SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
SEC Accession No. 0000311905-96-000032

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FILER

GNOC CORP /NJ

CIK:**311905**| IRS No.: **880151643** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-07851** | Film No.: **96663737**
SIC: **7990** Miscellaneous amusement & recreation

Mailing Address
BOSTON AT PACIFIC AVENUE
ATLANTIC CITY NJ 08401

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ATLANTIC CITY NJ 08401
6093477111

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE PERIOD ENDED SEPTEMBER 30, 1996

or

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

Commission File Number: 1-8531

GNOC, CORP.
(Exact name of registrant as specified in its charter)

New Jersey	22-2494608
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Boston Avenue at Pacific Avenue, Atlantic City, New Jersey	08401
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (609) 347-7111

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 X, NO .

At October 31, 1996, all 3,002,510 outstanding shares of the registrant's common stock were held by Bally Entertainment Corporation.

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q, and is therefore filing this form with the reduced disclosure format.

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GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)

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<TABLE>
GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands)
(Unaudited)
<CAPTION>

	September 30, 1996	December 31, 1995
<S>	<C>	<C>
ASSETS		

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Current assets:		
Cash and equivalents	$ 29,978	$ 23,903
Receivables, less allowances of $4,976 and $5,573	6,157	6,040
Income taxes receivable	480	886
Inventories	2,259	2,398
Deferred income taxes	5,670	5,658
Other current assets	3,946	2,172
Total current assets	48,490	41,057
Property and equipment, less accumulated depreciation of $132,050 and $119,874	282,394	281,736
Cost in excess of acquired assets, less accumulated amortization of $28,608 and $26,318	92,868	95,158
Deferred finance costs, less accumulated amortization of $5,271 and $4,179	8,705	9,467
Other assets	9,977	3,692
	$442,434	$431,110

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:		
Accounts payable	$ 3,352	$ 3,399
Payable to affiliates	472	323
Accrued liabilities	31,999	23,374
Total current liabilities	35,823	27,096
Long-term debt, less unamortized discount of $1,559 and $1,678	273,441	273,322
Deferred income taxes	58,226	57,258
Stockholder's equity:		
Common stock	30	30
Additional paid-in capital	123,421	123,421
Accumulated deficit	(48,507)	(50,017)
Total stockholder's equity	74,944	73,434
	$442,434	$431,110

<FN>
See accompanying notes.
</FN>

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GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
CONSOLIDATED STATEMENT OF INCOME
(In thousands)
(Unaudited)

<CAPTION>

	Nine Months Ended September 30, 1996	1995
<S>	<C>	<C>
Revenues:		
Casino	$194,135	$196,488
Rooms	3,621	3,846
Food and beverage	6,847	7,105
Other	5,723	4,757
	210,326	212,196
Costs and expenses:		
Casino	117,612	112,920
Rooms	1,564	1,686
Food and beverage	6,075	6,174
Other operating expenses	23,433	22,237
Selling, general and administrative	18,640	19,099
Depreciation and amortization	14,533	13,474
Allocations from Bally Entertainment Corporation	778	824
	182,635	176,414
Operating income	27,691	35,782
Interest expense	23,017	23,196
Income before income taxes	4,674	12,586
Income tax provision	3,164	6,838
Net income	$ 1,510	$ 5,748

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<FN>
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GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
CONSOLIDATED STATEMENT OF INCOME
(In thousands)
(Unaudited)

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<S>	Three Months Ended September 30, 1996 <C>	1995 <C>
Revenues:		
Casino....................................	$68,769	$72,648
Rooms.....................................	1,226	1,409
Food and beverage.........................	2,394	2,618
Other.....................................	2,415	1,939
	-------	-------
	74,804	78,614
Cost and expenses:		
Casino....................................	40,733	40,625
Rooms.....................................	464	516
Food and beverage.........................	2,087	2,178
Other operating expenses..................	8,417	7,996
Selling, general and administrative........	5,845	6,011
Depreciation and amortization..............	4,817	4,364
Allocations from Bally Entertainment Corporation............................	254	248
	-------	-------
	62,617	61,938
	-------	-------
Operating income............................	12,187	16,676

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Interest expense	7,551	7,735
Income before income taxes	4,636	8,941
Income tax provision	3,146	4,797
Net income	$ 1,490	$ 4,144

