

PENN NATIONAL GAMING INC  
Form 10-Q  
November 05, 2010

**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, 2010

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 number: 0-24206

**PENN NATIONAL GAMING, INC.**

(Exact name of registrant as specified in its charter)

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**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**23-2234473**  
(I.R.S. Employer  
Identification No.)

**825 Berkshire Blvd., Suite 200**

**Wyomissing, PA 19610**

(Address of principal executive offices) (Zip Code)

**610-373-2400**

(Registrant's telephone number, including area code)

**Not Applicable**

(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 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:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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.

**Title**

**Outstanding as of October 29, 2010**

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Common Stock, par value \$.01 per share

78,019,629 (includes 569,800 shares of restricted stock)

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This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may vary materially from expectations. Although Penn National Gaming, Inc. and its subsidiaries (collectively, the Company) believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results will not differ materially from our expectations. Meaningful factors that could cause actual results to differ from expectations include, but are not limited to, risks related to the following: our ability to receive regulatory approvals for our new businesses and to maintain regulatory approvals for our existing businesses; our ability to receive regulatory approvals required to complete, or other delays or impediments to completing, our obtaining control of the equity or assets of The M Resort LLC, including litigation from third parties; the passage of state, federal or local legislation (including referenda) that would expand, restrict, further tax, prevent or negatively impact operations in the jurisdictions in which we do business (such as a smoking ban at any of our facilities) or in jurisdictions where we seek to do business; the activities of our competitors and the emergence of new competitors; increases in the effective rate of taxation at any of our properties or at the corporate level; delays or changes to, or cancellations of, planned capital projects at our gaming and pari-mutuel facilities or an inability to achieve the expected returns from such projects; construction factors, including delays, unexpected remediation costs, local opposition and increased cost of labor and materials; the ability to recover proceeds on significant insurance claims; our ability to identify attractive acquisition and development opportunities and to agree to terms with partners for such transactions; the costs and risks involved in the pursuit of such opportunities and our ability to complete the acquisition or development of, and achieve the expected returns from, such opportunities; the availability and cost of financing; the maintenance of agreements and relationships with our horsemen, pari-mutuel clerks and other organized labor groups; the outcome of pending legal proceedings; the effects of local and national economic, credit, capital market, housing, and energy conditions on the economy in general and on the gaming and lodging industries in particular; changes in accounting standards; third-party relations and approvals; our dependence on key personnel; the impact of terrorism and other international hostilities; the impact of weather; and other factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as filed with the United States Securities and Exchange Commission. The Company does not intend to update publicly any forward-looking statements except as required by law.

**PENN NATIONAL GAMING, INC. AND SUBSIDIARIES**

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Penn National Gaming, Inc. and Subsidiaries****Consolidated Balance Sheets**

(in thousands, except share and per share data)

	September 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 355,442	\$ 713,118
Receivables, net of allowance for doubtful accounts of \$3,021 and \$3,548 at September 30, 2010 and December 31, 2009, respectively	43,917	46,672
Insurance receivable		33,494
Prepaid expenses	42,841	70,947
Deferred income taxes	21,479	23,619
Other current assets	78,215	41,021
Total current assets	541,894	928,871
<b>Property and equipment, net</b>	1,945,538	1,837,504
<b>Other assets</b>		
Investment in and advances to unconsolidated affiliates	70,936	26,305
Goodwill	1,375,948	1,379,961
Other intangible assets	420,304	386,531
Debt issuance costs, net of accumulated amortization of \$42,193 and \$39,703 at September 30, 2010 and December 31, 2009, respectively	30,782	40,889
Other assets	104,277	112,555
Total other assets	2,002,247	1,946,241
<b>Total assets</b>	\$ 4,489,679	\$ 4,712,616
<b>Liabilities</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 2,970	\$ 86,071
Accounts payable	19,867	19,850
Accrued expenses	89,605	110,108
Accrued interest	32,408	61,786
Accrued salaries and wages	66,213	65,608
Gaming, pari-mutuel, property, and other taxes	51,945	38,943
Insurance financing	3,233	6,752
Other current liabilities	42,686	41,138
Total current liabilities	308,927	430,256
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities	2,098,105	2,248,706
Deferred income taxes	126,029	127,107
Noncurrent tax liabilities	38,856	46,702
Other noncurrent liabilities	8,970	7,769
Total long-term liabilities	2,271,960	2,430,284

