CEC. During the first quarter of 2015, we accrued this liability in accrued restructuring and support expenses on the Balance Sheet, and this amount is currently due and payable. The CIE Proceeds Agreement designates a portion of the proceeds from the sale of the SMG Business for the purpose of paying this obligation upon CEOC's emergence from bankruptcy.

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

Other Commitments Under the Third Amended Plan

The following represents other commitments or potential obligations to which CEC has agreed as part of the Third Amended Plan and certain of the RSAs, none of which have been accrued as of September 30, 2016.

Purchase 100% of OpCo common stock for \$700 million ⁽¹⁾

Issuance of CEC common shares in exchange for OpCo preferred stock

Purchase 5% of PropCo equity for \$91 million ⁽²⁾

PropCo has right of first refusal on the real property assets associated with all new domestic non-Las Vegas gaming facility opportunities, with CEC or OpCo leasing such properties

PropCo receives a call right to purchase the real property assets associated with Harrah's Atlantic City, Harrah's Laughlin, and Harrah's New Orleans (subject to the terms of the CERP and CGPH credit agreements)

Guarantee of OpCo's payment obligations to PropCo under the leases of the CEOC Properties

Guarantee of OpCo debt received by the First Lien Bank Lenders and First Lien Noteholders

⁽¹⁾ "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.

"PropCo" refers to the proposed entity resulting from the Restructuring that will own the real property assets ⁽²⁾ associated with the CEOC Properties as of the Effective Date. This commitment is dependent on the ultimate legal structure of the entities formed as part of the Restructuring.

The acquisitions of OpCo equity and PropCo equity represent future investment transactions and will be recorded when (or if) the transactions are consummated. The PropCo right of refusal and call right to purchase the real property assets associated with the listed properties are either not estimable or not financial obligations that would require accrual. The guarantees of OpCo's payment and debt obligations relate to OpCo commitments that do not yet exist, and thus do not give rise to any obligations for CEC as of September 30, 2016.

Liquidity

Caesars Entertainment is a highly-leveraged company and had \$6.9 billion in consolidated debt outstanding as of September 30, 2016. As a result, a significant portion of our liquidity needs are for debt service, including significant interest payments. As detailed in Note 9, our consolidated estimated debt service (including principal and interest) for the remainder of 2016 is \$286 million and \$9.3 billion thereafter to maturity. See Note 9 for details of our debt outstanding and related restrictive covenants. This includes, among other information, details of our individual borrowings outstanding and each subsidiary's annual maturities of long-term debt as of September 30, 2016.

Cash and Available Revolver Capacity

(In millions)	September 30, 2016			
	CER	PCGP	CES	Other
Cash and cash equivalents	\$247	\$1,140	\$94	\$188
Revolver capacity	270	160	—	—
Revolver capacity drawn or committed to letters of credit	—	—	—	—
Total	\$517	\$1,300	\$94	\$188

Consolidated cash and cash equivalents, excluding restricted cash, as shown in the table above include amounts held by CERP, CGP, and CES, which are not readily available to CEC. "Other" reflects CEC and certain of its direct subsidiaries, including its insurance captives.

CEC is primarily a holding company with no independent operations, employees, or material debt issuances of its own. Its primary assets as of September 30, 2016, consist of \$188 million in cash and cash equivalents and its ownership interests in CEOC, CERP and CGP. CEC's cash includes \$107 million held by its insurance captives.

Provisions included in certain debt arrangements entered into by CERP and CGP (and/or their respective subsidiaries) substantially restrict the ability of CERP, CGP, and their subsidiaries

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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, including defending itself in the litigation in which it has been named as a defendant (see Note 3). In the first quarter of 2016, \$100 million in cash that had previously been restricted by management for use in a casino development project became available for CEC's use in operations. In addition, as described previously, CEC is able to fund certain eligible CEC Expense Amounts from \$235 million of the proceeds from the sale of the SMG Business. Otherwise, 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.

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 3:

• 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 (the "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");

• 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 (the "NRF Litigation").

Report of Bankruptcy Examiner

The Bankruptcy Court engaged an examiner to investigate possible claims CEOC might have against CEC and/or other entities and individuals. On March 15, 2016, the examiner released his report, which identifies a variety of potential claims against CEC and certain individuals related to a number of transactions dating back to 2009. Most of the examiner's findings are premised on his view that CEOC was "insolvent" at the time of the applicable transactions and that CEOC did not receive fair value for assets transferred. The examiner's report includes his conclusions on the relative strengths of these possible claims, many of which are described in Note 3. The examiner calculates an estimated range of potential damages for these potential claims from \$3.6 billion to \$5.1 billion, and such calculation does not account for probability of success, likelihood of collection, or the time or cost of litigation.

While this report was prepared at the request of the Bankruptcy Court, none of the findings included therein are legally binding on the Bankruptcy Court or any party. CEC contests most of the examiner's findings, including his findings that CEOC was insolvent at relevant times, that there were breaches of fiduciary duty, that CEOC did not receive fair value for assets transferred, that there were fraudulent transfers, and as to the calculation of damages. CEC believes that each of the challenged transactions was undertaken to provide CEOC with the liquidity and resources required to sustain it and provide time to recover from significant market challenges.

CEC believes that the conclusion of the examination and the release of the report was a necessary step to facilitate the settlement discussions in the CEOC bankruptcy proceedings. The Third Amended Plan and the related RSAs reflect the current status of the ongoing effort to arrive at a consensual plan providing for the timely emergence of CEOC from bankruptcy.

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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 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 2016 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, 2016 and December 31, 2015.

The results of operations and cash flows primarily related to the SMG Business were classified as discontinued operations for the three and nine months ended September 30, 2016, and the historical results have been recast as discontinued operations for the three and nine months ended September 30, 2015. The related assets and liabilities have been recast as held for sale as of December 31, 2015 (see Note 14).

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.

Consolidation of CGP

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 16). The 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, CEC is expected to receive the majority of the benefits or absorb the majority of the losses from its higher economic participation in CGP. Since CEC is more closely associated with CGP than CAC, we have determined that CEC 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 \$422 million and \$417 million for the three months ended September 30, 2016 and 2015, respectively, and \$1.3 billion and \$1.2 billion for the nine months ended September 30, 2016 and 2015, respectively. Net income attributable to Caesars related to CGP was \$3.2 billion for both the three and nine months ended September 30, 2016. Net loss attributable to Caesars related to CGP was \$5 million and \$2 million for the three and nine months ended September 30, 2015, respectively.

CGP was obligated to issue non-voting membership units to CEC in 2016 to the extent that the earnings from CIE’s social and mobile games business exceeded a specified threshold amount as of December 31, 2015. In April 2016, CGP issued 32 million Class B non-voting units to CEC, resulting in CEC’s economic ownership in CGP increasing from 57.4% to 61.2%. However, there was no effect on our financial statements from this transaction.

Our consolidated restricted cash includes amounts held by CGP of \$3.4 billion and \$12 million as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, the majority of the balance is restricted under the terms of the CIE Proceeds Agreement, which requires a portion of the CIE Proceeds be deposited into the CIE escrow account (the "CIE Escrow Account"). Amounts may be distributed from the CIE Escrow Account only: (i) pursuant to the terms of the term sheet included in the CIE Proceeds Agreement and the agreement entered into among Wilmington Trust, National Association, CIE and CEOC,

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governing the CIE Escrow Account, (ii) with the joint written consent of CIE and CEOC, or (iii) pursuant to an order of a court of competent jurisdiction.

Consolidation of CES

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. Therefore, when CES was formed, we determined that it was a VIE, and we concluded that CERP was required to consolidate it.

Effective January 1, 2016, we implemented the Financial Accounting Standard Board's (the "FASB") Accounting Standard Update ("ASU") No. 2015-02, which amended Topic 810, Consolidations. Applying the amended guidance had no effect on our consolidated financial statements.

Under the guidance in effect prior to ASU No. 2015-02, CERP was determined to be the primary beneficiary of CES, and we consolidated CES through our consolidation of CERP. Under the amended guidance, in determining whether an entity is the primary beneficiary of a VIE, the entity must evaluate whether it has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance through both its direct economic interests in the VIE and its indirect economic interests in the VIE held through related parties. Under the new criteria, when a decision maker exists that holds both power and benefits through its related parties and neither related party holds such power and benefits on their own, the decision maker is determined to be the primary beneficiary. Therefore, we concluded that CEC is the primary beneficiary because our combined economic interest in CES, through our subsidiaries, represents a controlling financial interest.

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.

Consolidation Considerations for CEOC

CEOC's filing for reorganization was a reconsideration event for Caesars Entertainment to reevaluate whether consolidation of CEOC continued to be appropriate. We concluded that CEOC is a VIE and that we are not the primary beneficiary of CEOC; therefore, we no longer consolidate CEOC.

Transactions with CEOC are treated as related party transactions for Caesars Entertainment. These transactions include items such as casino management fees paid to CEOC, insurance expenses related to insurance coverage provided to CEOC by Caesars Entertainment, and rent payments by CEOC to CERP under the Octavius Tower lease agreement. See Note 16 for additional information on related party transactions and on the carrying amounts and classification of assets and liabilities that relate to our variable interest in CEOC.

Note 3 — Litigation

Litigation

Noteholder Disputes

On August 4, 2014, Wilmington Savings Fund Society, FSB, solely in its capacity as successor Indenture Trustee for the 10.00% Second-Priority Senior Secured Notes due 2018 (the "10.00% Second-Priority Notes"), on behalf of itself and, it alleges, derivatively on behalf of CEOC, filed a lawsuit (the "Delaware Second Lien Lawsuit") in the Court of Chancery in the State of Delaware against CEC and CEOC, CGP, CAC, CERP, CES, Eric Hession, Gary Loveman, Jeffrey D. Benjamin, David Bonderman, Kelvin L. Davis, Marc C. Rowan, David B. Sambur, and Eric Press. The lawsuit alleges claims for breach of contract, intentional and constructive fraudulent transfer, breach of fiduciary duty,

aiding and abetting breach of fiduciary duty, and corporate waste. The lawsuit seeks (1) an award of money damages; (2) to void certain transfers, the earliest of which dates back to 2010; (3) an injunction directing the recipients of the assets in these transactions to return them to CEOC; (4) a declaration that CEC remains liable under the parent guarantee formerly applicable to the 10.00% Second-Priority Notes; (5) to impose a constructive trust or equitable lien on the transferred assets; and (6) an award to plaintiffs for their attorneys' fees and costs. CEC believes this lawsuit is without merit and is defending itself vigorously. A motion to dismiss this action was filed by CEC and other defendants in September 2014,

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and the motion was argued in December 2014. During the pendency of its Chapter 11 bankruptcy proceedings, the action has been automatically stayed with respect to CEOC. The motion to dismiss with respect to CEC was denied on March 18, 2015. In a Verified Supplemental Complaint filed on August 3, 2015, the plaintiff stated that due to CEOC's bankruptcy filing, the continuation of all claims was stayed pursuant to the bankruptcy except for Claims II, III, and X. These are claims against CEC only, for breach of contract in respect of the release of the parent guarantee formerly applicable to the CEOC 10.00% Second-Priority Notes, for declaratory relief in respect of the release of this guarantee, and for violations of the Trust Indenture Act in respect of the release of this guarantee. Fact discovery in the case is complete, and cross-motions for summary judgment have been filed by the parties. On October 5, 2016, the Bankruptcy Court granted CEOC's motion for a stay of this proceeding (and others). The stay will remain in effect until the earlier of (a) the first omnibus hearing after the Bankruptcy Court issues its decision confirming or denying confirmation of the Restructuring, (b) the termination of the restructuring support agreement with the Official Committee of Second Priority Noteholders or (c) further order of the Bankruptcy Court.

On September 3, 2014, holders of approximately \$21 million of CEOC 6.50% Senior Unsecured Notes due 2016 and 5.75% Senior Unsecured Notes due 2017 (collectively, the "Senior Unsecured Notes") filed suit in federal district court in Manhattan against CEC and CEOC, claiming broadly that an August 12, 2014 Note Purchase and Support Agreement between CEC and CEOC (on the one hand) and certain other holders of the Senior Unsecured Notes (on the other hand) impaired their own rights under the Trust Indenture Act of 1939 and the indentures governing the Senior Unsecured Notes. The lawsuit seeks both declaratory and monetary relief. On October 2, 2014, a holder of CEOC's 6.50% Senior Unsecured Notes due 2016 purporting to represent a class of all persons who held these Notes from August 11, 2014 to the present filed a substantially similar suit in the same court, against the same defendants, relating to the same transactions. Both lawsuits (the "Senior Unsecured Lawsuits") were assigned to the same judge. The claims against CEOC have been automatically stayed during its Chapter 11 bankruptcy proceedings. The court denied a motion to dismiss both lawsuits with respect to CEC. The parties have completed fact discovery with respect to both plaintiffs' claims against CEC. On October 23, 2015, plaintiffs in the Senior Unsecured Lawsuits moved for partial summary judgment, and on December 29, 2015, those motions were denied. On December 4, 2015, plaintiff in the action brought on behalf of holders of CEOC's 6.50% Senior Unsecured Notes moved for class certification and briefing has been completed. The judge presiding over these cases thereafter retired, and a new judge was appointed to preside over these lawsuits. That judge set a new summary judgment briefing schedule, and the parties filed cross-motions for summary judgment, which remain pending. On October 5, 2016, the Bankruptcy Court granted CEOC's motion for a stay of these proceedings (and others). The stay will remain in effect until the earlier of (a) the first omnibus hearing after the Bankruptcy Court issues its decision confirming or denying confirmation of the Restructuring, (b) the termination of the restructuring support agreement with the Official Committee of Second Priority Noteholders or (c) further order of the Bankruptcy Court.

