

PENN NATIONAL GAMING INC

Form 10-Q

August 04, 2017

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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)

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

Pennsylvania	23-2234473
(State or other jurisdiction of incorporation or organization)	(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)
-------------------------	-------------------	-----------------------	--

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

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 28, 2017
Common Stock, par value \$.01 per share	91,336,780 (includes 277,028 shares of restricted stock)

Table of Contents

Forward-looking Statements

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 “expects,” “believes,” “estimates,” “projects,” “intends,” “plans,” “seeks,” “may,” “will,” “should” or “anticipates” or the negative or other variations of similar words, or by discussions of future events, strategies or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning: our expectations of future results of operations and financial condition; expectations for our properties; the timing, cost and expected impact of planned capital expenditures on our results of operations; the impact of our geographic diversification; our expectations with regard to the impact of competition; our expectations with regard to further acquisitions and development opportunities, as well as the integration of any companies we have acquired or may acquire; the outcome and financial impact of the litigation in which we are or will be periodically involved; the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions; our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses; our expectations regarding economic and consumer conditions; and our expectations for the continued availability and cost of capital. As a result, actual results may vary materially from expectations. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that actual results will not differ materially from our expectations. Meaningful factors that could cause actual results to differ from expectations include, but are not limited to, risks related to the following: the assumptions included in our financial guidance; the ability of our operating teams to drive revenue and adjusted EBITDA margins; the impact of significant competition from other gaming and entertainment operations; our ability to obtain timely regulatory approvals required to own, develop and/or operate our facilities, or other delays, approvals or impediments to completing our planned acquisitions or projects, 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 or the award of additional gaming licenses proximate to 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, social, sweepstakes based and VGTs in bars and truck stops); increases in the effective rate of taxation for any of our operations 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 impact of weather; changes in accounting standards; the risk of failing to maintain the integrity of our information technology infrastructure and safeguard our business, employee and customer data; factors which may cause the Company to curtail or suspend the share repurchase program; our ability to generate sufficient future taxable income to realize our deferred tax assets; with respect to Hollywood Casino Jamul-San Diego, particular risks associated with the repayment, default or subordination of our loans to the Jamul Indian Village Development Corporation (“JIV”), the subordination of our management and intellectual property license fees (including the prohibition on payment of those fees during any default under JIV’s credit facilities), sovereign immunity, local opposition (including several pending lawsuits), access, and the impact of well-established regional competition on property performance; with respect to our Plainridge Park Casino in Massachusetts, the ultimate location and timing of the other gaming facilities in the state and the region; with respect to our social and other interactive gaming endeavors, including our acquisition of Rocket Speed, Inc., risks related to the social gaming industry, employee retention, cyber-security, data privacy, intellectual property and legal and regulatory challenges, as well as our ability to successfully develop innovative new games that attract and retain a significant number of players in order to grow our revenues and earnings; with respect to Illinois Gaming Investors,

LLC, d/b/a Prairie State Gaming, risks relating to potential acquisitions and the integration of such acquisitions, our ability to successfully compete in the VGT market, our ability to retain existing customers and secure new customers, risks relating to municipal authorization of VGT operations and the implementation and the ultimate success of the products and services being offered; with respect to our recent acquisitions in Tunica, Mississippi, risks related to the successful integration of such acquisitions and our ability to realize potential synergies or projected financial results from such acquisitions; and other factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, each as filed with the United States Securities and Exchange Commission. The Company does not intend to update publicly any forward-looking statements except as required by law.

Table of Contents

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	4
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS (Unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets – June 30, 2017 and December 31, 2016</u>	4
	<u>Condensed Consolidated Statements of Income —Three and Six Months Ended June 30, 2017 and 2016</u>	5
	<u>Condensed Consolidated Statements of Comprehensive Income — Three and Six Months Ended June 30, 2017 and 2016</u>	6
	<u>Condensed Consolidated Statements of Changes in Shareholders’ Deficit — Six Months Ended June 30, 2017 and 2016</u>	7
	<u>Condensed Consolidated Statements of Cash Flows — Six Months Ended June 30, 2017 and 2016</u>	8
	<u>Notes to the Condensed Consolidated Financial Statements</u>	9
<u>ITEM 2.</u>	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	26
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	43
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	44
<u>PART II.</u>	<u>OTHER INFORMATION</u>	45
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	45
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	45
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	45
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	45
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	45
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	45
<u>ITEM 6.</u>	<u>EXHIBITS</u>	45
	<u>SIGNATURES</u>	47
	<u>EXHIBIT INDEX</u>	48

