

PENN NATIONAL GAMING INC
Form 8-K/A
May 12, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

Date of Report **March 3, 2003**

(Date of earliest event reported)

PENN NATIONAL GAMING, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction
of incorporation)

0-24206

(Commission File Number)

23-2234473

(IRS Employer
Identification
Number)

825 Berkshire Blvd., Suite 200,
Wyomissing Professional Center, Wyomissing, PA
(Address of principal executive offices)

19610
(Zip Code)

Area Code (610) 373-2400
(Registrant's telephone number)

Penn National Gaming, Inc., a Pennsylvania corporation (the Company or PNGI), hereby amends Items 2 and 7 of its Current Report on Form 8-K (Date of Report: March 3, 2003) in their entirety to read as follows:

Item 2. Acquisition or Disposition of Assets

On March 3, 2003, the Company, P Acquisition Corp., a direct and wholly-owned subsidiary of the Company (Merger Sub), and Hollywood Casino Corporation, a Delaware corporation (Hollywood Casino or HCC), completed a merger transaction whereby Merger Sub was merged with and into Hollywood Casino with Hollywood Casino continuing as the surviving corporation and the separate corporate existence of Merger Sub ceasing. As a result of the merger, Hollywood Casino is now a wholly-owned subsidiary of the Company. A copy of the press release issued by the Company on March 3, 2003 was previously filed as Exhibit 99.1 to this Form 8-K and is incorporated herein by reference.

The Company closed an \$800 million senior secured credit facility to fund its acquisition of Hollywood Casino and to provide additional working capital as more fully described in the press release issued by the Company on March 3, 2003, which was previously filed as Exhibit 99.2 to this Form 8-K and is incorporated herein by reference.

On March 3, 2003, the Company filed a Current Report on Form 8-K stating that it had completed the merger transaction and that the financial statements and pro forma financial information required under Item 7 would be filed on or before May 17, 2003. This amended Current Report on Form 8-K contains the required financial statements and pro forma financial information.

Item 7. Financial Statements and Exhibits.

(a) **Financial Statements of Business Acquired.**

The financial statements of Hollywood Casino as of December 31, 2002 and 2001 and for the three years ended December 31, 2002 are included as Exhibit 99.3 to this Form 8-K and are incorporated herein by reference.

(b) Pro forma Financial Information.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

On March 3, 2003, the Company completed its acquisition of Hollywood Casino. The transaction was accounted for as a purchase. As a result, the net assets of Hollywood Casino were recorded at their fair value with the excess of the purchase price over the fair value of the net assets acquired allocated to goodwill. The total purchase price for the acquisition was approximately \$397.9 million, including acquisition costs of \$50.9 million. The purchase price of the acquisition was funded by the proceeds of the Company's new \$800 million senior secured credit facility.

The following unaudited pro forma consolidated statement of operations for the year ended December 31, 2002 has been prepared giving effect to the acquisition of Hollywood Casino and the funding of the transaction under the \$800 million senior secured credit facility as if they occurred on January 1, 2002.

The following unaudited pro forma consolidated balance sheet has been prepared as if the acquisition of Hollywood Casino and the funding under the \$800 million senior secured credit facility had occurred on December 31, 2002.

The unaudited pro forma consolidated financial statements should be read in conjunction with the notes hereto and the following:

The Company's historical consolidated financial statements and notes thereto for the year ended December 31, 2002 included in the Company's Annual Report on Form 10-K.

The historical financial statements and notes thereto of Hollywood Casino included as Exhibit 99.3 to this Current Report on Form 8-K.

The following unaudited pro forma consolidated statement of income is preliminary and subject to change based on finalization of other applicable post-closing adjustments that are not expected to be significant.

Penn National Gaming, Inc. and Subsidiaries

Unaudited Pro Forma Consolidated Statement of Income

Year ended December 31, 2002

(in thousands, except per share data)

	PNGI and Subsidiaries as reported (1)	HCC and Subsidiaries as reported (2)	Pro Forma Adjustments (3)	Pro Forma as adjusted for Acquisition
Revenues				
Gaming	\$ 494,271	\$ 527,777	\$	\$ 1,022,048
Racing	115,167			115,167
Management service fees	11,479			11,479
Food, beverage and other revenue	64,342	79,110		143,452
Gross revenue	685,259	606,887		1,292,146
Less: promotional allowances	(27,713)	(106,715)		(134,428)
Net revenues	657,546	500,172		1,157,718
Operating expenses				
Gaming	278,807	338,990		617,797
Racing	84,002			84,002
Food, beverage and other expense	42,194	24,465		66,659
General and administrative	113,964	35,737		149,701
Depreciation and amortization	36,456	41,730	(15,762) (c)	62,424
Total operating expenses	555,423	440,922	(15,762)	980,583
Income from operations	102,123	59,250	15,762	177,135
Other income (expenses)				
Interest expense	(42,104)	(67,079)	1,209 (b)	(107,974)
Interest income	1,553	1,424		2,977
Earnings from joint venture	1,965			1,965
Equity in losses of unconsolidated affiliate		(233)		(233)
Write off investment in unconsolidated affiliate		(313)		(313)
Gain (loss) on disposal of assets		(338)		(338)
Loss on change in fair values of interest rate swaps	(5,819)		5,819 (a)	
Total other expense	(44,405)	(66,539)	7,028	(103,916)
Income (loss) before taxes and extraordinary item	57,718	(7,289)	22,790	73,219