On November 25, 2014, UMB Bank ("UMB"), as successor indenture trustee for CEOC's 8.50% Senior Secured Notes due 2020 (the "8.50% Senior Secured Notes"), filed a verified complaint (the "Delaware First Lien Lawsuit") in Delaware Chancery Court against CEC, CEOC, CERP, CAC, CGP, CES, and against individual past and present Board members Loveman, Benjamin, Bonderman, Davis, Press, Rowan, Sambur, Hession, Colvin, Kleisner, Swann, Williams, Housenbold, Cohen, Stauber, and Winograd, alleging generally that defendants improperly stripped CEOC of certain assets, wrongfully effected a release of CEC's parent guarantee of the 8.50% Senior Secured Notes and committed other wrongs. Among other things, UMB asked the court to appoint a receiver over CEOC. In addition, the suit pleads claims for fraudulent conveyances/transfers, insider preferences, illegal dividends, declaratory judgment (for breach of contract as regards to the parent guarantee and also as to certain covenants in the bond indenture), tortious interference with contract, breach of fiduciary duty, usurpation of corporate opportunities, and unjust

enrichment, and seeks monetary, equitable and declaratory relief. The lawsuit has been automatically stayed with respect to CEOC during its Chapter 11 bankruptcy process. Pursuant to the First Lien Bond RSA, the lawsuit also has been stayed in its entirety, with the consent of all of the parties to it.

On February 13, 2015, Caesars Entertainment received a Demand For Payment of Guaranteed Obligations (the "February 13 Notice") from Wilmington Savings Fund Society, FSB, in its capacity as successor Trustee for CEOC's 10.00% Second-Priority Notes. The February 13 Notice alleges that CEOC's commencement of its voluntary Chapter 11 bankruptcy case constituted an event of default under the indenture governing the 10.00% Second-Priority Notes; that all amounts due and owing on the 10.00% Second-Priority Notes therefore immediately became payable; and that Caesars Entertainment is responsible for paying CEOC's obligations on the 10.00% Second-Priority Notes, including CEOC's obligation to timely pay all principal, interest, and any premium due on these notes, as a result of a parent guarantee provision contained in the indenture governing the notes that the February 13 Notice alleges is still binding. The February 13 Notice accordingly demands that Caesars Entertainment immediately pay Wilmington Savings Fund Society, FSB, cash in an amount of not less than \$3.7 billion, plus accrued and unpaid interest (including without limitation the \$184 million interest payment due December 15, 2014 that CEOC elected not to pay) and accrued

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and unpaid attorneys' fees and other expenses. The February 13 Notice also alleges that the interest, fees and expenses continue to accrue.

On February 18, 2015, Caesars Entertainment received a Demand For Payment of Guaranteed Obligations (the "February 18 Notice") from BOKF, N.A. ("BOKF"), in its capacity as successor Trustee for CEOC's 12.75% Second-Priority Senior Secured Notes due 2018 (the "12.75% Second-Priority Notes"). The February 18 Notice alleges that CEOC's commencement of its voluntary Chapter 11 bankruptcy case constituted an event of default under the indenture governing the 12.75% Second-Priority Notes; that all amounts due and owing on the 12.75% Second-Priority Notes therefore immediately became payable; and that CEC is responsible for paying CEOC's obligations on the 12.75% Second-Priority Notes, including CEOC's obligation to timely pay all principal, interest and any premium due on these notes, as a result of a parent guarantee provision contained in the indenture governing the notes that the February 18 Notice alleges is still binding. The February 18 Notice therefore demands that CEC immediately pay BOKF cash in an amount of not less than \$750 million, plus accrued and unpaid interest, accrued and unpaid attorneys' fees, and other expenses. The February 18 Notice also alleges that the interest, fees and expenses continue to accrue.

In accordance with the terms of the applicable indentures, CEC is not subject to the above-described guarantees. As a result, we believe the demands for payment are meritless.

On March 3, 2015, BOKF filed a lawsuit (the "New York Second Lien Lawsuit") against CEC in federal district court in Manhattan, in its capacity as successor trustee for CEOC's 12.75% Second-Priority Notes. On June 15, 2015, UMB filed a lawsuit (the "New York First Lien Lawsuit") against CEC, also in federal district court in Manhattan, in its capacity as successor trustee for CEOC's 11.25% Senior Secured Notes due 2017, 8.50% Senior Secured Notes due 2020, and 9.00% Senior Secured Notes due 2020. Plaintiffs in these actions allege that CEOC's filing of its voluntary Chapter 11 bankruptcy case constitutes an event of default under the indentures governing these notes, causing all principal and interest to become immediately due and payable, and that CEC is obligated to make those payments pursuant to parent guarantee provisions in the indentures governing these notes that plaintiffs allege are still binding. Both plaintiffs bring claims for violation of the Trust Indenture Act of 1939, breach of contract, breach of duty of good faith and fair dealing and for declaratory relief and BOKF brings an additional claim for intentional interference with contractual relations. The cases were both assigned to the same judge presiding over the other Parent Guarantee Lawsuits (as defined below) that are taking place in Manhattan. CEC filed its answer to the BOKF complaint on March 25, 2015, and to the UMB complaint on August 10, 2015. On June 25, 2015, and June 26, 2015, BOKF and UMB, respectively, moved for partial summary judgment, specifically on their claims alleging a violation of the Trust Indenture Act of 1939, seeking both declaratory relief and damages. On August 27, 2015, those motions were denied. The court, on its own motion, certified its order with respect to the interpretation of the Trust Indenture Act for interlocutory appeal to the United States Court of Appeals for the Second Circuit, and on December 22, 2015, the appellate court denied our motion for leave to appeal. On November 20, 2015, BOKF and UMB again moved for partial summary judgment. These motions likewise were denied. The judge presiding over these cases thereafter retired, and a new judge was appointed to preside over these lawsuits. That judge set a new summary judgment briefing schedule, and the parties submitted cross-motions for summary judgment, which remain pending. On October 5, 2016, the Bankruptcy Court granted CEOC's motion for a stay of the New York First Lien Lawsuit and the New York Second Lien Lawsuit (and others). The stay will remain in effect until the earlier of (a) the first omnibus hearing after the Bankruptcy Court issues its decision confirming or denying confirmation of the Restructuring, (b) the termination of the restructuring support agreement with the Official Committee of Second Priority Noteholders or (c) further order of the Bankruptcy Court.

On October 20, 2015, Wilmington Trust, National Association (“Wilmington Trust”), filed a lawsuit (the “New York Senior Notes Lawsuit” and, together with the Delaware Second Lien Lawsuit, the Delaware First Lien Lawsuit, the Senior Unsecured Lawsuits, the New York Second Lien Lawsuit, and the New York First Lien Lawsuit, the “Parent Guarantee Lawsuits”) against CEC in federal district court in Manhattan in its capacity as successor indenture trustee for CEOC’s 10.75% Senior Notes due 2016 (the “10.75% Senior Notes”). Plaintiff alleges that CEC is obligated to make payment of amounts due on the 10.75% Senior Notes pursuant to a parent guarantee provision in the indenture governing those notes that plaintiff alleges is still in effect. Plaintiff raises claims for violations of the Trust Indenture Act of 1939, breach of contract, breach of the implied duty of good faith and fair dealing, and for declaratory judgment, and seeks monetary and declaratory relief. CEC filed its answer to the complaint on November 23, 2015. As with the other parent guaranty lawsuits taking place in Manhattan, the judge presiding over these cases thereafter retired, and a new judge was appointed to preside over these lawsuits. That judge set a new summary judgment briefing schedule, and the parties submitted cross-motions for summary judgment, which remain pending. On October 5, 2016, the Bankruptcy Court granted CEOC’s motion for a stay of this proceeding (and others). The stay will remain in effect until the earlier of (a) the first omnibus hearing after the Bankruptcy Court issues its decision confirming or denying confirmation of the

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Restructuring, (b) the termination of the restructuring support agreement with the Official Committee of Second Priority Noteholders or (c) further order of the Bankruptcy Court.

We believe that the claims and demands described above against CEC are without merit and we intend to defend the Company vigorously. The claims against CEOC have been stayed due to the Chapter 11 process and, as described above, the actions against CEC have also been stayed. See additional disclosure relating to CEOC's Chapter 11 filing in Note 1. Should they ever proceed, we believe that the Noteholder Disputes and the Parent Guarantee Lawsuits have a reasonably possible likelihood of an adverse outcome. Should these matters ultimately be resolved through litigation outside of the Restructuring, and should a court find in favor of the claimants in some or all of the Noteholder Disputes, such determination would likely lead to a CEC reorganization under Chapter 11 of the Bankruptcy Code (see Note 1). We are not able to estimate a range of reasonably possible losses should any of the Noteholder Disputes ultimately be resolved against us, although they could potentially exceed \$11 billion.

CEC-CAC Merger Litigation

On December 30, 2014, Nicholas Koskie, on behalf of himself and, he alleges, all others similarly situated, filed a lawsuit (the "Merger Lawsuit") in the Clark County District Court in the State of Nevada (the "Court") against CAC, CEC and members of the CAC board of directors Marc Beilinson, Philip Erlanger, Dhiren Fonseca, Don Kornstein, Karl Peterson, Marc Rowan, and David Sambur (the individual defendants collectively, the "CAC Directors"). The Merger Lawsuit alleges claims for breach of fiduciary duty against the CAC Directors and aiding and abetting breach of fiduciary duty against CAC and CEC. It seeks (1) an order directing the CAC Directors to fulfill alleged fiduciary duties to CAC in connection with the proposed merger between CAC and CEC announced on December 22, 2014, specifically by announcing their intention to (a) cooperate with bona fide interested parties proposing alternative transactions, (b) ensure that no conflicts exist between the CAC Directors' personal interests and their fiduciary duties to maximize shareholder value in the Merger, or resolve all such conflicts in favor of the latter, and (c) act independently to protect the interests of the shareholders; (2) an order directing the CAC Directors to account for all damages suffered or to be suffered by plaintiff and the putative class as a result of the Merger; and (3) an award to plaintiff for his costs and attorneys' fees. On October 13, 2016, the Court dismissed the case for lack of prosecution. Pursuant to local rule, the case may be reinstated at the plaintiff's written request, provided such request is filed within 30 days of the date of service of written notice of the dismissal.

Employee Benefit Obligations

In December 1998, Hilton Hotels Corporation ("Hilton") spun-off its gaming operations as Park Place Entertainment Corporation ("Park Place"). In connection with the spin-off, Hilton and Park Place entered into various agreements, including an Employee Benefits and Other Employment Allocation Agreement dated December 31, 1998 (the "Allocation Agreement") whereby Park Place assumed or retained, as applicable, certain liabilities and excess assets, if any, related to the Hilton Hotels Retirement Plan (the "Hilton Plan") based on the benefits of Hilton employees and Park Place employees. CEOC is the ultimate successor to Park Place under this Allocation Agreement. In 2013, a lawsuit was settled relating to the Hilton Plan, which retroactively and prospectively increased total benefits to be paid under the Hilton Plan. In 2009, we received a letter from Hilton, notifying us of a lawsuit related to the Hilton Plan that alleged that CEC had a potential liability for the additional claims under the terms of the Allocation Agreement. On December 24, 2014, Hilton, the Plan Administrator of the Hilton Plan, and a representative of the Plan Administrator (the "Hilton Parties") sued CEC and CEOC in federal court in Virginia primarily under the Employee Retirement Income Security Act ("ERISA"), and also under state contract and unjust enrichment law theories, for monetary and equitable relief in connection with this ongoing dispute. On April 14, 2015, the federal court dismissed the Hilton Parties' unjust enrichment claim with prejudice and ordered that the remainder of the case be transferred to the Bankruptcy Court based upon its relationship to the CEOC bankruptcy case.

On June 9, 2016, CEC, CEOC and the Hilton Parties entered into a settlement of the Hilton Parties' claims (the "Settlement Agreement"). Under the settlement, Hilton will receive a general unsecured claim in CEOC's bankruptcy case for an amount equal to \$51 million plus 31.75% for amounts paid by Hilton to the Hilton Plan due after July 16, 2016. For periods following the effective date of CEOC's plan of reorganization, CEC shall assume certain of CEOC's obligations under the Allocation Agreement. In exchange, Hilton shall turn over to CEC the distributions on account of \$24.5 million of Hilton's claim in the CEOC bankruptcy. On June 21, 2016, the parties sought approval of the Settlement Agreement. The CEOC Bankruptcy Court approved the Settlement Agreement on July 19, 2016. The settlement amount is fully accrued in liabilities subject to compromise at CEOC, and the Settlement Agreement is subject to the effectiveness of CEOC's plan of reorganization.

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National Retirement Fund

In January 2015, a majority of the Trustees of the National Retirement Fund (“NRF”), a multi-employer defined benefit pension plan, voted to expel the five indirect subsidiaries of CEC which were required to make contributions to the legacy plan of the NRF (the “Five Employers”). The NRF contended that the financial condition of the Five Employers’ controlled group (the “CEC Controlled Group”) and CEOC’s then-potential bankruptcy presented an “actuarial risk” to the plan because, depending on the outcome of any CEOC bankruptcy proceedings, CEC might no longer be liable to the plan for any partial or complete withdrawal liability. As a result, the NRF claimed that the expulsion of the Five Employers constituted a complete withdrawal of the CEC Controlled Group from the plan. CEOC, in its bankruptcy proceedings, has to date not rejected the contribution obligations to the NRF of any of its subsidiary employers. The NRF has advised the CEC Controlled Group (which includes CERP) that the expulsion of the Five Employers has triggered a joint and several withdrawal liability with a present value of approximately \$360 million, payable in 80 quarterly payments of about \$6 million.