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 224,399	\$ 229,510
Receivables, net of allowance for doubtful accounts of \$3,118 and \$3,180 at June 30, 2017 and December 31, 2016, respectively	48,984	61,855
Prepaid expenses	48,213	59,707
Other current assets	51,957	48,193
Total current assets	373,553	399,265
Property and equipment, net	2,827,717	2,820,383
Other assets		
Investment in and advances to unconsolidated affiliates	152,913	156,176
Goodwill	1,025,887	989,685
Other intangible assets, net	430,332	435,494
Loans to the Jamul Tribe, net of reserves of \$5,635 at June 30, 2017 and \$0 at December 31, 2016	84,152	91,401
Other assets	89,465	82,080
Total other assets	1,782,749	1,754,836
Total assets	\$ 4,984,019	\$ 4,974,484
Liabilities		
Current liabilities		
Current portion of financing obligation to GLPI	\$ 61,302	\$ 56,595
Current maturities of long-term debt	35,675	85,595
Accounts payable	28,975	35,091
Accrued expenses	113,529	101,906
Accrued interest	13,096	6,345
Accrued salaries and wages	86,292	92,238
Gaming, pari-mutuel, property, and other taxes	56,757	60,384
Insurance financing	3,222	2,636
Other current liabilities	101,728	95,526
Total current liabilities	500,576	536,316

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

Long-term liabilities		
Long-term financing obligation to GLPI, net of current portion	3,506,053	3,457,485
Long-term debt, net of current maturities and debt issuance costs	1,303,023	1,329,939
Deferred income taxes	129,011	126,924
Noncurrent tax liabilities	27,062	26,791
Other noncurrent liabilities	35,819	40,349
Total long-term liabilities	5,000,968	4,981,488
Shareholders' deficit		
Series B Preferred stock (\$.01 par value, 1,000,000 shares authorized, no shares issued and outstanding at June 30, 2017 and December 31, 2016)	—	—
Series C Preferred stock (\$.01 par value, 18,500 shares authorized, no shares issued and outstanding at June 30, 2017 and December 31, 2016)	—	—
Common stock (\$.01 par value, 200,000,000 shares authorized, 93,507,060 and 93,289,701 shares issued, and 91,339,667 and 91,122,308 shares outstanding at June 30, 2017 and December 31, 2016, respectively)	934	932
Treasury stock, at cost (2,167,393 shares held at June 30, 2017 and December 31, 2016)	(28,414)	(28,414)
Additional paid-in capital	1,016,075	1,014,119
Retained deficit	(1,503,098)	(1,525,281)
Accumulated other comprehensive loss	(3,022)	(4,676)
Total shareholders' deficit	(517,525)	(543,320)
Total liabilities and shareholders' deficit	\$ 4,984,019	\$ 4,974,484

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Gaming	\$ 680,979	\$ 663,326	\$ 1,342,235	\$ 1,320,027
Food, beverage, hotel and other	152,148	144,390	299,889	282,238
Management service and licensing fees	2,932	2,964	5,259	5,437
Reimbursable management costs	6,387	2,855	13,145	2,855
Revenues	842,446	813,535	1,660,528	1,610,557
Less promotional allowances	(45,983)	(44,113)	(87,841)	(84,684)
Net revenues	796,463	769,422	1,572,687	1,525,873
Operating expenses				
Gaming	345,156	339,201	677,209	674,518
Food, beverage, hotel and other	105,231	101,873	206,306	199,952
General and administrative	130,096	109,974	255,911	226,478
Reimbursable management costs	6,387	2,855	13,145	2,855
Depreciation and amortization	68,969	66,182	139,205	132,202
Impairment losses on Loans to the Jamul Tribe	5,635	—	5,635	—
Total operating expenses	661,474	620,085	1,297,411	1,236,005
Income from operations	134,989	149,337	275,276	289,868
Other income (expenses)				
Interest expense	(116,768)	(114,687)	(231,764)	(231,199)
Interest income	235	6,597	2,881	11,837
Income from unconsolidated affiliates	5,021	3,548	9,569	8,157
Loss on early extinguishment of debt	—	—	(23,390)	—
Other	(173)	44	(1,966)	(2,382)
Total other expenses	(111,685)	(104,498)	(244,670)	(213,587)
Income from operations before income taxes	23,304	44,839	30,606	76,281
Income tax provision	6,225	10,804	8,423	18,538
Net income	\$ 17,079	\$ 34,035	\$ 22,183	\$ 57,743
Earnings per common share:				
Basic earnings per common share	\$ 0.19	\$ 0.38	\$ 0.24	\$ 0.64
Diluted earnings per common share	\$ 0.18	\$ 0.37	\$ 0.24	\$ 0.63

See accompanying notes to the condensed consolidated financial statements.

