

Gaming & Leisure Properties, Inc.
Form 10-Q
November 07, 2014
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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 September 30, 2014

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: 001-36124
Gaming and Leisure Properties, Inc.
(Exact name of registrant as specified in its charter)
Pennsylvania
(State or other jurisdiction of
incorporation or organization)

46-2116489
(I.R.S. Employer
Identification No.)

825 Berkshire Blvd., Suite 400
Wyomissing, PA 19610
(Address of principal executive offices) (Zip Code)

610-401-2900
(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

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Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date

Title	Outstanding as of November 4, 2014
Common Stock, par value \$.01 per share	112,446,798

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Forward-looking statements in this document are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Gaming and Leisure Properties, Inc. (“GLPI”) and its subsidiaries (collectively, the “Company”) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include information concerning the Company’s business strategy, plans, and goals and objectives.

Statements preceded by, followed by or that otherwise include the words “believes,” “expects,” “anticipates,” “intends,” “projects,” “estimates,” “plans,” “may increase,” “may fluctuate,” and similar expressions or future or conditional verbs such as “will,” “should,” “would,” “may” and “could” are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

• the ability to receive, or delays in obtaining, the regulatory approvals required to own, develop and/or operate our properties, or other delays or impediments to completing our planned acquisitions or projects;

• the outcome of our lawsuit against Cannery Casino Resorts LLC (“CCR”), the owner of the Meadows Racetrack and Casino, alleging among other things, fraud, breach of the agreement and breach of the related consulting agreement;

• the resolution of our jointly requested Pre-Filing Agreement from the IRS to confirm the appropriate allocation of Penn’s historical earnings and profits between GLPI and Penn; the outcome of this request will affect the amount of the dividend required to be paid by GLPI to its shareholders prior to December 31, 2014;

• our ability to qualify as a real estate investment trust (“REIT”), given the highly technical and complex Internal Revenue Code (“Code”) provisions for which only limited judicial and administrative authorities exist, where even a technical or inadvertent violation could jeopardize REIT qualification and where requirements may depend in part on the actions of third parties over which the Company has no control or only limited influence;

• the satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis in order for the Company to maintain its intended election of REIT status;

• the ability and willingness of our tenants, operators and other third parties to meet and/or perform their obligations under their respective contractual arrangements with us, including, in some cases, their obligations to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities;

• the ability of our tenants and operators to maintain the financial strength and liquidity necessary to satisfy their respective obligations and liabilities to third parties, including without limitation obligations under their existing credit facilities and other indebtedness;

• the ability of our tenants and operators to comply with laws, rules and regulations in the operation of our properties, to deliver high quality services, to attract and retain qualified personnel and to attract customers;

• the availability and the ability to identify suitable and attractive acquisition and development opportunities and the ability to acquire and lease the respective properties on favorable terms;

• the degree and nature of our competition;

• the ability to generate sufficient cash flows to service our outstanding indebtedness;

• the access to debt and equity capital markets;

fluctuating interest rates;

the availability of qualified personnel and our ability to retain our key management personnel;

GLPI's duty to indemnify Penn National Gaming, Inc. and its subsidiaries ("Penn") in certain circumstances if the spin-off transaction described in Note 1 to the condensed consolidated financial statements fails to be tax-free;

- changes in the United States tax law and other state, federal or local laws, whether or not specific to real estate, real estate investment trusts or to the gaming, lodging or hospitality industries;

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• changes in accounting standards;

• the impact of weather events or conditions, natural disasters, acts of terrorism and other international hostilities, war or political instability;

• other risks inherent in the real estate business, including potential liability relating to environmental matters and illiquidity of real estate investments; and

additional factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as filed with the United States Securities and Exchange Commission.

Certain of these factors and other factors, risks and uncertainties are discussed in the "Risk Factors" section in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. Other unknown or unpredictable factors may also cause actual results to differ materially from those projected by the forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond the control of the Company.

You should consider the areas of risk described above, as well as those set forth in the "Risk Factors" section in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, in connection with considering any forward-looking statements that may be made by the Company generally. Except for the ongoing obligations of the Company to disclose material information under the federal securities laws, the Company does not undertake any obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required to do so by law.

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GAMING AND LEISURE PROPERTIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Gaming and Leisure Properties, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(amounts in thousands, except share data)