Prior to the NRF’s vote to expel the Five Employers, the Five Employers reiterated their commitments to remain in the plan and not seek rejection of any collective bargaining agreement in which the obligation to contribute to NRF exists. The Five Employers were current with respect to pension contributions at the time of their expulsion, and are current with respect to pension contributions as of today pursuant to the Standstill Agreement referred to below.

We have opposed the various NRF expulsion actions.

On January 8, 2015, prior to the NRF’s vote to expel the Five Employers, CEC filed an action in the United States District Court for the Southern District of New York (the “S.D.N.Y.”) against the NRF and its Board of Trustees, seeking a declaratory judgment that they did not have the authority to expel the Five Employers and thus allegedly trigger withdrawal liability for the CEC Controlled Group (the “CEC Action”). On December 25, 2015, the District Judge entered an order dismissing the CEC Action on the ground that CEC’s claims in this action must first be arbitrated under ERISA. CEC has appealed this decision to the United States Court of Appeals for the Second Circuit. On March 6 and March 27, 2015, CEOC and certain of its subsidiaries filed in the CEOC bankruptcy proceedings two motions to void (a) the purported expulsion of the Five Employers and based thereon the alleged triggering of withdrawal liability for the non-debtor members of the CEC Controlled Group, and (b) a notice and payment demand for quarterly payments of withdrawal liability subsequently made by the NRF to certain non-debtor members of the CEC Controlled Group, respectively, on the ground that each of these actions violated the automatic stay (the “362 Motions”). On November 12, 2015, Bankruptcy Judge Goldgar issued a decision denying the 362 Motions on the ground that the NRF’s actions were directed at non-debtors and therefore did not violate the automatic stay. CEOC has appealed this decision to the federal district court in Chicago.

On March 6, 2015, CEOC commenced an adversary proceeding against the NRF and its Board of Trustees in the Bankruptcy Court (the “Adversary Proceeding”). On March 11, 2015, CEOC filed a motion in that Adversary Proceeding to extend the automatic stay in the CEOC bankruptcy proceedings to apply to the NRF’s expulsion of the Five Employers (the “105 Motion”). Judge Goldgar has not yet decided the 105 Motion.

On March 20, 2015, CEC, CEOC and CERP, on behalf of themselves and others, entered into a Standstill Agreement with the NRF and its Board of Trustees that, among other things, stayed each member of the CEC Controlled Group’s purported obligation to commence making quarterly payments of withdrawal liability and instead required the Five Employers to continue making monthly contribution payments to the NRF, unless and until each of the 362 Motions and the 105 Motion had been denied. As the 105 Motion has not yet been decided, the Standstill Agreement remains in effect.

If both the 105 Motion and CEC’s appeal of the CEC Action are denied, then CEC could be required to pay to the NRF joint and several withdrawal liability with a present value of approximately \$360 million, payable in 80 quarterly

payments of about \$6 million each while CEC simultaneously arbitrates whether the NRF and its Board of Trustees had the authority to expel the Five Employers and trigger withdrawal liability for the CEC Controlled Group. Also, on March 18, 2015, the NRF and its fund manager commenced a collection action in the S.D.N.Y. against CEC, CERP and all non-debtor members of the CEC Controlled Group for the payment of the first quarterly payment of withdrawal liability, which the NRF contended was due on March 15, 2015 (the "NRF Action"). On December 25, 2015, the District Judge denied the defendants' motion to dismiss the NRF Action on the ground that the arguments raised by the defendants must first be arbitrated under ERISA. On February 26, 2016, the NRF and its fund manager filed a motion for summary judgment against CEC and CERP

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for payment of the first quarterly payment of withdrawal liability and for interest, liquidated damages, attorneys' fees and costs. On May 5, 2016, the Magistrate Judge recommended in his report and recommendation ("Report and Recommendation") that the NRF Action plaintiffs' motion for summary judgment be granted on the ground that the further arguments raised by CEC and CERP must first be arbitrated under ERISA. On May 19, 2016, CEC and CERP filed their objections to the Report and Recommendation (the "Objections"). On June 2, 2016, the NRF Action plaintiffs filed their response to the Objections. The District Judge has not yet ruled on the Objections. If the District Judge adopts the Magistrate Judge's Report and Recommendation, then a judgment could be entered against CEC and CERP for approximately \$8 million comprising the first quarterly payment of withdrawal liability referred to above, interest and liquidated damages under ERISA, which amount would be paid or bonded pending an appeal.

We believe our legal arguments against the actions undertaken by NRF are strong and will pursue them vigorously, and will defend vigorously against the claims raised by the NRF in the NRF Action. Since settlement discussions with the NRF are continuing and no material discovery has yet been performed with respect to any of the above actions, we cannot currently provide assurance as to the ultimate outcome of the matters at issue.

Other Matters

In recent years, governmental authorities have been increasingly focused on anti-money laundering ("AML") policies and procedures, with a particular focus on the gaming industry. In October 2013, CEOC's subsidiary, Desert Palace, Inc. (the owner of and referred to herein as Caesars Palace), received a letter from the Financial Crimes Enforcement Network of the United States Department of the Treasury ("FinCEN"), stating that FinCEN was investigating Caesars Palace for alleged violations of the Bank Secrecy Act to determine whether it is appropriate to assess a civil penalty and/or take additional enforcement action against Caesars Palace. Caesars Palace responded to FinCEN's letter in January 2014. Additionally, we were informed in October 2013 that a federal grand jury investigation regarding anti-money laundering practices of the Company and its subsidiaries had been initiated. CEC and Caesars Palace have been cooperating with FinCEN, the Department of Justice and the Nevada Gaming Control Board (the "GCB") on this matter. On September 8, 2015, FinCEN announced a settlement pursuant to which Caesars Palace agreed to an \$8 million civil penalty for its violations of the Bank Secrecy Act, which penalty shall be treated as a general unsecured claim in Caesars Palace's bankruptcy proceedings. In addition, Caesars Palace agreed to conduct periodic external audits and independent testing of its AML compliance program, report to FinCEN on mandated improvements, adopt a rigorous training regime, and engage in a "look-back" for suspicious transactions. The terms of the FinCEN settlement were approved by the Bankruptcy Court on October 19, 2015.

CEOC and the GCB reached a settlement on the same facts as above, wherein CEC agreed to pay \$1.5 million and provide to the GCB the same information that is reported to FinCEN and to resubmit its updated AML policies. On September 17, 2015, the settlement agreement was approved by the Nevada Gaming Commission. CEOC continues to cooperate with the Department of Justice in its investigation of this matter.

Caesars is party to other ordinary and routine litigation incidental to our business. We do not expect the outcome of any such litigation to have a material effect on our consolidated financial position, results of operations, or cash flows, as we do not believe it is reasonably possible that we will incur material losses as a result of such litigation.

Note 4 — Recently Issued Accounting Pronouncements

During 2016, we adopted ASU No. 2015-02, Consolidation: Amendments to the Consolidation Analysis (see Note 2) and ASU No. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (see Note 12).

The FASB issued the following authoritative guidance amending the FASB Accounting Standards Codification.
New Developments

Statement of Cash Flows - August 2016: Amended guidance addresses eight specific cash flow issues with the objective of reducing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments should be applied retrospectively to each period presented. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the effect the adoption of this standard will have on our financial statements.

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Income Taxes - October 2016: Amended guidance addresses intra-entity transfers of assets other than inventory, which requires the recognition of any related income tax consequences when such transfers occur. The amendments should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Amendments are effective for fiscal years beginning after December 15, 2017, and interim reporting periods within those years. Early adoption is permitted. We are currently assessing the impact the adoption of this standard will have on our financial statements.

Consolidation - October 2016: Amended consolidation guidance addresses how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for fiscal years beginning after December 15, 2016, and including interim periods within those fiscal years. During 2016 we adopted ASU No. 2015-2 and are required to apply updated amendments retrospectively to all relevant prior periods beginning with the fiscal year in which amendments in ASU No. 2015-2 were applied. We are currently assessing the impact the adoption of this standard will have on our financial statements.

Previously Disclosed

Revenue Recognition - May 2014 (amended May 2016): Created a new Topic 606, Revenue from Contracts with Customers. The new guidance is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for United States GAAP applicable to revenue transactions. This guidance provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Existing industry guidance will be eliminated, including revenue recognition guidance specific to the gaming industry. In addition, interim and annual disclosures will be substantially revised. This guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We currently anticipate adopting this standard effective January 1, 2018. We are currently assessing the impact the adoption of this standard will have on our financial statements; however, we expect that the accounting for the Total Rewards customer loyalty program and casino promotional allowances will be affected.

Going Concern - August 2014: Amended the existing requirements for disclosing information about an entity's ability to continue as a going concern. This guidance explicitly requires management to assess an entity's ability to continue as a going concern and to provide related footnote disclosure in certain circumstances. This guidance is effective for annual reporting periods ending after December 15, 2016, and for annual and interim reporting periods thereafter. Early adoption is permitted. We do not believe the adoption of this standard will have any effect on our financial statements, as we have concluded that we have substantial doubt regarding our ability to continue as a going concern, irrespective of the new requirements.

Recognition and Measurement of Financial Instruments - January 2016: Amended certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other things, they require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation) to be measured at fair value with any changes in fair value recognized in net income and simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted on certain provisions. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Leases - February 2016: The new guidance requires lease obligations to be recognized on the balance sheet. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The guidance should be implemented for the earliest period presented using a modified retrospective approach which includes optional practical expedients primarily focused on leases that commenced before the effective date, including continuing to account for leases that commence before the effective date in accordance with previous guidance, unless the lease is modified. Early adoption is permitted. We are currently assessing the effect the adoption of this standard will have on our financial statements.

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Financial Instruments-Credit Losses - June 2016: Amended guidance replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of broader range of reasonable and supportable information to inform credit loss estimates. Amendments affect entities holding financial assets and net investment 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. We are currently assessing the effect the adoption of this standard will have on our financial statements.

Note 5 — Property and Equipment

(In millions)	September 30, 2016	December 31, 2015
Land and land improvements	\$ 3,584	\$ 3,584
Buildings, riverboats, and improvements	4,189	4,128
Furniture, fixtures, and equipment	1,372	1,307
Construction in progress	76	59
Total property and equipment	9,221	9,078
Less: accumulated depreciation	(1,765)	(1,494)
Total property and equipment, net	\$ 7,456	\$ 7,584

Depreciation Expense and Capitalized Interest

(In millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Depreciation expense ⁽¹⁾	\$ 92	\$ 74	\$ 268	\$ 217
Capitalized interest	1	2	1	11

⁽¹⁾ Included in depreciation and amortization and corporate expense.

Note 6 — Goodwill and Other Intangible Assets

Changes in Carrying Value of Goodwill and other Intangible Assets

(In millions)	Amortizing Intangible Assets	Non-Amortizing Intangible Assets	
		Goodwill	Other
Balance as of December 31, 2015	\$ 350	\$ 1,608	\$ 148
Amortization	(49)	—	—
Balance as of September 30, 2016	\$ 301	\$ 1,608	\$ 148

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

(Dollars in millions)	September 30, 2016				December 31, 2015			
	Weighted Average Remaining Useful Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	
Amortizing								
Customer relationships	4.7	\$ 894	\$ (615)	\$ 279	\$894	\$ (568)	\$ 326	
Contract rights	8.3	3	(1)	2	3	(1)	2	
Gaming rights	7.8	43	(23)	20	43	(21)	22	
		\$ 940	\$ (639)	301	\$940	\$ (590)	350	
Non-amortizing								
Gaming rights				22			22	
Trademarks				126			126	
				148			148	
Total intangible assets other than goodwill				\$ 449			\$ 498	

Note 7 — Fair Value Measurements

Investments

(In millions)	Balance	Level 1	Level 2	Level 3
September 30, 2016				
Assets:				
Equity securities	\$ 3	\$ 3	\$ —	\$ —
Government bonds	43	—	43	—
Total assets at fair value	\$ 46	\$ 3	\$ 43	\$ —

December 31, 2015

Assets:				
Equity securities	\$ 4	\$ 4	\$ —	\$ —
Government bonds	67	—	67	—
Total assets at fair value	\$ 71	\$ 4	\$ 67	\$ —

Investments primarily consist of equity and 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 in the Balance Sheets while a portion is included in prepayments and other current assets. As of September 30, 2016 and December 31, 2015, gross unrealized gains and losses on marketable securities were not material.

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Restructuring Commitments

Estimated Fair Value

(In millions) Balance Level 1 Level 2 Level 3

September 30, 2016

Liabilities:

Issuance of CEC convertible notes \$ 1,500 \$ — \$ 1,500

Issuance of CEC common shares 1,741 — 1,712 29

Total liabilities at fair value \$ 3,241 \$ — \$ 1,712 \$ 1,529

Changes in Level 3 Fair Value Measurements

(In millions)	Three Months		Nine Months	
	Ended September 30, 2016		Ended September 30, 2016	
	CEC Convertible Notes	CEC Common Stock	CEC Convertible Notes	CEC Common Stock
Balance as of beginning of period	\$ 1,060	\$ —	\$ —	\$ —
Loss in deconsolidation and restructuring of CEOC and other	440	29	1,500	29
Balance as of end of period	\$ 1,500	\$ 29	\$ 1,500	\$ 29

As described in Note 1, we recognized certain obligations that we believe will ultimately be settled under the Third Amended Plan or the RSAs. A portion of the obligations we recognized reflect our estimates of the fair value of the consideration CEC has agreed to provide in the form of CEC equity and convertible notes in exchange for the settlement of litigation claims and potential claims against CEC and its affiliates. These obligations are recorded in accrued restructuring and support expenses on the Balance Sheets and will be accounted for at fair value each period until they are ultimately settled as part of the Restructuring.

