

PENN NATIONAL GAMING INC

Form 10-Q

November 09, 2006

**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, 2006

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)

**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)



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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by a 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 registrant's classes of common stock, as of the latest practicable date.

<b>Title</b>	<b>Outstanding as of November 3, 2006</b>
Common Stock, par value \$.01 per share	84,919,324 (includes 440,000 shares of restricted stock)

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 their expectations are based on reasonable assumptions within the bounds of their knowledge of its business and operations, there can be no assurance that actual results will not differ materially from the Company's expectations. Meaningful factors which could cause actual results to differ from expectations include, but are not limited to, risks related to the following: the ability of the Company to recover under its insurance policies for Hurricane Katrina damage; the passage of state, federal or local legislation that would expand, restrict, further tax or prevent gaming operations in the jurisdictions in which we do business; the activities of our competitors; increases in the effective rate of taxation at any of our properties or at the corporate level; successful completion of capital projects at our gaming and pari-mutuel facilities; the existence of attractive acquisition candidates, the costs and risks involved in the pursuit of those acquisitions and our ability to integrate those acquisitions; our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses (including, without limitation, the issuance of a final operator's license in Pennsylvania); the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups; our dependence on key personnel; the impact of terrorism and other international hostilities; the availability and cost of financing; and other factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 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)

	<b>September 30, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 136,322	\$ 132,620
Receivables, net of allowance for doubtful accounts of \$3,046 and \$2,994 at September 30, 2006 and December 31, 2005, respectively	58,857	47,632
Insurance receivable		51,160
Prepaid expenses and other current assets	53,083	26,780
Deferred income taxes	33,992	48,150
Total current assets	282,254	306,342
<b>Property and equipment, net</b>	1,317,614	1,059,892
<b>Other assets</b>		
Investment in and advances to unconsolidated affiliate	16,277	17,184
Goodwill	1,894,074	1,848,661
Other intangible assets	727,555	743,521
Deferred financing costs, net of accumulated amortization of \$13,629 and \$7,349 at September 30, 2006 and December 31, 2005, respectively	60,196	70,960
Other assets	72,954	92,861
Restricted assets held for sale		50,983
Total other assets	2,771,056	2,824,170
<b>Total assets</b>	<b>\$ 4,370,924</b>	<b>\$ 4,190,404</b>
<b>Current liabilities</b>		
Current maturities of long-term debt	\$ 18,481	\$ 18,567
Accounts payable	43,472	25,549
Accrued expenses	105,821	116,552
Accrued interest	30,449	33,303
Accrued salaries and wages	59,108	54,579
Gaming, pari-mutuel, property, and other taxes	56,176	47,724
Income taxes payable	26,168	18,284
Insurance financing	26,490	6,115
Other current liabilities	27,857	20,636
Total current liabilities	394,022	341,309
<b>Long-term liabilities</b>		
Long-term debt, net of current maturities	2,783,713	2,767,662
Deferred income taxes	370,222	259,708
Other noncurrent liabilities	244	659
Liabilities held for sale		274,523
Total long-term liabilities	3,154,179	3,302,552
<b>Shareholders equity</b>		
Preferred stock (\$.01 par value, 1,000,000 shares authorized, none issued and outstanding at September 30, 2006 and December 31, 2005)		
Common stock (\$.01 par value, 200,000,000 shares authorized, 86,533,864 shares at September 30, 2006, and 85,064,886 shares at December 31, 2005, issued)	865	850
Treasury stock (1,698,800 shares issued at September 30, 2006 and December 31, 2005)	(2,379)	(2,379)

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Additional paid-in capital	241,299	206,763
Retained earnings	580,207	340,469
Accumulated other comprehensive income	2,731	840
Total shareholders' equity	822,723	546,543
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,370,924</b>	<b>\$ 4,190,404</b>

See accompanying notes to consolidated financial statements.

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## Penn National Gaming, Inc. and Subsidiaries

## Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2006		For the Nine Months Ended September 30, 2005	
	2006	2005	2006	2005
<b>Revenues</b>				
Gaming	\$ 536,901	\$ 249,824	\$ 1,531,155	\$ 749,962
Racing	13,075	11,627	40,277	36,731
Management service fee	4,819	5,201	14,127	13,968
Food, beverage and other	59,198	34,113	164,183	111,263
Gross revenues	613,993	300,765	1,749,742	911,924
Less promotional allowances	(27,882 )	(13,828 )	(78,056 )	(47,353 )
Net revenues	586,111	286,937	1,671,686	864,571
<b>Operating expenses</b>				
Gaming	278,079	136,535	788,705	403,557
Racing	10,094	9,173	31,020	28,241
Food, beverage and other	52,703	25,603	149,931	75,328
General and administrative	85,984	39,248	234,595	131,488
Hurricane expense		19,142		19,142
Settlement costs				28,175
Depreciation and amortization	31,196	14,942	88,642	46,406
Total operating expenses	458,056	244,643	1,292,893	732,337
Income from continuing operations	128,055	42,294	378,793	132,234
<b>Other income (expenses)</b>				
Interest expense	(49,732 )	(12,824 )	(145,927 )	(41,652 )
Interest income	882	958	2,652	3,180
(Loss) earnings from joint venture	(1,665 )	230	(678 )	1,216
Other	(593 )	532	(519 )	438
Loss on early extinguishment of debt			(10,022 )	(16,673 )
Total other expenses	(51,108 )	(11,104 )	(154,494 )	(53,491 )
<b>Income from continuing operations before income taxes</b>	76,947	31,190	224,299	78,743
Taxes on income	36,548	11,386	99,222	27,793
Net income from continuing operations	40,399	19,804	125,077	50,950
Loss from discontinued operations, net of tax		(2,291 )		(5,512 )
Gain on sale of discontinued operations, net of tax	114,661	37,888	114,661	37,888
<b>Net income</b>	\$ 155,060	\$ 55,401	\$ 239,738	\$ 83,326
<b>Earnings per share-Basic</b>				
Income from continuing operations	\$ 0.48	\$ 0.24	\$ 1.49	\$ 0.62
Discontinued operations, net of tax	1.36	0.43	1.36	0.39
<b>Basic earnings per share</b>	\$ 1.84	\$ 0.67	\$ 2.85	\$ 1.01