

PENN NATIONAL GAMING INC
Form 10-Q/A
March 08, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(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, 2015

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)

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

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

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.

Title	Outstanding as of July 27, 2015
Common Stock, par value \$.01 per share	80,185,538 (includes 134,567 shares of restricted stock)

Table of Contents

EXPLANATORY NOTE

In this Quarterly Report on Form 10-Q/A (Form 10-Q/A), the terms we , our , the Company and Penn refer to Penn National Gaming, Inc. and its subsidiaries, unless the context indicates otherwise.

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on October 22, 2015, the Company is restating its financial statements for the interim periods ended June 30, 2015 and 2014.

The Company originally concluded that its Master Lease agreement (the Master Lease) with Gaming and Leisure Properties, Inc. (GLPI) should be accounted for as an operating lease under Generally Accepted Accounting Principles. This accounting treatment was applied in the Company's financial statements for the years ended December 31, 2014 and 2013, respectively, which were accompanied by unqualified opinions of Ernst & Young, LLP (EY), the Company's independent registered public accounting firm. Upon the Company's recent reconsideration of that accounting treatment, the Company re-examined this accounting and the relevant accounting literature. The restatement primarily results from the Company's accounting for its November 1, 2013 spin-off of real estate assets to GLPI and entrance into the Master Lease, which was previously recognized as a sale-leaseback. As explained in Note 2 to the condensed consolidated financial statements included within this report, the Company did not meet all of the requirements for sale-leaseback accounting under Accounting Standards Codification (ASC) 840, Leases , and therefore the transaction should be accounted for as a failed spin-off-leaseback which resulted in the transaction being recorded as a financing obligation rather than a distribution of assets followed by an operating lease. As a result, the Company is precluded from derecognizing the real estate assets and is instead required to recognize a financing obligation. The restated condensed consolidated balance sheets therefore include an adjustment to property and equipment, net for the carrying value of the real property leased from GLPI of \$1.99 billion and \$2.04 billion at June 30, 2015 and December 31, 2014, respectively, and additional liabilities of \$3.59 billion and \$3.61 billion at June 30, 2015 and December 31, 2014, respectively, representing the present value of the future minimum lease payments due to GLPI under the Master Lease and the funded construction of certain leased real estate assets in development at the date of the Spin-Off. Consequently, the restated condensed consolidated statements of operations no longer report rent expense for the obligations under the Master Lease, but rather include interest expense associated with the financing obligation and depreciation expense related to the real estate assets, along with the periodic reduction of the financing obligation reflected in the condensed consolidated balance sheets. The lease payment amounts previously recorded as rent expense were \$109.5 million and \$218.4 million for the three and six months ended June 30, 2015, compared to \$104.6 million and \$208.9 million for the three and six months ended June 30, 2014, respectively. The increases to interest expense and depreciation expense as a result of this restatement are \$97.3 million and \$22.8 million for the three months ended June 30, 2015, respectively, and \$193.4 million and \$45.5 million for the six months ended June 30, 2015, respectively, compared to \$94.0 million and \$22.2 million for the three months ended June 30, 2014, respectively, and \$187.1 million and \$44.4 million for the six months ended June 30, 2014, respectively.

Additionally, this change in accounting treatment resulted in adjustments to the carrying amounts of the Company's reporting units as well as differences in the allocation of the Company's GLPI financing obligation to the impacted reporting units, which changed each reporting unit's fair value. This resulted in a net decrease to the Company's previously recognized impairment charges related to goodwill and indefinite-lived gaming licenses for the year ended December 31, 2014. The Company has also included in the restated condensed consolidated financial statements corrections of additional errors related to the accounting classification for payments made to relocate certain gaming operations in Ohio which opened in 2014, classification of an operating lease to a capital lease which resulted in an increase of \$6.0 million and \$7.0 million at June 30, 2015 and December 31, 2014 to net property and equipment and an increase to long term debt of \$24.9 million at both June 30, 2015 and December 31, 2014, as well as certain other miscellaneous items described in Note 2 to the condensed consolidated financial statements included in this report. Finally, the Company concluded that as a result of the failed spin-off-leaseback accounting treatment which resulted in a significant increase to our net deferred tax assets, an additional valuation allowance should be recorded on our net deferred tax assets given the significant negative evidence associated with being in a three year cumulative pre-tax loss position and the insufficient objectively verifiable positive evidence to support the realization of the Company's deferred tax assets.

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

This Amendment No. 1 on Form 10-Q/A (Form 10-Q/A) to our Quarterly Report on Form 10-Q for three and six months ended June 30, 2015, initially filed with the Securities and Exchange Commission (the SEC) on August 6, 2015 (the Original Filing), is being filed to reflect the restatement of (i) the Company s condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 and (ii) the Company s condensed consolidated statements of operations, comprehensive income (loss), shareholders equity (deficit) and cash flows for the interim periods ended June 30, 2015 and 2014, and the notes related thereto. For a more detailed description of these restatements see Note 2 to the accompanying condensed consolidated financial statements in this Form 10-Q/A.

Table of Contents

Notably, the adjustments in the Restatement did not have a significant impact on the Company's leverage ratios under its senior credit facility and other debt instruments (as the terms of those obligations require the Master Lease to be treated as an operating lease regardless of the treatment required under GAAP) had no, and will have no future impact on the following indicators of the Company's performance:

- the Company's cash position;
- the Company's revenues from continuing operations; or
- the Company's rental payments or other obligations under the Master Lease.

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I of the Original Filing, in each case, as a result of, and to reflect the restatement. No other information in the Original Filing is amended. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain the currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 32.1, 31.2 and 32.2, respectively. For a more detailed description of these restatements see Note 2 to the accompanying condensed consolidated financial statements in this Form 10-Q/A.

Table of Contents

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the use of forward-looking terminology such as believes, estimates, expects, intends, may, will, should, anticipates or the negative or other variation of these or similar words, or by discussions of future events, strategies, or risks and uncertainties. Actual results may vary materially from expectations. Although Penn National Gaming, Inc. (Penn) and its subsidiaries (together with Penn, collectively, the Company) believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business, 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 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; our ability to secure federal, state and local permits and approvals necessary for our construction projects; construction factors, including delays, unexpected remediation costs, local opposition, organized labor, and increased cost of labor and materials; our ability to maintain agreements with our horsemen, pari-mutuel clerks and other organized labor groups; 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 and sweepstakes based and taverns); 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 (especially in new business lines) and to agree to terms with, and maintain good relationships with partners/municipalities 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, including the ongoing appeal by the Ohio Roundtable addressing the legality of video lottery terminals in Ohio and litigation surrounding our withdrawal from a gaming project in Western Pennsylvania; changes in accounting standards; the impact of weather; the remediation of any material weaknesses and the costs to strengthen its internal control structure, potential investigations, litigation, or other proceedings by governmental authorities, stockholders or other parties, and risks related to the impact of the restatement on the Company s reputation, development projects, joint ventures and other commercial contracts; the ability of the Company to generate sufficient future taxable income to realize its deferred tax assets; with respect to the proposed Jamul project near San Diego, California, particular risks associated with financing a project of this type, sovereign immunity, local opposition (including several pending lawsuits), and building a complex project on a relatively small parcel; with respect to our Massachusetts project, the ultimate location of the other gaming facilities in the state; with respect to our pending acquisition of Tropicana Las Vegas Hotel and Casino, risks relating to required regulatory approvals and other conditions to closing, higher leverage, the successful integration of the acquisition, our ability to successfully leverage our player database, market conditions affecting the Las Vegas Strip, ongoing litigation, labor relations, future capital expenditures, the risks associated with construction projects (such as delays and unexpected costs including but not limited to remediation of known or unknown asbestos or other environmental conditions) and the availability and cost of capital; with respect to our social and other interactive gaming endeavors, risks related to ultimate profitability, cyber-security, data privacy, intellectual property and legal and regulatory challenges; with respect to our PSG acquisition, risks relating to our ability to successfully compete in the video gaming terminal (VGT) market, our ability to retain existing customers and secure new customers, relating to municipal authorization of VGT operations; and other factors as discussed in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2014, subsequent Quarterly Report on Form 10-Q/A 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>EXPLANATORY NOTE</u>		2
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	6
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS (Unaudited)</u>	6
	<u>Condensed Consolidated Balance Sheets June 30, 2015 and December 31, 2014</u>	6
	<u>Condensed Consolidated Statements of Income Three and Six Months Ended June 30, 2015 and 2014</u>	7
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) Three and Six Months Ended June 30, 2015 and 2014</u>	8
	<u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit) Six Months Ended June 30, 2015 and 2014</u>	9
	<u>Condensed Consolidated Statements of Cash Flows Six Months Ended June 30, 2015 and 2014</u>	10
	<u>Notes to the Condensed Consolidated Financial Statements</u>	12
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	37
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	52
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	52
<u>PART II.</u>	<u>OTHER INFORMATION</u>	53
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	53
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	53
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	53
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	54
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	54
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	54
<u>ITEM 6.</u>	<u>EXHIBITS</u>	55
<u>SIGNATURES</u>		56
<u>EXHIBIT INDEX</u>		57

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Penn National Gaming, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets (As Restated, see Note 2)****(in thousands, except share and per share data)**

	June 30, 2015 (Restated) (unaudited)	December 31, 2014 (Restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 233,118	\$ 208,673
Receivables, net of allowance for doubtful accounts of \$2,071 and \$2,004 at June 30, 2015 and December 31, 2014, respectively	45,135	41,618
Prepaid expenses	67,281	70,785
Deferred income taxes	36,603	40,343
Other current assets	15,452	11,189
Total current assets	397,589	372,608
Property and equipment, net	2,694,942	2,669,732
Other assets		
Investment in and advances to unconsolidated affiliates	173,726	179,551
Goodwill	874,184	874,184
Other intangible assets, net	416,935	419,453
Advances to the Jamul Tribe	108,142	62,048
Other assets	79,358	87,318
Total other assets	1,652,345	1,622,554
Total assets	\$ 4,744,876	\$ 4,664,894
Liabilities		
Current liabilities		
Current portion of financing obligation to GLPI	\$ 48,185	\$ 46,884
Current maturities of long-term debt	44,015	30,853
Accounts payable	73,393	43,136
Accrued expenses	138,866	133,092
Accrued interest	8,781	5,163
Accrued salaries and wages	86,069	84,034
Gaming, pari-mutuel, property, and other taxes	62,965	51,972
Insurance financing	6,092	13,680
Other current liabilities	73,528	75,773
Total current liabilities	541,894	484,587
Long-term liabilities		
Long-term financing obligation to GLPI, net of current portion	3,539,030	3,564,629
Long-term debt, net of current maturities and debt issuance costs	1,221,950	1,210,577
Deferred income taxes	92,017	78,633
Noncurrent tax liabilities	8,938	7,035

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

Other noncurrent liabilities	27,356	27,447
Total long-term liabilities	4,889,291	4,888,321
Shareholders' equity (deficit)		
Series C Preferred stock (\$.01 par value, 18,500 shares authorized, 8,624 shares issued and outstanding at June 30, 2015 and December 31, 2014)		
Common stock (\$.01 par value, 200,000,000 shares authorized, 82,282,931 and 81,329,210 shares issued and 80,115,538 and 79,161,817 shares outstanding, at June 30, 2015 and December 31, 2014, respectively)		
	822	813
Treasury stock, at cost (2,167,393 shares held at June 30, 2015 and December 31, 2014)	(28,414)	(28,414)
Additional paid-in capital	974,167	956,146
Retained deficit	(1,630,425)	(1,635,277)
Accumulated other comprehensive loss	(2,459)	(1,282)
Total shareholders' equity (deficit)	(686,309)	(708,014)
Total liabilities and shareholders' equity (deficit)	\$ 4,744,876	\$ 4,664,894

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations (As Restated, see Note 2)****(in thousands, except per share data)****(unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Restated)	(Restated)	(Restated)	(Restated)
Revenues				
Gaming	\$ 618,919	\$ 576,158	\$ 1,210,255	\$ 1,146,841
Food, beverage and other	117,421	110,574	226,184	215,444
Management service fee	2,816	3,105	4,743	5,563
Revenues	739,156	689,837	1,441,182	1,367,848
Less promotional allowances	(38,200)	(37,691)	(76,088)	(74,622)
Net revenues	700,956	652,146	1,365,094	1,293,226
Operating expenses				
Gaming	313,616	284,107	608,511	567,375
Food, beverage and other	82,803	80,403	160,732	157,941
General and administrative	118,901	107,735	235,157	215,310
Depreciation and amortization	62,275	69,874	125,644	140,059
Impairment losses		4,560		4,560
Total operating expenses	577,595	546,679	1,130,044	1,085,245
Income from operations	123,361	105,467	235,050	207,981
Other income (expenses)				
Interest expense	(109,798)	(105,069)	(218,144)	(209,583)
Interest income	2,443	790	4,313	1,257
Income from unconsolidated affiliates	4,154	1,473	8,136	3,956
Other	(956)	(1,823)	2,133	(192)
Total other expenses	(104,157)	(104,629)	(203,562)	(204,562)
Income from operations before income taxes	19,204	838	31,488	3,419
Income tax provision	16,221	20,111	26,636	22,112
Net income (loss)	\$ 2,983	\$ (19,273)	\$ 4,852	\$ (18,693)
Earnings per common share:				
Basic earnings (loss) per common share	\$ 0.03	\$ (0.25)	\$ 0.06	\$ (0.24)
Diluted earnings (loss) per common share	\$ 0.03	\$ (0.25)	\$ 0.05	\$ (0.24)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (Loss) (As Restated, see Note 2)****(in thousands) (unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Restated)	(Restated)	(Restated)	(Restated)
Net income (loss)	\$ 2,983	\$ (19,273)	\$ 4,852	\$ (18,693)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment during the period	539	619	(1,177)	(81)
Other comprehensive income (loss)	539	619	(1,177)	(81)
Comprehensive income (loss)	\$ 3,522	\$ (18,654)	\$ 3,675	\$ (18,774)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit) (As Restated, see Note 2)****(in thousands, except share data) (unaudited)**

	Preferred Stock		Common Stock		Treasury	Additional	Retained	Accumulated Other	Total
	Shares	Amount	Shares	Amount	Stock	Paid-In	Deficit	Comprehensive	Shareholders
						Capital		Loss	Equity (Deficit)
Balance, December 31, 2013, as restated	8,624	\$	77,788,393	\$ 799	\$ (28,414)	\$ 925,335	\$ (1,448,955)	383	\$ (550,852)
Share-based compensation arrangements, net of tax benefits of \$9,591			839,090	8		20,715			20,723
Foreign currency translation adjustment								(81)	(81)
Net loss, as restated							(18,693)		(18,693)
Balance, June 30, 2014, as restated	8,624	\$	78,627,483	\$ 807	\$ (28,414)	\$ 946,050	\$ (1,467,648)	302	\$ (548,903)
Balance, December 31, 2014, as restated	8,624	\$	79,161,817	\$ 813	\$ (28,414)	\$ 956,146	\$ (1,635,277)	(1,282)	\$ (708,014)
Share-based compensation arrangements, net of tax benefits of \$8,036			953,721	9		18,021			18,030
Foreign currency translation adjustment								(1,177)	(1,177)
Net income, as restated							4,852		4,852
Balance, June 30, 2015, as restated	8,624	\$	80,115,538	\$ 822	\$ (28,414)	\$ 974,167	\$ (1,630,425)	(2,459)	\$ (686,309)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows (As Restated, see Note 2)****(in thousands) (unaudited)**

Six Months Ended June 30,	2015 (Restated)	2014 (Restated)
Operating activities		
Net income (loss)	\$ 4,852	\$ (18,693)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	125,644	140,059
Amortization of items charged to interest expense	3,008	3,022
Accretion of settlement value on other noncurrent liabilities	707	
Loss (gain) on sale of fixed assets	525	(47)
Income from unconsolidated affiliates	(8,136)	(3,956)
Distributions of earnings from unconsolidated affiliates	14,000	11,000
Deferred income taxes	18,143	3,830
Charge for stock-based compensation	4,421	5,096
Impairment losses and writedowns		7,860
(Increase) decrease, net of businesses acquired		
Accounts receivable	(3,462)	(16,983)
Prepaid expenses and other current assets	2,537	(5,956)
Other assets	5,750	4,511
Increase (decrease), net of businesses acquired		
Accounts payable	6,633	24,115
Accrued expenses	6,059	(11,803)
Accrued interest	3,618	(2,030)
Accrued salaries and wages	2,035	(6,295)
Gaming, pari-mutuel, property and other taxes	10,993	4,024
Income taxes	2,461	(152)
Other current and noncurrent liabilities	(3,043)	3,606
Other noncurrent tax liabilities	2,947	2,520
Net cash provided by operating activities	199,692	143,728
Investing activities		
Capital project expenditures, net of reimbursements	(90,324)	(36,041)
Capital maintenance expenditures	(30,165)	(44,273)
Advances to the Jamul Tribe	(38,452)	(18,856)
Proceeds from sale of property and equipment	375	176
Investment in joint ventures	(328)	(1,000)
(Increase) decrease in cash in escrow	(4,000)	18,000
Acquisitions of businesses and gaming and other licenses, net of cash acquired	(248)	(88,185)
Net cash used in investing activities	(163,142)	(170,179)
Financing activities		
Proceeds from exercise of options	5,518	6,034
Principal payments on financing obligation with GLPI	(24,298)	(21,855)
Proceeds from issuance of long-term debt, net of issuance costs	60,000	
Principal payments on long-term debt	(53,773)	(13,866)
Proceeds from insurance financing	885	14,816
Payments on insurance financing	(8,473)	(9,965)
Tax benefit from stock options exercised	8,036	9,591
Net cash used in financing activities	(12,105)	(15,245)
Net increase (decrease) in cash and cash equivalents	24,445	(41,696)

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

Cash and cash equivalents at beginning of year		208,673		292,995
Cash and cash equivalents at end of period	\$	233,118	\$	251,299

Supplemental disclosure

Interest expense paid, net of amounts capitalized	\$	212,395	\$	209,259
Income taxes paid	\$	432	\$	3,030

Non-cash transaction: In January 2015, a repayment obligation for a hotel and event center near Hollywood Casino Lawrenceburg was assumed by a subsidiary of the Company, which was financed through a loan with the City of Lawrenceburg Department of Redevelopment. This non-cash transaction increased property and equipment, net and total debt by \$15.3 million. See Note 7 for further detail.