Valuation Methodologies

CEC Convertible Notes - We estimated the fair value of the CEC convertible notes to be issued using a binomial lattice valuation model that incorporates the value of both the debt and conversion features of the notes. In the Third Amended Plan, the terms of the convertible notes were revised, and the notes currently have a face value of \$1.1 billion, a term of 7 years, a coupon rate of 5%, and are convertible into 13.714% of fully-diluted CEC equity. The valuation model incorporates assumptions regarding the incremental cost of borrowing for CEC, the value of CEC's equity into which these notes could convert, the implied volatility of such equity, and the risk-free rate. The increase in the fair value primarily resulted from the removal of restrictions on the conversion features, the increase in the conversion ratio, and the increase in the face value of the convertible notes in the Third Amended Plan.

Key Assumptions -

Incremental cost of borrowing - 5.0%

Implied volatility - 40%

Risk-free rate - 1.4%

Should CEC's estimated incremental cost of borrowing or equity value fluctuate over time, it could result in an increase or decrease in the fair value of the notes and the corresponding restructuring accrual. A hypothetical decrease in the incremental borrowing rate of 1.0% would result in a \$40 million increase in the restructuring accrual.

Similarly, a hypothetical 5.0% increase in the implied volatility of CEC's equity would result in an increase to the restructuring accrual of \$30 million. Since the key assumptions used in the valuation model, including CEC's current estimated incremental cost of borrowing and the implied volatility of CEC's equity, are significant unobservable

inputs, the fair value for the convertible notes is classified as Level 3.

CEC Common Stock - CEC will issue CEC common shares for the settlement of claims and potential claims and is obligated to repurchase at least \$1.0 billion worth of the issued shares at a fixed price. The value of the purchase obligation is not subject to change; therefore, the estimated fair value primarily represents the net shares that we expect to issue after satisfying the repurchase obligation. We have used the fair value of CEC's common stock to estimate this portion of the restructuring accrual.

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The CEC common equity value is subject to market fluctuations and does not necessarily reflect the final value of completing the transactions contemplated in the Third Amended Plan and the related RSAs. The valuation models used to estimate the fair value of CEC's common stock expected to be issued do not require significant judgment and inputs can be observed in a liquid market, such as the current trading price of CEC common stock. However, the valuation model includes inputs other than quoted prices in active markets, such as adjustments related to the dilutive effects of other transactions, including equity issuances in connection with the Restructuring and the Merger; therefore, this portion of the restructuring accrual is classified as Level 2.

Additionally, we have accrued a liability of \$29 million for the fair value associated with the creditors' right to require CEC to repurchase up to \$200 million worth of the newly-issued CEC common shares. We determined the estimate fair value of this potential obligation using the Black-Scholes Option Valuation Model, which incorporates assumptions regarding the value of CEC's equity, implied volatility of CEC common equity, and the risk-free rate.

Key Assumptions -

Historical volatility - 80%

Risk-free rate - 0.2%

Should CEC's equity value fluctuate over time, it could result in an increase or decrease in the fair value of the repurchase obligation and the corresponding restructuring accrual. A hypothetical 5.0% increase in the historical volatility of CEC's equity would result in an increase to the restructuring accrual of \$2 million. Since the historical volatility of CEC's equity is a significant unobservable input, the fair value for the convertible notes is classified as Level 3.

Derivative Instruments

CEOC had eight interest rate swap agreements that expired, which we settled for \$17 million during the first quarter of 2015. Interest expense related to the derivatives was \$7 million in the first quarter of 2015. We have not entered into any additional derivative transactions since these swaps expired.

Note 8 — Contractual Commitments and Contingent Liabilities

Contractual Commitments

Except as described in Note 1, during the nine months ended September 30, 2016, we have not entered into any material contractual commitments outside of the ordinary course of business that have materially changed our contractual commitments as compared to December 31, 2015.

Contingent Liabilities

Self-Insurance

We are self-insured for workers compensation and other risk insurance with a total estimated self-insurance liability of \$157 million and \$168 million as of September 30, 2016 and December 31, 2015, respectively, and estimated employee medical insurance claims of \$15 million have been funded through CEOC as of September 30, 2016. CEOC was deconsolidated effective January 15, 2015; therefore no amounts are reported for CEOC as of December 31, 2015.

Deferred Compensation and Employee Benefits

Deferred Compensation Plans

As of September 30, 2016, certain current and former employees of Caesars, and our subsidiaries and affiliates, have balances under the Harrah's Entertainment, Inc. Executive Supplemental Savings Plan ("ESSP"), the Harrah's Entertainment, Inc. Executive Supplemental Savings Plan II ("ESSP II"), the Park Place Entertainment Corporation Executive Deferred Compensation Plan ("CEDCP"), the Harrah's Entertainment, Inc. Deferred Compensation Plan ("DCP"), and the Harrah's Entertainment, Inc. Executive Deferred Compensation Plan ("EDCP"). These plans are deferred compensation plans that allow certain employees an opportunity to save for retirement and other purposes.

Each of the plans is now frozen and is no longer accepting contributions. However, participants may still earn returns on existing plan balances based upon their selected investment alternatives, which are reflected in their deferral accounts.

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Plan obligations in respect of all of these plans were included in Caesars' financial statements as liabilities prior to the deconsolidation of CEOC. Caesars has recorded in the accompanying financial statements \$42 million and \$44 million in liabilities as of September 30, 2016 and December 31, 2015, respectively, representing the estimate of its obligations under the ESSP and ESSP II and for certain former directors and employees who had employment agreements with Harrah's Entertainment, Inc. (the predecessor to CEC) and participated in the EDCP. The additional liability in respect of the CEDCP and DCP that Caesars has not recorded was approximately \$31 million and \$29 million as of September 30, 2016 and December 31, 2015, respectively, as we determined that this portion of the liability was attributable to CEOC pending the effectiveness of the settlement described below.

Trust Assets

CEC is a party to a trust agreement (the "Trust Agreement") and an escrow agreement (the "Escrow Agreement"), each structured as so-called "rabbi trust" arrangements, which hold assets that may be used to satisfy obligations under the deferred compensation plans above. Amounts held pursuant to the Trust Agreement and the Escrow Agreement were approximately \$65 million and \$57 million, respectively, as of September 30, 2016, and \$64 million and \$49 million, respectively, as of December 31, 2015.

The assets held pursuant to the Trust Agreement have been reflected as long-term restricted assets on the Balance Sheets. The assets held pursuant to the Escrow Agreement were not reflected on the Balance Sheets as we continued to assess the Escrow Agreement and the propriety of the funds that were contributed in accordance with the agreement prior to reaching the settlement described below, which was not yet effective as of September 30, 2016.

Settlement Agreement

On September 14, 2016, CEC entered into a settlement agreement with CEOC related to the liabilities and assets associated with the above deferred compensation plans, which was approved by the Bankruptcy Court on October 17, 2016. Pursuant to the settlement agreement, contemporaneously with the Effective Date of the Restructuring, CEC will assume all obligations to plan participants under or with respect to all five of the deferred compensation plans, and the Debtors will have no further obligations to the deferred compensation plan participants. At that time, CEOC and the other Debtors will relinquish and release any claim or right that any of them may have in respect of the assets held under either the Trust Agreement or the Escrow Agreement. Upon the effectiveness of the Restructuring and CEC's receipt of the assets held pursuant to the Escrow Agreement, CEC will record the additional assets and liabilities in respect of the CEDCP and DCP and Escrow Agreement, which are \$57 million and \$31 million, respectively, as of September 30, 2016.

Note 9 — Debt

(In millions)	September 30, 2016		December 31, 2015	
	Face Value	Book Value	Book Value	Book Value
CERP	\$ 4,586	\$ 4,528	\$	4,627
CGP	2,336	2,278	2,337	
Total Debt	6,922	6,806	6,964	
Current Portion of Long-Term Debt	(51)	(51)	(187)	
Long-Term Debt	\$ 6,871	\$ 6,755	\$	6,777
Unamortized discounts and deferred finance charges		\$ 116	\$	132
Fair value	\$ 7,082			
Current Portion of Long-Term Debt				

The current portion of long-term debt is \$51 million as of September 30, 2016. For CERP, the current portion of long-term debt is \$30 million, which includes principal payments on its senior secured loan, other unsecured borrowings, and capitalized lease obligations. For CGP, the current portion of long-term debt is \$21 million, which includes principal payments on term loans, special improvement district bonds, and various capital lease obligations.

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Although there are no outstanding amounts under the revolving credit facilities for CERP or CGPH as of September 30, 2016, borrowings under these revolving credit facilities are each subject to separate note agreements executed based on the provisions of the applicable credit facility agreements, and each note has a contractual maturity of less than one year. The applicable credit facility agreements each have a contractual maturity of greater than one year, and we have the ability to rollover the outstanding principal balances on a long-term basis. Amounts borrowed under the revolving credit facilities are intended to satisfy short term liquidity needs and are classified as current.

Fair Value

We estimated the fair value of debt based on borrowing rates available as of September 30, 2016 for debt with similar terms and maturities, and based on market quotes of our publicly traded debt. We classify the fair value of debt within level 1 and level 2 in the fair value hierarchy.

Estimated Debt Service Payments ⁽¹⁾

(In millions)	Remaining 2016	2017	2018	2019	2020	Thereafter	Total
Long-Term Debt Principal							
CERP	\$ 10	\$26	\$25	\$25	\$3,350	\$ 1,150	\$4,586
CGP	6	21	25	199	300	1,785	2,336
Total principal	16	47	50	224	3,650	2,935	6,922
Estimated Interest							
CERP	190	380	380	380	340	130	1,800
CGP	80	180	180	180	150	130	900
Total interest	270	560	560	560	490	260	2,700
Principal and Interest							
CERP	200	406	405	405	3,690	1,280	6,386
CGP	86	201	205	379	450	1,915	3,236
Total principal and interest	\$ 286	\$607	\$610	\$784	\$4,140	\$ 3,195	\$9,622

Debt principal payments are estimated amounts based on maturity dates and potential borrowings under our ⁽¹⁾ revolving credit facility. Interest payments are estimated based on the forward-looking LIBOR curve. Actual payments may differ from these estimates.

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CERP Debt

(Dollars in millions)	September 30, 2016		Face Value	Book Value	December 31, 2015
	Final Maturity	Rate(s) ⁽¹⁾			Book Value
CERP Credit Facility					
CERP Revolving Credit Facility ⁽²⁾	2018	variable	\$—	\$—	\$ 80
CERP Term Loan ⁽³⁾	2020	7.00%	2,431	2,391	2,403
CERP Notes					
CERP First Lien Notes	2020	8.00%	1,000	993	992
CERP Second Lien Notes	2021	11.00%	1,150	1,139	1,138
Capital lease obligations and other	2016 to 2017	various	5	5	14
Total CERP Debt			4,586	4,528	4,627
Current Portion of CERP Long-Term Debt			(30)	(30)	(117)
CERP Long-Term Debt			\$4,556	\$4,498	\$ 4,510

⁽¹⁾ Interest rate is fixed, except where noted.

⁽²⁾ Variable interest rate for amounts currently borrowed is determined by adding LIBOR to a base rate of 6.00%.

⁽³⁾ Variable interest rate calculated as a fixed rate plus the greater of LIBOR or a 1% floor. The rate is set at the 1% floor as of September 30, 2016.

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CGP Debt

(Dollars in millions)	September 30, 2016		December 31, 2015		
	Final Maturity	Rate(s) ⁽¹⁾	Face Value	Book Value	Book Value
CGPH Credit Facilities					
CGPH Senior Secured Revolving Credit Facility ⁽²⁾	2019	variable	\$—	\$—	\$ 45
CGPH Senior Secured Term Loan ⁽³⁾	2021	6.25%	1,149	1,120	1,126
CGPH Notes	2022	9.38%	675	661	660
Cromwell Credit Facility ⁽⁴⁾	2019	11.00%	172	168	169
Horseshoe Baltimore Credit and FF&E Facilities					
Horseshoe Baltimore Revolving Facility Loan ⁽⁵⁾	2018	variable	—	—	—
Horseshoe Baltimore Credit Facility ⁽⁴⁾	2020	8.25%	298	287	288
Horseshoe Baltimore FF&E Facility ⁽⁴⁾⁽⁶⁾	2019	8.75%	23	23	27
Other Secured Debt	2018	8.00%	4	4	4
Special Improvement District Bonds	2037	5.30%	14	14	14
Capital lease obligations and other	2016 to 2017	various	1	1	4
Total CGP Debt			2,336	2,278	2,337
Current Portion of CGP Long-Term Debt			(21)	(21)	(70)
CGP Long-Term Debt			\$2,315	\$2,257	\$ 2,267

⁽¹⁾ Interest rate is fixed, except where noted.

⁽²⁾ Variable interest rate calculated as LIBOR plus 5.00%.

⁽³⁾ Variable interest rate calculated as a fixed rate plus the greater of LIBOR or a 1% floor. The rate is set at the 1% floor as of September 30, 2016.