<FN>
See accompanying notes.
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GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
OPERATING:		
Net income	$ 1,510	$ 5,748
Adjustments to reconcile to cash provided -		
Depreciation and amortization	14,533	13,474
Other amortization included in interest expense	1,211	1,201
Deferred income taxes	956	4,337
Provision for doubtful receivables	331	929
Change in operating assets and		

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liabilities	4,486	7,676
Cash provided by operating activities	23,027	33,365
INVESTING:		
Purchases and construction of property and equipment	(12,885)	(11,588)
Increase in construction related liabilities	2,564	1,091
Proceeds from disposal of property and equipment	25	70
Casino Reinvestment Development Authority investment obligations, net	(6,326)	(494)
Cash used in investing activities	(16,622)	(10,921)
FINANCING:		
Costs to amend revolving credit agreement	(330)	-
Cash used in financing activities	(330)	-
Increase in cash and equivalents	6,075	22,444
Cash and equivalents, beginning of period	23,903	14,177
Cash and equivalents, end of period	$29,978	$36,621

<FN>

(Continued)

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GNOC, CORP.

(A Wholly Owned Subsidiary of Bally Entertainment Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

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<CAPTION>

<S>	Nine Months Ended September 30, 1996 <C>	1995 <C>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Changes in operating assets and liabilities were as follows:		
Increase in receivables....................	$ (448)	$(1,248)
Decrease in income taxes receivable........	406	-
Decrease in inventories....................	139	131
(Increase) decrease in other current assets................................	(1,774)	1,225
Increase in accounts payable, payable to affiliates and accrued liabilities......	6,163	6,367
Increase in income taxes payable...........	-	1,201
	$ 4,486	$ 7,676
Operating activities include cash payments for interest and income taxes as follows:		
Interest paid..............................	$14,695	$14,686
Interest capitalized.......................	(194)	-
Income taxes paid (net of refunds).........	1,802	1,300
Investing activities exclude the following non-cash activity:		
Donation of Casino Reinvestment Development Authority investment obligations, net.........................	$ -	$ 1,365

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<FN>
See accompanying notes.
</FN>
/TABLE

GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts in thousands)
(Unaudited)

Basis of presentation

The accompanying condensed consolidated financial statements include the accounts of GNOC, CORP., a New Jersey corporation (the "Company"), which is a wholly owned subsidiary of Bally Entertainment Corporation ("BEC"), and its subsidiary. The Company owns and operates the casino hotel resort in Atlantic City, New Jersey known as "The Grand." The Company operates in one industry segment and all significant revenues arise from its casino and supporting hotel operations. Unless otherwise specified in the text, references to the Company include the Company and its subsidiary. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

All adjustments have been recorded which are, in the opinion of management, necessary for a fair presentation of the condensed consolidated balance sheet of the Company at September 30, 1996, its consolidated statements of income for the three and nine months ended September 30, 1996 and 1995 and its consolidated statement of cash flows for the nine months ended September 30, 1996 and 1995. All such adjustments were of a normal recurring nature.

The accompanying condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles which require the Company's management to make estimates and assumptions that affect the amounts reported therein. Actual results could vary from such estimates. In addition, certain reclassifications have been made to prior period financial statements to conform with the 1996 presentation.

Acquisition of BEC by Hilton Hotels Corporation

In June 1996, BEC and Hilton Hotels Corporation ("Hilton") entered into an agreement pursuant to which BEC will merge with and into Hilton (the "Merger"). The Merger, which has been approved by the Board of Directors and shareholders of BEC and Hilton, is subject to approval by gaming regulators of several jurisdictions, and is expected to close before year-end 1996.

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Seasonal factors

The Company's operations are subject to seasonal factors and, therefore, the results of operations for the three and nine months ended September 30, 1996 and 1995 are not necessarily indicative of the results of operations for the full year.