Table of Contents

For the six months ended June 30, 2014, the Company recognized an increase to the financing obligation and real property assets of \$73.4 million related to real estate construction costs that were funded by Gaming and Leisure Properties, Inc. for the Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course facilities. In conjunction with the purchase of Plainridge Racecourse in April 2014, the Company increased its acquired assets and other noncurrent liabilities by \$18.5 million for the fair value of the contingent purchase price consideration at the time of acquisition. The remaining portion of the purchase price was paid in cash.

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Basis of Presentation

Penn National Gaming, Inc. (Penn) and together with its subsidiaries (collectively, the Company) is a diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of June 30, 2015, the Company owned, managed, or had ownership interests in twenty-six facilities in the following seventeen jurisdictions: Florida, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia and Ontario, Canada.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The condensed consolidated financial statements include the accounts of Penn and its subsidiaries. Investment in and advances to unconsolidated affiliates, that do not meet the consolidation criteria of the authoritative guidance for voting interest, controlling interest or variable interest entities (VIE), are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting periods. Actual results could differ from those estimates. For purposes of comparability, certain prior period amounts have been reclassified to conform to the current year presentation.

Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K/A for the year ended December 31, 2014 should be read in conjunction with these condensed consolidated financial statements. The December 31, 2014 financial information has been derived from the Company s audited consolidated financial statements.

Table of Contents**2. Restatement**

The restatement of the Company's financial statements primarily results from the Company's accounting for its November 1, 2013 distribution of real estate assets to Gaming and Leisure Properties, Inc. (GLPI) under the Master Lease Agreement (the "Master Lease"), which was previously recognized as a sale-leaseback. Upon further consideration, the Company did not meet all of the requirements for sale-leaseback accounting under Accounting Standards Codification (ASC) 840, "Leases", and therefore the transaction should be accounted for as a financing obligation rather than a distribution of assets followed by an operating lease. Specifically, the lease contains provisions that would indicate that the Company has prohibited forms of continuing involvement in the leased property such that sale-leaseback accounting would not be permitted. As a result, the Company is precluded from derecognizing the real estate assets and is instead required to recognize a financing obligation for the minimum lease payments due under the Master Lease. The restated condensed consolidated balance sheets therefore include an adjustment to property and equipment, net for the carrying value of the real property of \$1.99 billion and \$2.04 billion at June 30, 2015 and December 31, 2014, respectively, and additional liabilities of \$3.59 billion and \$3.61 billion at June 30, 2015 and December 31, 2014, respectively, representing the present value of the future minimum lease payments due to GLPI under the Master Lease and the funded construction of certain leased real estate assets in development at the date of the Spin-Off. Consequently, the restated condensed consolidated statements of operations no longer report rent expense for the obligations under the Master Lease, but rather include interest expense associated with the financing obligation and depreciation expense related to the real estate assets. The lease payment amounts previously recorded as rent expense were \$109.5 million and \$218.4 million for the three and six months ended June 30, 2015, compared to \$104.6 million and \$208.9 million for the three and six months ended June 30, 2014, respectively. The increases to interest expense and depreciation expense as a result of the correction of the accounting for the Master Lease are \$97.3 million and \$22.8 million for the three months ended June 30, 2015, respectively, and \$193.4 million and \$45.5 million for the six months ended June 30, 2015, respectively, compared to \$94.0 million and \$22.2 million for the three months ended June 30, 2014, respectively, and \$187.1 million and \$44.4 million for the six months ended June 30, 2014, respectively.

This change in accounting treatment also resulted in adjustments to the carrying amounts of the Company's reporting units as well as differences in the allocation of the GLPI rental obligation to the impacted reporting units, which altered each reporting unit's fair value. The resultant changes to impairment charges are described below.

As part of its restatement, the Company also identified certain other errors affecting the condensed consolidated financial statements as of June 30, 2015 and December 31, 2014:

- The Company had originally recorded goodwill and other intangible asset impairment charges of \$312.5 million and \$745.9 million at October 1, 2013, the date of its annual impairment test, and November 1, 2013 (the Spin-Off date), respectively, and impairment charges of \$316.5 million at October 1, 2014. The Company corrected certain errors in its goodwill and indefinite-lived gaming license intangible asset impairment analyses which incorporated the adjustments to the carrying amounts and estimated fair values of the Company's reporting units mentioned above as well as the impact of its deferred tax valuation allowance. This resulted in a decrease to the Company's previously recognized impairment charges of \$161.2 million and \$334.1 million for the years ended December 31, 2014 and 2013, respectively, which along with the relocation fee accounting error described below, resulted in a significant increase to the Company's goodwill and other intangible assets at both June 30, 2015 and December 31, 2014.

- During 2014, the Company incurred an aggregate liability of \$150 million to State of Ohio in

return for the right to relocate its racing operations from Toledo, Ohio to Dayton, Ohio (Hollywood Gaming at Dayton Raceway) and from Grove City, Ohio to Austintown, Ohio (Hollywood Gaming at Mahoning Valley). The Company originally accounted for these amounts as a cost of the real estate and was therefore including them in property and equipment, net and was amortizing them over the fifteen year base lease term of the Master Lease. The Company has now concluded that these costs should have been recognized as an additional cost incurred for obtaining the gaming licenses for these two properties and capitalized as other intangible assets that are not amortized, but are considered for impairment on an annual basis or more frequently if impairment indicators exist. This resulted in a decrease to depreciation expense of \$2.7 million and \$5.3 million for the three and six months ended June 30, 2015, respectively.

- The Company corrected the classification of a corporate airplane lease that had previously been accounted for as an operating lease but upon review should have been accounted for as a capital lease. This resulted in an increase to net property and equipment of \$6.0 million and \$7.0 million at June 30, 2015 and December 31, 2014, respectively, as well as an increase to long term debt of \$24.9 million at June 30, 2015 and December 31, 2014, respectively. It also resulted in an increase to interest expense, with an offsetting decrease to general and administrative costs of \$0.2 million and \$0.3 million for both the three and six months ended June 30, 2015 and June 30, 2014, respectively, as well as an increase to depreciation expense of \$0.5 million and \$1.0 million for both the three and six months ended June 30, 2015 and June 30, 2014, respectively.

Table of Contents

- The Company concluded that as a result of the failed spin-off-leaseback accounting treatment which resulted in a significant increase to our deferred tax assets, a valuation allowance should be recorded on the Company's deferred tax assets given the significant negative evidence associated with being in a three year cumulative pre-tax loss position and the insufficient objectively verifiable positive evidence to support the realization of the Company's deferred tax assets. This resulted in an increase to the Company's income tax provision of \$8.0 million and \$13.1 million for the three and six months ended June 30, 2015, respectively, and \$16.5 million and \$16.7 million for the three and six months ended June 30, 2014, respectively.
- The Company concluded that the Carlino exchange transaction should have been accounted for as a treasury stock transaction that is measured using the fair value of the exchanged instruments. See Note 3 in the Company's Form 10-K/A for additional information.
- The Company reclassified a contingent earn-out liability from long-term debt to other non-current liabilities which totaled \$19.9 million and \$19.2 million at June 30, 2015 and December 31, 2014, respectively. Additionally, changes in the fair value of this liability which totaled \$0.4 million and \$0.7 million for the three and six months ended June 30, 2015, respectively, were reclassified from interest expense to general and administrative expenses.
- The Company corrected the income tax provision and related income tax balances on the condensed consolidated balance sheet and condensed consolidated statements of cash flows for each of the previously identified errors.
- The Company corrected certain other errors that were not individually material to the condensed consolidated financial statements.

The effect of the restatement on previously issued interim financial information as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 is set forth in this footnote.

The condensed consolidated financial statements included in this Form 10-Q/A have been restated to reflect the adjustments described above. The following is a summary of the effect of the restatement on (i) the Company's condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 (ii) the Company's condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014 and (iii) the Company's condensed consolidated statements of cash flows for the six months ended June 30, 2015 and 2014. The Company did not present a summary of the effect of the restatement on the condensed consolidated statement of changes in shareholders' equity (deficit) for any of the above referenced periods because the impact to retained earnings on the condensed consolidated statement of changes in shareholders' equity (deficit) is reflected below in the balance sheet. The Company did not present a summary of the effect of the restatement on the condensed consolidated statement of comprehensive income (loss) for any of the above referenced periods because the impact to net income (loss) is reflected below in the restated condensed consolidated statement of operations and the restatement adjustments did not affect any other component of comprehensive income (loss).

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated balance sheet as previously reported, restatement adjustments and the condensed consolidated balance sheet as restated at June 30, 2015:

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Current assets			
Cash and cash equivalents	\$ 233,118	\$	\$ 233,118
Receivables, net of allowance for doubtful accounts of \$2,071	45,135		45,135
Prepaid expenses	62,185	5,096	67,281
Deferred income taxes	50,751	(14,148)	36,603
Other current assets	15,452		15,452
Total current assets	406,641	(9,052)	397,589
Property and equipment, net	835,462	1,859,480	2,694,942
Other assets			
Investment in and advances to unconsolidated affiliates	173,726		173,726
Goodwill	274,764	599,420	874,184
Other intangible assets, net	370,820	46,115	416,935
Deferred income taxes	76,135	(76,135)	
Advances to the Jamul Tribe	108,142		108,142
Other assets	79,358		79,358
Total other assets	1,082,945	569,400	1,652,345
Total assets	\$ 2,325,048	\$ 2,419,828	\$ 4,744,876
Liabilities			
Current liabilities			
Current portion of financing obligation to GLPI	\$	\$ 48,185	\$ 48,185
Current maturities of long-term debt	44,015		44,015
Accounts payable	73,393		73,393
Accrued expenses	136,681	2,185	138,866
Accrued interest	8,781		8,781
Accrued salaries and wages	86,069		86,069
Gaming, pari-mutuel, property, and other taxes	62,965		62,965
Insurance financing	6,092		6,092
Other current liabilities	73,528		73,528
Total current liabilities	491,524	50,370	541,894
Long-term liabilities			
Long-term financing obligation to GLPI, net of current portion		3,539,030	3,539,030
Long-term debt, net of current maturities and debt issuance costs	1,216,908	5,042	1,221,950
Deferred income taxes		92,017	92,017
Noncurrent tax liabilities	9,935	(997)	8,938
Other noncurrent liabilities	7,460	19,896	27,356

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

Total long-term liabilities	1,234,303	3,654,988	4,889,291
Shareholders' equity (deficit)			
Series C Preferred stock (\$.01 par value, 18,500 shares authorized, 8,624 shares issued and outstanding at June 30, 2015)			
Common stock (\$.01 par value, 200,000,000 shares authorized, 82,282,931 shares issued and 80,115,538 shares outstanding, at June 30, 2015)	795	27	822
Treasury stock, at cost (2,167,393 shares held at June 30, 2015)		(28,414)	(28,414)
Additional paid-in capital	936,391	37,776	974,167
Retained deficit	(335,506)	(1,294,919)	(1,630,425)
Accumulated other comprehensive (loss) income	(2,459)		(2,459)
Total shareholders' equity (deficit)	599,221	(1,285,530)	(686,309)
Total liabilities and shareholders' equity (deficit)	\$ 2,325,048	\$ 2,419,828	\$ 4,744,876

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated balance sheet as previously reported, restatement adjustments and the condensed consolidated balance sheet as restated at December 31, 2014:

	As Previously Reported	Restatement Adjustments	As Restated
Assets			
Current assets			
Cash and cash equivalents	\$ 208,673	\$	\$ 208,673
Receivables, net of allowance for doubtful accounts of \$2,004	41,618		41,618
Prepaid expenses	68,947	1,838	70,785
Deferred income taxes	55,579	(15,236)	40,343
Other current assets	11,189		11,189
Total current assets	386,006	(13,398)	372,608
Property and equipment, net	769,145	1,900,587	2,669,732
Other assets			
Investment in and advances to unconsolidated affiliates	179,551		179,551
Goodwill	277,582	596,602	874,184
Other intangible assets, net	370,562	48,891	419,453
Deferred income taxes	79,067	(79,067)	
Advances to Jamul Tribe	62,048		62,048
Other assets	87,318		87,318
Total other assets	1,056,128	566,426	1,622,554
Total assets	\$ 2,211,279	\$ 2,453,615	\$ 4,664,894
Liabilities			
Current liabilities			
Current portion of financing obligation to GLPI	\$	\$ 46,884	\$ 46,884
Current maturities of long-term debt	30,853		30,853
Accounts payable	43,136		43,136
Accrued expenses	130,818	2,274	133,092
Accrued interest	5,163		5,163
Accrued salaries and wages	84,034		84,034
Gaming, pari-mutuel, property, and other taxes	52,132	(160)	51,972
Insurance financing	13,680		13,680
Other current liabilities	75,703	70	75,773
Total current liabilities	435,519	49,068	484,587
Long-term liabilities			
Long-term financing obligation to GLPI, net of current portion		3,564,629	3,564,629
Long-term debt, net of current maturities and debt issuance costs	1,204,828	5,749	1,210,577
Deferred income taxes		78,633	78,633
Noncurrent tax liabilities	8,188	(1,153)	7,035
Other noncurrent liabilities	8,258	19,189	27,447
Total long-term liabilities	1,221,274	3,667,047	4,888,321

Shareholders equity (deficit)

Series C Preferred stock (\$.01 par value, 18,500 shares authorized,
8,624 shares issued and outstanding at December 31, 2014)

Common stock (\$.01 par value, 200,000,000 shares authorized,
81,329,210 shares issued and 79,161,817 shares outstanding, at
December 31, 2014)

	786	27	813
Treasury stock, at cost (2,167,393 shares held at December 31, 2014)		(28,414)	(28,414)
Additional paid-in capital	918,370	37,776	956,146
Retained deficit	(363,388)	(1,271,889)	(1,635,277)
Accumulated other comprehensive (loss) income	(1,282)		(1,282)
Total shareholders equity (deficit)	554,486	(1,262,500)	(708,014)
Total liabilities and shareholders equity (deficit)	\$ 2,211,279	\$ 2,453,615	\$ 4,664,894

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of income as previously reported, restatement adjustments and the condensed consolidated statement of income as restated for the three months ended June 30, 2015:

	As Previously Reported	Restatement Adjustments	As Restated
Revenues			
Gaming	\$ 618,919	\$	\$ 618,919
Food, beverage and other	117,421		117,421
Management service fee	2,816		2,816
Revenues	739,156		739,156
Less promotional allowances	(38,200)		(38,200)
Net revenues	700,956		700,956
Operating expenses			
Gaming	313,616		313,616
Food, beverage and other	82,803		82,803
General and administrative	118,572	329	118,901
Rental expense related to Master Lease	109,519	(109,519)	
Depreciation and amortization	41,752	20,523	62,275
Total operating expenses	666,262	(88,667)	577,595
Income from operations	34,694	88,667	123,361
Other income (expenses)			
Interest expense	(12,295)	(97,503)	(109,798)
Interest income	2,443		2,443
Income from unconsolidated affiliates	4,154		4,154
Other	(956)		(956)
Total other expenses	(6,654)	(97,503)	(104,157)
Income from operations before income taxes	28,040	(8,836)	19,204
Income tax provision	11,154	5,067	16,221
Net income	\$ 16,886	\$ (13,903)	\$ 2,983
Earnings per common share:			
Basic earnings per common share	\$ 0.19	\$ (0.16)	\$ 0.03
Diluted earnings per common share	\$ 0.19	\$ (0.16)	\$ 0.03

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of income as previously reported, restatement adjustments and the condensed consolidated statement of income as restated for the six months ended June 30, 2015:

	As Previously Reported	Restatement Adjustments	As Restated
Revenues			
Gaming	\$ 1,210,255	\$	\$ 1,210,255
Food, beverage and other	226,184		226,184
Management service fee	4,743		4,743
Revenues	1,441,182		1,441,182
Less promotional allowances	(76,088)		(76,088)
Net revenues	1,365,094		1,365,094
Operating expenses			
Gaming	608,511		608,511
Food, beverage and other	160,732		160,732
General and administrative	234,641	516	235,157
Rental expense related to Master Lease	218,364	(218,364)	
Depreciation and amortization	84,674	40,970	125,644
Total operating expenses	1,306,922	(176,878)	1,130,044
Income from operations	58,172	176,878	235,050
Other income (expenses)			
Interest expense	(24,458)	(193,686)	(218,144)
Interest income	4,313		4,313
Income from unconsolidated affiliates	8,136		8,136
Other	2,133		2,133
Total other expenses	(9,876)	(193,686)	(203,562)
Income from operations before income taxes	48,296	(16,808)	31,488
Income tax provision	20,414	6,222	26,636
Net income	\$ 27,882	\$ (23,030)	\$ 4,852
Earnings per common share:			
Basic earnings per common share	\$ 0.32	\$ (0.26)	\$ 0.06
Diluted earnings per common share	\$ 0.31	\$ (0.26)	\$ 0.05