⁽⁴⁾ Variable interest rate calculated as a fixed rate plus the greater of LIBOR or a 1.25% floor. The rate is set at the 1.25% floor as of September 30, 2016.

⁽⁵⁾ Variable interest rate calculated as LIBOR plus 7.00%.

⁽⁶⁾ This represents an equipment financing term loan facility.

Terms of Outstanding Debt

Restrictive Covenants

The CERP Notes, CERP Credit Facility, CGPH Senior Secured Term Loan, CGPH Notes, Horseshoe Baltimore Credit and FF&E Facilities, and Cromwell Credit Facility all include negative covenants, subject to certain exceptions, and contain affirmative covenants and events of default, subject to exceptions, baskets and thresholds (including equity cure provisions in the case of the CERP Credit Facility, CGPH Senior Secured Term Loan, Horseshoe Baltimore Credit and FF&E Facilities, and the Cromwell Credit Facility), all of the preceding being customary in nature.

The restrictive covenants also require that we maintain Senior Secured Leverage Ratios (“SSLR”) as shown in the table below. SSLR is defined as the ratio of first lien senior secured net debt to earnings before interest, taxes, depreciation and amortization, adjusted as defined.

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Credit Facility	Covenant Type	Effective Period	Requirement
CERP Credit Facility	CERP Maximum SSLR	From inception	8.00 to 1.00
CGPH Senior Secured Term Loan	CGPH Maximum SSLR	From inception	6.00 to 1.00
	CBAC Maximum SSLR	Q1 - Q4 2016	7.50 to 1.00
Horseshoe Baltimore Credit and FF&E Facilities ⁽¹⁾	CBAC Maximum SSLR	Q1 - Q4 2017	6.00 to 1.00
	CBAC Maximum SSLR	Q1 2018 and thereafter	4.75 to 1.00
Cromwell Credit Facility	Cromwell Maximum SSLR	Q2 2016 - Q1 2017	5.00 to 1.00
	Cromwell Maximum SSLR	Q2 2017 and thereafter	4.75 to 1.00

⁽¹⁾ CBAC Borrower, LLC (“CBAC”) is a joint venture in which Caesars Baltimore Investment Company, LLC (“CBIC”) holds an interest. CBIC is a wholly owned subsidiary of CGP.

Guarantees

CERP has pledged a significant portion of its assets as collateral under the notes and facilities. The CERP Notes are co-issued, as well as fully and unconditionally guaranteed, jointly and severally, by Caesars Entertainment Resort Properties, LLC (parent entity) and each of its wholly-owned subsidiaries on a senior secured basis.

The CGPH Senior Secured Term Loan is guaranteed by the direct parent of CGPH and certain subsidiaries of CGPH, and is secured by the direct parent’s equity interest in CGPH and substantially all of the existing and future assets of CGPH and the subsidiary guarantors.

The CGPH Notes are secured by substantially all of the existing and future property and assets of CGPH and the subsidiary guarantors (subject to exceptions), and are guaranteed by CGPH and certain subsidiaries (subject to exceptions).

The Horseshoe Baltimore Credit Facility is secured by substantially all material assets of CBAC and its wholly-owned domestic subsidiaries.

The Horseshoe Baltimore FF&E Facility is secured by the FF&E that was purchased with the proceeds.

The Cromwell Credit Facility is secured by the assets of the Cromwell.

Note 10 — Earnings Per Share

Basic earnings per share is computed by dividing the applicable income amounts by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing the applicable income amounts by the sum of weighted-average number of shares of common shares outstanding and dilutive potential common shares.

For periods in which Caesars generated net losses, the weighted-average basic shares outstanding was used in calculating diluted loss per share because using diluted shares would be anti-dilutive to loss per share.

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Basic and Dilutive Net Earnings Per Share Reconciliation

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share data)	2016	2015	2016	2015
Income/(loss) from continuing operation, net of income taxes	\$(3,936)	\$(827)	\$(6,379)	\$5,892
Discontinued operations, net of income taxes	3,293	36	3,351	106
Net income/(loss) attributable to Caesars	\$(643)	\$(791)	\$(3,028)	\$5,998
Weighted average common share outstanding	147	145	146	145
Dilutive potential common shares: Stock options	—	—	—	2
Weighted average common shares and dilutive potential common shares	147	145	146	147
Basic earnings/(loss) per share from continuing operations	\$(26.80)	\$(5.70)	\$(43.70)	\$40.67
Basic earnings per share from discontinued operations	22.42	0.26	22.96	0.75
Basic earnings/(loss) per share	\$(4.38)	\$(5.44)	\$(20.74)	\$41.42
Diluted earnings/(loss) per share from continuing operations	\$(26.80)	\$(5.70)	\$(43.70)	\$40.14
Diluted earnings per share from discontinued operations	22.42	0.26	22.96	0.74
Diluted earnings/(loss) per share	\$(4.38)	\$(5.44)	\$(20.74)	\$40.88
Weighted-Average Number of Anti-Dilutive Shares Excluded from Calculation of EPS				

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Stock options	10	4	10	4
Restricted stock units and awards	9	1	9	1
Total anti-dilutive common shares	19	5	19	5

Note 11 — Casino Promotional Allowances

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as casino promotional allowances. The estimated cost of providing such casino promotional allowances is included in casino expenses.

Estimated Retail Value of Casino
Promotional Allowances

Three Months Ended September 30,	Nine Months Ended September 30,

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(In millions)	2016	2015	2016	2015
Food and Beverage	\$66	\$69	\$207	\$210
Rooms	57	59	174	173
Other	8	6	22	40
	\$131	\$134	\$403	\$423

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Estimated Cost of Providing Casino
 Promotional Allowances

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Food and Beverage	\$ 40	\$ 42	\$ 124	\$ 125
Rooms	20	21	60	61
Other	5	4	13	12
	\$ 65	\$ 67	\$ 197	\$ 198

Note 12 — Stock-Based Compensation

Caesars Entertainment Stock-Based Compensation

During the second quarter 2016, we implemented the FASB's ASU No. 2016-09, which amended Topic 718, Compensation - Stock Compensation. This updated guidance amended the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We applied the amended guidance using a modified retrospective transition method of a cumulative-effect adjustment to beginning equity of \$1 million.

We maintain long-term incentive plans for management, other personnel, and key service providers. The plans allow for granting stock-based compensation awards, based on CEC common stock (NASDAQ symbol "CZR"), including time-based and performance-based stock options, restricted stock units, restricted stock awards, stock grants, or a combination of awards.

Composition of Stock-Based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Corporate expense	\$ 7	\$ 11	\$ 26	\$ 46
Property, general, administrative, and other	1	3	4	5
Total stock-based compensation expense	\$ 8	\$ 14	\$ 30	\$ 51

CIE Stock-Based Compensation

Historically, CIE has granted stock-based compensation awards in CIE common stock to its employees, directors, service providers and consultants in accordance with the Caesars Interactive Entertainment, Inc. Amended and Restated Management Equity Incentive Plan, which was intended to promote the interests of CIE and its shareholders by providing key employees, directors, service providers and consultants with an incentive to encourage their continued employment or service and improve the growth and profitability of CIE. These awards were classified as liability-based instruments and were re-measured at their fair value at each reporting date.

As described in Note 1, in September 2016, CIE sold its SMG Business, which represented the majority of CIE's operations, and the SMG Business is now presented as a discontinued operation (see Note 14). Upon the closing of the SMG Business sale, all outstanding CIE stock-based compensation awards were deemed fully vested and were

subsequently paid in cash in connection with the closing of the SMG Business sale, as described in Note 14. There was no liability related to CIE's stock-based compensation awards as of September 30, 2016. As of December 31, 2015, the liability related to CIE's stock-based compensation awards was \$107 million, which was reported within deferred credits and other liabilities on the Balance Sheets.

As shown in the table below, the portion of CIE's stock-based compensation expense directly identifiable with employees of the SMG Business was reclassified to discontinued operations for all periods presented in the Statements of Operations. The portion of CIE's stock-based compensation expense not directly identifiable with employees of the SMG Business was included in property, general, administrative, and other in the Statements of Operations. For both the three and nine months ended September 30, 2016,

CAESARS ENTERTAINMENT CORPORATION
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the majority of stock-based compensation expense resulted from the acceleration of the vesting of CIE stock-based compensation awards.

Composition of CIE Stock-Based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2016	2015	2016	2015
Property, general, administrative, and other	\$ 145	\$ 13	\$ 188	\$ 24
Discontinued operations	212	9	263	18
Total stock-based compensation expense	\$ 357	\$ 22	\$ 451	\$ 42

Stock Option and Restricted Stock Unit Activity

Grants During 2016

	September 30, 2016	
	Quantity	Wtd Avg (1)
CEC		
Restricted stock units	6,034,985	\$ 6.35
CIE		
Stock options	377	19,166.18
Restricted stock units	103	16,452.14

(1) Represents weighted average exercise price for stock options and weighted average fair value for restricted stock units.

Outstanding at End of Period

	September 30, 2016		December 31, 2015	
	Quantity	Wtd Avg (1)	Quantity	Wtd Avg (1)
CEC				
Stock options	9,907,155	\$ 11.69	10,638,219	\$ 12.90
Restricted stock units	8,513,882	8.05	6,329,435	12.06
CIE				
Stock options	—	—	21,057	9,584.64
Restricted stock units	—	—	4,539	7,827.24

(1) Represents weighted average exercise price for stock options and weighted average fair value for restricted stock units.

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 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (CONTINUED)
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Note 13 — Income Taxes

Caesars' provision for income taxes during the interim reporting periods has historically been calculated by applying an estimate of the annual effective tax rate for the full year to "ordinary" income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. We utilized a discrete effective tax rate method, as allowed by ASC 740-270 "Income Taxes, Interim Reporting," to calculate taxes for the three and nine months ended September 30, 2015. We determined that as small changes in estimated "ordinary" income would result in significant changes in the estimated annual effective tax rate, the historical method would not provide a reliable estimate for the three and nine months ended September 30, 2015.

Income Tax Allocation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(Dollars in millions)				
Income/(loss) from continuing operations, before income taxes	\$(3,261)	\$(998)	\$(5,626)	\$5,937
Income tax benefit/(provision)	\$(27)	\$206	\$(37)	\$49
Effective tax rate	(0.8)%	20.6 %	(0.7)%	(0.8)%
Discontinued operations, before income taxes	\$3,973	\$55	\$4,091	\$156
Income tax provision	\$(680)	\$(19)	\$(740)	\$(50)

We classify reserves for tax uncertainties within accrued expenses and deferred credits and other in the Balance Sheets, separate from any related income tax payable or deferred income taxes. Reserve amounts relate to any potential income tax liabilities resulting from uncertain tax positions and potential interest or penalties associated with those liabilities.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. We have provided a valuation allowance on certain federal and state deferred tax assets that were not deemed realizable based upon estimates of future taxable income.

The effective tax rates related to the loss from continuing operations for the three and nine months ended September 30, 2016, and the three months ended September 30, 2015, differed from the expected federal tax rate of 35% primarily due to losses from continuing operations not tax benefitted. The effective tax rate benefit related to the income from continuing operations for the nine months ended September 30, 2015, differed from the expected federal tax benefit of 35% primarily due to the nontaxable portion of the gain on deconsolidation of CEOC.

The amounts recorded as tax assets, tax liabilities, tax reserves and tax provision reflect CEC's conclusion that certain challenged transactions identified in Note 1 were negotiated in good faith and the Caesars tax consolidated group received fair value for assets transferred. These amounts could change if litigation and potential claims related to the challenged transactions are resolved unfavorably. If that occurs, changes may be necessary to reduce tax assets and increase tax liabilities, tax reserves and the tax provision recorded in CEC's financial statements. Such changes could be material. Management cannot predict the various potential outcomes of pending litigation and other potential claims, thus cannot estimate the reasonably possible amount or range of effects, if any, to the recorded tax accounts. We file income tax returns, including returns for our subsidiaries, with federal, state, and foreign jurisdictions. We are under regular and recurring audit by the Internal Revenue Service on open tax positions, and it is possible that the amount of the liability for unrecognized tax benefits could change during the next 12 months.

Note 14 — Discontinued Operations

Sale of SMG Business

On September 23, 2016, CIE sold its SMG Business to Alpha Frontier Limited (“Alpha Frontier”) for cash consideration of \$4.4 billion, subject to customary purchase price adjustments, pursuant to the Stock Purchase Agreement dated as of July 30, 2016 (the "Purchase Agreement"), which resulted in a pre-tax gain of approximately \$4.2 billion. As a result, CAC incurred estimated current income tax expense of approximately \$278 million on the gain. Under the terms of its operating agreement, CGP is required

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to distribute \$278 million to CAC, which CAC will use to pay its tax obligation resulting from the sale of the SMG Business (see Note 16). Additionally, \$264 million was deposited into an escrow account to fund potential indemnity claims of Alpha Frontier under the Purchase Agreement (the "Indemnity Escrow").

As discussed in Note 2, the majority of the proceeds from the sale of the SMG Business is restricted under the terms of the Purchase Agreement and the CIE Proceeds Agreement and is therefore classified as restricted cash on the Balance Sheet as of September 30, 2016. As a result of the sale, the results of operations and cash flows related to the SMG Business were classified as discontinued operations for the three and nine months ended September 30, 2016, and the historical results have been recast as discontinued operations for the three and nine months ended September 30, 2015. The related assets and liabilities have been recast as held for sale as of December 31, 2015.