5

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(in thousands) (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 17,079	\$ 34,035	\$ 22,183	\$ 57,743
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment during the period	1,217	(40)	1,654	1,272
Other comprehensive income (loss)	1,217	(40)	1,654	1,272
Comprehensive income	\$ 18,296	\$ 33,995	\$ 23,837	\$ 59,015

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' Deficit

(in thousands, except share data) (unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained (Deficit)	Accumulated Other Comprehensive (Loss)	Total Shareholders' Deficit
Balance, December 31, 2015	8,624	\$ —	80,889,275	\$ 830	\$ (28,414)	\$ 988,686	\$ (1,634,591)	\$ (4,554)	\$ (678,043)
Share-based compensation arrangements, net of tax benefits of	—	—	730,483	7	—	12,097	—	—	12,104
Foreign currency translation adjustment	—	—	—	—	—	—	—	1,272	1,272
Conversion of preferred stock	(1,177)	—	1,177,000	12	—	(12)	—	—	—
Net income	—	—	—	—	—	—	57,743	—	57,743
Balance, June 30, 2016	7,447	\$ —	82,796,758	\$ 849	\$ (28,414)	\$ 1,000,771	\$ (1,576,848)	\$ (3,282)	\$ (606,924)
Balance, December 31, 2016	—	\$ —	91,122,308	\$ 932	\$ (28,414)	\$ 1,014,119	\$ (1,525,281)	\$ (4,676)	\$ (543,320)
Share purchases	—	—	(416,886)	(4)	—	(5,790)	—	—	(5,794)
Share-based compensation arrangements	—	—	634,245	6	—	7,746	—	—	7,752
Foreign currency translation adjustment	—	—	—	—	—	—	—	1,654	1,654
Net income	—	—	—	—	—	—	22,183	—	22,183
Balance, June 30, 2017	—	\$ —	91,339,667	\$ 934	\$ (28,414)	\$ 1,016,075	\$ (1,503,098)	\$ (3,022)	\$ (517,525)

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Penn National Gaming, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands) (unaudited)

Six Months Ended June 30,	2017	2016
Operating activities		
Net income	\$ 22,183	\$ 57,743
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	139,205	132,202
Amortization of items charged to interest expense and interest income	3,275	3,701
Change in fair values of contingent purchase price	3,922	(1,081)
Loss/(gain) on sale of property and equipment and assets held for sale	7	(660)
Income from unconsolidated affiliates	(9,569)	(8,157)
Distributions from unconsolidated affiliates	13,000	13,350
Deferred income taxes	2,087	3,540
Charge for stock-based compensation	3,974	3,037
Impairment losses on Loans to the Jamul Tribe	5,635	—
Write off of debt issuance costs and discounts	5,377	—
Decrease (increase), net of businesses acquired		
Accounts receivable	7,378	(1,800)
Prepaid expenses and other current assets	(4,829)	(6,855)
Other assets	(2,876)	(321)
(Decrease) increase, net of businesses acquired		
Accounts payable	(3,929)	(6,025)
Accrued expenses	8,895	7,231
Accrued interest	6,751	(1,386)
Accrued salaries and wages	(9,177)	(17,927)
Gaming, pari-mutuel, property and other taxes	(3,997)	(7,601)
Income taxes	14,657	27,340
Other current and noncurrent liabilities	(6,063)	(2,293)
Net cash provided by operating activities	195,906	194,038
Investing activities		
Project capital expenditures	(14,673)	(10,991)
Maintenance capital expenditures	(28,287)	(32,543)
Proceeds for insurance claim	577	—
Loans to the Jamul Tribe	(372)	(102,220)
Principal and interest receipts applied against Loans to the Jamul Tribe	2,720	—
Proceeds from sale of property and equipment and assets held for sale	477	2,272
Consideration paid for acquisitions of businesses and other property and equipment, net of cash acquired	(126,653)	(280)
Net cash used in investing activities	(166,211)	(143,762)
Financing activities		
Proceeds from exercise of options	3,721	4,609

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

Repurchase of common stock	(5,794)	—
Principal payments on financing obligation with GLPI	(29,328)	(25,598)
Proceeds from issuance of long-term debt, net of issuance costs	1,370,797	24,204
Increase to financing obligation in connection with acquisition	82,603	—
Principal payments on long-term debt	(1,429,161)	(63,815)
Payments of other long-term obligations	(28,189)	(6,899)
Payments of contingent purchase price	(41)	—
Proceeds from insurance financing	8,768	9,524
Payments on insurance financing	(8,182)	(7,950)
Net cash used in financing activities	(34,806)	(65,925)
Net decrease in cash and cash equivalents	(5,111)	(15,649)
Cash and cash equivalents at beginning of year	229,510	237,009
Cash and cash equivalents at end of period	\$ 224,399	\$ 221,360
Supplemental disclosure		
Interest expense paid, net of amounts capitalized	\$ 222,641	\$ 229,979
Income tax refunds received	\$ (5,659)	\$ (12,133)
Non-cash investing activities		
Accrued capital expenditures	\$ 9,595	\$ 8,898
Accrued advances to Jamul Tribe	\$ 1,274	\$ 38,775