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Real estate investments, net	\$2,201,856	\$2,010,303
Property and equipment, used in operations, net	136,139	139,121
Cash and cash equivalents	31,334	285,221
Prepaid expenses	10,026	5,983
Deferred income taxes	2,267	2,228
Other current assets	37,726	17,367
Goodwill	75,521	75,521
Other intangible assets	9,577	9,577
Debt issuance costs, net of accumulated amortization of \$7,308 and \$1,270 at September 30, 2014 and December 31, 2013, respectively	41,146	46,877
Loan receivable	35,000	—
Other assets	14,845	17,041
Total assets	\$2,595,437	\$2,609,239
Liabilities		
Accounts payable	\$18,448	\$21,397
Accrued expenses	6,199	13,783
Accrued interest	42,415	18,055
Accrued salaries and wages	10,661	10,337
Gaming, property, and other taxes	32,561	18,789
Income taxes	—	17,256
Other current liabilities	15,269	12,911
Long-term debt	2,546,000	2,350,000
Deferred income taxes	1,783	4,282
Total liabilities	2,673,336	2,466,810
Shareholders' (deficit) equity		
Common stock (\$.01 par value, 550,000,000 shares authorized, 112,432,245 and 88,659,448 shares issued at September 30, 2014 and December 31, 2013, respectively)	1,124	887
Additional paid-in capital	874,435	3,651
Retained (deficit) earnings	(953,458)	) 137,891
Total shareholders' (deficit) equity	(77,899)	) 142,429
Total liabilities and shareholders' (deficit) equity	\$2,595,437	\$2,609,239

See accompanying notes to the condensed consolidated financial statements.

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Gaming and Leisure Properties, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended September		Nine Months Ended September	
	30,		30,	
	2014	2013	2014	2013
Revenues				
Rental	\$107,326	\$—	\$320,738	\$—
Real estate taxes paid by tenants	12,512	—	36,956	—
Total rental revenue	119,838	—	357,694	—
Gaming	36,473	38,129	114,677	123,508
Food, beverage and other	3,015	2,984	8,934	9,573
Total revenues	159,326	41,113	481,305	133,081
Less promotional allowances	(1,531)	) (1,480	) (4,396	) (4,727
Net revenues	157,795	39,633	476,909	128,354
Operating expenses				
Gaming	20,504	21,701	64,233	69,182
Food, beverage and other	2,471	2,690	7,526	8,240
Real estate taxes	12,929	413	38,208	1,225
General and administrative	17,743	5,553	58,215	17,316
Depreciation	26,526	3,611	79,397	10,826
Total operating expenses	80,173	33,968	247,579	106,789
Income from operations	77,622	5,665	229,330	21,565
Other income (expenses)				
Interest expense	(29,378)	) —	(87,460)) —
Interest income	623	—	1,837	1
Management fee	—	(1,189)	) —	(3,850)
Total other expenses	(28,755)	) (1,189)	) (85,623)	) (3,849)
Income before income taxes	48,867	4,476	143,707	17,716
Income tax (benefit) expense	(1,035)	) 1,795	2,481	7,122
Net income	\$49,902	\$2,681	\$141,226	\$10,594
Earnings per common share:				
Basic earnings per common share	\$0.44	\$0.02	\$1.26	\$0.10
Diluted earnings per common share	\$0.42	\$0.02	\$1.20	\$0.09
Dividends paid per common share	\$0.52	\$—	\$1.56	\$—

See accompanying notes to the condensed consolidated financial statements.

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Gaming and Leisure Properties, Inc. and Subsidiaries
 Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)
 (in thousands, except share data)
 (unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Balance, December 31, 2013	88,659,448	\$887	\$3,651	\$137,891	\$142,429
Stock option activity	1,636,137	15	27,549	—	27,564
Restricted stock activity	156,839	2	1,353	—	1,355
Dividends paid, including purging distribution	21,979,821	220	843,677	(1,232,575)	(388,678)
Distribution in connection with tax matter agreement	—	—	(1,795)	—	(1,795)
Net income	—	—	—	141,226	141,226
Balance, September 30, 2014	112,432,245	\$1,124	\$874,435	\$(953,458)	\$(77,899)

See accompanying notes to the condensed consolidated financial statements.

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Gaming and Leisure Properties, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

Nine months ended September 30,	2014	2013	
Operating activities			
Net income	\$141,226	\$10,594	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	79,397	10,826	
Amortization of debt issuance costs	6,038	—	
Losses (Gains) on sales of property	13	(31)
Deferred income taxes	(3,145	) (2,551)
Charge for stock-based compensation	8,623	—	
(Increase) decrease, Prepaid expenses and other current assets	(7,675	) (1,155)
Other assets	(1,237) —	
Increase (decrease), Accounts payable	(1,480	) 374	
Accrued expenses	(7,584	) (405)
Accrued interest	24,360	—	
Accrued salaries and wages	324	(579)
Gaming, pari-mutuel, property and other taxes	602	529	
Income taxes	(20,813	) (4,579)
Other current and noncurrent liabilities	2,358	185	
Net cash provided by operating activities	221,007	13,208	
Investing activities			
Capital project expenditures, net of reimbursements	(124,526	) (657)
Capital maintenance expenditures	(2,109	) (2,510)
Proceeds from sale of property and equipment	159	141	
Funding of loan receivable	(43,000) —	
Principal payments on loan receivable	8,000	—	
Acquisition of real estate	(140,730) —	
Net cash used in investing activities	(302,206	) (3,026)
Financing activities			
Net advances to Penn National Gaming, Inc.	—	(6,194)
Dividends paid	(388,678) —	
Proceeds from exercise of options	20,296	—	
Proceeds from issuance of long-term debt	228,000	—	
Financing costs	(306) —	
Payments of long-term debt	(32,000) —	
Net cash used in financing activities	(172,688	) (6,194)
Net decrease in cash and cash equivalents	(253,887	) 3,988	
Cash and cash equivalents at beginning of period	285,221	14,562	
Cash and cash equivalents at end of period	\$31,334	\$18,550	

See accompanying notes to the condensed consolidated financial statements.

