

PENN NATIONAL GAMING INC

Form 10-Q

May 11, 2009

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 March 31, 2009

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 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 registrant's classes of Common Stock, as of the latest practicable date.

Title	Outstanding as of April 29, 2009
Common Stock, par value \$.01 per share	78,476,532 (includes 473,500 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 that could cause actual results to differ from expectations include, but are not limited to, risks related to the following: our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses; the passage of state, federal or local legislation that would expand, restrict, further tax, prevent or negatively impact operations (such as a smoking ban at any of our facilities) in the jurisdictions in which we 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 and increased cost of labor and materials; the ability to recover proceeds on significant insurance claims (such as claims related to the fire at Empress Casino Hotel); the existence of attractive acquisition candidates and development opportunities, the costs and risks involved in the pursuit of those acquisitions and development opportunities and our ability to integrate those acquisitions; the availability and cost of financing; the impact of market conditions or applicable legal restrictions on the Company's intention to repurchase shares of its common stock; the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups; the outcome of legal proceedings instituted against the Company in connection with the termination of the previously announced acquisition of the Company by certain affiliates of Fortress Investment Group LLC and Centerbridge Partners, L.P.; the effects of local and national economic, credit, capital market, housing, 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, 2008, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as filed with the SEC. 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)

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 738,236	\$ 746,278
Receivables, net of allowance for doubtful accounts of \$4,127 and \$3,797 at March 31, 2009 and December 31, 2008, respectively	39,746	43,574
Insurance receivable	31,175	
Prepaid expenses and other current assets	81,510	95,386
Deferred income taxes	20,635	21,065
Total current assets	911,302	906,303
Property and equipment, net	1,792,201	1,812,131
Other assets		
Investment in and advances to unconsolidated affiliate	14,136	14,419
Goodwill	1,598,571	1,598,571
Other intangible assets	692,104	693,764
Deferred financing costs, net of accumulated amortization of \$41,723 and \$38,914 at March 31, 2009 and December 31, 2008, respectively	32,101	34,910
Other assets	126,000	129,578
Total other assets	2,462,912	2,471,242
Total assets	\$ 5,166,415	\$ 5,189,676
Liabilities		
Current liabilities		
Current maturities of long-term debt	\$ 99,441	\$ 105,281
Accounts payable	27,899	35,540
Accrued expenses	79,629	106,769
Accrued interest	74,652	80,190
Accrued salaries and wages	53,926	55,380
Gaming, pari-mutuel, property, and other taxes	44,479	44,503
Income taxes payable	14,718	
Insurance financing	2,023	8,093
Other current liabilities	33,378	34,730
Total current liabilities	430,145	470,486
Long-term liabilities		
Long-term debt, net of current maturities	2,284,775	2,324,899
Deferred income taxes	266,738	265,610
Noncurrent tax liabilities	69,593	68,632
Other noncurrent liabilities	3,517	2,776
Total long-term liabilities	2,624,623	2,661,917

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Shareholders equity

Preferred stock (\$.01 par value, 1,000,000 shares authorized, 12,500 issued and outstanding at March 31, 2009 and December 31, 2008)				
Common stock (\$.01 par value, 200,000,000 shares authorized, 78,324,880 and 78,148,488 shares issued at March 31, 2009 and December 31, 2008, respectively)		782		782
Additional paid-in capital		1,452,821		1,442,829
Retained earnings		703,016		662,355
Accumulated other comprehensive loss		(44,972)		(48,693)
Total shareholders equity		2,111,647		2,057,273
Total liabilities and shareholders equity	\$	5,166,415	\$	5,189,676

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 March 31,	
	2009	2008
Revenues		
Gaming	\$ 559,903	\$ 560,636
Management service fee	3,033	3,985
Food, beverage and other	84,622	81,525
Gross revenues	647,558	646,146
Less promotional allowances	(35,332)	(32,652)
Net revenues	612,226	613,494
Operating expenses		
Gaming	297,562	299,433
Food, beverage and other	64,529	62,321
General and administrative	99,470	93,389
Empress Casino Hotel fire	5,400	
Depreciation and amortization	44,430	39,792
Total operating expenses	511,391	494,935
Income from operations	100,835	118,559
Other income (expenses)		
Interest expense	(31,238)	(47,215)
Interest income	3,091	683
Loss from joint venture	(303)	(759)
Other	2,092	1,458
Total other expenses	(26,358)	(45,833)
Income from operations before income taxes	74,477	72,726
Taxes on income	33,816	31,990
Net income	\$ 40,661	\$ 40,736
Basic earnings per common share	\$ 0.42	\$ 0.47
Diluted earnings per common share	\$ 0.38	\$ 0.46

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)

	Preferred Stock		Common Stock		Treasury	Additional	Retained	Accumulated	Total	Comprehensive
	Shares	Amount	Shares	Amount	Stock	Paid-In	Earnings	Other	Shareholders	(Loss) Income
						Capital		(Loss) Income	Equity	(Loss) Income
Balance, December 31, 2007		\$	88,579,070	\$ 887	\$ (2,379)	\$ 322,760	\$ 815,678	\$ (15,984)	\$	1,120,962
Stock option activity, including tax benefit of \$396			58,250			4,796				4,796
Restricted stock						490				490
Change in fair value of interest rate swap contracts, net of income taxes of \$9,997								(17,603)	(17,603)	(17,603)
Foreign currency translation adjustment								(242)	(242)	(242)
Net income							40,736		40,736	40,736
Balance, March 31, 2008		\$	88,637,320	\$ 887	\$ (2,379)	\$ 328,046	\$ 856,414	\$ (33,829)	\$	1,149,139
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 \$327			82,892			9,496				