In connection with the closing of the SMG Business sale ("Closing"), CIE completed the following transactions, which were funded from the proceeds of the sale:

Repurchased all of the shares of CIE common stock held by Rock Gaming Interactive LLC, and its other minority investors (collectively, the "Minority Investors") in exchange for the right to receive cash payments representing the fair market value of the shares of CIE common stock at Closing.

Accelerated the vesting of all of the outstanding options, restricted stock units and warrants of CIE (collectively, "CIE equity awards") and canceled all such CIE equity awards in exchange for the right to receive cash payments equal to the intrinsic value of such awards.

The total amount distributed to the Minority Investors and former holders of CIE equity awards in connection with Closing was approximately \$1.1 billion, which is subject to any purchase price adjustments pursuant to the Purchase Agreement. As of September 30, 2016, CGP accrued approximately \$88 million as an estimate of the additional amounts due to the Minority Investors and former holders of CIE equity awards for any purchase price adjustments and the release of proceeds held in the Indemnity Escrow. To the extent that there are further purchase price adjustments subsequent to September 30, 2016, the overall recorded gain on the transaction may be adjusted.

The CIE Proceeds to be delivered to the Minority Investors and former holders of CIE equity awards subsequent to any purchase price adjustments and the release of proceeds, if any, from the Indemnity Escrow at the end of the escrow period will be paid to such parties when such amounts are paid to CIE under the Purchase Agreement.

Assets and liabilities held for sale in the Balance Sheets are related to the SMG Business. Discontinued operations in 2015 also include properties owned by CEOC, which was deconsolidated effective January 15, 2015 (see Note 2).

Carrying Amount of Major Classes of Assets and Liabilities of
 Discontinued Operations

(In millions)	December 31, 2015
Cash and cash equivalents	\$ 112
Receivables, prepayments, and other current assets	64
Property and equipment, net	14
Goodwill and other intangible assets	133
Deferred taxes, deferred charges, and other long-term assets	41
Total assets held for sale	\$ 364
Accounts payable	\$ 17
Accrued expenses and other current liabilities	40
Deferred taxes, deferred credits, and other long-term liabilities	9
Total liabilities held for sale	\$ 66

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Discontinued Operations

	Three		Nine Months	
	Months		Months	
(In millions)	Ended		Ended	
	September	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net revenues				
SMG Business	\$222	\$184	\$678	\$527
Operating expenses				
SMG Business ⁽¹⁾	410	129	748	364
Other	—	—	—	7
Total operating expenses	410	129	748	371
Gain from discontinued operations				
SMG Business	4,161	—	4,161	—
Pre-tax income/(loss) from discontinued operations				
SMG Business	3,973	55	4,091	163
Other	—	—	—	(7)
Total pre-tax income from discontinued operations	\$3,973	\$55	\$4,091	\$156
Income/(loss), net of income taxes				
SMG Business	\$3,293	\$36	\$3,351	\$113
Other	—	—	—	(7)
Total income from discontinued operations, net of income taxes	\$3,293	\$36	\$3,351	\$106

⁽¹⁾ Operating expenses primarily consist of platform fees and property, general, administrative, and other.

Note 15 — Segment Reporting

We view each casino property as an operating segment and currently aggregate all such casino properties into two reportable segments: CERP and CGP. Through June 30, 2016, we presented CGP as two separate reportable segments: CGP Casinos and CIE. Subsequent to the sale of the SMG Business (see Note 1) the remaining CIE business is not material. Therefore, we no longer consider CIE to be a separate reportable segment, and CGP Casinos and CIE have been combined for all periods presented as the CGP segment. Additionally, CEOC was a reportable segment until its deconsolidation effective January 15, 2015.

The results of each reportable segment presented below are consistent with the way Caesars management assesses these results and allocates resources, which is a consolidated view that adjusts for the impact of certain transactions between reportable segments within Caesars, as described below. Accordingly, the results of certain reportable segments presented in this filing differ from the financial statement information presented in their standalone filings. “Other” includes parent, consolidating, and other adjustments to reconcile to consolidated Caesars results.

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Condensed Statements of Operations - By Segment

	Three Months Ended September 30, 2016					
(In millions)	CER	PCGP	Other	Elimination	Caesars	
Other revenues	\$83	\$57	\$ —	\$ (4)	\$ 136	
Net revenues	569	422	(1)	(4)	986	
Depreciation and amortization	63	47	1	—	111	
Income/(loss) from operations	104	(109)	(39)	—	(44)	
Interest expense	99	49	(1)	—	147	
Deconsolidation and restructuring of CEOC and other	1	1	(3,072)	—	(3,070)	
Income tax benefit/(provision)	—	2	(29)	—	(27)	
	Three Months Ended September 30, 2015					
(In millions)	CER	PCGP	Other	Elimination	Caesars	
Other revenues	\$73	\$48	\$ 4	\$ (7)	\$ 118	
Net revenues	542	418	4	(7)	957	
Depreciation and amortization	52	39	—	—	91	
Income/(loss) from operations	98	32	(46)	—	84	
Interest expense	98	50	(1)	—	147	
Deconsolidation and restructuring of CEOC and other	—	5	(940)	—	(935)	
Income tax benefit/(provision)	—	(2)	208	—	206	
	Nine Months Ended September 30, 2016					
(In millions)	CER	PCGP	Other	Elimination	Caesars	
Other revenues	\$235	\$162	\$ 3	\$ (15)	\$ 385	
Net revenues	1,659	1,283	1	(15)	2,928	
Depreciation and amortization	195	130	—	—	325	
Income/(loss) from operations	293	(22)	(116)	—	155	
Interest expense	297	149	2	—	448	
Deconsolidation and restructuring of CEOC and other	—	2	(5,335)	—	(5,333)	
Income tax benefit/(provision)	2	6	(45)	—	(37)	
	Nine Months Ended September 30, 2015					
(In millions)	CEOC	ERP	CGP	Other	Elimination	Caesars
Other revenues	\$24	\$224	\$132	\$21	\$ (31)	\$ 370
Net revenues	164	1,637	1,216	22	(31)	3,008
Depreciation and amortization	11	151	111	1	—	274
Income/(loss) from operations	9	332	223	(259)	—	305
Interest expense	87	299	145	1	(2)	530
Deconsolidation and restructuring of CEOC and other	—	—	4	6,160	(2)	6,162
Income tax benefit/(provision)	—	(13)	2	60	—	49

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Property EBITDA - by Segment

Property earnings before interest, taxes, depreciation and amortization (“EBITDA”) is presented as a measure of the Company’s performance. Property EBITDA is defined as revenues less property operating expenses and is comprised of net income/(loss) before (i) interest expense, net of interest capitalized and interest income, (ii) income tax (benefit)/provision, (iii) depreciation and amortization, (iv) corporate expenses, and (v) certain items that we do not consider indicative of its ongoing operating performance at an operating property level. As a result of the sale of the SMG Business (see Note 1), we have determined that CIE stock-based compensation expense should be excluded from Property EBITDA as management no longer considers such expense to be indicative of Caesars Entertainment’s ongoing consolidated or segment operating performance. Therefore, Property EBITDA has been recast for prior periods to be consistent to the current year presentation.

In evaluating Property EBITDA you should be aware that, in the future, we may incur expenses that are the same or similar to some of the adjustments in this presentation. The presentation of Property EBITDA should not be construed as an inference that future results will be unaffected by unusual or unexpected items.

Property EBITDA is a non-GAAP financial measure commonly used in our industry and should not be construed as an alternative to net income/(loss) as an indicator of operating performance or as an alternative to cash flow provided by operating activities as a measure of liquidity (as determined in accordance with GAAP). Property EBITDA may not be comparable to similarly titled measures reported by other companies within the industry. Property EBITDA is included because management uses Property EBITDA to measure performance and allocate resources, and believes that Property EBITDA provides investors with additional information consistent with that used by management.

(In millions)	Three Months Ended September 30, 2016				
	CERP	CGP	Other	Elimination	Caesars
Net income/(loss) attributable to company	\$6	\$3,897	\$(4,546)	\$ —	\$(643)
Net income/(loss) attributable to noncontrolling interests	—	(33)	681	—	648
Discontinued operations, net of income taxes	—	(4,019)	726	—	(3,293)
Income tax (benefit)/provision	—	(2)	29	—	27
Deconsolidation and restructuring of CEOC and other	(1)	(1)	3,072	—	3,070
Interest expense	99	49	(1)	—	147
Depreciation and amortization	63	47	1	—	111
Corporate expense	11	7	23	(1)	40
Other operating costs	—	16	19	—	35
CIE stock-based compensation	—	145	—	—	145
Property EBITDA	\$178	\$106	\$4	\$ (1)	\$287

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(In millions)	Three Months Ended September 30, 2015					
	CERPCGP	Other	Elimination	Caesars		
Net income/(loss) attributable to company	\$—	\$19	\$(810)	\$ —	\$(791)	
Net income attributable to noncontrolling interests	—	2	33	—	35	
Discontinued operations, net of income taxes	—	(36)	—	—	(36)	
Income tax (benefit)/provision	—	2	(208)	—	(206)	
Deconsolidation and restructuring of CEOC and other	—	(5)	940	—	935	
Interest expense	98	50	(1)	—	147	
Depreciation and amortization	52	39	—	—	91	
Corporate expense	10	8	24	(2)	40	
Other operating costs	1	9	24	—	34	
CIE stock-based compensation	—	13	—	—	13	
Property EBITDA	\$161	\$101	\$2	\$ (2)	\$262	
	Nine Months Ended September 30, 2016					
(In millions)	CERP	CGP	Other	Elimination	Caesars	
Net income/(loss) attributable to company	\$(2)	\$3,940	\$(6,966)	\$ —	\$(3,028)	
Net income/(loss) attributable to noncontrolling interests	—	(26)	742	—	716	
Discontinued operations, net of income taxes	—	(4,077)	726	—	(3,351)	
Income tax (benefit)/provision	(2)	(6)	45	—	37	
Deconsolidation and restructuring of CEOC and other	—	(2)	5,335	—	5,333	
Interest expense	297	149	2	—	448	
Depreciation and amortization	195	130	—	—	325	
Corporate expense	33	22	69	(2)	122	
Other operating costs	5	19	53	—	77	
CIE stock-based compensation	—	188	—	—	188	
Property EBITDA	\$526	\$337	\$6	\$ (2)	\$867	
	Nine Months Ended September 30, 2015					
(In millions)	CEOC	CERP	CGP	Other	Elimination	Caesars
Net income/(loss) attributable to company	\$(85)	\$20	\$193	\$5,870	\$ —	\$5,998
Net income attributable to noncontrolling interests	—	—	4	90	—	94
Discontinued operations, net of income taxes	7	—	(113)	—	—	(106)
Income tax (benefit)/provision	—	13	(2)	(60)	—	(49)
Deconsolidation and restructuring of CEOC and other	—	—	(4)	(6,160)	2	(6,162)
Interest expense	87	299	145	1	(2)	530
Depreciation and amortization	11	151	111	1	—	274
Corporate expense	7	32	27	76	(11)	131
Other operating costs	4	3	(98)	197	—	106
CIE stock-based compensation	—	—	24	—	—	24
Property EBITDA	\$31	\$518	\$287	\$15	\$ (11)	\$840

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

Condensed Balance Sheets - By Segment

As of September 30, 2016

(In millions)	CERP	CGP	Other	Elimination	Caesars
Total assets	\$7,031	\$7,757	\$1,322	\$ (759)) \$15,351
Total liabilities	6,003	3,042	7,347	(70)) 16,322

As of December 31, 2015

(In millions)	CERP	CGP	Other	Elimination	Caesars
Total assets	\$7,028	\$4,518	\$1,409	\$ (749)) \$12,206
Total liabilities	6,073	2,798	1,157	(55)) 9,973

Note 16 — Related Party Transactions

(In millions)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Transactions with Sponsors and their affiliates				
Reimbursements and expenses	\$ —	\$ 1	\$ 6	\$ 2
Expenses paid to Sponsors' portfolio companies	1	1	3	4
Expenses paid on behalf of CAC	286	8	299	26
Transactions with CEOC				
Shared services allocated expenses to CEOC	93	85	270	242
Shared services allocated expenses from CEOC	24	28	74	85
Management fees incurred	12	11	34	30
Octavius Tower lease revenue	9	9	25	25
Other expenses incurred	8	2	22	9

Transactions Related to the CEOC Reorganization

The Debtors filed the Third Amended Plan on October 20, 2016, and CEC, CAC, the Debtors, and CEOC's major creditor groups have agreed to support the Third Amended Plan and have entered into various RSAs with respect to the CEOC reorganization. See detailed discussion of the Third Amended Plan and the RSAs at Note 1.

Transactions with Sponsors and their Affiliates

The members of Hamlet Holdings LLC ("Hamlet Holdings") are comprised of individuals affiliated with Apollo Global Management, LLC and affiliates of TPG Capital LP (collectively, the "Sponsors"). As of September 30, 2016, Hamlet Holdings beneficially owned a majority of CEC's common stock pursuant to an irrevocable proxy providing Hamlet Holdings with sole voting and sole dispositive power over those shares, and, as a result, the Sponsors have the power to elect all of CEC's directors.

Reimbursements and Expenses

CEC has a services agreement with the Sponsors relating to the provision of financial and strategic advisory services and consulting services. The Sponsors have granted an ongoing waiver of the monitoring fees for management services; however, we reimburse the Sponsors for expenses they incur related to these management services and certain legal expenses. The reimbursed expenses are included in corporate expense and are included in the table above.

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

Sponsors' Portfolio Companies

We may engage in transactions with companies owned or controlled by affiliates of the Sponsors in the normal course of business. Amounts paid to the Sponsors' portfolio companies are included in the table above and we believe such transactions are conducted at fair value.