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of operations as previously reported, restatement adjustments and the condensed consolidated statement of operations as restated for the three months ended June 30, 2014:

	As Previously Reported	Restatement Adjustments	As Restated
Revenues			
Gaming	\$ 576,158	\$	\$ 576,158
Food, beverage and other	110,574		110,574
Management service fee	3,105		3,105
Revenues	689,837		689,837
Less promotional allowances	(37,691)		(37,691)
Net revenues	652,146		652,146
Operating expenses			
Gaming	284,107		284,107
Food, beverage and other	80,403		80,403
General and administrative	107,898	(163)	107,735
Rental expense related to Master Lease	104,613	(104,613)	
Depreciation and amortization	47,183	22,691	69,874
Impairment losses	4,560		4,560
Total operating expenses	628,764	(82,085)	546,679
Income from operations	23,382	82,085	105,467
Other income (expenses)			
Interest expense	(10,892)	(94,177)	(105,069)
Interest income	790		790
Income from unconsolidated affiliates	1,473		1,473
Other	(1,823)		(1,823)
Total other expenses	(10,452)	(94,177)	(104,629)
Income from operations before income taxes	12,930	(12,092)	838
Income tax (benefit) provision	8,754	11,357	20,111
Net income (loss)	\$ 4,176	\$ (23,449)	\$ (19,273)
Earnings (loss) per common share:			
Basic earnings (loss) per common share	\$ 0.05	\$ (0.30)	\$ (0.25)
Diluted earnings (loss) per common share	\$ 0.05	\$ (0.30)	\$ (0.25)

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of operations as previously reported, restatement adjustments and the condensed consolidated statement of operations as restated for the six months ended June 30, 2014:

	As Previously Reported	Restatement Adjustments	As Restated
Revenues			
Gaming	\$ 1,146,841	\$	\$ 1,146,841
Food, beverage and other	215,444		215,444
Management service fee	5,563		5,563
Revenues	1,367,848		1,367,848
Less promotional allowances	(74,622)		(74,622)
Net revenues	1,293,226		1,293,226
Operating expenses			
Gaming	570,184	(2,809)	567,375
Food, beverage and other	157,941		157,941
General and administrative	215,637	(327)	215,310
Rental expense related to Master Lease	208,922	(208,922)	
Depreciation and amortization	94,549	45,510	140,059
Impairment losses	4,560		4,560
Total operating expenses	1,251,793	(166,548)	1,085,245
Income from operations	41,433	166,548	207,981
Other income (expenses)			
Interest expense	(22,187)	(187,396)	(209,583)
Interest income	1,257		1,257
Income from unconsolidated affiliates	3,956		3,956
Other	(192)		(192)
Total other expenses	(17,166)	(187,396)	(204,562)
Income from operations before income taxes	24,267	(20,848)	3,419
Income tax provision	15,554	6,558	22,112
Net income (loss)	\$ 8,713	\$ (27,406)	\$ (18,693)
Earnings (loss) per common share:			
Basic earnings (loss) per common share	\$ 0.10	\$ (0.34)	\$ (0.24)
Diluted earnings (loss) per common share	\$ 0.10	\$ (0.34)	\$ (0.24)

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of cash flow as previously reported, restatement adjustments and the condensed consolidated statement of cash flows as restated for the six months ended June 30, 2015:

	As Previously Reported	Restatement Adjustments	As Restated
Operating activities			
Net income	\$ 27,882	\$ (23,030)	\$ 4,852
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	84,674	40,970	125,644
Amortization of items charged to interest expense	3,008		3,008
Accretion of settlement value on other noncurrent liabilities	707		707
Loss (gain) on sale of fixed assets	388	137	525
Income from unconsolidated affiliates	(8,136)		(8,136)
Distributions of earnings from unconsolidated affiliates	14,000		14,000
Deferred income taxes	8,805	9,338	18,143
Charge for stock-based compensation	4,421		4,421
Decrease (increase)			
Accounts receivable	(3,462)		(3,462)
Prepaid expenses and other current assets	2,537		2,537
Other assets	5,750		5,750
Increase (decrease)			
Accounts payable	6,633		6,633
Accrued expenses	6,148	(89)	6,059
Accrued interest	3,618		3,618
Accrued salaries and wages	2,035		2,035
Gaming, pari-mutuel, property and other taxes	10,833	160	10,993
Income taxes	5,735	(3,274)	2,461
Other current and noncurrent liabilities	(2,973)	(70)	(3,043)
Other noncurrent tax liabilities	2,791	156	2,947
Net cash provided by operating activities	175,394	24,298	199,692
Investing activities			
Capital project expenditures, net of reimbursements	(90,324)		(90,324)
Capital maintenance expenditures	(30,165)		(30,165)
Advances to Jamul Tribe	(38,452)		(38,452)
Proceeds from sale of property and equipment	375		375
Investment in joint ventures	(328)		(328)
Decrease in cash in escrow	(4,000)		(4,000)
Acquisitions of businesses and gaming and other licenses, net of cash acquired	(248)		(248)
Net cash used in investing activities	(163,142)		(163,142)
Financing activities			
Proceeds from exercise of options	5,518		5,518
Principal payments on financing obligation with GLPI		(24,298)	(24,298)

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

Proceeds from issuance of long-term debt, net of issuance costs	60,000		60,000
Principal payments on long-term debt	(53,773)		(53,773)
Proceeds from insurance financing	885		885
Payments on insurance financing	(8,473)		(8,473)
Tax benefit from stock options exercised	8,036		8,036
Net cash provided by financing activities	12,193	(24,298)	(12,105)
Net (decrease) increase in cash and cash equivalents	24,445		24,445
Cash and cash equivalents at beginning of year	208,673		208,673
Cash and cash equivalents at end of year	\$ 233,118	\$	\$ 233,118
Supplemental disclosure			
Interest expense paid, net of amounts capitalized	\$ 17,114	\$ 195,281	\$ 212,395
Income taxes paid	\$ 432	\$	\$ 432

Table of Contents**Penn National Gaming, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(in thousands, except share and per share data)**

The following table presents the condensed consolidated statement of cash flow as previously reported, restatement adjustments and the condensed consolidated statement of cash flows as restated for the six months ended June 30, 2014:

	As Previously Reported	Restatement Adjustments	As Restated
Operating activities			
Net income (loss)	\$ 8,713	\$ (27,406)	\$ (18,693)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	94,549	45,510	140,059
Amortization of items charged to interest expense	3,022		3,022
Gain on sale of fixed assets	(47)		(47)
Income from unconsolidated affiliates	(3,956)		(3,956)
Distributions of earnings from unconsolidated affiliates	11,000		11,000
Deferred income taxes	(7,401)	11,231	3,830
Charge for stock-based compensation	5,096		5,096
Impairment losses and write downs	7,860		7,860
Decrease (increase), net of businesses acquired			
Accounts receivable	(16,983)		(16,983)
Prepaid expenses and other current assets	(5,749)	(207)	(5,956)
Other assets	4,303	208	4,511
Increase (decrease), net of businesses acquired			
Accounts payable	24,115		24,115
Accrued expenses	(8,837)	(2,966)	(11,803)
Accrued interest	(2,030)		(2,030)
Accrued salaries and wages	(6,293)	(2)	(6,295)
Gaming, pari-mutuel, property and other taxes	4,009	15	4,024
Income taxes	1,337	(1,489)	(152)
Other current and noncurrent liabilities	3,467	139	3,606
Other noncurrent tax liabilities	5,698	(3,178)	2,520
Net cash provided by operating activities	121,873	21,855	143,728
Investing activities			
Capital project expenditures, net of reimbursements	(36,041)		(36,041)
Capital maintenance expenditures	(44,273)		(44,273)
Advances to Jamul Tribe	(18,856)		(18,856)
Proceeds from sale of property and equipment	176		176
Investment in joint ventures	(1,000)		(1,000)
Decrease in cash in escrow	18,000		18,000
Acquisitions of businesses and gaming and other licenses, net of cash acquired	(88,185)		(88,185)
Net cash used in investing activities	(170,179)		(170,179)
Financing activities			
Proceeds from exercise of options	6,034		6,034
Principal payments on financing obligation with GLPI		(21,855)	(21,855)

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

Principal payments on long-term debt	(13,866)		(13,866)
Proceeds from insurance financing	14,816		14,816
Payments on insurance financing	(9,965)		(9,965)
Tax benefit from stock options exercised	9,591		9,591
Net cash provided (used) by financing activities	6,610	(21,855)	(15,245)
Net (decrease) in cash and cash equivalents	(41,696)		(41,696)
Cash and cash equivalents at beginning of year	292,995		292,995
Cash and cash equivalents at end of year	\$ 251,299	\$	\$ 251,299

Supplemental disclosure

Interest expense paid, net of amounts capitalized	\$ 21,187	\$ 188,072	\$ 209,259
Income taxes paid	\$ 3,030	\$	\$ 3,030

Table of Contents**3. Summary of Significant Accounting Policies****Revenue Recognition and Promotional Allowances**

Gaming revenue consists mainly of slot and video lottery gaming machine revenue as well as to a lesser extent table game and poker revenue. Gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs, for ticket-in, ticket-out coupons in the customers' possession, and for accruals related to the anticipated payout of progressive jackpots. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are charged to revenue as the amount of the jackpots increases. Table game revenue is the aggregate of table drop adjusted for the change in aggregate table chip inventory. Table drop is the total dollar amount of the currency, coins, chips, tokens and outstanding markers (credit instruments) that are removed from the live gaming tables.

Food, beverage and other revenue, including racing revenue, is recognized as services are performed. Racing revenue includes the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, its share of wagering from import and export simulcasting, and its share of wagering from its off-track wagering facilities.

Revenue from the management service contract for Casino Rama is based upon contracted terms and is recognized when services are performed.

Revenues are recognized net of certain sales incentives in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-50, Revenue Recognition - Customer Payments and Incentives. The Company records certain sales incentives and points earned in point-loyalty programs as a reduction of revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense.

The amounts included in promotional allowances for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Rooms	\$ 8,903	\$ 8,426	\$ 17,239	\$ 16,497
Food and beverage	27,215	26,790	54,651	53,389
Other	2,082	2,475	4,198	4,736
Total promotional allowances	\$ 38,200	\$ 37,691	\$ 76,088	\$ 74,622

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

The estimated cost of providing such complimentary services for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(in thousands)			
Rooms	\$ 974	\$ 891	\$ 1,909	\$ 1,758
Food and beverage	10,657	11,247	21,486	22,215
Other	873	913	1,711	1,755
Total cost of complimentary services	\$ 12,504	\$ 13,051	\$ 25,106	\$ 25,728

Gaming and Racing Taxes

The Company is subject to gaming and pari-mutuel taxes based on gross gaming revenue and pari-mutuel revenue in the jurisdictions in which it operates. The Company primarily recognizes gaming and pari-mutuel tax expense based on the statutorily required percentage of revenue that is required to be paid to state and local jurisdictions in the states where or in which wagering occurs. In certain states in which the Company operates, gaming taxes are based on graduated rates. The Company records gaming tax expense at the Company's estimated effective gaming tax rate for the year, considering estimated taxable gaming revenue and the applicable rates. Such estimates are adjusted each interim period. If gaming tax rates change during the year, such changes are applied prospectively in the determination of gaming tax expense in future interim periods. Finally, the Company recognizes purse expense

Table of Contents

based on the statutorily required percentage of revenue that is required to be paid out in the form of purses to the winning owners of horse races run at the Company's racetracks in the period in which wagering occurs. For the three and six months ended June 30, 2015, these expenses, which are recorded primarily within gaming expense in the condensed consolidated statements of income, were \$244.5 million and \$471.5 million, as compared to \$223.3 million and \$440.0 million for the three and six months ended June 30, 2014, respectively.

Failed Spin-Off-Leaseback Financing Obligation

The Company's spin-off of real property assets and corresponding Master Lease Agreement with GLPI on November 1, 2013 did not meet all of the requirements for sale-leaseback accounting treatment under Accounting Standards Codification (ASC) 840 Leases and therefore is accounted for as a financing obligation rather than a distribution of assets followed by an operating lease. Specifically, the Master Lease contains provisions that would indicate the Company has prohibited forms of continuing involvement in the leased assets which are not a normal leaseback. As a result of the failed spin-off-leaseback accounting, the Company calculated a financing obligation at the inception of the Master Lease based on the future minimum lease payments discounted at 9.70%. The discount rate represents the estimated incremental borrowing rate over the lease term of 35 years, which included renewal options that were reasonably assured of being exercised given the high percentage of the Company's earnings that are derived from the Master Lease properties operations to the Company and the lack of alternative economically feasible leasing options for such real estate. The minimum lease payments are recorded as interest expense and in part as a payment of principal reducing the financing obligation. Contingent rentals are recorded as additional interest expense. The real property assets in the transaction remain on the consolidated balance sheets and continue to be depreciated over their remaining useful lives.

Payments related to the Master Lease

As of June 30, 2015, the Company financed with GLPI real property assets associated with eighteen of the Company's gaming and related facilities used in the Company's operations.

The rent structure under the Master Lease, which became effective November 1, 2013, includes a fixed component, a portion of which is subject to an annual escalator of up to 2% if certain rent coverage ratio thresholds are met, and a variable component that is based on the performance of the facilities, which is prospectively adjusted, subject to a floor of zero (i) every five years by an amount equal to 4% of the average change to net revenues of all facilities under the Master Lease (other than Hollywood Casino Columbus and Hollywood Casino Toledo) during the preceding five years, and (ii) monthly by an amount equal to 20% of the change in net revenues of Hollywood Casino Columbus and Hollywood Casino Toledo during the preceding month. In addition, with the openings of Hollywood Gaming at Mahoning Valley Race Course and Hollywood Gaming at Dayton Raceway in the third quarter of 2014, these properties began paying rent subject to the terms of the Master Lease, for which the annual rental obligation is calculated as 10% of the real estate construction costs paid for by GLPI related to these facilities.

The Master Lease is commonly known as a triple-net lease. Accordingly, in addition to rent, the Company is required to pay the following, among other things: (1) all facility maintenance; (2) all insurance required in connection with the leased properties and the business conducted on the leased properties; (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. At the Company's option, the Master Lease may be extended for up to four five-year renewal terms beyond the initial fifteen-year term, on the same terms and conditions.

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

Total payments under the Master Lease for the three and six months ended June 30, 2015 was \$109.5 million and \$218.4 million, as compared to \$104.6 million and \$208.9 million for the three and six months ended June 30, 2014, respectively.

Long-term asset related to the Jamul Tribe

On April 5, 2013, the Company announced that, subject to final National Indian Gaming Commission approval, it and the Jamul Indian Village of California (the "Jamul Tribe") had entered into definitive agreements to jointly develop a Hollywood Casino branded gaming facility on the Jamul Tribe's trust land in San Diego County, California. The definitive agreements were entered into to: (i) secure the development, management, and branding services of the Company to assist the Jamul Tribe during the pre-development and entitlement phase of the project; (ii) set forth the terms and conditions under which the Company will provide a loan or loans to the Jamul Tribe to fund certain development costs; and (iii) create an exclusive arrangement between the parties.

The Jamul Tribe is a federally recognized Indian Tribe holding a government-to-government relationship with the U.S. through the U.S. Department of the Interior's Bureau of Indian Affairs and possesses certain inherent powers of self-government. The Jamul Tribe is the beneficial owner of approximately six acres of reservation land located within the exterior boundaries of the State of California held by the U.S. in trust for the Jamul Tribe (the "Property"). The Jamul Tribe exercises jurisdiction over the Property pursuant to its powers of self-government and consistent with the resolutions and ordinances of the Jamul Tribe. The arrangement

Table of Contents

between the Jamul Tribe and the Company provides the Jamul Tribe with the expertise, knowledge and capacity of a proven developer and operator of gaming facilities and provides the Company with the exclusive right to administer and oversee planning, designing, development, construction management, and coordination during the development and construction of the project as well as the management of a gaming facility on the Property.

The proposed \$390 million development project will include a three-story gaming and entertainment facility of approximately 200,000 square feet featuring over 1,700 slot machines, 43 live table games, including poker, multiple restaurants, bars and lounges and a partially enclosed parking structure with over 1,800 spaces. In mid-January 2014, the Company announced the commencement of construction activities at the site and it is anticipated that the facility will open in mid-2016. The Company may, under certain circumstances, provide backstop financing to the Jamul Tribe in connection with the project and, upon opening, will manage and provide branding for the casino. The Company has a conditional loan commitment to the Jamul Tribe (that can be terminated under certain circumstances) for up to \$400 million and anticipates it will fund approximately \$390 million related to this development.