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**Shareholders equity**

Penn National Gaming, Inc. and subsidiaries shareholders equity:

Preferred stock (\$.01 par value, 1,000,000 shares authorized, 12,275 and 12,500 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively)			
Common stock (\$.01 par value, 200,000,000 shares authorized, 77,906,575 and 78,972,256 shares issued at September 30, 2010 and December 31, 2009, respectively)		774	786
Additional paid-in capital	1,430,332		1,480,476
Retained earnings	491,072		397,407
Accumulated other comprehensive loss	(13,386)		(26,028)
Total Penn National Gaming, Inc. and subsidiaries shareholders equity	1,908,792		1,852,641
Noncontrolling interests			(565)
Total shareholders equity	1,908,792		1,852,076
<b>Total liabilities and shareholders equity</b>	<b>\$</b>	<b>4,489,679</b>	<b>\$</b> 4,712,616

See accompanying notes to the consolidated financial statements.

## Penn National Gaming, Inc. and Subsidiaries

## Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Gaming	\$ 582,307	\$ 565,483	\$ 1,668,870	\$ 1,651,776
Food, beverage and other	85,787	87,404	250,971	258,273
Management service fee	4,363	4,239	11,569	10,946
Gross revenues	672,457	657,126	1,931,410	1,920,995
Less promotional allowances	(34,201)	(36,700)	(102,520)	(107,526)
Net revenues	638,256	620,426	1,828,890	1,813,469
<b>Operating expenses</b>				
Gaming	309,991	303,420	890,473	887,602
Food, beverage and other	66,857	69,100	196,705	199,158
General and administrative	102,164	110,116	303,633	302,587
Depreciation and amortization	53,842	50,055	157,675	141,427
Impairment losses	816	120	31,542	11,809
Empress Casino Hotel fire	(5,876)	211	(5,662)	5,942
Total operating expenses	527,794	533,022	1,574,366	1,548,525
Income from operations	110,462	87,404	254,524	264,944
<b>Other income (expenses)</b>				
Interest expense	(32,412)	(36,785)	(99,615)	(97,874)
Interest income	398	956	1,739	5,650
Loss from unconsolidated affiliates	(3,925)	(36)	(5,762)	(755)
Loss on early extinguishment of debt		(3,599)	(519)	(3,599)
Other	8,259	(2,560)	8,245	2,419
Total other expenses	(27,680)	(42,024)	(95,912)	(94,159)
<b>Income from operations before income taxes</b>				
Taxes on income	82,782	45,380	158,612	170,785
	34,437	24,029	67,140	80,293
<b>Net income including noncontrolling interests</b>	48,345	21,351	91,472	90,492
Less: Net loss attributable to noncontrolling interests			(2,193)	
<b>Net income attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries</b>	\$ 48,345	\$ 21,351	\$ 93,665	\$ 90,492
<b>Earnings per common share attributable to the shareholders of Penn National Gaming, Inc. and subsidiaries:</b>				
Basic earnings per common share	\$ 0.51	\$ 0.22	\$ 0.97	\$ 0.94
Diluted earnings per common share	\$ 0.46	\$ 0.20	\$ 0.88	\$ 0.85

See accompanying notes to the consolidated financial statements.





**Penn National Gaming, Inc. and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(in thousands, except share data) (unaudited)

	Penn National Gaming, Inc. shareholders				Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Shareholders' Equity	Comprehensive Income (Loss)
	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount						
Balance, December 31, 2008	12,500	\$	78,148,488	\$ 782	\$ 1,442,829	\$ 662,355	\$ (48,693)	\$	\$ 2,057,273	
Stock option activity, including tax benefit of \$1,885			367,538	3	27,499					27,502 \$
Restricted stock										