

PENN NATIONAL GAMING INC
Form 10-Q
August 11, 2008

**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 June 30, 2008

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)

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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, 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

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

Title	Outstanding as of August 1, 2008
Common Stock, par value \$.01 per share	85,964,520 (includes 380,000 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 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 which could cause actual results to differ from expectations include, but are not limited to, risks related to the following: the termination of the previously announced acquisition of the Company by certain funds managed by affiliates of Fortress Investment Group LLC and Centerbridge Partners, L.P. (the Termination); that the conditions to closing the preferred stock purchase agreement are not satisfied or the issuance of the preferred stock otherwise fails to close; the outcome of legal proceedings which may be instituted against the Company in connection with the Termination; the passage of state, federal or local legislation that would expand, restrict, further tax, prevent or negatively impact (such as a smoking ban at any of our facilities) 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; 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; 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; the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups; the effects of local and national economic, credit and capital market and energy conditions on the economy in general, and on the gaming and lodging industries in particular; construction factors, including delays, increased cost of labor and materials; changes in accounting standards; third-party relations and approvals; 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, 2007 filed with the United States Securities and Exchange Commission. We do not intend to update publicly any forward-looking statements except as required by law.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	4
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS</u>	4
	<u>Consolidated Balance Sheets June 30, 2008 and December 31, 2007</u>	4
	<u>Consolidated Statements of Income Three and Six Months Ended June 30, 2008 and 2007</u>	5
	<u>Consolidated Statements of Changes in Shareholders' Equity Six Months Ended June 30, 2008 and 2007</u>	6
	<u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2008 and 2007</u>	7
	<u>Notes to the Consolidated Financial Statements</u>	8
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)</u>	20
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	35
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	36
<u>PART II.</u>	<u>OTHER INFORMATION</u>	37
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	37
<u>ITEM 6.</u>	<u>EXHIBITS</u>	37

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)

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 124,371	\$ 174,372
Receivables, net of allowance for doubtful accounts of \$3,381 and \$3,241 at June 30, 2008 and December 31, 2007, respectively	54,681	56,427
Prepaid expenses and other current assets	93,403	52,825
Deferred income taxes	18,909	19,079
Total current assets	291,364	302,703
Property and equipment, net	1,773,886	1,688,393
Other assets		
Investment in and advances to unconsolidated affiliate	15,114	15,548
Goodwill	2,013,454	2,013,139
Other intangible assets	771,723	777,441
Deferred financing costs, net of accumulated amortization of \$33,301 and \$27,680 at June 30, 2008 and December 31, 2007, respectively	40,523	46,144
Other assets	134,110	123,664
Total other assets	2,974,924	2,975,936
Total assets	\$ 5,040,174	\$ 4,967,032
Liabilities		
Current liabilities		
Current maturities of long-term debt	\$ 101,811	\$ 93,452
Accounts payable	44,966	28,581
Accrued expenses	94,376	163,579
Accrued interest	51,900	56,631
Accrued salaries and wages	56,891	54,149
Gaming, pari-mutuel, property, and other taxes	55,133	43,621
Income taxes payable	49,046	3,642
Insurance financing	490	16,515
Other current liabilities	43,614	33,704
Total current liabilities	498,227	493,874
Long-term liabilities		
Long-term debt, net of current maturities	2,855,395	2,881,470
Deferred income taxes	390,079	385,089
Noncurrent tax liabilities	84,394	82,849
Other noncurrent liabilities	2,782	2,788
Total long-term liabilities	3,332,650	3,352,196

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Shareholders equity

Preferred stock (\$.01 par value, 1,000,000 shares authorized, none issued and outstanding at June 30, 2008 and December 31, 2007)		
Common stock (\$.01 par value, 200,000,000 shares authorized, 88,639,320 and 88,579,070 shares issued at June 30, 2008 and December 31, 2007, respectively)	887	887
Treasury stock (1,698,800 shares issued at June 30, 2008 and December 31, 2007)	(2,379)	(2,379)
Additional paid-in capital	333,495	322,760
Retained earnings	893,437	815,678
Accumulated other comprehensive loss	(16,143)	(15,984)
Total shareholders equity	1,209,297	1,120,962
Total liabilities and shareholders equity	\$ 5,040,174	\$ 4,967,032

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues				
Gaming	\$ 566,395	\$ 570,281	\$ 1,127,031	\$ 1,119,374
Management service fee	4,694	4,341	8,679	7,815
Food, beverage and other	81,845	82,894	163,370	156,664
Gross revenues	652,934	657,516	1,299,080	1,283,853
Less promotional allowances	(32,348)	(32,272)	(65,000)	(62,351)
Net revenues	620,586	625,244	1,234,080	1,221,502
Operating expenses				
Gaming	296,195	297,086	589,442	581,377
Food, beverage and other	67,515	63,123	131,519	121,453
General and administrative	98,103	98,993	195,995	192,492
Depreciation and amortization	45,182	37,622	84,974	72,980
Total operating expenses	506,995	496,824	1,001,930	968,302
Income from operations	113,591	128,420	232,150	253,200
Other income (expenses)				
Interest expense	(44,536)	(51,302)	(91,751)	(99,649)
Interest income	553	1,289	1,236	2,165
(Loss) earnings from joint venture	(152)	325	(911)	365
Other	(574)	(5,476)	884	(5,704)
Total other expenses	(44,709)	(55,164)	(90,542)	(102,823)
Income from operations before income taxes	68,882	73,256	141,608	150,377
Taxes on income	31,859	34,957	63,849	69,137
Net income	\$ 37,023	\$ 38,299	\$ 77,759	\$ 81,240
Basic earnings per share	\$ 0.43	\$ 0.45	\$ 0.90	\$ 0.96
Diluted earnings per share	\$ 0.42	\$ 0.43	\$ 0.88	\$ 0.93

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)

	Common Stock		Treasury	Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Stock	Paid-In	Earnings	Other	Shareholders	Income
				Capital		Comprehensive	Equity	
						Income (Loss)		
Balance, December 31, 2006	86,814,999	\$ 868	\$ (2,379)	\$ 251,943	\$ 667,557	\$ 3,174	\$ 921,163	
Stock option activity, including tax benefit of \$4,861	598,396	6		24,063			24,069	\$
Restricted stock	(60,000)			975			975	
Change in fair value of interest rate swap contracts, net of income taxes of \$2,689						4,734	4,734	4,734