The Company is accounting for the development agreement and related loan commitment letter with the Jamul Tribe as a loan (note receivable) with accrued interest in accordance with ASC 310 Receivables. The loan represents advances made by the Company to the Jamul Tribe for the development and construction of a gaming facility for the Jamul Tribe on reservation land. As such, the Jamul Tribe will own the casino and its related assets and liabilities. San Diego Gaming Ventures, LLC (a wholly owned subsidiary of the Company) is a separate legal entity established to account for the loan and, upon completion of the project and subsequent commencement of gaming operations on the Property, will be the Penn entity which receives management and licensing fees from the Jamul Tribe. The Company has a note receivable with the Jamul Tribe for \$108.1 million and \$62.0 million, which includes accrued interest of \$7.2 million and \$3.3 million, at June 30, 2015 and December 31, 2014, respectively. Collectability of the note receivable will be derived from the revenues of the casino operations once the project is completed. Based on the Company's current progress with this project, the Company believes collectability of the note is highly certain. However, in the event that the Company's internal projections related to the profitability of this project and/or the timing of the opening are inaccurate, the Company may be required to record a reserve related to the collectability of this note receivable.

The Company considered whether the arrangement with the Jamul Tribe represents a variable interest that should be accounted for pursuant to the VIE Subsections of ASC 810 Consolidation (ASC 810). The Company noted that the scope and scope exceptions of ASC 810-10-15-12(e) states that a reporting entity shall not consolidate a government organization or financing entity established by a government organization (other than certain financing entities established to circumvent the provisions of the VIE Subsections of ASC 810). Based on the status of the Jamul Tribe as a government organization, the Company believes its arrangement with the Jamul Tribe is not within the scope defined by ASC 810.

Earnings Per Share

The Company calculates earnings per share (EPS) in accordance with ASC 260, Earnings Per Share (ASC 260). Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options and unvested restricted shares.

At June 30, 2015 and 2014, the Company had outstanding 8,624 shares of Series C Convertible Preferred Stock. The Company determined that the preferred stock qualified as a participating security as defined in ASC 260 since these securities participate in dividends with the Company's common stock. In accordance with ASC 260, a company is required to use the two-class method when computing EPS when a company has a security that qualifies as a participating security. The two-class method is an earnings allocation formula that determines EPS for each class of

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

common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. A participating security is included in the computation of basic EPS using the two-class method. Under the two-class method, basic EPS for the Company's common stock is computed by dividing net income applicable to common stock by the weighted-average common shares outstanding during the period. Diluted EPS for the Company's common stock is computed using the more dilutive of the two-class method or the if-converted method.

Since the Company's preferred shareholders are not obligated to fund the losses of the Company nor is the contractual principal of the Series C Preferred Stock reduced as a result of losses incurred by the Company, no allocation of the Company's undistributed losses resulting from the net loss for the three and six months ended June 30, 2014 is required. As such, since the Company reported a net loss for the three and six months ended June 30, 2014, it was required by ASC 260 to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted EPS.

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

Table of Contents

The following table sets forth the allocation of net income for the three and six months ended June 30, 2015 under the two-class method:

	Three Months Ended June 30, 2015 (Restated)	Six Months Ended June 30, 2015 (Restated)
	(in thousands)	
Net income	\$ 2,983	\$ 4,852
Net income applicable to preferred stock	291	474
Net income applicable to common stock	\$ 2,692	\$ 4,378

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the three and six months ended June 30, 2015:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
	(in thousands)	
Determination of shares:		
Weighted-average common shares outstanding	79,758	79,580
Assumed conversion of dilutive employee stock-based awards	2,298	2,301
Assumed conversion of restricted stock	49	60
Diluted weighted-average common shares outstanding before participating security	82,105	81,941
Assumed conversion of preferred stock	8,624	8,624
Diluted weighted-average common shares outstanding	90,729	90,565

Options to purchase 1,604,583 and 7,217,679 shares were outstanding during the six months ended June 30, 2015 and 2014, respectively, but were not included in the computation of diluted EPS because they were antidilutive.

The following tables present the calculation of basic and diluted EPS for the Company's common stock for the three and six months ended June 30, 2015 and 2014 (in thousands, except per share data):

	Three Months Ended June 30, 2015 (Restated)	Six Months Ended June 30, 2015 (Restated)
Calculation of basic EPS:		
Net income applicable to common stock	\$ 2,692	\$ 4,378
Weighted-average common shares outstanding	79,758	79,580
Basic EPS	\$ 0.03	\$ 0.06

Calculation of diluted EPS using two-class method:

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

Net income applicable to common stock	\$	2,692	\$	4,378
Diluted weighted-average common shares outstanding before participating security		82,105		81,941
Diluted EPS	\$	0.03	\$	0.05

Table of Contents

	Three months ended June 30, 2014 (Restated)	Six months ended June 30, 2014 (Restated)
Calculation of basic and diluted EPS:		
Net loss	\$ (19,273)	\$ (18,693)
Weighted-average common shares outstanding	78,458	78,189
Basic and Diluted EPS	\$ (0.25)	\$ (0.24)

Stock-Based Compensation

The Company accounts for stock compensation under ASC 718, Compensation-Stock Compensation, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense is recognized ratably over the requisite service period following the date of grant.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a term equal to the expected life assumed at the date of grant. Expected volatility was estimated based on the historical volatility of the Company's stock price over a period of 5.45 years, in order to match the expected life of the options at the grant date. Historically, at the grant date, there has been no expected dividend yield assumption since the Company has not paid any cash dividends on its common stock since its initial public offering in May 1994 and since the Company intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical and expected exercise behavior of the Company's employees. The Company granted 1,689,357 stock options during the six months ended June 30, 2015.

Stock-based compensation expense for the three and six months ended June 30, 2015 was \$2.3 million and \$4.4 million, as compared to \$2.5 million and \$5.1 million for the three and six months ended June 30, 2014, respectively, and is included within the condensed consolidated statements of income under general and administrative expense.

The Company's cash-settled phantom stock unit awards (PSUs), which vest over a period of three to five years, entitle employees and directors to receive cash based on the fair value of the Company's common stock on the vesting date. The PSUs are accounted for as liability awards and are re-measured at fair value each reporting period until they become vested with compensation expense being recognized over the requisite service period in accordance with ASC 718-30, Compensation-Stock Compensation, Awards Classified as Liabilities. The Company had a liability, which is included in accrued salaries and wages within the condensed consolidated balance sheets, associated with its PSUs of \$11.9 million and \$8.2 million at June 30, 2015 and December 31, 2014, respectively. For PSUs held by Penn employees, there was \$25.2 million of total unrecognized compensation cost at June 30, 2015 that will be recognized over the grants remaining weighted average vesting period of 2.1 years. For the three and six months ended June 30, 2015, the Company recognized \$5.0 million and \$9.5 million of compensation expense associated with these awards, as compared to \$1.2 million and \$2.6 million for the three and six months ended June 30, 2014. The increase was primarily due to the stock price increase for both Penn and GLPI awards held by Penn employees in the current year compared with stock price declines in the prior year. Amounts paid by the Company for the three and six months ended June 30, 2015 on these cash-settled awards totaled \$0.1 million and \$5.3 million, as compared to \$0.1 million and \$6.0 million for the three and six months ended June 30, 2014, respectively.

For the Company's stock appreciation rights (SARs), the fair value of the SARs is calculated during each reporting period and estimated using the Black-Scholes option pricing model based on the various inputs discussed below. The Company's SARs, which vest over a period of four

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

years, are accounted for as liability awards since they will be settled in cash. The Company had a liability, which is included in accrued salaries and wages within the condensed consolidated balance sheets, associated with its SARs of \$11.1 million and \$6.3 million at June 30, 2015 and December 31, 2014, respectively. For SARs held by Penn employees, there was \$10.2 million of total unrecognized compensation cost at June 30, 2015 that will be recognized over the awards remaining weighted average vesting period of 2.84 years. For the three and six months ended June 30, 2015, the Company recognized \$2.5 million and \$7.1 million of compensation expense associated with these awards, as compared to (\$0.2) million and \$0.1 million for the three and six months ended June 30, 2014, respectively. The increase was primarily due to the stock price increase for both Penn and GLPI awards held by Penn employees in the current year compared with stock price declines in the prior year. Amounts paid by the Company for the three and six months ended June 30, 2015 on these cash-settled awards totaled \$0.5 million and \$2.3 million, as compared to \$0.7 million and \$1.2 million for the three and six months ended June 30, 2014, respectively.

Table of Contents

The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at June 30, 2015 and 2014:

	2015	2014
Risk-free interest rate	1.75%	1.68%
Expected volatility	32.52%	44.80%
Dividend yield		
Weighted-average expected life (years)	5.45	5.45

Segment Information

The Company's Chief Executive Officer and President, who is the Company's Chief Operating Decision Maker, as that term is defined in ASC 280, Segment Reporting (ASC 280), measures and assesses the Company's business performance based on regional operations of various properties grouped together based primarily on their geographic locations. The Company's reportable segments are: (i) East/Midwest, (ii) West, and (iii) Southern Plains.

The East/Midwest reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Hollywood Casino Lawrenceburg, Hollywood Casino Toledo, Hollywood Casino Columbus, Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014, Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014, and Plainridge Park Casino, which opened on June 24, 2015. It also includes the Company's Casino Rama management service contract.

The West reportable segment consists of the following properties: Zia Park Casino and the M Resort, as well as the Hollywood Casino Jamul San Diego project with the Jamul Indian Village, which the Company anticipates completing in mid-2016. This segment will also include the results of Tropicana Las Vegas Hotel and Casino (Tropicana Las Vegas) once this acquisition is consummated.

The Southern Plains reportable segment consists of the following properties: Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Argosy Casino Riverside, Hollywood Casino Tunica, Hollywood Casino Gulf Coast, Boomtown Biloxi, and Hollywood Casino St. Louis, and includes the Company's 50% investment in Kansas Entertainment, LLC (Kansas Entertainment), which owns the Hollywood Casino at Kansas Speedway. On July 30, 2014, the Company closed Argosy Casino Sioux City.

The Other category consists of the Company's standalone racing operations, namely Rosecroft Raceway, Sanford-Orlando Kennel Club, and the Company's joint venture interests in Sam Houston Race Park, Valley Race Park, and Freehold Raceway, as well as the Company's 50% joint venture with the Cordish Companies in New York (which is in the process of being dissolved). If the Company is successful in obtaining gaming operations at these locations, they would be assigned to one of the Company's regional executives and reported in their respective reportable segment. The Other category also includes the Company's corporate overhead operations which does not meet the definition of an operating segment under ASC 280.

See Note 10 for further information with respect to the Company's segments.

Other Comprehensive Income

The Company accounts for comprehensive income in accordance with ASC 220, *Comprehensive Income*, which establishes standards for the reporting and presentation of comprehensive income in the consolidated financial statements. The Company presents comprehensive income in two separate but consecutive statements. For the three and six months ended June 30, 2015 and 2014, the only component of accumulated other comprehensive income was foreign currency translation adjustments.

4. New Accounting Pronouncements

In April 2015, the FASB issued revised guidance to simplify the presentation of debt issuance costs in the balance sheet. The revised guidance requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the existing presentation of debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this revised guidance, and therefore there is no impact to the statement of income. The revised guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of this revised guidance is permitted for financial statements that have not been previously issued. An entity should apply the revised guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the revised guidance. The

Table of Contents

Company has elected to early adopt the revised guidance and as such debt issuance costs are now presented as a direct reduction of long-term debt on the Company's condensed consolidated balance sheets. See Note 7 for further information regarding debt issuance costs.

In February 2015, the FASB issued new consolidation guidance to modify the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The main provisions of the new guidance include modifying the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, the evaluation of fees paid to a decision maker or a service provider as a variable interest, and the effect of fee arrangements and related parties on the primary beneficiary determination, as well as provides a scope exception for certain investment funds. The new guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. A reporting entity may apply the new guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the new guidance retrospectively. Management is in the process of assessing the impact of the new guidance on existing consolidation conclusions and equity method investments, but does not anticipate any change.

In May 2014, the FASB issued new revenue recognition guidance, which will supersede nearly all existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, the new guidance implements a five-step process for customer contract revenue recognition. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. This new guidance was originally to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early adoption is prohibited. In April 2015, the FASB issued a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. Entities can transition to the new guidance either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the new revenue recognition guidance will have on the consolidated financial statements.

5. Pending Acquisition

On April 29, 2015, the Company announced that it entered into a definitive agreement to acquire the Tropicana Las Vegas Hotel and Casino for approximately \$360 million. We believe the planned acquisition will fulfill an important long-term strategic objective of establishing a presence on the Las Vegas Strip. The Tropicana Las Vegas is a quality facility situated on 35 acres of land located on the Las Vegas Strip with 1,467 remodeled guest rooms and suites, a 50,000 square foot casino gaming floor featuring 844 slot and video poker machines and 38 table games including blackjack, mini-baccarat, craps and roulette, three full-service restaurants, a 1,200 seat performance theater, a 300 seat comedy club, a nightclub, beach club and 2,950 parking spaces. The transaction is subject to customary closing conditions and regulatory approvals. The purchase price will be funded by revolving commitments under the Company's existing senior secured credit facility and approximately \$280 million of incremental commitments under an amended senior secured credit facility. The acquisition is expected to close later this year, subject to the timing of regulatory approvals and other closing conditions.

6. Property and Equipment

Property and equipment, net, consists of the following:

Table of Contents

	June 30, 2015 (Restated)	December 31, 2014 (Restated)
	(in thousands)	
Property and equipment - non-leased		
Land and improvements	\$ 56,702	\$ 42,350
Building and improvements	294,187	173,043
Furniture, fixtures, and equipment	1,259,639	1,213,143
Leasehold improvements	123,384	120,984
Construction in progress	8,820	69,367
	1,742,732	1,618,887
Less accumulated depreciation	(1,040,643)	(988,490)
	702,089	630,397
Property and equipment - leased		
Land and improvements	382,566	382,702
Building and improvements	2,219,018	2,219,018
	2,601,584	2,601,720
Less accumulated depreciation	(608,731)	(562,385)
	1,992,853	2,039,335
Property and equipment, net	\$ 2,694,942	\$ 2,669,732

Property and equipment, net increased by \$25.2 million for the six months ended June 30, 2015 primarily due to the City of Lawrenceburg's conveyance of a hotel and event center near Hollywood Casino Lawrenceburg (see Note 7 for further detail) and construction costs for the development of Plainridge Park Casino as well as normal capital maintenance expenditures, all of which were partially offset by depreciation expense for the six months ended June 30, 2015.

Depreciation expense totaled \$62.3 million and \$125.6 million for the three and six months ended June 30, 2015, of which \$23.2 million and \$46.3 million related to assets under the Master Lease, as compared to \$64.7 million and \$129.5 million for the three and six months ended June 30, 2014, of which \$22.1 and \$44.4 million related to assets under the Master Lease, respectively. Interest capitalized in connection with major construction projects was \$1.2 million and \$1.8 million for the three and six months ended June 30, 2015, as compared to \$0.1 million and \$0.2 million for the three and six months ended June 30, 2014, respectively.

7. Long-term Debt

Long-term debt, net of current maturities, is as follows:

Table of Contents

	June 30, 2015 (Restated)	December 31, 2014 (Restated)
	(in thousands)	
Senior secured credit facility	\$ 813,750	\$ 807,500
\$300 million 5.875% senior unsecured notes due November 1, 2021	300,000	300,000
Other long term obligations	150,300	135,000
Capital leases	25,115	25,137
	1,289,165	1,267,637
Less current maturities of long-term debt	(44,015)	(30,853)
Less discount on senior secured credit facility Term Loan B	(972)	(1,056)
Less debt issuance costs, net of accumulated amortization of \$9.7 million and \$6.8 million, respectively	(22,228)	(25,151)
	\$ 1,221,950	\$ 1,210,577

The following is a schedule of future minimum repayments of long-term debt as of June 30, 2015 (in thousands):

Within one year	\$ 44,015
1-3 years	151,891
3-5 years	478,478
Over 5 years	614,781
Total minimum payments	\$ 1,289,165

Senior Secured Credit Facility

The senior secured credit facility consists of a five year \$500 million revolver, a five year \$500 million Term Loan A facility, and a seven year \$250 million Term Loan B facility. At June 30, 2015, the Company's senior secured credit facility had a gross outstanding balance of \$813.8 million, consisting of a \$462.5 million Term Loan A facility, a \$246.3 million Term Loan B facility, and \$105.0 million outstanding on the revolving credit facility. Additionally, at June 30, 2015, the Company had conditional obligations under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating \$22.9 million, resulting in \$372.1 million of available borrowing capacity as of June 30, 2015 under the revolving credit facility.

Other Long Term Obligations

Other long term obligations at June 30, 2015 of \$150.3 million included \$135.0 million related to the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course and \$15.3 million related to the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg; all of which are more fully described below.

Ohio Relocation Fees

In June 2013, the Company finalized the terms of its memorandum of understanding with the State of Ohio, which included an agreement by the Company to pay a relocation fee in return for being able to relocate its existing racetracks in Toledo and Grove City to Dayton and Mahoning Valley, respectively. Upon opening of these two racinos in Ohio in the third quarter of 2014, the relocation fee for each new racino was recorded at the present value of the contractual obligation, which was calculated to be \$75 million based on the 5% discount rate included in the agreement. The relocation fee for each facility is payable as follows: \$7.5 million upon the opening of the facility and eighteen semi-annual payments of \$4.8 million beginning one year from the commencement of operations. This obligation is accreted to interest expense at an effective yield of 5.0%. The amount included in interest expense related to this obligation was \$1.7 million and \$3.4 million for the three and six months ended June 30, 2015, respectively.