Allocations from BEC and transactions with related parties

BEC allocates costs to the Company consisting of the Company's allocable share of BEC's corporate overhead including executive salaries and benefits, public company reporting costs and other corporate headquarters' costs. While the Company does not obtain a measurable direct benefit from these allocated costs, management believes that the Company receives an indirect benefit from BEC's oversight. BEC's method for allocating costs is designed to apportion the majority of its operating costs to its subsidiaries and is generally based upon many subjective factors including various measures of operational size and extent of BEC's oversight requirements. Management of BEC believes that the methods used to allocate these costs are reasonable. Because of BEC's controlling relationship with the Company and the allocation of certain BEC costs, the operating results of the Company could be significantly different if the Company operated autonomously. In addition, certain of the Company's insurance coverage is obtained by BEC pursuant to corporate-wide programs. In these circumstances, BEC charges the Company its proportionate share of the respective insurance premiums.

Certain executive officers of Bally's Park Place, Inc. ("Bally's Park Place"), an indirect wholly owned subsidiary of BEC which owns and operates the casino hotel resort in Atlantic City known as "Bally's Park Place Casino-Resort", function in a similar capacity for the Company and exercise decision making and operational authority over both entities. No allocation of cost is made from Bally's Park Place to the Company for these executive officers as management deems the direct allocable cost to be immaterial. In addition, certain administrative and support operations of the Company and Bally's Park Place are consolidated, including limousine services, legal services and purchasing. Costs of these operations are allocated to or from the Company either directly or using various formulas based on estimates of utilization of such services. On a net basis, allocations from Bally's Park Place were $65 and $107 for the three months ended September 30, 1996 and 1995, respectively, and $280 and $244 for the nine months ended September 30, 1996 and 1995, respectively, which management believes were reasonable. The Company also leases land from Bally's Park Place, and rental expense was $174 and $522 for each of the three and nine month periods ended September 30, 1996 and 1995, respectively.

Long-term debt and revolving credit agreement

The indenture for the Company's 10-5/8% First Mortgage Notes due 2003 (the "Notes") and the $20,000 revolving credit agreement (the entire amount was unused at September 30, 1996) contain certain covenants limiting

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indebtedness and other payments. Payments of dividends by the Company are limited to 50% of its aggregate consolidated net income (as defined) earned since June 30, 1995. As of September 30, 1996, no dividends were available for payment. In May 1996, the Company amended its revolving credit agreement to extend the expiration date from December 31, 1996 to June 30, 1998.

In October 1996, Hilton announced an offer to purchase for cash any and all of the Notes (the "Tender Offer") and a solicitation of consents to proposed amendments to the indenture for the Notes (the "Consent Solicitation"). The Tender Offer and Consent Solicitation are subject to consummation of the Merger, receipt of tenders and consents for at least a majority of the principal amount of the Notes and the receipt of any necessary gaming regulatory approvals, as well as certain other conditions described in the Offer to Purchase and Consent Solicitation.

Income taxes

Taxable income or loss of the Company is included in the consolidated federal income tax return of BEC. Under a tax sharing agreement between BEC and the Company, income taxes are allocated to the Company based on amounts the Company would pay or receive if it filed a separate consolidated federal income tax return, except that the Company receives credit from BEC for the tax benefit of the Company's net operating losses and tax credits, if any, that can be utilized in BEC's consolidated federal income tax return, regardless of whether these losses or credits could be utilized by the Company on a separate consolidated federal income tax return basis. Payments to BEC for tax liabilities are due at such time and in such amounts as payments are required to be made to the Internal Revenue Service. Payments from BEC for tax benefits are due at the time BEC files the applicable consolidated federal income tax return. Under the tax sharing agreement, the Company had income taxes receivable from BEC of $480 and $2,145 at September 30, 1996 and December 31, 1995, respectively.

GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Comparison of the Nine Months Ended September 30, 1996 and 1995

Revenues of the Company for the nine months ended September 30, 1996 were $210.3 million compared to $212.2 million for 1995, a decrease of $1.9 million (1%) primarily due to a $2.4 million (1%) decrease in casino revenues offset, in part, by a $1.0 million (20%) increase in other revenues. Slot revenues decreased $2.5 million (2%) due to a 1% decrease in slot handle (volume) along with a decline in the win percentage from 8.4% in 1995 to 8.3% in 1996. On average, the Company had 101 (6%) more slot machines in 1996 than for the 1995 period. Slot revenues approximated 61% of the Company's casino revenues for 1996 compared to 62% in 1995. Table game revenues, excluding poker, decreased $.7 million (1%) as a 3% increase in the drop (amount wagered) was more than offset by a decrease in the hold percentage from 16.4% in 1995 to 15.8% in

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1996. Poker, horse race simulcasting and keno, all of which commenced in April 1995, contributed $3.4 million to casino revenues in 1996 compared to $2.5 million in 1995, an increase of $.9 million (36%).

