

PENN NATIONAL GAMING INC
Form 10-Q
August 02, 2013
[Table of Contents](#)

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, 2013

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.

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

(Exact name of registrant as specified in its charter)

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 (§232.405 of this chapter) 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
(Do not check if a smaller reporting company)

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.

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

Title	Outstanding as of July 26, 2013
Common Stock, par value \$.01 per share	78,892,597 (includes 381,245 shares of restricted stock)

Table of Contents

This document 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: the proposed separation of a newly formed publicly traded real estate investment trust which will be named Gaming and Leisure Properties, Inc. (GLPI) from the Company (the Spin-Off), including our ability to timely receive all necessary consents and approvals, the anticipated timing of the proposed separation, the expected tax treatment of the proposed transaction, the ability of each of the post spin Company and GLPI to conduct and expand their respective businesses following the proposed spin-off, and the diversion of management's attention from traditional business concerns, our ability to raise the capital necessary to finance the spin-off, including the redemption of our existing debt and preferred stock obligations, the anticipated cash portion of GLPI's special earnings and profit dividend and transaction costs; our ability to obtain timely regulatory approvals required to own, develop and/or operate our facilities, or other delays or impediments to completing our planned acquisitions or projects, including favorable resolution of any related litigation, including the ongoing appeal by the Ohio Roundtable addressing the legality of video lottery terminals and the exemption of casinos from the commercial activity tax in Ohio; our ability to secure state and local permits and approvals necessary for construction; construction factors, including delays, unexpected remediation costs, local opposition and increased cost of labor and materials; our ability to successfully integrate Harrah's St. Louis into our existing business; our ability to reach agreements with the thoroughbred and harness horseman in Ohio in connection with the proposed relocations and to otherwise maintain agreements with our horseman, pari-mutuel clerks and other organized labor groups; with respect to the proposed Jamul, CA project, particular risks associated with securing financing, local opposition, and building a complex project on a relatively small parcel; with respect to the Tewksbury, MA project, particular risks associated with local opposition and local permitting, surrounding community agreements and a local ballot measure; the passage of state, federal or local legislation (including referenda) that would expand, restrict, further tax, prevent or negatively impact operations in or adjacent to the jurisdictions in which we do or seek to do business (such as a smoking ban at any of our facilities); 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; the activities of our competitors and the rapid emergence of new competitors (traditional, internet based and sweepstakes based); increases in the effective rate of taxation at any of our properties or at the corporate level; 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; our expectations for the continued availability and cost of capital; the outcome of pending legal proceedings; changes in accounting standards; 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, 2012, 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.

Table of Contents

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 (Unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets June 30, 2013 and December 31, 2012</u>	4
	<u>Condensed Consolidated Statements of Operations Three and Six Months Ended June 30, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income Three and Six Months Ended June 30, 2013 and 2012</u>	6
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity Six Months Ended June 30, 2013 and 2012</u>	7
	<u>Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2013 and 2012</u>	8
	<u>Notes to the Condensed Consolidated Financial Statements</u>	9
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	22
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	38
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	38
<u>PART II.</u>	<u>OTHER INFORMATION</u>	39
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	39
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	39
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	39
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	39
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	39
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	39
<u>ITEM 6.</u>	<u>EXHIBITS</u>	39
<u>SIGNATURES</u>		40
<u>EXHIBIT INDEX</u>		41

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

(in thousands, except share and per share data)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$ 235,135	\$ 260,467
Receivables, net of allowance for doubtful accounts of \$4,272 and \$3,901 at June 30, 2013 and December 31, 2012, respectively	52,135	53,720
Insurance receivable	210	
Prepaid expenses	65,482	94,620
Deferred income taxes	36,674	39,793
Other current assets	11,646	38,540
Total current assets	401,282	487,140
Property and equipment, net	2,678,003	2,730,797
Other assets		
Investment in and advances to unconsolidated affiliates	201,547	204,506
Goodwill	1,309,413	1,380,689
Other intangible assets, net	698,467	706,477
Debt issuance costs, net of accumulated amortization of \$15,636 and \$11,462 at June 30, 2013 and December 31, 2012, respectively	31,761	35,999
Other assets	112,897	98,449
Total other assets	2,354,085	2,426,120
Total assets	\$ 5,433,370	\$ 5,644,057
Liabilities		
Current liabilities		
Current maturities of long-term debt	\$ 82,594	\$ 81,497
Accounts payable	25,256	38,268
Accrued expenses	102,821	133,316
Accrued interest	19,831	21,872
Accrued salaries and wages	80,567	96,426
Gaming, pari-mutuel, property, and other taxes	65,857	55,610
Insurance financing	8,125	3,856
Other current liabilities	71,997	68,774
Total current liabilities	457,048	499,619
Long-term liabilities		
Long-term debt, net of current maturities	2,393,606	2,649,073
Deferred income taxes	223,004	216,357
Noncurrent tax liabilities	23,044	20,393
Other noncurrent liabilities	7,050	7,686

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

Total long-term liabilities	2,646,704	2,893,509
Shareholders equity		
Preferred stock (\$.01 par value, 1,000,000 shares authorized, 12,050 and 12,275 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively)		
Common stock (\$.01 par value, 200,000,000 shares authorized, 78,854,790 and 77,446,601 shares issued at June 30, 2013 and December 31, 2012, respectively)	780	769
Additional paid-in capital	1,479,945	1,451,965
Retained earnings	848,264	795,173
Accumulated other comprehensive income	629	3,022
Total shareholders equity	2,329,618	2,250,929
Total liabilities and shareholders equity	\$ 5,433,370	\$