Table of Contents

Event Center

The City of Lawrenceburg Department of Redevelopment recently completed construction of a hotel and event center located less than a mile away from Hollywood Casino Lawrenceburg. Effective in mid-January 2015, by contractual agreement, a repayment obligation for the hotel and event center was assumed by a wholly-owned subsidiary of the Company in the amount of \$15.3 million, which was financed through a loan with the City of Lawrenceburg Department of Redevelopment. The Company is obligated to make annual payments on the loan of approximately \$1 million for twenty years beginning January 2016. This obligation is accreted to interest expense at its effective yield of 3.0%. The amount included in interest expense related to this obligation was \$0.1 million and \$0.2 million for the three and six months ended June 30, 2015, respectively.

Capital Leases

Capital leases are primarily comprised of a ten year corporate airplane lease that expires in August 2016, which has a ten year renewal option. The lease obligation has been recorded at the lessor's initial cost of the plane, of \$24.9 million at both June 30, 2015 and December 31, 2014, since the agreement has broad based default provisions that could result in potential damages equal to this amount. The lease obligation was classified as a capital lease based on the provisions of ASC 840 Leases which requires that the remedies for events of default under the provision described in this scenario be included in the minimum lease payment calculation for purposes of lease classification and that the probability of such an event of default will occur is not relevant to this determination.

Debt Issuance Costs

As discussed in Note 4, the Company elected to early adopt accounting guidance issued in April 2015 to simplify the presentation of debt issuance costs. This change in accounting principle was implemented retrospectively as of March 31, 2015. Debt issuance costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense using the effective interest method over the contractual term of the underlying indebtedness. The Company has reclassified debt issuance costs as a direct reduction to the related debt obligation which had the effect of lowering other assets and long-term debt by \$22.2 million and \$25.2 million as of June 30, 2015 and December 31, 2014, respectively.

Covenants

The Company's senior secured credit facility and \$300 million 5.875% senior unsecured notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, interest coverage, senior leverage and total leverage ratios. In addition, the Company's senior secured credit facility and \$300 million 5.875% senior unsecured notes restrict, among other things, its ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, engage in mergers or consolidations, and otherwise restrict corporate activities.

At June 30, 2015, the Company was in compliance with all required financial covenants. The Company has received a waiver through March 15, 2016, from its lenders under its senior secured credit facility to file its financial statements with the SEC through the quarter ended September 30, 2015. Additionally, starting on February 8, 2016, the Company is required to pay an additional 25 basis points annually under its \$300 million senior unsecured notes until the Company becomes current with its SEC filings.

8. Master Lease Financing Obligation (Restatement)

The Company's lease obligation with GLPI is accounted for as a financing obligation. The obligation was calculated at the inception of the transaction based on the future minimum lease payments due to GLPI under the Master Lease discounted at 9.70%, which represents the estimated incremental borrowing rate over the lease term, including renewal options that were reasonably assured of being exercised, and the funded construction of certain leased real estate assets in development at the date of the Spin-Off. Total payments under the Master Lease for the three and six months ended June 30, 2015 were \$109.5 million and \$218.4 million as compared to \$104.6 million and \$208.9 million for the three and six months ended June 30, 2014, respectively. The interest expense recognized for the three and six months ended June 30, 2015 was \$97.7 million and \$194.1 million as compared to \$94.0 million and \$187.1 million for the three and six months ended June 30, 2014, respectively. The interest expense recognized for the three and six months ended June 30, 2015 includes \$11.4 million and \$22.1 million from contingent payments associated with the monthly variable components for Hollywood Casino Columbus and Hollywood Casino Toledo, as compared to \$10.5 million and \$20.7 million for the three and six months ended June 30, 2014, respectively, as well as \$0.8 million and \$1.6 million from contingent payments associated with the annual escalator during the three and six months ended June 30, 2015.

Table of Contents**9. Commitments and Contingencies****Litigation**

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the ordinary course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company's consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the Company's consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

10. Segment Information

The following tables present certain information with respect to the Company's segments. Intersegment revenues between the Company's segments were not material in any of the periods presented below. The income (loss) from operations by segment presented below does not include allocations for corporate overhead costs or expenses associated with utilizing property subject to the Master Lease.

Three months ended June 30, 2015	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (1) (Restated)	Total (Restated)
Income (loss) from operations	\$ 101,013	\$ 15,728	\$ 57,044	\$ (50,424)	\$ 123,361
Charge for stock compensation				2,337	2,337
Depreciation and amortization	24,527	2,086	10,697	24,965	62,275
Plainridge contingent purchase price	356				356
(Gain) loss on disposal of assets	78	144	19	130	371
Income from unconsolidated affiliates			4,401	(247)	4,154
Non-operating items for Kansas JV			2,528		2,528
Adjusted EBITDA	\$ 125,974	\$ 17,958	\$ 74,689	\$ (23,239)	\$ 195,382

Three months ended June 30, 2014	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (1) (Restated)	Total (Restated)
Income (loss) from operations	\$ 81,868	\$ 15,308	\$ 49,836	\$ (41,545)	\$ 105,467
Charge for stock compensation				2,517	2,517
Impairment Losses	4,560				4,560
Depreciation and amortization	25,911	1,692	17,573	24,698	69,874
(Gain) loss on disposal of assets	(30)		39	(6)	3
Income from unconsolidated affiliates			2,621	(1,148)	1,473
Non-operating items for Kansas JV			2,939		2,939
Adjusted EBITDA	\$ 112,309	\$ 17,000	\$ 73,008	\$ (15,484)	\$ 186,833

Six months ended June 30, 2015	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (1) (Restated)	Total (Restated)
---------------------------------------	------------------------------------	----------------------------	---------------------------------------	---------------------------------	-----------------------------

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

Income (loss) from operations	\$	191,878	\$	31,254	\$	112,428	\$	(100,510)	\$	235,050
Charge for stock compensation								4,421		4,421
Depreciation and amortization		49,910		4,259		21,480		49,995		125,644
Plainridge contingent purchase price		707								707
(Gain) loss on disposal of assets		(44)		324		120		125		525
Income from unconsolidated affiliates						8,189		(53)		8,136
Non-operating items for Kansas JV						5,278				5,278
Adjusted EBITDA	\$	242,451	\$	35,837	\$	147,495	\$	(46,022)	\$	379,761

Table of Contents

Six months ended June 30, 2014	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (1) (Restated)	Total (Restated)
Income (loss) from operations	\$ 159,591	\$ 32,250	\$ 101,174	\$ (85,034)	\$ 207,981
Charge for stock compensation				5,096	5,096
Impairment Losses	4,560				4,560
Depreciation and amortization	52,734	3,241	34,824	49,260	140,059
(Gain) loss on disposal of assets	(117)	65	17	(12)	(47)
Income from unconsolidated affiliates			5,074	(1,118)	3,956
Non-operating items for Kansas JV			5,860		5,860
Adjusted EBITDA	\$ 216,768	\$ 35,556	\$ 146,949	\$ (31,808)	\$ 367,465

	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (1) (Restated)	Total (Restated)
--	----------------------------	--------------------	-------------------------------	-------------------------	---------------------

Three months ended June 30, 2015	(in thousands)				
Net revenues	\$ 417,756	\$ 63,664	\$ 213,689	\$ 5,847	\$ 700,956
Capital expenditures	60,150	2,363	8,003	1,184	71,700

Three months ended June 30, 2014					
Net revenues	\$ 361,357	\$ 59,033	\$ 224,726	\$ 7,030	\$ 652,146
Capital expenditures	16,988	9,617	13,990	2,678	43,273

Six months ended June 30, 2015					
Net revenues	\$ 804,300	\$ 126,250	\$ 423,958	\$ 10,586	\$ 1,365,094
Capital expenditures	98,724	5,214	14,451	2,100	120,489

Six months ended June 30, 2014					
Net revenues	\$ 710,805	\$ 119,953	\$ 448,483	\$ 13,985	\$ 1,293,226
Capital expenditures	27,098	16,047	33,333	3,836	80,314

Balance sheet at June 30, 2015					
Total assets	1,113,643	331,923	1,049,252	2,250,058	4,744,876
Investment in and advances to unconsolidated affiliates	91		109,658	63,977	173,726
Goodwill and other intangible assets, net	427,449	143,386	716,206	4,078	1,291,119

Balance sheet at December 31, 2014					
Total assets	1,007,162	287,551	1,076,290	2,293,891	4,664,894
Investment in and advances to unconsolidated affiliates	94		115,469	63,988	179,551
Goodwill and other intangible assets, net	427,335	143,242	718,982	4,078	1,293,637

(1) Includes depreciation expense associated with the real property assets under the Master Lease with GLPI. In addition, total assets include these assets. The interest expense associated with the financing obligation is reflected in the other category. Net revenues and income (loss) from unconsolidated affiliates relate to the Company's stand-alone racing operations, namely Rosecroft Raceway, Sanford Orlando Kennel Club and the Company's Texas and New Jersey joint ventures which do not have gaming operations.

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

Management uses adjusted EBITDA as the primary measure of the operating performance of its segments, including the evaluation of operating personnel and is especially relevant in evaluating large, long lived casino projects because they provide a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. The Company defines adjusted EBITDA as earnings before interest, taxes, stock compensation, debt extinguishment charges, impairment charges, insurance recoveries and deductible charges, depreciation and amortization, changes in the estimated fair value of contingent purchase price to the previous owners of Plainridge Racecourse, gain or loss on disposal of assets, and other income or expenses. Adjusted EBITDA is also inclusive of results from discontinued operations, income or loss from unconsolidated affiliates, with our share of non-operating items (such as depreciation and amortization) added back for our joint

Table of Contents

venture in Kansas Entertainment. Adjusted EBITDA should not be construed as alternatives to operating income, as indicators of the Company's operating performance, as alternatives to cash flows from operating activities, as measures of liquidity, or as any other measures of performance determined in accordance with GAAP. The Company has significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in adjusted EBITDA.

11. Income Taxes

At June 30, 2015 and December 31, 2014, the Company had a net deferred tax liability balance of \$55.4 million and \$38.3 million, respectively, within its condensed consolidated balance sheets. The Company accounts for income taxes in accordance with ASC 740 "Income Taxes". Under ASC 740, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amount and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. In the fourth quarter of 2013, the Company concluded that as a result of the failed spin-off-leaseback accounting treatment which resulted in a significant increase to its deferred tax assets, a valuation allowance should be recorded on the Company's deferred tax assets given the significant negative evidence associated with being in or expecting to be in a three year cumulative pre-tax loss position and the insufficient objectively verifiable positive evidence to support the realization of the Company's deferred tax assets. This resulted in an increase to the Company's income tax provision of \$8.0 million and \$13.1 million for the three and six months ended June 30, 2015, respectively, and \$16.5 million and \$16.7 million for the three and six months ended June 30, 2014, respectively.

The Company calculates the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate (ETR) to the full year projected pretax book income or loss excluding certain discrete items. The Company's ETR (income taxes as a percentage of income from operations before income taxes) was 84.46% and 84.59% for the three and six months ended June 30, 2015, primarily due to the year-over-year increase in pre-tax earnings that had a favorable impact to our effective rate compared to the three and six months ended June 30, 2014 whose effective tax rate was not meaningful due to the low levels of pretax income recorded in these periods. The increase in the valuation allowance recorded since December 31, 2014 increased our current year quarterly and year to date effective tax rate by approximately 43%.

12. Fair Value Measurements

ASC 820, "Fair Value Measurements and Disclosures", establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets, such as interest rates and yield curves that are observable at commonly quoted intervals.

- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions, as there is little, if any, related market activity.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

Cash and cash equivalents

The fair value of the Company's cash and cash equivalents approximates the carrying value of the Company's cash and cash equivalents, due to the short maturity of the cash equivalents.

Long-term debt

The fair value of the Company's Term Loan A and B components of its senior secured credit facility and senior unsecured notes is estimated based on quoted prices in active markets and as such is a Level 1 measurement. The fair value of the remainder of the Company's senior secured credit facility approximates its carrying value as it is revolving, variable rate debt and as such is a Level 2 measurement.

Table of Contents

Other long term obligations at June 30, 2015 include the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course and the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg. The fair value of the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course approximates its carrying value as the discount rate of 5.0% approximates the market rate of similar debt instruments and as such is a Level 2 measurement. Finally, the fair value of the repayment obligation for the hotel and event center is estimated based on a rate consistent with comparable municipal bonds and as such is a Level 2 measurement. See Note 7 for further details regarding the Company's other long term obligations.

Other liabilities

Other liabilities at June 30, 2015 include the contingent purchase price consideration related to the purchase of Plainridge Racecourse. The fair value of the Company's contingent purchase price consideration related to its Plainridge Racecourse acquisition is estimated based on an income approach using a discounted cash flow model and as such is a Level 3 measurement. At each reporting period, the Company assesses the fair value of this obligation and changes in its value are recorded in earnings. The amount included in general and administrative expense related to the change in fair value of this obligation was \$0.3 million and \$0.7 million for the three and six months ended June 30, 2015, respectively

The carrying amounts and estimated fair values by input level of the Company's financial instruments at June 30, 2015 and December 31, 2014 are as follows (in thousands):

	June 30, 2015				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 233,118	\$ 233,118	\$ 233,118	\$	\$
Financial liabilities:					
Long-term debt					
Senior secured credit facility	794,619	805,901	700,901	105,000	
Senior unsecured notes	295,931	300,000	300,000		
Other long-term obligations	150,300	147,679		147,679	
Other liabilities	19,896	19,896			19,896
	December 31, 2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	\$ 208,673	\$ 208,673	\$ 208,673	\$	\$
Financial liabilities:					
Long-term debt					
Senior secured credit facility	785,683	799,556	714,556	85,000	
Senior unsecured notes	295,610	276,000	276,000		
Other long-term obligations	135,000	135,000		135,000	
Other liabilities	19,189	19,189			19,189

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As described in Note 2 to the condensed consolidated financial statements in Item 1 of this form 10-Q/A, the Company restated its financial statements for the years ended December 31, 2014, and 2013 and the interim periods ended March 31, 2014, June 30, 2014, September 30, 2014, March 31, 2015 and June 30, 2015. The impact of the restatement is reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations below.

Our Operations

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. As of June 30, 2015, we owned, managed, or had ownership interests in twenty-six facilities in the following seventeen jurisdictions: Florida, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario, Canada. We believe that our portfolio of assets provides us with the benefits of a geographically diversified portfolio of properties that generates significant cash flow from operations.

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, greenfield projects, and property expansions. On June 24, 2015, we opened Plainridge Park Casino, an integrated racing and slots-only gaming facility in Plainville, Massachusetts. On April 28, 2015, we entered into a definitive agreement to acquire Tropicana Las Vegas Hotel and Casino, which acquisition is expected to close later this year, subject to the timing of regulatory approvals and other closing conditions. In addition, we are constructing a gaming facility on the Jamul Indian Village near San Diego, California, which we anticipate completing in mid-2016.

The vast majority of our revenue is gaming revenue, derived primarily from gaming on slot machines (which represented approximately 84% and 83% of our gaming revenue in 2014 and 2013, respectively) and to a lesser extent, table games, which is highly dependent upon the volume and spending levels of customers at our properties. Other revenues are derived from our management service fee from Casino Rama, our hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities, and our racing operations. Our racing revenue includes our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, our share of wagering from import and export simulcasting, and our share of wagering from our off-track wagering facilities.

Key performance indicators related to gaming revenue are slot handle and table game drop (volume indicators) and win or hold percentage. Our typical property slot hold percentage is in the range of 6% to 10% of slot handle, and our typical table game win percentage is in the range of 12% to 27% of table game drop. Slot handle is the gross amount wagered for the period cited. The win or hold percentage is the net amount of gaming wins and losses, with liabilities recognized for accruals related to the anticipated payout of progressive jackpots. Our slot hold percentages have consistently been in the 6% to 10% range over the past several years. Given the stability in our slot hold percentages, we have not experienced significant impacts to earnings from changes in these percentages.

For table games, customers usually purchase cash chips at the gaming tables. The cash and markers (extensions of credit granted to certain credit worthy customers) are deposited in the gaming table's drop box. Table game win is the amount of drop that is retained and recorded as casino

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

gaming revenue, with liabilities recognized for funds deposited by customers before gaming play occurs and for unredeemed gaming chips. As we are focused on regional gaming markets, our table win percentages are fairly stable as the majority of these markets do not regularly experience high-end play, which can lead to volatility in win percentages. Therefore, changes in table game win percentages do not typically have a material impact to our earnings.

Our properties generate significant operating cash flow, since most of our revenue is cash-based from slot machines, table games, and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to pay rent to GLPI under the Master Lease, repay debt, fund capital maintenance expenditures, fund new capital projects at existing properties and provide excess cash for future development and acquisitions.

We continue to expand our gaming operations through the implementation and execution of a disciplined capital expenditure program at our existing properties, the pursuit of strategic acquisitions and the development of new gaming properties, particularly in attractive regional markets. Additional information regarding our capital projects is discussed in detail in the section entitled Liquidity and Capital Resources Capital Expenditures below.