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Taxes on income	21,704	3,497	2,154 (d)	27,355
Income (loss) before extraordinary item and minority interest	36,014	(10,786)	20,636	45,864
Minority interest in Hollywood Casino Shreveport		(1,464)		(1,464)
Income (loss) before extraordinary item	\$ 36,014	\$ (12,250)	\$ 20,636	\$ 44,400
Per share data				
Basic	\$ 0.95		\$ 1.18	
Diluted	\$ 0.92		\$ 1.14	
Weighted-average shares outstanding				
Basic before extraordinary item	37,775		37,775	
Diluted before extraordinary item	39,094		39,094	

See accompanying notes to consolidated financial statements.

NOTES TO UNAUDITED PRO FORMA**CONSOLIDATED STATEMENT OF INCOME****(amounts in thousands, except per share data)**

The following notes describe the column heading in the pro forma consolidated statements of operations and the pro forma adjustments that have been made to these statements:

- (1) Reflects the audited consolidated historical statement of operations of PNGI for the year ended December 31, 2002.
- (2) Reflects the audited historical statement of operations for HCC for the year ended December 31, 2002.
- (3) Reflects pro forma adjustments relating to the HCC acquisition as follows:

- (a) Adjustment to reflect the following:

	Year ended December 31, 2002
Loss on change in fair values of interest rate swaps	\$ 5,819
Management believes that if the \$800 million senior secured credit facility had been in place at January 1, 2002, then the existing pay fixed-receive variable interest rate swaps would have been highly effective throughout 2002. The changes in fair value of the interest rate swaps would have been charged to other comprehensive income, not interest expense.	
(b) Adjustments to interest expense reflect the \$800 million senior secured credit facility financing:	
Increase in interest expense on the \$800 million senior secured credit facility	\$ 43,259
Decrease in interest expense on the early retirement of the \$350 million senior secured credit facility	(4,126)
Decrease in interest expense due to the retirement of the \$360 million of Hollywood Casino corporate debt	(40,015)
	2,091

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Increase in expense resulting from the amortization of \$18,700 in deferred financing costs related to the \$800 million senior secured credit facility to be amortized over 7 years

\$ 1,209

If the interest rate on the \$700 million in borrowings under the \$800 million senior secured credit facility increases or decreases by 1/8%, then interest expense will increase or decrease by approximately \$.9 million per year.

NOTES TO UNAUDITED PRO FORMA

CONSOLIDATED STATEMENT OF INCOME

(amounts in thousands, except per share data)

(continued)

- (c) Reflects the net decrease in depreciation and amortization expense resulting from the valuation of the property and equipment to fair market value. Reported depreciation expense included a write down of \$9,756 for the cost of riverboats and other assets that were replaced at the Hollywood Casino-Aurora facility in 2002.
- (d) Adjustment to reflect the income tax effect associated with the pro forma adjustments using PNGI's effective tax rate of approximately 38%.

Penn National Gaming, Inc. and Subsidiaries
Unaudited Pro Forma Consolidated Balance Sheet
December 31, 2002
(in thousands, except per share data)

	PNGI and Subsidiaries as reported (1)	HCC and Subsidiaries as reported (2)	Pro Forma Adjustments Acquisition (3) Financing (4)		Pro Forma as adjusted for Acquisition and Financing
Assets					
Current assets					
Cash and cash equivalents	\$ 55,121	\$ 128,336	\$ (397,948)	\$ 700,000	\$ 85,383
				(400,126)	
Receivables	19,418	6,040			25,458
Prepaid income taxes	6,415				6,415
Inventories		3,394			3,394
Prepaid expenses and other current assets	9,080	6,732			15,812
Deferred income taxes	4,405	2,255	20,289		26,949
Total current assets	94,439	146,757	(377,659)	299,874	163,411
Net property and equipment, at cost	450,886	363,725	(62,102)		752,509
Other assets					
Investment in and advances to unconsolidated affiliate	16,152				16,152
Excess of cost over fair market value of net assets acquired	160,506		465,358		625,864
Management service contract, net of accumulated amortization of \$4,206	21,539				21,539
Deferred financing costs, net	10,463	10,806	(5,797)	17,403	32,875
Miscellaneous	11,495	14,152	3,543		29,190
Total other assets	220,155	24,958	463,104	17,403	725,620
Total assets	\$ 765,480	\$ 535,440	\$ 23,343	\$ 317,277	\$ 1,641,540