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 racing facilities and video gaming terminal operations with a focus on slot machine entertainment. We have also expanded into social online gaming offerings via our Penn Interactive Ventures, LLC (“Penn Interactive Ventures”) division and our acquisition of Rocket Speed, Inc. (“Rocket Speed”) and into retail gaming with our Prairie State Gaming subsidiary. On May 1, 2017, we completed our acquisition of Bally’s Casino Tunica (“Bally’s”) and Resorts Casino Tunica (“Resorts”). In the first half of 2017, our subsidiary, Prairie State Gaming acquired the assets of two small video gaming terminal operators in Illinois. As of June 30, 2017, the Company owned, managed, or had ownership interests in twenty-nine facilities in the following seventeen jurisdictions: California, Florida, Illinois, Indiana, Kansas, Maine, 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 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.

Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2016 should be read in conjunction with these condensed consolidated financial statements. The December 31, 2016 financial information has been derived from the Company's audited consolidated financial statements.

2. 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 against 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.

Table of Contents

Food, beverage, hotel 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 ("OTWs").

Revenue from our management service contracts for Casino Rama and Hollywood Casino Jamul – San Diego are based upon contracted terms and are recognized when services are performed and collection is reasonably assured.

The Company records revenues generated from its management service contract and licensing contract with the Jamul Indian Village of California (the "Jamul Tribe") in accordance with ASC 605-25 "Multiple Element Arrangements." The fair value of each arrangement element is based on the separate standalone selling price determined by either vendor-specific objective evidence ("VSOE"), if available, or third-party evidence ("TPE") if VSOE is not available. We concluded revenues generated with respect to each element contained within the arrangement is representative of the separate standalone selling price which is reflective of fair value.

Revenues include reimbursable costs associated with the Company's management contract with the Jamul Tribe, which represent amounts received or due pursuant to the Company's management agreement for the reimbursement of expenses, primarily payroll costs, incurred on their behalf. The Company recognizes the reimbursable costs associated with this contract as revenue on a gross basis, with an offsetting amount charged to operating expense as it is the primary obligor for these costs.

Revenues are recognized net of certain sales incentives in accordance with 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, 2017 and 2016 are as follows:

Three Months Ended June 30,	Six Months Ended June 30,
--------------------------------	------------------------------

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

	2017	2016	2017	2016
	(in thousands)			
Rooms	\$ 10,298	\$ 10,098	\$ 19,493	\$ 19,220
Food and beverage	33,386	31,796	63,953	61,318
Other	2,299	2,219	4,395	4,146
Total promotional allowances	\$ 45,983	\$ 44,113	\$ 87,841	\$ 84,684

The estimated cost of providing such complimentary services for the three and six months ended June 30, 2017 and 2016 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Rooms	\$ 1,480	\$ 1,349	\$ 2,736	\$ 2,546
Food and beverage	13,009	12,194	24,629	23,718
Other	972	911	1,811	1,655
Total cost of complimentary services	\$ 15,461	\$ 14,454	\$ 29,176	\$ 27,919

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

Table of Contents

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. For the three and six months ended June 30, 2017, these expenses, which are recorded primarily within gaming expense in the condensed consolidated statements of income, were \$252.5 million and \$498.9 million, as compared to \$248.8 million and \$494.5 million for the three and six months ended June 30, 2016.

Long-term asset related to the Jamul Tribe

The Company is accounting for its term loan C and related \$15 million delayed draw commitments with the Jamul Tribe as a loans (the "Loan") in accordance with ASC 310, "Receivables." The Loan represents advances made by the Company to the Jamul Tribe for the development and construction of Hollywood Casino Jamul-San Diego for the Jamul Tribe on reservation land. As such, the Jamul Tribe owns the casino and its related assets and liabilities. Repayment of the Loan is primarily predicated on cash flows from the operations of the facility.

Although Hollywood Casino Jamul San-Diego opened to strong business and earnings volumes in October 2016, which met our expectations, results began to soften earlier and with a steeper dropoff than anticipated. As a result, we concluded the Loan was impaired at December 31, 2016. A loan i