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Gaming and Leisure Properties, Inc.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Operations

On November 15, 2012, Penn announced that it intended to pursue a plan to separate the majority of its operating assets and real property assets into two publicly traded companies including an operating entity, and, through a tax-free spin-off of its real estate assets to holders of its common and preferred stock, a newly formed publicly traded REIT, Gaming and Leisure Properties, Inc. (the “Spin-Off”).

GLPI (together with its subsidiaries, the “Company”) was incorporated on February 13, 2013, as a wholly-owned subsidiary of Penn. In connection with the Spin-Off, which was completed on November 1, 2013, Penn contributed to GLPI, through a series of internal corporate restructurings, substantially all of the assets and liabilities associated with Penn’s real property interests and real estate development business, as well as the assets and liabilities of Hollywood Casino Baton Rouge and Hollywood Casino Perryville, which are referred to as the “TRS Properties,” in a tax-free distribution. The Company intends to elect on its United States (“U.S.”) federal income tax return for its taxable year beginning on January 1, 2014 to be treated as a REIT and the Company, together with an indirectly wholly-owned subsidiary of the Company, GLP Holdings, Inc., intend to jointly elect to treat each of GLP Holdings, Inc., Louisiana Casino Cruises, Inc. and Penn Cecil Maryland, Inc. as a “taxable REIT subsidiary” (a “TRS”) effective on the first day of the first taxable year of GLPI as a REIT. As a result of the Spin-Off, GLPI owns substantially all of Penn’s former real property assets and leases back most of those assets to Penn for use by its subsidiaries, under a master lease, a “triple-net” operating lease with an initial term of 15 years with no purchase option, followed by four 5 year renewal options (exercisable by Penn) on the same terms and conditions (the “Master Lease”), and GLPI also owns and operates the TRS Properties through an indirect wholly-owned subsidiary, GLP Holdings, Inc.

Prior to the Spin-Off, GLPI and Penn entered into a Separation and Distribution Agreement setting forth the mechanics of the Spin-Off, certain organizational matters and other ongoing obligations of Penn and GLPI. Penn and GLPI or their respective subsidiaries, as applicable, also entered into a number of other agreements prior to the Spin-Off to provide a framework for the restructuring and for the relationships between GLPI and Penn after the Spin-Off.

GLPI’s primary business consists of acquiring, financing, and owning real estate property to be leased to gaming operators in “triple net” lease arrangements. As of September 30, 2014, GLPI’s portfolio consisted of 21 gaming and related facilities, which included the TRS Properties, the real property associated with 18 gaming and related facilities operated by Penn and the real property associated with the Casino Queen in East St. Louis, Illinois, that was acquired in January 2014. These facilities are geographically diversified across 12 states.

In connection with the Spin-Off, Penn allocated its accumulated earnings and profits (as determined for U.S. federal income tax purposes) for periods prior to the consummation of the Spin-Off between Penn and GLPI. In connection with its election to be taxed as a REIT for U.S. federal income tax purposes, GLPI declared a special dividend to its shareholders to distribute any accumulated earnings and profits relating to the real property assets and attributable to any pre-REIT years, including any earnings and profits allocated to GLPI in connection with the Spin-Off, to comply with certain REIT qualification requirements (the “Purging Distribution”). The Purging Distribution, which was paid on February 18, 2014, totaled approximately \$1.05 billion and was comprised of cash and GLPI common stock. GLPI and Penn have jointly requested a Pre-Filing Agreement from the Internal Revenue Service pursuant to Revenue Procedure 2009 -14 to confirm the appropriate allocation of Penn’s historical earnings and profits between GLPI and Penn. The outcome of this request will affect the amount of the dividend required to be paid by GLPI to its shareholders prior to December 31, 2014. See Note 9 for further details.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with 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 GLPI and its subsidiaries. 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

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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 nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2013 (our “Annual Report”) should be read in conjunction with these condensed consolidated financial statements. The December 31, 2013 financial information has been derived from the Company’s audited consolidated financial statements.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. ASU 2014-09 provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for annual reporting periods beginning after December 15, 2016 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements and internal revenue recognition policies.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014 -08”). This new standard raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures for both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under the new guidance, only disposals representing a strategic shift that will have a major effect on operations and financial results should be presented as discontinued operations. ASU 2014 -08 is effective for fiscal years beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in previously issued financial statements. The impact of the adoption of ASU 2014-08 on the Company’s results of operations, financial position, cash flows and disclosures will be based on the Company’s future disposal activity.