Penn National Gaming, Inc. and Subsidiaries

Unaudited Pro Forma Consolidated Balance Sheet

December 31, 2002

(in thousands, except per share data)

	PNGI and Subsidiaries as reported (1)	HCC and Subsidiaries as reported (2)	Pro Forma Adjustments Acquisition (3)	Pro Forma Adjustments Financing (4)	Pro Forma as adjusted for Acquisition and Financing
Liabilities and Stockholders Equity					
Current liabilities					
Current maturities of long-term debt	\$ 18	\$ 1,789	\$	\$ 26,000	\$ 27,807
Accounts payable	19,450	13,110			32,560
Other current liabilities	73,514	51,312	7,735	(21,332)	111,229
Total current liabilities	92,982	66,211	7,735	4,668	171,596
Long-term liabilities					
Long-term debt, net of current maturities	375,000	565,307	(69,422)	(360,000)	1,184,885
Other long-term liabilities		8,466		674,000	8,466
Deferred income taxes	50,498		(19,511)		30,987
Total long-term liabilities	425,498	573,773	(88,933)	314,000	1,224,338
Commitments and contingencies					
Minority interest		2,123	(2,123)		
Stockholders equity					
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued					
Common stock, \$.01 par value; 200,000,000 shares authorized; shares issued 40,033,684	403	3	(3)		403
Treasury stock, at cost 849,400 shares	(2,379)				(2,379)
Additional paid-in capital	154,049	217,122	(217,122)		154,049
Retained earnings	96,584	(323,792)	323,789	(1,391)	95,190
Accumulated other comprehensive loss	(1,657)				(1,657)
Total stockholders equity	247,000	(106,667)	106,664	(1,391)	245,606

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Total liabilities and stockholders equity \$ 765,480 \$ 535,440 \$ 23,343 \$ 317,277 \$ 1,641,540

See accompanying notes to consolidated financial statements.

NOTES TO UNAUDITED PRO FORMA

CONSOLIDATED BALANCE SHEET

(amounts in thousands, except per share data)

The following notes describe the column heading in the pro forma consolidated balance sheet that have been made to these statements:

- (1) Reflects the historical audited consolidated balance sheet of PNGI as of December 31, 2002.
- (2) Reflects the audited balance of HCC as of December 31, 2002.
- (3) Reflects pro forma adjustment for the HCC acquisition.
- (4) Reflects pro forma adjustment for the financing of the HCC acquisition.

Reconciliation of cash paid at settlement to acquire HCC:

Hollywood Casino purchase price, 25.7 million shares at \$12.75 per share	\$	328,119
Purchase price of HCC stockholders' options		18,951
Total HCC purchase price		347,070
Acquisition fees and other charges		
Transaction fees		15,917
Severance and pension		6,261
HCC bond premiums		28,700
		50,878
Total HCC pro forma purchase price, including acquisition fees	\$	397,948
Current assets		
Property and equipment	\$	167,049
Other assets (including deferred income taxes of \$19,511)		301,623
Goodwill		42,215
		465,358

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Current liabilities	(72,157)
Other liabilities	(8,466)
Long-term debt, current and non-current	(497,674)
Total net assets acquired	\$ 397,948

NOTES TO UNAUDITED PRO FORMA

CONSOLIDATED BALANCE SHEET

(amounts in thousands, except per share data)

(continued)

The pro forma activity for total debt, current and noncurrent, is as follows:

	Senior Subordinated Notes	Senior Secured Credit Facility	HCC Debt	HCL Shreveport Notes	Total Pro Forma Debt
As reported	\$ 375,018	\$	\$ 377,191	\$ 189,905	\$ 942,114
Borrowings under the \$800 million senior secured credit facility		700,000			700,000
Payment of HCC existing debt			(360,000)		(360,000)
Shreveport bond valuation allowance*				(69,422)	(69,422)
Total pro forma debt	\$ 375,018	\$ 700,000	\$ 17,191	\$ 120,483	\$ 1,212,692

* The Shreveport notes were reduced to reflect management's estimate of the notes' fair value, which is based on the fair value of the underlying collateral.

(c) Exhibits

Exhibit No.	Exhibit
23.1	Consent of Deloitte & Touche LLP, Independent Auditors.
99.1*	Press Release issued by the Company, dated March 3, 2003. (Incorporated by reference to the Company's Current Report on Form 8-K filed March 3, 2003.)
99.2*	Press Release issued by the Company, dated March 3, 2003. (Incorporated by reference to the Company's Current Report on Form 8-K filed March 3, 2003.)
99.3	The financial statements of Hollywood Casino as of December 31, 2002 and 2001 and for the three years ended December 31, 2002.

* Previously filed

SIGNATURES

Pursuant to 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.

Dated: May 12, 2003

Penn National Gaming, Inc.

By: /s/ Robert S. Ippolito
Robert S. Ippolito
Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.

CURRENT REPORT ON FORM 8-K

EXHIBIT INDEX

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