Atlantic City casino revenues (excluding poker, horse race simulcasting and keno) for all operators for the nine months ended September 30, 1996 increased approximately 3% from 1995 due to a 3% increase in both table game and slot revenues. Since September 30, 1995, the number of slot machines in Atlantic City increased approximately 10% and the number of table games, excluding poker tables, increased approximately 6%. Slot revenues approximated 69% of total casino revenues in Atlantic City for both 1996 and 1995. Management believes that the expansion of several casino hotel facilities in Atlantic City, which includes additional hotel rooms and gaming space, has caused and will continue to cause intense promotional efforts to attract players as both the Company and its competitors continue to seek to expand their share of gaming revenues and maximize the utilization of their gaming space. Further, as a result of the aggressive competition for slot patrons, the Atlantic City slot win percentage continues to decline. Management believes that the slot win percentage will continue to be subject to competitive pressure and may decline further. In addition, proposals for several new casino hotel resorts were recently announced for Atlantic City and, if and when such resorts are opened, capacity and competition will further increase. However, management believes The Grand is well-positioned to compete for additional casino revenues in the Atlantic City market through the attractive promotional gaming programs and special events it offers and the appearance and comfort of its gaming space and hotel accommodations. In April 1995, the Company completed an expansion which increased its casino floor and other gaming space by nearly 30% to accommodate approximately 400 additional slot machines, poker, horse race simulcasting and keno. In November 1995, the Company opened The Grand Theater, an 18,000 square-foot arena with seating capacity of up to 2,000 used for headline entertainment, sports events and production shows. Additionally, the Company broke ground in March 1996 for construction of a 300-room hotel tower, including restaurants, meeting rooms and other related amenities. The Company anticipates completing the tower in July 1997.

Operating income of the Company for the nine months ended September 30, 1996 was $27.7 million compared to $35.8 million for 1995, a decrease of $8.1 million (23%) due to the aforementioned 1% revenue decrease and a 4% increase in operating expenses. Casino expenses increased $4.7 million (4%) primarily due to increased promotional expenses and costs of providing complimentary services to increase gaming activity offset, in part, by an increase in the estimated realizable value of Casino Reinvestment Development Authority investments and funds on deposit in the 1996 period which resulted, in part, from the approved use of such funds for reimbursement of tower construction costs. In addition, other operating expenses increased $1.2 million (5%) and depreciation and amortization increased $1.1 million (8%). Operating costs and expenses include allocations from BEC of its overhead (including executive salaries and benefits, public company reporting costs and other corporate headquarters' costs) of $.8 million for each of the nine month periods ended September 30, 1996 and 1995. Management of BEC believes that the methods used

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to allocate these costs are reasonable.

For the nine months ended September 30, 1996 and 1995, the effective rates of the income tax provision varied from the U.S. statutory tax rate (35%) due principally to nondeductible amortization of cost in excess of acquired assets and state income taxes.

GNOC, CORP.
(A Wholly Owned Subsidiary of Bally Entertainment Corporation)
PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

27 Financial Data Schedule (filed electronically only).

(b) Reports on Form 8-K:

None.

SIGNATURE PAGE

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.

GNOC, CORP.
Registrant

/s/ Donna M. Graham
Donna M. Graham
Vice President of Finance/Treasurer
(Principal Financial and Chief Accounting Officer)

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Dated: November 14, 1996

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 THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
 CONDENSED CONSOLIDATED BALANCE SHEET AT SEPTEMBER 30, 1996, AND THE
 CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30,
 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL
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<F1> THESE AMOUNTS INCLUDE TOTAL COSTS AND EXPENSES FOR CASINO, ROOMS, FOOD AND BEVERAGE, AND OTHER OPERATING EXPENSES (EXCLUDING THE PROVISION FOR DOUBTFUL ACCOUNTS) ON THE CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996.
<F2> THESE AMOUNTS ARE INCLUDED IN CASINO AND ROOMS COSTS AND EXPENSES ON THE CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996.
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</TABLE>

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