

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)

Edgar Filing: PENN NATIONAL GAMING INC - Form 10-Q

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)

Edgar Filing: PENN NATIONAL GAMING INC - Form 10-Q

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.

| Title | Outstanding as of November 3, 2006 |
|---|--|
| 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

TABLE OF CONTENTS

| | | |
|--------------------------------------|---|----|
| <u>PART I. FINANCIAL INFORMATION</u> | | 4 |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS</u> | 4 |
| | <u>Consolidated Balance Sheets</u> September 30, 2006 and December 31, 2005 | 4 |
| | <u>Consolidated Statements of Income</u> For the Three and Nine Months Ended September 30, 2006 and 2005 | 5 |
| | <u>Consolidated Statements of Changes in Shareholders' Equity</u> For the Nine Months Ended September 30, 2006 and 2005 | 6 |
| | <u>Consolidated Statements of Cash Flows</u> For the Nine Months Ended September 30, 2006 and 2005 | 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> | 23 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 40 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> | 40 |
| <u>PART II. OTHER INFORMATION</u> | | 41 |
| <u>ITEM 1.</u> | <u>LEGAL PROCEEDINGS</u> | 41 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> | 41 |

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, 2006 (unaudited) | December 31, 2005 |
|--|---|------------------------------|
| Assets | | |
| Current assets | | |
| 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 |
| Property and equipment, net | 1,317,614 | 1,059,892 |
| Other assets | | |
| 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 |
| Total assets | \$ 4,370,924 | \$ 4,190,404 |
| Current liabilities | | |
| 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 |
| Long-term liabilities | | |
| 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 |
| Shareholders equity | | |
| 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) |

Edgar Filing: PENN NATIONAL GAMING INC - Form 10-Q

| | | |
|--|---------|---------|
| Additional paid-in capital | 241,299 | 206,763 |
| Retained earnings | 580,207 | 340,469 |
| Accumulated other comprehensive income | 2,731 | |