Table of Contents

Segment Information

The Company's Chief Executive Officer and President, who is the Company's Chief Operating Decision Maker, as that term is defined in ASC 280, measures and assesses the Company's business performance based on regional operations of various properties grouped together based primarily on their geographic locations. The Company's reportable segments are: (i) East/Midwest, (ii) West, and (iii) Southern Plains.

The East/Midwest reportable segment consists of the following properties: Hollywood Casino at Charles Town Races, Hollywood Casino Bangor, Hollywood Casino at Penn National Race Course, Hollywood Casino Lawrenceburg, Hollywood Casino Toledo, Hollywood Casino Columbus, Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014, Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014, and Plainridge Park Casino, which opened on June 24, 2015. It also includes the Company's Casino Rama management service contract.

The West reportable segment consists of the following properties: Zia Park Casino and the M Resort, as well as the Hollywood Casino Jamul San Diego project with the Jamul Indian Village, which the Company anticipates completing in mid-2016. This segment will also include the results of Tropicana Las Vegas once the acquisition is consummated.

The Southern Plains reportable segment consists of the following properties: Hollywood Casino Aurora, Hollywood Casino Joliet, Argosy Casino Alton, Argosy Casino Riverside, Hollywood Casino Tunica, Hollywood Casino Gulf Coast, Boomtown Biloxi, and Hollywood Casino St. Louis, and includes the Company's 50% investment in Kansas Entertainment, which owns the Hollywood Casino at Kansas Speedway. On July 30, 2014, the Company closed Argosy Casino Sioux City.

The Other category consists of the Company's standalone racing operations, namely Rosecroft Raceway, Sanford-Orlando Kennel Club, and the Company's joint venture interests in Sam Houston Race Park, Valley Race Park, and Freehold Raceway, as well as the Company's 50% joint venture with the Cordish Companies in New York (which is in the process of being dissolved). If the Company is successful in obtaining gaming operations at these locations, they would be assigned to one of the Company's regional executives and reported in their respective reportable segment. The Other category also includes the Company's corporate overhead operations which does not meet the definition of an operating segment under ASC 280.

Executive Summary

Recently we have begun to see signs of stabilization in spending patterns at the majority of our facilities that have not been impacted by recent new competition, however the expansion of newly constructed gaming facilities continues to impact the overall domestic gaming industry as well as our operating results. We believe that recent economic conditions, including, but not limited to, a weak economic recovery, and higher taxes paid by individuals, have resulted in reduced levels of discretionary consumer spending compared to historical levels. Additionally, the expansion of newly constructed gaming facilities has substantially increased competition in many of our regional markets (including some of our larger facilities).

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

We operate a geographically diversified portfolio comprised largely of new and well maintained regional gaming facilities. This has allowed us to develop what we believe to be a solid base for future growth opportunities. We have also made investments in joint ventures that we believe may allow us to capitalize on additional gaming opportunities in certain states if legislation or referenda are passed that permit and/or expand gaming in these jurisdictions and we are selected as a licensee. Historically, the Company has been reliant on certain key regional gaming markets (for example, its results from Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg). Over the past several years, the Company has diversified its operations via development of new facilities and acquisitions and anticipates further diversifying its reliance on specific properties in connection with its current development pipeline. For example, we expect that our recent opening in Plainville, Massachusetts is anticipated to increase our ability to generate free cash flow since this property is not part of the Master Lease and as such does not have a rental obligation associated with it.

Financial Highlights:

We reported net revenues and income from operations of \$701.0 million and \$123.4 million, respectively, for the three months ended June 30, 2015, compared to \$652.1 million and \$105.5 million, respectively, for the corresponding period in the prior year and net revenues and income from operations of \$1,365.1 million and \$235.1 million, respectively, for the six months ended June 30, 2015 compared to \$1,293.2 million and \$208.0 million, respectively for the corresponding period in the prior year. The major

Table of Contents

factors affecting our results for the three and six months ended June 30, 2015, as compared to the three and six months ended June 30, 2014, were:

- The opening of Hollywood Gaming at Dayton Raceway on August 28, 2014 in our East/Midwest segment, which generated \$23.2 million and \$45.7 million of net revenues for the three and six months ended June 30, 2015, respectively.
- The opening of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 in our East/Midwest segment, which generated \$25.6 million and \$50.4 million of net revenues for the three and six months ended June 30, 2015, respectively.
- The opening of Plainridge Park Casino on June 24, 2015 in our East/Midwest segment, which had increased net revenues of \$6.3 million and \$5.5 million for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014.
- Competition in our East/Midwest segment for Hollywood Casino Lawrenceburg, namely the opening of a casino in Cincinnati, Ohio in March 2013, as well as more recent openings of a racino at Belterra Park in May 2014 and our own Dayton, Ohio facility in late August 2014.
- Increased competition in our East/Midwest segment from the Baltimore, Maryland market, which includes Maryland Live! and Horseshoe Casino Baltimore, which opened at the end of August 2014.
- The closure of Argosy Casino Sioux City in our Southern Plains segment on July 30, 2014.
- A pre-tax impairment charge of \$4.6 million for Hollywood Casino Lawrenceburg in our East/Midwest segment during the three and six months ended June 30, 2014.
- Higher general and administrative expenses from corporate overhead costs of \$8.4 million and \$15.0 million for the three and six months ended June 30, 2015, respectively, compared to the corresponding period in the prior year, primarily due to higher cash-settled stock-based compensation charges of \$6.4 million and \$13.8 million mainly due to stock price increases for Penn and GLPI common stock during 2015 compared to stock price declines in 2014 as well as higher bonus and other accruals during the six months ended June 30, 2015 as compared to the

corresponding period in 2014.

- Net income increased by \$22.3 million and \$23.5 million for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the variances explained above, as well as lower depreciation expense, higher income from unconsolidated affiliates and higher interest income, partially offset by higher interest expense incurred under our financing obligation to GLPI.

Segment Developments:

The following are recent developments that have had or will have an impact on us by segment:

East/Midwest

- In June 2012, we announced that we had filed applications with the Ohio Lottery Commission for Video Lottery Sales Agent Licenses for our Ohio racetracks, Raceway Park and Beulah Park, and with the Ohio State Racing Commission for permission to relocate the racetracks to Dayton and Mahoning Valley, respectively. On May 1, 2013, we received approval from the Ohio Racing Commission for our relocation plans. Hollywood Gaming at Mahoning Valley Race Course, which opened on September 17, 2014, features a one-mile thoroughbred track and approximately 860 video lottery terminals, as well as various restaurants, bars and other amenities. Hollywood Gaming at Dayton Raceway, which opened on August 28, 2014, features a 5/8-mile standardbred track and approximately 980 video lottery terminals, as well as various restaurants, bars and other amenities. See the section entitled *Liquidity and Capital Resources* *Capital Expenditures* below for further details.
- Hollywood Casino Lawrenceburg faced increased competition, with the opening of a casino in Cincinnati, Ohio in March 2013, as well as the more recent openings of a racino at Belterra Park in May 2014 and our own Dayton, Ohio facility in late August 2014.
- Hollywood Casino at Charles Town Races faced increased competition from the Baltimore, Maryland market, which includes Maryland Live! and Horseshoe Casino Baltimore, which opened at the end of August 2014. In addition, in December 2013, the license for Prince George's County, Maryland was granted to MGM. The proposed \$1.2 billion casino, which MGM plans to

Table of Contents

open in the second half of 2016, is anticipated to adversely impact our financial results as it will create additional competition for Hollywood Casino at Charles Town Races.

- On February 28, 2014, the Massachusetts Gaming Commission awarded the Company a Category Two slots-only gaming license for its planned Plainridge Park Casino in Plainville, Massachusetts. On June 24, 2015, the Company opened the facility, which features live harness racing and simulcasting, along with 1,250 gaming devices, various dining and entertainment options, structured and surface parking, and a two story clubhouse with approximately 55,000 square feet.

West

- On April 5, 2013, we announced that, subject to final National Indian Gaming Commission approval, we and the Jamul Tribe had entered into definitive agreements (including management, development, branding and lending arrangements) to jointly develop a Hollywood Casino branded gaming facility on the Jamul Tribe's trust land in San Diego County, California. The Hollywood Casino Jamul-San Diego facility is located approximately 20 miles east of downtown San Diego. We recently increased the overall construction budget by \$30 million to \$390 million for this state of the art development project which will include a three-story gaming and entertainment facility of approximately 200,000 square feet featuring over 1,700 slot machines, 43 live table games, including poker, multiple restaurants, bars and lounges and a partially enclosed parking structure with over 1,800 spaces. In mid-January 2014, we announced the commencement of construction activities at the site and in June 2015, we announced the Topping Out marking the halfway point of construction. It is anticipated that the facility will open in mid-2016. We currently provide financing to the Jamul Tribe in connection with the project and, upon opening, we will manage and provide branding for the casino in exchange for a management fee equal to 30% of the casino's pretax income, a licensing fee of 1.5% of gross gaming revenues for use of the Hollywood Casino brand, as well as interest on funds advanced by the Company to develop the project.

- On April 29, 2015, we announced that we entered into a definitive agreement to acquire the Tropicana Las Vegas Hotel and Casino for \$360 million. The acquisition is subject to customary closing conditions and regulatory approvals, and is expected to close later this year. The Tropicana Las Vegas Hotel and Casino is situated on 35 acres of land located on the Las Vegas Strip with 1,467 remodeled guest rooms and suites, a 50,000 square foot casino gaming floor featuring 844 slot and video poker machines and 38 table games including blackjack, mini-baccarat, craps and roulette, three full-service restaurants, a 1,200 seat performance theater, a 300 seat comedy club, a nightclub, beach club and 2,950 parking spaces.

Southern Plains

- On July 30, 2014, Argosy Casino Sioux City ceased its operations.

Critical Accounting Estimates

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our consolidated financial statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. We have identified the accounting for long-lived assets, goodwill and other intangible assets, income taxes and litigation, claims and assessments as critical accounting estimates, as they are the most important to our financial statement presentation and require difficult, subjective and complex judgments.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and, in certain situations, could have a material adverse effect on our consolidated financial condition.

For further information on our critical accounting estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K/A for the year ended December 31, 2014. There has been no material change to these estimates for the six months ended June 30, 2015.

Results of Operations

The following are the most important factors and trends that contribute to our operating performance:

Table of Contents

- Most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties (such as our November 2012 acquisition of Harrah's St. Louis gaming and lodging facility from Caesars Entertainment and anticipated acquisition of Tropicana Las Vegas which is expected to close later this year), jurisdictional expansions (such as our June 2015 opening of a slots-only gaming facility in Massachusetts, our planned mid-2016 opening of a Hollywood Casino branded gaming facility on the Jamul Indian Village land in trust which we will manage, the September 2014 opening of Hollywood Gaming at Mahoning Valley Race Course, the August 2014 opening of Hollywood Gaming at Dayton Raceway, the October 2012 opening of Hollywood Casino Columbus, and the May 2012 opening of Hollywood Casino Toledo), expansions of gaming in existing jurisdictions (such as the introduction of table games in July 2010 at Hollywood Casino at Charles Town Races and Hollywood Casino at Penn National Race Course, and at Hollywood Casino Bangor in March 2012) and expansions/improvements of existing properties (such as a hotel at Zia Park Casino which opened in August 2014).

- A number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for example, in Massachusetts, where we opened a slots-only gaming facility on June 24, 2015, in Kansas, where we opened a casino through a joint venture in February 2012, and in Ohio, where we opened casinos in Toledo and Columbus in May 2012 and October 2012, respectively, and opened video lottery terminal facilities at two racetracks in Ohio in the third quarter of 2014) and increased competitive threats to business at our existing properties (such as the introduction/expansion of commercial casinos in Kansas, Maryland, Ohio, and potentially Kentucky, Nebraska and Illinois, and the introduction of tavern licenses in several states, most significantly in Illinois).

- The actions of government bodies can affect our operations in a variety of ways. For instance, the continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes and/or property taxes, or via an expansion of gaming. In addition, government bodies may restrict, prevent or negatively impact operations in the jurisdictions in which we do business (such as the implementation of smoking bans).

- The continued demand for, and our emphasis on, slot wagering entertainment at our properties.

- The successful execution of our development and construction activities, as well as the risks associated with the costs, regulatory approval and the timing of these activities.

- The risks related to economic conditions and the effect of such prolonged sluggish conditions on consumer spending for leisure and gaming activities, which may negatively impact our operating results and our ability to continue to access financing at favorable terms.

The consolidated results of operations for the three and six months ended June 30, 2015 and 2014 are summarized below:

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

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (Restated)	2014 (Restated)	2015 (Restated)	2014 (Restated)
(in thousands)				
Revenues:				
Gaming	\$ 618,919	\$ 576,158	\$ 1,210,255	\$ 1,146,841
Food, beverage and other	117,421	110,574	226,184	215,444
Management service fee	2,816	3,105	4,743	5,563
Revenues	739,156	689,837	1,441,182	1,367,848
Less promotional allowances	(38,200)	(37,691)	(76,088)	(74,622)
Net revenues	700,956	652,146	1,365,094	1,293,226
Operating expenses:				
Gaming	313,616	284,107	608,511	567,375
Food, beverage and other	82,803	80,403	160,732	157,941
General and administrative	118,901	107,735	235,157	215,310
Depreciation and amortization	62,275	69,874	125,644	140,059
Impairment Losses		4,560		4,560
Total operating expenses	577,595	546,679	1,130,044	1,085,245
Income from operations	\$ 123,361	\$ 105,467	\$ 235,050	\$ 207,981

Certain information regarding our results of operations by segment for the three and six months ended June 30, 2015 and 2014 is summarized below:

Three Months Ended June 30,	Net Revenues		Income (loss) from Operations	
	2015	2014	2015 (Restated)	2014 (Restated)
(in thousands)				
East/Midwest	\$ 417,756	\$ 361,357	\$ 101,013	\$ 81,868
West	63,664	59,033	15,728	15,308
Southern Plains	213,689	224,726	57,044	49,836
Other	5,847	7,030	(50,424)	(41,545)
Total	\$ 700,956	\$ 652,146	\$ 123,361	\$ 105,467

Six Months Ended June 30,	Net Revenues		Income (loss) from Operations	
	2015	2014	2015 (Restated)	2014 (Restated)
(in thousands)				
East/Midwest	\$ 804,300	\$ 710,805	\$ 191,878	\$ 159,591
West	126,250	119,953	31,254	32,250
Southern Plains	423,958	448,483	112,428	101,174
Other	10,586	13,985	(100,510)	(85,034)
Total	\$ 1,365,094	\$ 1,293,226	\$ 235,050	\$ 207,981

Adjusted EBITDA

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

Adjusted EBITDA is used by management as the primary measure of the Company's operating performance. We define adjusted EBITDA as earnings before interest, taxes, stock compensation, debt extinguishment charges, impairment charges, insurance recoveries and deductible charges, depreciation and amortization, changes in the estimated fair value of contingent purchase price to the previous owners of Plainridge Racecourse, gain or loss on disposal of assets, and other income or expenses. Adjusted EBITDA is also inclusive of income or loss from unconsolidated affiliates, with our share of non-operating items (such as depreciation and

Table of Contents

amortization) added back for our joint venture in Kansas Entertainment. Adjusted EBITDA has economic substance because it is used by management as a performance measure to analyze the performance of our business, and is especially relevant in evaluating large, long-lived casino projects because they provide a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. We also present adjusted EBITDA because it is used by some investors and creditors as an indicator of the strength and performance of ongoing business operations, including our ability to service debt, fund capital expenditures, acquisitions and operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare operating performance and value companies within our industry. In addition, gaming companies have historically reported adjusted EBITDA as a supplement to financial measures in accordance with GAAP. In order to view the operations of their casinos on a more stand-alone basis, gaming companies, including us, have historically excluded from their adjusted EBITDA calculations certain corporate expenses that do not relate to the management of specific casino properties. However, adjusted EBITDA is not a measure of performance or liquidity calculated in accordance with GAAP. Adjusted EBITDA information is presented as a supplemental disclosure, as management believes that it is a widely used measure of performance in the gaming industry, is the principal basis for the valuation of gaming companies, and that it is considered by many to be a better indicator of the Company's operating results than net income (loss) per GAAP. Management uses adjusted EBITDA as the primary measure of the operating performance of its segments, including the evaluation of operating personnel. Adjusted EBITDA should not be construed as alternatives to operating income, as indicators of the Company's operating performance, as alternatives to cash flows from operating activities, as measures of liquidity, or as any other measures of performance determined in accordance with GAAP. The Company has significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in adjusted EBITDA. It should also be noted that other gaming companies that report adjusted EBITDA information may calculate adjusted EBITDA in a different manner than the Company and therefore, comparability may be limited.

A reconciliation of the Company's net income (loss) per GAAP to adjusted EBITDA, as well as the Company's income (loss) from operations per GAAP to adjusted EBITDA, is included below. Additionally, a reconciliation of each segment's income (loss) from operations to adjusted EBITDA is also included below. On a segment level, income (loss) from operations per GAAP, rather than net income (loss) per GAAP, is reconciled to adjusted EBITDA due to, among other things, the impracticability of allocating interest expense, interest income, income taxes and certain other items to the Company's segments on a segment by segment basis. Management believes that this presentation is more meaningful to investors in evaluating the performance of the Company's segments and is consistent with the reporting of other gaming companies.