In addition, certain entities affiliated with or under the control of our Sponsors may from time to time transact in and hold our debt securities, and participate in any modifications of such instruments on terms available to any other holder of our debt.

Caesars Acquisition Company

As described in Note 2, CAC is the sole voting member of CGP, our consolidated VIE, and common control exists between CAC and Caesars through the majority beneficial ownership of both by Hamlet Holdings. Pursuant to the operating agreement of CGP, CGP pays certain expenses on behalf of CAC. These expenses, which are included in the table above, commenced in 2013 and are reflected as distributions to a noncontrolling interest holder in the consolidated statements of equity. The three and nine months ended September 30, 2016 include \$278 million related to CAC's estimated current income tax expense on the gain on sale of the SMG Business. Since, under its operating agreement, CGP is required to distribute funds to CAC that will be used to pay CAC's tax obligation resulting from the sale, CGP accrued this amount during the third quarter of 2016 (see Note 14).

Transactions with CEOC

As described in Note 2, upon its filing for reorganization under Chapter 11 of the Bankruptcy Code and its subsequent deconsolidation, transactions with CEOC are no longer eliminated in consolidation and are considered related party transactions for Caesars. A summary of these transactions is provided in the table above.

CEOC Shared Services Agreement

Pursuant to a shared services agreement, CEOC provides Caesars with certain corporate and administrative services, and the costs of these services are allocated to Caesars. Certain services are now provided by CES (see Note 1). Prior to the deconsolidation of CEOC, we were self-insured for employee medical (health, dental and vision) and risk products, including workers compensation and surety bonds, and our insurance claims and reserves included accruals of estimated settlements for known claims, as well as accruals of actuarial estimates of incurred but not reported claims.

We continue to be self-insured for workers compensation and other risk insurance as of September 30, 2016. Caesars Entertainment provides insurance coverage to CEOC and receives insurance premiums on an installment basis, which are intended to cover claims processed on CEOC's behalf. We prepay CEOC for estimated employee medical insurance claims.

Services Joint Venture

CES provides certain corporate and administrative services to its Members. The costs of these services are allocated among the Members, which include CEOC, with CERP and CGP being allocated 21.8% and 12.8%, respectively. CEOC reimburses CES for the allocated costs. The CES allocated costs include amounts for insurance coverage (see Note 1).

Management Fees

CGP pays a management fee to CEOC for the CGP properties that are managed by CEOC or CES.

Octavius Tower Lease Agreement

Under the Octavius Tower lease agreement, CEOC leases the Octavius Tower at Caesars Palace from CERP and pays rent totaling \$35 million annually through expiration in April 2026.

LINQ Access and Parking Easement Lease Agreement

Under the LINQ Access and Parking Easement lease agreement, CEOC leases the parking lot behind The LINQ promenade and The LINQ Hotel & Casino to CERP and CGP. Together, CERP and CGP pay approximately \$2 million annually, subject to a 3% annual increase through expiration in April 2028. Amounts are included within other expenses incurred in the table above.

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

Service Provider Fee

CEOC, CERP and CGP have a shared services agreement under which CERP and CGP pay for certain indirect corporate support costs. CEOC is authorized to charge CERP and CGP for an amount equal to 21.8% and 12.8%, respectively, of unallocated corporate support costs. Amounts are included within other expenses incurred in the table above.

Cross Marketing and Trademark License Agreement

CIE and CEOC have a Cross Marketing and Trademark License Agreement in effect until December 31, 2026, unless terminated earlier pursuant to the terms of the agreement. The agreement grants CIE the exclusive right to use various brands of Caesars Entertainment in connection with social and mobile games and online real money gaming in exchange for a 3.0% royalty. This agreement also provides for cross-marketing and promotional activities between CIE and CEOC, including participation by CIE in Caesars' Total Rewards loyalty program. CEOC also receives a revenue share from CIE for customer referrals. Amounts are included within other expenses incurred in the table above.

Effective upon Closing, CIE and Playtika, formerly a wholly-owned subsidiary of CIE and now a wholly-owned subsidiary of the buyer of the SMG Business, executed a separate sub-license agreement extending substantially the same rights and obligations to both parties beyond the sale through December 31, 2026.

Equity Incentive Awards

Caesars maintains an equity incentive awards plan under which CEC may issue time-based and performance-based stock options, restricted stock units and restricted stock awards to CEOC employees. Although awards under the plan result in the issuance of shares of CEC, because CEOC is no longer a consolidated subsidiary of CEC, we have accounted for these awards as nonemployee awards subsequent to the date of deconsolidation.

Employee Benefit Plans

CEC maintains a defined contribution savings and retirement plan in which employees of CEOC may participate. The plan provides for, among other things, pre-tax and after-tax contributions by employees. Under the plan, participating employees may elect to contribute up to 50% of their eligible earnings (subject to certain IRS and plan limits). In addition, employees subject to collective bargaining agreements receive benefits through the multi-employer pension plans sponsored by the organization in which they are a member. The expenses related to contributions made to the plans on their behalf are allocated to the properties at which they are employed.

Total Rewards Loyalty Program

CEOC's customer loyalty program, Total Rewards, offers incentives to customers from their spending related to on-property entertainment expenses, including gaming, hotel, dining, and retail shopping at our and CEOC's resort properties located in the U.S. and Canada. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, CEOC estimates the cost of fulfilling the redemption of Reward Credits, after consideration of estimated forfeitures (referred to as "breakage") based upon the cost of historical redemptions. The estimated value of Reward Credits is expensed as the Reward Credits are earned by customers and is included in direct casino expense. The total estimated cost is accrued by CEOC, with the incremental charges related to our casino properties included in due to affiliates, net in the Balance Sheets.

Due from/to Affiliates

Amounts due to or from affiliates for each counterparty represent the net receivable or payable as of the end of the reporting period primarily resulting from the transactions described above and are settled on a net basis by each counterparty in accordance with the legal and contractual restrictions governing transactions by and among Caesars'

consolidated entities and CEOC. The amount due from CEOC represents the maximum exposure to loss as a result of Caesars' involvement with CEOC.

As of September 30, 2016 and December 31, 2015, due from affiliates was \$46 million and \$34 million, respectively, and represented a receivable due to CES from CEOC for shared services performed on behalf of CEOC.

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

As of September 30, 2016, due to affiliates was \$309 million, and primarily represented the remaining payable to CAC from CGP of \$278 million related to CAC's taxes payable described above. As of December 31, 2015, due to affiliates was \$16 million, and represented a payable due to CEOC primarily from CGP for shared services performed on their behalf.

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.

We also refer to (i) our Consolidated Condensed Financial Statements as our “Financial Statements,” (ii) our Consolidated Condensed Statements of Operations and Comprehensive Income as our “Statements of Operations,” and (iii) our Consolidated Condensed Balance Sheets as our “Balance Sheets.” Note references are to the notes to consolidated condensed financial statements included in Item 1, “Unaudited Financial Statements.”

The following discussion and analysis of the financial position and operating results of Caesars Entertainment for the three and nine months ended September 30, 2016 and 2015 should be read in conjunction with the unaudited consolidated condensed financial statements and the notes thereto and other financial information included elsewhere in this Form 10-Q as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) presented in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (“2015 10-K”). The statements in this discussion regarding our expectations regarding our future performance, liquidity and capital resources, and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Overview

Our business is operated through CEC, which is primarily a holding company with no independent operations of its own, and our two reportable segments:

• Caesars Entertainment Resort Properties (“CERP”); and
• Caesars Growth Partners, LLC (“CGP”).

Through June 30, 2016, we aggregated the operating segments within CGP into two separate reportable segments: Caesars Growth Partners Casino Properties and Developments (“CGP Casinos”) and Caesars Interactive Entertainment (“CIE”). Subsequent to CIE’s sale of its social and mobile games business (the “SMG Business”) (see discussion under “Summary of 2016 Events” below), the remaining CIE business is not material, and we no longer consider CIE to be a separate reportable segment from CGP Casinos. Therefore, CGP Casinos and CIE have been combined for all periods presented to form the CGP segment.

Summary of 2016 Events

The following are the significant events that affect our 2016 results. The Discussion of Operating Results should be read in conjunction with this summary.

CEC Going Concern

As a result of the following circumstances, we have substantial doubt about CEC’s ability to continue as a going concern:

we have limited unrestricted cash available to meet financial commitments of CEC, primarily resulting from significant expenditures made to (1) defend against the litigation matters disclosed below and (2) support a plan of reorganization for CEOC (the “Restructuring”);

- we have made material future commitments to support the Restructuring described below; and
- we are a defendant in litigation relating to certain CEOC transactions dating back to 2010 and other legal matters (see Note 3) that could result in one or more adverse rulings against us.

In connection with the Restructuring and litigation noted above, during 2015 and into 2016, CEC has incurred legal and professional fees and expenses at levels significantly higher than historical amounts. For example, we accrued \$1.0 billion of restructuring and support expenses during the second half of 2015, of which we paid \$148 million in the fourth quarter of 2015. We recorded an

additional \$3.0 billion during the third quarter of 2016 in deconsolidation and restructuring of CEOC and other in the statement of operations, which increased our total expense for 2016 to \$5.3 billion. In addition, in 2015, we incurred \$73 million in legal and professional fees associated with reorganization efforts and ongoing litigation and an additional \$17 million and \$60 million during the three and nine months ended September 30, 2016, respectively. The circumstances set forth above and described in more detail in Note 1, individually and collectively, raise substantial doubt about CEC's ability to continue as a going concern between now and the Effective Date of the Restructuring. CEC does not currently have sufficient cash to meet its financial commitments to support the Restructuring that are due when CEOC ultimately emerges from bankruptcy or to satisfy the potential obligations that would arise in the event of an adverse ruling on one or all of the litigation matters disclosed below. The completion of the merger with CAC is expected to allow CEC to fulfill its financial commitments in support of the Restructuring. However, if the Merger is not completed for any reason, CEC would still be liable for many of these obligations. In addition, although under the terms of the Restructuring, all related litigation is expected to be resolved, the outstanding litigation matters are only stayed pending confirmation of the Restructuring and CEOC's emergence from bankruptcy.

The cash forecast at CEC currently contemplates liquidity to be sufficient through December 31, 2016. In addition, CEC entered into the CIE Proceeds and Reservation Rights Agreement (as amended on October 7, 2016) with CIE, CEOC and CAC (the "CIE Proceeds Agreement"), which allows for up to \$235 million of the proceeds from the SMG Business sale to be distributed to CEC in order to pay certain fees in support of the Restructuring ("CEC Expense Amounts"). After taking into account the cash available to pay the CEC Expense Amounts, CEC expects to have sufficient cash to meet its ongoing obligations as they come due. However, there are restrictions governing when and how the cash designated for CEC Expense Amounts can be used, pursuant to the terms of the Second Lien RSA (defined below) (see Note 2). CEC also expects to gain access to the remaining proceeds from the sale of the SMG Business upon completion of the Merger, which will be used to fund its other commitments in support of the Restructuring.

If CEC is unable to access additional sources of cash when needed, in the event of a material adverse ruling on one or all of the litigation matters disclosed in Note 1, or if CEOC does not emerge from bankruptcy on a timely basis on terms and under circumstances satisfactory to CEC, it is likely that CEC would seek reorganization under Chapter 11 of the Bankruptcy Code.

CIE's Sale of the SMG Business

On September 23, 2016, CIE sold the SMG Business for cash consideration of \$4.4 billion, subject to customary purchase price adjustments, and retained only its World Series of Poker and regulated online real money gaming businesses. The SMG Business represented the majority of CIE's operations and was classified as discontinued operations for the three and nine months ended September 30, 2016. Historical results of the SMG Business have been recast as discontinued operations for the three and nine months ended September 30, 2015, and the related assets and liabilities have been recast as held for sale as of December 31, 2015 (see "Discontinued Operations" in the Discussion of Operating Results section below and Note 14).

Upon closing the sale of the SMG Business, all outstanding CIE stock-based compensation awards were deemed fully vested and subsequently canceled in return for the right to receive a cash payment. CIE's stock-based compensation expense directly identifiable with employees of the SMG Business was \$212 million and \$263 million during the three and nine months ended September 30, 2016, respectively, which represented increases compared with 2015 of \$203 million and \$245 million, respectively. These expense amounts were reclassified to discontinued operations for all periods presented in the Statements of Operations. Stock-based compensation expense not directly identifiable with employees of the SMG Business of \$145 million and \$188 million during the three and nine months ended September 30, 2016, respectively, which represented increases compared with 2015 of \$132 million and \$164 million, respectively, was included in property, general, administrative, and other in the Statements of Operations. For both the three and nine months ended September 30, 2016, the majority of stock-based compensation expense resulted from the acceleration of the vesting of CIE stock-based compensation awards.

Recent Accounting Pronouncements

See Note 4 for discussions of the adoption and potential impacts of recently issued accounting standards.

Critical Accounting Policies

For information on critical accounting policies, see “Critical Accounting Policies” in MD&A of the 2015 10-K. There have been no changes to these policies during the nine months ended September 30, 2016.

Discussion of Operating Results

As described above and in Note 1, we deconsolidated CEOC effective January 15, 2015. Headings below labeled “CERP and CGP” represent the combined results of the entities that remain in the consolidated Caesars entity subsequent to the deconsolidation of CEOC, and do not include the results of CEOC or the SMG Business. Where we have presented an analysis of other factors affecting net income/(loss) and consolidated results by reportable segment, this information includes CEOC as a reportable segment for the first 15 days of 2015.