3. Summary of Significant Accounting Policies

Fair Value of Financial Instruments

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 senior unsecured notes and senior unsecured credit facility is estimated based on quoted prices in active markets and as such is a Level 1 measurement as defined under Accounting Standards Code (“ASC”) 820 “Fair Value Measurements and Disclosures.”

The estimated fair values of the Company's financial instruments are as follows (in thousands):

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	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$31,334	\$31,334	\$285,221	\$285,221
Financial liabilities:				
Long-term debt				
Senior unsecured credit facility	496,000	474,920	300,000	294,750
Senior notes	2,050,000	2,101,000	2,050,000	2,058,750

Comprehensive Income

Comprehensive income includes net income and all other non-owner changes in shareholders' equity during a period. The Company did not have any non-owner changes in shareholders' equity for the three and nine months ended September 30, 2014 and 2013, and comprehensive income for the three and nine months ended September 30, 2014 and 2013 was equivalent to net income for those time periods.

Revenue Recognition and Promotional Allowances

The Company recognizes rental revenue from tenants, including rental abatements, lease incentives and contractually fixed increases attributable to operating leases, on a straight-line basis over the term of the related leases when collectability is reasonably assured. Contingent rental income is recognized once the lessee achieves the specified target. Recognition of rental income commences when control of the facility has been transferred to the tenant. For facilities being jointly developed with the tenant, the Company retains control of the assets to be leased until operations commence and control is transferred to the tenant.

As of September 30, 2014, all but three of the Company's properties were leased to a subsidiary of Penn under the Master Lease. The obligations under the Master Lease are guaranteed by Penn and by most Penn subsidiaries that occupy and operate the facilities leased under the Master Lease. A default by Penn or its subsidiaries with regard to any facility will cause a default with regard to the Master Lease. In January 2014, GLPI completed the asset acquisition of Casino Queen in East St. Louis, Illinois. GLPI subsequently leased the property back to Casino Queen on a "triple net" basis on terms similar to those in the Master Lease.

The rent structure under the Master Lease with Penn includes a fixed component, a portion of which is subject to an annual 2% escalator if certain rent coverage ratio thresholds are met, and a component that is based on the performance of the facilities, which is adjusted, subject to certain floors (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 to rent, all properties under the Master Lease with Penn are required to pay the following: (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.

Additionally, in accordance with ASC 605, "Revenue Recognition," the Company records revenue for the real estate taxes paid by its tenants on the leased properties under the Master Lease with an offsetting expense in real estate taxes within the consolidated statement of income as the Company has concluded it is the primary obligor under the Master Lease.

Gaming revenue generated by the TRS Properties mainly consists of video lottery gaming revenue, and to a lesser extent, table game and poker revenue. Video lottery 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 gaming 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, outstanding counter checks (markers), and front money that are removed from the live gaming tables. Additionally, food and beverage revenue is recognized as services are performed.

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The following table discloses the components of gaming revenue within the condensed consolidated statements of income for the three and nine months months ended September 30, 2014 and 2013:

	Three Months Ended September		Nine Months Ended September	
	30, 2014	2013	30, 2014	2013
	(in thousands)		(in thousands)	
Video lottery	\$31,593	\$32,859	\$98,625	\$107,946
Table game	4,496	4,485	14,786	13,457
Poker	384	785	1,266	2,105
Total gaming revenue, net of cash incentives	\$36,473	\$38,129	\$114,677	\$123,508

Gaming revenue is 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 food and beverage and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The amounts included in promotional allowances for the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended		Nine Months Ended September	
	September 30, 2014	2013	2014	2013
	(in thousands)		(in thousands)	
Food and beverage	\$1,522	\$1,468	\$4,367	\$4,573
Other	9	12	29	154
Total promotional allowances	\$1,531	\$1,480	\$4,396	\$4,727

The estimated cost of providing such complimentary services, which is primarily included in food, beverage, and other expense, for the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended		Nine Months Ended September	
	September 30, 2014	2013	2014	2013
	(in thousands)		(in thousands)	
Food and beverage	\$711	\$748	\$2,147	\$2,207
Other	3	6	10	81
Total cost of complimentary services	\$714	\$754	\$2,157	\$2,288

Gaming and Admission Taxes

For the TRS Properties, the Company is subject to gaming and admission taxes based on gross gaming revenues in the jurisdictions in which it operates. The Company primarily recognizes gaming 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. At Hollywood Casino Baton Rouge, the gaming admission tax is based on graduated tax rates. The Company records gaming and admission taxes 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 nine months ended September 30, 2014, these expenses, which are primarily recorded within gaming expense in the condensed consolidated statements of income, totaled \$16.7 million and \$51.9 million, respectively, as compared to \$17.3 million and \$55.6 million for the three and nine months ended September 30, 2013, respectively.

Earnings Per Share

The Company calculates earnings per share (“EPS”) in accordance with ASC 260, “Earnings Per Share.” Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period, excluding net income attributable to participating securities (unvested restricted stock awards). Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options, unvested restricted shares and unvested performance-based restricted shares. Basic and diluted EPS for the three and nine months ended September 30, 2013 were retroactively restated for the number of GLPI basic and diluted shares outstanding immediately following the Spin-Off

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and to include the shares issued as part of the purging distribution dividend paid to its shareholders to distribute any accumulated earnings and profits relating to the real property assets and attributable to any pre-REIT years, including any earnings and profits allocated to GLPI in connection with the Spin-Off, to comply with certain REIT qualification requirements (the “Purging Distribution”).