The reconciliation of the Company's income from operations per GAAP to adjusted EBITDA, as well as the Company's net income per GAAP to adjusted EBITDA, for the three and six months ended June 30, 2015 and 2014 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (Restated)	2014 (Restated)	2015 (Restated)	2014 (Restated)
Net income	\$ 2,983	\$ (19,273)	\$ 4,852	\$ (18,693)
Income tax provision	16,221	20,111	26,636	22,112
Other	956	1,823	(2,133)	192
Income from unconsolidated affiliates	(4,154)	(1,473)	(8,136)	(3,956)
Interest income	(2,443)	(790)	(4,313)	(1,257)
Interest expense	109,798	105,069	218,144	209,583
Income from operations	\$ 123,361	\$ 105,467	\$ 235,050	\$ 207,981
Loss (gain) on disposal of assets	371	3	525	(47)
Impairment Losses		4,560		4,560
Charge for stock compensation	2,337	2,517	4,421	5,096
Plainridge contingent purchase price	356		707	

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

Depreciation and amortization	62,275	69,874	125,644	140,059
Income from unconsolidated affiliates	4,154	1,473	8,136	3,956
Non-operating items for Kansas JV	2,528	2,939	5,278	5,860
Adjusted EBITDA	\$ 195,382	\$ 186,833	\$ 379,761	\$ 367,465

The reconciliation of each segment's income (loss) from operations to adjusted EBITDA for the three and six months ended June 30, 2015 and 2014 was as follows (in thousands):

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

Table of Contents

Three months ended June 30, 2015	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (Restated)	Total (Restated)
Income (loss) from operations	\$ 101,013	\$ 15,728	\$ 57,044	\$ (50,424)	\$ 123,361
Charge for stock compensation				2,337	2,337
Depreciation and amortization	24,527	2,086	10,697	24,965	62,275
Plainridge contingent purchase price	356				356
(Gain) loss on disposal of assets	78	144	19	130	371
Income from unconsolidated affiliates			4,401	(247)	4,154
Non-operating items for Kansas JV			2,528		2,528
Adjusted EBITDA	\$ 125,974	\$ 17,958	\$ 74,689	\$ (23,239)	\$ 195,382

Three months ended June 30, 2014	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (Restated)	Total (Restated)
Income (loss) from operations	\$ 81,868	\$ 15,308	\$ 49,836	\$ (41,545)	\$ 105,467
Charge for stock compensation				2,517	2,517
Impairment Losses	4,560				4,560
Depreciation and amortization	25,911	1,692	17,573	24,698	69,874
(Gain) loss on disposal of assets	(30)		39	(6)	3
Income from unconsolidated affiliates			2,621	(1,148)	1,473
Non-operating items for Kansas JV			2,939		2,939
Adjusted EBITDA	\$ 112,309	\$ 17,000	\$ 73,008	\$ (15,484)	\$ 186,833

Six months ended June 30, 2015	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (Restated)	Total (Restated)
Income (loss) from operations	\$ 191,878	\$ 31,254	\$ 112,428	\$ (100,510)	\$ 235,050
Charge for stock compensation				4,421	4,421
Depreciation and amortization	49,910	4,259	21,480	49,995	125,644
Plainridge contingent purchase price	707				707
(Gain) loss on disposal of assets	(44)	324	120	125	525
Income from unconsolidated affiliates			8,189	(53)	8,136
Non-operating items for Kansas JV			5,278		5,278
Adjusted EBITDA	\$ 242,451	\$ 35,837	\$ 147,495	\$ (46,022)	\$ 379,761

Six months ended June 30, 2014	East/Midwest (Restated)	West (Restated)	Southern Plains (Restated)	Other (Restated)	Total (Restated)
Income (loss) from operations	\$ 159,591	\$ 32,250	\$ 101,174	\$ (85,034)	\$ 207,981
Charge for stock compensation				5,096	5,096
Impairment Losses	4,560				4,560
Depreciation and amortization	52,734	3,241	34,824	49,260	140,059
(Gain) loss on disposal of assets	(117)	65	17	(12)	(47)
Income from unconsolidated affiliates			5,074	(1,118)	3,956
Non-operating items for Kansas JV			5,860		5,860
Adjusted EBITDA	\$ 216,768	\$ 35,556	\$ 146,949	\$ (31,808)	\$ 367,465

Adjusted EBITDA for our East/Midwest segment increased by \$13.7 million, or 12.2%, and \$25.7 million, or 11.8% for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014, which together increased adjusted EBITDA by \$16.9 million and \$31.2 million for the three and six months ended June 30, 2015, respectively, compared to the corresponding period in the prior year, improved results from Hollywood Casino Columbus and Hollywood Casino Toledo and a property tax refund received in the first quarter of 2015 for \$2.0 million, which were partially offset by

decreased adjusted EBITDA at Hollywood Casino at Charles Town Races primarily due to competition discussed below, and increased pre-opening costs for Plainridge Park Casino of \$6.2 million and \$7.8 million for the three and six months ended June 30, 2015, respectively, compared to the corresponding periods in the prior year.

Table of Contents

Adjusted EBITDA for our Southern Plains segment increased by \$1.7 million, or 2.3%, and \$0.5 million, or 0.4%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to increased earnings related to growth in the market share of our joint venture in Kansas Entertainment and cost containment measures at Hollywood Casino Joliet, Hollywood Casino Gulf Coast, Argosy Casino Alton, Hollywood Casino Tunica and Boomtown Biloxi, both of which were partially offset by decreased adjusted EBITDA at Argosy Casino Sioux City of \$1.4 million and \$5.8 million for the three and six months ended June 30, 2015, respectively, compared to the corresponding period in the prior year, due to its closure on July 30, 2014, and decreased adjusted EBITDA at Hollywood Casino Aurora and Hollywood Casino St. Louis primarily due to additional competition and higher property taxes due to a \$1.2 million property tax settlement in 2014.

Adjusted EBITDA for our West segment increased by \$1.0 million, or 5.6%, and \$0.3 million, or 0.8%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to improved results from the M Resort and the addition of a new hotel at Zia Park Casino in August of 2014, partially offset by the impact of lower oil prices on this property since the local economy is tied to the oil industry.

Adjusted EBITDA for Other decreased by \$7.8 million, or 50.1%, and \$14.2 million, or 44.7%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to increased corporate overhead costs of \$9.4 million and \$16.9 million for the three and six months ended June 30, 2015, respectively, primarily due to higher cash-settled stock-based compensation charges of \$6.4 million and \$13.8 million mainly due to stock price increases for Penn and GLPI common stock during 2015 compared to stock price declines in 2014, as well as increased bonus and other accruals during the three and six months ended June 30, 2015. These amounts were partially offset by \$1.4 million and \$2.6 million of costs associated with the closure of Beulah Park and an unsuccessful bid by a joint venture with the Cordish Companies in New York during the three and six months June 30, 2014, respectively.

Revenues

Revenues for the three and six months ended June 30, 2015 and 2014 were as follows (in thousands):

Three Months Ended June 30,	2015	2014	Variance	Percentage Variance
Gaming	\$ 618,919	\$ 576,158	\$ 42,761	7.4%
Food, beverage and other	117,421	110,574	6,847	6.2%
Management service fee	2,816	3,105	(289)	(9.3)%
Revenues	739,156	689,837	49,319	7.1%
Less promotional allowances	(38,200)	(37,691)	(509)	1.4%
Net revenues	\$ 700,956	\$ 652,146	\$ 48,810	7.5%

Percentage

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

Six Months Ended June 30,	2015	2014	Variance	Variance
Gaming	\$ 1,210,255	\$ 1,146,841	\$ 63,414	5.5%
Food, beverage and other	226,184	215,444	10,740	5.0%
Management service fee	4,743	5,563	(820)	(14.7)%
Revenues	1,441,182	1,367,848	73,334	5.4%
Less promotional allowances	(76,088)	(74,622)	(1,466)	2.0%
Net revenues	\$ 1,365,094	\$ 1,293,226	\$ 71,868	5.6%

In our business, revenue is driven by discretionary consumer spending, which has been impacted by a slow economic recovery that has resulted in declines in the labor force participation rate, higher taxes, and increased stock market and commodity price volatility. The expansion of newly constructed gaming facilities has also increased competition in many regional markets (including at some of our key facilities). However, recently we have seen signs of stabilization at the majority of our properties and have seen low single digit increases in customer spending.

We have no certain mechanism for determining why consumers choose to spend more or less money at our properties from period to period and as such cannot quantify a dollar amount for each factor that impacts our customers' spending behaviors. However, based on our experience, we can generally offer some insight into the factors that we believe were likely to account for such changes. In instances where we believe one factor may have had a significantly greater impact than the other factors, we have noted that as well. However, in all instances, such insights are based only on our reasonable judgment and professional experience, and no assurance can be given as to the accuracy of our judgments.

Table of Contents

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. Our promotional allowance levels are determined based on various factors such as our marketing plans, competitive factors, economic conditions, and regulations.

Gaming revenue

Gaming revenue increased by \$42.8 million, or 7.4%, and \$63.4 million, or 5.5%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the variances explained below.

Gaming revenue for our East/Midwest segment increased by \$51.7 million, or 16.0%, and \$86.3 million, or 13.5%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014, Hollywood Gaming at Dayton Raceway on August 28, 2014 and Plainridge Park Casino on June 24, 2015, which together generated \$51.0 million and \$93.9 million of gaming revenue for the three and six months ended June 30, 2015, respectively, which was partially offset by decreased gaming revenue at Hollywood Casino Lawrenceburg primarily due to the continued impact of competition in Ohio, namely the opening of a casino in Cincinnati in March 2013 and the openings of a racino at Belterra Park in May 2014 and our own Dayton, Ohio facility in August 2014, and at Hollywood Casino at Charles Town Races primarily due to increased competition from the Baltimore Maryland market, which includes Maryland Live! and Horseshoe Casino Baltimore, which opened at the end of August 2014.

Gaming revenue for our Southern Plains segment decreased by \$11.6 million, or 5.6%, and \$25.8 million, or 6.2%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the closure of Argosy Casino Sioux City on July 30, 2014, which had gaming revenue of \$10.7 million and \$22.4 million for the three and six months ended June 30, 2014, respectively, and decreased gaming revenue at Hollywood Casino Aurora, Hollywood Casino Gulf Coast and Boomtown Biloxi primarily due to competition.

Operating Expenses

Operating expenses for the three and six months ended June 30, 2015 and 2014 were as follows (in thousands):

Three Months Ended June 30,	2015 (Restated)	2014 (Restated)	Variance (Restated)	Percentage Variance (Restated)
Gaming	\$ 313,616	\$ 284,107	\$ 29,509	10.4%
Food, beverage and other	82,803	80,403	2,400	3.0%
General and administrative	118,901	107,735	11,166	10.4%
Depreciation and amortization	62,275	69,874	(7,599)	(10.9)%
Impairment losses		4,560	(4,560)	(100.0)%
Total operating expenses	\$ 577,595	\$ 546,679	\$ 30,916	5.7%

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

Six Months Ended June 30,	2015 (Restated)	2014 (Restated)	Variance (Restated)	Percentage Variance (Restated)
Gaming	\$ 608,511	\$ 567,375	\$ 41,136	7.3%
Food, beverage and other	160,732	157,941	2,791	1.8%
General and administrative	235,157	215,310	19,847	9.2%
Depreciation and amortization	125,644	140,059	(14,415)	(10.3)%
Impairment losses		4,560	(4,560)	(100.0)%
Total operating expenses	\$ 1,130,044	\$ 1,085,245	\$ 44,799	4.1%

Gaming expense

Gaming expense increased by \$29.5 million, or 10.4%, and \$41.1 million, or 7.3%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the variances explained below.

Table of Contents

Gaming expense for our East/Midwest segment increased by \$30.1 million, or 17.0%, and \$48.0 million, or 13.6%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to expenses of \$23.0 million and \$45.3 million for the three and six months ended June 30, 2015, respectively, from the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014. Additionally, the segment incurred higher pre-opening expenses related to Plainridge Park Casino of \$6.2 million and \$7.8 million for the three and six months ended June 30, 2015, respectively, compared to the corresponding periods in the prior year which were partially offset by a decrease in gaming taxes resulting from decreased taxable gaming revenue discussed above at Hollywood Casino Lawrenceburg.

Gaming expense for our Southern Plains segment decreased by \$3.2 million, or 3.6%, and \$10.4 million, or 6.0%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the closure of Argosy Casino Sioux City on July 30, 2014, which had \$4.7 million and \$9.7 million of gaming expense for the three and six months ended June 30, 2014, respectively, partially offset by higher payroll and benefits and marketing expenses at Hollywood Casino Joliet and Hollywood Casino St. Louis.

General and administrative expenses

General and administrative expenses include items such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping services, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit. General and administrative expenses also include lobbying expenses.

General and administrative expenses increased by \$11.2 million, or 10.4%, and \$19.8 million, or 9.2%, for the three and six months ended June 30, 2015, as compared to the three and six months ended June 30, 2014, primarily due to the variances explained below.

General and administrative expenses for Other increased by \$7.5 million, or 39.3%, and \$13.5 million and 33.8%, for the three and six months ended June 30, 2015, respectively, as compared to the corresponding period in the prior year. This resulted from increased corporate overhead costs of \$8.4 million and \$15.0 million for the three and six months ending June 30, 2015, respectively, primarily due to higher cash-settled stock-based compensation charges of \$6.4 million and \$13.8 million mainly due to stock price increases for Penn and GLPI common stock during 2015 compared to stock price declines in 2014 as well as higher bonus and other accruals during the six months ended June 30, 2015 as compared to the corresponding period in 2014.

General and administrative expenses for our East/Midwest segment increased by \$8.7 million, or 23.2%, and \$13.0 million, or 17.1%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014, Hollywood Gaming at Dayton Raceway on August 28, 2014 and Plainridge Park Casino on June 24, 2015, partially offset by a property tax refund received in the first quarter of 2015 for \$2.0 million.

General and administrative expenses for our Southern Plains segment decreased by \$6.2 million, or 14.4%, and \$8.1 million, or 9.8%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the closure of Argosy Casino Sioux City on July 30, 2014, which had \$4.1 million and \$6.1 million of general and administrative expenses for the three and six months ended June 30, 2014, respectively, and cost containment measures at Hollywood Casino Gulf Coast and Boomtown Biloxi.

Depreciation and amortization expense

Depreciation and amortization expense decreased by \$7.6 million, or 10.9%, and \$14.4 million, or 10.3%, for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to the closure of Argosy Casino Sioux City on July 30, 2014, which had \$4.9 million and \$9.9 million of depreciation expense for the three and six months ended June 30, 2014, respectively. Additionally, we recorded lower depreciation expense at Hollywood Casino Lawrenceburg primarily due to assets purchased for the 2009 expansion being fully depreciated in July 2014 and decreased depreciation expense at Hollywood Casino at Penn National Race Course primarily due to assets purchased for the 2008 opening being fully depreciated in February 2015, which were partially offset by the openings of Hollywood Gaming at Mahoning Valley Race Course and Hollywood Gaming at Dayton Raceway in the third quarter of 2014 and Plainridge Park Casino in the second quarter 2015.

Table of Contents*Impairment losses*

During the three months ended June 30, 2014, the Company recorded a pre-tax impairment charge of \$4.6 million in our East/Midwest segment to write-down certain idle assets to an estimated salvage value.

Other income (expenses)

Other income (expenses) for the three and six months ended June 30, 2015 and 2014 were as follows (in thousands):

Three Months Ended June 30,	2015 (Restated)	2014 (Restated)	Variance (Restated)	Percentage Variance (Restated)
Interest expense	\$ (109,798)	\$ (105,069)	\$ (4,729)	4.5%
Interest income	2,443	790	1,653	209.2%
Income from unconsolidated affiliates	4,154	1,473	2,681	182.0%
Other	(956)	(1,823)	867	(47.6)%
Total other expenses	\$ (104,157)	\$ (104,629)	\$ 472	(0.5)%

Six Months Ended June 30,	2015 (Restated)	2014 (Restated)	Variance (Restated)	Variance (Restated)
Interest expense	\$ (218,144)	\$ (209,583)	\$ (8,561)	4.1%
Interest income	4,313	1,257	3,056	243.1%
Income from unconsolidated affiliates	8,136	3,956	4,180	105.7%
Other	2,133	(192)	2,325	(1,210.9)%
Total other expenses	\$ (203,562)	\$ (204,562)	\$ 1,000	(0.5)%

Interest expense

Interest expense increased by \$4.7 million and \$8.6 million for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to higher interest expense of \$3.7 million and \$7.0 million incurred under our financing obligation to GLPI due to a higher GLPI financing obligation balance due to the completion of the real estate construction costs for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course funded by GLPI and the accretion of the relocation fees associated with our two racinos in Ohio, both of which opened in the third quarter of 2014, (See Note 7 to the condensed consolidated financial statements), partially offset by higher capitalized interest and lower interest rates on the Term Loan A portion of the senior secured credit facility for the three and six months ended June 30, 2015, compared to the corresponding periods in the prior year.

Interest income

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

Interest income increased by \$1.7 million and \$3.1 million for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to higher interest accrued on the note receivable with the Jamul Tribe.

Income from unconsolidated affiliates

Income from unconsolidated affiliates increased by \$2.7 million and \$4.2 million for the three and six months ended June 30, 2015, respectively, as compared to the three and six months ended June 30, 2014, primarily due to increased earnings related to our joint venture in Kansas Entertainment primarily due to growth in its market share as the property continues to improve its efficiency from its February 2012 opening.

