

PENN NATIONAL GAMING INC

Form 10-Q

May 10, 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 March 31, 2006

OR

o 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.

Title	Outstanding as of May 3, 2006
Common Stock, par value \$.01 per share	84,761,924 (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 the Company believes that its expectations are based on reasonable assumptions within the bounds of its 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 opportunity to assess more fully the hurricane damage incurred at two of our properties and the ability of the Company to recover under its insurance policies for that 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; our ability to integrate and recognize the benefits of integrating Argosy Gaming Company; 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); delays in the process of finalizing gaming regulations and the establishment of related governmental infrastructure 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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Item 1. Financial Statements

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 138,120	\$ 132,620
Receivables, net of allowance for doubtful accounts of \$3,320 and \$2,994 at March 31, 2006 and December 31, 2005, respectively	46,263	47,632
Insurance receivable	35,518	51,160
Prepaid expenses and other current assets	37,695	26,780
Deferred income taxes	48,369	48,150
Total current assets	305,965	306,342
Property and equipment, net	1,103,697	1,059,892
Other assets		
Investment in and advances to unconsolidated affiliate	17,597	17,184
Goodwill	1,828,069	1,848,661
Other intangible assets	742,044	743,521
Deferred financing costs, net of accumulated amortization of \$8,006 and \$7,349 at March 31, 2006 and December 31, 2005, respectively	65,789	70,960
Other assets	87,368	92,861
Restricted assets held for sale	50,983	50,983
Total other assets	2,791,850	2,824,170
Total assets	\$ 4,201,512	\$ 4,190,404
Current liabilities		
Current maturities of long-term debt	\$ 18,433	\$ 18,567
Accounts payable	22,286	32,321
Accrued expenses	64,012	125,291
Accrued interest	27,315	33,293
Accrued salaries and wages	42,481	46,917
Gaming, pari-mutuel, property, and other taxes	61,591	44,792
Income taxes payable	39,998	18,284
Other current liabilities	42,957	21,844
Total current liabilities	319,073	341,309
Long-term liabilities		
Long-term debt, net of current maturities	2,727,397	2,767,662
Deferred income taxes	261,540	259,708
Liabilities held for sale	275,111	275,182
Total long-term liabilities	3,264,048	3,302,552
Shareholders' equity		
Preferred stock (\$.01 par value, 1,000,000 shares authorized, none issued and outstanding at March 31, 2006 and December 31, 2005)		
Common stock (\$.01 par value, 200,000,000 shares authorized, 86,444,724 shares at March 31, 2006, and 85,064,886 shares at December 31, 2005, issued)	864	850
Treasury stock (1,698,800 shares issued and outstanding at March 31, 2006 and December 31, 2005)	(2,379)	(2,379)

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Additional paid-in capital	228,140	206,763
Retained earnings	382,452	340,469
Accumulated other comprehensive income	9,314	840
Total shareholders' equity	618,391	546,543
Total liabilities and shareholders' equity	\$ 4,201,512	\$ 4,190,404

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	For the Three Months Ended March 31,			
	2006		2005	
Revenues				
Gaming	\$	524,891	\$	253,051
Racing		13,567		11,793
Management service fee		4,387		4,067
Food, beverage and other		52,568		37,280
Gross revenues		595,413		306,191
Less promotional allowances		(26,170)		(16,885)
Net revenues		569,243		289,306
Operating expenses				
Gaming		277,185		138,609
Racing		10,071		8,842
Food, beverage and other		48,357		23,848
General and administrative		75,011		46,213
Depreciation and amortization		29,718		15,495
Total operating expenses		440,342		233,007
Income from continuing operations		128,901		56,299
Other income (expenses)				
Interest expense		(48,429)		(16,503)
Interest income		903		1,293
Earnings from joint venture		413		343
Other		(110)		(21)
Loss on early extinguishment of debt		(10,022)		(15,805)
Total other expenses		(57,245)		(30,693)
Income from continuing operations before income taxes		71,656		25,606
Taxes on income		29,673		9,352
Net income from continuing operations		41,983		16,254
Loss from discontinued operations				(452)
Net income	\$	41,983	\$	15,802
Earnings (loss) per share-Basic				
Income from continuing operations	\$	0.50	\$	0.20
Discontinued operations, net of tax				(0.01)
Basic earnings per share	\$	0.50	\$	0.19
Earnings per share-Diluted				
Income from continuing operations	\$	0.49	\$	0.19
Discontinued operations, net of tax				
Diluted earnings per share	\$	0.49	\$	0.19