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 nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended September 30, 2014		September 30, 2013	
	(in thousands)			
Determination of shares:				
Weighted-average common shares outstanding	112,377	110,582	111,836	110,582
Assumed conversion of dilutive employee stock-based awards	5,098	4,703	5,642	4,703
Assumed conversion of restricted stock	150	318	225	318
Assumed conversion of performance-based restricted stock awards	9	—	6	—
Diluted weighted-average common shares outstanding	117,634	115,603	117,709	115,603

The following table presents the calculation of basic and diluted EPS for the Company’s common stock for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014		September 30, 2013	
	(in thousands, except per share data)			
Calculation of basic EPS:				
Net income	\$49,902	\$2,681	\$141,226	\$10,594
Less: Net income allocated to participating securities	(208)	(10)	(591)	(40)
Net income attributable to common shareholders	\$49,694	\$2,671	\$140,635	\$10,554
Weighted-average common shares outstanding	112,377	110,582	111,836	110,582
Basic EPS	\$0.44	\$0.02	\$1.26	\$0.10
Calculation of diluted EPS:				
Net income	\$49,902	\$2,681	\$141,226	\$10,594
Diluted weighted-average common shares outstanding	117,634	115,603	117,709	115,603
Diluted EPS	\$0.42	\$0.02	\$1.20	\$0.09

Options to purchase 17,158 and 12,155 shares were outstanding during the three and nine months ended September 30, 2014, respectively, but were not included in the computation of diluted EPS because of being antidilutive. There were no outstanding options to purchase shares of common stock during the three and nine months ended September 30, 2013 that were not included in the computation of diluted EPS because of being antidilutive.

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 is estimated at the date of grant using the Black-Scholes option- pricing model.

Additionally, the cash-settled phantom stock units (“PSU”) entitle employees to receive cash based on the fair value of the Company’s common stock on the vesting date. These 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.”

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In addition, the Company's stock appreciation rights ("SAR") are accounted for as liability awards since they will be settled in cash. The fair value of these awards is calculated during each reporting period and estimated using the Black-Scholes option pricing model.

In connection with the Spin-Off of GLPI, employee stock options and cash settled stock appreciation rights of Penn were converted through the issuance of GLPI employee stock options and GLPI cash settled stock appreciation rights and an adjustment to the exercise prices of their Penn awards. The number of options and cash settled stock appreciation rights and the exercise price of each converted award was adjusted to preserve the same intrinsic value of the awards that existed immediately prior to the Spin-Off.

Holders of outstanding restricted stock awards and cash settled phantom stock unit awards received an additional share of restricted stock or cash settled phantom stock unit awards in GLPI common stock at the Spin-Off so that the intrinsic value of these awards were equivalent to those that existed immediately prior to the Spin-Off.

The adjusted options and SARs, as well as the restricted stock awards and PSUs, otherwise remain subject to their original terms, except that for purposes of the adjusted Penn awards (including in determining exercisability and the post-termination exercise period), continued service with GLPI following the distribution date shall be deemed continued service with Penn.

The unrecognized compensation relating to both Penn and GLPI's stock options, SARs, restricted stock awards and PSUs held by GLPI employees will be amortized to expense over the awards' remaining vesting periods.

As of September 30, 2014, there was \$3.8 million of total unrecognized compensation cost for stock options that will be recognized over the grants remaining weighted average vesting period of 1.10 years. For the three and nine months ended September 30, 2014, the Company recognized \$1.5 million and \$4.3 million, respectively of compensation expense associated with these awards. In addition, the Company also recognized \$3.2 million and \$9.7 million of compensation expense for the three and nine months ended September 30, 2014, relating to each of the first, second and third quarter \$0.52 per share dividends paid on vested employee stock options.

As of September 30, 2014, there was \$10.4 million of total unrecognized compensation cost for restricted stock awards that will be recognized over the grants remaining weighted average vesting period of 2.51 years. For the three and nine months ended September 30, 2014, the Company recognized \$1.1 million and \$2.6 million, respectively, of compensation expense associated with these awards.

The following table contains information on restricted stock award activity for the nine months ended September 30, 2014.

	Number of Award Shares	
Outstanding at December 31, 2013	419,067	
E&P Purge	106,261	
Granted	239,649	
Released	(237,618)
Canceled	(59,018)
Outstanding at September 30, 2014	468,341	

On April 25, 2014, the Company awarded market performance-based restricted stock awards with a three-year cliff vesting. The amount of restricted shares vested at the end of the three-year period will be determined based on the

Company's performance as measured against its peers. More specifically, the percentage of shares vesting at the end of the measurement period will be based on the Company's three-year total shareholder return measured against the three-year return of the MSCI US REIT index. The Company utilized a third party valuation firm to measure the fair value of the awards at grant date using the Monte Carlo model. As of September 30, 2014, there was \$10.4 million of total unrecognized compensation cost, which will be recognized over the awards remaining weighted average vesting period of 2.57 years for performance-based restricted stock awards. For the three and nine months ended September 30, 2014 the Company recognized \$1.1 million and \$1.8 million, respectively of compensation expense associated with these awards.