Other

Other increased by \$0.9 million and \$2.3 million for the three and six months ended June 30, 2015 respectively, as compared to the three and six months ended June 30, 2014, primarily due to increased foreign currency translation gains for the three and six months ended June 30, 2015, compared to the corresponding period in the prior year.

Table of Contents

Taxes

The Company calculates the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate (ETR) to the full year projected pretax book income or loss excluding certain discrete items. The Company's ETR (income taxes as a percentage of income from operations before income taxes) was 84.46% and 84.59% for the three and six months ended June 30, 2015, primarily due to the year-over-year increase in pre-tax earnings that had a favorable impact to our effective rate compared to the three and six months ended June 30, 2014 whose effective tax rate was not meaningful due to the low levels of pretax income recorded in these periods. The increase in the valuation allowance recorded since December 31, 2014 increased our quarterly and year to date effective tax rate by approximately 43%.

The Company's annual ETR can vary each interim period depending on, among other factors, the geographic and business mix of our earnings, as well as changes in forecasted earnings, the level of our tax credits and the realizability of our deferred tax assets.

Liquidity and Capital Resources

Historically and prospectively, our primary sources of liquidity and capital resources have been and will be cash flow from operations, borrowings from banks and proceeds from the issuance of debt and equity securities.

Net cash provided by operating activities totaled \$199.7 million and \$143.7 million for the six months ended June 30, 2015 and 2014, respectively. The increase in net cash provided by operating activities of \$56.0 million for the six months ended June 30, 2015, compared to the corresponding period in the prior year, was comprised primarily of an increase in cash receipts from customers of \$94.0 million, offset by an increase in cash paid to suppliers and vendors of \$41.7 million. The increase in cash receipts collected from our customers for the six months ended June 30, 2015 compared to the prior year was primarily due to the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014 and Hollywood Gaming at Dayton Raceway on August 28, 2014, partially offset by the closure of Argosy Casino Sioux City on July 30, 2014. The increase in cash paid to suppliers and vendors for the six months ended June 30, 2015 compared to the prior year was primarily due to the openings of Hollywood Gaming at Mahoning Valley Race Course on September 17, 2014, Hollywood Gaming at Dayton Raceway on August 28, 2014 and Plainridge Park Casino on June 24, 2015, which were partially offset by the closure of Argosy Casino Sioux City on July 30, 2014.

Net cash used in investing activities totaled \$163.1 million and \$170.2 million for the six months ended June 30, 2015 and 2014, respectively. The decrease in net cash used in investing activities of \$7.1 million for the six months ended June 30, 2015, compared to the corresponding period in the prior year, was primarily due to our Massachusetts gaming license payment of \$25.0 million in March 2014, the acquisition of Plainridge Racecourse in April 2014 for \$42.0 million, \$20 million in gaming license fees related to the new Ohio racinos and decreased capital maintenance expenditures of \$14.1 million, all of which were partially offset by increased capital project expenditures of \$54.3 million primarily due to the development of Plainridge Park Casino, which opened in June 2015, increased advances to the Jamul Tribe of \$19.6 million, and cash in escrow of \$4.0 million related to the pending acquisition of Tropicana Las Vegas compared to a return of cash escrow in the first quarter of 2014 of \$18.0 million.

Net cash used in financing activities totaled \$12.1 million and \$15.2 million for the six months ended June 30, 2015 and 2014, respectively. The decrease in net cash used in financing activities of \$3.1 million for the six months ended June 30, 2015, compared to the corresponding period in

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

the prior year, was primarily due to higher net borrowings on our long-term debt of \$20.1 million, partially offset by increased principal payments of \$2.4 million on the financing obligation with GLPI and lower proceeds from insurance financing of \$13.9 million.

Capital Expenditures

Capital expenditures are accounted for as either capital project or capital maintenance (replacement) expenditures. Capital project expenditures are for fixed asset additions that expand an existing facility or create a new facility. Capital maintenance expenditures are expenditures to replace existing fixed assets with a useful life greater than one year that are obsolete, worn out or no longer cost effective to repair.

The following table summarizes our expected capital project expenditures by segment for the fiscal year ending December 31, 2015, and actual expenditures for the six months ended June 30, 2015 (excluding licensing fees and net of reimbursements). The table below should not be utilized to predict future expected capital project expenditures subsequent to 2015.

Table of Contents

Property	Expected for Year Ending December 31, 2015	Expenditures for Six Months Ended June 30, 2015 (in millions)	Balance to Expend in 2015
East/Midwest	\$ 130.7	\$ 88.5	\$ 42.2
West	0.6	0.6	
Southern Plains	1.4	1.2	0.2
Total	\$ 132.7	\$ 90.3	\$ 42.4

On February 28, 2014, the Massachusetts Gaming Commission awarded the Company a Category Two slots-only gaming license, and on June 24, 2015, the Company opened Plainridge Park Casino in Plainville, Massachusetts. Plainridge Park Casino is a \$250 million (which is inclusive of a \$25 million increase to our original budget principally due to our decision to purchase rather than lease certain games and equipment) fully integrated racing and gaming facility featuring live harness racing and simulcasting with 1,250 gaming devices, various dining and entertainment options, structured and surface parking, and a two story clubhouse with approximately 55,000 square feet. As of June 30, 2015, total cumulative costs were \$220.1 million, which includes a \$25 million gaming license fee, which was paid in March 2014, and the acquisition of Plainridge Racecourse for \$42.4 million, which was paid in April 2014.

Hollywood Gaming at Mahoning Valley Race Course, with a \$161 million budget, inclusive of a \$75 million relocation fee and \$50 million license fee, opened on September 17, 2014. Hollywood Gaming at Dayton Raceway, with a \$165 million budget, inclusive of a \$75 million relocation fee and \$50 million license fee (both of which were recorded as an indefinite lived intangible asset), opened on August 28, 2014. The \$75 million relocation fee for each Ohio racetrack is based on the present value of the contractual obligation, of which \$7.5 million was paid upon opening, with 18 additional semi-annual payments of \$4.8 million due beginning one year after opening. For the license fee for each Ohio racetrack, we paid \$10 million in the second quarter of 2014 as well as \$15 million upon opening and will pay the remaining license fee of \$25 million on the one year anniversary of the commencement of gaming. As of June 30, 2015, Penn has incurred cumulative costs of \$71.8 million and \$64.0 million for the Mahoning Valley facility and the Dayton facility, respectively, which includes the payments made to date for the relocation fee and license fee previously mentioned. As part of the spin-off transaction that was effective November 1, 2013, GLPI was responsible for certain real estate related construction costs for the Mahoning Valley facility and the Dayton facility, and as such, these facilities are now subject to the Master Lease.

During the six months ended June 30, 2015, we spent \$30.2 million for capital maintenance expenditures, with \$10.2 million at our East/Midwest segment, \$4.6 million at our West segment, \$13.3 million at our Southern Plains segment, and \$2.1 million for Other. The majority of the capital maintenance expenditures were for slot machines and slot machine equipment.

Cash generated from operations and cash available under the revolving credit facility portion of our senior secured credit facility funded our capital projects, capital maintenance expenditures and the Jamul Tribe project in 2015 to date.

Jamul Tribe

A note receivable to the Jamul Tribe, which totaled \$108.1 million at June 30, 2015, is accounted for as a loan and as such is not included in the capital expenditures table presented above. The budget for this development project recently increased by \$30 million to \$390 million. We are also exploring other financing options to provide more permanent, lower cost terms for the Jamul Tribe. We expect the project to be completed in mid-2016 which will include the construction of a three-story gaming and entertainment facility of approximately 200,000 square feet

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

featuring over 1,700 slot machines, 43 live table games, including poker, multiple restaurants, bars and lounges and a partially enclosed parking structure with over 1,800 spaces.

Senior Secured Credit Facility

The senior secured credit facility consists of a five year \$500 million revolver, a five year \$500 million Term Loan A facility, and a seven year \$250 million Term Loan B facility. At June 30, 2015, the Company's senior secured credit facility had a gross outstanding balance of \$813.8 million, consisting of a \$462.5 million Term Loan A facility, a \$246.3 million Term Loan B facility, and \$105.0 million outstanding on the revolving credit facility. Additionally, at June 30, 2015, the Company had conditional obligations under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating \$22.9 million, resulting in \$372.1 million of available borrowing capacity as of June 30, 2015 under the revolving credit facility.

Table of Contents

Other Long Term Obligations

Other long term obligations at June 30, 2015 of \$150.3 million included \$135.0 million related to the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course and \$15.3 million related to the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg; all of which are more fully described below.

In June 2013, the Company finalized the terms of its memorandum of understanding with the State of Ohio, which included an agreement by the Company to pay a relocation fee in return for being able to relocate its existing racetracks in Toledo and Grove City to Dayton and Mahoning Valley, respectively. Upon opening of these two racinos in Ohio in the third quarter of 2014, the relocation fee for each new racino was recorded at the present value of the contractual obligation, which was calculated to be \$75 million based on the 5% discount rate included in the agreement. The relocation fee for each facility is payable as follows: \$7.5 million upon the opening of the facility and eighteen semi-annual payments of \$4.8 million beginning one year from the commencement of operations. This obligation is accreted to interest expense at an effective yield of 5.0%. The amount included in interest expense related to this obligation was \$3.4 million for the six months ended June, 2015.

The City of Lawrenceburg Department of Redevelopment recently completed construction of a hotel and event center located less than a mile away from Hollywood Casino Lawrenceburg. Effective in mid-January 2015, by contractual agreement, a repayment obligation for the hotel and event center was assumed by one of our wholly-owned subsidiaries in the amount of \$15.3 million, which was financed through a loan with the City of Lawrenceburg Department of Redevelopment. The Company is obligated to make annual payments on the loan of approximately \$1 million for twenty years beginning January 2016. This obligation is accreted to interest expense at its effective yield of 3.0%. The amount included in interest expense related to this obligation was \$0.2 million for the six months ended June 30, 2015.

Capital Leases

Capital leases are primarily comprised of a ten year corporate airplane lease that expires in August 2016, which has a ten year renewal option. The lease obligation has been recorded at the lessor's initial cost of the plane, which totaled \$24.9 million at both June 30, 2015 and December 31, 2014, respectively, since the agreement has broad based default provisions that could result in potential damages equal to this amount. The lease obligation was classified as a capital lease based on the provisions of ASC 840 Leases which requires that the remedies for events of default under the provision described in this scenario be included in the minimum lease payment calculation for purposes of lease classification and that the probability of such an event of default will occur is not relevant to this determination.

Financing Obligation with GLPI

As discussed in Note 3 and Note 8 to the condensed consolidated financial statements, the Company makes significant payments to GLPI under the Master Lease. As of June 30, 2015, the Company financed with GLPI real property assets associated with eighteen of the Company's gaming and related facilities used in the Company's operations.

Covenants

Our senior secured credit facility and \$300 million 5.875% senior unsecured notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, interest coverage, senior leverage and total leverage ratios. In addition, the Company's senior secured credit facility and \$300 million 5.875% senior unsecured notes restrict, among other things, its ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, engage in mergers or consolidations, and otherwise restrict corporate activities.

At June 30, 2015, we were in compliance with all required financial covenants. The Company has received a waiver through March 15, 2016, from its lenders under its senior secured credit facility to file its financial statements with the SEC through the quarter ended September 30, 2015. Additionally, starting on February 8, 2016, the Company is required to pay an additional 25 basis points annually under its \$300 million senior unsecured notes until the Company becomes current with its SEC filings.

Outlook

The spin-off transaction with GLPI will continue to have a material impact on our results of operations, capital structure and management. For a discussion of these impacts, see "Spin-Off of Real Estate Assets through a Real Estate Assets through a Real Estate Investment Trust" and "Risk Factors" in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2014. Based on our current level of operations, we believe that cash generated from operations and cash on hand, together with amounts available under our senior secured credit facility, will be adequate to meet our anticipated rental obligation, debt service

Table of Contents

requirements, capital expenditures and working capital needs for the foreseeable future. However, we cannot be certain that our business will generate sufficient cash flow from operations, that our anticipated earnings projections will be realized, or that future borrowings will be available under our senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the senior secured credit facility and the \$300 million 5.875% senior unsecured notes, to retire or redeem the \$300 million 5.875% senior unsecured notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, greenfield projects, jurisdictional expansions and property expansion in under-penetrated markets. On April 29, 2015, we announced our agreement to acquire Tropicana Las Vegas for a purchase price of \$360 million. The purchase price will be funded by revolving commitments under our existing senior secured credit facility and additional loans and revolving commitments under an amended senior secured credit facility that we estimate will total approximately \$280 million. The acquisition is expected to close later this year, subject to the timing of regulatory approvals and other closing conditions. If we consummate other significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See Risk Factors Risks Related to Our Capital Structure in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2014 for a discussion of the risk related to our capital structure.

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage to pursue opportunities in the marketplace and in an effort to maximize our enterprise value for our shareholders. We expect to meet our debt obligations as they come due through internally generated funds from operations and/or refinancing them through the debt or equity markets prior to their maturity.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at June 30, 2015 about our financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents notional amounts maturing during the period and the related weighted-average interest rates by maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged by maturity date and the weighted-average interest rates are based on implied forward LIBOR rates at June 30, 2015.

	07/01/15 - 06/30/16	07/01/16 - 06/30/17	07/01/17 - 06/30/18	07/01/18 - 06/30/19	07/01/19 - 06/30/20	Thereafter	Total	Fair Value 06/30/15
(in thousands)								
<u>Long-term debt:</u>								
Fixed rate	\$	\$	\$	\$	\$	\$ 300,000	\$ 300,000	\$ 300,000
Average interest rate						5.88%		
Variable rate	\$ 33,750	\$ 46,250	\$ 52,500	\$ 445,000	\$ 2,500	\$ 233,750	\$ 813,750	\$ 805,901
Average interest rate (1)	4.00%	4.15%	4.23%	4.32%	5.14%	4.37%		

(1) Estimated rate, reflective of forward LIBOR plus the spread over LIBOR applicable to variable-rate borrowing.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

Prior to the filing of the Original Filing, the Company's management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2015, and concluded that the disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2015. Subsequent to this evaluation, as described below, our principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2015 to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the United States Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

As disclosed in Item 9A of the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014, filed concurrently with this Form 10-Q/A, the Company did not maintain effective controls and procedures over the evaluation and accounting of certain complex and non-routine transactions including lease transactions. Specifically, we did not maintain a sufficient

Table of Contents

complement of personnel with an appropriate level of knowledge and experience to challenge our application of GAAP commensurate with the nature and complexity of certain of our transactions to prevent or detect and correct material misstatements in a timely manner. In addition, we did not maintain effective controls and procedures over the calculation of impairment charges for goodwill and indefinite-lived intangible assets. Specifically, our review controls were not designed with a sufficient level of precision and executed by personnel with an appropriate level of experience to detect material errors in the methodologies used and in the calculation of the impairment charges that were recognized in our consolidated financial statements. As disclosed in Note 2 to the condensed consolidated financial statements included within this quarterly report, these material weaknesses resulted in material misstatements in our previously issued consolidated financial statements as of and for the three months and six months ended June 30, 2015 and 2014, and as of December 31, 2014.

Management became aware of these material weaknesses in internal control over financial reporting and took immediate actions to remediate the material weaknesses. The Company has initiated a compensating control over the proper application of GAAP to complex and non-routine transactions, which includes the involvement of a third party consultant with relevant knowledge and experience to assist the Company with the evaluation of the accounting for highly technical accounting matters. The Company currently expects to have this material weakness remediated no later than December 31, 2016, once we have obtained sufficient evidence that the newly designed and implemented controls are operating effectively.

With respect to the material weakness over the accounting for goodwill and indefinite-lived intangible impairment measurement, the Company has designed and implemented additional controls during 2015. This includes the involvement of a third party consultant to provide the Company with the appropriate level of expertise to assist in the review of the assessment at a sufficient level of precision. The Company currently expects to have this material weakness remediated no later than December 31, 2016, once we have obtained sufficient evidence that the newly designed and implemented controls are operating effectively.

Changes in Internal Control over Financial Reporting

Except as noted in the preceding paragraphs, there were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q/A that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Information in response to this Item is incorporated by reference to the information set forth in Note 9: Commitments and Contingencies in the Notes to the condensed consolidated financial statements in Part I of this Quarterly Report on Form 10-Q/A.

ITEM 1A RISK FACTORS

We are not aware of any material changes to the risk factors described in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2014.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
April 1, 2015 - April 30, 2015	46	\$ 16.77	N/A	N/A
May 1, 2015 - May 31, 2015			N/A	N/A
June 1, 2015 - June 30, 2015	23	16.78	N/A	N/A

Table of Contents

(1) The shares repurchased in the table above represent repurchases of shares from employees who surrendered a portion of their shares received through the Company's stock-based compensation plans to cover their associated minimum income tax withholding obligations.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

Exhibit	Description of Exhibit
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Operations for the three months ended June 30, 2015 and 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2015 and 2014, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 and (vi) the notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PENN NATIONAL GAMING, INC.

March 7, 2016

By:

/s/ Timothy J. Wilmott
Timothy J. Wilmott
Chief Executive Officer and President

Table of Contents

EXHIBIT INDEX

Exhibit	Description of Exhibit
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014, (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2015 and 2014, (v) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 and (vi) the notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.