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

(in thousands, except share data) (unaudited)

	Common Shares	Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity	Comprehensive Income
Balance, December 31, 2005	85,064,886	\$ 850	\$ (2,379)	\$ 206,763	\$ 340,469	\$ 840	\$ 546,543	
Exercise of stock options including tax benefit of \$7,589	939,838	10		20,914			20,924	
Restricted stock activity	440,000	4		463			467	
Change in fair value of interest rate swap contracts, net of income taxes of \$4,667						8,473	8,473	8,473
Foreign currency translation adjustment						1	1	1
Net income					41,983		41,983	41,983
Balance, March 31, 2006	86,444,724	\$ 864	\$ (2,379)	\$ 228,140	\$ 382,452	\$ 9,314	\$ 618,391	\$ 50,457
Balance, December 31, 2004	83,131,940	\$ 831	\$ (2,379)	\$ 178,459	\$ 219,539	\$ 1,642	\$ 398,092	
Exercise of stock options including tax benefit of \$11,387	1,248,946	13		16,891			16,904	
Restricted stock activity				119			119	
Change in fair value of interest rate swap contracts, net of income taxes of \$134						249	249	249
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of \$29						(54)	(54)	
Foreign currency translation adjustment						(16)	(16)	(16)
Net income					15,802		15,802	15,802
Balance, March 31, 2005	84,380,886	\$ 844	\$ (2,379)	\$ 195,469	\$ 235,341	\$ 1,821	\$ 431,096	\$ 16,035

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands) (unaudited)

	2006	Three Months Ended March 31,	2005 Revised - see Note 2
Operating activities			
Net income from operations	\$	41,983	\$ 15,802
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		29,718	15,495
Amortization of deferred financing costs charged to interest expense		2,928	997
Amortization of the unrealized gain on interest rate swap contracts charged to interest expense, net of income tax benefit			(54)
Loss on sale of fixed assets		872	37
Earnings from joint venture		(413)	(343)
Loss relating to early extinguishment of debt		2,255	4,679
Deferred income taxes		1,613	(98,495)
Charge for stock compensation		4,911	119
Tax benefit from stock options exercised			11,387
Decrease (increase), net of businesses acquired			
Accounts receivable		1,369	4,810
Insurance receivable		16,996	
Prepaid expenses and other current assets		(10,915)	(6,820)
Prepaid income taxes			5,703
Other assets		5,493	(546)
(Decrease) increase, net of businesses acquired			
Accounts payable		(10,035)	1,946
Accrued expenses		(60,612)	(5,411)
Accrued interest		2,495	(6,496)
Accrued salaries and wages		(4,436)	(5,853)
Gaming, pari-mutuel, property and other taxes		16,799	4,787
Income taxes payable		21,714	105,625
Other current liabilities		21,113	(11,316)
Operating cash flows from discontinued operations		(71)	(13,713)
Net cash provided by operating activities		83,777	22,340
Investing activities			
Expenditures for property and equipment		(54,393)	(15,313)
Proceeds from sale of property and equipment		165	160
Proceeds from sale of business			274,523
Acquisition of businesses, net of cash acquired			(350)
Investing cash flows from discontinued operations			(157)
Net cash (used in) provided by investing activities		(54,228)	258,863
Financing activities			
Proceeds from exercise of options		8,772	5,516
Proceeds from issuance of long-term debt		136,440	250,000
Principal payments on long-term debt		(176,839)	(310,942)
Increase in deferred financing cost		(12)	(5,918)
Tax benefit from stock options exercised		7,589	
Net cash used in financing activities		(24,050)	(61,344)
Effect of exchange rate fluctuations on cash		1	(16)
Net increase in cash and cash equivalents		5,500	219,843

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Cash and cash equivalents at beginning of period		132,620		87,620
Cash and cash equivalents at end of period	\$	138,120	\$	307,463