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As of September 30, 2014, there was \$5.9 million of total unrecognized compensation cost, which will be recognized over the awards remaining weighted average vesting period of 1.91 years, for Penn and GLPI PSUs held by GLPI employees that will be cash-settled by GLPI. For the three and nine months ended September 30, 2014, the Company recognized \$0.5 million and \$1.6 million, respectively of compensation expense associated with these awards. In addition, the Company also recognized \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2014, respectively relating to the purging distribution dividend and the first, second and third quarter \$0.52 per share dividends paid on unvested PSUs.

As of September 30, 2014, there was \$0.3 million of total unrecognized compensation cost, which will be recognized over the grants remaining weighted average vesting period of 1.44 years, for Penn and GLPI SARs held by GLPI employees that will be cash-settled by GLPI. For the three and nine months ended September 30, 2014, the Company recognized \$38 thousand and \$59 thousand, respectively of compensation expense associated with these awards.

Upon the declaration of the Purging Distribution, GLPI options and GLPI SARs were adjusted in a manner that preserved both the pre-distribution intrinsic value of the options and SARs and the pre-distribution ratio of the stock price to exercise price that existed immediately before the Purging Distribution. Additionally, upon declaration of the Purging Distribution, holders of GLPI PSUs were credited with the special dividend, which will accrue and be paid, if applicable, on the vesting date of the related PSU. Holders of GLPI restricted stock were entitled to receive the special dividend with respect to such restricted stock on the same date or dates that the special dividend was payable on GLPI common stock to shareholders of GLPI generally.

Segment Information

Consistent with how the Company's Chief Operating Decision Maker reviews and assesses the Company's financial performance, the Company has two reportable segments, GLP Capital, L.P. (a wholly-owned subsidiary of GLPI through which GLPI owns substantially all of its assets) ("GLP Capital") and the TRS Properties. The GLP Capital reportable segment consists of the leased real property and represents the majority of the Company's business. The TRS Properties reportable segment consists of Hollywood Casino Perryville and Hollywood Casino Baton Rouge. See Note 10 for further information with respect to the Company's segments.

4. Acquisitions

In January 2014, the Company completed the asset acquisition of the real property associated with the Casino Queen in East St. Louis, Illinois for \$140.7 million, including transaction fees of \$0.7 million. Simultaneously with the acquisition, GLPI also provided Casino Queen with a \$43 million, five year term loan at 7% interest, pre-payable at any time, which, together with the sale proceeds, completely refinanced and retired all of Casino Queen's outstanding long-term debt obligations. As of September 30, 2014, principal and interest payments reduced the balance of this loan to \$35.0 million. GLPI leased the property back to Casino Queen on a "triple net" basis on terms similar to those in the Master Lease and will result in approximately \$14 million in annual rent. The lease has an initial term of 15 years, and the tenant has an option to renew it at the same terms and conditions for four successive five year periods. On May 14, 2014, the Company announced that it had entered into an agreement with CCR to acquire The Meadows Racetrack and Casino located in Washington, Pennsylvania, a suburb of Pittsburgh, Pennsylvania. The agreement provides that closing of the acquisition is subject to, among other things, the accuracy of CCR's representations and its compliance with the covenants set forth in the agreement, as well as the approval of the Pennsylvania Gaming Control Board and Pennsylvania Racing Commission. On October 27, 2014, the Company filed a lawsuit in the Southern District of New York against CCR alleging, among other things, fraud, breach of the agreement and breach of the related consulting agreement entered into at the same time. The Company is seeking a declaratory judgment that CCR has breached the agreements, return of \$10 million paid pursuant to the consulting agreement and an unspecified amount of additional damages. The Company will further evaluate and consider all other remedies available to it,

including termination of the agreements.

Although the Company intends to pursue its claims vigorously, there can be no assurances that the Company will prevail on any of the claims in the action, or, if the Company does prevail on one or more of the claims, of the amount of recovery that may be awarded to the Company for such claim(s). In addition, the timing and resolution of the claims set forth in the lawsuit are unpredictable and the Company is not able to currently predict any effect this suit may have on closing of the transaction.

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5. Real Estate Investments

Real estate investments, net, represents investments in 19 properties and is summarized as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Land and improvements	\$454,175	\$382,581
Building and improvements	2,287,853	2,050,533
Construction in progress	1,214	61,677
Total real estate investments	2,743,242	2,494,791
Less accumulated depreciation	(541,386)	(484,488)
Real estate investments, net	\$2,201,856	\$2,010,303

The decrease in construction in progress and related increase in building and improvements is primarily due to the placement of the Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley assets into service upon commencement of operations on August 28, 2014 and September 17, 2014, respectively. Both properties were jointly developed with Penn and were added to the Master Lease upon commencement of operations. The Company's acquisition of the real estate assets of Casino Queen for \$140.7 million in January 2014 also contributed to the increase in building and improvements, as well as land and improvements.