Segment results in this MD&A are presented consistent with the way Caesars management assesses the results subsequent to the deconsolidation of CEOC, which is a consolidated view that adjusts for the impact of certain transactions between reportable segments within Caesars for all periods presented. Therefore, the results of certain reportable segments presented in this filing differ from the financial statement information presented in their separate filings. “Other” includes parent, consolidating, and other adjustments to reconcile to consolidated Caesars results.

Consolidated Operating Results

	Three Months				Fav/(Unfav)	
	Ended September 30,					
(Dollars in millions)	2016	2015	\$	%		
Casino revenues	\$542	\$542	\$—	—	%	
Net revenues	\$986	\$957	\$29	3.0	%	
Income/(loss) from operations	\$(44)	\$84	\$(128)	*		
Deconsolidation and restructuring of CEOC and other	\$(3,070)	\$(935)	\$(2,135)	*		
Loss from continuing operations, net of income taxes	\$(3,288)	\$(792)	\$(2,496)	*		
Discontinued operations, net of income taxes	\$3,293	\$36	\$3,257	*		
Net loss attributable to Caesars	\$(643)	\$(791)	\$148	18.7	%	
Property EBITDA ⁽³⁾	\$287	\$262	\$25	9.5	%	
Operating margin ⁽⁴⁾	(4.5)%	8.8 %	—	(13.3)	pts	
	Nine Months Ended September 30,					
	2016		2015		(A) vs. (B)	
	(A)	(B)			Fav/(Unfav)	
	CERP and CGP ⁽¹⁾	CERP and CGP ⁽¹⁾	CEOC ⁽²⁾	Consolidated Caesars	\$	%
(Dollars in millions)						
Casino revenues	\$1,633	\$1,641	\$118	\$1,759	\$(8)	(0.5)%
Net revenues	\$2,928	\$2,850	\$158	\$3,008	\$78	2.7 %
Income from operations	\$155	\$296	\$9	\$305	\$(141)	(47.6)%
Deconsolidation and restructuring of CEOC and other	\$(5,333)	\$6,162	\$—	\$6,162	\$(11,495)	*
Income/(loss) from continuing operations, net of income taxes	\$(5,663)	\$6,064	\$(78)	\$5,986	\$(11,727)	*
Discontinued operations, net of income taxes	\$3,351	\$113	\$(7)	\$106	\$3,238	*
Net income/(loss) attributable to Caesars	\$(3,028)	\$6,083	\$(85)	\$5,998	\$(9,111)	*
Property EBITDA ⁽³⁾	\$867	\$809	\$31	\$840	\$58	7.2 %
Operating margin ⁽⁴⁾	5.3 %	10.4 %	5.7 %	10.1 %	—	(5.1) pts

*Not meaningful.

(1) Includes CERP, CGP, and associated parent company and elimination adjustments that represent the Caesars structure as of September 30, 2016, and for subsequent periods.

(2) Includes eliminations of intercompany transactions and other consolidating adjustments. Since CEOC was deconsolidated effective January 15, 2015, CEOC’s operations are included in our consolidated results for the first

15 days of 2015, but there are no comparable amounts for 2016.

- (3) See the Reconciliation of Non-GAAP Financial Measures discussion later in this MD&A for a reconciliation of Property EBITDA.
- (4) Operating margin is calculated as income/(loss) from operations divided by net revenues.

Analysis of Key Drivers of Revenue Performance

Net Revenues by Category - CERP and CGP

	Three Months Ended September 30,		Fav/(Unfav)		Nine Months Ended September 30,		Fav/(Unfav)	
	2016	2015	\$	%	2016	2015	\$	%
(Dollars in millions)								
Casino	\$542	\$542	\$—	— %	\$1,633	\$1,641	\$(8)	(0.5)%
Food and beverage	202	211	(9)	(4.3)%	612	614	(2)	(0.3)%
Rooms	237	220	17	7.7 %	701	645	56	8.7 %
Other	136	118	18	15.3 %	385	352	33	9.4 %
Less: casino promotional allowances (“Casino promo”)	(131)	(134)	3	2.2 %	(403)	(402)	(1)	(0.2)%
Net revenues	\$986	\$957	\$29	3.0 %	\$2,928	\$2,850	\$78	2.7 %

Increase/(Decrease) in Net Revenues by Category - CERP and CGP

Three Months Ended September 30, 2016 versus 2015

Increase/(Decrease) in Net Revenues by Category - CERP and CGP

Nine Months Ended September 30, 2016 versus 2015

Net Revenues - Segment

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016	2015	\$	%	2016	2015	\$	%
(Dollars in millions)	2016	2015	\$	%	2016	2015	\$	%
CERP	\$569	\$542	\$27	5.0 %	\$1,659	\$1,637	\$22	1.3 %
CGP	422	418	4	1.0 %	1,283	1,216	67	5.5 %
Other	(5)	(3)	(2)	(66.7)%	(14)	(3)	(11)	*
Total CERP and CGP	986	957	29	3.0 %	2,928	2,850	78	2.7 %
CEOC	—	—	—	—	—	164	(164)	*
Other	—	—	—	—	—	(6)	6	*
Total CEOC	—	—	—	—	—	158	(158)	*
Consolidated Caesars	\$986	\$957	\$29	3.0 %	\$2,928	\$3,008	\$(80)	*

*Not meaningful.

Net revenues increased \$29 million and \$78 million in the three and nine months ended September 30, 2016, respectively. During both periods, the most significant improvement came from rooms revenues from hotel stays at our casino properties. Our gaming-related revenues and operating performance are dependent upon the volume and spend behavior of customers at our resort properties, which affects the price we can charge for our hotel rooms and other amenities, and directly impacts our gaming volumes. The following are key drivers of year over year performance.

Cash ADR ⁽¹⁾

Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
versus 2015	versus 2015

⁽¹⁾ Average cash daily rate (“cash ADR”) is a key indicator by which we evaluate the performance of our properties and is determined by room revenue and rooms occupied.

CERP Performance

Net revenues increased \$27 million for the third quarter of 2016 and \$22 million for the nine months ended September 30, 2016, compared with the corresponding prior year periods. The increases were attributable to the following:

Expansion of resort fees to all CERP properties during 2015, improved hotel yield, and the opening of the Harrah’s Atlantic City Waterfront Conference Center (the “Atlantic City Conference Center”) in the third quarter 2015 continued to drive an increase in CERP’s hotel average cash daily rate to \$124 for the third quarter of 2016 from \$111 in 2015 and to \$123 for the nine months ended September 30, 2016 from \$112 in 2015.

Rooms revenue was negatively affected by scheduled room renovations at Harrah’s Las Vegas and Paris Las Vegas, which resulted in over 32,000 room nights out of service during the third quarter of 2016 and over 90,000 room nights during the nine months ended September 30, 2016.

Casino revenues increased during the third quarter of 2016 primarily due to higher gaming volumes in Nevada, as well as favorable gaming hold. Casino revenues declined for the nine months ended September 30, 2016 due to

declines in gaming volumes, primarily in Atlantic City.

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Other revenues increased \$10 million and \$11 million during the three and nine months ended September 30, 2016, respectively, driven by increases at Rio Las Vegas, which contributed to higher entertainment revenue.

CGP Performance

Net revenues increased \$4 million for the third quarter of 2016 and \$67 million for the nine months ended September 30, 2016, compared with the corresponding prior year periods. The increases were attributable to the following:

CGP experienced unfavorable gaming hold in both the quarter and nine months ended September 30, 2016, primarily in New Orleans. Casino revenues during the nine months ended September 30, 2016 were also negatively impacted in part by the New Orleans smoking ban that was enacted in April 2015. These declines were partially offset by an increase of \$24 million in casino revenues at Horseshoe Baltimore for the nine months ended September 30, 2016, as the area recovered from poor performance experienced in 2015 resulting from a period of civil unrest in Baltimore.

Room renovations at The LINQ Hotel & Casino (“The LINQ Hotel”) were substantially completed and available to guests in early May 2015, which contributed a \$24 million increase in rooms revenues during the nine months ended September 30, 2016. In addition, the expansion of resort fees and improved hotel yield drove an increase in CGP’s hotel average cash daily rate to \$129 for the third quarter of 2016 from \$119 in 2015 and increased to \$132 for the nine months ended September 30, 2016 from \$121 in 2015.

Food and beverage revenues declined \$7 million during the third quarter of 2016. Las Vegas experienced less banquet business primarily due to a promotional event in 2015 that did not reoccur in the current year.

Higher other revenues in 2016 were driven primarily by increases at Planet Hollywood Resort & Casino, which contributed to higher entertainment revenue of \$9 million for the third quarter of 2016 and \$30 million for the nine months ended September 30, 2016.

Analysis of Key Drivers of Income/(Loss) from Operations Performance

We generated a loss from operations of \$44 million during the quarter ended September 30, 2016 compared to income from operations of \$84 million in the prior year quarter. Income from operations decreased \$141 million in the nine months ended September 30, 2016. The key drivers of income/(loss) from operations in both periods are primarily revenue; property, general, administrative, and other; and depreciation and amortization. The increases in property, general, administrative, and other are mainly due to stock-based compensation expense related to the acceleration of the vesting of CIE equity awards (see “CGP Performance” below).

Income from Operations by Category - CERP and CGP

(Dollars in millions)	Three Months Ended September 30,		Fav/(Unfav)		Nine Months Ended September 30,		Fav/(Unfav)			
	2016	2015	\$	%	2016	2015	\$	%		
Net revenues	\$986	\$957	\$29	3.0	%	\$2,928	\$2,850	\$78	2.7	%
Operating expenses										
Casino	276	279	3	1.1	%	840	841	1	0.1	%
Food and beverage	99	102	3	2.9	%	292	292	—	—	%
Rooms	67	59	(8)	(13.6)	%	189	167	(22)	(13.2)	%
Property, general, administrative, and other (“PGA & O”)	402	268	(134)	(50.0)	%	928	765	(163)	(21.3)	%
Depreciation and amortization (“Depreciation”)	111	91	(20)	(22.0)	%	325	263	(62)	(23.6)	%
Corporate expense	40	40	—	—	%	122	124	2	1.6	%
Other operating costs	35	34	(1)	(2.9)	%	77	102	25	24.5	%
Total operating expenses	1,030	873	(157)	(18.0)	%	2,773	2,554	(219)	(8.6)	%
Income/(loss) from operations	\$(44)	\$84	\$(128)	*		\$155	\$296	\$(141)	(47.6)	%

Increase/(Decrease) in Income/(Loss) from Operations - CERP and CGP
Three Months Ended September 30, 2016 versus 2015

Increase/(Decrease) in Income from Operations - CERP and CGP
Nine Months Ended September 30, 2016 versus 2015

Income/(Loss) from Operations - Segment

	Three Months Ended September 30,		Fav/(Unfav)		Nine Months Ended September 30,		Fav/(Unfav)	
	2016	2015	\$	%	2016	2015	\$	%
(Dollars in millions)								
CERP	\$104	\$98	\$6	6.1 %	\$293	\$332	\$(39)	(11.7)%
CGP	(109)	32	(141)	*	(22)	223	(245)	*
Other	(39)	(46)	7	15.2%	(116)	(259)	143	55.2 %
Total CERP and CGP	(44)	84	(128)	*	155	296	(141)	(47.6)%
CEOC	—	—	—	—	—	9	(9)	*
Other	—	—	—	—	—	—	—	—
Total CEOC	—	—	—	—	—	9	(9)	*
Consolidated Caesars	\$(44)	\$84	\$(128)	*	\$155	\$305	\$(150)	*

*Not meaningful.

CEC Performance

For the nine months ended September 30, 2016, other operating costs improved compared with 2015 because 2015 includes the accrual of a \$35 million additional payment to CEOC (see Note 1) and a \$107 million intercompany elimination of the impact of CGP's contingently issuable non-voting membership units. The fair value of CGP's contingently issuable non-voting membership units represented a liability from CGP to CEC until they were issued during 2016 (see Note 2). Therefore, the effect of changes in this liability on CGP's income from operations is eliminated in consolidation and reported in "other" in the table above.

CERP Performance

Income from operations was primarily affected by the revenue increases described above, offset by increases of \$11 million in depreciation and amortization expense for the third quarter of 2016 and \$44 million for the nine months ended September 30, 2016. These increases mostly resulted from accelerated depreciation of \$8 million and \$32 million in the third quarter of 2016 and the nine months ended September 30, 2016, respectively, due to the removal and replacement of certain assets related to ongoing property renovation projects primarily at Harrah's Las Vegas, Paris Las Vegas, and Flamingo Las Vegas, as well as depreciation expense related to the Atlantic City Conference Center of \$4 million during the nine months ended September 30, 2016.

CGP Performance

Income/(loss) from operations decreased \$141 million and \$245 million during the three and nine months ended September 30, 2016, respectively, compared with the corresponding prior year periods. However, excluding the impact of contingently issuable non-voting membership units from both periods, CGP's income/(loss) from operations decreased \$148 million and \$138 million, respectively. The decreases are mainly due to the accelerated vesting of CIE equity awards resulting in increases in CIE stock-based compensation expense of \$132 million during the third quarter of 2016 and \$164 million during the nine months ended September 30, 2016. In addition, CIE incurred costs related to the sale of the SMG Business.

Interest Expense and Other Factors that Affect Net Income/(Loss)**Interest Expense - Segment**

Three Months		Nine Months	
Ended	Fav/(Unfav)	Ended	Fav/(Unfav)
September 30,		September	
		30,	
(Dollars in millions) 2016	2015 \$		