

PENN NATIONAL GAMING INC  
Form 10-K  
March 01, 2007

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

## FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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)

**Pennsylvania**  
(State or other jurisdiction of  
Incorporation or Organization)  
**Wyomissing Professional Center**  
**825 Berkshire Blvd., Suite 200**  
**Wyomissing, Pennsylvania**  
(Address of principal executive offices)

**23-2234473**  
(I.R.S. Employer Identification No.)  
**19610**  
(Zip Code)

Registrant's telephone number, including area code: (610) 373-2400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

## Edgar Filing: PENN NATIONAL GAMING INC - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

As of June 30, 2006 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$2.8 billion. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the Nasdaq National Market on June 30, 2006. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of February 14, 2007 was 85,388,598.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement for its 2007 annual meeting of shareholders are incorporated by reference into Part III.

---

## TABLE OF CONTENTS

		Page
	<b><u>PART I</u></b>	
<u>ITEM 1.</u>	<u>BUSINESS</u>	1
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	14
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	22
<u>ITEM 2.</u>	<u>PROPERTIES</u>	22
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>	24
<u>ITEM 4.</u>	<u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	25
	<b><u>PART II</u></b>	
<u>ITEM 5.</u>	<u>MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS</u>	26
<u>ITEM 6.</u>	<u>SELECTED CONSOLIDATED FINANCIAL DATA</u>	27
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	29
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	50
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	51
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	87
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>	87
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	90
	<b><u>PART III</u></b>	
<u>ITEM 10.</u>	<u>DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT</u>	90
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>	90
<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS</u>	90
<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	90
<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	90
	<b><u>PART IV</u></b>	
<u>ITEM 15.</u>	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	91

## IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are included throughout the document, including the section entitled Risk Factors, and relate to our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as believes, estimates, expects, intends, may, will, should or anticipates or negative or other variation of these or similar words, or by discussions of future events, strategies or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning:

- our expectations of future results of operations or financial condition;
- our expectations for our properties;
- the timing, cost and expected impact of planned capital expenditures on our results of operations;
- the impact of our geographic diversification;
- our expectations with regard to further acquisitions and the integration of any companies we have acquired or may acquire;
- the outcome and financial impact of the litigation in which we are periodically involved;
- the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approval for new businesses;
- our expectations for the continued availability and cost of capital; and
- the divestiture of the Empress Casino Hotel in Joliet, Illinois pursuant to an agreement with the Illinois Gaming Board.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about our subsidiaries and us, and accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described below under the heading Risk Factors and in the information incorporated by reference herein. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, risks related to the following:

- the passage of state, federal or local legislation that would expand, restrict, further tax or prevent gaming operations in or adjacent to the jurisdictions in which we do business;
- increases in our effective rate of taxation at any of our properties or at the corporate level;
- the activities of our competitors;
- successful completion of the various 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 new businesses;
- our dependence on key personnel;
- the risks involved in divesting the Empress Casino Hotel in Joliet, Illinois, pursuant to an agreement with the Illinois Gaming Board, including without limitation receiving an acceptable purchase price;

ii

---

- the availability and cost of financing;
- the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups;
- the impact of terrorism and other international hostilities; and
- other factors as discussed in our filings with the United States Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document may not occur.

iii

---

**PART I****ITEM 1. BUSINESS****Overview**

We are a leading, diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. The Company was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994, when the Company became a public company. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions, including the acquisition of Hollywood Casino Corporation in March 2003 and Argosy Gaming Company ( Argosy ) in October 2005. We now own or operate seventeen facilities in thirteen jurisdictions, including Colorado, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, Ohio, Pennsylvania, West Virginia, and Ontario. In addition, on November 7, 2006, we agreed to acquire Zia Park racetrack and its Black Gold Casino in New Mexico. The transaction is expected to close mid-2007, subject to the satisfaction of customary closing conditions, including regulatory approval. We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties in attractive markets. In this Annual Report on Form 10-K, the terms we , us , our , the Company and Penn National refer to Penn National Gaming, Inc. and its subsidiaries, unless context indicates otherwise.

The following table summarizes certain features of our properties and our managed facility as of December 31, 2006:

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games(1)	Hotel Rooms
<b>Owned Gaming Properties:</b>						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	151,450	4,183		
Argosy Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	74,300	2,417	74	300
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,172	21	
Empress Casino Hotel(2)	Joliet, IL	Dockside gaming	50,000	1,211	20	100
Argosy Casino Riverside	Riverside, MO	Dockside gaming	56,400	1,800	40	
Hollywood Casino Baton Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,141	27	
Argosy Casino Alton	Alton, IL	Dockside gaming	23,000	1,103	20	
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,334	31	494
Hollywood Casino Bay St. Louis	Bay St. Louis, MS	Land-based gaming	40,000	1,005	20	291