6. Property and Equipment Used in Operations

Property and equipment used in operations, net, consists of the following and primarily represents the assets utilized in the TRS:

	September 30, 2014	December 31, 2013
	(in thousands)	
Land and improvements	\$31,586	\$27,586
Building and improvements	116,469	115,888
Furniture, fixtures, and equipment	103,100	101,288
Construction in progress	490	203
Total property and equipment	251,645	244,965
Less accumulated depreciation	(115,506)	(105,844)
Property and equipment, net	\$136,139	\$139,121

7. Long-term Debt

Long-term debt is as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Senior unsecured credit facility	\$496,000	\$300,000
\$550 million 4.375% senior unsecured notes due November 2018	550,000	550,000
\$1,000 million 4.875% senior unsecured notes due November 2020	1,000,000	1,000,000
\$500 million 5.375% senior unsecured notes due November 2023	500,000	500,000
	\$2,546,000	\$2,350,000

The following is a schedule of future minimum repayments of long-term debt as of September 30, 2014 (in thousands):

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2014	\$—
2015	—
2016	—
2017	—
2018	1,046,000
Thereafter	1,500,000
Total minimum payments	\$2,546,000

The Company participates in a \$1,000.0 million senior unsecured credit facility (the “Credit Facility”), consisting of a \$700.0 million revolving credit facility and a \$300.0 million Term Loan A facility. The Credit Facility matures on October 28, 2018. At September 30, 2014, the Credit Facility had a gross outstanding balance of \$496 million, consisting of the \$300 million Term Loan A facility and \$196 million of borrowings under the revolving credit facility. Additionally, at September 30, 2014, the Company was contingently obligated under letters of credit issued pursuant to the senior unsecured credit facility with face amounts aggregating approximately \$744 thousand, resulting in \$503.3 million of available borrowing capacity under the revolving credit facility as of September 30, 2014.

The Credit Facility contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of GLPI and its subsidiaries, to grant liens on their assets, incur indebtedness, sell assets, make investments, engage in acquisitions, mergers or consolidations or pay certain dividends and other restricted payments. The Credit Facility contains the following financial covenants, which are measured quarterly on a trailing four-quarter basis: a maximum total debt to total asset value ratio, a maximum senior secured debt to total asset value ratio, a maximum ratio of certain recourse debt to unencumbered asset value and a minimum fixed charge coverage ratio. In addition, GLPI is required to maintain a minimum tangible net worth. GLPI is required to maintain its status as a REIT on and after the effective date of its election to be treated as a REIT, which election GLPI intends to make on its U.S. federal income tax return for its 2014 fiscal year. GLPI is permitted to pay dividends to its shareholders as may be required in order to maintain REIT status, subject to the absence of payment or bankruptcy defaults. GLPI is also permitted to make other dividends and distributions subject to pro forma compliance with the financial covenants and the absence of defaults. The Credit Facility also contains certain customary affirmative covenants and events of default. Such events of default include the occurrence of a change of control and termination of the Master Lease (subject to certain replacement rights). The occurrence and continuance of an event of default under the Credit Facility will enable the lenders under the Credit Facility to accelerate the loans, and terminate the commitments, thereunder.

Each of the 4.375% Senior Unsecured Notes due 2018 (the “2018 Notes”); 4.875% Senior Unsecured Notes due 2020 (the “2020 Notes”); and 5.375% Senior Unsecured Notes due 2023 (the “2023 Notes,” and collectively with the 2018 Notes and 2020 Notes, the “Notes”) contains covenants limiting the Company’s ability to: incur additional debt and use their assets to secure debt; merge or consolidate with another company; and make certain amendments to the Master Lease. The Notes also require the Company to maintain a specified ratio of unencumbered assets to unsecured debt. These covenants are subject to a number of important and significant limitations, qualifications and exceptions.

At September 30, 2014, the Company was in compliance with all required covenants.

8. Commitments and Contingencies

Litigation

On May 14, 2014, the Company announced that it had entered into an agreement with CCR to acquire The Meadows Racetrack and Casino located in Washington, Pennsylvania, a suburb of Pittsburgh, Pennsylvania. The agreement provides that closing of the acquisition is subject to, among other things, the accuracy of CCR’s representations and its compliance with the covenants set forth in the agreement, as well as the approval of the Pennsylvania Gaming Control Board and Pennsylvania Racing Commission. On October 27, 2014, the Company filed a lawsuit in the Southern

District of New York against CCR alleging, among other things, fraud, breach of the agreement and breach of the related consulting agreement entered into at the same time. The Company is seeking a declaratory judgment that CCR has breached the agreements, return of \$10 million paid pursuant to the consulting agreement and an unspecified amount of additional damages. The Company will further evaluate and consider all other remedies available to it, including termination of the agreements.

Although the Company intends to pursue its claims vigorously, there can be no assurances that the Company will prevail on any of the claims in the action, or, if the Company does prevail on one or more of the claims, of the amount of recovery that may be awarded to the Company for such claim(s). In addition, the timing and resolution of the claims set forth

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in the lawsuit are unpredictable and the Company is not able to currently predict any effect this suit may have on closing of the transaction.

Pursuant to a Separation and Distribution Agreement between Penn and GLPI, any liability arising from or relating to legal proceedings involving the businesses and operations of Penn's real property holdings prior to the Spin-Off (other than any liability arising from or relating to legal proceedings where the dispute arises from the operation or ownership of the TRS Properties) will be retained by Penn and Penn will indemnify GLPI (and its subsidiaries, directors, officers, employees and agents and certain other related parties) against any losses it may incur arising from or relating to such legal proceedings.

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions, and other matters arising in the normal 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 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.

9. Dividends

On February 18, 2014, GLPI made the Purging Distribution, which totaled \$1.05 billion and was comprised of cash and GLPI common stock, to distribute the accumulated earnings and profits related to the real property assets and attributable to any pre-REIT years, including any earnings and profits allocated to GLPI in connection with the Spin-Off. Shareholders were given the option to elect either an all-cash or all-stock dividend, subject to a total cash limitation of \$210.0 million. Of the 88,691,827 shares of common stock outstanding on the record date, approximately 54.3% elected the cash distribution and approximately 45.7% elected a stock distribution or made no election. Shareholders electing cash received \$4.358049 plus 0.195747 additional GLPI shares per common share held on the record date. Shareholders electing stock or not making an election received 0.309784 additional GLPI shares per common share held on the record date. Stock dividends were paid based on the volume weighted average price for the three trading days ended February 13, 2014 of \$38.2162 per share. Approximately 22.0 million shares were issued in connection with this dividend payment. In addition, cash distributions were made to GLPI and Penn employee restricted stock award holders in the amount of \$1.0 million for the purging distribution. GLPI and Penn have jointly requested a Pre-Filing Agreement from the Internal Revenue Service pursuant to Revenue Procedure 2009 -14 to confirm the appropriate allocation of Penn's historical earnings and profits between GLPI and Penn. The outcome of this request will affect the amount of the dividend required to be paid by GLPI to its shareholders prior to December 31, 2014. This additional dividend is expected to be paid in cash from the Company's revolving credit facility.

Additionally, on February 18, 2014, the Company's Board of Directors declared its first quarterly dividend of \$0.52 per common share, which was paid on March 28, 2014, in the amount of \$58.0 million, to shareholders of record on March 7, 2014. In addition, first quarter dividend payments were made to or accrued for GLPI restricted stock award holders and both GLPI and Penn unvested employee stock options in the amount of \$1.0 million. On May 30, 2014, the Company's Board of Directors declared a second quarter dividend of \$0.52 per common share, which was paid on June 27, 2014, in the amount of \$58.2 million, to shareholders of record on June 12, 2014. In addition, second quarter dividend payments were made to or accrued for GLPI restricted stock award holders and both GLPI and Penn unvested employee stock options in the amount of \$1.0 million. On September 3, 2014, the Company's Board of Directors declared a third quarter dividend of \$0.52 per common share, which was paid on September 26, 2014, in the amount of \$58.5 million, to shareholders of record on September 15, 2014. In addition, third quarter dividend payments were made to or accrued for GLPI restricted stock award holders and both GLPI and Penn unvested

employee stock options in the amount of \$1.0 million.

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.

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(in thousands)	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
	GLP Capital	TRS Properties	Eliminations	Total	GLP Capital	TRS Properties	Eliminations	Total
Net revenues	\$ 119,845	\$ 37,950	\$ —	\$ 157,795	\$ —	\$ 39,633	\$ —	\$ 39,633
Income from operations	72,288	5,334	—	77,622	—	5,665	—	5,665
Interest, net	28,757	2,600	(2,602)	28,755	—	—	—	—
Income before income taxes	46,133	2,734	—	48,867	—	4,476	—	4,476
Income tax (benefit) expense	(1,491)	456	—	(1,035)	—	1,795	—	1,795
Net income	47,624	2,278	—	49,902	—	2,681	—	2,681
Depreciation	23,472	3,054	—	26,526	—	3,611	—	3,611
Capital project expenditures, net of reimbursements	69,022	—	—	69,022	—	103	—	103
Capital maintenance expenditures	—	641	—	641	—	766	—	766
(in thousands)	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	GLP Capital	TRS Properties	Eliminations	Total	GLP Capital	TRS Properties	Eliminations	Total
Net revenues	\$ 357,701	\$ 119,208	\$ —	\$ 476,909	\$ —	\$ 128,354	\$ —	\$ 128,354
Income from operations	210,378	18,952	—	229,330	—	21,565	—	21,565
Interest, net	85,625	7,802	—	93,427	—	—	—	—